

Written Testimony of Juan Carlos Batlle
United States House of Representatives Subcommittee on Oversight and Investigations of
the Committee on Financial Services
February 25, 2016

Puerto Rico's Debt Crisis and Its Impact on the Bond Markets

Good morning Chairman Duffy, Ranking Member Green, Resident Commissioner Pierluisi and other distinguished members of this committee.

For the record, my name is Juan Carlos Batlle. I was President of the Government Development Bank for Puerto Rico from March 2011 to December 2012. Prior to holding this position, I held senior positions for Banco Santander's investment banking, asset management and retail brokerage operations in Puerto Rico for 15 years, working closely with public finance matters for the Government of Puerto Rico and the municipal bond markets, locally and stateside.

Focusing concurrently on the root causes of our problems, the health of our banking sector and the impact of the debt crisis on investors and the municipal bond market makes it evident that the subject matters are interrelated and that rather than static, they constitute a dynamic situation whose eventual resolution will rest on the action or inaction of this Congress and the Government of Puerto Rico. Failure to act will only add new problems, destabilizing again our banking sector, inflicting even more pain on the 3.5 million US citizens who call Puerto Rico home, investors and our economy while introducing unwarranted uncertainty and legal entanglements to the municipal bond market. There is no unique, perfect solution out there, but we need to act. This Congress needs to act. And time is of the essence.

In my view there are nine major root causes of our problems:

First, a lack of execution and follow through on economic development initiatives. Over the past 20 years and under five different administrations, Puerto Rico has put forth five different economic development and fiscal plans. Plans that shared the same underlying principles and objectives: Making Puerto Rico a better place, more competitive, with a better business environment, a more efficient and less bureaucratic government and allowing the private sector to spearhead job creation that would lead to better quality of life and social wellbeing¹.

The plans and ideas are not the problem. Our inability to execute has been the limitation to our progress and the culprit of our lack of economic development. Five plans have failed not because they were flawed or inadequate, but because we **failed to execute, we failed to compromise. We don't need new plans, we need the will to compromise and execute for the greater good.**

¹ Commonwealth of Puerto Rico Financial Information and Operating Data Reports
http://www.bgfpr.com/investors_resources/documents/2012-06-13-PRCommonwealthPubImpRef1998.pdf
http://www.bgfpr.com/pdfs/public_corp/commonwealth/OSGOREfundingApril2003.pdf
http://www.bgfpr.com/pdfs/public_corp/commonwealth/2007-09-17-OS-PRCommonwealthGOs408MM.pdf
http://www.gdb-pur.com/investors_resources/documents/2011-02-15-PRCommonwealth2011A356MM.pdf
<http://bgfpr.com/documents/CommonwealthReport11-06-15.pdf>

Second, our inability and unwillingness to change and adapt. In 1996 Congress eliminated Section 936 of the US Internal Revenue Code through a 10-year phase out. Section 936 provided tax incentives for manufacturers to locate its operations in Puerto Rico.

The elimination of Section 936 was certainly a tipping point after a 20-year window that allowed us to build the foundation for a robust manufacturing sector. However, it was our responsibility to adapt and to change to the new paradigm in a post-936 world. We did not. **We failed to adapt and execute, we failed to compromise, and chose to put the petty political fight before the well-being of future generations.**

Third, decades of fiscal and economic mismanagement resulted in recurrent budget deficits, ballooning public debt, an unchecked informal economy, legal and illegal, significant government corruption and a bloated public sector that crowded-out private sector growth.

Fourth, a lack of adequate, independent regulation over the Government Development Bank for Puerto Rico (GDB) and the Economic Development Bank for Puerto Rico (EDB). The GDB and EDB must be subject to heightened regulation by independent regulatory bodies. For decades and during times of economic prosperity, they each served very specific purposes – the GDB promoted economic development and acted as fiscal agent and financial advisor to the Government of Puerto Rico, its agencies and instrumentalities, while EDB focused on providing financing to small and medium size businesses and start-ups. Since the early 2000s as central government and municipal budget deficits widened, public sector payroll ballooned, and public corporations faced financial and operational challenges, GDB became the lender of last resort to these troubled public sector entities.

Fifth, a fragmented government-wide technological structure that has not focused on "delivery" to the end user. Most systems throughout government agencies work on sub-par levels and do not speak to each other. The Office of the Chief Information Officer (CIO), created by Executive Order in 2009 and enhanced during the first 30 months of the current administration, was dismantled after significant progress in development and delivery of new services, including a pilot project aimed at producing **“real time” financial statements for public corporations**². Former employees of this now defunct CIO Office are currently working for the US Digital Service (USDS) here in DC. The USDS’ best practices and talent level can contribute immensely in improving local government efficiency and the ease of doing business in Puerto Rico. We should aggressively pursue a formal collaboration arrangement with USDS.

Sixth, a completely dysfunctional internal revenue service with an ill-trained and equipped workforce and aging and inefficient technological systems that facilitate out of control tax evasion.

² “How the Government of Puerto Rico Can Deliver Financial Statements in Real Time” by Giancarlo González, former Chief Information Officer of the Government of Puerto Rico (2013-2015)
<http://www.giangonz.com/espanol/puerto-rico/how-the-government-of-puerto-rico-can-deliver-financial-statements-in-real-time/>

Seventh, employers and employees within the formal economy in Puerto Rico pay the same payroll taxes as in the mainland, yet the funding of federal health programs to Puerto Rico is unfairly rationed by federal discriminatory legislation and arbitrary administrative determinations.³ This unfair treatment is one of the principal drivers of recurring budget deficits, as it places an unjust and disproportionate burden on the central government to provide essential health services to its citizens.

Eighth, the enactment of tax laws and lax regulation by local and federal regulatory bodies that discouraged suitable wealth preservation strategies and encouraged the over concentration of local wealth in Puerto Rico assets.

For decades, Puerto Ricans have been incentivized to invest disproportionate amounts of local wealth in stocks of financial institutions with predominant presence in Puerto Rico, real estate in Puerto Rico and bonds issued by Puerto Rico Government issuers. These non-diversified strategies resulted in an unimaginable loss of wealth estimated by some to exceed of \$50 billion. The magnitude and nature of this problem can't be ignored and must be addressed as we move forward.

Ninth, a lack of accurate, independent and timely financial and economic data as well as trustworthy budgetary forecasts which eventually led to total loss of market confidence, credibility and access. The loss of market access is the culmination of decades of fiscal mismanagement and failure to execute and compromise for the greater good.

The lack of execution mainly due to our inability to compromise on politically unpopular decisions as a result of excessive partisan politics and a self-centered private sector are among the main reasons Congress needs to act swiftly and decisively by mandating the creation of a fiscal oversight and control board.

The tenth anniversary of Puerto Rico's economic depression has resulted in a 14% contraction of our real GNP⁴ and a 42% contraction of banking system assets.

The sector has gone through three FDIC-assisted bank consolidations in 2010 and another in 2015. During the last decade, total system assets decreased by 43% or \$43 billion and total deposits declined by 31% or \$20 billion. The number of branches declined by 194 or 34% and total net loans and leases were reduced by 37% or \$22 billion⁵. Moreover, residential mortgage originations experienced a dramatic reduction of 60% or \$5.4 billion while foreclosures in 2015 reached 4,123. Since 2008, there have been over 27,000 residential foreclosures and there are currently close to 20,000 homes in different stages of the foreclosure process⁶.

³ Puerto Rico: Information on How Statehood Would Potentially Affect Selected Federal Programs and Revenue Sources, GAO-14-31, (March 4, 2014). <http://www.gao.gov/products/GAO-14-31>

⁴ Economic Report to the Governor – Statistical Appendix 2014
<http://www.bgfpr.com/economy/documents/ApendiceEstadistico2014-BajadoJP25ago2015.pdf>

⁵ V2A – Vision to Action, “Puerto Rico Banking Industry Trends and Benchmarking with United States National Trends: 10-Year Review (2006-2015)

⁶ Office of the Commissioner of Financial Institutions. <http://www.ocif.gobierno.pr/>

In spite of this, the banking sector in Puerto Rico has undergone a major transformation and has been able to stabilize its capital and delinquency ratios. However, the sector can't be healthy while the government's fiscal challenges and a contracting economy continue to drag it down and federal regulators subject them to excessive regulatory examinations and stifling reporting requirements.

Through the creation of a fiscal oversight and control board, federal regulators could provide relief and technical assistance to the banking sector without abandoning their supervisory responsibilities, allowing banks to direct resources on smarter and more agile lending practices that can fuel economic activity.

Puerto Rico's public debt is roughly \$70 billion⁷, representing 1.9% of the \$3.7 trillion municipal bond market⁸.

Unconfirmed estimates indicate that roughly 80% of the Island's bonded debt is held by individuals, directly through their own investment accounts or indirectly through pension and mutual funds. An important portion, over \$11 billion by my estimates, is still held by individuals on the Island, although this number was more than \$20 billion prior to the current crisis. An attempt to indiscriminately restructure all of Puerto Rico's public debt, without regards to the rule of law, credit hierarchy and in direct violation of Constitutional and legal protections awarded to certain bondholders, would have a dramatic impact on Puerto Rico's ability to recover its credibility and eventually, market access. Furthermore, deferring or defaulting on hundreds of millions of annual interest payments that pay for the cost of food, health and other essential services debt service on mortgages and loans of thousands of US citizens would be catastrophic.

Moreover, the municipal bond market would also stand to lose. The municipal bond market is boring. It frowns on surprises and uncertainty as it is generally a stable and predictable market. In this case, boring is good. Risking a unilateral and unjustified debt restructuring as currently being pursued by the Commonwealth's financial and legal advisors will undoubtedly create uncertainty and volatility that will have an impact extending well beyond Puerto Rico.

