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PRESENTATION

Operator

Welcome to Signature Bank's 2019 Fourth Quarter and Year-end Results Conference Call. Hosting the call today from Signature Bank are Joseph J. DePaolo, President and Chief Executive Officer; and Eric R. Howell, Executive Vice President, Corporate and Business Development. Today's call is being recorded. (Operator Instructions)

It is now my pleasure to turn the floor over to Joseph J. DePaolo, President and Chief Executive Officer. You may begin.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Thank you, Christy. Good morning, and thank you for joining us today for the Signature Bank 2019 Fourth Quarter and Year-end Results Conference Call. Before I begin my formal remarks, Susan Lewis will read the forward-looking disclaimer. Please go ahead, Susan.

Susan Turkell Lewis - *Signature Bank - Media Contact*

Thank you, Joe. This conference call and oral statements made from time to time by our representatives contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You should not place undue reliance on those statements because they are subject to numerous risks and uncertainties relating to our operations and business environment, all of which are difficult to predict and may be beyond our control.

Forward-looking statements include information concerning our future results, interest rates and the interest rate environment, loan and deposit growth, loan performance, operations, new private client team hires, new office openings, business strategy, new products and future dividends and share repurchases. As you consider forward-looking statements, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions that could cause actual results to differ materially from those in the forward-looking statements.

These factors include those described in our quarterly and annual reports filed with the FDIC, which you should review carefully for further information. You should keep in mind that any forward-looking statements made by Signature Bank speak only as of the date on which they were made.

Now I'd like to turn the call back to Joe.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Thank you, Susan. I will provide some overview into the quarterly and annual results, and then Eric Howell, our EVP of Corporate and Business Development, will review the bank's financial performance in greater detail. Eric and I will address your questions at the end of our remarks.

2019 was a strong year for Signature Bank. We grew deposits by a solid $4 billion, which significantly improved our liquidity position, and we executed better than planned on our diversification strategy while maintaining credit quality and delivering a 17% increase in net income. Moreover, we have laid the necessary groundwork for future balanced and robust growth with the launch of Signet, our blockchain-based payments platform; the official opening of our full-service private client banking office in San Francisco; the hiring of our Venture Banking Group; the onboarding of the Specialized Mortgage Servicing Banking Team; and further advancement of both our digital asset banking team and Fund Banking Division. Furthermore, we ended the year with a really strong fourth quarter.

Now let's take a look -- a close look at earnings. Net income for the 2019 fourth quarter was $148.2 million or $2.78 diluted earnings per share compared with $160.8 million or $2.94 diluted earnings per share reported in the same period last year. The decrease in net income is mainly the result of a decrease in loan prepayment penalty income as well as a rise in noninterest expense from the significant investment in new private client banking teams.

Looking at deposits. Deposits increased $1.3 billion to $40.4 billion this quarter while average deposits grew by $1.4 billion. For the year, deposits increased $4 billion and average deposits increased $2.9 billion. Noninterest-bearing deposits of $13 billion represented 32.2% of total deposits and grew $1 billion or over 8% for the year. Our deposit and loan growth led to an increase of $3.3 billion or 7% in total assets for the year, which crossed $50 billion.

Now let's take a look at our lending businesses. Loans during the 2019 fourth quarter increased nearly $1.2 billion or 3.1%. And for the year, loans grew $2.7 billion or 7.4%. Continuing our diversification strategy, the increase in loans this quarter was driven by growth in all commercial and industrial lending categories, including specialty finance, ABL, traditional C&I and Fund Banking. The total C&I increase for the quarter was $1.7 billion or 16.2%.

Conversely, we further reduced CRE loans this quarter by $428 million, bringing our CRE concentration level down to 480% from a peak of 593%. Furthermore, floating-rate loans are now 20.3% of total loans, which is a dramatic improvement from 12.1% a year ago. And our loan-to-deposit ratio decreased again this quarter to 96.8%.

