

The Spanish Savings Bank Crisis: History, Causes and Responses

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Working Paper

Working Paper Series WP13-003

Submitted in: July 2013

Accepted in: September 2013

Published in: September 2013



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Recommended citation:

CARDENAS, Amalia (2013). "The Spanish Savings Bank Crisis: History, Causes and Responses" [online working paper]. (Working Paper Series; WP13-003). IN3 Working Paper Series. IN3 (UOC). [Accessed: dd/mm/yy].

<<<http://in3wps.uoc.edu/ojs/index.php/in3-working-paper-series/article/view/n13-cardenas/n13-cardenas>>>

Abstract

This article reviews the reasons behind the crisis in the Spanish saving banks system ('cajas') and discusses the responses taken by the Spanish government to handle the crisis. I argue that the origins of the crisis have to be traced back at the liberalization of the cajas sector and the period of aggressive geographical and commercial expansion of the cajas that ensued. In a period of cheap credit due to Spain's entrance in the Euro, many cajas became financial facilitators of the housing bubble. Whether this was due to professional ineptitude of the politically controlled cajas, poor judgment of risks, or mere corruption and capture by construction interests, is a matter of further analysis.

What is clear is that the social cost of the implosion of the system is high, especially in terms of house foreclosures and evictions. The government's strategy for mergers and acquisitions of problematic cajas is of questionable efficacy as it might be creating new units too big to fail.

Keywords

Crisis; savings banks; cajas; housing foreclosures.

1. Introduction

This working paper reviews and discusses the evolution of the Spanish banking crisis, with an emphasis on the role of the savings banks (“Cajas”). We evaluate the state of the knowledge concerning the reasons why the Spanish banking system imploded, and link this implosion to political factors and the real-estate sector. Section 2 positions the banking crisis within the context of the Spanish and the Euro crisis. Section 3 gives a brief history of the Spanish saving banks system and section 4 traces the origins of the problem to the liberalization of the savings banks and their linkages with the political system. Section 5 shifts to links with the private sector and shows how the bad practices of the savings banks were related to the real estate development sector. Section 6 shows the real-world impacts of the implosion of the savings banks and the real estate sector, by looking at the collapse of the mortgage market and the evictions, following social reactions and adaptations by the banks. Section 7 describes and assesses the restructuring process and the new regulations developed by the Spanish government to improve the sector. Finally section 8 uses the case of Bankia as an example of both the causes and the responses to the crisis. Section 9 concludes.

2. The context of the crisis

Spain’s current crisis is an example of how the Euro zone problem is not merely a problem of over-borrowing by governments that lacked fiscal discipline. Italy, Greece and Portugal may have all over-borrowed, but up until 2008 and when the crisis hit, the Spanish government had kept its borrowing

under control. Complying with the strict requirements mandated by the Maastricht Treaty, by 2005 Spain was keeping government spending under control and was even reporting budget surpluses. Whereas the government resisted the temptation of cheap credit, when Spain entered the Euro, many of its citizens and businesses did not. As a result of the low long-term interest rates that Spain faced due to the entry to the Euro, many businesses and individuals took on more debt than they could afford given the low cost of private credit.

A year before the outbreak of the subprime mortgage crisis in the United States, Spain had begun to feel the exhaustion of long phase of disproportionate expansion and growth and experienced a loss in competitiveness. The outbreak of the international crisis coupled with the domestic one, caused output to fall in Spain. Public revenue dwindled and coupled with an increase in government spending to ease the effects of the recession, the budget surpluses that were achieved from 2005 to 2007 turned into deficits that began to surpass 11% of GDP by 2009. In April of 2010, Spain was hit by a third crisis, the sovereign debt crisis also known as the Euro crisis, which soared interest rates for public borrowing and made the public debt less and less sustainable (Ordoñez, 2012). Whereas Spain did not have a high public deficit, it was the rising benefit of savings banks, guaranteed in the last instance by the Spanish State, that made the markets fear Spanish bonds and raised the interest rates of borrowing. The halt of growth and the collapse of the real estate market revealed a monumental, previously unrealized, scale of over-lending by Spain's savings banks in projects and loans with little likelihood of repayment. Suddenly Spain found itself in midst of a private debt crisis of the banking sector that become a public debt crisis, and through austerity policies and cuts in public expenditures, affected every facet of life in Spain. To understand the roots of the Spanish economic crisis, one has to understand why the savings banks went broke, and to this issue we now turn.

3. History of the Spanish Savings Banks

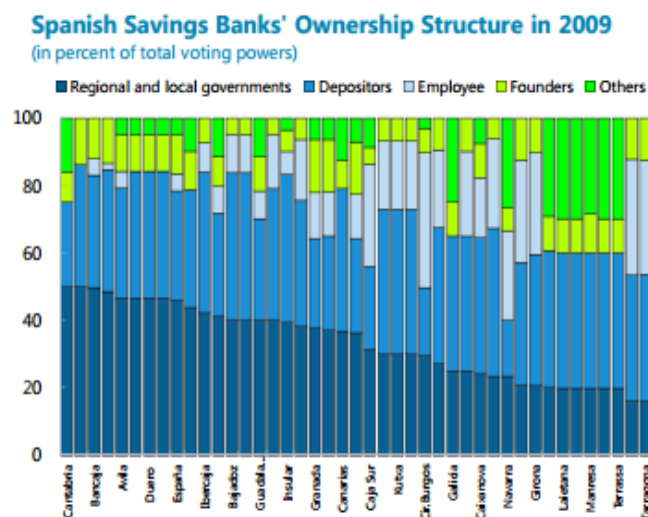
The cajas de ahorros (savings banks)¹ have played a fundamental role in the Spanish banking system. Historically they were linked to charitable institutions, specifically the Montes de Piedad, (“Mount of Mercy”), which originated in Italy during the XV century as an initiative by the Franciscans to provide loans without interest to those in dire need. Aragonese priest, Francisco Piquer, founded the “Monte de Piedad de Madrid”, in 1702 (Valverde-Fuertes, 2011). Initially the entity did not charge interest rates for loans but instead borrowers were expected to pawn belongings as a pledge to repay loans. The first significant shift in this model happened in 1836 when interest rates were charged to customers so that economic viability of the entity could be ensured (Nabhan, 2012). One of the first savings bank to open in Spain was the Madrid savings bank that was established in 1838. Thirty-one years later, the “Monte de Piedad de Madrid” and the Madrid savings bank merged into a single entity called the “Caja de Ahorros y Montes de Piedad de Madrid”. Modern day savings banks grew out of this system.

Since savings banks are technically not for profit entities their main objective consisted of channeling people’s savings into investment ventures and also performing social tasks in their respective territories. Unlike traditional commercial banks, whose bottom line is profit maximizing, savings banks did not have shareholders, and were not publically traded entities. In Spain, savings banks have played an important social and cultural role, often times funding more cultural projects than the Spanish government (Burgen, 2012). By law savings banks were expected to pursue a wide array of activities such as promoting savings among the popular classes, thus limiting social exclusion from the financial system. In addition, they were fundamental in providing services with charitable or social character, and providing regional development

¹ The term cajas and savings bank will be used interchangeably.

that the private sector was not able to supply (International Monetary Fund, 2012). In the absence of shareholders, the corporate governance structure of the savings banks differed substantially from those of commercial banks. The governing bodies consisted of a general assembly, a board of directors, and a control committee. The board of directors was broken up into two broad categories: insiders (bank employees, depositors and private funders) and outsiders (which were made up of regional politicians and public founders) (International Monetary Fund, 2012). Figure 1 highlights the ownership structure of the Spanish Savings Banks in 2009. For many of these banks, regional and local governments exercised considerable control over the way the bank was run. In fact for many, a substantial portion of board members are directly appointed by local and regional governments, with direct control and with connections to politicians and and with connections to politicians and political parties.

