FRB Order No. 2015-26
September 21, 2015

FEDERAL RESERVE SYSTEM

PacWest Bancorp
Los Angeles, California

Order Approving the Merger of Bank Holding Companies and Acquisition of Nonbanking Subsidiaries

PacWest Bancorp ("PacWest"), Los Angeles, California, has requested the Board's approval under section 3 of the Bank Holding Company Act of 1956, as amended ("BHC Act"),[1] to merge with Square 1 Financial, Inc., and thereby acquire its subsidiary bank, Square 1 Bank, both of Durham, North Carolina. Immediately following the proposed merger, Square 1 Bank would be merged into PacWest's subsidiary bank, Pacific Western Bank ("PWB"), Los Angeles, California.[2] PacWest has also requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act and section 225.24 of the Board's Regulation Y to acquire nonbanking subsidiaries of Square 1 Financial that are engaged in financial and investment advisory activities.[3]

Notice of the proposals, affording interested persons an opportunity to submit comments, has been published in the Federal Register (80 Federal Register 18404 (April 6, 2015); 80 Federal Register 22189 (April 21, 2015)).[4] The time for submitting comments has expired, and the Board has considered the proposals and all comments received in light of the factors set forth in the BHC Act.

---

[1] 12 U.S.C. § 1842.

[2] The merger of Square 1 Bank into PWB is subject to the 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). The FDIC approved the bank merger on August 24, 2015.

[3] 12 U.S.C. §§ 1843(c)(8) and (j); 12 CFR 225.24.

[4] 12 CFR 262.3(b).

PacWest, with consolidated assets of approximately $16.7 billion, is the 84th largest depository organization in the United States.[5] PacWest controls PWB, which operates branches only in California. PWB is the 14th largest insured depository institution in California, controlling approximately $12.0 billion in deposits, which represent 1.1 percent of the total deposits of insured depository institutions in California.[6]

Square 1 Financial, with consolidated assets of approximately $3.9 billion, is the 265th largest depository organization in the United States. Square 1 Financial controls Square 1 Bank, which operates one branch located in Durham, North Carolina. Square 1 Bank is the 9th largest insured depository institution in North Carolina with approximately $2.4 billion in deposits, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

Upon consummation, PacWest would become the 76th largest depository organization in the United States, with consolidated assets of approximately $21.3 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. PacWest would control approximately $14.4 billion in deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.

Because this transaction involves the acquisition by a bank holding company of a bank and nonbank companies, the Board has reviewed the transaction under both section 3 and section 4 of the BHC Act. Section 3 governs the acquisition of a bank; section 4 establishes the standards governing the acquisition of nonbank companies.

---

[5] Asset data are as of June 30, 2015, and nationwide asset-ranking data are as of March 31, 2015, unless otherwise noted.

[6] State deposit data are as of June 30, 2014, unless otherwise noted. In this context, insured depository institutions include insured commercial banks, savings banks, and savings associations.

Interstate and Deposit Cap Analyses

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company to acquire control of a bank in a state other than the home state of the bank holding company without regard to whether the transaction is prohibited under state law.[7] Under this section, the Board may not approve an application that would permit an out-of-state bank holding company to acquire a bank in a host state if the bank has not been in existence for the lesser of the state statutory minimum period of time or five years.[8] In addition, the Board may not approve an interstate acquisition if the bank holding company controls or would control more than 10 percent of the total deposits of insured depository institutions in the United States or 30 percent or more of the total deposits of insured depository institutions in the target bank's home state or in any state in which the acquirer and target have overlapping banking operations.[9]

For purposes of the BHC Act, the home state of PacWest is California, and the home state of Square 1 Financial is North Carolina.[10] PacWest is well capitalized and well managed under applicable law, and PWB has a "Satisfactory" Community Reinvestment Act ("CRA") rating.[11] In this case, North Carolina's statute would require the application of California's five year minimum age requirement, and Square 1 Bank has been in existence for more than five years.[12]

---

[7] 12 U.S.C. § 1842(d)(1)(A).

