Signature Bank, sued by shareholders for fraud

The New York Division of Financial Services took over Signature Bank on Sunday and gave control of it to the FDIC, the federal agency that insures bank deposits, until the bank can be sold.

Signature's takeover came two days after regulators seized California-based Silicon Valley Bank.

Both followed a rush of withdrawals from the banks, which catered to technology businesses.

TOWN BOARD DISCUSSION AGENDA
JUNE 14, 2022

1. Meeting of the Town of Islip Industrial Development Agency.

2. Meeting of the Town of Islip Resource Recovery Agency.

3. Town Board approval for the assignment of contracts in certain contract bid areas of the Town of Islip consolidated refuse and garbage district pursuant to section 109 of the General Municipal Law.

4. Town Board authorization to clean up or secure certain properties in the Town of Islip.

5. Appropriation Transfers.

6. Authorization for the Supervisor to enter into an agreement with Signature Bank as an authorized depository of the Town of Islip for 2022.

Town Board Meeting 6/14/2022

Signature Bank added to Islip Town

The New York Division of Financial Services took over Signature Bank on Sunday and gave control of it to the FDIC, the federal agency that insures bank deposits, until the bank can be sold.

Signature's takeover came two days after regulators seized California-based Silicon Valley Bank.

Both followed a rush of withdrawals from the banks, which catered to technology businesses.

Signature Bank, ex-CEO Joseph DePaolo sued by shareholders for fraud

Signature Bank and three former top executives were sued on Tuesday by shareholders who accused the New York bank of fraudulently proclaiming it was financially strong a mere three days before it was seized by a state regulator.

The proposed class action against Signature and its former Chief Executive Joseph DePaolo, Chief Financial Officer Stephen Wyremski and Chief Operating Officer Eric Howell was filed in the federal court in Brooklyn.

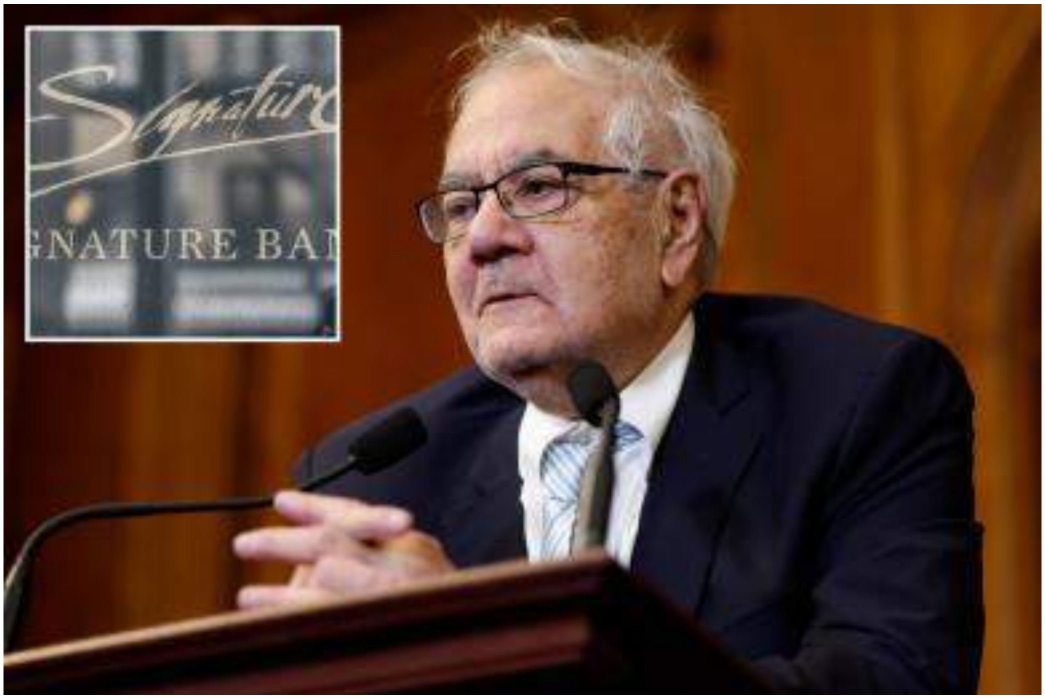
It seeks unspecified damages for shareholders between March 2 and 12 when New York's Department of Financial Services took over Signature, two days after the Federal Deposit Insurance Corp. seized Silicon Valley Bank.

