

FEDERAL RESERVE SYSTEM

PacWest Bancorp
Beverly Hills, California

Order Approving the Acquisition of a Bank Holding Company

PacWest Bancorp (“PacWest”), Beverly Hills, California, a bank holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to acquire CU Bancorp and thereby indirectly to acquire CU Bancorp’s subsidiary bank, California United Bank, both of Los Angeles, California. Following the proposed acquisition, California United Bank would be merged into PacWest’s subsidiary bank, Pacific Western Bank, Beverly Hills, California.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (82 Federal Register 21,390 (May 8, 2017)).⁴ The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

PacWest, with consolidated assets of approximately \$22.2 billion, is the 77th largest insured depository organization in the United States. PacWest controls approximately \$16.3 billion in consolidated deposits through Pacific Western Bank, which represent less than 1 percent of the total amount of deposits of insured depository

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ The merger of California United Bank into Pacific Western Bank is subject to approval of the Federal Deposit Insurance Corporation (“FDIC”), pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c).

⁴ 12 CFR 262.3(b).

institutions in the United States.⁵ Pacific Western Bank operates in California and North Carolina. Pacific Western Bank is the 15th largest insured depository institution in California, controlling approximately \$11.2 billion in deposits, which represent approximately 0.9 percent of the total deposits held by insured depository institutions in that state.⁶

CU Bancorp, with consolidated assets of approximately \$3.0 billion, is the 288th largest insured depository organization in the United States, controlling approximately \$2.8 billion in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. CU Bancorp controls California United Bank, which operates in California. California United Bank is the 40th largest insured depository institution in California, controlling approximately \$2.4 billion in deposits, which represent less than 1 percent of the total deposits held by insured depository institutions in that state.

On consummation of the proposal, PacWest would become the 70th largest insured depository organization in the United States, with consolidated assets of approximately \$25.4 billion,⁷ which represent less than 1 percent of the total assets of insured depository organizations in the United States. PacWest would control total deposits of approximately \$19.1 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In California, PacWest would become the 14th largest insured depository organization, controlling deposits of approximately \$13.6 billion, which represent approximately 1.1 percent of the total deposits of insured depository institutions in that state.

⁵ Nationwide asset data are as of June 30, 2017, and deposit data are as of March 31, 2017, unless otherwise noted.

⁶ State deposit data are as of June 30, 2016, unless otherwise noted.

⁷ Asset data are as of March 31, 2017.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market.⁸ The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.⁹

PacWest and CU Bancorp have subsidiary depository institutions that compete directly in the Los Angeles, California, banking market (“Los Angeles market”) and the Oxnard-Thousand Oaks-Ventura, California, banking market (“Oxnard market”).¹⁰ The Board has considered the competitive effects of the proposal in these banking markets. In particular, the Board has considered the number of competitors that would remain in each market; the relative share of total deposits in insured depository institutions in each market that PacWest would control;¹¹ the concentration levels of market deposits and the increase in these levels as measured by the Herfindahl-

⁸ 12 U.S.C. § 1842(c)(1).

⁹ 12 U.S.C. § 1842(c)(1)(B).

¹⁰ The Los Angeles market is defined as the Los Angeles metropolitan area in Los Angeles and Orange Counties, the western portions of San Bernardino and Ventura Counties, and the southernmost edge of Kern County. The Oxnard market is defined as the Oxnard-Thousand Oaks-Ventura metropolitan area in Ventura County and the extreme western tip of Los Angeles County.

¹¹ Local deposit and market share data are as of June 30, 2016, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);¹² and other characteristics of the markets.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines for the Los Angeles market and the Oxnard market. On consummation of the proposal, the Los Angeles market would remain unconcentrated and the Oxnard market would remain moderately concentrated, as measured by the HHI, according to the DOJ Bank Merger Guidelines. The change in HHI in these markets would be small, and numerous competitors would remain in each market.¹³

¹² Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would 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. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

¹³ In the Los Angeles market, PacWest operates the 13th largest depository institution, controlling approximately \$7.2 billion in deposits, which represent 1.43 percent of market deposits. CU Bancorp operates the 24th largest depository institution in the Los Angeles market, controlling deposits of approximately \$2.1 billion, which represent 0.43 percent of market deposits. On consummation of the proposed transaction, PacWest would become the 11th largest depository organization in the Los Angeles market, controlling deposits of \$9.3 billion, which represent approximately 1.86 percent of market deposits. The HHI for the Los Angeles market would increase 1 point to 923, and 124 competitors would remain in the market.