[8] 12 U.S.C. § 1842(d)(1)(B).

[9] 12 U.S.C. § 1842(d)(2)(A) and (B).

[10] A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. A state bank's home state is the state by which the bank is chartered. 12 U.S.C. § 1841(o)(4).

[11] 12 U.S.C. § 2901-2908.

[12] North Carolina law applies to an out-of-state bank or holding company the requirements or limitations that would be imposed by such bank's or holding company's home state on an acquisition made by a North Carolina bank or holding company in the

On consummation of the proposals, PacWest would control less than 1 percent of the total amount of deposits in insured depository institutions in the United States. In addition, the combined organization would control $12.0 billion (or approximately 1.1 percent) and $2.4 billion (or approximately 0.7 percent) of the total amount of deposits of insured depository institutions in California and North Carolina, respectively, which are the two states in which the combined organization would have banking operations upon consummation of the proposal. Accordingly, in light of all the facts of record, the Board may approve the proposal under section 3(d) of the BHC Act.[13]

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 any attempt to monopolize the business of banking in any relevant market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant 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

---

other state. See N.C. Gen. Stat. § 53-211(a). In turn, California, PacWest's home state, provides that "[n]o foreign (other state) bank that does not already maintain a California branch office may . . . [m]erge as the surviving bank with a California bank . . . unless the California bank has been in existence for at least five years." Cal. Fin. Code § 1685. Consequently, a five year minimum age requirement applies in this case.

[13] One commenter argued that the merger may result in violation of section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act"), which generally prohibits a bank from establishing or acquiring a branch outside its home state for the purpose of deposit production. The Board notes that the loan-to-deposit ratio test established under section 109 of the Riegle-Neal Act is not applicable until one year after establishment or acquisition of an interstate branch and therefore would not be applied to PWB until one year after consummation. Furthermore, if the loan-to-deposit ratio test established under section 109 is not satisfied by PWB one year after consummation, PWB would not violate section 109 unless it is also found by the FDIC not to be reasonably helping to meet the credit needs of the communities served, including through the FDIC's evaluation of the bank's performance record under the CRA, which is currently deemed to be "Satisfactory." See 12 U.S.C. § 1835a.

and needs of the community to be served.[14] In addition, under section 4 of the BHC Act, the Board must consider the competitive effects of a proposal to acquire a nonbank company under the balancing test of section 4(j) of the BHC Act.[15]

PWB and Square 1 Bank do not compete directly in any banking market. The Department of Justice has advised the Board that consummation of the transaction would not be likely to have a significantly adverse effect on competition in any relevant market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all 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 any 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 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 the financial condition of the organizations involved on both parent-only and consolidated bases, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, and earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the applicant 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 considers the future prospects of

---

[14] 12 U.S.C. § 1842(c)(1).

[15] 12 U.S.C. § 1843(j)(2)(A).

the organizations involved in the proposal in light of the financial and managerial resources and the proposed business plan.

PacWest and PWB are both well capitalized and would remain so on consummation of the proposed transaction. The proposed transaction is a bank holding company merger that is structured as an exchange of shares.[16] The asset quality, earnings, and liquidity of PWB and Square 1 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.[17] In addition, future prospects are considered consistent with approval. Based on its review of the record, the Board finds that PacWest has sufficient financial resources to effect the proposal.

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, Square 1 Financial, 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 and those of other relevant bank

---

[16] As proposed, Square 1 Financial would be merged into PacWest and shares of Square 1 Financial would be converted into a right to receive shares of PacWest common stock, based on an exchange ratio. Additionally, outstanding options, warrants, and unvested restricted stock of Square 1 Financial would be cancelled in exchange for cash. PacWest has the financial resources to fund the acquisition.

[17] One commenter expressed concern about the safety and soundness of PacWest, arguing that the company has a high loan-to-deposit ratio, poor asset quality, and heavy cost structure. The Board has considered this comment as well as the financial resources of the combined organization, including asset quality and other measures of financial ability.

