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**RICHARD CONNIFF**

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## Bank leader looks for niche in Valley's small companies

Richard Conniff is president and CEO of San Jose-based Focus Business Bank. He was among 25 people who founded the lender in January 2007. A former sergeant in the U.S. Marine Corps Reserve, Conniff spent five years as president and chief operating officer of San Jose-based Heritage Commerce Corp. He also helped found Heritage Bank East Bay, a former Heritage subsidiary, and Acacia Bank in Laguna Hills, Orange County. Focus had \$107.9 million assets as of Dec. 31, 2009.

**Q: Are there any recent regulatory changes that could affect your bank?**

A: The 'de novo' period (when new banks

come under increased regulatory scrutiny) used to be three years. As a result of the problems that everybody's been through the last couple of years, that de novo period has been extended to seven years. So we fall into the seven-year period.

**Q: What is the regulation you come under as a de novo?**

A: The bank needs to file a business plan with the Federal Deposit Insurance Corp. We had to file a business plan when we applied for our charter that covered the first three years of the bank's operation. The bank is also examined once a year, which is a little more frequent than a bank that's

not in the de novo period, where it could be up to every 18 months. Not a big difference, but a difference. It's basically just closer oversight.

**Q: Focus had a net loss of \$3.64 million last year, up from a \$1.69 million loss in 2008. What is the bank's current strategy?**

A: We're going to continue to pursue businesses we set out to pursue, which are closely held businesses in Santa Clara County with between 50 and 100 employees. We need to grow, but we're going to be very careful about how we accomplish that. We'll be very selective in the credit-

granting process, and we'll want to make sure we're establishing relationships with the types of clients we want to do business with long-term. I think it's just a matter of being selective and careful.

**Q: Looking back, was there anything you would have changed in your operating strategy?**

A: The obvious change would have been to raise our underwriting standards across our loan portfolio. We would have required more cash in deals, or maybe said no to some deals that were based on growth that may not happen.

**Q: Why did you decide to start a new bank?**

A: There had been a lot of consolidation among the smaller banks in Santa Clara County, and those of us who organized the bank felt like the needs of small businesses were often better met by local banks where the decision-making was local. We felt there was still a need and an opportunity in the community to do that.

**Q: Did Greater Bay Bancorp's buyouts of community banks affect the strategy?**

A: It had a significant impact because it involved so many banks that had been in this market. In 1995 there were 15 banks with headquarters in Santa Clara County. By 2006, that had dropped to six. Greater Bay Bancorp did most of that work. (Greater Bay was later acquired by Wells Fargo Bank.)

**Q: Why is a locally owned bank better for a small business than a larger institution?**

A: The directors (of a local bank), they're part of the community and tend to have better market knowledge, with much shorter chains of command. For a transaction to be approved in our bank, the authority goes from the senior management to the board of directors. So there's really only one layer of management between the customers and the board of directors.

**Q: Focus serves several nonprofit clients. Why nonprofits?**

A: I've had a fair amount of nonprofit experience, both banking nonprofits and serving on the boards. That's a business line we got into in our second year of operations. First, we believe the nonprofit industry in this county is an important one. It provides a lot of services that aren't delivered anywhere else, and for that reason it will remain viable for a long time. Second, the way nonprofits operate has some special characteristics. We believed that a bank willing to invest the time to really understand that would be able to deliver better service than someone that just throws nonprofits into the general mix of business.

**Q: What are some of those special characteristics?**

A: The accounting rules are different. It varies, but they're certainly greatly influenced by their voluntary boards of directors. It's also important to understand the funding dynamics and where their money comes from — what piece of it is earned income, and how those various elements are impacted by what's going on in the economy.

**Q: When you were planning the bank, did you see any indication of the coming economic crisis?**

A: No, not coming up to the time of our opening. It was green lights everywhere, across the board.

**Q: When did you first see signs that something was wrong?**

A: Middle of 2007. Credit markets really began to seize up. I don't think even then that we appreciated how deep or how wide those problems were going to be.

**Q: How much money did you have to raise to open the bank?**

A: Our initial authorization required us to raise a minimum of \$20 million and as much as \$25 million. We put our offering materials in the mail on the day after Thanksgiving 2006, and before Christmas we had shut off the offering and raised about \$43 million. We went back to the regulatory agencies and said we'd like to expand the offering. They allowed us to go to \$27.5 million. We had to return about \$16 million (to investors).

**Q: Would you recommend someone today to start a new bank?**

A: No. One concern is just general economic conditions. The recession may have ended, but we haven't gone into a strong expansion by any means. Second, the banking regulations, these things are in a state of flux. Anybody thinking about going into a new bank now has a higher risk that the rules will change in a way that's not favorable to their investment. So I'd be inclined not to jump in.