Can Relationship Banking Survive the Spanish Economic Crisis?

Gary A. Dymski*

July 16, 2013

ABSTRACT

This paper shows that the global financial and economic crisis has jeopardized the viability of relationship banking in Spain, and threatens to undercut this key element in the national structure of productive financial intermediation. The capacity of the Spanish banking system to provide relationship-banking services, which was threatened even before the crisis, is now compromised by four mutually-reinforcing forces: a tendency for credit flows to be higher in central regions and lower in peripheral ones; the shift of liquidity to central regions in financial-crisis periods; the asymmetric protection offered to the large financial intermediaries that are least proficient at (or interested in) spatially-distributed relationship banking; and the forced recapitalization of Spanish banks, which selects against small and outlying banks and requires increased minimum operating scale. These four forces constitute a quadruple ratchet effect, reinforcing the centralization of credit flows while reducing relationship-banking intermediation capacities in peripheral regions and lower-income areas.

Keywords: Spanish economic crisis, relationship banking, cajas, ethnic banking, subprime crisis, small and medium enterprises

* Chair in Applied Economics, Leeds University Business School, University of Leeds, and Professor

Can Relationship Banking Survive the Spanish Economic Crisis?

Gary A. Dymski

1. Introduction

This paper shows that the global financial and economic crisis has jeopardized the viability of relationship banking in Spain, and threatens to undercut this key element in the national structure of productive financial intermediation. The capacity of the Spanish banking system to provide relationship-banking services that enhance balanced regional growth, which was threatened even before the crisis, is now compromised by four mutually reinforcing forces. Two of these forces, as shown by Victoria Chick and Sheila Dow[1], were at work before the present situation arose: a tendency for credit flows to be higher in central regions and lower in peripheral ones; and the shift of liquidity to central regions in financial-crisis periods, causing disproportionate job and enterprise loss in the periphery. Two other forces have been activated in the present conjuncture. The third is the asymmetric protection offered to the large financial intermediaries that are least proficient at (or interested in) spatially-distributed relationship banking. The fourth is the forced recapitalization of Spanish banks, which selects against small and outlying banks and requires increased minimum operating scale. These four forces constitute a quadruple ratchet effect, reinforcing the centralization of credit flows while reducing relationship-banking intermediation capacities in peripheral regions and lower-income areas.

We begin by interrogating the two central concepts in this inquiry, which are defined differently here than elsewhere: Spanish economic crisis (section 2) and relationship banking (section 3). Many analysts (for example, Johnson 2012) see Spain's crisis as its unwillingness to admit its banks' bad loans and to fully commit to austerity measures. By contrast, we argue that Spain's crisis involves the perverse interaction between a stagnant economy and a banking sector whose ability to finance growth is being forcibly reduced. In turn, the prevailing view sees relationship banking as rooted in private information, but it is defined here as embedded banking, based on banks and borrowers being located in the same locale and operating at parallel scales. The successful case of ethnic banking in Los Angeles illustrates this alternative approach.

Section 4 then discusses the development of Spanish banking through 2008. Section 5 summarizes the US's 1980s "triple banking crisis" and its 2008 subprime crisis, which contain key lessons for the current situation in Spain. Section 6 then describes Spanish banking after 2008. Section 7 sketches out possible futures for relationship banking in Spain.

2. What is the Spanish economic crisis?

The crisis eating away the foundations of European economic strength has had two distinct stages: the "subprime crisis," centered on the failure of Lehman Brothers in September 2008; and the "Euro crisis," precipitated by the Greek bailout in May 2010. For many analysts, there is a common ultimate root. The fall in housing prices can be blamed on unscrupulous lenders who made subprime mortgages (the US version) or who financed the construction of and demand for an excess supply of housing (the Spanish version). The myopic or greedy under-resourced households that bought over-priced homes can be blamed as well. The

[1] See Chick (1986), Chick and Dow (1988), and Dow (1999), among other works.

Eurozone crisis, in turn, can be laid to undisciplined fiscal policies by European Monetary Union (Eurozone) member states. Both threads end by blaming bad government policies. Government forced banks to provide loans that allowed uncreditworthy people to become homeowners (the US version) or did not adequately supervise an out-of-control housing provision process (the Spanish version). This permits solutions focused on government, not market institutions: better regulate finance, cut unnecessary spending, and reduce tax and regulatory burdens on private enterprise. These are the sort of programs that parties voted into office by voters in Spain, Greece, Portugal, and Italy have proposed in the past four years; and the UK and the US have undertaken this path, as well. It has not worked.