A disorderly debt restructuring will not only have negative effects on Puerto Rico's economy and thousands of individual investors, but on the entire municipal bond market. A federally mandated fiscal oversight and control board alongside a proven and trusted legal framework, like Chapter 9, that provides for the reorganization of municipalities, utilities and instrumentalities of Puerto Rico, including restructuring of debt of non-Constitutional and insolvent issuers the only way to safeguard and protect Puerto Rico and the \$3.7 trillion municipal bond market. This mechanism should require good-faith and consensual negotiations as a pre-requisite for Chapter 9 eligibility.

⁷ Commonwealth of Puerto Rico Financial Information and Operating Data Report, November 6, 2015. <http://www.bgfpr.com/documents/CommonwealthReport11-06-15.pdf>

⁸ Federal Reserve Statistical Release, Z.1 Financial Accounts of the United States, Flow of Funds, Balance Sheets, and Integrated Macroeconomic Accounts, December 10, 2015

Mr. Chairman, crisis is the mother of opportunity. The situation we face today presents this Congress, the Government of Puerto Rico, and all stakeholders with a unique opportunity to shape a better and stronger Puerto Rico.

Puerto Rico needs a comprehensive fiscal and economic recovery strategy that includes three essential components: A fiscal oversight and control board, a proven and trusted debt restructuring mechanism and economic stimulus measures.

- i. **Fiscal oversight and control board.** The board could have 5 members with adequate expertise, a majority of whom must be truly independent from the Puerto Rican government. The board's guiding principles should be to guide Puerto Rico towards fiscal stability and sustainable economic growth. Its main objectives should be the following:
 - a. Produce credible and timely financial data
 - b. Eliminate budget deficits within a reasonable period while maintaining balance for at least four consecutive years
 - c. Oversee a wide ranging restructuring of government agencies, municipalities and public corporations
 - d. Promote economic growth and greater private sector participation, including the concession of public assets through the already proven Public Private Partnership mechanism
 - e. Mediate an orderly debt restructuring process, through good faith, consensual negotiations first, and Chapter 9 of the US Bankruptcy Code, if needed
 - f. Restore solvency to pension funds
 - g. Assist in restoring credibility and the rule of law, while improving the business environment
 - h. Ensure any new federal assistance is properly monitored

This board could be structured in two phases: "Oversight Phase" and "Control Phase.

Oversight Phase:

- a. Appointment of a Chief Financial and Restructuring Officer that will report directly to the board.
 - ✓ CFRO must have the necessary credentials, reputation and independence to promote credibility and lure investors back to Puerto Rico
- b. Assist in the preparation and publication of independently audited financial statements in a timely manner
- c. Serve as liaison between the Government of Puerto Rico and the US Digital Service in order to promote best practices and attract "best for the job" talent to develop and implement optimal technological systems and processes

- d. Review central government budgets establishing goals for expenditures and collections and monitor the use of federal financial assistance
- e. Mediate and facilitate, but not adjudicate, consensual agreements between creditors and Government of Puerto Rico issuers, and authorize the use of Chapter 9, when needed
- f. Facilitate restructuring efforts between the Government of Puerto and its non-debt stakeholders (i.e., vendors, contractors, collective labor agreements, others)
- g. Review and approve all borrowing by the Government of Puerto Rico and its instrumentalities
- h. Review and approve any sale or concession of government assets
- i. Review and approve a wide ranging restructuring of government apparatus, including regionalization or consolidation of municipalities (78), government agencies (>130) and public corporations
- j. Prepare and deliver quarterly reports to the Governor of Puerto Rico, US Congress and the Puerto Rico legislature on progress of financial position, reforms and deployment of new federal financial assistance
- k. Review quarterly reports by the Government of Puerto Rico on debt restructuring negotiations, proposals from creditors, collective bargaining units, vendors and other stakeholders

The board must have the power to examine and veto annual budgets that are not truly balanced and to monitor budgets vs actual results on real time. It also needs to have the ability to approve capital expenditures that exceed certain thresholds. Finally, all labor contracts for government employees must be subject to review and approval by the board.

If expenses, collections or financial goals are not met and/or reporting is not complied with, or restructuring plans are not executed on a timely basis, the board would automatically transition into a control period that would include all of the responsibilities under the Oversight Phase and the following additional responsibilities:

Control Phase:

- a. Direct and enforce budget cuts, financial standards and reporting requirements
- b. Reorganize and consolidate executive departments, municipalities and public corporations
- c. Eliminate or modify existing taxes that undermine economic development
- d. Levy new taxes and fees and impose reforms deemed necessary to promote economic growth and fiscal stability
- e. All orders during the control period must be legally binding; venue for legal challenges must be the US District Court

ii. A debt restructuring mechanism that would promote consensual negotiations and agreements as pre-conditions to authorize eligible municipalities and instrumentalities to reorganize under Chapter 9 of the US Bankruptcy Code

- a. Amend US Bankruptcy Code to allow Puerto Rico to be treated as a state for debt-related purposes, returning to pre-1984 US Bankruptcy Code treatment
- b. Encourage the negotiation of good faith concessions by creditors that are not eligible for restructuring under any existing legal framework (Constitutional debt or otherwise secured and solvent credits) in order to achieve near-term debt service relief and obtain short term gap financing and CAPEX financing
- c. Restrict the ability of eligible issuers to access Chapter 9 through a neutral mediator, using California Assembly Bill 506, Chapter 675 of October 9, 2011 as framework. A professional, independent, neutral mediator could facilitate negotiations among issuers and creditors, labor unions, vendors, suppliers and other stakeholders
- d. In the event mediation process is not successful, establish a proven and trusted legal framework for the restructuring of all non-Constitutional, insolvent issuers)

iii. Economic stimulus measures. In addition to strict fiscal discipline and cost cutting, a meaningful economic stimulus strategy must be put in place in order to steer our economy towards sustainable growth.

- a. Fair and just treatment under federal health programs (Medicare, Medicaid, ACA) would improve the government's fiscal situation by reducing recurring central government deficits
- b. Extend the federal Earned Income Tax Credit (EITC) to Puerto Rico
- c. Exempting Puerto Rico from the "US built" requirement of the Jones Act while maintaining the US flag and crew requirements to protect jobs and coastal borders
- d. Improve treatment of Puerto Rico in other assistance programs such as Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF) and Child Tax Credit
- e. Temporary relief on excessive regulatory examinations and reporting requirements by regulatory authorities over Puerto Rico banks, including residential mortgage regulations
- f. Provide technical support to the government of Puerto Rico for the development and implementation of a modern and effective technological infrastructure through the US Digital Service that will improve the ease of doing business in Puerto Rico

Mr. Chairman, upon reviewing testimonies in prior congressional hearings on Puerto Rico, it dawned on me that we seem to forget we all are and have been responsible parties to the problems we face today. Everyone blames politicians, politicians blame each other, and those doing the blaming forget they were part of the problem too. We are all accountable for our actions and

inactions -- the 3.5 million US citizens who call Puerto Rico home, the US Congress, the White House, bondholders and all stakeholders -- and we should all take part in together moving forward.

Our failure to execute, compromise and live within our means has left no other choice - Puerto Rico needs a fiscal oversight and control board alongside a debt restructuring mechanism that incentivizes consensual negotiations and provides access to Chapter 9 of the US Bankruptcy Code for its municipalities and public corporations. However, the importance of allowing us, the US citizens who call Puerto Rico home, to be part of this process can't be overstated. You don't fix someone's mistake by fixing it for them, but rather by fixing it with them. We must work together to guide Puerto Rico into prosperity once again.

Thank you.

**Attachments to
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1. "How the Government of Puerto Rico Can Deliver Financial Statements in Real Time" by Giancarlo González, former Chief Information Officer of the Government of Puerto Rico (2013-2015)
2. "Puerto Rico Banking Industry Trends and Benchmarking with United States National Trends: 10-Year Review (2006-2015), prepared by Vision to Action

Giancarlo Gonzalez

Tales on tech, disruption, government, growth and endless possibilities...



How the Government of Puerto Rico can deliver financial statements in “real time”

There is a popular saying in Silicon Valley: there are developers whose work has an impact ten times (10x) greater than that of an ordinary programmer. If we want to fix the Puerto Rico Fiscal Crisis, we need a 10x quality technology team. Consider composition of a champion basketball team, the Golden State Warriors:

- 1 “alpha dog” – Stephen Curry
- 2-3 “all-stars” – Klay Thompson, Green Dreymond
- 3-5 “role players” – Andre Iguodala, Andrew Bogut, Shaun Livingston



Tim O'Reilly references how sports teach us the extraordinary impact that a superstar can have on the success of a team. To be successful in sports and in business requires a team of people who can work together to achieve extraordinary results.

Such an effort demands a team of people who can work together, and who are superstars in technology and in application development. Just as Michael Jordan enables greatness in his team, a subject matter expert of superb skill provides an environment in which his/her people can produce their best work—be it someone who works in finance or someone in sales or operations. Success breeds success no matter the field.