Figure 1. Spanish Savings Banks' Ownership Structure in 2009



Reproduced from the International Monetary Fund, 2012

4. Liberalization, savings banks and the political system

Historically savings banks have had a strong territorial connection, and up until 1977, when the savings bank sector was liberalized, operations were limited within a specific territory. The guidance and leadership of each entity came from distinguished members of each territory and loans were given to people who had well known reputation for their solvency. Loans therefore, stayed within the community and did not go beyond the territorial boundaries. The limited geography, low interest rates, and strong security for depositors created a successful model for savings banks, and produced thriving profits. In 1951 the Ministries of Finance and Work issued a joint decree mandating that at least 60% of total borrowed funds deposited in the savings banks should be invested in public Spanish funds, and in addition, at least three quarters of these should be invested in floating debt securities or in the consolidated debt of the Spanish state. In return the state would back the entities in times of financial difficulties (Valarde Fuentes, 2012). Thus began the political and institutional connection with the savings banks. A major change to the regional limitations imposed on the savings banks happened in 1975, when a national law extended the geographic limits of banks to the entire province in which each bank's headquarters were located. In addition, banks were allowed to operate in neighboring provinces, and later operations were further extended to the regional level.

In 1988 barriers were completely removed following the wave of liberalization of the savings banks that happened in many European countries in the late 1980s. The removal of barriers after 1988 led to a dramatic nationwide expansion by savings banks. Lluca et al. (2011), found that in the period between 1992-2004 savings banks in Spain increased the number of branches in new territories by more than 300%, while commercial banks had actually

decreased the number of branches by 20% during the same period. In addition, loan growth differed substantially during this period, with savings banks increasing loans to over 500% while commercial banks increased their loans by 300%.

The rapid expansion was also associated with riskier lending practices, as savings banks moved away from historically safer lending practices to more aggressive commercial lending. In a study conducted on over 33.122 firms between 1997 and 2007, Lluenca et al., (2012) find an association between banks that engaged in rapid geographic expansion and a significant increase in risk taking behavior. They found that banks, which rapidly expanded, had higher rates of bankruptcy. As banks expanded into new markets, they had to aggressively pursue clients in order to gain market share. In addition the study finds that the increased risky behavior was more pronounced in entities where regional governments had a stake in the board of directors. Banks with regional governments involved in the board pushed towards expansion into territories where similar political parties were governing. In addition there was a greater push towards lending to real estate and construction companies. Ramoneda (2011) found that the aggressive expansion by the savings bank into new territories ironically destroyed the competitive advantage that they held over larger commercial banks. Unlike larger banks, whose headquarters were located far from individual clients, the territorial connection with customers allowed savings banks to be better connected to the problems and needs of their customer base. This allowed them to engage in relational banking and permitted them to tailor solutions that better fit the needs of their customers.

The connections between political institutions and the savings banks not only led into increased risk taking, but it also had negative impacts on their profits. Cuñat et al, (2010) found that savings banks whose chairman was appointed by a political party had significantly worse loan performance. In addition, they find certain attributes of human capital with negative consequences on profits.

Savings banks whose chairman did not have postgraduate education had significantly worse performance than banks whose chairman had advanced studies. Previous banking experience of the Chairman was also found to have an impact. Banks whose chairman did not have previous banking experience significantly underperformed compared to banks in which the chairman had previous banking experience. Worth highlighting, the study run by Cuñat et al., found that a savings bank run by a chairman with postgraduate studies, previous banking experience, and no previous political appointments was less likely to have a significant part of their lending portfolio in real estate loans. Garcia-Cestona and Surroca (2007) who studied the performance between savings banks controlled mainly by depositors and workers and those controlled by regional authorities found that the former were more likely to focus on profit maximization and universal access to financial services and leading. They also found that those not controlled by regional authorities performed better, as savings banks controlled by regional governments were more likely to focus on regional development rather than focusing merely on profits.

Over the last years the banking profession has become complex requiring specialized expertise. The implications of appointing people ill prepared for handling the complexities of the banking industry was problematic. But how has the mismanagement of the savings banks played out in Spain and what have been the repercussions of the connections between political institutions and the savings banks? Before answering this question, we begin with a brief look at government spending happening at a regional level before exploring the connections between regional governments and the savings banks.

Spain is composed of 17 regional governments, which run and pay for most of the services they provide. This includes education, social services and health care, with the central government in Madrid funding less than 20% of national spending. Collectively the 17 autonomous communities are currently €185.048

million in debt (Morini, 2013). During the booms years, regional governments spent on large infrastructure projects at high costs. One of many scandalous cases involved the creation of toll roads meant to improve traffic circulation. Only two other countries have more toll roads than Spain —The United States and China. Other lavish projects funded included the allocation of public funds to the construction of airports. There are currently more airports in Spain than in other European countries. Spain has 49 airports, in comparison to the UK, which has 33 airports, France has 23, Italy has 31, and Germany has 24. Out of the four countries, Spain is the country with the lowest population. The financing of airports turned out to be a bad use of public money: one airport has already closed and currently 9 more are in the red. A total of €250 million in subsidies from public funds has been paid to airlines so that they can keep services active in airports that are not turning profits (Abadia, 2012). Art and cultural projects also received considerable public funds during the boom years. Galicia's City of Culture, designed by American architect Peter Eisenman, with a total cost of €400 million (four times the amount originally planned) and with projected overhead costs estimated at €200 million is an example of the extravagant projects many regional governments engaged in. The City of Culture is so large it can be seen from space. While the whole building is not yet finished, parts of it finally opened up, ironically in the midst of an economic collapse (Tremlett, 2011). These are a few examples of the building binge experienced throughout the 17 regions in Spain. Stories of lavish spending by politicians abound: in the small town of La Muella, located 23 kilometers from Zaragoza, mayor, María Victoria Pinilla, subsidized vacations for local residents taking them to 11 destinations including Brazil, Mexico, and the Caribbean beaches of Santo Domingo (Tremlett, 2009).

How was such public spending financed? The main mortgage lenders financing the building and spending binge were the country's 45 savings banks. It is estimated that total loans to developers and real-estate entities went from

€33.500 million in 2000 to €318.000 million in 2008, an increase of 850% (Mauldin, 2009). Regional governments, regional cajas and developers established a system of trading favors. Regional governments re-zoned land once worth little and turned it into land ready for urban development. The land was then sold to a developer, who would pay for it using funds from a savings bank, whose board members and chairmen were staffed with local politicians or their friends (López and Rodríguez, 2011). This scheme seemed to make money for everyone: the regional governments, the developers and the cajas. Politically and socially these events were accepted, as an increase in the supply of land available for urbanization meant that in theory housing prices would decrease. In addition the greater access to credit meant that buying property became increasingly easier.