This commenter also noted that PacWest had its credit ratings by Fitch Ratings withdrawn in April 2015. PacWest does not have any outstanding debt, is not issuing any debt, and has no plans to issue debt. As a result, PacWest asked Fitch not to provide a rating to the company, and PacWest did not renew its contract with Fitch. In addition, in announcing the withdrawal of PacWest's rating, Fitch affirmed the rating and assigned PacWest a stable outlook.

supervisory agencies with the organizations, and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws.

PacWest, Square 1 Financial, and their subsidiary depository institutions are each considered to be well managed. PacWest's existing risk-management program and its directorate 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.

The Board also has considered PacWest's plans for implementing the proposal. PacWest is devoting significant resources to address all aspects of the post-acquisition integration process for these proposals. PacWest has a demonstrated record of successfully integrating organizations into its operations and risk-management systems following acquisitions. Since 2000, PacWest has acquired and successfully integrated into its operations more than 20 banking organizations. As part of its integration process, PacWest conducts a comprehensive review of the target's activities and the compliance, policies, procedures, and internal monitoring associated with these activities. Where appropriate, new elements are introduced and incorporated into PacWest's policies and processes to ensure they are effective for the combined organization. As a result of this integration process in connection with its 2014 acquisition of Capital Source Inc., PacWest overhauled and significantly improved its risk management framework to address the new activities and risk profile that resulted from the transaction. PacWest has also improved the depth and experience of its management through prior acquisitions by retaining management from acquisition targets. PacWest plans to follow this process in integrating Square 1 Bank.

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 and Square 1 Financial's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and PacWest plans to integrate Square 1 Financial's existing management and personnel in a manner that augments PacWest's and PWB's management.[18]

Based on all 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 future prospects of the organizations involved in the proposal, as well as the records of effectiveness of PacWest and Square 1 Financial 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. In its evaluation of the effect of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve and whether the proposal would result in public benefits. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the CRA.[19] 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,[20] and requires the appropriate federal 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.[21]

---

[18] After consummation, the chief executive officer and president of Square 1 Bank will become the president of the Square 1 division of PWB, and one current director of Square 1 Financial will be appointed to the board of directors of PacWest.

[19] 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

[20] 12 U.S.C. § 2901(b).

[21] 12 U.S.C. § 2903.

In addition, the Board considers the banks' overall compliance record 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 supervisory 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 following consummation, and any other information the Board deems relevant.

The Board consulted with the FDIC concerning its evaluation of the CRA performance of PWB and Square 1 Bank, PWB's compliance with fair lending and consumer protection laws and regulations, and the comments received on the proposal. The FDIC considered the comments opposing the proposal, including allegations against PWB and Square 1 Bank, as part of the FDIC's review of the proposed merger of the two banks and has approved the bank merger.

Public Comments Regarding the Proposal

In this case, the Board received 17 comments from 13 commenters objecting to the proposal on the basis of PWB's CRA performance record and plans for meeting the credit needs of the communities served by the combined organization. Of the 13 opposing commenters, 10 commenters, led by a California based community group, submitted substantially identical comments raising identical issues and concerns.[22] These commenters raised issues and concerns about PacWest and its CRA activities

---

[22] One commenter, Reinvestment Partners, also submitted a petition in opposition to the proposal, with the names of approximately 158 individuals.

similar to those raised in connection with the application for Board approval of PacWest's 2014 acquisition of Capital Source Inc., which was granted by the Board.[23]

Commenters argued that only 42 percent of the bank's business loans were made to businesses with less than $1 million in annual revenues in 2014, and that the bank should extend at least 50 percent of its business loans to those businesses annually.[24] Commenters also argued that PacWest has not made sufficient reinvestments,

---

[23] See PacWest Bancorp, FRB Order No. 2014-3 (April 1, 2014). As noted below, PWB's CRA performance record has been evaluated by the FDIC since the Capital Source acquisition and has improved significantly.