This suggests the opposite conclusion: that stagnation can be attributed primarily to austerity macroeconomic policies: remove them, and growth returns. But turning the government from scapegoat to savior does not change the structure of the economy. An austere macroeconomic environment will certainly undercut economic growth. But a financial system that provides reasonably-priced credit for productive purposes in both core and peripheral regions constitutes a necessary, if not sufficient, condition for rekindling broadly-based prosperity.[2]

In the US and in Spain, as elsewhere, the crises of banking and fiscal policy are interlocked. While the precipitate cause of the crisis may have been Lehman's insolvency in September 2008, this can be tracked backward to the collapse of the commercial credit markets that supported subprime-based securities, the implosion of housing prices in many locales, mortgagee households' inability to meet cash-flow demands, and finally the creation and operation of a disembedded credit system that emphasized fee-generation, encouraged speculation, and permitted fraud. Overturning fiscal austerity policies will not unwind the transformations of financial structure that made the subprime and housing crisis possible.

3. A Spatially-Differentiated Approach to Relationship Banking

At a conference featuring the inaugural presentation of some of the foundational papers in the New Classical approach to monetary macroeconomics, Frank Hahn (1980),made the bemused comment that a lot of time was being spent on "understanding theories," rather than on attempting to "understand the institution of money … in a historical way." He went on:

> "I think that there are legitimate questions you can ask yourself, such as, How does money ever come to be used? How do financial institutions become what they are? But I don't think that is the best understanding strategy. And it is quite dangerous.
>
> "The way I would like to proceed is slightly different. That is to start off with all the monetary institutions and ask, What would have to be the case if these institutions are to survive? Now that is not the same question of how something comes to be what it is; it is a question of how something remains what it is. And that's different." (Hahn 1980, p. 161)

Hahn's observation was prophetic. In that same year, Fama (1980) showed that banks would have no reason to exist if informational and transaction costs are driven to zero in efficient financial markets. Since then, the existence of banking in equilibrium models has been attributed to the presence of asymmetric information and costly transactions. In one prototype model (Diamond and Dybvig 1983), banks help savers with uncertain liquidity needs: since

[2] This spatial contrast between center and periphery operates at multiple scales: so the terms "region" and "nation" in this sentence can be substituted by "area" and "region," or "neighborhood" and "city."

the population share that will require liquidity is known (even though no one agent knows her situation in advance), pooling savers' funds together as deposits permits banks to make an optimal volume of loans available to borrowers without jeopardizing their depositors' welfare. In another prototype model (Diamond 1984), any lender must engage in "costly monitoring" to overcome moral hazard problems with borrowers; banks come into existence because there are economies of scale in monitoring. 'Tweaking' these prototypes then permits various aspects of real-world financial systems to be simulated.

In 1993, Boot, Greenbaum, and Thakor (1993) developed a 'tweaked' model to answer a theoretical puzzle: why do financial contracts often allow participants a "measure of discretion as to whether to honor or repudiate them" (p. 1165). Their answer: flexibility and reputation. Boot and Thakor (2000) refined this model to consider what happens when borrowers must borrow beyond the length of a given contract: specifically lenders and borrowers may maintain their relationships over time. They show that contracts over multiple periods are economical when it is costly for lenders to extract borrower-specific information. They contrast this 'relationship banking' with 'distance' lending: arms-length contracts (in capital markets) whose benefits and costs are fully contained within one time period.

This framework became the basis of an extensive theoretical and empirical literature, whose principal findings are that relationship lending increases the availability of credit and reduces loan rates, and that small banks are best able to maintain the advantages of relationship lending (Elyasiani and Goldberg 2004). The relationship lending model predominates in Europe, and the arms-length model in the US (Boot and Thakor 2000). Elsas (2005) found evidence that relationship banking exists and positively impacts borrowers in Germany.

In sum, relationship banking exists in the equilibrium approach because lending is subject to costly asymmetric information. It will persist only as long as informational problems and transaction costs in lending do. In effect, banks are living on borrowed time. But to paraphrase Hahn, there is another way to approach relationship banking: to examine what exists and ask whether it can survive. To explain what exists requires going beyond in-principle discussions and fleshing out institutional specifics.