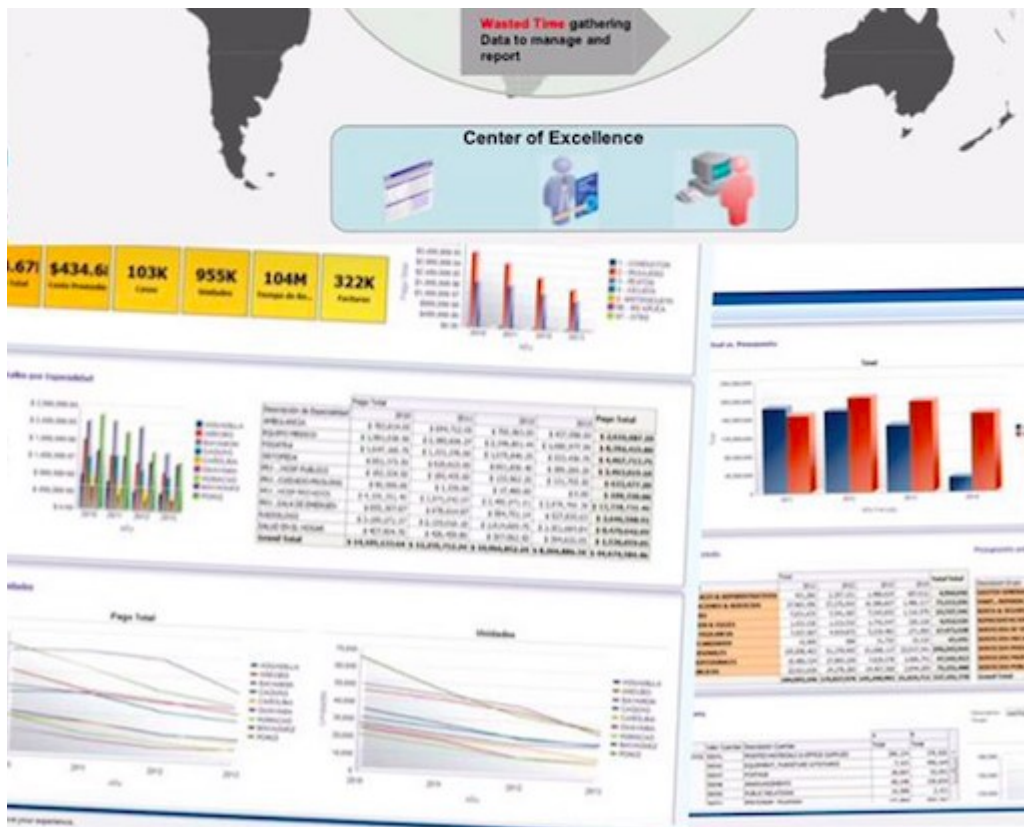
In this article, I will point out some of the challenges a PR fiscal control board would face.

Did you know that there is a pilot project via which one could see the financial statements for CRIM, ACAA, Public Works and UPR?

Although not finalized, if the internal processes of each corporation are working correctly and capturing the necessary data, the application does work. We were able to do it because there was a team of technical “all stars” who took on the problem.

This screenshot is based on the idea of creating a “center of excellence” for financial services. It uses images from the pilot application to give a idea of what a dashboard might look like.





How did the project come about?

In September 2013 the Office of the Chief of Information (OPEI) initiated a process to review all systems of Oracle E-Business Suite (EBS) that were installed in public corporations. Thanks to consulting time that had been included in 2013’s contract renewal, for the first time we had the necessary resources to evaluate and understand the state of the agencies’s then-present systems. As such we could finally visualize how help solve problems effectively and centrally.

The initial work took place from September 2013 to December 2013, and included visiting a total of 16 public corporations that use Oracle EBS. The team of software engineers assigned to the project were of the highest caliber that Oracle had to offer, with no margin allowed for failure—what I call “the best for the job, period.” This group worked with the agencies primarily to gather information, but in some cases were able to immediately stabilize existing problems their analysis had revealed.

Problems we encountered included:

- **Misunderstanding of the business task/problem/function**
- **Incorrectly implemented customizations**
- **Instances where the system did not perform as expected**

These issues existed in ALL the agencies. This table lists the issues faced by every single public corporation:

Hallazgos Funcionales	ADEA	ACAA	DTOP ACT	AEP	CTOUR	CPN	PRPA	CRIM	AT	UPR
Desconocimiento a nivel funcional de los módulos y sus procesos	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
NO Todos los módulos implementados inicialmente funcionan en la implementada a hoy	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
La configuración existente NO es correcta y no se puede usar el módulo	✗	✗	✗	✗	✗	✗	✗	✗	✗	
Existen problemas funcionales por desconocimiento	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Existen problemas por situaciones técnicos	✗		✗			✗				
Existen problemas porque funcionalmente no hace lo esperado	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Se requiere consultoría puntual por módulo y flujo de proceso	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Se requiere ajustar aplicación para requerimientos legales y tributarios	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Existen customizaciones en Oracle eBS NO correctamente construidas	✗	✗	✗	✗	✗	✗			✗	
NO Hay documentación bajo metodología Oracle (OUM / AIM)	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗

In February 2014, shortly after completing this analysis, an article about the alleged waste of millions of dollars was published. The headline reads roughly: “Comptroller signals that millions were ill-spent at UPR on Oracle.”

Contralora señala malgasto millonario en la UPR con tecnología de Oracle (documento)

Por: CyberNews y NotiCel

Publicado: 19/02/2014 11:54 am

Una auditoría que señala inversión millonaria de fondos públicos para la adquisición y la implantación de la aplicación Oracle EBS sin haber logrado los objetivos y otros ocho hallazgos sobre incumplimiento de ley en la Administración Central de la Universidad de Puerto Rico (UPR), fue divulgada el miércoles por la contralora, Yesmín Valdivieso.



El expresidente de la UPR, Antonio García Padilla, el actual presidente Urayoán Walker, y el gobernador Alejandro García Padilla. (Josian Bruno/NotiCel)

Here is what I thought when I saw the article in CyberNews/Noticel:

- It could equally apply to the other 15 entities in which we had recently done requirements gathering.
- The fault for the “ill-spent funds” was not 100% on Oracle (though Oracle does have other issues)

There must be a way to prevent something similar’s happening at the other 15 installations, to adopt better practices.

So how do we solve it?

To do so we have to understand first why it happens. I’ll explain what I mean in a simple chronological example:

- **2006:** Agency X buys Oracle E-Business Suite (EBS) and hires consulting Company A to handle the installation and to provide support. Things go well with the contractor. Customizations are made to the system to suit Agency X’s processes.
- **2008:** There is a change of political leadership. Agency X does not renew Consultant A’s contract. Instead, the new lawmakers and lobbyists take steps to ensure Company B receives the contract.
- **2009:** Without understanding the customizations made by Consultant A, Consultant B recommends upgrading to the new version of Oracle EBS. Only once the upgrade has happened—and cannot be reversed—does it become clear that the customizations made previously are not compatible with the upgraded version.
- **2010:** One year after the “upgrade” the system still does not work as needed. Consultant B is unable to resolve the problems, and so begins to use the government’s separately contracted Oracle support allotment. These “expert consultants” are literally being paid to call Oracle Support—again, paid for separately by the government—to see if Oracle can solve the problem. Eventually the consultants exhaust the prepaid Oracle support hours, as well as their own hours, and more have to be purchased.
- **2011:** The system does not function well. In light of that fact, employees resolve business issues another way. E.g., they fall back on Excel or other side-processes where Oracle EBS should be working.
- **2013:** Political administration changes again. New administration dismisses Company B. Company A wants back in the game. It takes a year to decide whether to go with Company A ... or perhaps Company C (which very well

be someone from Company B who has repositioned himself and so now appears as Company C).

Meanwhile, the truth of the matter is that the software isn't performing well, and what you're really paying for is to put out fires while trying to figure out what's actually wrong.

This is what happens in every public corporation in Government and it is the reason why fiscal information is not available in real time for Puerto Rico.

If the government identified and recruited **“the best for the job, period”** they could stabilize and correct the issues with minimal fuss. In the case of the financial reporting for the public corporations, the fastest and most efficient is an Oracle team—Oracle employees—working off a joint plan, on a centralized infrastructure for financial systems. This implies eliminating contracts to third-party “partners” unless it is absolutely necessary. Such a centralized infrastructure setup—Hacienda and DDEC have the resources—would significantly reduce equipment costs, energy, administration, support, training and development. Estimated savings by consolidating systems is between \$7-10 million over five years.

I urge all government leaders to pay attention to what the President Obama has done in recruiting technology talent in the United States Digital Service. You can see more detail about it [here](#). We need a public policy—supported in law—that will allow the unit head to hire the best person for the job, thus allowing for ‘agile’ development of products and services.

I never had the necessary legal powers to go to public corporations and force them to work with my office. I did have the power to go to each to help them solve a problem. When you have something positive to offer, people are willing to work closely. Our collaborations with specific public corporations (ACAA, CRIM, UPR and AEP) went very well. Even lacking a law that required cooperation, we could have kept going to all remaining public corps and solved the financial reporting problems, but we simply didn't have the resources to do so.

Bottom line: If you can identify and solve problems, and have good relationship with agency leadership, doors will open and things will get done. It's that simple.

I am sharing this story because, frankly, Puerto Rican citizens need to know why the financial systems (and other problems) are not resolved and should demand that those problems be addressed in the most effective manner while being as cost efficient as possible.

Our biggest weakness would be to surrender when facing a significant problem. The surest way to stand out is to try again one more time. We need our candidates for government to present initiatives and structures that encourage recruiting “the best for the job, period”. **That was the idea of PR Senate bill 614.** It is what President Obama did with the United States Digital Service, and we should follow the example.



