

Capital Sources

Bank scores a coup with its new CEO

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By: Wayne Tompkins

Pacific National Bank, an obscure single office institution on Miami's Brickell Avenue, is one of South Florida's more unusual banking stories.

Effectively owned by the government of Ecuador, the \$395 million-asset bank catering primarily to Ecuadorean interests has labored under the regulatory microscope and has even been the subject of a whistleblower lawsuit — filed by a former chief executive.

So landing Carlos Fernandez-Guzman from BankUnited as its new president and chief executive officer, after a recent high-profile turn chairing the Greater Miami Chamber of Commerce, is something of a coup.



Carlos Fernandez-Guzman

"I was very happy at BankUnited, but it's a challenge that kind of gets to you," said Fernandez-Guzman, who started his new job on Monday after seven years as a senior executive vice president at his former bank.

His ultimate goal, he said, is to be able to say to his staff, "We've taken a bank that had some issues and taken it to a different plane."

Fernandez-Guzman succeeds Ralph Fernandez, who resigned in February after just under two years in the position. Chief financial officer Will Bermudez had been serving as interim CEO.

The bank lost \$9.9 million in 2009, after turning a small profit the previous year, and noncurrent loans hover around 10 percent. Regulatory issues will be Fernandez-Guzman's initial focus.

"The only way I know to attack those issues is to very quickly inventory and attack, almost in a military fashion," he said. "It's the only way you can achieve success in a regulatory environment like you have today."

Pacific National has been under a cease-and-desist order from the Office of the Comptroller of the Currency since September to upgrade its management, improve its lending practices and reduce its credit risk.

"That's a pretty strong safety and soundness order, primarily directed at lending," said Ken Thomas, an independent banking consultant based in Miami. "It starts off with ... making sure they have competent management. They've addressed that here, obviously."

Last June, Fernandez's predecessor as CEO, Carl Wolf, filed a whistleblower lawsuit in U.S. District Court in Miami, alleging that his resistance to a bank director's demands to break numerous laws led to his firing a year earlier.

Wolf's lawsuit alleges that bank director Andres Baquerizo, president of Pacific's Ecuadorean parent Banco del Pacifico, pressured Wolf to hire as a contractor a "known bank embezzler from Ecuador," identified in the complaint as Luis Wilfrido Villacis Guillen. The lawsuit describes Villacis Guillen as "a convicted felon ... for the embezzlement of large sums of public money emanating from the failure of the banking system in Ecuador" from 1999 through 2001.

Villacis Guillen, a onetime banking regulator in Ecuador who until March 2000 had been a Banco del Pacifico attorney, was indicted in that country in 2001. Sought by Interpol, a federal task force arrested him in Miami in November 2004 for overstaying his visa. Villacis Guillen, who argued that the charges were politically motivated, was granted amnesty in Ecuador in 2007.

Wolf also alleges that Baquerizo pressured him to covertly pay him an \$8,000-a-month "unofficial" salary. Wolf also said he closed an account belonging to Cassia Delgado, a niece and private secretary to Ecuadorean president Rafael Correa, because the deposits far exceeded her income and she would not divulge the source of the funds.

"Mr. Wolf's claims that the bank engaged in any illicit activity are absolutely groundless, and the bank looks forward to the court examining Mr. Wolf and scrutinizing his claims," said Miami attorney Mark Raymond, who represents Pacific National. He said Wolf's claims have been dismissed once already and the bank "remains confident" that his recently reopened case will fare no better.

Pacific has spent five years under another OCC order, one requiring improved compliance under the Bank Secrecy Act. The bank had to develop a written program of policies to establish reviews of cash purchases of monetary instruments, periodic analysis of wire activity and Currency Transaction Report filings, automatic reviews of accounts or customers for which the bank has received criminal subpoenas that may involve BSA and reviews of high-risk transactions, accounts, customers, products, services and geographic areas.

BankUnited Problems

At BankUnited, where he was vice president of neighborhood banking, Fernandez-Guzman was no stranger to adversity. He was there as the bank plunged into crisis and massive losses following a failed bet on option-ARM mortgages and was on hand as the bank fell into FDIC receivership.

He stayed on board with the "new" BankUnited under John Kanas, who fronted the private equity group that bought the bank out of receivership and kept the BankUnited name under a new charter.

"We went through more than 30 candidates, and, by far, Carlos was the most impressive individual that we talked to," said Eduardo Gross, a three-year member of Pacific's board of directors. "When we first started looking for candidates, we put some criteria together. We wanted a strong leader, someone that was a team builder, and someone that could focus the team on addressing the challenges the bank had, especially the regulatory challenges."

Beyond getting back on track with the regulators, Fernandez-Guzman said, "you've got a customer base that you'd like to retain and build on, and you have some core people who have been with the franchise since its inception."

From the capital and liquidity perspectives, "the bank is looking solid." On the loan side, while the number of nonperforming loans is high, the bank is in a better position than most because of its small portfolio.

"You're looking at an asset base of about \$120 million," he said. "I don't think the problems on the loan side have been anything other than what has happened to the

South Florida economy.”

The bank’s strong suit is that it is at no risk of failure with its Ecuadorean parent backing it with capital.

“That’s the Ecuadorean TARP,” Thomas said. “Of all the problems that this bank has had, of all the criticisms that have been levied against it, its ace in the hole is the fact that it has a deep-pocketed parent to stand behind it. As long as you have that advantage, you’re in a strong position.”

Being flush with capital also gives the bank the ability to write off problem loans as a net credit loss, removing it from problem loan status.

Overcoming a Negative

Pacific National’s biggest disadvantage, Thomas, said, is its history of rocky relations with the OCC. “That’s been a big negative for this bank,” he said. “The 2005 order was compliance-related, and then as we got into the current economic debacle we’re in, it became safety and soundness issues.”

Even well-capitalized banks have to keep regulators satisfied, Thomas said. “So getting a well-seasoned executive in there that the OCC is comfortable with was really important for them. This was a very big issue in that order. The CEO is the most important thing because then he can bring in others who he is comfortable with.”

Along with other banking posts, Fernandez-Guzman has held positions in the import-export and telecommunications industries.

“I did quite a bit of business in Ecuador, believe it or not, when I was in the flower business in the ‘90s, taking over a flower import company that had some issues and bringing it back to life,” said Fernandez-Guzman, who has not been to Ecuador. “I stepped away from banking in ‘89 after being in banking for a very long time and decided to take on that challenge. We did that for three years — cleaned it up, brought it back to life, and it’s still around, but we sold it.”

In his new job, Fernandez-Guzman intends to study new lines of business but isn’t in a rush to expand the bank.

“Expansion without returning the bank to profitability would be lethal,” he said.

Miami banking consultant **Dennis Nason**, who is credited with bringing Fernandez-Guzman and Pacific National together, said the bank has the basic ingredients for success but “just needed the right leader at the right time to get them all pulling in the right direction. [Fernandez-Guzman is] an excellent mentor to be able to bring young people along and mold them into a team.”

The bank is owned by the central bank of Ecuador, which took over the parent company Banco del Pacifico about 10 years ago in an FDIC-like role during a financial crisis in the country. The central bank has a committee that provides oversight for the bank.

How will Fernando-Guzman deal with the bank’s foreign governmental ownership?

“At the end of the day, [Pacific] has a shareholder — and a shareholder that has been very supportive during a very difficult time with capital,” Fernandez-Guzman said. “I’ll treat it like a shareholder that truly has an interest in this organization not only surviving but excelling. It’s no different a challenge than any shareholder, quite honestly.”