Turning to credit quality. Our portfolio continues to perform well. Nonaccrual loans was $57.4 million or 15 basis points of total loans compared with $32.5 million or 9 basis points for the 2019 third quarter. Our past-due loans were at the lower end of our normal range with 30- to 89-day past-due loans at $31 million while 90-day past-due loans remained low at only $2.3 million. For the 2019 fourth quarter, we had net charge-offs of $2.5 million or 3 basis points compared with $2.9 million for the 2019 third quarter.

The provision for loan losses for the 2019 fourth quarter were $9.8 million compared with $1.2 million for the 2019 third quarter and $6.4 million for the 2018 fourth quarter. The allowance for loan losses remained stable at 64 basis points of loans while our coverage ratio stands at a healthy 436%. And finally on this topic, looking at the future on the CECL, we have completed the implementation of various models. And upon adoption in the first quarter, we anticipate an increase of 15% to 20% in our allowance for loan losses. As for the provision moving forward, we expect greater volatility, and it is difficult to project given a heavy reliance on macroeconomics variables, loan portfolio composition and the product mix.

Now on to the team front. In 2019, we added 4 private client banking teams including the 28-person Venture Banking Group and the 15-member Specialized Mortgage Servicing Banking Team. We've become more focused on specialty niche business lines that truly help us distinguish -- that truly helped us to distinguish us in the marketplace.

At this point, I'll turn the call over to Eric, and he will review the quarter's financial results in greater detail.

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Thank you, Joe, and good morning, everyone. I'll start by reviewing net interest income and margin. Net interest income for the fourth quarter reached $338.3 million, an increase of 3.1% or $10.3 million from the 2019 third quarter. Net interest margin on a linked-quarter basis improved 4 basis points to 2.72%. Excluding prepayment penalty income, core net interest margin for the linked quarter increased 1 basis point to 2.67%.

And let's look at asset yields and funding costs for a moment. Interest-earning asset yields for the 2019 fourth quarter decreased 7 basis points from the linked quarter to 3.87%. The decrease in overall asset yields was due to significantly higher cash balances and lower reinvestment rates in all our primary asset classes from the lower rate environment. Yields on the securities portfolio decreased 13 basis points linked quarter to 3.05% due to the decline in market rates and our portfolio duration remained low at 2.6 years.

And turning to our loan portfolio. Yields on average commercial loans and commercial mortgages decreased 2 basis points to 4.18% compared with the 2019 third quarter. This is mostly due to lower origination yields, which was offset by a rise in prepayment penalty income. Excluding prepayment penalties from both quarters, yields decreased by 7 basis points.

And now looking at liabilities. Our overall deposit cost this quarter decreased 13 basis points to 108 basis points, driven by a significant increase in average noninterest-bearing deposits of $483 million and a decrease of 20 basis points in the cost of interest-bearing deposits. Average borrowings, excluding subordinated debt, decreased $752 million to $4.5 billion or 8.9% of our average balance sheet. The average borrowing cost decreased 1 basis point from the linked quarter to 2.58%. And the overall cost of funds for the quarter decreased 14 basis points to 1.26%, driven by both a reduction in deposit costs as well as paying down higher-cost borrowings.

And onto noninterest income and expense. Noninterest income for the 2019 fourth quarter was $7.3 million, an increase of $1.4 million when compared with the 2018 fourth quarter. The increase was mostly due to a rise of $1.3 million in fees and service charges as well as an increase of $2.5 million in trading income. The increase was partially offset by a rise in tax credit investment amortization of $1.5 million. Noninterest expense for the 2019 fourth quarter was $138 million versus $119 million for the same period a year ago. The $19 million or 16% increase was principally due to the addition of new private client banking teams, including the Venture Banking Group and the Specialized Mortgage Servicing Banking Team.

The bank's efficiency ratio was 39.9% for the 2019 fourth quarter versus 34.9% for the comparable period last year and 40.2% for the 2019 third quarter.