In the Oxnard market, PacWest operates the 8th largest depository institution, controlling approximately \$549.3 million in deposits, which represent 3.24 percent of market deposits. CU Bancorp operates the 10th largest depository institution in the Oxnard market, controlling approximately \$265.6 million in deposits, which represent 1.57 percent of market deposits. On consummation of the proposed transaction, PacWest would become 7th largest depository institution in the Oxnard market, controlling

The DOJ also has conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market, including the Los Angeles and Oxnard markets. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the Los Angeles or Oxnard banking markets or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved. In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as public comments on the proposal. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to complete effectively the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board

deposits of \$815.0 million, which represent approximately 4.81 percent of market deposits. The HHI for the Oxnard market would increase 10 points to 1506, and 23 competitors would remain in the market.

considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

PacWest and CU Bancorp are both well capitalized, and the combined organization would remain so on consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a combination of cash and share exchange, with a subsequent merger of the subsidiary depository institutions.¹⁴ The asset quality, earnings, and liquidity of both Pacific Western Bank and California United Bank are consistent with approval, and PacWest appears to have adequate resources to absorb the costs of the proposal and to complete integration of the institutions' operations. In addition, the future prospects of the institutions under the proposal are considered consistent with approval.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of PacWest, CU Bancorp, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by PacWest, the Board's supervisory experiences with PacWest and CU Bancorp and those of other relevant bank supervisory agencies with the organizations, and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws, as well as information provided by the commenters.

PacWest and Pacific Western Bank are both considered to be well managed. PacWest's existing risk-management program and its directors and senior management are considered to be satisfactory. The directors and senior executive officers of PacWest have substantial knowledge of and experience in the banking and financial services sectors.

¹⁴ As part of the proposed transaction, each share of CU Bancorp common stock would be converted into a right to receive a cash amount and PacWest common stock based on a fixed exchange ratio. PacWest has the financial resources to fund the acquisition.

The Board also has considered PacWest's plans for implementing the proposal. PacWest has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. PacWest would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, PacWest's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner.

Based on all of the facts of record, including PacWest's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of PacWest and CU Bancorp in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.¹⁵ In its evaluation of the effects of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are currently helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of the communities to be served. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act ("CRA"). The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,¹⁶ and requires the appropriate federal

¹⁵ 12 U.S.C. § 1842(c)(2).

¹⁶ 12 U.S.C. § 2901(b).

financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.¹⁷

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide loan applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics. The Board also considers the assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. The Board also may consider the institution's business model, its marketing and outreach plans, the organization's plans after consummation, and any other information the Board deems relevant.

In assessing the convenience and needs factor in this case, the Board has considered all of the facts of record, including reports of examination of the CRA performance of Pacific Western Bank and California United Bank; the fair lending and compliance records of both banks; the supervisory views of the Federal Deposit Insurance Corporation ("FDIC"); confidential supervisory information; information provided by PacWest; and the public comments received on the proposal.

Public Comments Regarding the Proposal

In this case, three commenters objected to the proposal based on alleged deficiencies in the CRA performance of Pacific Western Bank. All three commenters alleged that Pacific Western Bank has displayed an inadequate record of serving low-income communities and minority-owned businesses, and two commenters asserted that Pacific Western Bank has been deficient in serving non-urban communities. Commenters criticized Pacific Western Bank's record of CRA investments, alleging that the bank's current CRA investments and future commitments, as detailed in its CRA

¹⁷ 12 U.S.C. § 2903.

plan, lag behind several of its peers and requested that Pacific Western Bank develop a new CRA plan with input from community groups.¹⁸ Commenters expressed concerns about the number of Pacific Western Bank's loans to small businesses located in low-income census tracts. A commenter also alleged that Pacific Western Bank is unwilling to set quantitative goals to contract with minority-owned businesses. A commenter expressed concern that banks in California were engaged in the practice of providing "displacement mortgages"¹⁹ and thereafter requesting CRA credit. The commenter requested that the Board investigate whether either Pacific Western Bank or California United Bank had engaged in this practice. The FDIC considered the same adverse comments in connection with its review of the underlying bank merger application.

