

# California BanCorp: where should the next loan come from?

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**A strategy case for MBA students and working professionals**

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## A strong quarter, and a difficult signal to read

On July 27, 2026, California BanCorp reported second-quarter net income of \$14.3 million and \$113.7 million of sequential loan growth. Nonperforming assets fell to 0.44% of total assets from 0.97% in the prior quarter. Management described growth as balanced and said it reflected new business relationships across the bank's California footprint. The company also announced an increase in its quarterly dividend. [BCAL-2, pp. 1-2]

Those headlines left a strategy question. The loan book was still heavily exposed to commercial real estate (CRE), and the recent decline in nonperforming loans came mainly from resolving three CRE credits. At the same time, loans had grown faster than deposits during the quarter, costs on interest-bearing deposits rose, and the bank recorded new downgrades to substandard accruing. Was the quarter evidence that BCAL's commercial franchise could keep growing with improving credit, or did the reported improvement overstate what the next loan cohort might deliver?

California BanCorp (Nasdaq: BCAL; CIK 1795815) is the holding company for California Bank of Commerce, N.A. It describes its proposition as relationship-based banking for individuals, professionals and small- to medium-sized businesses, delivered through 14 branches, including 11 commercial banking offices. The company completed its merger with Southern California Bancorp on July 31, 2024. Its Q2 2026 reported results still included purchase-accounting effects on acquired loans and liabilities. [BCAL-2, p. 7; BCAL-3, Note 2; BCAL-4b]

## The assignment

**Teaching setup (constructed for this case; not a reported company event):** Assume you are advising BCAL management on its organic loan-growth policy for the remainder of 2026. Recommend whether to continue broad pipeline growth under existing underwriting, selectively emphasize relationship-generating C&I lending while managing concentrations, or pace net growth until credit and funding indicators stabilize. State what evidence should cause management to continue, slow, pause, or revisit the policy.

The public record does not disclose a board vote or a fixed growth target. These policies are a teaching frame, not management's announced alternatives, and can be combined in practice. The choice is not a prohibition on any loan category. Your recommendation must distinguish disclosed facts from your proposed decision rules, and it must identify internal information needed before setting numeric thresholds.

## Growth by category, not just by headline

At June 30, total loans, including loans held for sale, were \$3.11 billion, up \$113.7 million, or 3.8%, from March 31. Held-for-investment loans rose \$121.9 million. The bank originated \$245.6 million during the quarter, including \$26.5 million in short-term, fully collateralized mortgage participations through approved warehouse facilities. Payoffs totaled \$163.3 million; the amount included a \$5.7 million discounted note sale. C&I balances increased \$45.6 million, and that increase included the \$26.5 million of mortgage participations. [BCAL-1, MD&A loan-class table, pp. 72-73, and loan activity discussion; BCAL-2, pp. 1, 4]

Real-estate-secured loans increased \$75.7 million. Other CRE loans increased \$58.2 million; multifamily rose \$13.3 million; one-to-four-family residential rose \$10.7 million. Construction and land-development loans declined \$6.5 million. Consumer loans rose \$629,000. These are changes in reported balances, not a measure of new-client sourcing or risk-adjusted production. [BCAL-2, p. 4]

The filing presents two CRE totals that do not match exactly. The Note 3 “Loans Held for Investment” table reports \$1,906.910 million of CRE and other loans, or 61.6% of \$3,094.753 million gross held-for-investment loans. A separate MD&A “Loan Concentrations” property-type table includes loans held for sale and reports \$1,906.010 million, or 61.3% of total loans; it shows average loan size of \$2.156 million and weighted-average loan-to-value (LTV) of 49%. The \$900,000 difference in the CRE numerators is unexplained in the filing. The two figures are shown as reported and are not reconciled. [BCAL-1, Note 3, “Loans and Allowance for Credit Losses,” “Loans Held for Investment”; MD&A “Loan Concentrations,” p. 74]

