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**CAPITAL SOURCES** Wayne Tompkins

## WILL SOUTH FLORIDA BRANCHES HELP OR HURT SPANISH BANKS?

Spain's economy is laboring under crippling deficits and a 20 percent unemployment rate, a crush of bad real estate loans and a central bank-ordered consolidation of the country's savings banks that it insists is a pre-emptive restructuring rather than a rescue.

All of this has South Florida banking observers closely watching for any effects on Spanish banks' operations here and their much-touted expansion plans.

"Spain has a real estate problem about equivalent to that in the United States," said **Dennis Nason**, a Miami banking consultant. "If you're coming from an area that has heavy unemployment, which means that you're going to be losing deposits back in your home country, and you've got real estate problems in your own back yard, your expansion plans are going to have to be put on hold."

The biggest impact has been on Spain's 45 "cajas," or savings banks. Cajas are private foundations with no shareholders that commit a substantial portion of their profits to social projects, a concept some other European countries have adopted as well. Profits not spent on social programs are earmarked for reserves and taxes.

"They have grown very fast

**“** In South Florida, the cajas should be able to better compete with the other Spanish banks through their consolidation of services, personnel and operations.”

**FRANK GONZALEZ MORRISON BROWN ARGIZ & FARRA**



RICHARD M. BROOKS

over the past five or six years, not only by opening new branches within new markets but by lending aggressively, especially in the real estate market," said Jorge Rossell, chairman of Miami-based TotalBank, which is owned by Spain's **Banco Popular de Espana**. "The Bank of Spain is forcing the cajas to consolidate since that is the only way for them to survive going forward."

Rossell, whose bank's parent is not a caja, said that much of the media coverage of Spanish banks has been overplayed, noting that the Bank of Spain has taken over only two financial institutions, compared to 14 bank failures this year in Florida alone.

Rossell said results of the European Union's stress test of its 20 largest banks have reportedly graded Spain's **Banco Santander** and **BBVA** as the two strongest.

Spain's large commercial banks are viewed to be in better shape than its cajas.

"Many of Spain's biggest banks like BBVA continue to expand in the U.S. and elsewhere including China, and this increases their diversification away from the troubled Spanish economy, one of the worst in Europe," said **Ken Thomas**, a Miami independent banking analyst. "I expect to see further investment in South Florida by the healthy Spanish banks and cajas."

Nason also finds some positives

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## CAPITAL SOURCES: Spain's central bank aggressively consolidating cajas

in the mix.

"I don't know that Santander is any weaker than it was, nor a BBVA, a [Banco] Sabadell — they're all pretty strong," Nason said. "The government of Spain has always had a heavy capital requirement for their banks, so they tend to be more heavily capitalized and less leveraged than some of the other European equivalents. That's why generally they've been able to withstand some of the problems they've had."

### CONSOLIDATION PUSH

Spain's central bank is aggressively consolidating its cajas, however. The cajas are not allowed to raise money on the capital markets and rely on government sources for much of their funding. The central bank is replenishing capital only to those cajas that agree to merge with others, a program that is expected to reduce their numbers by more than half.

"From the 45 cajas existing, we will be somewhere around 18 or 20," said Darío Puentes, an executive with Spanish bank **Caja Mediterráneo's** Miami international office and president of the Florida International Bankers Association.

Puentes, who said six cajas are operating in South Florida, believes consolidation will make the cajas and Spain's banking system stronger.

"There may have been too many cajas to support the market," he said. In past years,

### SPANISH BANKS WITH MAJOR OPERATIONS IN SOUTH FLORIDA

■ **Caja Madrid:** Owns 100 percent of City National Bank of Florida

■ **Banco Popular de España:** Parent of TotalBank

■ **Banco Sabadell:** Parent of Sabadell United Bank

■ **Banco Santander:** Private banking and other services

cajas did business only in their home markets, but recent years have seen them expanding to compete in other cajas' home markets as well. While Spain had a real estate boom and bust similar to South Florida's in the past decade, he said cajas have always emphasized real estate lending "due to its orientation to the family."

While the Spanish bankers are optimistic, observers like Nason take a more skeptical tone.

"The government has gone to the cajas and suggested particularly to the weaker ones that they focus on Spain rather than expansion," Nason said. "Some of the cajas have lent in real estate in the United States as well. Having problems in U.S. real estate is not something that the government of Spain condones. They're saying if you're going to have problems, have them back

here."

The caja with the most visible presence in the South Florida market is **Caja Madrid**, which owns Miami-based **City National Bank of Florida**.

Earlier this month, the caja confirmed that it has begun merging its operations with fellow savings bank **Bancaja** to form what would be Spain's largest caja. The two institutions also are negotiating with five smaller cajas to combine operations.

"Caja Madrid is a consolidator in this environment," said Bruce Rubin, spokesman for City National. "It's strong and getting stronger by virtue of some of the other cajas consolidating with it."

"The ramifications for City National is that this will aid the aggressive expansion plans that Caja Madrid has for City National in this country."

Officials at Banco Sabadell, which owns Miami-based **Sabadell United**, declined requests for comment.

Not everyone sees consolidation as a sure bet.

"One always has to be cautious of shotgun marriages," said **Derrick Gruner**, a banking attorney at the **Pinkert Law** firm in Miami. "Whether all of them will be successful, I'm not so sure. In an open environment, it's hard enough to do a merger as it is. From the macroeconomic standpoint, it has to happen."

Miami operations are very

minor players within the enormity of Spanish banks, but effects here are sure to be felt nonetheless.

"Once the mergers are finalized, the cajas are going to have to decide what to do with their Miami operations," said attorney **Joe Sirven**, a **Holland & Knight** partner with several Spanish banking clients. "They're going to have to figure out how to combine those operations."

**Frank Gonzalez**, a partner at **Morrison Brown Argiz & Farro** who leads the accounting and consulting firm's financial institutions practice, said any local consolidation following a merger "should make them stronger locally as their operations would merge and best efforts will be concentrated in terms of operations and personnel."

For the time being, he said, it's likely that the cajas, which had very strong growth plans a few years ago, will concentrate more on current efforts and slowdown expansions, both locally and abroad, until the market improves.

"I think the cajas' consolidation will have a positive effect on the cajas in Spain, abroad and in the U.S. as this will make them stronger with the ability that they will have to concentrate services and personnel to clients within their regions in Spain and abroad," Gonzalez said. "The [consolidation's] goal is to have one caja per significant region in Spain. This will

provide them with a strong client base to cater to both locally and abroad. In South Florida, the cajas should be able to better compete with the other Spanish banks through their consolidation of services, personnel and operations."

Russell, the TotalBank chairman, agrees there will be some local consolidation, "but a caja is not a competition for me in this market. Some of them only have representative offices. They are here just to serve the Spanish customers coming to the United States, so it's not a competition for the Spanish banks that have a presence here in Miami."

Gruner said he can understand the enthusiasm Spanish bankers like Puentes have for the potential of consolidated cajas.

"To the extent that is going to impact their U.S. relationships and their U.S. business, I would say probably better than worse," Gruner said. "With 20 percent unemployment, there just isn't a lot of room in [Spain] for a bunch of disparate players."

Gruner said he doesn't see a lot of negative local fallout. In fact, "immediately I don't see a lot of impact at all. But over the long term it can never be a bad thing to have well-capitalized institutions involved in the South Florida marketplace, because at the end of the day that's what we need."

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