The Board also received comments from four commenters supporting the application. These commenters generally described the benefits Pacific Western Bank provides to the communities it serves, including various projects and partnerships between Pacific Western Bank and community groups. For instance, these commenters noted the bank supports educational programs targeting underserved students and financial literacy programs for LMI youth.

Business of the Involved Institutions and Response to Comments

Pacific Western Bank is a full-service commercial bank headquartered in Beverly Hills, California, focusing on business banking for small, middle-market, and

¹⁸ The Board has consistently found that neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into commitments or agreements with any organization. *See, e.g., CIT Group, Inc.*, FR Order No. 2015-20 at 24 fn.54 (July 19, 2015); *Citigroup Inc.*, 88 Federal Reserve Bulletin 485 (2002); *Fifth Third Bancorp*, 80 Federal Reserve Bulletin 838, 841 (1994). In its evaluation, the Board reviews the existing CRA performance record of an applicant and the programs that the applicant has in place to serve the credit needs of its CRA assessment areas.

¹⁹ The commenter used the term "displacement mortgages" to refer to the origination of mortgages to investors who purchase rent-controlled buildings and then invoke the Ellis Act, which allows them to evict all of the tenants of the buildings in order to exit the rental business and convert the buildings to condominiums or tenancies in common.

venture-backed businesses nationwide. It offers a broad range of loan and deposit products and services, including demand, money market, and time deposit accounts; savings and individual retirement accounts; and loan and lease originations, which encompass commercial real estate loans, equipment loans and leases, asset-based loans, loans to finance companies, cash flow loans, and Small Business Administration-guaranteed and consumer loans. Pacific Western Bank has 73 full-service retail branches throughout California and one branch located in Durham, North Carolina. PacWest's principal business is to serve as the holding company for Pacific Western Bank.

California United Bank is a full-service commercial bank with headquarters in Los Angeles California. In addition to its headquarters office, it has eight additional full-service branches in southern California. California United Bank offers products and services for business consumers, including deposit services, lending and cash management to small and medium-sized businesses, nonprofit organizations, business principals, and entrepreneurs, as well as commercial, real estate construction, Small Business Administration-guaranteed, and personal loans.

In response to the comments, PacWest asserts that approval is justified based on Pacific Western Bank's most recent CRA performance evaluation. PacWest notes that Pacific Western Bank has a "Satisfactory" CRA rating and states that the bank has strived to obtain an "Outstanding" CRA rating since its most recent CRA performance evaluation. PacWest references the letters the Board received in support of the application as demonstrating the close working relationship the bank has with community organizations. PacWest also notes that there is no general requirement to submit a CRA plan as a prerequisite for approval of an application. PacWest further argues that the comments opposing the application mischaracterize Pacific Western Bank's current CRA plan and that the plan supports a balanced approach that takes into consideration a mix of innovative investment opportunities that allow the bank to have a greater impact on the communities it serves. PacWest represents that the bank's current CRA plan addresses community development activities throughout its markets in California, including those in non-urban areas.

Records of Performance under the CRA

In evaluating the convenience and needs factor and CRA performance, the Board considers substantial information in addition to information provided by public commenters and the response to comments by the applicant. In particular, the Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions, as well as information and views provided by the appropriate federal supervisors.²⁰

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.²¹ An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply lending, investment, and service tests to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's home mortgage, small business, small farm, and community development lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's data reported under the Home Mortgage Disclosure Act,²² in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different

²⁰ See Interagency Questions and Answers Regarding Community Reinvestment, 81 Fed. Reg. 48506, 48548 (July 25, 2016).

