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Banc of California Looks Ahead

Banc of California Chief Executive Jared Wolff outlines his plans for guiding the institution to be the top business bank in Los Angeles County.

By KENNEDY ZAK *Staff Reporter*

After spending 2024 repositioning its balance sheet following a merger, **Banc of California** has a "vision to be the dominant business bank" in the Los Angeles County market, said Chief Executive **Jared Wolff**.

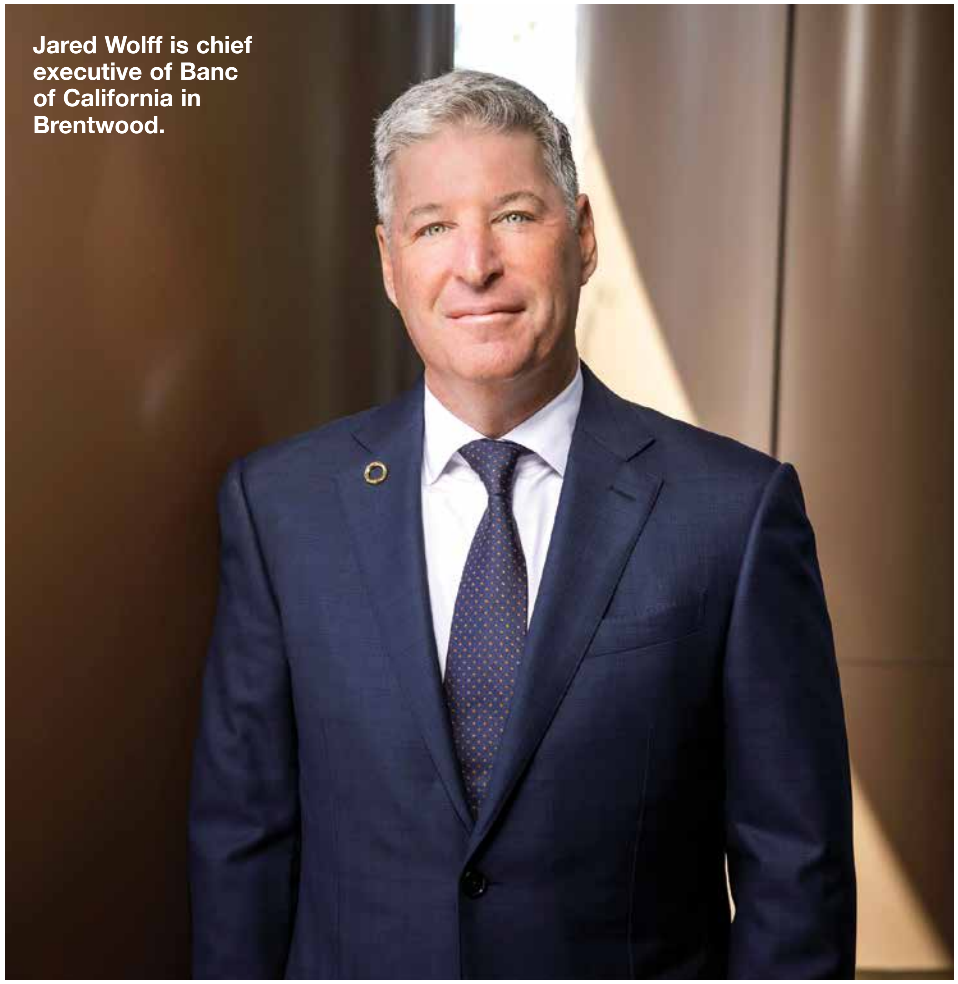
"The number of different industries that exist in Los Angeles and in California generally are among the most diverse in the world," Wolff said. "California is obviously the fifth largest economy in the world, and L.A. is the engine that powers that economy."

After closing a merger with PacWest in November 2023, Banc of California saw a turbulent fourth quarter that fiscal year, recording a loss of $483 million for its net earnings – though Wolff said this sort of performance is to be expected for the quarter in which a merger is closed.

