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**CAPITAL SOURCES** Mike Seemuth

## City National Bank of Florida readies westward expansion

**C**ity National Bank of Florida is boosting profits and shoring up its loan portfolio in advance of a push to expand its lending to small and medium-sized businesses.

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The bank is preparing to move beyond its traditional coastal stronghold into western Miami-Dade County, closer to pri-



J. ALBERT DIAZ

City National Bank CEO Jorge Gonzalez says commercial property appraisals are providing anecdotal evidence of market stabilization. “They’re coming in no lower than the last appraisal, and in some cases, a little bit higher.”

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# CITY NATIONAL BANK READIES TO EXPAND WEST

As its bottom line strengthens and its loan portfolio improves, **City National Bank of Florida** is poised to expand beyond its traditional territory in a push to boost its lending to small and medium-sized businesses.

While the largest banks in South Florida cater mainly to the retail market, "we are more of a private bank for small businesses and middle-market businesses," said **Jorge L. Gonzalez**, president and chief executive officer of City National.

"We do a lot of business with law firms, physicians and CPAs," among other types of business clients, Gonzalez said this week in an interview with the Daily Business Review. "The mass retail market is never going to be a market that's for us. That's a high-volume, low-margin business."

City National has 26 branch offices, including eight that opened in the last 18 months. It has 15 in Miami-Dade County, five in Broward County, three in Palm Beach County and three in Central Florida. The bank plans to open three or four more branches in the next year, probably in Miami-Dade communities such as Doral and Kendall, where it already has offices to increase its share of the local commercial lending market.

"We have a very solid footprint in Dade and Broward but most of it has been east of [U.S. 1], so really what we're trying to do is fill in the west side of the market," Gonzalez said.

Gonzalez said expanding into the western

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**JORGE GONZALEZ**  
PRESIDENT, CEO  
CITY NATIONAL  
BANK OF FLORIDA



J. ALBERT DIA

## JORGE GONZALEZ

**Experience:** President-chief executive officer of City National Bank of Florida since January 2009. Eighteen years with Wachovia, including the head of its Florida operations.

**Education:** Bachelor of science degree, finance and international business, Florida International University; graduate of Kenan-Flagler Business School Executive Leadership Training program, University of North Carolina.

**In the community:** On the board of the Beacon Council, the Greater Miami Chamber of Commerce, the Florida International University Foundation, United Way of Miami-Dade County.

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## CAPITAL SOURCES: Bank grows lending from small- to medium-sized clients

reaches of South Florida would put City National closer to privately held commercial and industrial businesses that have clustered there. Lending opportunities in eastern communities encompass "a lot more retail and a lot more residential [real estate]," he said.

### 'GOOD MIX'

Gonzalez said City National's loan production in the first half of the year totaled about \$250 million and included roughly equal amounts of four broad categories of loans: commercial real estate, corporate credit, small business credit and residential real estate. "That's what our balance sheet is probably going to look like in three or four years," he said. "We want a good mix."

City National posted net income of \$9.2 million in the January-March quarter, up from \$2.8 million in the same period last year.

A cleaner loan portfolio added to its profitability. From January through March, City National made no addition to its loan-loss reserve.

"In fact, we're probably not going to have to provision in the second quarter, either," Gonzalez said. The bank added \$4.5 million to its loan-loss reserve in last year's first quarter.

Fewer charge-offs and more recoveries helped the bank avoid additions to the loan-loss reserve, which reduce net income. City National charged off \$448,000 of bad loan in the first quarter while recovering \$4.7 million from

delinquent borrowers. In last year's first quarter, the bank charged off \$82 million of bad loans and recovered \$1.2 million.

City National Bank has resolved many of the problems in its loan portfolio with the support of its parent company in Spain, Caja Madrid. The Spanish parent injected \$100 million of fresh capital into City National last year.

That nearly matched the \$102 million that City National added to its reserve for potential losses on loans and leases in 2010. Gonzalez called last year's addition to the loss reserve "aggressive," and said, "We're fortunate. A lot of institutions didn't have the capital foundation that we've had."