Signature did not immediately respond to requests for comment.

Founded in 1999, Signature specialized in real estate lending and provided many services to law firms, and in recent years made a push for cryptocurrency deposits. Former President Donald Trump had been a client until 2021.

Signature ended 2022 with $110.4 billion of assets and $88.6 billion of deposits, and is the second-largest US bank to fail since 2008. Silicon Valley Bank is the largest.

In Tuesday's lawsuit, shareholders led by Matthew Schaeffer said Signature hid how it had been "susceptible to a takeover" by making false or misleading statements about its health, in part to quell fears sparked by Silicon Valley Bank's troubles.



Barney Frank under fire over role on board of doomed Signature Bank

These statements included that Signature could meet “all client needs,” and had enough capital and liquidity to distinguish itself from rivals during “challenging times.”

Signature’s market value was about $6.5 billion before its collapse.

The lawsuit was filed by the law firm that sued Silicon Valley Bank’s parent SVB Financial Group and its CEO and CFO on Monday.

On Sunday, US regulators decided to make Signature and Silicon Valley Bank depositors whole regardless of how much they held in their accounts.

Shareholders would receive no protections. Regulators said the move would protect the US economy by strengthening public confidence in banking.

Signature Bank execs starred in cringey Broadway-style musical sketch video

By
Ariel Zilber
March 14, 2023

Executives at the doomed Signature Bank produced a Broadway-style musical video to launch the firm in the early 2000s — and its song branded the bank “the stupidest idea I ever heard” and even quipped that it could “diminish and fail.”

Clips of the musical number — now dripping with irony after [regulators stepped in] over the weekend and [took control of the New York-based firm] in a bid to stave off a US banking crisis — resurfaced online and went viral this week.

“Look, the only way we are going to do this thing is if we start a bank from scratch,” the bank’s co-founder and chairman, Scott Shay, declares at the start as he fidgets in front of a dressing-room mirror with fellow executives.

“From scratch?” replies John Tamberlane, the bank’s vice chairman. “You gotta be kidding.”

“How in the world do you do that?” asks Joseph DePaolo, Signature’s CEO. “Is there a book ‘How to Build a Bank for Dummies?’”

Concluding that “we’d have to make our own mistakes” and “we’d have nobody to blame but ourselves,” the bankers then break into song, calling the idea of starting a bank “the stupidest idea that I have ever heard.”

“We’re sick of the stank of the big major banks so we start one?” they ask, with one shooting back, “It’s absurd!”

“What a terrible proposition — like convincing the world to eat kale!” the chorus continues. “What possible fate will become of our bank other than to diminish and fail?”

Is it surprising that Signature Bank failed?

Their executive team spent millions of dollars to produce music videos & TV shows about themselves

Try not to cringe as you watch this: pic.twitter.com/16K70FQq5o

— Genevieve Roch-Decter, CFA (@GRDecter) March 13, 2023

Bringing the irony to a head, Shay then triumphantly retorts: “I happen to know for a fact — that won’t happen.”

The video — which then launches into a number touting Signature’s aspirations for solid customer service and safe lending — was posted by Genevieve Roch-Decter, a money manager and Substack blogger.

“Try not to cringe as you watch this,” Roch-Decter tweeted. “Their executive team spent millions of dollars to produce music videos & TV shows about themselves.”

In a subsequent tweet, Roch-Decter wrote: “From someone I know who worked at Signature Bank for several years: ‘The Management Team was basically like the show, the Office. They’d waste money on things like producing parody videos’.”

Another social media user tweeted: “This is what happens when you let community theater actors run the financial system.”

Roch-Decter this week separately posted another “cringe”-worthy video produced by Signature’s marketing department.

The execs also tried their hands at a comedy sketch/musical combo.