### Exhibit 1. CRE property-type table reported at June 30, 2026

| Property type         | Balance (\$m)    | % of total loans | Average loan (\$000) | Weighted-average LTV |
|-----------------------|------------------|------------------|----------------------|----------------------|
| Industrial            | 544.140          | 17.5%            | 2,015                | 48%                  |
| Retail                | 280.180          | 9.0%             | 1,708                | 46%                  |
| Office                | 288.590          | 9.3%             | 2,138                | 51%                  |
| Hotel                 | 215.050          | 6.9%             | 8,271                | 51%                  |
| Other                 | 159.940          | 5.1%             | 2,908                | 55%                  |
| Special purpose       | 84.380           | 2.7%             | 1,795                | 42%                  |
| Mixed use             | 100.010          | 3.2%             | 2,381                | 46%                  |
| Self storage          | 107.470          | 3.5%             | 5,971                | 45%                  |
| Medical/dental office | 95.530           | 3.1%             | 965                  | 50%                  |
| Restaurant            | 30.720           | 1.0%             | 1,097                | 42%                  |
| <b>CRE total</b>      | <b>1,906.010</b> | <b>61.3%</b>     | <b>2,156</b>         | <b>49%</b>           |

**Source:** BCAL-1, MD&A “Loan Concentrations,” p. 74. The company says the total loan denominator includes loans held for sale. LTV is a weighted average; it is not a stress test or a measure of borrower cash flow. **Derived arithmetic check:** the displayed property-type balance rows sum to the table’s reported \$1,906.010 million total.

## Earnings that mix franchise results and acquisition accounting

Net interest margin rose 24 basis points, from 4.47% in Q1 to 4.71% in Q2. Management attributed the increase primarily to higher loan yields, a six-basis-point contribution from resolving certain nonaccrual loans, and continued purchase-accounting accretion. Acquired-loan discount accretion was \$3.3 million, equivalent to 44 basis points of average loan yield. Amortization on acquired subordinated debt and time-deposit premiums added \$389,000 to interest expense; management said the combined net purchase-accounting effect raised Q2 NIM by 32 basis points. Q1 accretion was \$3.2 million and the net effect was 30 basis points. [BCAL-1, MD&A “Net Interest Income,” pp. 56-59; BCAL-2, p. 2]

The 32 basis points is a contribution to the Q2 margin level, already included in reported results. It is not a complete estimate of what Q2 NIM would have been without merger accounting: average balances, repricing, rates and timing also matter. The case does not supply enough information to calculate a “core” margin by subtracting one item.

Average loan yield increased 20 basis points to 6.34%. The release noted \$600,000 of cash interest collected from the payoff of two nonaccrual loans and \$56,000 of interest reversals on loans placed on nonaccrual. Deposit costs rose: total cost of deposits was 1.31%, compared with 1.29% in Q1, and the cost of interest-bearing deposits increased eight basis points. The company attributed that increase primarily to deposit mix and competition. [BCAL-2, pp. 2-3]

## Credit quality moved in both directions

Nonperforming loans fell \$21.7 million, or 70.9%, in Q2. Three nonperforming CRE loans were resolved: two repaid at a combined \$17.8 million net carrying value and one \$5.7 million loan sold at a discount, generating a \$127,000 charge-off. Management said these resolutions were the primary reason NPLs declined. NPA fell to \$17.5 million, or 0.44% of assets, from \$39.2 million, or 0.97%, at March 31. [BCAL-1, asset-quality discussion; BCAL-2, p. 5]

The decline was partly offset by the Q2 downgrade to nonaccrual of a one-to-four-family residential investment loan with a \$2.7 million net carrying value. [BCAL-1, MD&A “Asset Quality,” “Nonperforming Assets,” p. 78]

Meanwhile, \$14.9 million of loans migrated from pass to substandard accruing, and \$7.7 million moved from special mention to substandard accruing. The special-mention balance declined, mostly because of these downgrades, payoffs and upgrades. Provision for credit losses on loans held for investment was \$1.1 million, compared with a \$381,000 reversal in Q1. Management cited updated California economic forecasts, continued loan growth, changes in portfolio mix and higher substandard accruing balances among the reasons. The ACL was 1.18% of total held-for-investment loans, versus 1.21% at March 31. [BCAL-1, asset quality and allowance; BCAL-2, pp. 2, 5]

These figures do not establish that new lending is weakening. Nor does a lower NPL ratio alone establish broad underwriting improvement. Some large loans exited the nonperforming category, while new or previously performing credits migrated to substandard.

