dbr A7 DAILY BUSINESS REVIEW
WEDNESDAY, OCTOBER 26, 2011
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BUSINESS REVIEW

EVENTS

Today-Nov. 9
Realtors Commercial Alliance Miami: Presentation on "Commercial Real Estate Brokerage," fundamentals and intermediate three-part series with Thomas J. Dixon, chairman of the Realtor Association of Greater Miami, 9 a.m., Sheraton Fort Lauderdale Airport, 1825 Griffin Road, Dania Beach. Cost: $20 members, $40 nonmembers, $60 at the door. Call (305) 468-7000.

Today
Chamber South: Membership breakfast with Xavier L. Suarez, Miami-Dade County commissioner, District 7, 7:30 a.m., Dadeland Marriott, 9090 S. Dadeland Blvd., Miami. Cost: $25 members, $35 nonmembers. Call (305) 661-1621.
Association of Certified Anti-Money Laundering Specialists and the Association of Certified Fraud Examiners: 2011 AML/Fraud conference, 8 a.m., Kovens Conference Center, 3000 NE 151st St., North Miami. Cost: $150 members, $175 nonmembers. www.acams.org.
Organization of Women in International Trade South Florida: International Business Forum with Louise Leger, consul general of Canada, 11 a.m., Hyatt Coral Gables, 50 Alhambra Plaza, Coral Gables. Cost: $35 members, $45 nonmembers. Email: patricia.mcleod52@gmail.com.
NAIOP Commercial Real Estate Development Association: Social, 5 p.m., O'Lounge at Yolo, 333 E. Las Olas Blvd., Fort Lauderdale. Cost: $25 members, $30 nonmembers. Email: naiop.info@naiopsfl.org.
Submit information about upcoming business or real estate events to Deborah España at despana@alm.com.