I'm speechless. pic.twitter.com/y3lWDCcSlp

— Genevieve Roch-Decter, CFA (@GRDecter) March 13, 2023

The bizarre ad segment starts with a group of "generic" bankers from a "mega bank" who are covered in chicken feathers — apparently with idea that they've been busy "plucking" clients with ruthless business tactics.

"Some banks will pluck their clients, some banks are ruthless, so many useless meetings," the song begins. "Some banks will sell their souls, some banks just feel real old."

"Only possible conclusion, from its inception the bank was created to fail," another Twitter user wrote.

The five-minute marketing video, titled "Some Banks," cuts through a dizzying number of scenes, with employees dancing in the office and an evil "mega banker" grabbing a pile of gold coins from a helpless client couple.

The marketing video later cuts to a banker who gets up from his desk and joins in the chorus.

"I stand for honesty, I stand for integrity," the banker sings and begins carrying a flag through the office bearing the lender's official logo.

Elsewhere, a pair of employees are seen doing a high-five in front of a Seattle Seahawks football helmet, while others are washing their faces in a fountain.

It is unclear when the video was produced, though a YouTube page indicates that it was uploaded to the site nine years ago.

The New York Division of Financial Services took over Signature Bank on Sunday and gave control of it to the FDIC, the federal agency that insures bank deposits, until the bank can be sold.

Signature's takeover came two days after regulators seized California-based Silicon Valley Bank.

Both followed a rush of withdrawals from the banks, which catered to technology businesses.

Former Rep. Barney Frank (D-Mass.), who is now under fire over his role on the board of directors at Signature Bank, said Monday that he believes state officials were trying to make an example of Signature Bank and that the government takeover was the wrong move.

Despite a wave of withdrawals, the bank's situation was under control before regulators swooped in, Frank said.

Chuck Schumer gives donations linked to Silicon Valley Bank to charity

By
Victor Nava
March 15, 2023
https://nypost.com/2023/03/15/chuck-schumer-gives-donations-linked-to-silicon-valley-bank-to-charity/?utm_source=url_sitebuttons&utm_medium=site%20buttons&utm_campaign=site%20buttons

Signature Bank boss Scott Shay led seminar on gender-neutral pronouns like ‘Ze’ and ‘Hir’

https://nypost.com/2023/03/14/signature-bank-boss-scott-shay-led-seminar-on-pronouns/?utm_source=url_sitebuttons&utm_medium=site%20buttons&utm_campaign=site%20buttons

SVB, Signature Bank and Credit Suisse donated $1.2M to Dems since 2017

https://nypost.com/2023/03/14/failed-banks-donated-most-to-democrats/?utm_source=url_sitebuttons&utm_medium=site%20buttons&utm_campaign=site%20buttons

SVB bailout shows ‘capitalism is breaking down,’ Ken Griffin says

https://nypost.com/2023/03/14/svb-bailout-shows-capitalism-is-breaking-down-ken-griffin/?utm_source=url_sitebuttons&utm_medium=site%20buttons&utm_campaign=site%20buttons

Signature Bank execs starred in cringey Broadway-style musical sketch video

https://nypost.com/2023/03/14/signature-bank-execs-starred-in-cringe-broadway-sketch-video/?utm_source=url_sitebuttons&utm_medium=site%20buttons&utm_campaign=site%20buttons

Signature Bank, ex-CEO Joseph DePaolo sued by shareholders for fraud

https://nypost.com/2023/03/14/signature-bank-ex-ceo-are-sued-by-shareholders-for-fraud/?utm_source=url_sitebuttons&utm_medium=site%20buttons&utm_campaign=site%20buttons

Banking Turmoil: What We Know

Regulators trying to stem panic among customers shut down Silicon Valley Bank and Signature Bank within days.

By **Vivian Giang**
March 14, 2023, 5:26 p.m. ET

On Friday, Silicon Valley Bank, a lender to some of the biggest names in the technology world, became the largest bank to fail since the 2008 financial crisis. By Sunday night, regulators had abruptly shut down Signature Bank to prevent a crisis in the broader banking system. The banks' swift closures have sent shock waves through the tech industry, Washington and Wall Street. The stocks of several regional banks plunged on Monday. The sense of panic abated on Tuesday, at least momentarily, when bank stocks recovered some of their losses in early trading.