📅 November 16, 2015 👤 giangonz 📁 CIO, Puerto Rico 🔖 Debt, Fiscal Crisis, Gobierno, Puerto Rico



Puerto Rico Banking Industry Trends

10-Year Review (2006-2015)

February 23, 2015

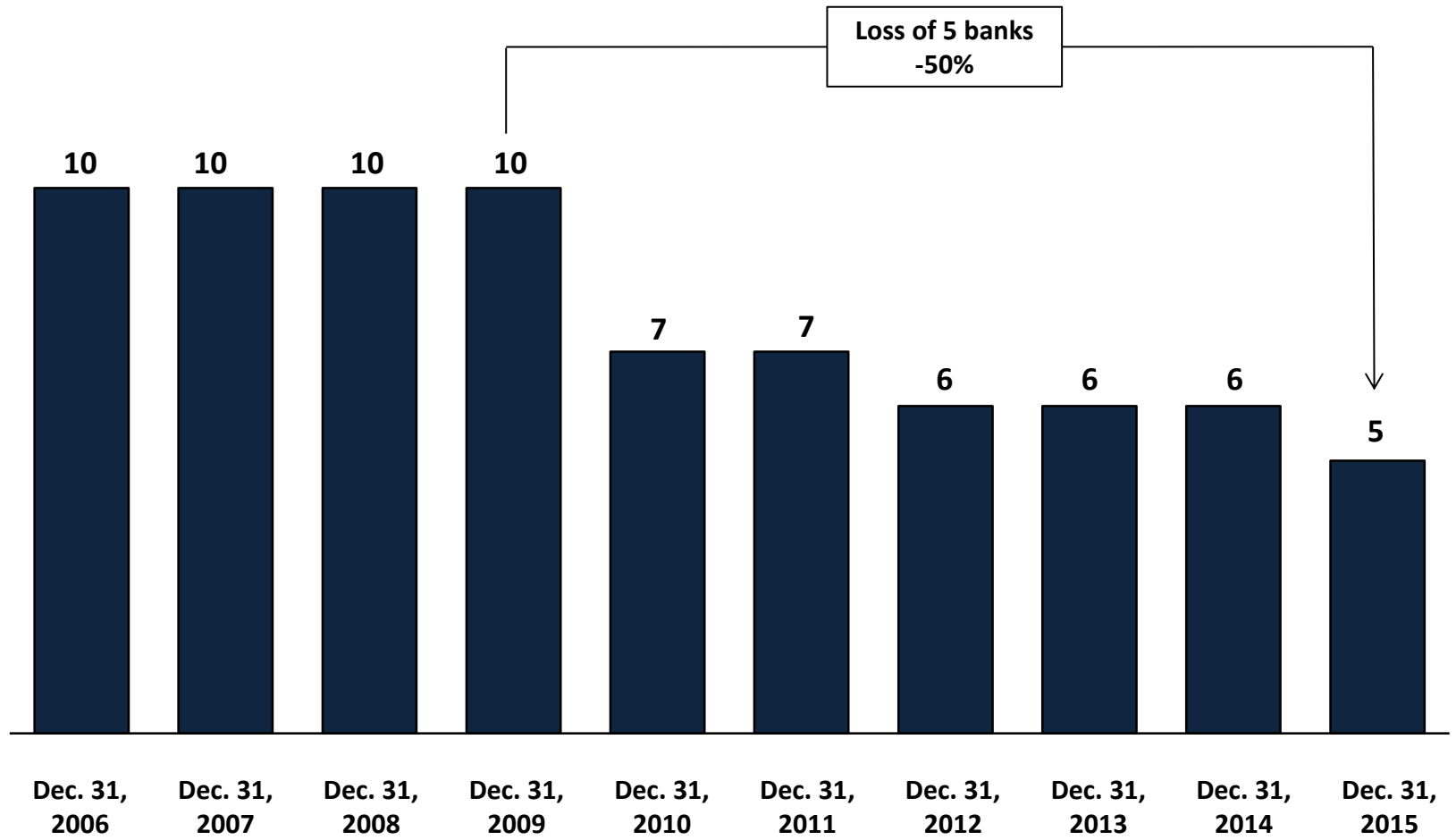
- **General Banking Sector Indicators**
 - Number of Commercial Banking Institutions
 - Number of Deposits Branches
 - Total Employees (FTE)
- **Financial Condition Indicators**
 - Total Assets
 - Total Deposits
 - Domestic Deposits to Total Assets
 - Net Loans and Leases
- **Performance Indicators**
 - Return on Equity (ROE)
 - Net Charge Offs (NCO)
 - NCO to Loans and Leases: PR vs. US
 - Mortgage Originations
- **Capital Adequacy Indicators**
 - Total Equity Capital
 - Tier 1 Risk-Based Capital Ratio
 - Tier 1 Risk-Based Capital Ratio: PR vs. US

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The economic and financial crisis of Puerto Rico has materially transformed its banking landscape, reducing the number of banks by 50%



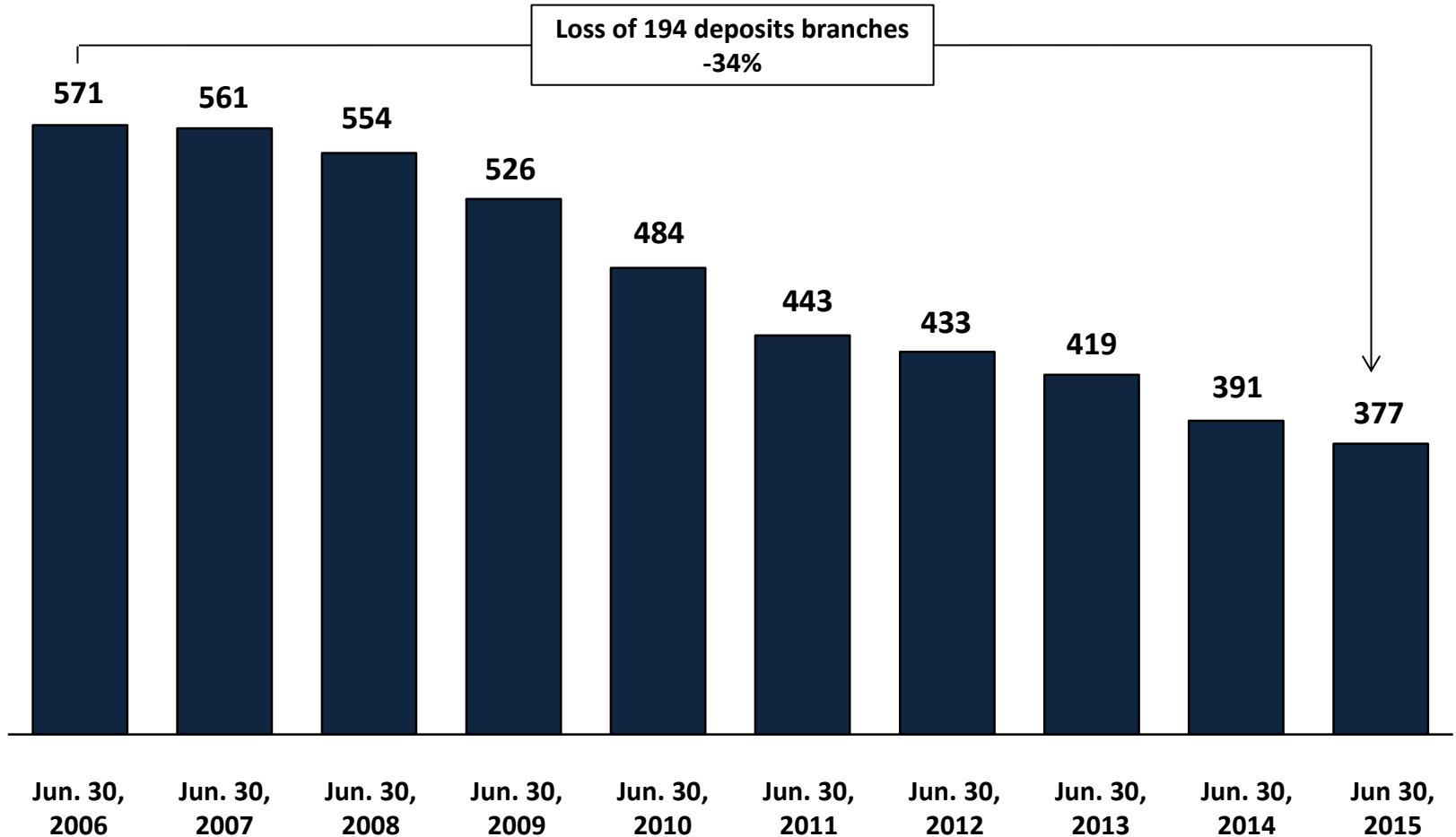
Number of Commercial Banking Institutions in Puerto Rico



Source: Federal Deposit Insurance Corporation (FDIC) - Statistics on Depository Institutions Report
Notes: "22 commercial banks were operating in Puerto Rico in 1995. By 2004, mergers and acquisitions had reduced the number to 14" (Collins and Bosworth, 2006).

The number of deposits branches has decreased by 194 (-34%) during the last 10 years

Number of Deposits Branches*



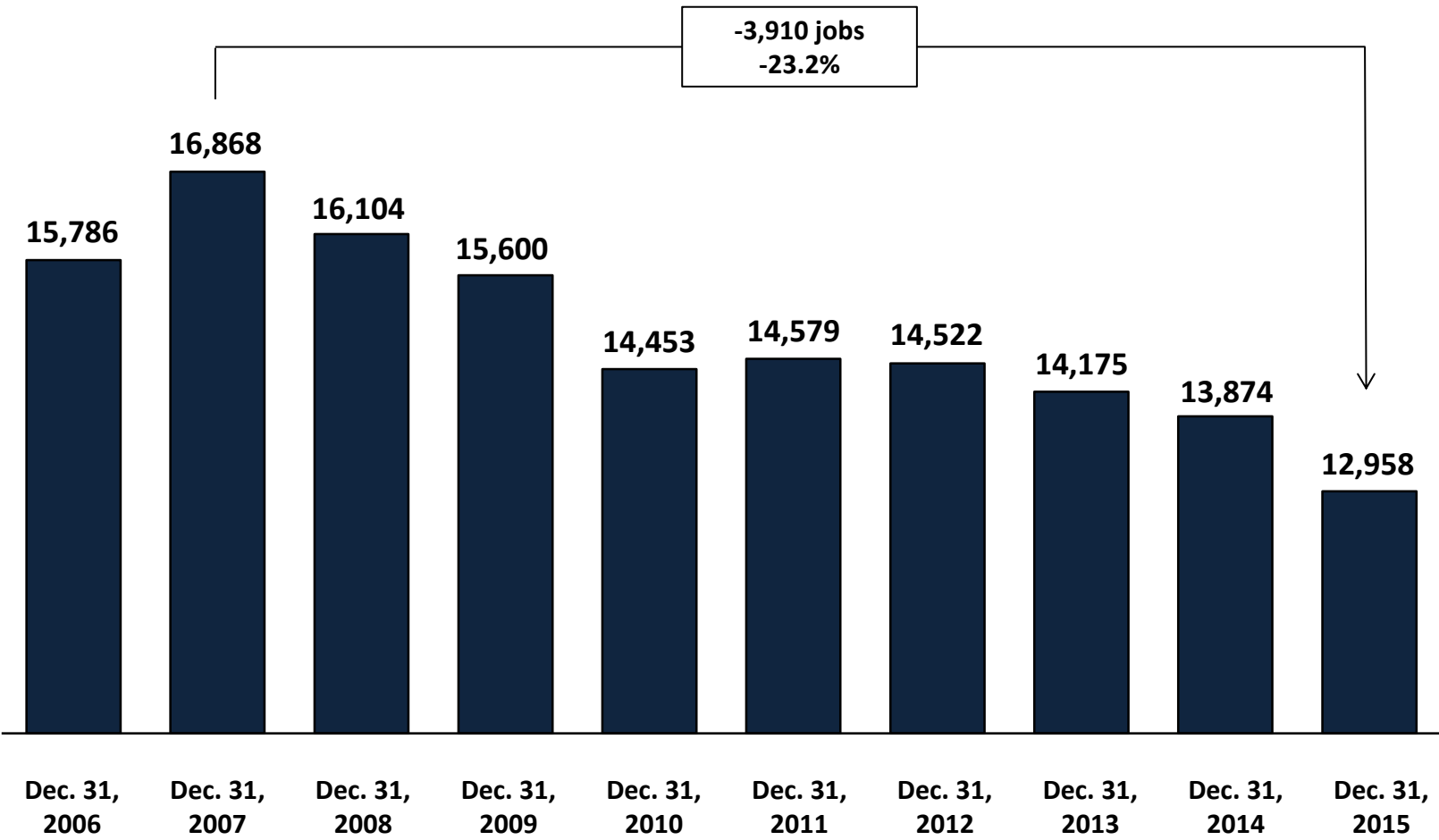
Source: FDIC – Summary of Deposits Report. Branch office data is provided as of June 30 of each year.

