

March 15, 2023

Joseph J. DePaolo  
Former President and CEO  
Signature Bank  
565 Fifth Avenue  
New York, NY 10017

Dear Mr. DePaolo:

I write following the collapse of Signature Bank to seek additional information about the gross mismanagement that resulted in the bank's failure, and about Signature Bank executives' support for weaker banking rules.

In 2018, Signature Bank avidly fought in support of efforts to curtail *Dodd-Frank Wall Street Reform and Consumer Protection Act*<sup>1</sup> ("Dodd-Frank") protections. Signature Bank executives funneled thousands of dollars in campaign donations to leaders of the effort to loosen bank regulation in Congress.<sup>2</sup> Signature Bank Chairman Scott Shay argued that it was "ridiculous and unacceptable"<sup>3</sup> that banks like his be subject to the same safeguards that apply to larger banks, suggesting that Signature Bank, which had already amassed over \$45 billion in assets by mid-2018,<sup>4</sup> was too small to have significant impact on the soundness of the financial system.

Banks like yours urged lawmakers to raise the threshold at which Dodd-Frank's Enhanced Prudential Standards, which provide regulators with enhanced monitoring capabilities over banks and require that banks have resolution plans, or "living wills,"<sup>5</sup> to ensure that regulators and banks have plans in place for orderly liquidation in the event of a bank failure.<sup>6</sup> Proponents of deregulation derided these standards as "unnecessary compliance measures."<sup>7</sup> They argued that banks the size of Signature Bank were capable of independently safeguarding against risk.

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<sup>1</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203.

<sup>2</sup> The Hill, "Silicon Valley, Signature banks lobbied hard to loosen bank rules," Karl Evers-Hillstrom, March 14, 2023, <https://thehill.com/policy/technology/3898389-silicon-valley-signature-banks-lobbied-hard-to-loosen-banking-rules/>.

<sup>3</sup> Financial Times, "Democrats get campaign cash from banks ahead of deregulation vote," Ben McLannahan and Barney Jopson, February 22, 2018, <https://www.ft.com/content/87df9624-178c-11e8-9376-4a6390addb44>.

<sup>4</sup> Signature Bank, "Signature Bank Reports 2018 Second Quarter Results," press release, July 19, 2018, <https://investor.signatureny.com/pme/press-releases/news-details/2018/Signature-Bank-Reports-2018-Second-Quarter-Results/>.

<sup>5</sup> Board of Governors of the Federal Reserve System, "Living Wills (or Resolution Plans)," March 14, 2022, <https://www.federalreserve.gov/supervisionreg/resolution-plans.htm>.

<sup>6</sup> 12 CFR 252.

<sup>7</sup> Written testimony of Greg Becker to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, March 24, 2015, <https://www.govinfo.gov/content/pkg/CHRG-114shrg94375/pdf/CHRG-114shrg94375.pdf?ref=the-lever>.

These arguments were questionable at the time they were made, and in the wake of Signature Bank’s failure, they now look nefarious.

But years of lobbying for weaker bank regulations by the banking industry culminated in the *Economic Growth, Regulatory Relief, and Consumer Protection Act* (EGRRCPA), the rollback of Dodd-Frank rules Signature Bank was seeking, which passed with support from both parties and was signed into law by former President Trump in 2018.<sup>8</sup> When this law was passed, you assured your customers that it “bodes well for banks like ours.”<sup>9</sup>

Despite assurances made to Congress that mid-sized banks like Signature Bank would be able to manage risk independently, it has since become clear that your bank was wholly unequipped to do so, and that failure resulted in the bank being shut down and taken over by government regulators. According to reports, even as New York state bank regulators spent the weekend attempting to rescue Signature Bank executives from their own mismanagement to meet customer needs by Monday, “the bank failed to provide reliable data and created lack of confidence in the bank’s leadership.”<sup>10</sup>