The success of a merger can be measured by if losses are "one off" or continue, said **Rodney Ramcharan**, a professor of finance and business economics at **USC** and former chief of the Systemic Financial Institutions and Markets section for Federal Reserve.

In the first two quarters of 2024, the bank saw net earnings in the $30 million range with the third quarter of 2024 taking a dip to $8.8 million before climbing to $56.9 million for the fourth quarter.

"What we demonstrated over the course of 2024 was the ability to rapidly integrate, merge technology, bring teams together and come out of it with the franchise that we had designed on paper," Wolff said.



Jared Wolff is chief executive of Banc of California in Brentwood.

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Changes in net interest margin

Throughout 2024, the bank saw what Wolff called "a fairly dramatic rise" in its net interest margin, which was 3.04% in the fourth quarter – up 11 basis points from the third quarter and 135 basis points year-over-year. This was in part a result of eliminating lower yielding loans and initiating new loans at higher rates, Wolff said.

Comparatively, the two L.A. County-based banks closest in size to Banc of California – **East West Bank** in Pasadena and **Cathay General Bancorp** in Chinatown – had margins of 3.24% and 3.07%, respectively.

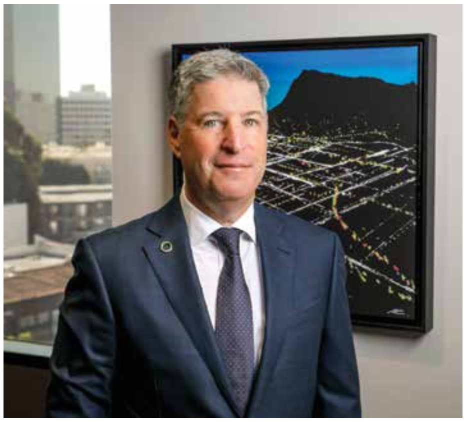
"Our expenses were going down while our margin was going up, (meaning) profitability was taking off at a pretty rapid clip and so, we're on the path to grow earnings consistently," Wolff said.

While a higher net interest margin is generally viewed as a good thing, as it leads to increased profitability, Ramcharan warned of the risks associated with defaults to higher rate loans especially in times of economic downturn.

"Generally, the interest rate on a loan is highly correlated with the risk of that loan, and so if you've made a lot of low yielding loans, it also means you've made a lot of safer loans," Ramcharan said. "And as you now (initiate) loans that have a higher interest rate, you're taking on a lot more risk, because the borrowers you're lending to may not have the collateral if something goes wrong."

Thus, when adding loans at higher rates, it's vital for a bank to have a system in place to properly hedge against possible risks, Ramcharan said.

In this regard, Banc of California reported a 10.55% common equity tier 1 ratio, which measures a bank's capital against its assets weighted by risk. To put that percentage in perspective, the minimum regulatory require-



Jared Wolff seeks to make Banc of California one of the top banks for businesses in Los Angeles.
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ment for this ratio is 4.5% and the CET1 ratio average for the country's 15 largest banks by assets was 12.90% for the fourth quarter, according to data from Statista.

"We are an active lender in our market and our clients appreciate the certainty of execution that we offer," Wolff said. "... Different buckets of loans carry different rates in the market, and we are market competitive given our high level of service and execution. Our credit quality has always been strong."

Decreasing deposit costs was another strategy Banc of California deployed to increase its net interest margin. Wolff explained that before the 2023 merger, PacWest had taken on a great deal of high-cost deposits to stay afloat during a time of distress. After the merger created more financial stability, however, there was no reason to keep those pricey deposits.

Reducing the bank's number of wholesale/brokered deposits and increasing the percentage of non-interest-bearing deposits are ways Banc of California has lowered its deposit costs, Wolff said.

Integrating teams and systems

The major difficulties with mergers can boil down to integrating technology, whether a merger creates changes in regulation standards based on a new size and meshing company culture, Ramcharan said.