5. Savings banks and the real estate sector

Spain's bet on a growth model dependent on domestic demand and a high reliance on construction and property development have been at the heart of the economic imbalances plaguing the country. The connection between the savings banks and the real-estate sector happened at different levels. The first was that many savings banks became owners of real-estate development firms. During the boom years this was seen as a fast route to richness and as a result many savings banks pursued this route aggressively. A second strategy adopted by the savings banks was the heavy lending to real estate developers. According to a study conducted by Ernst & Young, Spain has one of the largest exposures to non-performing loans with about a €190 billion in troubled loans (Ernst & Young, 2013). In many cases, loans to developers were given with lax credit standards and without requiring developers to place much equity into the venture. A good example of the excessive risk that many entities took on is highlighted by the recent testimony given in front of Parliament by Adolf Tudó, ex president of Catalunya Bank, who found that the risk decisions of Catalunya

Bank were taken by the commercial department of the entity (Saborit, 2013). In most entities around the world, the risk department is separate from the commercial department, precisely so that it can supervise, provide guidelines, and serve as an overseer of risk decisions taken. This is a good illustration that without the right checks and balances implemented within an institution, bad decisions are incentivized. The disproportionate investment in the real-estate sector coupled with the expansion of credit to finance the growth fuelled a bubble that eventually burst leaving an excessive exposure of the banking industry in these sectors.

Carballo-Cruz, 2011 highlight three factors that contributed to the overinvestment in the construction and real estate sector. The first was the monetary policy implemented by the European Central Bank since 2011, which kept interest rates at low levels incentivizing access to cheap credit. The second was fiscal policy promoted by the Spanish government that encouraged ownership rather than rentals and urged the purchase of real-estate assets. Finally, political advantages gained through the implementation of a growth model reliant on the real-estate and construction sector such as: the reduction of unemployment, increased property values, and the creation of tax revenues that benefitted public administrations made it so that there was no political incentive to change the over investment in construction activities.

The rapid expansion in the real-estate and construction sectors paved the way for the outbreak of public sector corruption, particularly at the local and regional levels. Due to the structure of the Spanish legal framework and how urban planning model were developed, the planning decisions were left to town councils and mayors who were responsible for classifying land suitable for urbanization and were responsible for issuing building permits (Villoria et al., 2012). Political parties of all stripes were involved in corruption scandals and many, such as the mayor of La Muella, which we previously mentioned,

enriched themselves through the planning of vast development projects and by funneling money into their political parties (Daley, 2013).

Several cases of fraud and corruption have recently surfaced as the economic crisis has deepened. In June of 2013, *El País* reported that more than 800 corruption cases in Spain have been uncovered and that there has been over 2.000 arrests made in just one decade. In terms of urban corruption, 676 cases were found between 2000 and 2010 (Gómez, 2013). According to information on judicial proceedings, most of the indictments occurred during the construction boom and most cases of corruption were related to issues of land reclassification and construction permits granted by local and regional governments (Villoria et al., 2013). Table 1 highlights entities and people under investigation in financial cases. Among the most notorious awaiting trial are Miguel Blesa, former head of Caja Madrid (now merged into Bankia) and Rodrigo Rato, former Bankia chairman. Blesa, the hand-picked chairman of Caja Madrid (appointed by José María Aznar) was the first banker to be jailed during the economic crisis. He is under investigation for his role in the purchase of City National Bank of Florida and for fraudulent loans granted to Gerardo Díaz Ferrán, who received a total of €34.5 million, equivalent to 88% of the total loans given to all of the Caja Madrid's directors (Madrilonia, 2012). Rato is facing allegations for fraud and for moving forward with Bankia's stock market listing in spite of knowledge that the entity was not on sound financial footing. Bankia is also under investigation for the sale of preferential shares, which have left thousands of investors without savings (Hedgecoe, 2013). Another notorious case that has gained escalating media attention, and was referred to as the worst of the worst by former Bank of Spain Governor Miguel Ángel Fernández Ordóñez is the case of the Caja de Ahorros del Mediterráneo (CAM), which collapsed in 2011 and was sold to Banco Sabadell. It is an emblematic case that demonstrates the triangle between regional governments, savings banks, and developers.

Table1: Financial entities and people under investigation in cases pending prosecution

CCM Juan Pedro Hernández Moltó Ildefonso Ortega	Bankia Agustín González González Alberto Ibáñez González Ángel Acebes Paniagua Ángel Villanueva Pareja Antonio Tirado Jiménez Araceli Mora Enguñados Arturo Fernández Álvarez Carmen Cavero Mestre Estanislao Rodríguez-Ponga Francisco Baquero Noriega Francisco Juan Ros García Francisco Pons Alcoy Francisco Verdú Pons Javier López Madrid Jesús Pedroche Nieto Jorge Gómez Moreno José Antonio Moral Santín José Luis Olivas Martínez José Manuel Fernández Norniella José Manuel Serra Peris José María de la Riva Ámez Jose Rafael García-Fuster Juan Llopart Pérez Juan Manuel Suárez del Toro Luis Blasco Bosqued Mercedes de la Merced Monge Mercedes Rojo-Izquierdo Atilano Soto Rábanos Pedro Bedia Pérez Rafael Ferrando Giner Remigio Pellicer Segarra Ricardo Romero de Tejada y Picatoste Rodrigo Rato	CAJA MADRID Miguel Blesa Carlos Vela Gerardo Díaz Ferrán CAM Roberto López Abad María Dolores Amorós Teófilo Sogorb Vicente Soriano Modesto Crespo Juan Ramón Avilés NCG BANCO Julio Fernández Gayoso José Luis Pego Alonso Gregorio Gorriarán Óscar Rodríguez Estrada Francisco Javier Garcia de Paredes BANCA CÍVICA Antonio Pulido Enrique Goñi Álvaro Arvelo José Maria Leal José Antonio Asiaín Marcos Contreras Manrique Jesús Alberto Pascual Juan Dehesa José María Achirica Lázaro Cepas Amancio López Seijas Rafael Cortes Elviara Marta de la Cuesta Ángel Corcóstequi Guraya Pedro Pérez Fernández
CAIXA PENEDÈS Ricard Pagès Manuel Troyano Santiago José Abella Juan Caellas		
CAN Case under investigation in Pamplona that could be moved to the High Court Enrique Goñi Miguel Sanz		
BANCO DE VALENCIA Seven more lawsuits against ex managers of Banco de Valencia are pending Domingo Parra Eugenio Calabuig Apabankval lawsuit approved in Valencia. It is waiting to move to the high courts. Antonio Tirado Celestino Aznar Agnes Noguera Manuel Olmos Montepio Loreto Pedro Muñoz Silvestre Segarra José Segura Almodóvar Juan Antonio Girona José Luis Quesada María Dolores Boluda María Irene Girona Federico Michavila Miguel Monferrer		

Source: Reproduced from Expansion, 2013. Financieros en el punto de mira judicial. [online] Available at: http://www.expansion.com/muestra_foto_grande.html?foto=/imagenes/2013/03/18/empresasbanca/1363611866_g_0.jpg&alto=780&ancho=850&md5=2d2f6c54886ea7a5e1cf3e8e304f6fc0