Analysis: Why Silicon Valley Bank and Signature Bank failed so fast

Economy Mar 14, 2023 5:52 PM EDT

Silicon Valley Bank and **Signature Bank** failed with enormous speed – so quickly that they could be textbook cases of classic bank runs, in which too many depositors withdraw their funds from a bank at the same time. The failures at SVB and Signature were **two of the three biggest** in U.S. banking history, following the collapse of Washington Mutual in 2008.

WATCH: Government takes steps to shore up confidence after collapse of two banks sparks fears

How could this happen when the banking industry has been sitting on record levels of **excess reserves** — or the amount of cash held beyond what regulators require? While the most common type of risk faced by a commercial bank is **a jump in loan defaults** — known as credit risk — that's not what is happening here. As an **economist who has expertise in banking**, I believe it boils down to **two other big risks** every lender faces: interest rate risk and liquidity risk.

Interest rate risk

A bank faces **interest rate risk** when the rates increase rapidly within a shorter period. That's exactly what has happened in the U.S. since March 2022. The Federal Reserve has been aggressively raising rates — **4.5 percentage points so far** — in a bid to tame soaring inflation. As a result, the yield on debt has jumped at a commensurate rate.
The yield on one-year U.S. government Treasury notes **hit a 17-year high of 5.25 percent in March 2023**, up from less than 0.5 percent at the beginning of 2022. Yields on 30-year Treasurys **have climbed almost 2 percentage points**.
As yields on a security go up, its price goes down. And so such a rapid rise in rates in so short a time caused the market value of previously issued debt — whether corporate bonds or government Treasury bills — to plunge, especially for longer-dated debt.

READ MORE: Class action lawsuit filed against Silicon Valley Bank parent company
For example, a 2 percentage point gain in a 30-year bond's yield can cause its market value to **plunge by around 32 percent**.
SVB, as Silicon Valley Bank is known, had a massive share of its assets — 55 percent — **invested in fixed-income securities**, such as U.S. government bonds.
Of course, interest rate risk leading to a drop in market value of a security is not a huge problem as long as the owner can hold onto it until maturity, at which point it can collect its original face value without realizing any loss. The unrealized loss stays hidden on the bank's balance sheet and disappears over time.

But if the owner has to sell the security before its maturity at a time when the market value is lower than face value, the unrealized loss becomes an actual loss.

That's exactly what SVB had to do earlier this year as its customers, dealing with their own cash shortfalls, began withdrawing their deposits — while even higher interest rates were expected.
This bring us to liquidity risk.

Liquidity risk

Liquidity risk is the risk that a bank won't be able to meet its obligations when they come due without incurring losses.
For example, if you spend US$150,000 of your savings to buy a house and down the road you need some or all of that money to deal with another emergency, you're experiencing a consequence of liquidity risk. A large chunk of your money is now tied up in the house, which is not easily exchangeable for cash.

Customers of SVB were withdrawing their deposits beyond what it could pay using its cash reserves, and so to help meet its obligations **the bank decided to sell** $21 billion of its securities portfolio at a loss of $1.8 billion. The drain on equity capital led the lender to try to **raise over $2 billion** in new capital.
READ MORE: Silicon Valley Bank's collapse rattles tech industry leaders, entrepreneurs
The call to raise equity **sent shockwaves** to SVB's customers, who were losing confidence in the bank and rushed to withdraw cash. A bank run like this can cause **even a healthy bank to go bankrupt** in a matter days, especially now in the digital age.
In part this is because many of SVB's **customers had deposits well above** the $250,000 insured by the Federal Deposit Insurance Corp. — and so they knew their money might not be safe if the bank were to fail. Roughly **88 percent of deposits** at SVB were uninsured.
Signature faced a similar problem, as SVB's collapse **prompted many of its customers** to withdraw their deposits out of a similar concern over liquidity risk. About 90 percent of its deposits were uninsured.

