October 9, 2020

By email

Mr. Sean Varner
Vice Chairman
Little Hoover Commission
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Mr. Sean S. Varner
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Dear Mr. Varner:

On behalf of Bank of the West (the "Bank"), I am responding to questions from the Little Hoover Commission (the "Commission") with respect to the Bank's small business lending program and practices during the COVID-19 pandemic. I am informed that the Commission is an independent California state oversight agency whose mission is to investigate state government operations and policy and to make recommendations for promoting economy, efficiency, and improved service in state operations. The Commission is currently examining the long-term economic impacts of COVID-19 on California and exploring how state government can most effectively support those who are impacted by the pandemic and best promote equitable recovery. As part of this study, the Commission is looking at the impact of the pandemic on small businesses, especially small businesses in underserved communities (both rural and urban), and is particularly interested in understanding how the State can potentially partner with both non-profit and for-profit private entities to support small businesses.

The Commission's areas of inquiry are set forth in bold below, followed by the Bank's responses.

1. **Could you please briefly describe Bank of the West's small business loan programs, with a focus on California? In particular, the Commission would appreciate hearing about any programs the Bank might have in place to support small business owners from historically underserved communities (rural and/or urban) in California.**

The Bank supports small businesses across the state in a fair and responsible manner, no matter their location. In 2018, the Bank revised its lending criteria for products $100,000 and below to make it easier for the smallest businesses to qualify for new credit.

Under the Community Reinvestment Act, the Bank sets targets for lending to small businesses, not only for overall activity in California but also for levels of activity in Low- and Moderate-Income Census Tracts. For 2020, the Bank is exceeding established targets in all three categories in California, despite the impact of the pandemic, as indicated below:

Low Income Census Tracts	130% of target
Moderate Income Census Tracts	110% of target
Small Business Loan Penetration	125% of target

2. **What has changed in small business finance and lending since the pandemic began?**
Demand for small business credit has decreased, due to the overall sense of economic insecurity. The CARES Act provided six months of payments for new and existing SBA borrowers through September 2020, preventing what could have been many defaults. The Bank has proactively provided 6-month deferrals to a large number of California businesses to provide time for them to get back on their feet, and will consider deferral extensions as appropriate going forward.

3. **Did Bank of the West participate in the federal Paycheck Protection Program?**
Yes, we did. The Bank made more than 10,800 PPP loans to support California small businesses, injecting just over $2 billion into the California economy.
   a. **What challenges, if any, did you experience with that program?**
   We face the same challenges that have been experienced by the banking industry overall.
   a. **Has Bank of the West participated in any other federal or state relief programs for small businesses?**

   We are an active, leading and growing SBA lender, and we have continued to make new loans during the pandemic. We also participate in the Main Street Lending program. We are still providing conventional lending to qualified small business borrowers.

4. **Could you please discuss Bank of the West's collaboration with CDFIs in California and explain how Bank of the West works with or otherwise supports CDFIs?**

   - The Bank makes Equity Equivalent Investments in CDFIs (long-term low-interest loans) in California and elsewhere in our 20-state service area. We have invested $3.5 million in several California-based CDFI's, all of which primarily focus on small businesses and/or critical infrastructure in urban or rural areas.
   - Through the Bank's Community Ambassador Program, the Bank provided a senior employee full-time to a Bay Area CDFI for an entire year (at no cost to the CDFI),

to lend business experience to help improve our understanding of CDFIs and strengthen our CDFI partnerships.

- Nine senior bank officers served in 2019 on the boards or committees of California non-profits that make and/or guarantee loans to micro- and small-businesses.
- The Bank has a strong commitment to volunteerism, specifically targeted towards Community Services, Affordable Housing, Economic Development and Community Revitalization, with just under 2,700 volunteer hours contributed in California in 2019 specifically targeted towards non-profits supporting Economic Development.
- In support of these volunteer activities, the Bank provides four hours of paid volunteer time off to each full- and part-time team member. As an example, one team member serves on the loan review committee for a Central Valley CDFI.

In addition, could you please also discuss what the State of California could do to incentivize banks to expand their collaboration with CDFIs?

Banks make these investments more on the basis of Community Reinvestment Act activity than for state-based incentives, but credit enhancements (guarantees, first-loss provision) from the State would encourage banks to make investments with CDFIs that may take on greater credit risk.

5. **Finally, the Commission would appreciate hearing what you believe the State of California should do—at this time—to assist in addressing the liquidity crisis facing small businesses, especially small businesses in underserved communities. Are there other steps that you think the State of California could undertake to address the needs of small businesses?**

More than a liquidity crisis, due to the downturn in business activity, many businesses in certain segments are uncertain if the cash flow to repay any debts will ever return. With SBA loans limited to 10 years to repay a working capital facility, and with SBA disaster loans providing a 30-year term, consideration should be given to terms of 15-20 years to fill this gap. It may be years before business in California returns to a stabilized "new normal" and large payments will limit the ability of a business to implement new strategies, return to positive revenue and then grow. Repayment will need to be based on pandemic-level revenue, not historical revenue.

We appreciate the opportunity to comment on these questions. Please feel free to contact me if you require additional information.
Sincerely,

Michelle DiGangi

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