"Banks can have very different cultures in terms of risk taking and performance and sorting those things out can be very difficult," Ramcharan said. "If one bank tends to reward people for taking risks and the other does not, how you integrate those different cultures is complicated."

During the early to mid 2000s, Wolff spent 12 years with PacWest where he served in various roles including general counsel and president, giving him first-hand experience with the bank's operation style.

"The risk culture at both organizations was very similar, which has greatly facilitated the integration of our systems and processes. This alignment has enabled us to streamline operations effectively and ensure consistency across the combined organization," Wolff said, calling the bank's credit underwriting process "thorough and conservative."

Additionally, with $33.5 billion in assets, Banc of California did not exceed the threshold to reach a new regulatory status after the merger, easing the transition process in that regard. When banks reach $50 billion in assets, they are subject to additional requirements surrounding filing/reporting and compliance.

When the time came to merge technology systems, Wolff said it "went off without a hitch," as a result of an extensive team with a detailed plan in place to address any possible roadblocks.

"After you close a deal, you're trying to pull together these disparate teams and these various systems, and it's a fairly complicated orchestra that needs to be aligned and conducted to put out something which sounds really good at the end of the day," Wolff, who has worked on over 30 mergers, said.

Being in a place where the bank feels well capitalized, the institution recently initiated a stock repurchase program of up to $150 million through March 2026. The goal is "to enhance returns for our shareholders while continuing to invest in our business," Wolff said.

When a company has extra cash, Ramcharan said a stock repurchase program can be a way to signal to markets that a company is in good shape and wants to repurchase outstanding equity to keep share prices high.

The bank looks ahead

Moving forward, Wolff's strategy involves "broad based growth" with a focus on scaling organically for the time being.

In particular, he expects the bank's warehouse lending to continue to grow as well as its fund finance business which provides capital lines of credit to private equity and venture capital firms. Expanding the lender finance team, supporting the general banking franchise and bringing in new relationships in focus areas across California, Colorado and North Carolina will also be priorities for this year.

But the ability at which banks – and businesses in general – can scale this year could be tied to actions from Washington.

"Continued federal policy focus on tariff implementation is creating significant uncertainty in both the capital markets and the business climate generally," Wolff said. "This noise is drowning out positive economic indicators and could slow transaction volume if it continues."

Nevertheless, Wolff views the bank's status as a "specialist" in commercial banking as an advantage against competitors. Without consumer products, home mortgage originations and wealth management, Banc of California's sole focus is business.

"That's a very attractive differentiator that we have relative to some of the banks we compete with – many of which are the largest banks," Wolff said. "Therefore, I think that there's a long runway for us to keep going in this market and in others."

Wolff also noted that industry disruptions have allowed Banc of California to "(fill) the void left by so many banks that have failed or been acquired" in the business banking realm.

"In some ways the (banking) crisis that occurred in March of 2023 is behind us, and in some ways it's not," Wolff said. In March 2023 alone, California based First Republic Bank and Silicon Valley Bank, each with 12-figure balance sheets, both failed, shaking up the region's banking landscape.

One lingering outcome of the crisis has been a rise in popularity for banks using third party deposit insurance to obtain more coverage above FDIC limits, which has in turn helped to stabilize banking, according to Wolff, who sits on the board of the **Mid-Size Bank Coalition of America**.

"The fundamental issue, though, still remains, which is the need to modernize our deposit insurance in this country," Wolff said. "What we have has not been updated in decades, and therefore it needs a fresh look."

Part of the reform Wolff hopes to see would address discrepancies in coverage levels for banks as it relates to size. When looking at the largest banks that are "deemed too big to fail," Wolff said they don't need to purchase excess deposit insurance in the same ways mid-size and smaller banks need to.

"There are ways to reform the system that would level the playing field with mid-size banks, regional banks and the largest banks in the country and also help support some of the smallest banks in the country, which provide incredibly valuable services, and who the burden is overwhelmingly on to provide this excess insurance, because they're the ones who many feel are most at risk," he said.