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Signature Bank's Quirky Mix of Customers Fueled Its Rise and Hastened Its Fall

Foray into crypto set the stage for a deposit run that overwhelmed the New York lender in a matter of hours

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Signature Bank built a business around a collection of niches. The New York bank juiced its growth by combining a traditional commercial real-estate business with divisions catering to customers too small or complicated for its crosstown Wall Street rivals: entrepreneurs and law firms, taxi drivers and crypto companies. Red tape was minimal and customer service was a top priority.

"They opened me an account pretty quickly," said Anna Sorokin, who was convicted of stealing from the bank to fund the glitzy Manhattan lifestyle of pretend German socialite Anna Delvey.

Signature's strategy delivered steady profit and rapid growth, making it among the highest-valued banks in America. Yet it ultimately hastened its own undoing: The bank failed after its tightknit clientele drained their accounts in a panic.

Signature is the third-largest bank to fail in U.S. history, just behind Silicon Valley Bank, which collapsed two days earlier. (Washington Mutual Inc., in 2008, was the largest.) SVB SIVB -60.41%decrease; red down pointing triangle, already bruised by the tech slowdown, was done in by a run on deposits by a clannish group of startups and their investors.

Signature met its end in much the same way.

The crypto meltdown that accelerated after the FTX debacle late last year dinged investor confidence in the lender. The collapse of another crypto-focused bank, Silvergate Capital Corp., SI -18.05%decrease; red down pointing triangle and the lightning-fast failure of SVB, destroyed it completely.
Late Sunday, the Federal Deposit Insurance Corp. said New York Community Bancorp Inc.'s Flagstar Bank will take on Signature's deposits—excluding about $4 billion linked to Signature's crypto business. The regulator said it would deal with those customers directly.

Flagstar is also buying some of Signature's assets.

The FDIC said it expects Signature's failure to cost its deposit-insurance fund about $2.5 billion.

This account of Signature's collapse is based on public information and interviews with people close to the bank, regulators and potential financiers.

Chairman Scott Shay, Chief Executive Joe DePaolo and John Tamberlane founded Signature in 2001, pitching it as an alternative to big banks. It grew quickly by poaching teams of bankers from rivals, paying them on an "eat what you kill" basis. Some earned more than Bronx-born Mr. DePaolo. One banker liked to boast that he often spent most of his week golfing with prospective clients.

Its personalized service and connections to the New York real-estate world gave it ties to a colorful cast of characters. Its board of directors, at different times, included Ivanka Trump and former congressman Barney Frank.

The lender stood by customer and hip-hop producer Irv "Gotti" Lorenzo when he was facing money-laundering charges in 2005. After he was acquitted, Mr. Lorenzo persuaded friends, including rapper Ja Rule, to become customers, too.

After the 2008 financial crisis, Signature's style of relationship banking gained favor with investors and customers alike. Loans and deposits routinely grew by double-digit percentages, far outpacing crisis-scarred banks such as JPMorgan Chase & Co. and Bank of America Corp. It rarely lost money on loans.

Signature kept looking for new niche businesses to keep growing. Sometimes they didn't work out. It tried lending to people in New York and other cities to buy taxi medallions, the permits needed to operate cabs, before ride-share businesses such as Uber Technologies Inc. and Lyft Inc. gutted the business.

In 2018, Signature executives decided to get into crypto, a market that bigger lenders had all but rejected. The bank opened deposit accounts for crypto companies and built a payments network that allowed them to send dollars to each other quickly. It didn't hold cryptocurrencies or make loans backed by digital assets.

Mr. Shay, the chairman, wrote out the initial plan for the payments network by hand and kept the piece of paper in a frame in his Midtown Manhattan office.

By early 2022, some 27% of Signature's $109 billion in deposits were from digital-asset clients. Its stock rose alongside cryptocurrencies, reaching a high of $366 that January.

Then the crypto world imploded. The bank cut back on crypto deposits after FTX failed. But its exposure to the market hit Signature shares. Executives spent time reassuring customers that the bank was on solid footing.