²¹ 12 U.S.C. § 2906.

²² 12 U.S.C. § 2801 *et seq.*

income levels. The institution's lending performance is based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas ("AAs"); (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;²³ (4) the institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.

CRA Performance of Pacific Western Bank

Pacific Western Bank was assigned an overall "Satisfactory" rating by the FDIC at its most recent CRA performance evaluation, as of October 27, 2014 ("Pacific Western Bank Evaluation").²⁴ Pacific Western Bank received "High Satisfactory" ratings

²³ Examiners also consider the number and amounts of small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

²⁴ The Pacific Western Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed small business loans originated from January 1, 2012, through June 30, 2014. The evaluation period for community development loans, investments, and services was from October 10, 2010, through October 27, 2014. As of the evaluation date, each of the bank's AAs was located in California.

Examiners conducted full-scope reviews of the Los Angeles and San Diego AAs of the bank. The examiners performed limited-scope reviews of the bank's performance in the bank's remaining AAs, including San Luis Obispo, Santa Barbara, San Francisco, Fresno, Kern, and Kings-Tulare.

for the Lending Test and the Investment Test and an “Outstanding” rating for the Service Test.

Examiners found that Pacific Western Bank’s lending levels reflected good responsiveness to the credit needs of its AAs. Examiners also noted that a substantial majority of Pacific Western Bank’s loans were originated within its AAs and that the distribution of borrowers, given the product lines offered by the bank, reflected adequate penetration among business customers of different revenue sizes. Examiners noted that the geographic distribution of loans reflected good penetration throughout Pacific Western Bank’s AAs. Examiners also found that Pacific Western Bank made a relatively high level of community development loans and that it exhibited an adequate record of serving the credit needs of the most economically disadvantaged areas, low-income individuals, and very small businesses, consistent with safe and sound banking practices. Examiners found that the bank made limited use of innovative or flexible lending practices in serving the credit needs in its AAs.

Examiners found that Pacific Western Bank had a significant level of qualified community development investments and grants and was occasionally in a leadership position, particularly with regard to investments that were not routinely provided by private investors. Examiners noted that the bank exhibited good responsiveness to credit and community economic development needs and that it made significant use of innovative or complex investments to support community development initiatives.

Examiners found that Pacific Western Bank’s delivery systems were accessible to essentially all portions of the bank’s AAs. Examiners also found that Pacific Western Bank’s record of opening and closing branches did not adversely affect the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals, and that the bank’s services, including, where appropriate, business hours, did not vary in a way that inconvenienced certain portions of its AAs, particularly LMI geographies and individuals. Examiners noted that Pacific Western Bank was a leader in providing community development services.

Pacific Western Bank's Activities since the Pacific Western Bank

Evaluation

PacWest asserts that, since the Pacific Western Bank Evaluation, the bank has established a multifamily-lending business unit and is making progress introducing this product within its AAs. PacWest further asserts that the bank is originating loans throughout each of its AAs in the same manner, including in LMI areas and communities with high minority composition. PacWest also states that Pacific Western Bank's community development lending has been robust, with year-over-year growth in response to a wide range of community needs, including creating and preserving affordable housing and supporting economic development. Examples included loans to purchase whole multifamily loans as a part of a recapitalization strategy of a minority-owned community development financial institution, a loan supporting the construction of a medical facility in a distressed community, and a loan for the construction of an affordable housing complex that will provide permanent homes for low-income veterans.

PacWest asserts that Pacific Western Bank has been strategic in growing its portfolio of investments with community development merit. For instance, the bank has provided financial support to a host of community projects, including affordable housing developments, capital for small businesses, and support for community organizations for the purpose of replacing or improving water wells in rural communities that experienced extreme drought. PacWest asserts that Pacific Western Bank is also participating in a campaign dedicated to helping individuals, including those from LMI households, save money, reduce debt, and build wealth. PacWest notes that the bank is also participating in a financial education program targeted to high schools with a high percentage of students on free or reduced-cost meal programs. PacWest also states that Pacific Western Bank participates in numerous small business technical assistance workshops. PacWest notes that a number of Pacific Western Bank's senior executives are actively involved in their communities through board memberships, supporting organizations that extend products and services to low-income communities.