Note: *All service types included.

The labor force in the banking sector has decreased by 23.2% (-3,910 jobs) when compared to peak levels reached in 2007



Total Employees in Puerto Rico's Banking Sector (Full-Time Equivalent)

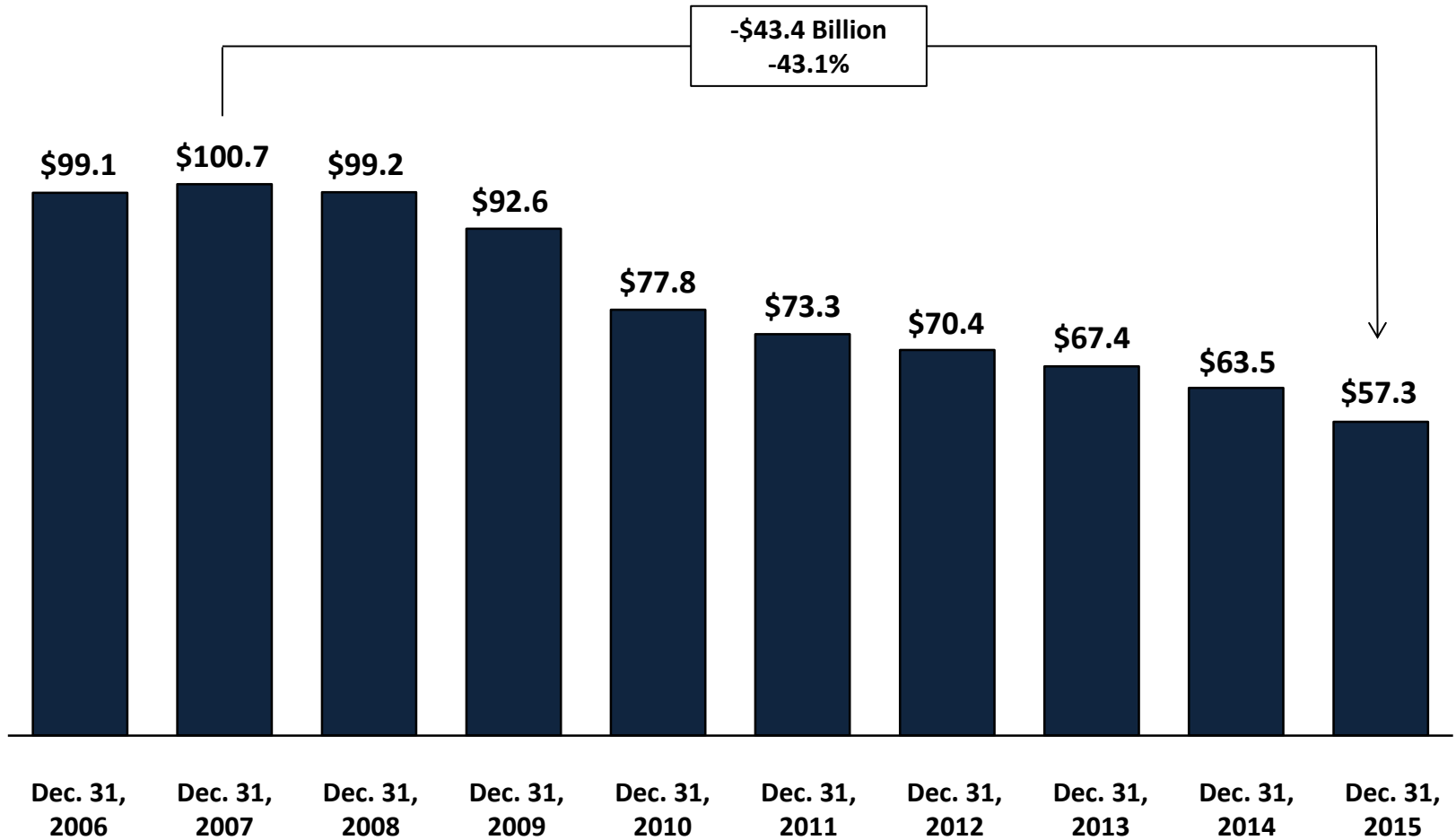


Source: 2006 - 2014: FDIC - Statistics on Depository Institutions Report; 2015: FDIC "Call Reports"
Notes: From Dec. 2007 to Dec. 2015, a total of 187,000 jobs were lost (Total Employment - Household Survey).

- **General Banking Sector Indicators**
 - Number of Commercial Banking Institutions
 - Number of Deposits Branches
 - Total Employees (FTE)
- **Financial Condition Indicators**
 - Total Assets
 - Total Deposits
 - Domestic Deposits to Total Assets
 - Net Loans and Leases
- **Performance Indicators**
 - Return on Equity (ROE)
 - Net Charge Offs (NCO)
 - NCO to Loans and Leases: PR vs. US
 - Mortgage Originations
- **Capital Adequacy Indicators**
 - Total Equity Capital
 - Tier 1 Risk-Based Capital Ratio
 - Tier 1 Risk-Based Capital Ratio: PR vs. US

The downward trend in total assets has continued unabated since 2007, reducing banking assets by \$43.4 billion (-43.1%)

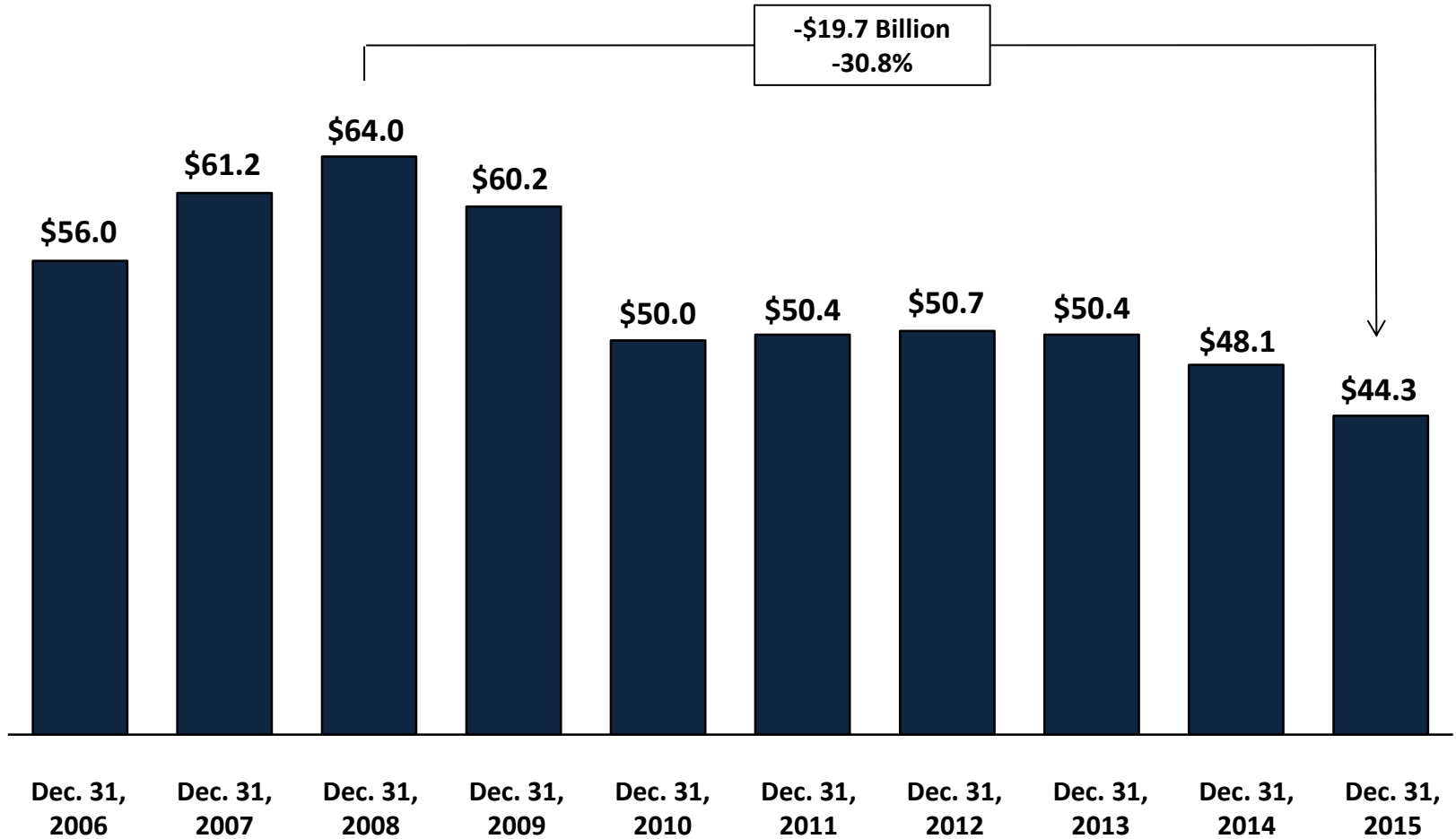
Total Assets (\$US Billions)