[24] Commenters also expressed concern about: (i) PacWest's decision to develop two new small business products rather than participate in California's state loan guarantee program as suggested by commenters; (ii) PacWest's failure to commit at least $50,000 per year to technical assistance for small businesses; (iii) the absence of a formalized program under which PacWest would refer to community lenders at least 20 percent of the small business loan applicants declined by PacWest; (iv) PacWest's failure to develop a bank account with features suggested by one commenter; (v) PacWest's failure to commit at least 50 percent of its charitable contributions to housing and economic development; (vi) the level of charitable and philanthropic activity by Square 1 Bank; (vii) the concentration of PacWest community development lending and investments in tax credits and non-equity equivalent investments; and (viii) the concentration of Square 1 Bank CRA lending and investments in CRA-qualifying mortgage backed securities.

Although the Board has recognized that banks can help to serve the banking needs of communities by making certain products or services available on certain terms or at certain rates, the CRA neither requires an institution to provide any specific types of products or services nor authorizes the federal banking agencies to direct a bank's community development investment or lending activities to specific groups, individuals, projects, or types of investments such as those recommended by commenters. Moreover, neither the CRA nor the agencies' implementing rules require that institutions engage in a specific activity such as charitable giving in order to meet community credit needs of the communities the institutions serve. As explained below, the Board has considered whether the products PacWest and Square 1 Financial have chosen to provide help meet the credit needs of the entire community, including LMI areas.

Commenters also raised concerns that PacWest does not have a vendor program that targets contracting opportunities to minority, women and disabled-owned businesses and that PacWest has received payments from the FDIC pursuant to the company's loss-share agreement with the agency. The Board believes that these contentions and concerns are outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See CIT Group, Inc., FRB Order No. 2015-

including through small business lending, in rural areas and that the company has a history of closing branches in rural areas.[25] In addition, commenters argued that Square 1 Bank has a stronger CRA performance record than PacWest and the proposal will dilute Square 1 Bank's CRA performance because deposits collected by Square 1 Bank in North Carolina may be reinvested in PacWest's assessment areas outside that state. It was also argued that the proposal would not provide a public benefit to the affected communities. These commenters urged that approval of PacWest's proposal be conditioned on the submission of a stronger, multi-year CRA plan that is made available publicly, including on PacWest's website.

PWB's and Square 1 Bank's Businesses and PacWest's Responses to Comments

PWB focuses on serving small- to medium-sized businesses through a broad range of banking products and services, including deposit products, money market accounts, commercial loans, real estate construction loans, and SBA-guaranteed loans. A substantial majority of PWB's loans are originated within its local communities to business customers of different revenue sizes. PWB has 81 branches located throughout California.

Square 1 Bank primarily serves venture capital and private equity firms and their portfolio companies by providing deposit products, term commercial revolving lines

---

20, n. 71 (2015); Bank of America Corporation, 90 Federal Reserve Bulletin 217, 223 n.31 (2004). See also Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973) ("Western Bancshares").

[25] Commenters also argued that PacWest's CRA plan for PWB is weak and deceptive because, although it commits that PWB's CRA activities will represent a certain percentage of core deposits, the CRA plan defines "core deposits" to exclude roughly 50 percent of the bank's deposits. The result, in commenters' views, is that PacWest's CRA plan overstates the level of CRA activities as a percentage of deposits. Neither the CRA nor the federal banking agencies' implementing rules require that an institution's CRA activities represent a specific percentage of its deposits. Rather, an institution's CRA performance is measured by performance tests and standards outlined in the federal banking agencies' CRA regulations. See 12 CFR 228.21 et seq.

of credit, asset-based loans, credit cards, foreign exchange, cash management, and letters of credit. Square 1 Bank also has a recently formed asset management subsidiary that provides investment advisory services to clients of Square 1 Bank. Square 1 Bank operates one branch in Durham, North Carolina.