And turning to capital. In the fourth quarter of 2019, the bank paid a cash dividend of $0.56 per share and repurchased 722,000 shares of common stock for a total of $89 million. Additionally, the bank raised $200 million in subordinated debt in a public offering. The dividend and share buybacks had a negligible effect on capital ratios, which all remained well in excess of regulatory requirements and augment the relatively low-risk profile of the balance sheet as evidenced by a Tier 1 leverage ratio of 9.6% and total risk-based ratio of 13.32% as of the 2019 fourth quarter.

And now I'll turn the call back to Joe. Thank you.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Thanks, Eric. 2019 was a very solid year for us, where we executed better than planned in transforming the balance sheet through significant growth in floating-rate commercial and industrial loans of $3.6 billion and by reducing our exposure in fixed rate commercial real estate loans by $1.1 billion. Our CRE concentration level is now down to 480% from the peak of 593%. Furthermore, we demonstrated the capability of our franchise through robust deposit growth of $4 billion, including an increase of $1 billion in noninterest-bearing deposits. This led to a rise in net income of $83.6 million or 17% and a 12.8% return on equity despite the significant investments made in several new initiatives. Additionally, we optimized our capital position through the repurchase of common stock and issuance of low-cost subordinated debt while also maintaining our dividend. We organically grew the bank as opposed to expanding through M&A. It is a better utilization of capital to hire teams or lines of businesses than to acquire banks.

On that note, we've built for the future with significant team hirings, including the Venture Banking Group and the Specialized Mortgage Servicing Banking Team as well as with the opening of our full-service San Francisco office. These new teams as well as our existing franchise position us well for future expansion and we look forward to their contribution.

And lastly, I would be remiss if I did not mention the bank reached the milestone worth recognizing. In less than 19 years, Signature Bank has grown from $50 million to $50 billion in total assets, purely organically, a feat we believe no other bank has accomplished. We have a culture of growing organically by serving our clients and not by buying them.

Now we are happy to answer any questions you might have. Christy, I'll turn it back to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Ken Zerbe of Morgan Stanley.

Kenneth Allen Zerbe - *Morgan Stanley, Research Division - Executive Director*

Maybe start off in terms of the C&I growth, Joe, I know you said that the growth is coming from all categories in C&I. Could you dive into that just a little bit more, like, where are you seeing the strongest growth in the quarter? Basically just outlined by sort of subcategory would be very helpful.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, I'll start with Fund Banking. They had the strongest growth. Eric, you have the numbers, right?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. Fund Banking was up almost $1.2 billion for the quarter. We also saw growth in our traditional C&I business. That was up $143 million for the quarter. Asset-based lending was up $87 million and Signature Financial, again, had a very strong fourth quarter with $233 million. That tends -- fourth quarter tends to be their strongest quarter and it was, again, this year. And then Venture Capital came in at just shy of $40 million in growth. So it's really across the board growth in all of our C&I lending areas.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

And it's what we expected. We expected that when we were reducing the growth in commercial real estate that, that would be taken up by C&I.

Kenneth Allen Zerbe - *Morgan Stanley, Research Division - Executive Director*

Got you. Understood. No, no, very good results there. I guess switching over to multifamily or CRE, just in general, I guess, the $400 million of runoff seems a little high. I know you had were -- you were elevated last quarter for very specific reasons in terms of CRE runoff. Are you seeing additional customers that you're sort of gently pushing out the bank? Is that the reason for the decline? Or are there other reasons for the $400 million? And is this a good number, like going forward?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, in part, it was a continuation of the previous quarter where we had some runover. We weren't able to get all those clients that were not relationship-driven out in the third quarter. So in part, that was a fourth quarter reduction. And then there was just some additional prepayment. The pipeline is pretty significant now. It takes a while when you're in a mode of reducing the portfolio to every -- to the marketplace to understand that you're back in business. But now we're seeing the pipeline pretty strong.

