

Banc of California: Post-Merger Optimism

By TAYLOR MILLS

A year ago, regional banks teetered on the edge in California after the seemingly overnight collapse of **Silicon Valley Bank** and **First Republic**.

Now, local banks are reckoning with an altered commercial banking landscape.

Among those looking to come out ahead is **Banc of California** – helmed by **Jared Wolff** – which emerged \$28 billion richer as the banking sector’s middle class shrunk.

Prior to last year’s merger with PacWest, the then-Santa-Ana-based bank reported \$10 billion in assets at the end of March. PacWest reported \$44 billion in assets in the same first-quarter earnings cycle.

The merger closed quickly last year — relief for investors who viewed the deal’s regulatory fast-track as proof the private credit market could underpin a regional bank rebuild without further government intervention.

Banc of California and PacWest raised \$400 million through new share sales to private equity firms **Warburg Pincus** and **Centerbridge** to fund the transaction.

Banc of California’s Wolff was elected to lead the merged entity – which now oversees \$38 billion in assets – as its chief executive.

Wolff began his career in Southern California banking at **PacWest**, rising in the ranks from vice president and general counsel to the company’s board over 12 years. After a brief stint at **City National Bank**, Wolff was tapped to become president and chief executive of Banc of California in 2019.

Wolff now discusses how his company settles into its role as the third largest bank in the region. The interview has been edited for length and clarity.

How has the transition been since the merger’s close on Nov. 30 of last year?

It’s been amazing. Today, we sit at \$38 billion combined. We announced the deal on July 25, then we closed the deal on Nov. 30, and by Dec. 31, we had not only closed the transaction, but we had sold \$9 billion of assets. So when you ask how’s it going, one of the things



Banc of California CEO Jared Wolff in his Brentwood office.

Photo by David Sprague

to keep in perspective is the speed with which this transaction was accomplished.

But it wasn’t done recklessly. It was obviously done very carefully with great advisors and great support from investors and regulators and others. But it’s gone remarkably well. It’s hard to explain the intricacies of how to close a transaction that quickly; usually you have a lot more time to do it. But in this case, we were blessed with speed and we were able to get the deal done, which gave people a lot of certainty.

I’m pleased with the market reaction so far, and what we’ve expressed to our investors in the public is that, you know, there are a lot of steps involved in bringing the companies together and that will happen through the course of 2024. And then 2025 will be a fairly clean year. There’s still a lot of moving parts, but the teams have been phenomenal.

Are you worried about the capital dislocation spurred by venture capital clients and their portfolio companies amid rate hikes?

We provide bridge capital. We’re not making bets on the success of portfolio companies.

When we’re lending to portfolio companies in life sciences and technology, oftentimes our lending is done to bridge to the next round of capital raise. These are companies that have had successful fundraising in the past, have made advances, and maybe they’re going from a B to a C round or an A to a B round. We have visibility into when those funds are going to be raised, and we lend so that they can have a longer lifecycle and bridge to the next round.

Our lending is not really dependent upon “hyper valuations,” but it can be affected by valuation, because what we really look at is the number of rounds of investment made, the commitment of existing firms and the progress and success of the underlying companies.

Does your loan portfolio include commercial real estate such as office space?

Our lending in real estate crosses most asset classes. When you look at the components

of commercial real estate, Banc of California historically had very low exposure to what I would call traditional office, and PacWest had proportionately even less than we did. (It had) numerically more, but it was proportionately less of its balance sheet.

On a combined basis, we have a small percentage of loans in office. However, a lot of it is in specialty office, which includes medical (and) production studios. Our exposure I think is well managed and well secured.

How has Banc of California adapted to the return-to-office push?

We're in about three and a half days a week. For the foreseeable future, our company, like many others, will be taking a hybrid approach to working from home versus working from one of our office locations.

A priority for me is ensuring our colleagues have the ability to work proximate to where they live so that they don't have to suffer commutes that are unreasonable.