Francisco Camps, a member of Valencia's Popular Party, and then regional president of Valencia, handpicked a car dealer by the name of Modesto Crespo to be the president of the local savings bank, CAM. Crespo later helped finance many of the region's pet projects including a theme park, a mega movie studio, a harbor for luxury yachts, a Sydney-style opera house, the biggest aquarium in Europe, a futuristic science museum, and an airport that has yet to welcome its first arrival (Carvajal, 2012). An investigation by the Valencia regional parliament has uncovered that the savings bank CAM was staffed with a host of inexperienced board members including a supermarket cashier, a designer and a college psychologist (Gorske, 2012). Former CAM board member Jose Enrique Garrigos, admitted that he did not have the time nor sufficient knowledge or expertise to check through the bank's accounts. Jesús Navarro, another ex CAM board member pointed to possible fraud and tampering of board meeting minutes. Navarro affirmed that minutes were shown to board members on a computer screen to supposedly avoid possible media leaks and that many times items not discussed during board meetings, such as compensation for Modesto Crespo would appear on the computerized minutes (Expansión, 2012). While board members were not capable of performing tasks required to ensure the success of CAM, they were rewarded with trips, handsome compensation packages, and loans with favorable interest rates for themselves and family members. The control of CAM was effectively left under the direction of chairman Modesto Crespo and Roberto Lopez Abad, effectively leaving board members to rubberstamp decisions that they took. It was also reported that just two days before its collapse, CAM lent €200 million to the cash strapped government of Valencia run by the PP, who was also responsible for appointing most of the board member positions within the bank (Roos, 2012). CAM also engaged in ruinous operations with development companies. In one case cited by the Bank of Spain, CAM lent Ballester, a Valencia based real estate developer, 23 million Euros in 2004 so that it could purchase 3 parcels of land to develop three towers. To carry out the project, Ballestar created a new company in association with CAM and the construction company Ecisa. This new company, by the name of Emporio Mediterráneo ended up purchasing the three parcels of land just a few months after the

association was created for a total of €42.2 million. In 2009, Ballestar, left the project, with a profit of €15.3 million, while CAM was left with a €19 million loss (Navarro, 2012). Despite leading CAM into collapse, senior executives received a total of €13 million in early retirement packages (Sindicato Alta, 2011). All of this embezzlement of funds however had real social costs. As the real estate bubble bust, low-income people who had borrowed to finance their houses in the boom years were unable to pay off their loans and faced the risk of losing their property and livelihoods.

6. The problem of evictions

With the boom of the housing market from 1998 and onwards credit began to outpace gross domestic product, and continued to do so until 2006. In 2002 construction skyrocketed in Spain, but housing prices did not decline as has been expected. In fact, housing prices increased in 4 years time. Between 1997 and 2006 Spain constructed 675,000 homes per year, more housing units than France, Germany, and the UK combined (Smyth and Urban, 2013). A result of the construction boom, Spain's economic growth was seen by many as a miracle. However even though housing prices had more than doubled in real terms wages stayed fixed (€1.200 per month). Spain was in one of the best economic times, but wages had stagnated. Yet people kept buying houses and spending due to the cheap lines of credit that banks were facilitating. House mortgages were stretched to 40 years and profits were promised, as housing prices were expected to further increase. In a report published by the Bank of Spain, inspectors found a series of predatory lending practices that savings banks engaged in. For example, inspectors found that Caja Madrid, had approved loans of considerable sums to people who had no income, or could not justify regular income streams. Caja Madrid gave out loans in excess of 80% of the security to people who did not have the ability to repay back the loans (Mercado, 2012). Lines of credit were taken to buy cars, go on holiday, and finance excess consumption. Unicaja for example advertised a line of credit

of 18.000 Euros so that a family could take that dream cruise around the world and not have to worry, as the repayment period would be stretched out to 8 years (Recio, 2012). In addition, people were encouraged to pay for purchases using credit cards. Many banks offered expensive electronic goods such as Ipods, LCD televisions, e-book readers, and xbox systems to clients who deposited their paychecks, used the banks credit cards for a fixed period of time, or purchased additional banking products such as insurance, or took out personal loans (Rombiola, 2012). The debt that public administrators, families and businesses took on ballooned, as well as the debt that banks owed to other financial institutions. The growth of the economy was only sustained through the debt that banks and citizens took on.

When banks stopped lending, a domino effect started, as consumption drastically decreased, GDP contracted and businesses started laying people off. Unemployment is currently at a historical 27%, and it is expected to increase. According to the Instituto Nacional de Estadística, the number of households where all members are unemployed has increased to 2 million (Instituto Nacional de Estadística, 2013). At least one million mortgages were given to vulnerable segments of the population: immigrants and young people who could not afford to make payments. By 2007, Spain had the highest ratio of indebtedness than any other OECD country and many families could no longer make their mortgage payment and as a consequence started losing their homes (López and Rodríguez, 2011). Between 2007 and 2011 there were around 350.000 evictions in Spain (Afectados por la hipoteca, 2012). In 2012 financial institutions foreclosed a total of 38.976 properties, with only one in five mortgages granted non-recourse debt status (Colegio de Registradores de España, 2013). This means that 80% of mortgage defaulters not only lost their property, but they are also still obligated to repay back what they owe. Table 2 highlights evictions in Spain of primary and secondary residences during the year 2012 by region.

Table 2: Evictions in Spain of primary and secondary residences during the year 2012 by region

Region	Number of Evictions
Andalusia	7258
Valencia	7046
Catalonia	6905
Madrid	4925
Canary Islands	1941
Castile-La Mancha	1895
Castile-Leon	1709
Murcia	1528
Aragon	1135
Balearic Islands	943
Galicia	864
Extremadura	837
Basque Country	488
La Rioja	450
Navarra	372
Asturias	345
Cantabria	335
Total	38976

Source: Data obtained from the Barcelona Center for International Affairs, 2013. Available at: http://www.cidob.org/en/publications/articulos/spain_in_focus/june_2013/shortage_of_mortgages_tragedy_of_evictions

Andalusia, Valencia, and Catalonia are the regions in Spain that produced the highest number of evictions during 2012. In Andalusia the coalition government of the PSOE and Izquierda Unida recently approved a law responding to the growing social crisis produced by the evictions. The law set forth in April of 2013 was meant to decrease evictions by expropriating properties for up to three years from banks that had evicted families who met certain conditions and were at risk for social exclusion. In addition, the law intended to increase access to empty dwellings by imposing a penalty system of up to €9.000 on banks that did not put empty properties into the rental market (Lucio, 2013). In Catalonia and throughout Spain, the Plataforma de Afectados por la Hipoteca (PAH) has been mobilizing to stop evictions and through social pressure negotiate and guarantee housing for thousands of families suffering the consequences of the crisis. They have been able to negotiate a two-year bank moratorium that was established following a wave of suicides (Rivas, 2012). In addition they put forth a proposal to congress where they called for a modification of the Spanish law to allow for non-recourse debt to be practiced retroactively so that thousands of debts could be cancelled. They also proposed that all evictions on primary residences be stopped, and that borrowers pay a

lowered social rent, not to surpass 30% of the person's income, they wanted these contracts to last for five years (Llamas, 2013). The proposal was rejected; however, PAH has been able to negotiate dozens of cases where families are granted non-recourse debt status. Recently PAH has also launched a campaign to encourage families that are being evicted to occupy empty buildings that have not been sold by banks. This has put pressure on banks and public administrators to renegotiate and guarantee housing for people.

7. Measures taken to combat the savings bank crisis and the transformation of the Cajas

To combat the grave situation that cajas had found themselves in, the then Socialist Party governed by José Luis Rodríguez Zapatero, encouraged cajas de ahorros to merge, and for this in 2009 it established the Bank-Restructuring Fund (FROB Fondo de Reestructuración Ordenada Bancaria) with a fund of 9 billion Euros that was set to provide guarantees to cajas that were likely to default. This was meant to insure an orderly merger of the cajas. Measures taken by the FROB can be classified in three phases. In the first phase, liquidity was injected into several entities and an orderly restructuring was attempted. Due to liquidity problems, several entities were forced to merge. The Bank of Spain argued that there was excess in the number of offices and that through the mergers savings banks could pool resources, which would allow for greater economies of scale, reduced costs, and thus ensure competitiveness. To receive aid from the FROB, savings banks had to submit a viability plan that included the closure of offices and the reduction of personnel (Ramoneda, 2011).