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. And we anticipate, going forward, that we'll be relatively stable on that front. We could be down a couple hundred million. We could be up 100 -- a couple hundred million. But we're looking for that portfolio to remain at least flat over the course of the year.

Kenneth Allen Zerbe - *Morgan Stanley, Research Division - Executive Director*

Okay, perfect. And then just last question for you. The increase in nonaccrual loans. I know it's still fairly low, all things considered. But was there anything in particular that drove that higher?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Nothing systemic or global. It was one credit that was -- as an abundance of caution, it was put on nonaccrual. It was 50 days past due, so it wasn't 90 but 50 days. It was retail plus office building. There's a guarantor and we're working with the guarantor, the owner. It's pretty well secured. We did not put a reserve on it. There was no multifamily increase in nonaccrual.

Operator

Your next question is from Casey Haire of Jefferies.

Casey Haire - *Jefferies LLC, Research Division - VP & Equity Analyst*

I was wondering if you could -- if you guys could touch on the NIM outlook, specifically, where are new money loan yields quarter-to-date? And do you expect to get more help on the deposit side of things?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Oh yes. I mean we certainly anticipate that we'll continue to have strong deposit growth, especially given all the new lines that we put in place, and they really have just started to kick in. So that should be beneficial to our overall margin. Generally, we anticipate in the short term, the next quarter or 2 that will be flat with an upward bias. After that, it's going to be dependent on many factors, the shape of the yield curve, what the Fed does, what our deposit growth is, what our DDA growth is and what ultimately our loan growth and the mix of that loan growth that's coming in. Right now, on the yields, I'd say, Fund Banking is coming in at 3.60% to 3.70% range on their new loans.

Signature Financial is in the low 4s to high 3s. Traditional C&I is in the low 4s. Venture is in the high 5s.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Since we have a number of our bankers listening, it would be good to tell that we expect that they'll be able to get the cost of deposits down further. I can't tell you how much that will be. But there is an expectation that we have some room at least in the first quarter.

Casey Haire - *Jefferies LLC, Research Division - VP & Equity Analyst*

Very good. And on the liquidity, it obviously had good results on the deposit side. So is the liquidity built up? Do you expect to work that down in short order? And if so, to what end? Would it be paying down borrowings or just funding loan growth?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. We funded a significant amount of loan growth in the last 2 weeks of the fourth quarter. So we've really worked down that liquidity already. So it was mostly with funding loans, but we did also pay down some high-cost borrowings. We continue to have some higher-cost borrowings that we'll be able to pay down over the course of the next several quarters that will certainly be beneficial to the margins.

Casey Haire - *Jefferies LLC, Research Division - VP & Equity Analyst*

Okay. And just last one for me. The deposit growth momentum is pretty strong. This is 2 quarters in a row where you're basically running at $1.5 billion per quarter, which, if this were to continue, would sustain well above your $3 billion to $5 billion of asset growth per annum. Just was wondering if you could give some updated thoughts on that? And then the Kanno-Wood's, like as best I understand, you're not getting any contribution from that team. Why wouldn't the contribution from Kanno-Wood's accelerate this deposit growth pace we've seen over the last 2 quarters?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, that team has opened up a significant number of accounts that have not yet been funded. They are contributing -- the big deposits like the $0.5 billion or so come with time. It takes some time to get them over. But just by the number of accounts that they've opened, we're fairly confident. And we would be disappointed for the whole year of 2020 if we didn't end up on the higher end of the $3 billion to $5 billion.

Operator

Our next question is from Ebrahim Poonawala of Bank of America Securities.