### CHALLENGES OF PARENT

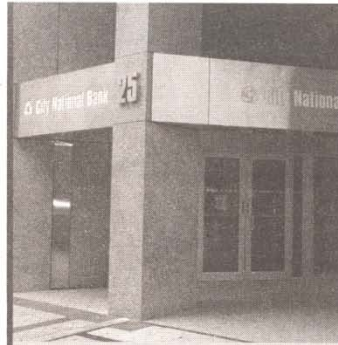
Caja Madrid and other Spanish banks face their own challenges, however. Like banks in many other countries, they are trying to resolve troubled real estate loans and to replenish depleted capital. Spanish bank regulators have ordered Caja Madrid and other savings banks to raise more capital from private investors or face possible nationalization.

Caja Madrid has responded by merging with six other savings banks to form the banking group Bankia. The group is planning an initial public offering of stock this summer. Bloomberg News has reported that Bankia plans to raise as much as 4 billion euros (\$5.9 billion) in a mid-July IPO.

Gonzalez declined to comment on how the IPO might affect City National, citing regulatory limits on public statements prior to stock offerings.

Regardless of the outcome of the IPO, "we're the fourth-largest bank in Florida, and we're owned by a very large institution," he said. "We're very well positioned, I think, to continue to give clients a very broad product offering, but continue to do it in a small-bank way. That's really our strategy."

Even if the Bankia stock offering in Spain is postponed, downsized or canceled, the impact on City National may be minimal. For example, it is doubtful that Caja Madrid would sell City National in response to a disappointing IPO, said Miami-based economist and bank consultant **Ken Thomas**.



### BY THE NUMBERS

#### \$9.2 million

First quarter net income, compared with \$2.8 million a year earlier

#### \$448,000

Charge off for bad loans in first quarter, against \$82 million in the same 2010 period

#### Zero

Loan-loss provision in first quarter, vs. \$4.5 million provision a year earlier.

#### \$100 million

Fresh capital received in 2010 from Spanish parent Caja Madrid

When Caja Madrid acquired majority control of City National in 2008, "they got one of the best banks in Florida, one of the best in the nation. They paid a lot for it, and they will protect it and put in more capital as needed," Thomas said.

"City National is engaged in an expansion program, opening branches. They would never be able to do that without the consent of their parent," Thomas said. "It signifies that this is a market they want to expand in and continue to invest in."

City National still has some flaws in its loan portfolio, but they are smaller flaws than a year ago. For example, the amount of commercial mortgage loans and construction and land-development loans in non-accrual status fell by more

than \$40 million in the year ended March 31.

### AVOIDING PEAKS, VALLEYS

Gonzalez said commercial real estate lending will continue to be the "centerpiece" of credit extension at City National, but the bank wants to diversify into other types of lending to blunt the impact of the "peaks and valleys" in real estate development cycles.

The CEO of City National said he was encouraged by signs that commercial real estate values in South Florida have "flattened out."

Even though "we're still seeing some softness in residential real estate," firmer commercial property appraisals are providing anecdotal evidence of market stabilization, Gonzalez said. "They're coming in no lower than the last appraisal, and in some cases, a little bit higher."

City National Bank had \$1.78 billion of loans and leases as of March 31, including \$450 million of residential mortgage loans, \$224 million of commercial and industrial loans and \$203 million of construction and land-development loans.

A solid survivor of a global financial crisis that peaked in 2008, City National may owe its existence to the personal approach to commercial banking that former owner and chief executive **Leonard Abess** ingrained in its culture. Abess made national headlines in 2009 when he distributed \$60 million among many of City National's longtime employees several months after selling control of the bank.

"Leonard really built a very solid business here. So when everybody else got hit by a Category 5 hurricane, we got hit with a Category 2," Gonzalez said. "We are able to think about the future rather than think about survival."

But as long as the future direction of the economy remains unclear, City National will take a restrained approach to commercial lending.

"The economy seems to have some legs on it, but we don't know if those legs are going to go 100 yards or a couple of miles," Gonzalez said, glancing out the window of his 28th-floor office on Brickell Avenue. "So we are being very tentative in our approach."



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**KEN THOMAS**  
MIAMI-BASED ECONOMIST