

CEO CFO



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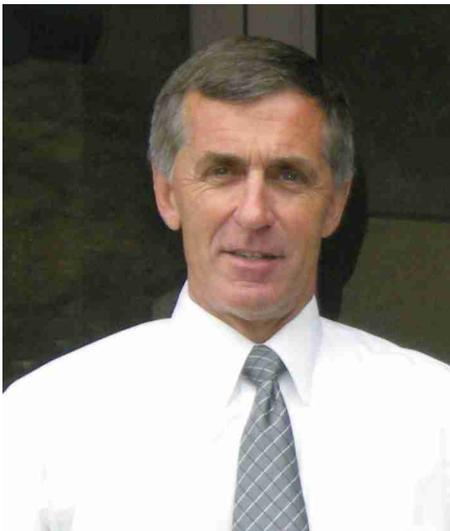
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With 9 Consecutive Quarters of Profit, No Loan Problems, Total Non-Performing Assets Very Low, Lighthouse Bank Santa Cruz California has Found Success in Being a True Community Bank

Financial
Regional – Pacific Banks
(LGHT-OTCBB)

Lighthouse Bank Santa Cruz California

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Richard G. Hofstetter
Chief Executive Officer

Company Profile:

Lighthouse Bank is a locally owned and operated full-service commercial bank located in Santa Cruz, CA. The Bank offers a full array of banking products and services to businesses, professionals, individuals, developers and commercial property owners. The Bank is dedicated to providing exceptional personalized service and access to decision makers who are always close at hand. The Bank offers a unique worldwide ATM fee rebate

program and complimentary business courier service which expands the geographical reach of its banking office location throughout Santa Cruz County. Lighthouse Bank is committed to operating an open, ethical and financially successful company without engaging in the corporate excesses that have come to characterize the financial services industry. All decisions are intended to contribute to the long-term success of its clients, employees, owners and the community it serves. Lighthouse Bank received no TARP funds and has neither accepted nor requested government assistance of any kind.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Hofstetter, every bank has its own story, what is the philosophy at Lighthouse Bank?

Mr. Hofstetter: First of all, we are located in Santa Cruz County and we have a population here somewhere between 250 and 300,000 folks, but geographically we are a pretty small community. We have one office in downtown Santa Cruz and from where I am sitting that probably means we are from within about 15 miles of any business in the entire county. So we can service many of our clients from that one location, as well as with technology like internet banking and via a courier service, which is our own folks. It is not a contracted courier service; you know, some college kid with a baseball cap on sideways. It is our own vehicle with our own staff that goes out and provides that service. Our courier service is more than just a letter or deposit delivery ser-

vice. It really is our ability to take the bank to our clients. We are a full service bank, but our focus is the small business community in Santa Cruz County. Even though that is our focus, we actually have more individual accounts than we have business accounts and that is largely because most of the folks that have personal accounts, have some direct or indirect business connection, even though the owner or employee of the business does business with us. We are what you could say, "lightning-fast responsive", whether it is a depositing need or a loan request, this is the world headquarters for the bank. Our loan committee consists of three folks including myself and we all sit within about 30 feet of each other. The money that we have and the money that we lend is the same color as everyone else's, but what drives business is our unique ability to respond quickly and also to custom tailor products. If it makes sense we will figure out a way to do it.

CEOCFO: Would you give us a concrete example a loan process that you were able to handle a little bit differently?

Mr. Hofstetter: Recently, we had requests from a motel operator who had bought their property only a year before, and when they bought the property it was funded by one of the majors. At that time it was clear they were going to want to do downstream renovations, and they knew it; their lender knew it. However, when a year came and they went back for that request, their national bank lender got a little bit stuck in the mud. The lender was thinking, "How do we structure this. We want to rewrite the loan, and

they want more funds to remodel, but it is not really a construction loan and it is not really a permanent loan. So how do we handle that?" It caused that lender a problem that they could not or would not, so did not move around. Therefore, we figured out a way to put that together and did. That loan closed for us two or three months ago, and those types of things we see happen all the time. What happens more frequently with us is that we end up being the lender of second choice. For example, someone who has had a relationship for twenty years with one of the majors, and they are doing something like building a house, buying a business, or expanding a business. However, they run into a time-line and have not got a response back from their existing provider and then almost in desperation come to us, because they do not have three more weeks to wait. Those are the types of deals that we make a business responding to those types of requests.