PacWest contends that PWB's loans to businesses with annual revenues of $1 million or less grew from approximately 34 percent of its small business loans in 2012 to 42 percent of its small business loans in 2014 and that PWB has a goal of extending 50 percent of its small business loans to businesses with $1 million or less in annual revenues, as suggested by commenters. The steady growth in small business lending experienced by PWB reflects, in PacWest's view, the organization's strong commitment to small businesses. PacWest is also expanding the transaction account and small business lending products available to customers of its four recently acquired branches in the rural areas of California's Central Valley. PacWest also highlights the FDIC's most recent CRA evaluation of PWB and notes that FDIC examiners concluded that the bank's record of opening and closing branches had not adversely affected the accessibility of its delivery systems.

PacWest also argues that it is preparing to meet the credit needs of the communities it will enter as a result of this transaction. PacWest has engaged organizations in North Carolina communities to determine the credit needs of those communities and how those needs can be met by the combined organization. As a result of this outreach, PacWest plans to offer, for example, two types of small business loans not currently available from Square 1 Bank for businesses in its communities with gross annual revenues of $1 million or less.

PacWest notes that it has developed one-year CRA plans rather than multi-year plans because a one-year plan allows the company to be flexible and adaptive as it executes its strategy. PacWest contends that, the length of its CRA plan notwithstanding, it is committed to increasing the dollar amount of PWB's CRA activities by at least 10 percent over the previous year's results if PWB has positive net income at each year end.

PacWest states that in no case would the dollar amount of PWB's overall commitment be less than the previous year's commitment.

Records of Performance Under the CRA

As indicated above, 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 in light of examinations and other supervisory information as well as information and views provided by the appropriate federal supervisors.[26]

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.[27] 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 HMDA data 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

---

[26] See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (2010).

[27] 12 U.S.C. § 2906.

borrowers and geographies of different income levels. The institution's lending performance is based on the number and amount of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas; the geographic distribution of such loans—including the proportion and dispersion of the institution's lending in its assessment areas and the number and amount of loans in low-, moderate-, middle-, and upper-income geographies; the distribution of such loans based on borrower characteristics, including the number and amount of home mortgage loans to low-, moderate-, middle-, and upper-income individuals;[28] the institution's community development lending, including the number and amount of community development loans and their complexity and innovativeness; and the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies. Consequently, the Board considers the overall CRA rating and the rating on the lending test to be important indicators, when taken into consideration with other factors, in determining whether a depository institution is helping to meet the credit needs of its communities.

CRA Performance of PWB.--PWB was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the FDIC, as of October 27, 2014 ("PWB Evaluation").[29] PWB received a "High Satisfactory" rating on the Lending

---

[28] Examiners also consider the number and amount 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).

[29] The PWB Evaluation was conducted using Large Bank CRA Examination Procedures. Examiners evaluated 2012 and 2013 CRA small business loan data collected and reported and 2014 CRA small business loan data collected through June 30, 2014. The evaluation period for community development loans, innovative/flexible components of the Lending Test, community development investments, and services was October 18, 2010, through October 27, 2014. Full-scope evaluation procedures were performed for the bank's Los Angeles and San Diego assessment areas. Limited scope evaluation procedures were performed for the bank's San Luis Obispo, Santa Barbara, San Francisco, Fresno, Kern, and Kings-Tulare assessment areas.

Test and the Investment Test and an "Outstanding" rating on the Service Test. These ratings reflect significant improvements in the bank's CRA performance record since its previous CRA public evaluation, dated October 2010. In particular, PWB's ratings on the Lending Test and the Investment Test improved from "Low Satisfactory" to "High Satisfactory," and its rating on the Service Test improved from "Low Satisfactory" to "Outstanding."

Examiners found that PWB's responsiveness to the credit needs of its assessment areas was good. Examiners noted that a substantial majority of the bank's loans were originated within the bank's assessment areas and the distribution of borrowers reflected adequate penetration among business customers of different revenue sizes, given the bank's primary lending focus on small- and medium- sized businesses. Examiners also noted that the geographic distribution of loans reflected good penetration throughout the assessment areas. PWB also exhibited adequate penetration among business customers of different revenue sizes, and PWB's origination of small business loans to businesses with annual revenue under $1 million was similar to or better than peer banks serving the same assessment areas. FDIC examiners also noted that while PWB made limited use of innovative and/or flexible lending practices, the bank made a relatively high level of community development loans and had a record of serving the credit needs of the most economically disadvantaged areas, low-income individuals, and/or very small businesses. Moreover, examiners found that the relatively high level of community development loans made by PWB addressed affordable housing, community services, economic development, and revitalization aspects of community development lending.