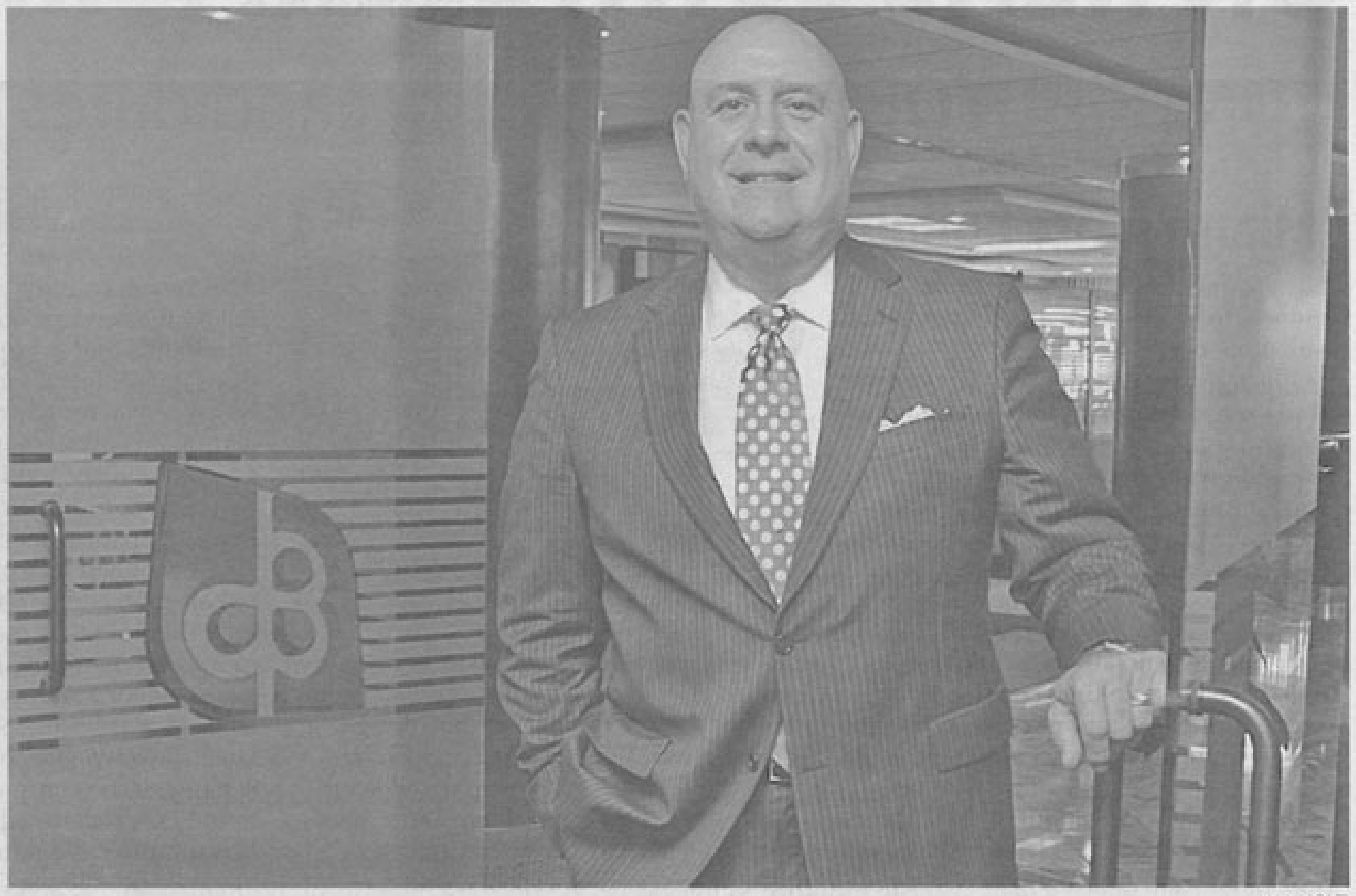
PEOPLE




Mathisen Antle Colella Goodman

William E. Mathisen has joined KW Property Management & Consulting as a business development manager. Mathisen was a building and leasing manager for Kendar Realty.
Van Antle has been named director of operations of the Adler Group. Antle was a property manager for Adler Realty Services.
Gustavo O. Colella has joined MRW Consulting Group, a forensic accounting firm in Fort Lauderdale, as a staff accountant. Colella was a staff accountant with Ahern Jasco.
Jared S. Goodman has joined MRW Consulting Group in Fort Lauderdale as a staff accountant. Goodman was a semi-senior associate with Kaufman Rossin.

CAPITAL SOURCES Mike Seemuth



A.M. HOLT

Carlos Fernandez-Guzman of Pacific National Bank in Miami says insider lending in the abstract is acceptable. 'It shouldn't have the black cross over it,' he says. But 'we have decided to stay away from insider lending.'

COMMUNITY BANKS CUT BACK ON INSIDER LOANS

Community banks in South Florida collectively are extending less credit to their directors and other insiders due to economic and regulatory constraints.

A survey of 56 community banks in South Florida by the Daily Business Review shows that their combined insider loan volume dropped about 18 percent during the 12 months ended in June.

As a group, the banks cut their June 30 balance of insider loans to $264 million this year from $324 million last year and $338 million in 2009.

Among the 56 banks surveyed, 24 reduced their insider loan balances, 22 increased them, and 10 made no change. Nine of the banks had no insider loans outstanding halfway through the year.

The South Florida bank with the largest amount of insider loans at mid-year, **U.S. Century Bank** in Miami, also recorded the biggest one-year decline among the banks surveyed.

U.S. Century's insider loan volume was $82 million on June 30, down from $139 million a year earlier, a 41 percent drop.

The decline in insider lending is part of a broader slide in credit availability at community banks in Miami-Dade, Broward and Palm Beach counties.

Capital erosion is a big culprit. Regulations limit the amount of any insider loan as a percentage of a bank's capital. So when losses pile up and capital erodes, banks tend to reduce all loans outstanding, including insider loan balances, until they can raise more capital.

At U.S. Century Bank, for example, net losses due largely to additions to the bank's loan-loss reserve slashed its equity capital to $100 million on June 30 from $192 million a year earlier.

SEE CAPITAL SOURCES, PAGE A11

Q&A Ronald Miles

Douglas Entrance poised for repositioning

by Jennifer LeClaire
jleclaire@alm.com

Just 18 months ago, Coral Gables' Douglas Entrance was among South Florida's most prominent distressed properties. Now, the property is financially healthy again.

Douglas Entrance is a five-building class campus that includes a mix of modern high-rise towers, street-level retail, boutique office suites and meeting spaces. Owner Pearlmark Real Estate Partners last week closed on a $102.5 million loan modification for the 458,170-square-foot property at 800 Douglas Road.

According to Fitch Ratings, the property's $102.5 million CMBS loan went into default in February.