In the first phase of integration, what became known as the FROB 1, seven entities received a total of €9.7 bn through convertible preference shares that were to be repurchased within a total of 7 years (FROB, 2013). Table 3 highlights the entities involved and the total aid received from the FROB during the first phase.

Table 3: Entities involved and total aid received from the FROB during phase one

Entity	Aid received from the FROB (millions of Euros)
Catalunya Caixa (Catalunya, Tarragona, Manresa)	1.250
Unnim (Manlleu, Sabadell, Terrassa)	380
CEISS (Caja España-Duero)	525
Nova Caixa Galicia (Galicia, Caixanova)	1.162
BFA-Bankia (Madrid, Bancaja, Laietana, Insular)	4.465
Banco Mare Nostrum (Murcia, Penedés, Sa Nostra, Granada)	915
Banca Cívica (Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos)	977
Total	9.674

Source: Reproduced from data obtained from the FROB, 2013 Available at:
http://www.frob.es/financiera/docs/20130425%20_Presentacion_abril2013.pdf

During the second phase efforts were made to improve solvency. In 2011 the FROB, supported measures such as raising capital requirements, and the FROB was allowed to buy shares of credit institutions (International Monetary Fund, 2012). The FROB also injected an additional €5.7bn into four entities. Table 4 highlights the four entities and the total aid received during the FROB 2 phase.

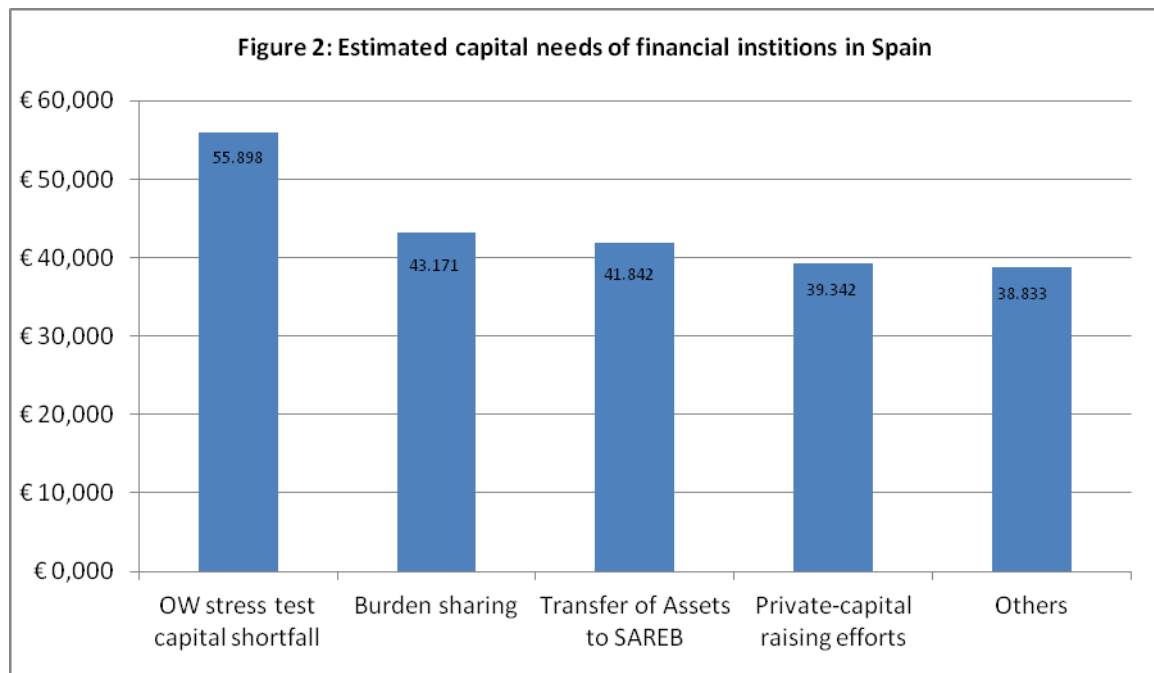
Table 4: Entities involved and total aid received from the FROB during phase two

Entity	Aid received from the FROB (millions of Euros)
Catalunya Bank (Catalunya, Tarragona, Manresa)	1.718
Unnim (Manlleu, Sabadell, Terrassa)	568
NovaCaixaGalicia (Galicia, Caixanova)	2.465
Banco de Valencia	998
Total	5.749

Source: Reproduced from data obtained from the FROB, 2013 Available at:
http://www.frob.es/financiera/docs/20130425%20_Presentacion_abril2013.pdf

In the third phase, measures taken by the FROB focused on cleaning up the balance sheets of entities. Royal decree law 2/2012 and 18/2012 that were passed during this phase ensured that provisioning requirements were increased for current exposures to foreclosed assets and that loans to developers were also increased (FROB, 2013). In July of 2012, Spain and the European commission signed a Memorandum of Understanding in which Spain was granted up to €100 billion in aid if it followed certain requirements. Among these Spain was to conduct an independent stress test, which was conducted by the management consultants Oliver Wyman in September of 2012. The stress test revealed capital shortfalls of €59.3 billion, with the biggest deficits coming from Bankia (€24.7bn) and Banco Popular Español (€3.22 bn). At the time it also showed that seven entities did not have any capital shortfalls, among these Banco Santander, Banco Bilbao Vizcaya Argentaria, and Banco Sabadell (Penty and Smyth, 2012). In addition to the stress test exercise, Spain had to strengthen the banking sector regulatory framework. It did this by clarifying the role of the savings banks as shareholders, increasing transparency, clarifying the supervisory framework by strengthen the independence of the Bank of Spain, and clarifying the objectives of the FROB by turning the institution into a resolution authority. Finally, banks that required recapitalization had to present a comprehensive plan to the Bank of Spain

where they outlined the exact measures they would take to tackle the capital shortfalls they were experiencing. Banks were classified into four groups depending on the stress test results and the viability of the recapitalization plans presented by each entity. Entities in Group 0 did not have capital shortfalls and further public action was required. These entities included Unicaja, Sabadell, Bankinter, Caixabank, Kutxabank, Santander, and BBVA. Entities in Group 1 were those that were already owned by the FROB: BFA-Bankia, CatalunyaCaixa, NCG Banco, and Banco de Valencia. Those in Group 2 were identified as entities who could not meet existing capital shortfalls without public aid, this included: Banco Mare Nostrum, Banco Caja 3, Liberbank and CEISS. Finally entities in Group 3 were those had credible recapitalization plans and could meet capital shortfall through private sources without turning to public aid, this included: Ibercaja and Banco Popular (European Commission, 2012). For those entities that required an additional capital injection from the FROB, the entities were required to transfer the majority of their real-estate assets into the SAREB, perform a subordinated liability exercise, dispose of assets, reduce capacity and increase capital requirements. The FROB reported that total State Aid required by Spain was significantly lower than the overall capital requirement needs estimated in the Oliver Wyman exercise as a result of the transfer of assets into the SAREB and other burden sharing measures implemented (Fund for Orderly Bank Restructuring, 2013).



Source: Created from data obtained from the Fund for Orderly Bank Restructuring, 2013. Available at: http://www.frob.es/financiera/docs/20130425%20_Presentacion_abril2013.pdf

In the last two years the panorama of the savings banks has changed drastically. This was accomplished by merging savings banks and eliminating small and isolated financial entities as a first measure. The second phase in the restructuring plan transformed many savings banks into private banks. Those that could not be transformed into banks or be merged were intervened by the Bank of Spain. Finally, the last phase involved a series of mergers in line with the Spanish Government's goal to create strong and healthy private banks (Coll, 2012).