You can't run a company over Zoom in my opinion. You can't train people as well over Zoom and you can't grow careers over Zoom. We think about the quality of our training and the importance of having direct interactions.

Do you see your headcount growing?

We're certainly adding people in key areas all the time. It's hard to speak (to) an overall headcount because it's a lot of moving parts, but we certainly feel like we will continue to add talent across our company in all areas.

How long have you been in the Los Angeles banking scene?

I grew up in Hancock Park, and I've been in banking in California since 2001.

It's been almost a 25-year career here. What have you learned about this region, in terms of what makes it unique and what it takes to connect with an L.A. customer base?

Southern California is one of the most dynamic economies in the world. You only need to look at the diversity of food in Los Angeles, and I think we have the greatest landscape of

restaurants in the world. The business community is not that different from the variety of food we have here.

We have every major industry represented in California. One of the lessons I've learned in the last 20, 25 years in banking in Southern California is how resilient the economy is here.

People have counted out Southern California many times, and rumors of its death have been overstated every time. As much as we hear about outflow and people leaving the state, California is still creating more new businesses than any other state in the country. There's still more venture capital invested in this economy than any other place in the country, and there's a reason people want to be here.

We have our challenges, but I think, overall, Southern California is a remarkable place to grow business.

Federal Reserve officials continue to predict a soft landing for the macroeconomy. What is your bet as to how Southern California will bounce back? What ways will it prove to be resilient?

Anybody who spends time in Los Angeles has observed for the last several years that restaurants are full throughout the city. The resilience of the consumer, and certainly the local economy, seems to be very strong. I don't think it has that far to bounce back.

Transaction volume is down, and our economy in California certainly revolves around transactions. (These) employ a lot of people. Every time a piece of real estate is sold, every time somebody wants to refinance a property, every time somebody wants to lease property; it involves lawyers, accountants, escrow agents, title people, bankers.

Interest rates have slowed transactions, but as interest rates soften, transaction activity will pick up, which will boost our economy.

There are a lot of other things that could drive it, especially as we move closer to the Olympics.

There's been some executive turnover in the past couple months for other regional banking players. As a veteran of the local industry, what do the recent changes mean?

The landscape has changed over the last

24 months in a way that's been more dramatic than I've seen in my career. We have eight banks that were large competitors in California that no longer exist. That's just a fact.

Going through Union Bank, One West, Bank of the West, First Republic, Silicon Valley Bank, Signature, Silvergate, PacWest – there's eight competitors that are gone that were large.

In the great financial crisis a lot of banks failed, but you didn't have so many concentrated large banks in a single market. That change is more dramatic than we've seen in the past.

It's one of the reasons why I feel so good about where we sit. As a commercial bank we are looking to fill the void of opposite competitors who were previously providing solutions to our target market.

PacWest was in a spiral before the acquisition. Were there parts of the bank that you didn't recognize from your time there? What contributed to its troubles?

Before we acquired PacWest, they had already pivoted to a strategy of de-risking the bank. They had gotten involved in lending on a nationwide basis in more of a transaction-oriented way as opposed to a relationship-oriented way. Those businesses carried a lot of noise for them. They didn't actually suffer any big credit losses, but it was a very noisy business. From an investor standpoint people were concerned about that, but they had started shifting away from that and those businesses were shed before we bought the bank.

In terms of the crisis (last) March, what we like to call March Madness, what all banks have looked at since then is to make sure they understand what concentration risk means. They had outflows specifically in one area of the bank. What was amazing, however, was those customers didn't move all of their deposits. They were just shifting the balance of deposits they had and expanding the number of banks with whom they had a relationship. I thought the folks at PacWest did a remarkable job of stabilizing the bank in unbelievably challenging conditions.

During the merger process, we made sure we understood that very carefully, and were confident that things had stabilized, and they certainly had. What we have today is a pretty impressive, strong bank.