



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

February 2, 2016

Mark Chorazak, Esq.
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017

Dear Mr. Chorazak:

This is in response to your request on behalf of Castle Creek Capital LLC (“Castle Creek”), Rancho Santa Fe, for an exemption from the prohibitions of the Depository Institution Management Interlocks Act (“Interlocks Act”)¹ and the Board’s Regulation L² to permit Mr. John M. Eggemeyer to remain a director on the board of Heritage Commerce Corp. and of its subsidiary state member bank, Heritage Bank of Commerce (“Heritage Bank,” and together with Heritage Commerce Corp., “Heritage”), both of San Jose, while at the same time serving as chairman of PacWest Bancorp (“PacWest”), Los Angeles, all of California.

The Interlocks Act and Regulation L prohibit a management official of a depository institution or a depository holding company with total assets exceeding \$2.5 billion (or of any affiliate of such an organization) from serving at the same time as a management official of an unaffiliated depository organization with total assets exceeding \$1.5 billion (or of any affiliate of such an organization), regardless of the location of the two depository organizations (“major assets prohibition”).³ Heritage and PacWest each have assets that exceed the applicable thresholds of the major assets prohibition.⁴

¹ 12 U.S.C. § 3201 *et seq.*

² 12 CFR part 212.

³ 12 U.S.C. § 3203; 12 CFR 212.3(c).

⁴ Mr. Eggemeyer has served as chairman of PacWest since 2000. In 2010, Mr. Eggemeyer became a director of Heritage Bank. At the time, the interlock was permissible. On December 31, 2014, Heritage Bank reported assets that triggered the major assets prohibition. Under Regulation L, Mr. Eggemeyer must

Under the general exemption provision of Regulation L, the Board may permit an interlock that otherwise would be prohibited by the Interlocks Act if the Board determines that the interlock would not result in a monopoly or in a substantial lessening of competition and would not present safety and soundness concerns.⁵ The Board has delegated to its General Counsel, in consultation with the Director of the Division of Banking Supervision and Regulation (“Director”), authority to grant exemptions under this provision of Regulation L.

The proposed interlock between Heritage and PacWest would not result in a monopoly or in a substantial lessening of competition. In the relevant banking markets, there is minimal geographic overlap between Heritage Bank and the depository institutions controlled by PacWest.⁶ If the proposed interlock were evaluated as if Heritage were merging with PacWest, the increase in market concentration, as measured by the Herfindahl-Hirschman Index (“HHI”), and the combined market share in those markets would remain consistent with Board precedent and within the thresholds of the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Guidelines”).⁷ The interlock also would not have any substantial effect on competition with respect to the nonbanking activities of PacWest and Heritage.

In addition, the interlock does not present safety and soundness concerns. Mr. Eggemeyer represents Castle Creek on the board of Heritage.⁸

dissolve or conform the interlock within 15 months of triggering the prohibition, or by March 31, 2016. 12 CFR 212.7(b).

⁵ 12 CFR 212.6(a).

⁶ Heritage Bank is located in San Jose, California, and has 14 offices in Alameda, Contra Costa, San Benito, and Santa Clara counties, all in California. PacWest controls one subsidiary depository institution, Pacific Western Bank, which is located in Los Angeles, California, and has 84 offices in Fresno, Kern, King, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Tulare, and Ventura counties, all in California.

⁷ Department of Justice, Bank Merger Competitive Review – Introduction and Overview, available at <http://www.justice.gov/sites/default/files/atr/legacy/2007/08/14/6472.pdf> (current as of September 2000). The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points.

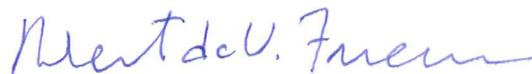
⁸ Castle Creek holds, through an affiliate, a noncontrolling investment in Heritage. In connection with its investment, Castle Creek obtained the right to appoint a representative to the board of Heritage.

Castle Creek contends that Mr. Eggemeyer is qualified to serve as Castle Creek's director given his experience and overall availability. Allowing the interlock to continue would provide continuity to Castle Creek and to the depository organizations involved.

Based on all the facts of this case and for the reasons discussed above, the General Counsel, acting pursuant to authority delegated by the Board and after consultation with the Director, has granted an exemption to allow Mr. Eggemeyer to serve as a director of Heritage while also serving as a management official of PacWest.

The Board reserves the right to revoke the exemption should the interlock result in a monopoly or a substantial lessening of competition or present safety and soundness concerns.

Sincerely yours,



Robert deV. Frierson
Secretary of the Board