CEO CFO: Given everything that has transpired with the banking and in the economy over the past years; has the focus of the bank altered since you have started

Mr. Hofstetter: We really have not. First of all, we are only four years old, but most

of us came from a community bank called Coast Commercial Bank. Actually, when I left Coast Commercial I was the president there. That was acquired, digested and dismantled by Wells Fargo. When our bank started in concept in 2006 the board of directors was formed and included a lot of folks including the former Secretary of State of the state of California, who is on our board and is a Santa Cruz guy. Lighthouse Bank was really built on the concept that Santa Cruz really needs a strong community bank environment. That has been the history of this community, but all of the strong banks ended up getting acquired and vanished over the course of the last twenty or twenty-five years. So when we formed there was only one other community bank in Santa Cruz called Santa Cruz County Bank, and that was the only time in a century that there had not been multiple community banks in Santa Cruz County. So

the formation of the bank really was that yes it needs to be a legitimate business enterprise, but the community needs it. That was the vision from the outset and that is what we do. We are really what you would refer to as a traditional bank. We gather deposits from our community and we return them by way of loans into our community. We are located in Santa Cruz and Santa Cruz County, we are just over the hill from Silicon Valley, but a foreign loan to us is San Jose, and that is San Jose California, not San Jose Costa Rica. That has been a problem for Santa Cruz. We have traditionally been that area for the majors where they love taking deposits here and they suck the money out and make the loan somewhere else. From the information that we have, the information or the reinvestment or what you could call the local loan to deposit ratio for most of the major banks and that would be BOA, Citi, Chase and Wells Fargo, is in the 35%

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to 40% range. So most of what they garner in deposits from this community leaves and that is not really good for the business environment.

CEO CFO: Do you think potential customers realize and care about that when they are making their choices?

Mr. Hofstetter: I think they are only starting to now. We have seen some of that lately with the Occupy Wall Street movement, because what it is really bringing to light is some of the excesses within the industry and folks do not like that. The best advertising for us is a guy like Lloyd Blankfein from Goldman Sachs. When he testifies in front of Congress that he is doing God's work, and I would agree that maybe he is doing God's work, but he probably ought to be doing it from San Quentin, and I think a lot of people feel that way. So the more industry excesses and abuses are coming to the forefront, it is kind of helping us a little. However, I wonder

why it has taken three years that a lot of folks are looking at the major banks now and saying hey wait a minute, wait, wait, wait. They got rescued from an economic crisis that they were involved in creating. They got rescued with our money and so what they are doing with that is they are charging us all more fees. They are also laying off rank and file staff, and they are continuing to pay outrageous compensation packages to executive management folks. Interestingly none of that seemed to matter too much until the whole \$5 debit card fee surfaced. Then people looked at it kind of globally. It is sort of like, \$5 a month mattered to you more than all this other stuff, but it has begun to look like that is sort of for some folks the straw that broke the camel's back. When they saw that, they said, "Gosh that is enough". That is what it looks like today, but the reality is maybe Bank of America is crazy like a fox. Maybe they have determined and

perhaps they are correct that when they roll out the \$5 fee people will bitch and scream and piss and moan and kick up their heels for a week or two or a month, but not a material amount of people will leave them. Then within six months, it is all part of ancient history

and people are acclimated to it. So just by taking six months of pain, they just made a few billion dollars extra a year. Maybe they are crazy like a fox and that is what their thinking is. Who is to say?

CEO CFO: Does the community know about Lighthouse Bank now, and how do you reach potential customers?

Mr. Hofstetter: Largely what that started with was our ownership. When our bank started we had 350 owners or shareholders, but we did not sell stock outside of the community. Therefore, when the stock offering took place, if you were calling and trying to buy stock and you lived in Bend Oregon, you did not get any stock because you would not add as an owner anything to the enterprise. Originally, when we started our customer base, the people we marketed to were our owners. We do very limited advertising because we use more

of a rifle approach than a shotgun approach for bringing in the clients that we want. We do that by direct calling efforts and our snowball is starting to roll now really because of referrals from people that do business and have experience with us. Tell other folks and that is what helps. We always would like that to be quicker than it is, but we see that growth and movement has been pretty consistent for us.

CEOCFO: Are there services that Lighthouse plans to add?

Mr. Hofstetter: Not at this time. We are certainly taking a look at increasing technology use and the ability for our clients to do banking using things like iPhones and any type of PDA, but you have got to be careful about that because there is an ease and application and benefit to clients and there are inherent risks that come along with that. There isn't an avenue of business that we are looking to get into that we are not in now. We have pretty much filled the role as what you would typically define as a traditional community bank.

CEOCFO: What about non-profit banking?