Systemic risk?

All banks face interest rate risk today on some of their holdings because of the Fed's rate-hiking campaign.
This has resulted in **$620 billion in unrealized losses** on bank balance sheets as of December 2022.
But most banks are unlikely to have significant liquidity risk.

While SVB and Signature **were complying with regulatory requirements**, the composition of their assets was not in line with industry averages.
Signature had **just over 5 percent of its assets in cash** and SVB had 7 percent, compared with the **industry average of 13 percent**. In addition, SVB's 55 percent of assets in fixed-income securities compares with the **industry average of 24 percent**.
The **U.S. government's decision to backstop** all deposits of SVB and Signature regardless of their size should make it less likely that banks with less cash and more securities on their books will face a liquidity shortfall because of massive withdrawals driven by sudden panic.
However, with **over $1 trillion of bank deposits** currently uninsured, I believe that the banking crisis is far from over.

Failed Bank List

Failed Bank Information for Signature Bank, New York, NY

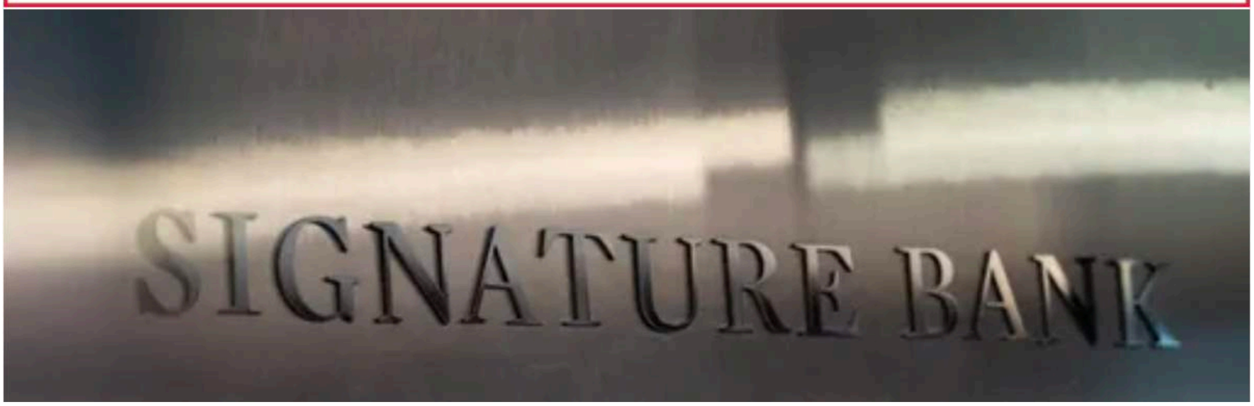
On Sunday, March 12, 2023, Signature Bank was closed by the New York State Department of Financial Services and the FDIC was named Receiver. No advance notice is given to the public when a financial institution is closed. To protect depositors, the FDIC transferred all the deposits and substantially all of the assets of Signature Bank to Signature Bridge Bank, N.A., a full-service bank that will be operated by the FDIC as it markets the institution to potential bidders.

A bridge bank is a chartered national bank that operates under a board appointed by the FDIC. It assumes the deposits and certain other liabilities and purchases certain assets of a failed bank. The bridge bank structure is designed to “bridge” the gap between the failure of a bank and the time when the FDIC can stabilize the institution and implement an orderly resolution.

The FDIC named Greg D. Carmichael as CEO of Signature Bridge Bank, N.A. Mr. Carmichael recently served as president and CEO of Fifth Third Bancorp.

Newsday

BREAKING NEWS



Edward Walsh's brother helped bank get millions in Suffolk deposits, records show

February 2, 2015 By DAVID M. SCHWARTZ david.schwartz@newsday.com

Patrick Walsh, 40, leaves Federal Court in Central Islip after his brother, Edward Walsh, not pictured, was arraigned on charges of theft of government services on Jan. 7, 2015. (Credit: James Carbone)

Suffolk County government agencies deposited tens of millions of dollars with a New York City bank after it hired the brother of Suffolk Conservative Party chairman Edward Walsh as a consultant, county and bank records show.