Banks have been making multiple-term loans with their borrowers for decades. These continuing relationships often exist hierarchically, with large banks sustaining their relationships with large firms, medium-size banks with medium-size firms, and small banks with small firms. Explaining grouping by size requires an institutional and historical perspective, in which banking structures are seen as unfolding in stages and across regional space (Chick 1986, Chick and Dow, 1988, Dow 1999). In many countries, small banks emerge in smaller cities – and in district areas within larger cities – to meet the banking needs of customers whose size and scale makes them relatively unattractive to larger lenders. Small banks use proximity to the communities they serve as a survival tool. Their knowledge set includes the economic structure and cultural practices of the community, an awareness of the skills and reputation of the agents within that community, and updated information regarding that community's price levels, resources, and capabilities. This knowledge set, in turn, conveys an understanding of the risks and opportunities that arise in a local area.

This strength leads to weaknesses. Since community banks typically lend in well-defined areas, their entire loan portfolios are susceptible to spatially-specific adverse shocks. Banks with activities focused on particular sub-national areas can expect losses from their lack of diversification (Corgel and Gay 1987). Furthermore, banks operating in peripheral regions are subject to liquidity draining in periods of monetary stress (Dow 1992), and are susceptible to the structural weaknesses in their customer bases as a result of a "multi-causal situation in which all sectors in the region are involved" (Dow and Rodriguez-Fuentes 1997, p. 914).

Another source of potential fragility for medium and small banks engaged in relationship banking within peripheral subregions – and/or with smaller economic units within core subregions – is that small-business balance sheets are often more precarious and fragile than those of larger businesses. The same condition obtains for lower-income households. These businesses and households are likely to be financially fragile in the best of times. A final source of risk arises because these banks' activities unfold within the broader framework of the macroeconomy, whose robustness is more centrally determined by macroeconomic policy and by the lending decisions of larger banks. A weak and stagnant macroeconomic environment increases the probability of failure for all loans made in that spatial area.

In recognizing the special riskiness of the customer base of institutions located in peripheral areas, it is important to add that relationship banking necessarily precludes predatory lending. Maintaining a borrower-lender relationship over time is inconsistent with the imposition of high interest rates and fees that may force a borrower to default within a foreseeable timeline. In any event, just because small and medium enterprises, and lower-income households, are financially fragile does not mean they cannot be regarded as viable going enterprises. Purely "by the numbers" tests of creditworthiness or performance may overlook these enterprises' and households' resilience; further, a bank that seeks a relationship over time with such borrowers must be patient, and must avoid imposing interest rates that treat these customers as likely to fail, since this may yield a self-fulfilling result.

Ethnic banking in Los Angeles. A natural relationship-banking experiment is provided by the experience of ethnic banks – that is, banks owned and managed by ethnic/racial minorities – in Los Angeles County. These banks became the focal point of an extended study by multiple researchers for several reasons: ethnic banks constituted one-quarter of all County bank branches by the 1990s, offered a rich tableau for comparative study, and were located in a city that had become a focal point for urban research.[3]

Ethnic banks were first created by members of socially excluded minority communities. Japanese and African-American banks were created first, followed by a community-based Chinese American bank opened by residents of then-segregated Chinatown in the early 1960s; in the same decade, two more African American banks were founded. Unable to obtain bank credit and restricted to spatially segregated areas, these three communities' members pulled their resources together to generate their own savings-investment process via a chartered bank. The compression of the entire community – business owners and doctors to domestic workers – into a restricted physical space, along with informal restrictions on where community members could shop, insured a relatively robust cash-flow within the community.

After the 1960s, these two cases moved in different directions. The situation of the African American banks became steadily more precarious. The closure of unionized industrial plants that had provided secure, high-wage jobs undercut the economic vibrancy of the inner-city areas that these banks served. In addition, as segregation eased, the more prosperous community residents could (and did) move into more stable neighborhoods. The Watts riots of 1965 also stigmatized South Central Los Angeles as an unsecure location to locate businesses. Consequently, African American banks had to shift from community economic

[3] Wei Li (Arizona State University) and I were the principal organizers of this research. Among the ethnic-banking project's publications are Aldana *et al*. 2002, Aldana *et al*. 2010, and Chee *et al*. 2001.

development per se to "picking winners:" they lacked the scale – and the community lacked the autonomous cash-flow – to kick-start a virtuous cycle of demand and income growth. The situation worsened in the 1990s when securitized predatory lending was initiated.[4] Payday and tax anticipation loans proved more effective means of wealth-stripping than the familiar pawnshop. As subprime lending gathered force and more households were pulled into unviable home-ownership situations, community economic stagnation was replaced by collapse. One of the three African-American owned banks in Los Angeles failed, and a second, acquired by an East-Coast ethnic bank, scaled back its local activities. Only one banks survives; and it does so by picking out "winners" and offering niche products that its customers cannot find at mainstream banks. Overall, south Los Angeles remains depressed.