Source: 2006 - 2014: FDIC - Statistics on Depository Institutions Report; 2015: FDIC "Call Reports"

Total deposits have experienced a \$19.7 billion (-30.8%) drop since 2008

Total Deposits (\$US Billions)

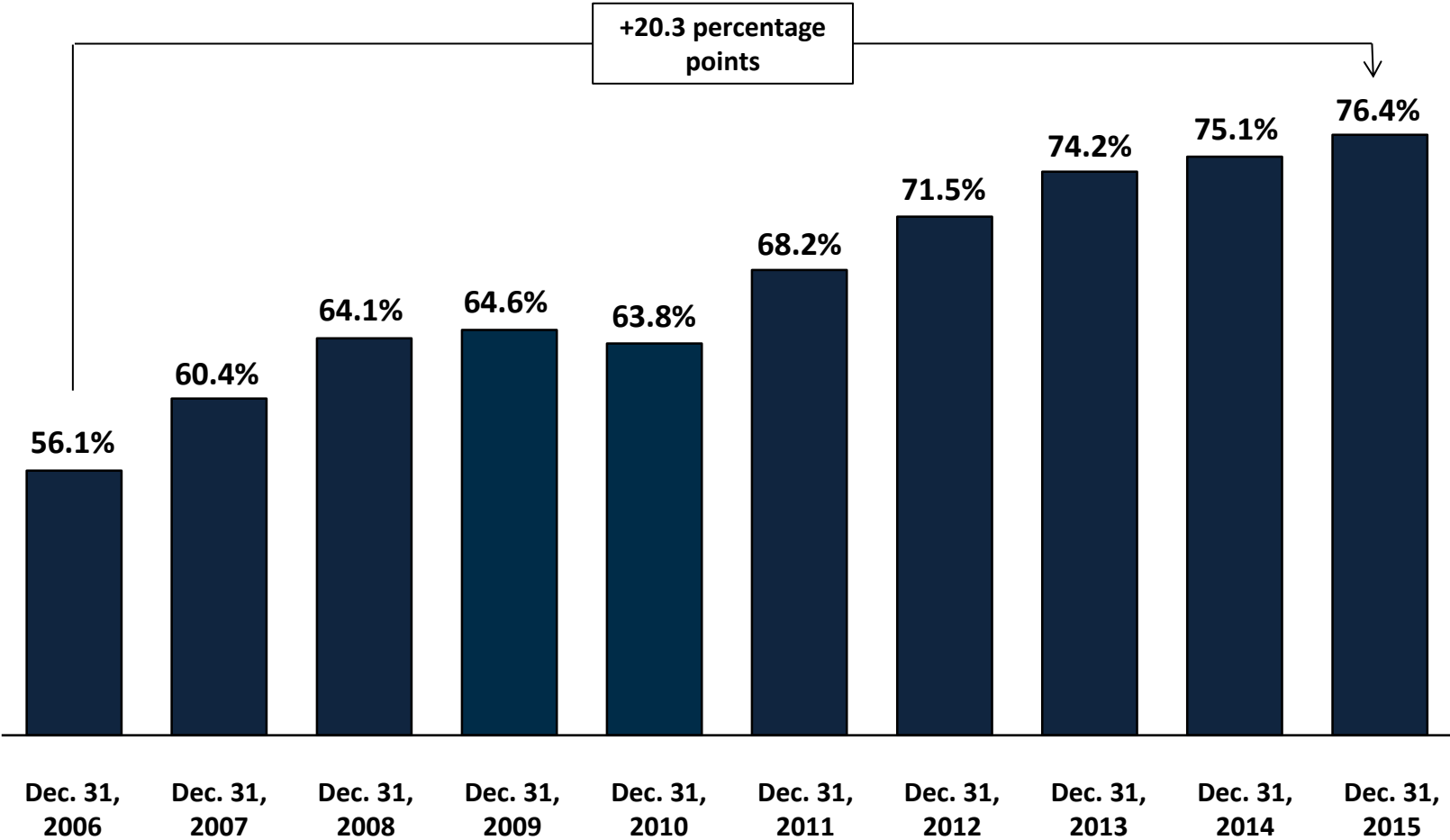


Source: 2006 - 2014: FDIC - Statistics on Depository Institutions Report; 2015: FDIC "Call Reports"

Domestic deposits to total assets have increased by 20.3 percentage points during the time period under study



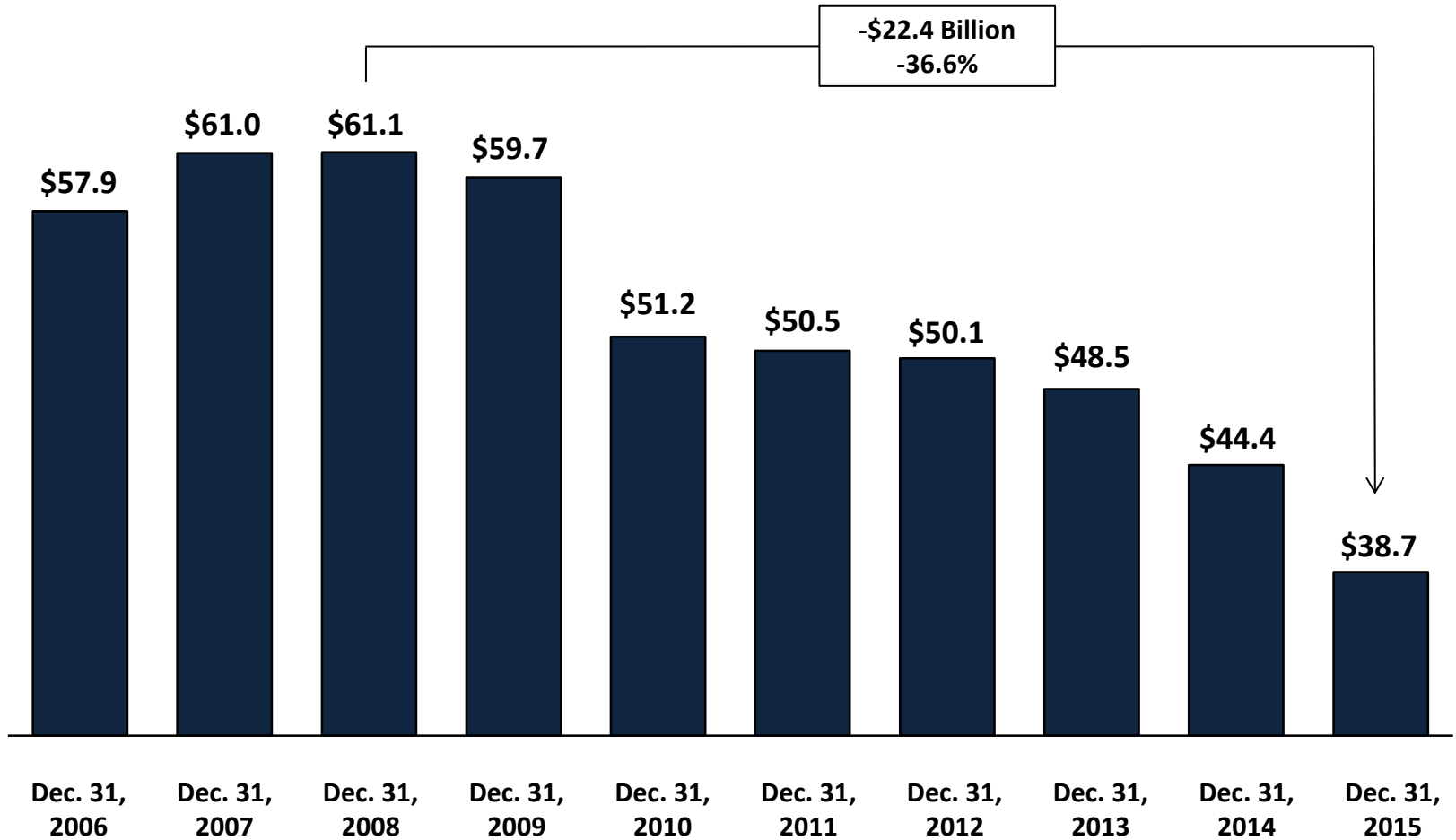
Domestic Deposits to Total Assets (%)



Source: 2006 - 2014: FDIC - Statistics on Depository Institutions Report; 2015: FDIC "Call Reports"

Total Net Loans and Leases have decreased by 37% or 22.4 billion

Total Net Loans and Leases (\$US Billions)