## Funding and capital context

Deposits were \$3.36 billion, down \$34.4 million in the quarter. Noninterest-bearing deposits were 37.4% of total deposits; reciprocal deposits were \$705.2 million, or 21.0%. Cash and cash equivalents declined \$146.2 million. At quarter end, the company reported \$211 million of unpledged liquid securities and \$1.14 billion of available borrowing capacity; these are liquidity resources, not cash on hand or a stress-survival forecast. The company had no FHLB or Federal Reserve Discount Window borrowings. [BCAL-1, MD&A deposits/liquidity, pp. 66-68; BCAL-2, pp. 3-4]

BCAL reported that its preliminary capital ratios exceeded the regulatory minimums required to be “well-capitalized.” This is a regulatory status, not a statement that all capital is excess or distributable. At quarter end, 875,563 shares remained under the existing repurchase authorization; in Q2, the company repurchased 102,594 shares for \$2.0 million at an average price of \$19.46. A \$0.10 dividend declared in May totaled \$3.3 million; the Board later announced a quarterly dividend of \$0.12. No disclosed board decision links repurchases or dividends to a particular lending plan. [BCAL-1, Note 10, p. 35; BCAL-2, pp. 3-4]

Under the regulatory definition, CRE was 449% of total risk-based capital at June 30, 2026; the 2025 10-K reported 469.3% at December 31, 2025. These are capital-concentration ratios, not CRE shares of loans. OCC guidance uses CRE at least 300% of risk-based capital **and** CRE portfolio growth of at least 50% over 36 months as criteria that may prompt further supervisory analysis; the guidance is not a lending limit or safe harbor. The public record here does not establish that BCAL meets the paired test. [BCAL-1, MD&A “Loan Concentrations,” p. 74; BCAL-3, CRE disclosure; REG-1]

## Competition in a relationship-banking market

Management said BCAL faced strong competition in its footprint while generating new relationships in each of its regional commercial offices. It did not quantify market share or competitor pricing. Two public bank reports offer scale context, not unit-economics benchmarks. East West Bancorp, headquartered in California, reported \$59.0 billion in loans and \$70.1 billion in deposits at June 30. Bank of Marin, a Northern California community and business bank with \$3.9 billion of assets, reported Q2 NIM expansion of 14 basis points and sustained originations. Their sizes, market footprints, portfolio mixes and business models differ from BCAL. The public data do not establish that either is a direct competitor for a specific BCAL borrower. [BCAL-2, p. 1; COMP-1; COMP-2]

BCAL’s management describes a relationship-based proposition. The strategic question is whether to pursue more funded balances across existing categories, emphasize relationship-generating C&I business while managing portfolio risk, or grow more selectively until the recent credit and funding signals become clearer. Each path has an opportunity cost that the company’s public reports do not quantify.

## Possible policies for discussion

The following alternatives are constructed for the case. BCAL has not announced these policies.

| Policy                               | How management might apply it                                                                                             | Strategic question                                                                                                          |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| <b>Continue broad organic growth</b> | Keep pursuing demand across C&I, CRE and other commercial categories under existing underwriting and portfolio oversight. | Which observable indicators would show that growth remains well-funded and creditworthy? Does aggregate loan growth conceal |

| Policy                                            | How management might apply it                                                                                                                                           | Strategic question                                                                                                                                                  |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                   |                                                                                                                                                                         | changes in sourcing or risk?                                                                                                                                        |
| <b>Emphasize relationship C&amp;I selectively</b> | Give priority to opportunities where the bank can build broader operating relationships, while tracking CRE concentration and not imposing a categorical stop.          | What evidence would demonstrate actual relationship value and risk-adjusted contribution? How much of reported C&I growth came from recurring relationship lending? |
| <b>Pace net growth behind review gates</b>        | Continue evaluating and originating opportunities, but manage aggregate growth more cautiously until funding, credit migrations and portfolio performance are reviewed. | What would management need to see before resuming a faster pace, and could waiting damage client relationships or forego sound business?                            |

These policies can overlap. The public materials do not disclose an internal growth hurdle, category return, credit limit, stressed loss estimate, pipeline conversion rate or deposit runoff sensitivity. Do not assume that a CRE ratio is a lending ceiling, that C&I is automatically lower risk, or that pausing growth solves funding risk.