Through a series of mergers, acquisitions and interventions the number of savings banks was reduced from 45 entities in 2010 to two savings banks with financial activity: Caixa Ontinyent and Caixa Pollença. These entities were two savings banks that not only did not participate in any mergers or purchases of other entities, but have been among the few financial entities in Spain that have been able to weather the crisis that transformed the Spanish Banking sector. The rest of the savings banks have merged or were acquired and have

transferred the banking side of their business into newly created commercial banks, thus separating banking activities from social activities (FROB, 2013).

As the crisis worsened throughout 2010, government policy pursued a dual strategy to rein in the problems with the cajas. The first was to continued reduction in the number of savings banks through mergers, and the second was the transformation of some of these mergers into Institutional Protection Schemes (IPS) (Adamson, 2012). The IPS schemes were not full mergers, each individual savings bank remained separate, but it was a way to pool risks in order to provide greater security to banks². Under one parent company, the merged entities maintained their original boards, headquarters and brands. This would allow economic and political power, while still retaining a degree of independence (Arniches Barron, 2012). In early 2011, government policy shifted once again, this time mergers were not an optional choice, but were seen almost as a prerequisite for the conversion of savings banks into normal banks. Table 5 highlights the restructuring of the savings banks sector in Spain from 2009 to 2013.

² An IPS group has a legally binding mechanism that consolidates the liquidity and equity of the entire group and ensures that creditors are protected.

Table 5: Evolution of the savings bank sector in Spain between 2009 a 2013

	2009	2010	2011	2012	2013
La Caixa	Merger	La Caixa	Caixabank		
Caixa Girona					
Cajasol	Merger	Cajasol	Merger	Caixabank	Caixabank
Caja de Guadalajara					
Caja Navarra	IPS+ Indirect acq.	Banca Cívica	Banca Cívica		
Caja de Burgos					
Caja Canarias					
Caja Madrid		Bankia			
Bancaja					
La Caja de Canarias	IPS				
Caixa Laietana			Bankia	Bankia	Bankia
Caja de Ávila					
Caja Segovia					
Caja Rioja					
CAM	Indirect acq.	Banco CAM	Integration	Banco Sabadell	Banco Sabadell
Cajasur	Asset transfer	BBK Bank Cajasur BBK			
BBK					
Kutxa		Kutxa	IPS+ Indirect acq.	Kutxabank	Kutxabank
Vital Kutxa		Vital Kutxa			
Caja Murcia					
Caixa Penedès	IPS+ Indirect acq.	BMN	BMN	BMN	BMN
Caja Granada					
Sa Nostra					
Caixa Sabadell	Merger	Unnim	Indirect acq.	Unnim Banc	
Caixa Terrassa				Integration	BBVA
Caixa Manlleu					
Unicaja	Merger	Unicaja	Indirect acq.	Unicaja Banco	
Caja Jaén					
Caja España	Merger	Caja España de Inversiones, Salamanca y Soria (CEISS)	Indirect acq.	Banco de CEISS	Unicaja Banco
Caja Duero					
Caixa Catalunya	Merger	Catalunya Caixa	Indirect acq.	Catalunya Banc	Catalunya Banc
Caixa Tarragona					
Caixa Manresa					
Caixa Galicia	Merger	Novacaixagalicia	Indirect acq.	Novagalicia Banco	Novagalicia Banco
Caixanova					
CCM	Business Transfer	Banco CM Cajasur	IPS+ Indirect acq.	Liberbank	Liberbank
Cajastur					
Caja Extremadura		Caja Extremadura			
Caja Cantabria					
Caja Inmaculada de Aragón		Caja Inmaculada de Aragón			
Caja Círculo de Burgos		Caja Círculo de Burgos	IPS+ Indirect acq.	Banco Caja3	
Caja de Badajoz		Caja de Badajoz			
Ibercaja		Ibercaja	Indirect acq.	Ibercaja Banco	Merger
Caixa Ontinyent		Caixa Ontinyent		Caixa Ontinyent	Caixa Ontinyent
Colonya Caixa Pollença		Colonya Caixa Pollença	Colonya Caixa Pollença	Colonya Caixa Pollença	Colonya Caixa Pollença

Source: Reproduced from data obtained from the Confederación Española de Cajas de Ahorro. Available at: <http://www.cajasdeahorro.es/pdfs/informe.pdf>

In what follows details are given on the mergers and highlights a few important aspects of each entity. Caixabank has been one of the most active entities in terms of acquisitions. The entity currently presided by Isidro Fainé, started off with acquiring two small entities in 2010 (La Caixa and Cajasol). In 2011, it moved on to larger acquisitions when it took over Banca Civica, the first IPS created in Spain (composed of Caja Navarra, Caja Burgos and Caja Canarias with a later incorporation of Cajasol) and recently, it has merged with Banco de Valencia (Caixa Bank, 2013).

Bankia, formerly under the command of Rodrigo Rato, and currently presided by José Ignacio Goirigolzarri is a conglomerate created in 2010 by consolidating the operations of seven savings banks (Caja Madrid, Bancaja, La Caja de Canarias, Caixa Laietana, Caja de Ávila, Caja Segovia, and Caja Rioja) into a single IPS. At some point Bankia was the third largest financial entity in Spain, but has been nationalized due to its insolvency (Barron, 2012). In May of 2012, Bankia received a bailout of €19 billion, making it the largest in Spain's history (Abiven, 2012). Over the past 12 months, Bankia has lost over 95% of its stock value leaving investors with heavy losses. (El Confidencial, 2013). (more on Bankia in the next section).

Another of the central characters in the development of the financial crisis was Banco Sabadell, who bought Caja de Ahorros del Mediterráneo, when it was notoriously auctioned off for one euro during December of 2011. The two entities have now completed the integration

and as a result Sabadell has more than doubled in size since the onset of the crisis (Romani, 2013).

Kutxabank is one of the savings banks that has been able to weather the financial storm better than other entities. Although smaller than its counterparts, its capital strength and solidity of its retail banking franchise have earned it higher credit scores than other entities in the industry. In 2011, the general assemblies of three Basque savings banks, BBK (formally merged with Cajasur), Kutxa, and Vital Kutxa voted to merge the three entities and created Kutxa bank. It has not received any type of aid, and has been cited as a good example of competent management, stable retail funding base, and satisfactory asset quality (Mallet, 2012).

Banco Mare Nostrum (BMN) was an IPS created in 2010 through the merger of four savings banks (Caja Murcia, Caixa Penedès, Caja Granada, and Sa Nostra). It operated mainly in the Spanish Mediterranean coast and traditionally focused on retail banking for individuals and small to medium enterprises. BMN has received recapitalization of €915 million from the FROB, €4.424 million in state guarantees, unsecured senior debt from the Spanish bank guarantee scheme, and an additional recapitalization of €730 million from the FROB. As a result of this latest injection of capital, the FROB has acquired a controlling interest in the entity. It has also transferred a majority of impaired assets and loans into the SAREB (Europa, 2012).

BBVA is currently the second largest bank in Spain. It merged with the Unnim Banc that was created in 2010 from the merger of three savings banks: Caixa Sabadell, Caixa Terrasa, and Caixa Manlleu). In

2012 Unnim Bank was auctioned off for €1. The savings bank Unnim was one of the financial entities that failed stress tests, forcing the Bank of Spain to intervene and transform the savings bank into a private bank in 2011.