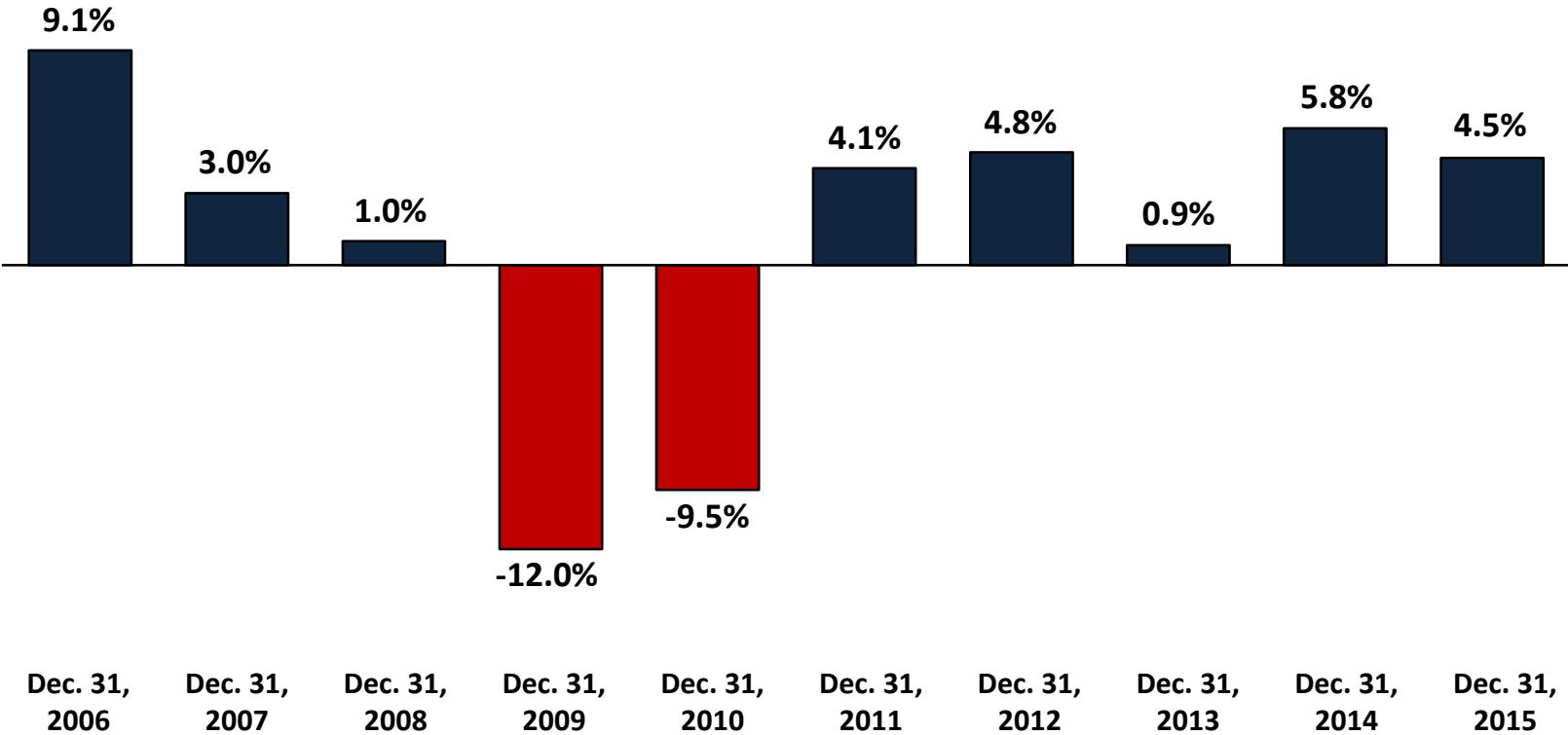
Source: 2006 - 2014: FDIC - Statistics on Depository Institutions Report; 2015: FDIC "Call Reports"

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Profitability of the banking industry is out of the red, but remains well-below the profitability levels reached prior to the economic downturn



Return on Equity (ROE) (%)

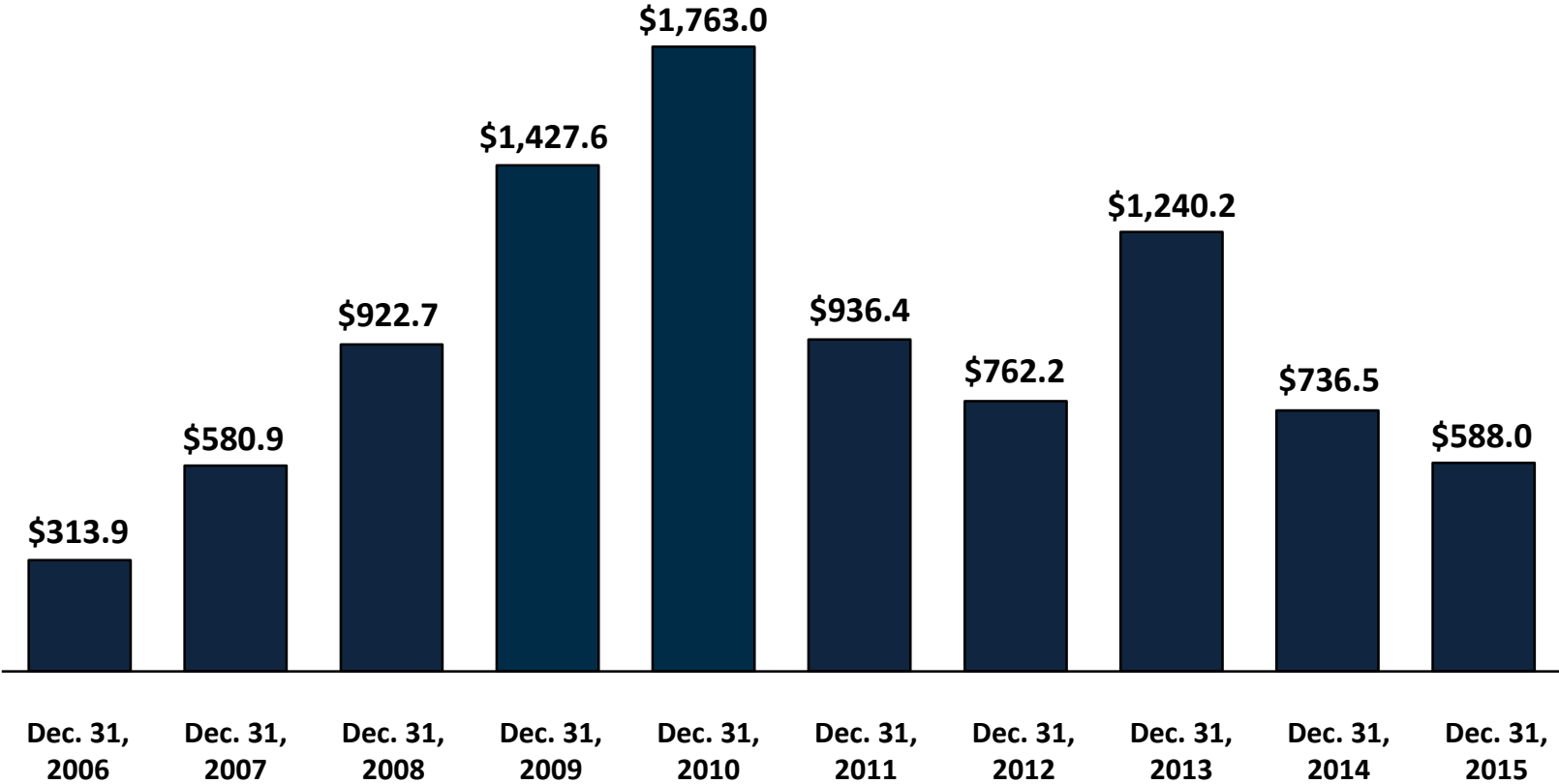


Source: 2006 - 2014: FDIC - Statistics on Depository Institutions Report; 2015: FDIC "Call Reports"

Banking Industry has charged-offs (net) over \$9.2 billion from loans & leases during this past decade



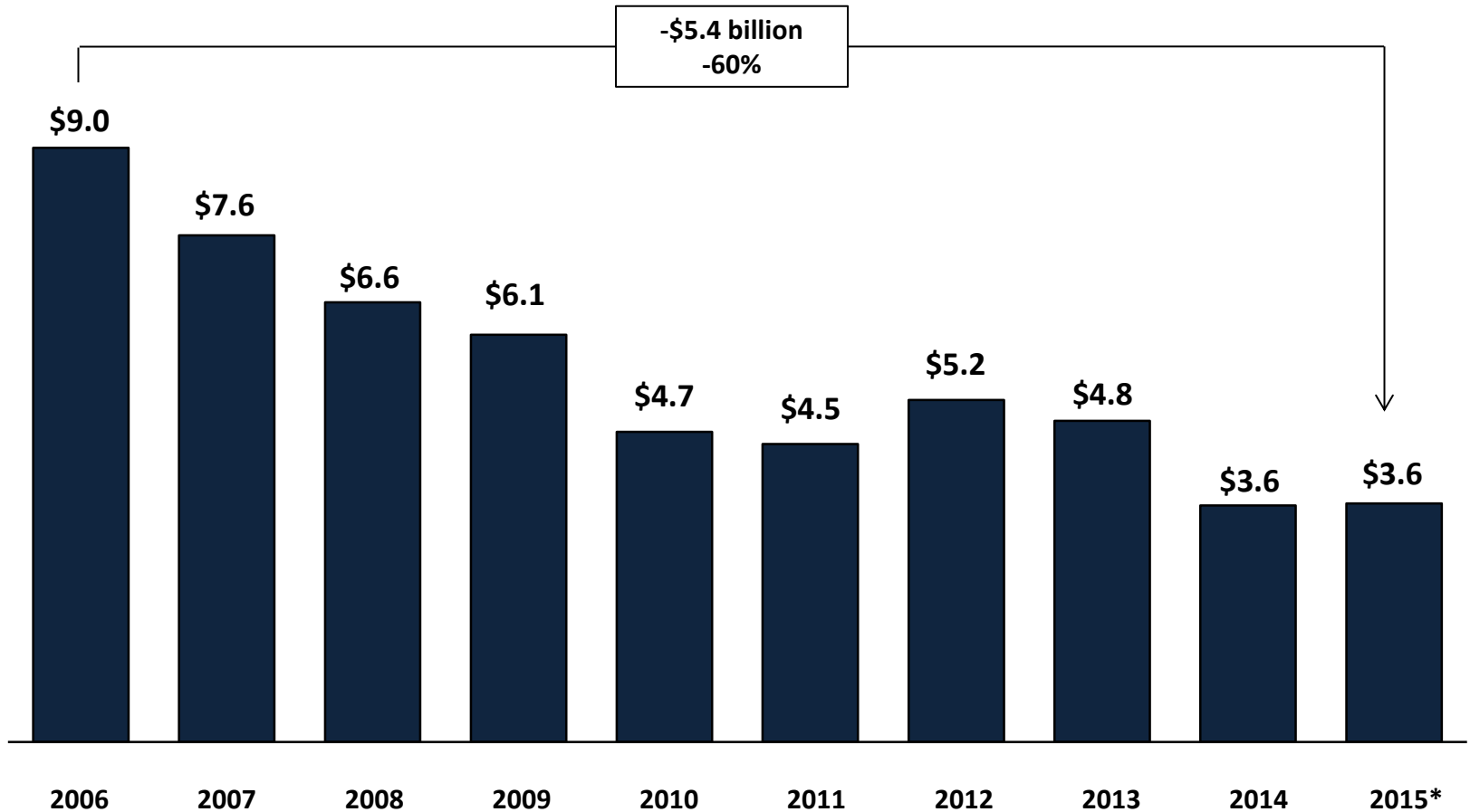
Net Charge-Offs (\$US Millions)