Miles

Ronald Miles, managing director of Chicago-based Pearlmark, said the loan modification will help his company reposition the property to keep and attract tenants.

Douglas Entrance's tenants include Mastec, Ogilvy Latin America and Perkins and Will.

Jennifer LeClaire, a reporter with Daily Business Review affiliate GlobeSt.com, spoke with Miles about how the developer weathered the economic storm and the lessons learned in the process.

What were the toughest financial challenges facing owners the past several years?

Access to capital was the most challenging aspect for owners. It became clear there was a seismic shift occurring in the economy and the financial forecasts we had projected were not going to be met. Be it optimism or hubris, we all believed rents would continue to rise and as such, owners would remain in a position to reinvest into the property through necessary building improvements, tenant improvements and brokerage fees.

Clearly the high loan to value ratio on many properties turned pro formas upside down and made it impossible to operate long-term. A restructuring of loans, and doing so in a timely manner, was vital for survival. However, as I mentioned,

SEE MILES, PAGE A10

FROM PAGE A7

CAPITAL SOURCES: Insider lending can invite intensified scrutiny

"The director loans have not been our problem. They're all paying, and they have been paid, according to their terms," said **Ramon E. Rasco**, chairman of the board of U.S. Century Bank in Miami.

"Basically because of the difficulties in the economic environment, we're focusing a lot on reducing our loan exposures," he said, "so there have been pay-downs all across the board, including director loans."

Rasco said U.S. Century is trying to raise more capital through a private placement of stock and is likely to succeed: "We are getting quite good feedback here locally and in the New York investment community, and I am very confident that we are going to be successful."

Withered real estate values and weak economic conditions in South Florida have discouraged an expansion in bank lending to all types of borrowers, not just insiders. The 56 banks surveyed by the Daily Business Review had loans and leases totaling $26.3 billion on June 30, down from mid-year totals of $26.9 billion last year and $27.7 billion in 2009.

COMPLIANCE COSTS

Regulatory compliance costs can deter insider lending, too. Bank regulators not only limit the volume of insider loans as a percentage of bank capital but also require special underwriting, reporting and monitoring of insider loans.

Ken Thomas, a Miami-based bank consultant, said some banks avoid lending to directors, officers, major shareholders and their affiliates because it is a "red flag" that invites intensified regulatory scrutiny.

"The regulators are basically calling every foul," Thomas said, "so with all the other problems at banks, they don't need another issue for the regulators to jump on."