Mr. Hofstetter: We probably have forty or fifty non-profits that bank with us. I would not say that we opened with non-profits being the target market in mind, but since we are all members of the community, our entire board are people who have been in the community decades if not their entire lives. Our group is integrated into the community, so a lot of us are on non-profits boards and we were before the bank ever started. Therefore, we have a lot of contacts and involvement in the non-profit community, which makes it easy for us to identify with and provide solutions to those groups. The typical model for one of the mega banks is they will have a couple of their relationship managers who they will designate as the community people and they will say, "Ok, you go sit on the United Way board, and you go sit on that board and that board". They will make a couple high visibility donations, but then they are done and that is not what we do. One example I give people is that we did a build for a Habitat

for Humanity project a few months ago. That is where you go out and you actually are helping build the building. We had 24 people on that build. Well we only have a staff of 19, so that is something that one of the major banks could never do. If they had 200 people, they would be lucky to get 24 people out there. How did we get 19 and turn it into 24? We actually had a couple of our board members there and a couple of our staff members brought their carpenter skilled spouses to the event, so we help them build their house. Those are the types of things we can do that make us a better fit for a lot of non-profits than a large bank like Wells Fargo.

CEOCFO: What do you look for in your staff, what are the intangibles that are most important for Lighthouse?

Mr. Hofstetter: When we opened, we had a staff of 18; we have 19 now. Not a single staff member was hired that had not previously worked with one member or more of our executive management team. Our model is completely different. We did not hire a single person that did not have at least four years of experience in banking and most people had a decade. Our most junior person when we opened was probably at the time 23 years old, but he had four years experience. The service that we deliver is based on the quality of staff that we have. We have owners of the bank, but the staff is the bank. We have a very flat organizational structure. Our compensation on average is really good, but it is really good not because we pay the top people a ton of money, but we pay our clients service staff and operations people very well, because we want them to have career progression, a career here, and we want them to stay. So for example my salary is \$185,000 a year, which is way low for a CEO of a bank our size. I do not have a country club membership, I do not have a company car, and I have no retirement plan. Why would I have any of those things? We are only a four year old bank that is \$130 million plus or minus in size, but we take reasonably good care of our executive management team, we take really good care of the rest of our staff, and we are a four year old bank

with 19 people. Do you remember I told you that we opened with 18? Fifteen of them are still here, which certainly for a bank, but for I think any business, it is unprecedented that you would have 90% plus of your staff still there four years down the road.

CEOCFO: What is the financial picture for Lighthouse Bank today?

Mr. Hofstetter: If you pull up our ticker symbol LGHT, you can see we did a press release that went out. Our press release for our 3rd Quarter earnings went out last week. We are 4 years old and we have had 9 consecutive quarters of profit. The last 4 quarters have been successive record quarters. So we are sort of on the slow steady growth mode. We do not have any loan problems, our total non-performing assets are way low, and actually at a quarter in we did not even have a delinquent loan. We had one piece of land that was in our OREO portfolio, and that is about \$400,000 that represents something like three tenths of 1% of our total assets. The reason that has worked for us is we know the folks in this community, we know the business climate in the community and that is where we add value not only for our clients, but for ourselves. The types of loans we make here, I would not try to make them in Fresno, because I do not have a clue what goes on in Fresno. So how can I intelligently underwrite and make loans based on the economy of Fresno and trends in Fresno and different areas in Fresno. What we know a lot about Santa Cruz and we have a whopping 2% of the market share here, so there is plenty of room for us to grow here without looking to Fresno and I suspect it will be that way for quite some time.

CEOCFO: In closing, why should potential investors pay attention to Lighthouse Bank today?

Mr. Hofstetter: First of all, if you take a look at our stock we are trading at \$8.50, our book value is \$9.91, so we are trading at 86% of book value. For any company quite frankly to be trading under book value, there ought to be some reason for that. They are trending down, they got some problems, moving forward the outlook isn't good, but that is just the opposite for

us in all of those areas. Our history has been really good. We lost money our first year, but not a lot. In fact, way less than most banks do. In addition, we are conservatively run. When we opened Lighthouse Bank, to get the bank open it cost us about \$300,000 and if you look at any start-up bank, it usually costs one to \$2 million. We asked one of our consult-

ants when we opened in 2007, if he could find any banks that opened more efficiently than we did and he went back a decade and could find none at least in California. So we are kind of a lean, mean machine. We operate deliberately and carefully and we think that will give us consistent growth and consistent earnings. Ultimately, if we have earnings and an

increase in our book value, sooner or later that is going to drive the value of the stock. We have about \$18 million in capital and we have made a little over \$1 million for the first nine months, so right now in return on equity we are somewhere in the 7.5% area, and this is just the beginning for us.



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