CRA Performance of California United Bank

California United Bank was assigned an overall CRA rating of “Outstanding” at its most recent CRA performance evaluation by the FDIC, as of August 1, 2016 (“California United Bank Evaluation”).²⁵ The bank received a “High Satisfactory” rating for the Lending Test and “Outstanding” ratings for the Investment and Service Tests.

Examiners found that California United Bank’s lending levels reflected good responsiveness to credit needs within its AA and that a substantial majority of its small business loans were made within its AA. Examiners further found that the geographic distribution of California United Bank’s small business loans reflected good penetration throughout its AA. Examiners noted that, given the product lines offered by the institution, California United Bank’s distribution of borrowers reflected poor penetration among business customers of different revenue sizes. However, examiners also found that the institution exhibited an adequate record of serving the credit needs of the most economically disadvantaged areas of its AA and very small businesses, consistent with safe and sound banking practices. Examiners stated that California United Bank used innovative and flexible lending practices in order to serve the credit needs of its AA and that the bank was a leader in making community development loans.

Examiners found that California United Bank had made an excellent level of qualified community development investments and grants, often in a leadership position, particularly those that were not routinely provided by private investors. Examiners further noted that the bank exhibited excellent responsiveness to credit and

²⁵ The California United Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed small business loans from January 1, 2014, through December 31, 2015. The evaluation period for community development loans, qualified investments, and services was from June 24, 2013, through August 1, 2016. The California United Bank Evaluation included a full-scope review of the Los Angeles-Long Beach, California, Combined Statistical Area.

community economic development needs and that the institution made significant use of innovative or complex investments to support community development initiatives.

Examiners found that the bank's delivery systems were accessible to essentially all portions of the bank's AA. Examiners also found that California United Bank's hours did not vary in a way that inconvenienced any portion of its AA, particularly LMI geographies and individuals, and that, to the extent changes had been made, the institution's record of opening and closing branches had not adversely affected the accessibility of its delivery systems, particularly in LMI geographies or to LMI individuals. Examiners further noted that the bank was a leader in providing community development services within its AA.

California United Bank's Activities since the California United Bank Evaluation

PacWest asserts that, since the California United Bank Evaluation, California United Bank has continued its strong record of community development lending, making loans to small businesses that provided jobs to LMI individuals and loans that financed the acquisition and development of multifamily affordable housing units. PacWest asserts that California United Bank has continued to make CRA-qualified community development investments, for example an investment in a fund that established seven affordable housing projects, including within the bank's AA. PacWest asserts that California United Bank has continued to offer products and services within its AA, including administration payroll cards for LMI employees of many of the bank's borrowers. These cards do not assess fees for loading funds and include an online financial education model.

Views of the FDIC and the Consumer Financial Protection Bureau

In its review of the proposal, the Board consulted with the FDIC regarding Pacific Western Bank's CRA, consumer compliance, and fair lending records. The FDIC reviewed the bank merger underlying this proposal, including the comments received by the Board. Specifically, the Board has considered the results of the most recent consumer

compliance examination of Pacific Western Bank conducted by FDIC examiners, which included a review of the bank's compliance-related policies and procedures and responses to consumer complaints, as well as transactional testing in areas exhibiting potential risk of consumer harm, new product or service offerings, and newly implemented regulations. Examiners also conducted a fair lending review with a focus on commercial lending.

The Board also consulted with the Consumer Financial Protection Bureau ("CFPB") regarding Pacific Western Bank's consumer compliance record.

The Board has taken these consultations with the FDIC and CFPB and the information discussed above into account in evaluating this proposal, including in considering whether PacWest has the experience and resources to ensure that the organization effectively implements policies and programs that would allow the combined organization to effectively serve the credit needs of all the communities within the firm's AAs.