Unicaja absorbed the small savings bank Caja Jaén in 2009. In December of 2011, Unicaja transformed from a savings bank into a Bank. After two years of negotiations, in 2013 Unicaja bank merged with the troubled Banco Ceiss (the result of a merger between Caja España, and Caja Duero). Before the merger, the FROB agreed to inject an additional €604 million into Banco Ceiss to boost capital before it merged with the healthier Unicaja (Reuters, 2013).

Caixa Catalunya, Caixa Tarragona and Caixa Manresa merged in 2009 to form Catalunya Caixa. In 2011 Catalunya Caixa was nationalized and turned into a bank. For the moment, the FROB assures that Catalunya Bank is well capitalized, and discards the need for further public aid. The restructuring plan approved by the European Commission stated that Catalunya Bank will be sold when the right circumstances present themselves (Romani, 2013).

Novacaixagalicia was created from the mergers of the savings banks: Caixa Galicia and Caixanova in 2010. In 2011, it was nationalized by the FROB and transformed into a bank. Novagalicia Banco has proposed a redundancy procedure that will affect 930 employees in the year 2013 and it plans to make an additional 1578 employees redundant by the year 2017. There are also plans for closing 327 branches by 2015 (Eurofound, 2013).

Liberbank is the product of a merger between three savings banks: Caja Cantabria, Caja Extremadura, and Banco CM Cajastur. The integration of these savings banks into Liberbank has not come without problems. In June of 2013, Liberbank began to lay off 666 workers, of which 465 were from Caja Castilla la Mancha (CCM). During the next 18 months, another 1.332 workers will be affected (Expansion, 2013). In addition, Liberbank is under intense negotiations with investors who sustained heavy losses when they bought preferential shares from the savings banks that merged to create Liberbank.

Ibercaja Banco was created in 2013 through the mergers between Banco Caja 3 (a result of the mergers between Caja Inmaculada de Aragón, Caja Círculo de Burgos, and Caja de Badajoz) and Ibercaja Banco (formerly Ibercaja savings bank). Ibercaja was one of the few entities that did not need public aid and that had also not purchased or merged with other entities (Romani, 2013).

The consequences of the restructure of the Spanish financial sector are still being played out. Overall seven savings banks have been nationalized. The first savings bank to be nationalized was Caja Castilla-La Mancha in 2009, followed by Caja Sur in 2010. Caja Mediterráneo in 2011 and Unnim in 2011. All of these entities have merged with others, and as of June, 2013 CaixaCatalunya, Bankia, Novagalicia, and Banco de Valencia are the remaining nationalized entities. The FROB is looking to auction off Catalunya Banc and Novagalicia before the end of 2013 (Gonzalo, 2013).

To date two disbursements totaling €41.4 billion for the recapitalization of state-aided banks and capital injection into the

SAREB³ have been made (European Commission, 2013). In addition to this cost, the drastic reduction in personnel needs to be factored in. As of March 2013, there has been a reduction of 22,7% in the number of offices and a reduction of 20,4% in the number of employees. Currently there are 17.898 offices and 25.292 employees in the savings bank sector (CECA, 2013). The reduction of social welfare programs will also be felt, especially at the regional level where savings banks were particularly focused on maintaining and developing social welfare programs. In a time when there is more need for social welfare programs the investments made by the savings banks will be hard to replace. There are a few entities that have managed to sustain their investment in social welfare programs, such as Caixabank that will invest 500 million in 2013. Others such as Caja España-Duero converted the social welfare branch of their business into foundations so that they could continue investing in social welfare programs. What will happen to the social welfare programs of the old savings banks is still being decided. For example, the foundation of Novacaixagalicia, now operating under Novagalicia Banco, warned that if changes are not made to the quantities designated towards the foundation it will not be able to offer social welfare programs beyond 2019 (Reinero, 2013).

The next section illustrates the above dynamics in the savings bank sector by looking with more depth into one case, that of Bankia.

³ The SAREB, functions as a bad bank acquiring property development loans from Spanish banks in return for government bonds. Its main function is to restore the banking sector back into good health.

8. The Case of Bankia-BFA

One of the most notorious cases that has emerged from the policy of merging entities has been that of Bankia-BFA. In 2010, Banco Financiero y de Ahorros (BFA) was created as a result of merging the troubled savings banks Caja Madrid and Bancaja. In 2011 five more troubled savings banks (Caja Insular de Canarias, Caja Ávila, Caja Laietana, Caja Segovia and Caja Rioja) merged with BFA to create the single conglomerate Bankia-BFA. In March of 2011, BFA rebranded itself as Bankia, but kept BFA as a parent company. The decoupling strategy was a way to present Bankia as a new bank without the negative baggage associated with BFA, created through the merger of troubled entities (Romero Rodríguez, 2012). At one point Bankia-BFA was Spain's third largest financial institution with some €300 billion in assets and stakes in almost 400 companies (Soley Sans and Sánchez de León, 2013).

The problems of Bankia began even before the institution was created and can be traced back to the mismanagement of the savings banks that were merged to create the entity. We will cite the example of Caja Madrid and that of Bancaja to illustrate this claim. Caja Madrid engaged in maintaining a series of irregular business practices such as lending €34.5 million to Gerardo Díaz Ferrán and Gonzalo Pascual, co-owners of the travel agent Grupo Marsans, which was declared bankrupt in 2010. The management of Caja Madrid is under investigation for facilitating a line of credit to Díaz Ferrán and Pascual, despite knowing that Grupo Marsans was on the brink of failure. In addition, it provided the property company Matinsa-Fadesa €1 billion in loans despite large sums of unpaid loan installments pending at the time

the additional loans were disbursed (Madrilonia, 2012). Caja Madrid also bought City National Bank of Florida in 2008 for an estimated U.S. \$1.7 billion, a price equal to three times its book value. According to Jose Elpidio Silva, currently presiding over the case, the purchase of City National Bank of Florida caused losses totaling €500 million and exhibits the gross mismanagement of the entity (Europa Press, 2013).

Other significant problems that later plagued Bankia stemmed from the management of Bancaja, a bank based in the region of Valencia which spearheaded much of the lending to the construction sector. Like Caja Madrid, Bancaja also engaged in ruinous business ventures. In 2008 along with Banco de Valencia it created the company Hábitat which took the troubled property assets of the promoter Ramón Salvador Águeda as payment in exchange for debt estimated at €200 million. The FROB has filed a civil suit for €226 million against Bancaja and Banco de Valencia for their participation in the business venture (Romero, 2013). Through the lawsuit, the FROB is trying to recuperate some of the money given to the two entities as aid.