But the managerial incompetence that led to Signature Bank’s crash was not limited to this weekend – for years, Signature Bank executives engaged in efforts to benefit the bank’s profitability, opening the floodgates to excessive risk. While many banks steered clear of the emerging cryptocurrency industry, adhering to warnings from regulators about crypto’s enhanced risk concerns,<sup>11</sup> Signature Bank bought into its get-rich-quick narrative. Of cryptocurrency, you said, “the opportunity is significant, if you’re dealing with the right clients ... Blockchain technology is the future” and “you don’t want to be caught short, because in five years a number of banks will not be around because of blockchain technology.”<sup>12</sup>

Indeed, Signature Bank was caught short because it embraced crypto customers with insufficient safeguards. By December 2022, crypto clients accounted for about 30% of Signature Bank’s

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<sup>8</sup> Economic Growth, Regulatory Relief, and Consumer Protection Act, Public Law 115-174.

<sup>9</sup> Signature Bank, “Signature Bank Reports 2018 Second Quarter Results,” press release, July 19, 2018, <https://investor.signatureny.com/pme/press-releases/news-details/2018/Signature-Bank-Reports-2018-Second-Quarter-Results/>.

<sup>10</sup> The New York Times, “A New York finance official points to uneasiness over Signature’s leadership as a factor in its shutdown,” Matthew Goldstein, March 13, 2023, <https://www.nytimes.com/live/2023/03/14/business/svb-banks-inflation-economy-news/a-new-york-finance-official-points-to-uneasiness-over-signatures-leadership-as-a-factor-in-its-closing?smid>.

<sup>11</sup> Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, “Joint Statement on Crypto-Asset Risks to Banking Organizations,” January 3, 2023, <https://www.occ.treas.gov/news-issuances/news-releases/2023/nr-ia-2023-1a.pdf>; Office of the Comptroller of the Currency, “OCC Clarifies Bank Authority to Engage in Certain Cryptocurrency Activities and Authority of OCC to Charter National Trust Banks,” press release, November 23, 2021, <https://www.occ.gov/news-issuances/news-releases/2021/nr-occ-2021-121.html>.

<sup>12</sup> Bloomberg, “‘Old-School’ Signature Bank Collapsed After Its Big Crypto Leap,” Max Abelson, March 14, 2023, <https://www.bloomberg.com/news/articles/2023-03-14/why-did-signature-bank-fail-inside-the-old-school-new-york-bank>.

total deposits.<sup>13</sup> According to one analyst, the “story” of Signature Banks’s failure “has more to do with crypto,” identifying that the bank’s activity in the space was a “huge error in judgement by veteran bankers.”<sup>14</sup>

Amongst Signature Bank’s crypto customers was FTX,<sup>15</sup> which was once the second largest crypto exchange in the world, and which collapsed after its executives had allegedly channeled customer deposits to fund risky investments through its sister company, Alameda Research.<sup>16</sup> Signature Bank and Silvergate Bank, which also provided services to FTX and collapsed earlier this month, were under investigation by the U.S. Department of Justice “for hosting FTX accounts” while the company allegedly misused customer funds.<sup>17</sup> Signature Bank’s association with FTX has led some to allege that the announcement of your resignation last month was due to “money laundering” and “fraud-related concerns.”<sup>18</sup>

You owe your customers and the public an explanation for the economically disastrous outcomes you created: you worked hard to weaken the rules, promised that they “bode[d] well” for your bank – and then destroyed it with bad decision-making and excessive risk-taking.

Congress and the public must learn the lessons from the failure of Signature Bank – and these efforts include understanding the bank’s role in the rollback of banking regulations that facilitated this failure. Given Signature Bank’s efforts to undermine those rules, and to better understand how those efforts and your subsequent mistakes led to the failure of the bank, I request answers to the following questions no later than March 29, 2023:

1. Please describe the full scope of your efforts to roll back Dodd-Frank regulations in Congress.
  - a. How many meetings did you and/or Signature Bank lobbyists have with lawmakers regarding your desire for the Dodd-Frank asset threshold to be raised

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<sup>13</sup> TechCrunch, “Signature Bank seizure creates obstacles for crypto industry while promoting ‘unbanked’ innovations,” Jacquelyn Melinek, March 13, 2023, <https://techcrunch.com/2023/03/13/signature-bank-seizure-creates-obstacles-for-crypto-industry-while-promoting-unbanked-innovations/>.

