GREECE'S FINANCIAL/BANKING CRISES BEAR NO RELATIONSHIP TO PUERTO RICO AND ITS BANKING SYSTEM

At OCFI we have received several queries by citizens who, after learning of Puerto Rico's call to investors to renegotiate its debts and the current constraints placed by the Greek Government on access to bank deposits related to the Greek default on payments due to the International Monetary Fund (IMF), want to know if such a situation (lack of access to bank deposits) is possible in Puerto Rico.

The definite answer is NO. To explain, allow me to give a background on Greece's situation and how it differs from Puerto Rico's.

Greece is one of 19 European nations that, since 2002, adopted the Euro as its common currency.

The Euro project has been successful from a political standpoint, allowing members of the European Union (EU) free travel and commerce amongst themselves. However, from a financial standpoint, success has been limited. Allow me to explain.

Take for instance the different state of economies of two EU participants: Greece and Germany.
The unemployment level in Greece is approximately 25%, while Germany's is barely 5%. The European Central Bank's (ECB) role is similar to that of the USA's Federal Reserve Bank having to determine, among other things, the monetary policy to address a recession or an overheated economy. You can only imagine ECB's difficulty in attempting to reconcile such different needs as Greece's and Germany's. Should the ECB adopt increasing the money supply to address Greece's recessive economy knowing that it could create an inflationary condition in Germany?

In Greece's particular case, by defaulting on an International Monetary Fund (IMF) obligation, aside from the expected liquidity problems resulting from ECB's determination not to lend additional moneys to Greek Banks, the uncertainty of whether Greece maintains the Euro currency or returns to its former currency, the drachma, has created an additional pressure as Greek nationals have run to the banks to withdraw their Euros trying to avoid taking a deep discount on the value of their savings should Greece adopt the drachma as it currency and float it against the Euro. To prevent a run that would leave Greece without cash, the Greek Government has placed limits on ATM withdrawals (60 Euros=$67) and has temporarily ordered banks to remain closed as a capital control measure.

The US Banking system, which includes Puerto Rico, has no cross-currency risks nor liquidity constraints as those affecting Greece. In particular, Puerto Rico commercial bank's deposits are guaranteed by the Federal Deposit Insurance Company to a maximum of $250,000 per person. The Federal Reserve Bank of New York which supervises bank holding companies provides an alternate source of liquidity to subsidiary banks.

Concern has arisen after Puerto Rico bank stocks tumbled upon the announcement that the Commonwealth would seek to renegotiate its debt with investors and bondholders. The price of stocks responds to market events and even rumors, and not necessarily related to the intrinsic value of those shares. Stock market values are dynamic and change based on economic information on a particular company as well as external factors which may or may not affect the company. A day after, the stock price of all three banks increased on news that Puerto Rico Electric Power Authority did not default on its scheduled payment to creditors.

The Capital, liquidity, and Earnings ratios are far more important in determining the true value of a financial institution, as those metrics, in addition to the FDIC insurance, provides clients with the peace of mind that their deposits are safe and accessible at all times. Since the creation of the FDIC in 1934, no depositor has ever lost its money on insured deposits.

With respect to the Puerto Rican economy, and the need to renegotiate the terms of the repayment of its debt, it is important to note that the intent is to eliminate the uncertainty as to the Commonwealth's repayment capacity through a negotiation favorable both to the Commonwealth and its creditors. This will in turn permit Puerto Rico's economy to grow based on the certainty that the debt will be repaid under the new negotiated terms and allow the Commonwealth to inject economic resources to enhance its infrastructure to remain competitive in attracting new capital and businesses to the Island.