Ebrahim Huseini Poonawala - *BofA Merrill Lynch, Research Division - Director*

I guess, Eric, just wanted to follow up on the margin. I guess you mentioned you expect it to be flat to maybe slightly higher over the coming quarters. Just talk to us in terms of, if the rate environment doesn't change, what drives meaningful margin expansion? It seems like your balance sheet growth should be neutral to incrementally accretive to the 2.70% margin, give or take? Like do we -- is there potential to see any meaningful expansion in the margin in the current rate backdrop? Like what needs to happen for us to get there?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

I think if you're looking at the current rate backdrop, we would need a significant amount of DDA growth or low-cost deposit growth to really drive anything meaningful. It's a pretty -- still a pretty flat yield curve that we're operating under. If we got some steepness to the curve, that could also lead to us widening margins a bit. But in this current rate environment, it would have to be deposit flows that would drive it.

Ebrahim Huseini Poonawala - *BofA Merrill Lynch, Research Division - Director*

And on deposits. Has the customer appetite or the customer demand for rates -- have you seen that subside over the last few months where incrementally do you -- like I'm just wondering what's the incremental cost of deposit? Is it sub-100 basis points? Is it around 100 basis points today?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

I would say that the competition is slightly down a little from where it was over the last several quarters or last couple of years. That's what I would say, just on deposit rates.

Ebrahim Huseini Poonawala - *BofA Merrill Lynch, Research Division - Director*

Understood. And just moving to expenses, 16%. Do we still expect 10% to 12% growth next year? And if any updates around hiring plans? I know you're always looking for opportunities to hire, but any update would be helpful.

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. We ended up at 16% for the fourth quarter, which is right in line with what we've guided. We project next year that will be in like a 15% to 12% range, starting at the high end of the range and going down in a somewhat linear fashion over the course of the year. So when we look at the first quarter, it's probably a 15% growth and then 14%, 13% and 12%. We're working on a number of initiatives on the team front. Nothing that we really want to disclose at this time, but we do have a number of things in the pipeline.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

As it relates to your first question, I think it's really all about net interest income. If the margins stay stable and we continue to grow, our efficiency ratio will stay as is. We'll be able to grow the bank nicely with net interest income.

Ebrahim Huseini Poonawala - *BofA Merrill Lynch, Research Division - Director*

Agreed. And just one last follow-up on the multifamily. It still comes up on the stock in discussion with investors. How do you see the multifamily market in New York playing out? Like do you expect any hiccups over the next few quarters, over the next year? Like just based on what you've seen, do you say -- do you feel comfortable where you feel good about like this not posing any credit risk to Signature?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, we talk to our clients all the time and they're multigenerational holdings of huge portfolios and not highly leveraged. That's a substantial portion of our multifamily clients. So that bodes well for us. We haven't seen any

Negative trends other than that there is some values that have dropped, but the values of our portfolio are pretty well relative to others who use different kind of cap rates. We're very comfortable where we are in our portfolio. I have not seen any cracks.

Operator

Next question is from Jared Shaw of Wells Fargo Securities.

Jared David Wesley Shaw - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Maybe just following up on the teams. Could you give us an update on how the pipelines look going into the beginning of the year? Are those stable, increasing, sort of across the board given the balances you gave us earlier?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes, the pipeline looks good and a lot of what we've discussed over the last, I'd say, several months is that we're being ultra-selective given the very large teams and business lines that we've brought on board. But over the course of the next couple of years, our focus is going to be on nurturing those businesses. But on the traditional team hiring front, we've really turned our attention to the West Coast, and we have a number of teams in the pipeline there.

Jared David Wesley Shaw - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

And then on the capital management. Now that growth is -- or is staying at these higher levels and the stock's done well, should we expect to see sort of a continued mix of dividends and buybacks as a way to manage capital? Or is that in transition as we start off the beginning of the year?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Well, I think we're going to maintain the dividend that we've seen now. I don't really see that moving meaningfully on the buyback front, given the robust growth that we've had. I would anticipate that we'd probably slow down a little bit on the buybacks.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, we won't stop because we still think the stock is undervalued.

Jared David Wesley Shaw - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. But in terms of the CRE capital concentration and the absolute capital levels you're comfortable, sort of continuing to look at that, call it, total capital return in the $120 million, $130 million range a quarter?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes, it will probably be a little bit less than that given the amount of growth that we see.