<sup>14</sup> The New York Times, “Risky Bet on Crypto and a Run on Deposits Tank Signature Bank,” Matthew Goldstein and Emily Flitter, March 12, 2023, <https://www.nytimes.com/2023/03/12/business/signature-bank-collapse.html>.

<sup>15</sup> The Block, “Signature Bank to appoint Eric Howell as CEO and president,” Kari McMahon, February 16, 2023, <https://www.theblock.co/post/212440/signature-bank-to-appoint-eric-howell-as-ceo-and-president>.

<sup>16</sup> CNET, “The Fall of FTX and Sam Bankman-Fried: A Timeline,” Eric Mack, February 24, 2023, <https://www.cnet.com/personal-finance/crypto/the-fall-of-ftx-and-sam-bankman-fried-a-full-timeline-of-events/>; The Wall Street Journal, “FTX Tapped Into Customer Accounts to Fund Risky Bets, Setting Up Its Downfall,” Vicky Ge Huang, Alexander Osipovich, and Patricia Kowsmann, November 11, 2022, <https://www.wsj.com/articles/ftx-tapped-into-customer-accounts-to-fund-risky-bets-setting-up-its-downfall-11668093732>.

<sup>17</sup> Fortune, “Silvergate at center of DOJ fraud investigation for hosting FTX and Alameda accounts,” Ben Weiss, February 3, 2023, <https://fortune.com/crypto/2023/02/03/silvergate-doj-fraud-investigation-ftx-and-alameda/>; Fox Business, “Signature Bank faced criminal probe before firm’s collapse,” Ken Martin, March 15, 2023, <https://www.foxbusiness.com/markets/signature-bank-faced-criminal-probe-before-firms-collapse>.

<sup>18</sup> The Deep Dive, “Crypto Firms Are Dropping Silvergate Bank, But Is Signature Bank Better?” ER Velasco, March 3, 2023, <https://thedeepdive.ca/crypto-firms-are-dropping-silvergate-bank-but-is-signature-bank-better/>.

prior to the enactment of the *Economic Growth, Regulatory Relief, and Consumer Protection Act*?

- b. How much time do you estimate was spent on this lobbying effort?
  - c. How much money do you estimate was spent on this lobbying effort?
  - d. Where did the funds the bank use for these lobbying efforts come from? Which company officials approved this spending?
  - e. How much money was spent on campaign donations related to efforts to roll back Dodd-Frank regulations?
2. Did Signature Bank contribute resources indirectly to efforts to roll back Dodd-Frank, including through industry groups like the American Bankers Association? If so, please describe all such efforts.
  3. Did you discuss these lobbying efforts, their expenses, and their goals, with the Signature Bank's Board of Directors? If so, please provide transcripts of all such discussion.
    - a. Did the Board formally approve these efforts?
  4. Which bank executives have held primary responsibility for risk management since passage of the EGRRCPA?
    - a. Please list all such officials, their title, and the time period in which they served.
    - b. How much did they receive in total compensation, including annual salary, bonuses, and stock options?
    - c. How much of these bonuses were related to employing effective risk management practices?
  5. How much money has been paid out in executive bonuses so far this year?
    - a. Did you receive a bonus? If so, how much money did you receive?
    - b. Which other company executives received bonuses, and how much were they?
  6. Please provide a detailed list of all compensation and bonuses you received in each of the last 10 years.
    - a. For each bonus, please describe the specific metric that you achieved to obtain the bonus.
    - b. Did you receive any bonuses related to the success in your efforts to limit regulation of Signature Bank?

- c. Given the failure of Signature Bank, will you agree to return any bonuses or compensation that you have received in the last five years?
7. Why did you fail to adhere to regulators' warnings about the risks associated with the crypto industry?

Sincerely,



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Elizabeth Warren  
United States Senator