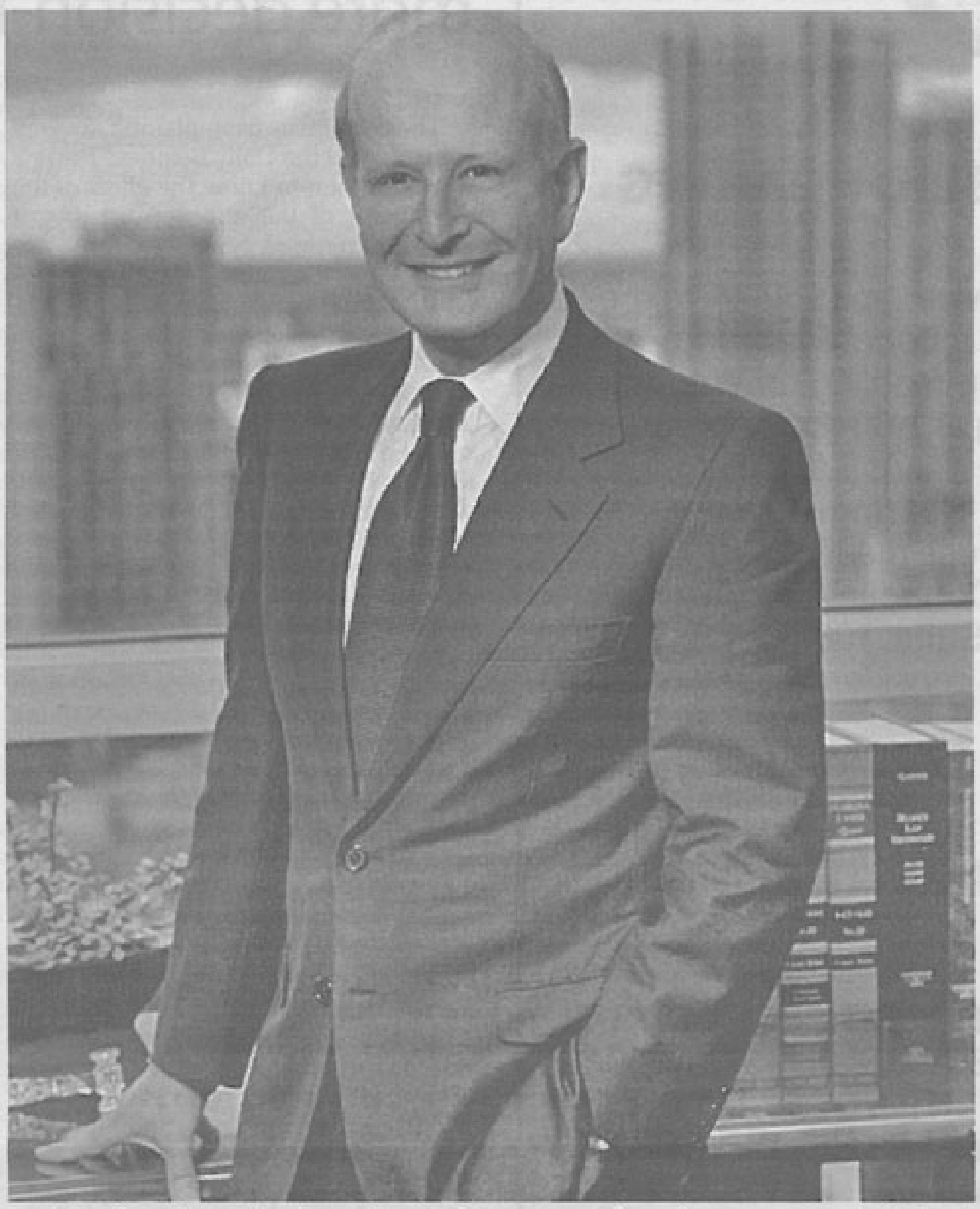
But Thomas also said insider loans are tightly regulated and can be a reliable source of income for banks that properly underwrite them and monitor them.

Banks are required to make insider loans on a non-preferential basis, with the same terms and conditions that would apply to other borrowers. Insider loans also may require pre-approval by a bank's board of directors before the closing.

"The assumption always is that if it's an insider loan, it must be some kind of a sweetheart deal, when in fact, banks go out of their way to avoid that," Thomas said.

Lewis R. Cohen, name partner of Miami law firm **Cohen & Bobotas**, said regulatory limits on any insider bank loan vary depending on the identity of the borrower and whether the loan is secured or unsecured, not just the size of the loan relative to the bank's capital.

Cohen said banks generally are prohibited from giving an insider an unsecured loan in an amount exceeding 15 percent of their capital or an secured loan equal to more than 25 percent of their capital.



Lewis R. Cohen of Miami law firm Cohen & Bobotas says regulatory limits on any insider bank loan vary depending on the identity of the borrower and whether the loan is secured or unsecured. 'The overriding factor ... is that you may not engage in "unsafe and unsound" practices.'

BY THE NUMBERS

18%
Decline in insider loan volume at 56 South Florida community banks

$264 million
Balance of insider loans as of June 30, compared with $324 million a year earlier

$26.3 billion
Total of loans and leases of 56 South Florida community bank on June 30

Cohen said insider-lending regulations for federally chartered banks vary from those for state chartered banks and that relatively few court cases have addressed the state regulations.

"The state has very little out there in the way of interpretive opinions or precedent as to what is and is not allowable under state law," he said. "The overriding factor, no matter what type of bank you are, whether you're federal or state, is that you may not engage in 'unsafe and unsound' practices. ... That's sort of the catch-all phrase that regulators can use" to limit insider lending at a bank.

Carlos Fernandez-Guzman, president and chief executive officer of **Pacific National Bank** in Miami, said insider lending in the abstract is acceptable. "It shouldn't have the black cross over it," he said. But "we have decided to stay away from insider lending. There are plenty of other prospects out there that we work with."

Fernandez-Guzman called insider lending "a high-maintenance credit" in terms of regulatory compliance.

"It's cumbersome. The real weight of insider lending is the monitoring, the reporting," he said. "We prefer anyone who has a senior position at the bank, or is a shareholder, to borrow elsewhere."