Operator

Next question is from Steven Alexopoulos of JPMorgan.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap & Small-Cap Banks*

I wanted to first follow up on the Kanno-Wood's team. If you look at your ability to move the business, has there been any resistance thus far from customers to move over to Signature? Any products or service capabilities you still need to add?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. We've got, I'd say, 95% to 98% of the products and services that we need. There are certainly a few things that we want to tweak and enhance but nothing that's really meaningful in that space and stopping us from moving over the client. I think as any new entrant into a particular arena, the clients are testing us right now. They're opening up accounts. They're starting off with smaller dollar accounts. But they're -- generally, we're seeing a lot of activity there and a lot of account openings.

They came in with about $30 million in balances in the fourth quarter, which we're very pleased with and predominantly DDA, which is what we anticipated from them. I think they've already brought in more than that thus far this quarter. So we're seeing really good activity. We're hearing good things from the clients. We -- and we expect that, that will lead to more and more as we go through the course of this year.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap & Small-Cap Banks*

Eric, as we think about the potential ramp from that business, do you think this becomes more of a 2021 event than 2020 event?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Not necessarily. I think we'll see some really strong deposit flows this year. Probably some large deposit flows coming in mid to late this year.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

There's so many clients that they have that have launched deposits, just getting one or 2 to put us in $0.5 billion to $1 billion range immediately.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap & Small-Cap Banks*

Okay. Then finally, so reaching $50 billion of assets is clearly a big milestone, but at $50 billion, when we think of the $3 billion to $5 billion asset growth target per year, that implies just under 10% growth. So you think about this size of the company, are the days of Signature being able to grow the balance sheet double digit now behind us given the size? Or do you have a strategy to hire more teams to get back to double-digit growth? How do you think about that?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

I think of under promise and over deliver.

Operator

Next question is from Chris McGratty of KBW.

Christopher Edward McGratty - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Just wanted to clarify on the buyback commentary. I think, Joe and Eric, you said continued buyback but slower pace. I think you've got $100 million left. How should we be assuming the proceeds from the debt offering? Is that a portion earmarked for buybacks? I'm just trying to manage capital ratios and buyback expectations.

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. We'll be going at our next annual meeting to re-up the buyback to the $500 million level again, and then we'll have to go for regulatory approval for that as well. So we anticipate going to increase the buyback. Certainly, when we issued the subordinated debt, we anticipated that some of those funds would be utilized for the buyback. But ultimately, the buyback is going to be dependent on what we see as our level of growth.

And as I said earlier, we do anticipate a fair amount of growth in front of us. So we'll be selective on the buyback.

Christopher Edward McGratty - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. And can you just remind us, Eric, the governor, which ratio and what level?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Traditionally, the tightest ratio for us has been the total capital ratio. So when that starts to get down to a 12% or nearing 12%, I think we'd start to be mindful of our capital levels.

Operator

Next question is from Brock Vandervliet of UBS.

Brocker Clinton Vandervliet - *UBS Investment Bank, Research Division - Executive Director & Senior Banks Analyst of Mid Cap*

That was reassuring with respect to that increase in nonaccruals being retail and office as opposed to multifamily. What -- and I'll come back to that. But separately, on Signet, this is something you've kind of intermittently talked about since it's been introduced. Could you kind of review for us what the business proposition is there and what -- exactly what industries this is focused on?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, the -- it's focused on a number of industries that have ecosystems that would fit well within the payment platform that we've created. We are now in it for a little bit more than a year. We have one more enhancement that we want to -- that we've been working on, which we'll comment on in April, which we believe will take us to the next step. Primarily right now, it's the digital, but the platform that we have requires us to add this one application in April and one during the summer. And those 2 applications will actually take us to the next level. One of the things Eric and I were talking about was having the analysts have a demonstration of it. So you could see what it actually does and what platforms it would work well with. One of the areas is energy. We signed up a client. I guess, it was about a year ago. And we've been adding to our capabilities. And once April comes along, we'll have an energy company running full bore using Signet with clients that they service, and they provide energy to.