Source: 2006 - 2014: FDIC - Statistics on Depository Institutions Report; 2015: FDIC "Call Reports"

Mortgage originations experienced a dramatic reduction of 60% or \$5.4 billion

Mortgage Originations of Commercial Banks and Nondepository Institutions (\$US Billions)



Source: The Office of the Commissioner of Financial Institutions of Puerto Rico - in Spanish: Oficina del Comisionado de Instituciones Financieras (OCIF)

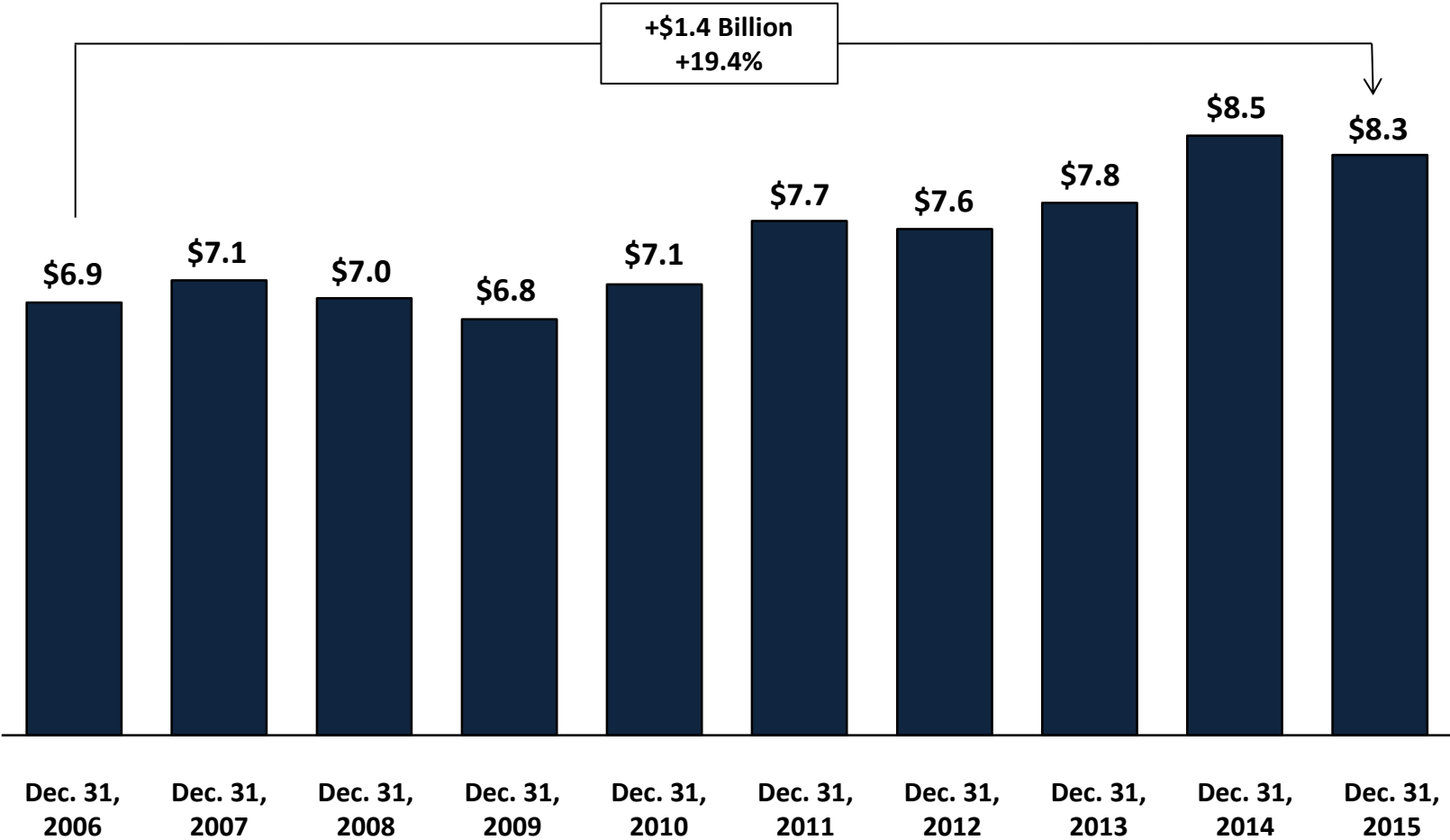
Notes: * Q1 2015 to Q3 2015 annualized.

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Capital levels have been steadily increasing, spurred by stricter capital requirements under Dodd-Frank regulatory changes



Total Equity Capital (\$US Billions)

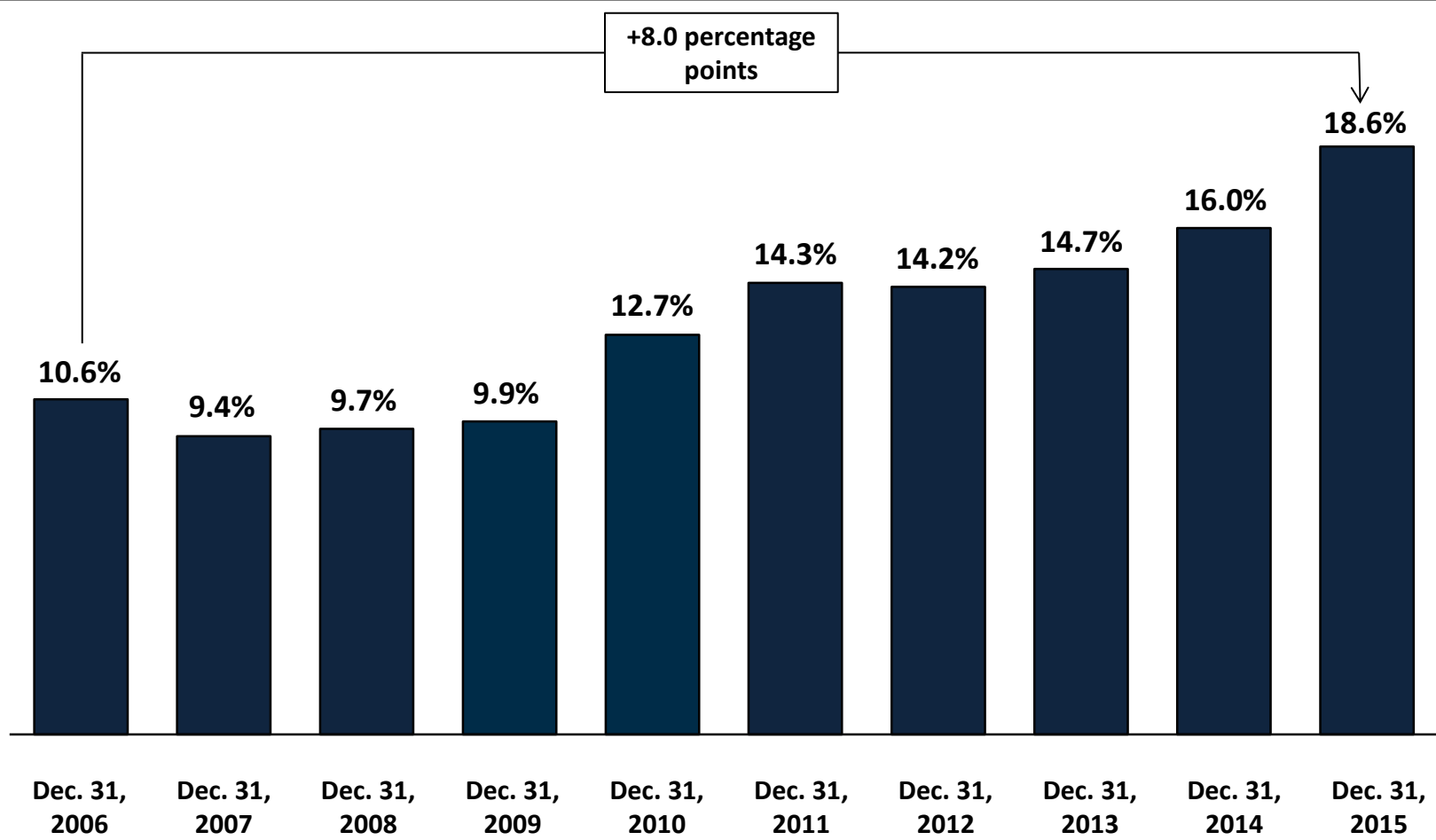


Source: 2006 - 2014: FDIC - Statistics on Depository Institutions Report; 2015: FDIC "Call Reports"

Robust capital base provides banks operating in Puerto Rico with the necessary capacity to absorb the potential materialization of downside risks in the economy and in the government's financial situation



Tier 1 Risk-Based Capital Ratio (%)



Source: 2006 - 2014: FDIC - Statistics on Depository Institutions Report; 2015: FDIC "Call Reports"

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