Examiners found that PWB had a significant level of qualified community development investments and grants, and particularly those that are not routinely provided by private investors. Examiners found that PWB was a leader for community development investments and grants. Examiners also found that PWB's performance exhibited good responsiveness to credit and community economic development needs based on the opportunities for such investments in its assessment areas. Examiners noted that PWB made significant use of innovative and/or complex investments to support community development initiatives. Examiners also noted that an overwhelming majority of PWB's equity investments supported affordable housing.

Examiners found PWB to be a leader in providing community development services and exceeded other regional banks in terms of both the number of organizations served and the number of hours provided. Examiners observed that the bank's delivery systems were accessible to all portions of its assessment areas. Moreover, the bank's record of opening and closing branches had not adversely affected the accessibility of its delivery systems, particularly in LMI geographies and/or to LMI individuals.[30] Of the 46 branches closed during the review period, 23 were consolidated with existing branches located within close proximity to their previous location, three were relocated, 10 were sold to another financial institution, and 10 were permanently closed. Of the 10 permanently closed, two were in moderate-, four were in middle-, and four were in upper-income census tracts.

CRA Performance of Square 1 Bank.--Square 1 Bank was assigned an overall "Outstanding" rating at its most recent CRA performance evaluation by the FDIC, as of October 17, 2013 ("Square 1 Evaluation"). The Square 1 Evaluation was conducted pursuant to an FDIC approved CRA strategic plan, which specified measurable goals for

---

[30] The FDIC will continue to review PWB's branch closing record in the course of conducting CRA performance evaluations. Moreover, federal law requires an insured depository institution to provide notice to the public and to the appropriate federal banking agency before closing a branch. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 Fed. Reg. 34,844 (June 29, 1999)), requires that a bank provide the public with at least 30 days' notice, and the appropriate federal banking agency with at least 90 days' notice, before the date of a proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

meeting the lending, investment, and service needs of the bank's assessment area.[31] The Square 1 Evaluation included a full-scope review of the bank's performance toward meeting the strategic plan goals in the defined assessment areas of Wake and Durham Counties, North Carolina, for plan years 2010, 2011, and 2012 under strategic plans approved by the FDIC in December 2008 and December 2011.

Square 1 Bank exceeded all but two of the "Outstanding" strategic plan goals in each area in 2010, 2011, and 2012 combined. Examiners noted that, although Square 1 Bank's 2010 CRA loans and investments and 2012 service hours fell slightly below its "Satisfactory" goals, the bank's performance exceeded, often by significant margins, every other goal for "Outstanding" performance established under its plan. For example, Square 1 Bank's CRA grants were more than three times its goal for "Outstanding" performance in each year, and its 2012 CRA loans and investments exceeded its goal for "Outstanding" by approximately 33 percent.

The FDIC has conducted annual updates on Square 1 Bank's compliance with its CRA Strategic Plan for 2013 and 2014. Examiners concluded that Square 1 Bank exceeded its goal for "Satisfactory" for CRA loans and investments and exceeded its goal for "Outstanding" for both CRA grants and CRA service activity in each of the years 2013 and 2014.[32]

---

[31] The CRA regulations provide that the appropriate federal banking agency will assess a bank's record of meeting the credit needs of its assessment areas under a strategic plan if, among other things, the bank invites public comment on the plan and the plan is approved by such agency. The FDIC approved Square 1 Bank's current strategic plan in December 2011, pursuant to 12 CFR 345.27.

[32] A commenter argued that, although Square 1 Bank has provided grants to community groups in North Carolina and has satisfied the requirements of the CRA, the bank's grantmaking in its community does not benefit those most in need of reinvestment from banking institutions and does not meet the spirit of the CRA requirements.