Signature Bank held no county deposits as of the end of 2007, county records show. In February 2008, the bank hired Patrick Walsh, a former candidate for Suffolk County Legislature. In May, after a request by **(NOW ISLIP SUPERVISOR)** **County Treasurer Angie Carpenter,** the county legislature added the bank to a list of banks county agencies could use.

By December 2010 -- the month Patrick Walsh left Signature -- the Suffolk County treasurer had $72 million on deposit with the bank, according to bank statements Newsday obtained from Suffolk County under the Freedom of Information Law.

The county clerk's office opened an account with Signature in March 2009, and by April 30 had $10.17 million on deposit. The clerk had average monthly balances with Signature of between $9.2 million and $15 million between June 2009 and the end of 2010.

Some former Suffolk officials say the process of selecting banks can involve political favoritism of the sort that goes into filling some county jobs

-- and that political connections can trump the best deal for taxpayers in terms of fees and interest rates.

Also, "politically, the optics would've been horrible," DeMarco said. "The Conservative Party chair works for the sheriff's office, and the Conservative chair's brother works at the bank."

William Wexler, Edward Walsh's attorney, said his client had nothing to do with his brother's activities with Signature Bank. "His brother did what he did for the bank, and that was his job," Wexler said. He said he was unaware that Edward Walsh made calls to DeMarco about calling back his brother.

Smaller institutions such as Signature also hold tens of millions of dollars. Some of them have ties to political figures or former elected officials from Suffolk.

Gold Coast Bank, of Islandia, added to the list of approved banks on the same day as Signature in May 2008, is privately held. Its chairman is John Tsunis, of Poquott, an attorney, real estate developer and hotel manager. His cousin George Tsunis, of Cold Spring Harbor, was nominated by President Barack Obama as ambassador to Norway, but the nomination was dropped after his performance in his confirmation hearing last February.

Empire National Bank, of Islandia, was added to the approved list in August 2008 at Carpenter's request. Paul Tonna, a former Republican presiding officer of the Suffolk County Legislature, is on Empire's board of directors, though the treasurer's office had no deposits with the bank at the end of 2014.

Carpenter's office had $33.4 million on deposit with Signature at the end of December, including money for capital projects and from the mortgage tax and the water protection fund.

Sealing the Signature deal

The treasurer (now Islip Supervisor Carpenter) began using Signature after the county legislature in May 2008 approved Carpenter's request to add the bank and Gold Coast to the approved county list. The legislative resolution, which said Signature and Gold Coast had approached Carpenter, said that by using the banks, "Suffolk may take advantage of competitive interest rates in order to achieve the maximum

interest earning for our public funds."
Carpenter, an Islip Republican who has run with Conservative Party support, said she had no idea the Walsh family had a connection with Signature Bank. "It's a shock, I had no clue," said Carpenter, who was appointed Thursday as Islip supervisor.

TIMELINE

* **February 2008:** Signature Bank hires Patrick Walsh as a consultant. He is paid based on deposits he can secure.
* **May 2008:** Suffolk County Legislature adds Signature Bank to a list of banks approved to accept deposits from county agencies and officers.
* **December 2008:** Suffolk County treasurer's office has $3.47 million on deposit with Signature.
* **March 2009:** County clerk's office opens an account with Signature.
* **June 2009:** Clerk's office has an average of $9.2 million with Signature during the month.
* **December 2009:** Treasurer's office has $63 million with Signature.
* **December 2010:** Walsh leaves Signature. Treasurer has $72 million on deposit with the bank.

Ed Walsh's aunt works at the Islip Town Clerks office when Carpenter got in. And is now Deputy Town clerk. 89,211.59

REMEMBER THE TREASURER IS NOW "ISLIP SUPERVISOR CARPENTER"

Hochul says she acted on Signature Bank after it bled deposits.

New York State stepped in to take over New York City-based Signature Bank, which in turn is now being run by the Federal Deposit Insurance Corp.

