Banc of California NA, a subsidiary of Banc of California, Inc. (NYSE: BANC; Irvine, CA), has agreed to the Strategic Sale of its Mortgage Banking Division to Caliber Home Loans (Private; Irving, TX)

Deal Value: $25 million cash premium upon closing, plus an earn-out based on future performance

Sandler O'Neill served as financial advisor to Banc of California in connection with this transaction. This represents Sandler O'Neill's 142nd financial services transaction since January 1, 2015, more than any other investment bank during that time period.[1]

On February 28, 2017, Banc of California, N. A. (the "Bank"), a wholly-owned subsidiary of Banc of California, Inc., entered into a definitive asset purchase agreement (the "Agreement") with Caliber Home Loans, Inc., a Delaware corporation (the "Purchaser"), pursuant to which the Bank has agreed to sell and the Purchaser has agreed to purchase specified assets of the Bank's "Banc Home Loans" division, which relate to the Bank's business of originating, processing, underwriting, funding and selling residential mortgage loans (the "Business"). The assets to be acquired by the Purchaser include, among other things, the leases relating to the Bank's dedicated mortgage loan origination offices and the Bank's "pipeline" of residential mortgage loan applications for loans. The Purchaser has agreed to assume certain obligations and liabilities of the Bank under the acquired leases and certain other specified assigned contracts, and with respect to the employment of transferred employees.

Pursuant to the Agreement and subject to the terms and conditions contained therein, the Bank will receive a $25 million cash premium payment, in addition to the net book value of certain assets acquired by the Purchaser, totaling $2.7 million upon closing of the transaction. The Bank may receive up to an additional $5 million cash premium based on criteria tied to loan officer retention by the Purchaser. Additionally, the Bank will receive an earn-out, payable quarterly, based on the future performance of the Business over the 38 months following completion of the transaction. The Purchaser retains an option to buyout the future earn-out payable to the Bank in exchange for cash consideration of $35 million, less the aggregate amount of all earn-out payments made prior to the date on which the Purchaser makes the payment of the buyout amount. The transaction, which is expected to close on March 30, 2017, is subject customary conditions to closing, including the accuracy of customary representations and warranties of, the Bank and the Purchaser.

The Bank also announced a separate agreement for the sale of mortgage servicing rights (MSRs) to the Purchaser. The Purchaser will purchase the MSRs for $36 million, resulting in a net loss of $3.5 million as a result of the MSR sale. This sale of approximately half the Bank's MSR portfolio is expected to reduce earnings volatility going forward.

With regards to the Agreement, the Bank expects to continue to originate portfolio jumbo residential mortgage loans following the completion of the transaction. In addition, jumbo mortgages originated by the Purchaser which meet the Bank's credit underwriting standards will also be eligible for purchase by the Bank on a servicing retained basis.

In addition, the Agreement reduces the Bank's number of operating locations by over 60%, shrinks total headcount from over 1,800 to less than 950, and decreases annual run-rate noninterest expenses by over $150 million. As a result of the transaction, the Bank expects to improve its ongoing consolidated efficiency ratio. Additionally, the Bank expects to realize one-time expenses related to the transaction totaling approximately $4 million.

Notes:
1: Source: SNL Financial. Excludes terminated transactions and self-advisory roles.

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