Additional Convenience and Needs Considerations

The Board also has considered other potential effects of the proposal on the convenience and needs of the communities to be served. PacWest represents that, as a result of the proposal, it will not discontinue any of the services or products currently offered by either Pacific Western Bank or California United Bank. PacWest asserts that it will expand the availability of products offered to the communities currently served by California United Bank, both by increasing maximum loan limits for renewed lines of credit and by expanding offerings of direct small business loans and loans guaranteed by the Small Business Administration. In addition, PacWest represents that it would be able to offer customers of California United Bank increased credit availability and expanded access to financial products and services from an expanded branch network.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the records of the relevant depository institutions under the CRA, the institutions' records of

compliance with fair lending and other consumer protection laws, the supervisory views of the FDIC and CFPB, confidential supervisory information, information provided by PacWest, public comments on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) amended section 3 of the BHC Act to require the Board to consider “the extent to which a proposed acquisition, merger, or consolidation would result in greater risk to the stability of the United States banking or financial system.”²⁶

To assess the likely effect of a proposed transaction on the stability of the United States banking or financial system, the Board considers a variety of metrics that capture the systemic “footprint” of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.²⁷ These categories are not exhaustive, and additional categories could inform the Board’s decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of

²⁶ Dodd-Frank Act § 604(d), Pub. L. No. 111-203, 124 Stat. 1376, 1601 (2010), codified at 12 U.S.C. § 1842(c)(7).

²⁷ Many of the metrics considered by the Board measure an institution’s activities relative to the U.S. financial system.

resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.²⁸

The Board's experience has shown that proposals involving an acquisition of less than \$10 billion in assets, or that result in a firm with less than \$100 billion in total assets, are generally not likely to pose systemic risks. Accordingly, the Board presumes that a proposal does not raise material financial stability concerns if the assets involved fall below either of these size thresholds, absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.²⁹

In this case, the Board has considered information relevant to risks to the stability of the U.S. banking or financial system. The proposal involves a target that is less than \$10 billion in assets and a pro forma organization of less than \$100 billion in assets. Both the acquirer and the target are predominately engaged in retail commercial banking activities.³⁰ The pro forma organization would have minimal cross-border activities and would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. In addition, the organization would not be a critical services provider or so interconnected with other firms or markets that it would pose significant risk to the financial system in the event of financial distress.

²⁸ For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012).

²⁹ See People's United Financial, Inc., FRB Order No. 2017-08 at 25-26 (March 16, 2017). Notwithstanding this presumption, the Board has the authority to review the financial stability implications of any proposal. For example, an acquisition involving a global systemically important bank could warrant a financial stability review by the Board, regardless of the size of the acquisition.

³⁰ Both PacWest and CU Bancorp primarily engage in retail and commercial banking activities, and PacWest would continue to have a small market share following the proposed transaction.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the U.S. banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved.³¹ In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by PacWest with all the conditions imposed in this order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the

³¹ Three commenters requested that the Board hold public hearings or meetings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on any application unless the appropriate supervisory authorities for the bank to be acquired make a timely written recommendation of denial of the application. 12 U.S.C. § 1842(b); 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also, in its discretion, may hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately represent their views. The Board has considered the commenters' requests in light of all the facts of record. In the Board's view, the commenters have had ample opportunity to submit comments on the proposal and, in fact, submitted written comments that the Board has considered in acting on the proposal. The commenters' requests do not identify disputed issues of fact material to the Board's decision that would be clarified by a public meeting. In addition, the requests did not demonstrate why written comments do not present the commenters' views adequately or why a hearing or meeting otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing or meeting is not required or warranted in this case. Accordingly, the requests for a public hearing or meeting on the proposal are denied.

Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth calendar day after the effective date of this order or later than three months thereafter, unless such period is extended for good cause by the Board or the Federal Reserve Bank of San Francisco, acting under delegated authority.

By order of the Board of Governors,³² effective September 21, 2017.

Ann E. Misback (signed)

Ann E. Misback
Secretary of the Board

³² Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Powell and Brainard.