By Newsday Staff Updated March 13, 2023 8:10 pm

This story was reported by **John Asbury**, **Robert Brodsky**, **Vera Chinese**, **Scott Eidler**, **Jonathan LaMantia, James T. Madore** and **Ken Schachter.** It was written by Brodsky.

The takeover Sunday of Signature Bank of New York, with offices across Long Island, by state and federal regulators was "not a bailout" but a necessary step to protect deposit holders and project calm in the banking sector, Gov. Kathy Hochul said Monday.

On Sunday, the state Department of Financial Services took temporary possession of Signature before the Federal Deposit Insurance Corp., which insures bank accounts up to $250,000, was appointed receiver of the bank. The management of Signature was immediately terminated and a new board will be appointed by the FDIC, Hochul said.

"Our view was to make sure that the entire banking community here in New York was stable; that we can project calm," Hochul said. "That this is a time when we could manage a certain narrow situation and to make sure that did not get any worse."

Suffolk 'dodged a bullet'

President Joe Biden told Americans on Monday that the nation's financial systems are sound, and deposits will "be there when you need them."

Biden said "no losses" would be borne by taxpayers and promised to hold accountable those responsible for the crisis.

"Americans can have confidence that the banking system is safe," Biden said at the White House.

Adrienne Harris, New York State's financial services superintendent, said her office on Friday was carefully monitoring Signature and a number of other regional banks to ensure there was not a run-on deposits.

"There was a little bit of panic from depositors who weren't sure that their uninsured deposits were going to be safe," Harris said. "And so we were watching the entire system — regulators around the country, the federal regulators. A number of banks were under everyone's watchful eye. So ... because of the amount of outflows we saw on Friday, we knew we were going to have to take action over the weekend so that they can open on Monday."

The bank failures staggered the shares of regional banks with the S & P Regional Banking ETF falling 12.3% to $44.45.

Long Island based banks were not immune. Dime Community Bancshares Inc. tumbled 19.6% to $23.08, while New York Community Bancorp lost 13.2% to $6.40. First of Long Island Corp. shed 7.9% to $14.20, and Flushing Financial Corp. slid 6.9% to $15.59.

Chris Boyle, spokesman for Nassau County Executive Bruce Blakeman, said the county has approximately $95 million in certificates of deposit that are fully collateralized, and FDIC insured at Signature Bank.

"This represents less than 5% of our cash balances," Boyle said. "The county executive, comptroller, and treasurer are monitoring the situation regarding the bank and we are confident all taxpayer funds are safe ... Our top priority is protecting Nassau County taxpayer dollars and ensuring the continued fiscal stability of our county."

While Suffolk County had more than $70 million in deposits with Signature Bank in 2010, it "dodged a bullet" by withdrawing almost all of the remaining funds deposited there about a year and a half ago, according to county Comptroller John Kennedy.

The Suffolk Legislature Authorized Signature as one of the county's 17 authorized depositories at its organizational meeting in January.

But the county reduced the number of banks that holds its deposits with from 11 to six in the past two years — a move designed to streamline its cash handlings, Kennedy said. Under state law, Suffolk cannot hold more than $750 million in deposits in any single bank

The Suffolk County Clerk's office had about $250,000 in a Signature account it used to deposit daily receipts for office transactions, the comptroller said. Kennedy said *the money had been withdrawn Monday morning and moved to a Capital One account which has already recognized the deposit*. He noted the money would have been within or near the FDIC insured amount.

"As soon as they saw indication of a problem, they jumped on it," Kennedy said of the clerk's staff. "There's no exposure. Nothing."

Blumenfeld Development Group, a Syosset-based real estate company, was both a borrower and depositor at Signature, said Edward Blumenfeld, the company's president.

He said Signature was one of several banks for BDG and its deposits there weren't so large that they would have affected its business. Still, the Fed's announcement Sunday night that it would make Signature depositors whole had a calming effect, he said.

"We'll all be fine," Blumenfeld said, adding that Signature was likely not a large enough player on Long Island that its absence will be felt by developers looking to finance construction projects.

"There was great concern and great anxiety in the marketplace, he said, "but all fears have been alleviated."