

Opinion: What it means to be 'California's Bank'

By Joe Mathews

If California were a bank, what sort of bank would it be?

Banc of California has a new, intriguing answer. In just six years, "California's bank" has emerged as one of America's fastest-growing banks—from \$700 million in assets in 2010 to nearly \$10 billion today. Since the end of 2014, it's been the best performing bank stock in the country, while pursuing a banking strategy even Bernie Sanders might love: serving the state's diverse array of small and mid-sized businesses.



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More than 100 banks have branches in California, and many of them are community banks that seek to serve the same people as Banc of California. But the intensity of Banc of California's focus on defining itself by its Californianness is unmatched—and noteworthy for any enterprise, especially a bank in a globalized era when consolidation across borders is all the rage in the financial industry.

Banc of California has billed itself as "California Strong" and "the bank for those seeking, supporting and living the California dream." It has touted California icons among its customers (Wolfgang Puck to Vin Scully), and built partnerships with USC, San Diego State, Pepperdine, and the

L.A. Unified School District “Partnership” schools associated with former Mayor Antonio Villaraigosa, an advisor to the bank.

In so doing, Banc of California is betting that a grounded-in-the-Golden-State enterprise can prosper in this new and different California era, when, for the first time, the majority of Californians are born and raised in California.

“What’s good for California is good for the Banc of California,” the bank’s chairman and CEO Steven Sugarman told me recently at the bank’s headquarters in Irvine. Sugarman, 41, is himself a homegrown Californian—from Fullerton, where his mother serves on the school board.

Banc of California is making an argument that California’s economy is so varied and peculiar that it needs banks with deep local knowledge to serve it effectively. While bigger corporations dominate many American urban economies, California’s business base is “very democratic,” in Sugarman’s words, with properties owned by individuals and families. Since so many Californians work for themselves, even very credit-worthy people don’t qualify for traditional mortgages.

Sugarman says the bank’s data also suggests that California businesses—particularly those owned by Latinos and women—are far more credit-worthy than many lenders have recognized. To better reach those customers, Banc of California in 2014 acquired Banco Popular’s 20 Southern California branches (including \$1.1 billion in deposits).

In this context, California is not just a state but a business model; to attract diverse businesses, Banc of California needs to show commitment to communities. This is one reason why the bank has prioritized its Community Reinvestment Act lending—to community development projects like affordable housing—and trumpets its “outstanding” rating in such lending at every opportunity.

Such a strategy has its critics; many banks consider CRA lending an unprofitable chore. And in a conservative commercial banking world that holds that “anything that grows fast is a weed,” Banc of California’s rapid success can be seen as suspicious, perhaps predicated on ill-advised pricing or risky lending.

Sugarman says the bank invests heavily in risk management and in hiring people who really understand the state’s markets. The rapid growth is in part a function of launching a bank in the wake of a massive recession that left an enormous void in lending and liquidity as California-based banks failed and consolidated.

Sugarman makes a strong case for a sort of California patriotism in matters of banking. After all, when Californians bank with national or multinational banks, their deposits are loaned or invested outside California. Banc of California is busy pointing this out to governments and nonprofits across the state that are still banking with multinational banks less focused on our own communities. The bank also wants to continue expanding in Northern and Central California, and to partner with California-based online lenders and technological innovators.

Will this California model endure? A bank tied to a state as volatile as California can expect a bumpy ride in the long term. But the Banc of California is, for now, making a compelling case that it pays to bank on California.

I dropped by its Pasadena branch recently, to find out about a bank program that allows children to open no-fee savings accounts (that pay a relatively generous 3 percent interest for accounts below \$10,000). Within 30 seconds of my walking through the door, I’d been offered coffee, a freshly baked cookie, and a comfortable chair. As well as a comforting question from the young banker assisting me: “Where are you from in California?”

Joe Mathews writes the Connecting California column for Zocalo Public Square.