Brocker Clinton Vandervliet - *UBS Investment Bank, Research Division - Executive Director & Senior Banks Analyst of Mid Cap*

Okay. And just to review on the multifamily. How large is the renovation loan portfolio? And how much of your reserves are focused on that area?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

That portfolio is about $1.27 billion. It's down about $422 million in the quarter. I think reserve-wise, it's -- I don't know if I have a reserve breakout. I don't think it's meaningfully that different from our overall multifamily reserves, which are around 60 basis points.

Operator

Next question is from Lana Chan of BMO Capital Markets.

Lana Chan - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Wondering if you could give us an update on the capital call. What commitments are at the end of the quarter?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. The amount of commitments at the quarter, Lana, were $4.7 billion.

Lana Chan - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

And I guess acknowledging that there's going to be some level of volatility and uncertainty with CECL in -- going forward. But as you grow the commercial loan portfolio versus, I guess, mix shifts from CRE multifamily, should we think about, I guess, with your CECL analysis, the reserve to loan ratio, should that be increasing over time, given the commercial loan growth?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

It's super hard to predict at this point, but keep in mind that our C&I portfolio, the majority of the growth that we've seen there has been in very well secured capital call facilities to major private equity firms that are traditionally for us 3 and 4 rated credits and they're shorter duration, right? So it's a 1- to 3-year loan a 3- to 4-rated credit versus our CRE loans, which are 5-year, some 7, but mostly 5-year CRE loans, which are predominantly 4- and 5-rated credits. So all else being equal, and that's very important to note because there are so many dynamics that come into play when you look at and talk through CECL and all the modeling and forecasting that you have to do. But all else being equal, probably argue that the reserve would come down.

Lana Chan - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

And just one more question on CRE multifamily in New York. You talked about the pretty good pipeline and expectations that you should see some stability in that segment in 2020. Can you talk about what's changed in terms of the competitive environment? I think a couple of quarters ago, you talked about seeing a lot of competition from Freddie and Fannie in that space. Has anything changed there?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

No, it's gotten worse. Freddie and Fannie doing 10-year interest-only loans, really get criticized by the regulators for doing the loans that they're doing.

Lana Chan - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

And then -- so in that environment, given, I assume the pricing is still pretty competitive, how are you competing with that in terms of pricing?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Most of the clients like the relationship. So being a balance sheet lender, although we can't do the 10-year -- or not that we can't, we don't want to do 10-year interest-only fixed-rate loans. They would prefer to deal with a balance sheet lender. So it's something during a period of time that their borrowing occurs that needs to adjust what they're doing on borrowings. They don't have to be killed with a prepayment penalty from Fannie and Freddie by dealing with us. And they like the turnaround and the fact that we price maybe a little higher than the competitors is still like the relationship that we have. That's a big difference between us and other banks that deal with just the brokers. We won't deal with just the broker. We want to have the relationship and have the broker be part of the situation, not the only person in between. I want to -- I just want to say on Signet, there is a few other industries that we're working on. Courier services, supply and cargo services and trading and shipping. Those are some of the ecosystems that we're dealing with. Just thought I'd add that on to the previous call.

Operator

Next question is from Brody Preston of Stephens Inc.

Broderick Dyer Preston - *Stephens Inc., Research Division - VP & Analyst*

Just wanted to follow up on CECL. I appreciate the color that all else sort of equal the reserve should trend down or could come down. Just wanted to get a sense for day 2 provisioning. And how we should think about that from here?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Quite frankly, it's super hard to predict. As I said, it's going to be more volatile than it is now, and it's going to be based on macroeconomic forecasts, the state of the economy, our loan portfolio composition and the product mix and the mix of growth. So it's -- at this point, it's difficult for us to say.