## Exhibits

### Exhibit 2. Reported Q2 indicators

| Measure                                  | Q2 2026          | Comparison / definition                                                                                       |
|------------------------------------------|------------------|---------------------------------------------------------------------------------------------------------------|
| Total loans, including held for sale     | \$3.11bn         | Up \$113.7m / 3.8% from March 31                                                                              |
| Loans held for investment                | \$3,094.753m     | Up \$121.9m from March 31                                                                                     |
| C&I balance                              | +\$45.6m         | Q2 change; includes \$26.5m mortgage participations                                                           |
| CRE and other balance (Note 3)           | \$1,906.910m     | 61.6% of gross LHFI; includes only held for investment                                                        |
| CRE property-type table                  | \$1,906.010m     | 61.3% of total loans including HFS; \$900,000 difference from Note 3 amount is unexplained                    |
| Q2 net interest margin                   | 4.71%            | 4.47% in Q1; +24 bp reported                                                                                  |
| Acquired-loan discount accretion         | \$3.3m           | Equivalent to 44 bp of average loan yield; company reported net purchase-accounting effect of 32 bp to Q2 NIM |
| NPL / NPA-to-assets                      | \$8.9m / 0.44%   | NPL down \$21.7m; three CRE resolutions primarily drove NPL decline                                           |
| Pass-to-substandard migration            | \$14.9m          | Q2 balance migrated to substandard accruing                                                                   |
| Special mention-to-substandard migration | \$7.7m           | Q2 balance migrated to substandard accruing                                                                   |
| Total deposits                           | \$3.36bn         | Down \$34.4m from March 31                                                                                    |
| Reciprocal deposits                      | \$705.2m / 21.0% | Share of total deposits                                                                                       |
| Noninterest-bearing deposits             | 37.4%            | Share of total deposits                                                                                       |

**Sources:** BCAL-1 and BCAL-2. Reported values are rounded as presented. The Note 3 and MD&A CRE figures use different loan scopes and remain unreconciled.

### Exhibit 3. Dated CRE concentration measures

| Date              | Measure                                 | Reported value | Denominator               |
|-------------------|-----------------------------------------|----------------|---------------------------|
| June 30, 2026     | Regulatory-definition CRE concentration | 449%           | Total risk-based capital  |
| December 31, 2025 | Regulatory-definition CRE concentration | 469.3%         | Total risk-based capital  |
| June 30, 2026     | CRE property-type portfolio share       | 61.3%          | Total loans including HFS |
| June 30, 2026     | Note 3 “CRE and other” share            | 61.6%          | Gross LHFI                |

**Sources:** BCAL-1, MD&A “Loan Concentrations” and Note 3 “Loans Held for Investment”; BCAL-3. These measures have different dates, definitions and denominators.

### Exhibit 4. Selected California banking context

| Institution               | June 30, 2026 public data                                                   | Case limitation                                                     |
|---------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------|
| California BanCorp (BCAL) | \$4.03bn assets; 14 branches including 11 commercial offices                | Case company                                                        |
| East West Bancorp         | \$59.0bn loans; \$70.1bn deposits                                           | Much larger bank; context, not scale-adjusted competitor economics  |
| Bank of Marin Bancorp     | \$3.9bn assets; 27 branches/eight commercial offices; Q2 NIM expanded 14 bp | Northern California footprint and different portfolio; context only |

**Sources:** BCAL-2, p. 7; COMP-1; COMP-2. The case does not establish direct account-level competition with either peer.

## Assignment

Prepare a short management memo that recommends a loan-growth policy for the remainder of 2026. State what management should prioritize, what it should monitor, and what evidence should trigger continuation, slowdown, pause or review. Address the strongest argument against your proposed policy. Identify the internal information needed to set numeric gates.

Separate source-reported facts, your arithmetic, and any proposed teaching assumptions. Do not invent a board vote, a binding growth target, a new lending policy, an undisclosed customer, or a company-specific risk-adjusted return. Do not treat the \$900,000 CRE-table difference as reconciled. The purpose is to make a defensible strategic choice from incomplete evidence, not to calculate a point forecast.

## Sources

- **BCAL-1.** California BanCorp, Q2 2026 Form 10-Q, filed August 7, 2026, accession 0001795815-26-000018. [SEC filing](#).
- **BCAL-2.** California BanCorp, Q2 2026 earnings release, July 27, 2026, Form 8-K accession 0001493152-26-034705, Exhibit 99.1. [SEC exhibit](#).
- **BCAL-3.** California BanCorp, 2025 Form 10-K, filed March 13, 2026, accession 0001795815-26-000005. [SEC filing](#).
- **BCAL-4b.** California BanCorp, merger closing, July 31, 2024, Form 8-K accession 0001493152-24-029764. [SEC filing index](#).
- **REG-1.** OCC Bulletin 2006-46, “Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices,” December 6, 2006. [OCC bulletin](#).
- **COMP-1.** East West Bancorp, Q2 2026 results and earnings presentation, July 21, 2026. [Release](#); [presentation](#).
- **COMP-2.** Bank of Marin Bancorp, Q2 2026 results, July 27, 2026. [Official release](#).

This case uses information public by August 7, 2026, end of day Pacific Time. Later company announcements and outcomes are excluded.