PWB's Efforts Since the PWB Evaluation and Plans for the Combined Bank.--PacWest has represented that, since the PWB Evaluation was conducted, community reinvestment has remained a focus of the organization's banking activities. For example, since the time period covered by the PWB Evaluation, PWB has increased the percentage of its small business loans made to businesses with less than $1 million in gross annual revenues. PacWest represents that marketing efforts during the first and second quarters of 2015 have resulted in improved small business activity in the bank's rural markets. PacWest also represents that its current level of community development lending is on pace to exceed its performance during the time period covered by the PWB Evaluation and that PWB has significantly increased its investments and donations within its communities. Further, PacWest represents that the bank's investments and donations through the first six months of 2015 already exceed, by a wide margin, the annualized amount of the bank's investments and donations during the time period covered by the PWB Evaluation. PacWest also represents that it is on pace for its 2015 community development service hours to exceed its prior year by a substantial amount.

PacWest has also undertaken efforts to identify the credit needs of the communities served by Square 1 Bank through a review of the needs identified by local organizations, Square 1 Bank's CRA strategic plan, Square 1 Bank's CRA evaluation and the CRA evaluations of other banks operating in Square 1 Bank's community, population and demographic data of Durham and Raleigh communities, and periodic publications of the Federal Reserve Bank of Richmond. As part of these efforts, PacWest has engaged in in-person meetings with ten different community groups located in the communities served by Square 1 Bank to assess the needs of Square 1 Bank's community. Through these diligence efforts, PacWest identified a list of community needs with respect to credit and deposit products and services—e.g., loans to businesses with gross annual revenues of $1 million or less; loans to finance the creation and preservation of affordable housing; modification of loans on single-family dwellings; loans and investments that support economic development activities—in Square 1 Bank's current assessment area in Durham and Wake counties, North Carolina.

PacWest represents that, at the request of the FDIC, the company has developed a CRA plan for the combined bank with specific goals for qualifying CRA activities that reflect how the combined bank would meet the credit needs of its communities after consummation of the proposed transaction. For example, PacWest plans to go beyond Square 1 Bank's existing practices by initiating small business and community development lending in the North Carolina communities currently served by Square 1 Bank. Further, upon consummation of the proposal, PacWest will dedicate a full-time officer for community reinvestment matters in North Carolina reinforced by PWB's CRA resources in California.

The transaction is intended to combine the strengths of the two organizations to create a more diversified bank with greater geographic and product reach. The current suite of products and services offered by each of PWB and Square 1 Bank will continue to be offered by the combined organization.

Following consummation, Square 1 Bank would operate as a division of PWB. Given its business focus on lending to venture capital firms, Square 1 Bank historically has not offered consumer banking deposit, loan, or other products and has offered only limited small business products. As a division of PWB, Square 1 Bank would expand its suite of product and service offerings to include the broader array of products and services offered by PacWest, including, for example, personal loans, home equity lines of credit, automobile loans, and traditional banking products to commercial businesses.

As a division of PWB, Square 1 Bank would also offer a broader array of small business loan products such as real estate loans and equipment loans and leases. Customers of Square 1 Bank would have access to two new business products that offer overdraft protection and working capital for operations and expansions. These products were designed for small businesses in need of smaller lines of credit with lower fees and interest rates, as well as simpler application processes and underwriting requirements, than traditional business lines of credits.

Public Benefits of the Proposal

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits. PacWest represents that the proposal would allow PacWest to offer increased products and services to customers of Square 1 Bank, which currently consist of venture capital and private equity funds. As noted, PWB would offer small business lines of credit, commercial real estate loans, equipment loans and leases, and PWB's full suite of retail banking products and services to Square 1 Bank customers.

Additionally, PacWest states that Square 1 Bank customers would have access to a larger network of branches and ATMs, and PacWest's customers would have expanded access to venture capital funding and investment advisory services. Further, the proposed acquisitions would create revenue enhancement and cost savings to the combined organization, which PacWest represents would provide it with greater resources to make more loans.