Meanwhile, Signature was also starting to feel the pinch from the Federal Reserve's rapid interest-rate increases. Customers were beginning to withdraw money from accounts paying paltry interest in search of higher yields. It lost $17.5 billion in deposits in 2022, its first-ever decline.

The real trouble started after Silvergate and SVB collapsed in quick succession.

On Thursday, March 9, as a run started at SVB, Signature sought to reassure investors, saying it had been buying back shares that week.

Signature executives also bought stock in a show of confidence, according to regulatory filings. Chief Operating Officer Eric Howell, who was recently tapped to become CEO, spent roughly $960,000 buying the bank's preferred equity on March 8 and 9. Mr. Shay bought about $414,000 of shares on March 10.

The government seized SVB the morning of March 10, setting off a panic among Signature's customers. Like SVB, the bulk of its deposits—$83 billion all told—were in accounts over the FDIC's $250,000 insurance cap.

Commercial mortgage broker Ira Zlotowitz's phone was abuzz with messages from a 1,000-member WhatsApp group for people in the commercial real-estate business.

"The chat was total fear. You saw some people were saying, 'You've got to take your money and run,'" he said.

Mr. Zlotowitz was worried about his seven-figure balance, but he was worried about Signature, too. Its bankers, after all, were like family: Mr. Zlotowitz and his business partners had invited them to weddings, bar mitzvahs and charity events. He decided to leave his money in the bank.

Andrew Fox felt bad about leaving his longtime bankers but felt he had no choice. He told his staff at Charge Enterprises, which builds infrastructure for electric vehicles and broadband providers, to move the company's money to bigger banks.

"We were very adamant we needed to reduce our exposure," he said.

Signature bankers were overwhelmed. "Customers were calling and bank management was saying 'We are fine,'" Mr. Frank, the former congressman and Signature director, said. Customers replied: "We're going to JPMorgan because we are more comfortable," Mr. Frank said.

Signature believed it had $29 billion it could borrow between the Fed and Federal Home Loan Bank of New York to shore up its balance sheet.

It went to the New York FHLB on March 10 to borrow more than $2 billion around noon. By 1:30 p.m., customers were withdrawing money so fast that it had to go back for another $2.5 billion.

The New York FHLB was flooded with borrowing requests that day. Banks leave collateral like mortgages with Federal Home Loan Banks in exchange for credit lines. To advance the money, the FHLBs have to issue debt. That can take a few hours during busy periods, and it means they can generally only lend when the market is open.

The second request was filled close to 6 p.m. By then, Signature customers had withdrawn $18 billion—about 20% of the lender's total deposits. The bank inquired about further FHLB advances after the market closed but was told no.

The New York FHLB told The Wall Street Journal that it filled all formal requests for advances from banks received during market hours on March 10.

Over the weekend of March 11-12, executives holed up with lawyers and advisers at Signature's Fifth Avenue offices. They raced to find a buyer or arrange a capital infusion. And they started talking to the Fed about borrowing more money; the bank had tapped the Fed's discount window for a few billion dollars Friday and hoped to get around $20 billion more from the central bank.

The run was on pause but that hadn't stopped depositors from initiating withdrawal requests, setting Signature up for a Monday meltdown.

On Sunday afternoon, March 12, the Fed told Signature that it wouldn't lend it any more money. A white knight still hadn't materialized. Following discussions with regulators in D.C., New York banking regulators called time.

The New York regulator had a "crisis of confidence in the management team," Adrienne Harris, the head of the New York Department of Financial Services, said.

She signed paperwork on March 12 closing the bank and dispatched a team from her office and the FDIC to Signature's headquarters. The office was hushed when they arrived. Some staffers were crying.

Holly MacDonald-Korth left her commercial-real-estate financing company's $1 million balance at Signature on Friday after bankers reassured her that everything would be OK.

When she heard the news Sunday night, she emailed everyone she could think of at the bank: "I'd like to withdraw my deposits immediately."

She wound up leaving the deposits, now guaranteed by the government intervention, but she's grown wary of leaving her company's funds at smaller lenders.

"I get better service at the regional banks," Ms. MacDonald-Korth said. "This week I've been spreading our funds out to the bigger banks."

Signature's 40 branches will reopen Monday under the Flagstar name, the FDIC said.