While it is true that Bankia inherited many of the problems that are now plaguing the entity, poor strategic and financial planning as well as fraud and mismanagement drove the “too big to fail” colossal into the worst loss ever recorded by a Spanish corporation. Several are the causes that led to the collapse including: the mismanagement by the board of directors of the entity, the failed regulation stemming from external auditors, failed regulation from the Bank of Spain, and pressure and meddling by Spanish politicians. In order to cover the exposure to bad real- estate assets, BFA issued €4.5 billion worth of preferential shares. BFA held on to the toxic assets and liabilities of the entity, such

as the preferential shares, while Bankia held on to the banking side of the business. This was a way to present BFA as the “bad bank”, while Bankia was presented as a “good bank” with a clean history. On July of 2011, Rodrigo Rato decided to float Bankia on the stock exchange in order to secure further funding. The decision was taken when a Spanish rule forced banks to have a minimum core tier one capital ratio of 10% of their assets, unless they were listed on the stock exchange, in which case they were only expected to have 8%. This change in capital requirements was one of the reasons that pushed Bankia into an IPO that in hindsight many believe should have never happened. When preparing for the IPO several advisors conveyed to Bankia that it needed to raise additional capital to compensate for the gaps between loans and deposits, the large exposure to real-estate assets, and the capital needed to repay the €4.5 bn loan it took out from the FROB. In order to do this, Bankia would have to dilute its equity to below 50%; something that regional politicians who wanted to retain control and influence over the savings bank thought was unacceptable (Mallet and Johnson, 2012). When foreign investors refused to buy the shares, senior members of the Zapatero government convinced Spanish banks and corporations to take on shares in the national interest. Through an expensive publicity the rest of the shares were sold to some 400.000 savers. The poor strategic and financial planning of Bankia began to surface in 2012 when fears about its viability started to surface. In less than one year, stock prices fell from an initial €3.75 to €1. Currently shares of Bankia are trading for less than €1 and in January of 2013 the entity was removed from Spain’s Ibex stock index because its share price was too low. Following this failure Rodrigo Rato resigned as the president of Bankia, taking with him a payment of €2.1 million. José

Ignacio Goirigolzarri, an experienced banker was brought out of retirement to replace Rodrigo Rato. Currently Rodrigo Rato, as well as 32 members of Bankia are under investigation for “falsifying accounts, dishonest administration, price manipulation, and improper appropriation” (Burgen, 2012).

In December of 2012, Rodrigo Rato presented declarations in front of the National Court of Spain, where he blamed the Socialist government led by Zapatero for pressuring him into the IPO of Bankia. He also blamed the current government of Mariano Rajoy for imposing recapitalization requirements as well as other provisions that forced the entity to ask for further aid (Altozano, 2012). The external auditor, Deloitte is also being investigated, and could face possible sanctions for its role in failing to provide proper auditing of Bankia’s assets before it was nationalized in 2012 (Duarte, 2013). Spain’s regulatory authorities have also come under increasing scrutiny over the inadequate supervision of Bankia. A group of investors is planning to file a lawsuit against the Banks of Spain, Spain’s Economics Ministry, and its stock market regulator for failing to warn investors for failing to warn investors of the problems afflicting the savings bank and for engaging in behavior and upholding standards that are contrary to prudent regulation (Minder, 2013). Bankia’s bad management and consequent nationalization in 2012 hurt Spain’s international standing and reputation, cost the life savings of thousands of people, and had a heavy cost on the public purse.

9. Conclusion

This review identified the main issues behind the collapse of the Spanish saving banks sector and presented recent policy reforms and dynamics, especially the tendency towards mergers and acquisitions of the failed cajas by or into larger units. A key reason for the collapse of the system was the liberalization of the sector and the subsequent expansion of the local/regional cajas beyond their initial boundaries. The character of the banks as regional community banks serving primarily the local population and financing social services that would not be financed by the private sector changed irreversibly and most saving banks became similar to any other private banks, in all but name. The period of geographical expansion of the cajas coincided with the influx of cheap credit as Spain entered the Euro and international borrowing costs decreased. Cheap credit also fuelled a real estate housing bubble, which in turn became the main outlet for financing by the hungry to expand cajas. All these together fuelled the supposed “growth miracle” of Spain in the late 90s and early 2000s, a miracle that turned sour with the global economic crisis and the rising of interest rates for borrowing that revealed underlying risks and the systematic over lending to questionable real estate housing projects.

The presence of politicians and other civic stakeholders in the Boards of the Banks, a principle that made sense when the main purpose of the banks was to serve the local community, became a liability in the post-liberalization geographical expansion phase, as politicians allegedly

used the banks to support quick-fix and popular infrastructure projects that created short-term growth, but with a high risk. Worse, in some cases the close linkages between politicians and the construction / real estate sector led to corruption in lending in which some cajas were implicated. Finally, while political control may make sense in certain instances, in many cases this came at the expense of professional expertise, some banks being run by individuals inept in understanding risks or taking the right decisions.

The strategy taken by the Spanish government to resolve the crisis is to bail-out the most problematic banks, and merge or facilitate the acquisition of the others. Whereas this seems to postpone the problem in the short-term, it is a questionable strategy given that it creates new units “too big to fail”. Also while admittedly the cajas system took the wrong direction after its liberalization, it is questionable whether the correct response is to propel further its privatization, as currently is the case, or alternatively bring back some of the older principles of restraining the banks to geographically limited regions and to investments of mostly a public or civic scope. It is interesting that while in the US there are discussions about the need to revive community banking and decentralize the banking system to avoid situations of “too big to fail”, Spain is moving in precisely the opposite direction.

Of course if all this was purely a matter of arithmetic and balance sheets few people would care. But the real impacts of the implosion of the cajas system are felt by everyone in Spain as credit has dried and the economy stumbled with unemployment soaring, as public expenditures in health and education are being reduced to respond to the rising risks and borrowing costs related to the potential costs of

bailing out the cajas, and most importantly, as housing loans cannot be repaid and many people are evicted losing their homes. These are the real costs of the liberalization of the cajas system, the housing bubble and Spain' growth miracle.

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Resumen

Este artículo repasa los motivos de la crisis de las cajas de ahorros españolas y analiza las medidas tomadas por el gobierno español para solventarla. En él defiende que la crisis se originó cuando el sector de las cajas de ahorros se liberalizó, dando lugar a una expansión muy agresiva de las cajas, tanto geográfica como comercial. En un periodo en el que los préstamos se abarataron debido a la entrada de España en el euro, muchas cajas se convirtieron en cómplices financieras de la burbuja inmobiliaria. Debería ser objeto de análisis si este hecho se debió a la ineptitud profesional de unas cajas controladas políticamente, a una subestimación de los riesgos o a la mera corrupción desprendida de los intereses inmobiliarios. Lo que queda claro es que el coste social de la quiebra del sistema es alto, en especial, en temas de ejecuciones hipotecarias y desahucios. La estrategia del gobierno en cuanto a fusiones y absorciones de las cajas en situaciones problemáticas es de dudosa eficacia, ya que da lugar a nuevos entes demasiado grandes para derrumbarse.

Palabras clave

Crisis, cajas de ahorro, ejecuciones hipotecarias.

Resum

Aquest article repassa els motius de la crisi de les caixes d'estalvis espanyoles i analitza les mesures adoptades pel govern espanyol per solucionar-la. Defenso que la crisi es va originar quan el sector de les caixes d'estalvis es va liberalitzar, donant lloc a una expansió molt agressiva de les caixes, tant geogràfica com comercial. En un període en què els préstecs es van abaratir a causa de l'entrada d'Espanya a l'euro, moltes caixes es van convertir en còmplices financeres de la bombolla immobiliària. Hauria de ser objecte d'anàlisi si aquest fet va ser degut a la ineptitud professional d'unes caixes controlades políticament, a una subestimació dels riscos o a la mera corrupció despresa dels interessos immobiliaris. El que queda clar és que el cost social de la fallida del sistema és alt, especialment en temes d'execucions hipotecàries i desnonaments. L'estratègia del govern pel que fa a fusions i absorcions de les caixes en situacions problemàtiques és de dubtosa eficàcia, ja que dóna lloc a nous ens massa grans per enfonsar-se.

Paraules clau

Crisi, caixes d'estalvis, execucions hipotecàries.