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the records of the relevant depository institutions involved under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, information provided by PacWest, confidential supervisory information, and the public comments on the proposal. The Board has also consulted with and considered the views of the FDIC concerning the proposal and the comments objecting to the proposal. Based on that review, the Board concludes that the proposal would result in public benefits that outweigh the potential adverse effects and 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") added "risk to the stability of the United States banking or financial system" to the list of possible adverse effects that the Board must weigh against any expected public benefits in considering proposals under section 3 and section 4(j) of the BHC Act.[33]

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic "footprint" of the merged 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.[34] 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 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.[35]

The Board has considered information relevant to risks to the stability of the United States banking or financial system. After consummation, PacWest would have approximately $19.3 billion in consolidated assets, and by any of a number of alternative measures of firm size, PacWest would not be likely to pose systemic risks. The Board generally presumes that a merger that results in a firm with less than $25 billion in total consolidated assets will not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a

---

[33] Sections 604(d) and (e) of the Dodd-Frank Act, amending 12 U.S.C. §§ 1842(c)(7) and 1843(j)(2)(A).

[34] Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

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

significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this 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.

Acquisition of Nonbanking Companies

As noted, PacWest has filed a notice under sections 4(c)(8) and 4(j) of the BHC Act to acquire certain Square 1 Financial nonbanking subsidiaries, which engage in financial and investment advisory activities that the Board has determined by regulation are so closely related to banking as to be a proper incident thereto for purposes of section 4(c)(8) of the BHC Act.[36] The nonbanking subsidiaries to be acquired by PacWest relate to Square 1 Financial's investment in and sponsorship of a "fund of funds" that invests in U.S.-based venture capital investment funds. PacWest has committed to conduct these activities in accordance with the requirements and limitations of the BHC Act, including the limitations imposed by section 13 of the BHC Act, commonly referred to as the Volcker Rule.

In evaluating a proposal under section 4(j) of the BHC Act, the Board must determine that the proposed acquisition of nonbanking companies by PacWest "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system."[37]

The record indicates that consummation of the proposal would create a stronger and more diversified financial services organization and would expand services,

---

[36] 12 CFR 225.28(b)(6).

[37] 12 U.S.C. § 1843(j)(2)(A).

product offerings, and geographic scope to current and future customers of PWB and Square 1 Bank, as well as merger-related cost savings to the combined organization. The record also reflects that the proposed nonbank acquisition within the framework of Regulation Y and Board precedent is not likely to result in significant adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system. Based on all the facts of record, and for the reasons discussed above, the Board concludes that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects. Accordingly, the Board determines that the balance of the public benefits under the standard of section 4(j)(2) of the BHC Act is consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the proposals should be, and hereby are, approved.[38] In reaching its

[38] Several commenters requested that the Board hold public hearings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on an application unless the appropriate supervisory authorities for the bank to be acquired make a timely written recommendation of denial of the application. 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. The Board's regulations provide for a hearing on a notice filed under section 4 of the BHC Act if there are disputed issues of material fact that cannot be resolved in some other manner. 12 CFR 225.25(a)(2). Under its rules, the Board also may, in its discretion, 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, 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 that are material to the Board's decision that would be clarified by a public hearing. In addition, the requests do not demonstrate why the written comments do not present the commenters' views adequately or why a hearing would otherwise be necessary or appropriate. For these reasons, and based on all the facts of record, the Board determines that a public hearing is not required or warranted in this case. Accordingly, the requests for a public hearing on the proposal are denied.

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 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 15th 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 Federal Reserve Bank of San Francisco, acting under delegated authority.

By order of the Board of Governors,[39] effective September 21, 2015.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

In addition, commenters requested an additional extension of the comment period for the proposal. The Board's Rules of Procedure contemplate that the public comment period will not be extended absent a clear demonstration of hardship or other meritorious reason for seeking additional time. 12 CFR 262.25(b)(2). The commenters' requests for additional time do not identify circumstances that would warrant an extension of the public comment period for this proposal. Accordingly, the Board has determined not to extend the public comment period.

[39] Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.