Broderick Dyer Preston - *Stephens Inc., Research Division - VP & Analyst*

Okay. And then on the deposit team front, specifically on the Kanno-Wood's, I appreciate the color that they've opened a significant number of accounts. And so beyond deposit growth though, as we anticipate -- should we anticipate fee income -- what should we anticipate for fee income from that team? And how should we be thinking about fee income as a proportion of revenues moving forward?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

You should think that we would have a pretty significant increase in fee income over 2020 and 2021 where we are today. It's not only that team. Also the Fund Banking team collects a lot of fee income. And as -- since we've improved our billing with USX, that's going to be included in the growth of fee income. So the expectation that there should be double-digit increase.

Broderick Dyer Preston - *Stephens Inc., Research Division - VP & Analyst*

Okay. That's great. And then I have 2 more questions. One is a clarification. Going back to the rent-regulated multifamily, and some of this still comes up in discussions with investors. But just wanted to clarify the size of the book. And then what percent of it -- what's the portion of it that is underwritten to current cash flows?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

So when you look at the multifamily book, right, that -- right now it's $15.1 billion. It was down about $100 million this quarter. That's all underwritten to current cash flows. So the construction and land portfolio, which we talked about earlier, decreased about $422 million during the quarter down to $1.27 billion. That's predominantly made up of those ADC loans that we've talked about. And those -- again, those would be the ones written to forward-looking cash flows, but we take significant enhancements on those credits, whether it be rental holdbacks or guarantees of the borrowers. So that's the part of the portfolio that, I guess, you would say, is underwritten to future cash flows.

Broderick Dyer Preston - *Stephens Inc., Research Division - VP & Analyst*

Okay. So it would be correct to tell somebody that only the construction portion of that multifamily book -- of that rent-regulated multifamily book is underwritten to future cash flows?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

It's the construction and ADC that's underwritten is forward, correct.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

But we will have enhancements to them.

Broderick Dyer Preston - *Stephens Inc., Research Division - VP & Analyst*

Yes, understand that. And then, I guess, a bigger picture question. You guys have done a lot to sort of change the composition of the company over the last year. You had some comments in the release that sort of alluded to all the steps you've taken in 2019. And so I guess, as we think about the next 5 to 10 years, I understand that it's difficult to forecast. But what are your sort of expectations for balance sheet mix and where you would like to be as we progress over the next 5 to 10 years?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, we certainly would like to have more in the West Coast. We think that in addition to here in New York, there's some real opportunities. We'll continue to look for niche businesses that we've done over the last 2 years. I -- we just don't want to be looked at as a savings bank. We felt that, at some point, when we were doing CRE, we were being compared to banks that were nothing like us. We are truly a commercial bank that chose privately owned businesses that wants to be -- has been and wants to continue to be a deposit machine. And we just were lumped in with banks that we didn't think we should be lumped in with.

Operator

Next question is from David Chiaverini of Wedbush Securities.

David John Chiaverini - *Wedbush Securities Inc., Research Division - Senior Analyst*

I wanted to ask about your strong deposit growth and the sustainability of that growth. I was curious about what the driver was in the fourth quarter. Was it new teams, existing teams? What industries and segments? Was it law firms? Any color would be helpful.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

It was existing -- primarily the existing teams. We had some growth from the newer initiatives, but it was primarily the existing teams that have been around for quite a few years.

David John Chiaverini - *Wedbush Securities Inc., Research Division - Senior Analyst*

And did anything change in the dynamics of those industries to cause such a strong surge in the fourth quarter?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

No, nothing unusual.

Operator

This concludes our allotted time in today's teleconference. If you'd like to listen to a replay of today's conference, please dial (800) 585-8367 and refer to conference ID #3648128. A webcast archive of this call can also be found at www.signatureny.com. Please disconnect your lines at this time, and have a wonderful day.