The Asian American banking story has played out very differently. In the late 1960s and 1970s, Korean and Japanese banks began to open operations in Los Angeles. In the Japanese case, it was largely due to the large Japanese trade surplus with the US; in the Korean case, it was due to the large Korean immigration to Southern California. This immigration wave, fed by people from many Latin American and Asian countries, gathered strength and remained strong until the early 21st Century. In the 1980s and 1990s, they were joined by Chinese banks from across the Chinese diaspora; two Hispanic-owned banks opened as well. And the growth of foreign-owned banks was paralleled by renewed growth for the Chinese American- and Korean American-owned banks. The 1990s and early 2000s saw strong influxes of Asian and Latin American immigrants, some with substantial financial resources. This fueled a development surge, notably in the San Gabriel Valley. It was initially led by ethnic banks, which located in and loaned to new residents and businesses in cities such as Rowland Heights and Walnut. As this development process took off, mainstream banks such as Bank America and Wells Fargo joined in, opening branches and helping finance shopping centers, small and medium enterprises, cross-border trade, and home-purchase loans.

In sum, finance led a "takeoff into growth," as Gerschenkron (1962) might have put it, in the Asian American banking case; but the formula – relatively small ethnic banks creating market momentum that was amplified by larger banks' entry – was a new one. The African American banking case did not result in such a takeoff, due to the insufficient scale of these banks' operation, to the stagnation of the areas they served, and the failure of larger mainstream banks to follow their lending lead.

4. A Brief History of Spanish Banking, 1978 to 2008

Until the death of Generalíssimo Franco in 1975, Spanish banking was dominated by seven privately-owned banks with extensive equity stakes in Spanish industry, acting "as a state-sanctioned cartel" (Deeg and Perez 2000, p. 130). Once Spain began its transition to democracy in 1975, things changed rapidly. Radical bank deregulation, not accompanied by measures to reform the oligopolistic nature of the market, led to a systemic crisis. In the 1978-83 period, 52 out of 110 total institutions, representing a fifth of all bank deposits, experienced solvency problems: 24 were rescued, 4 liquidated, 4 merged, and 20 small and medium-size banks nationalized (Laeven and Valencia 2008).

In the 1980s and 1990s, Spanish banking had specialized components: commercial banks in commercial and industrial loans; savings banks in mortgage loans; and cooperatives in loans to small businesses and individuals in local areas (Hernando and Pages 2001). This structure

[4] For a detailed discussion of financial innovations affecting lower-income communities in the neoliberal decades, see Dymski (2012).

was also hierarchical: large banks worked with large firms; savings banks, originating in specific cities or regions, built up local markets; and cooperatives worked in smaller cities and isolated communities. This system mixed old elements with provisional new ones; for example, interlocking directorships between large banks and large corporations, which had arisen in the Franco period, were maintained into the new era.

Concentration and consolidation. Competition between Spanish banks increased in the 1990s due to the entry of foreign banks and the impact of ending geographic restrictions on savings banks' expansion. Between 1988 and 1998, the population of savings banks and coops fell from 79 and 177, respectively, to 51 and 97. Bank margin decreased, from 4% to just over 2% during these years. And freed from geographic barriers to expansion, savings banks (the Cajas de Ahorros, or cajas) captured a steadily larger portion of the deposit and loan market: in 1998 they held 53% of all deposits and 43% of loans, figures ten percent higher than a decade earlier. Credit cooperatives grew as well, but their market share remained tiny: they faced limits on geographic expansion because of the legal requirements associated with qualifying as a cooperative.[5] A 2001 study described the savings bank and cooperative sectors as operating "basically according to [their] own means" (Hernando and Pages 2001, p. 11), for which reason this study's authors found little evidence of a monetary transmission channel mechanism.

This heightened competition was spurred by Spain's impending integration into the single European market. The European Central Bank (ECB) wanted "to complete financial integration in Europe by 2005" (Cabral, Dierick, and Vesala 2002). Mergers occurred at all levels, though efficiency gains were obtained in the relatively rare cross-border mergers (Altunbas and Marqués 2008). In Spain, the credit cooperatives experienced a strong consolidation wave from the mid-1990s onward. While this was aimed at bolstering competitive strength, it had implications for these cooperatives' operations. As Melian-Navarro *et al*. (2011) found in a study of agrarian cooperatives in Valencia, "the decrease in the number of entities as a result of mergers .. has produced a decrease in the agrarian cooperatives' negotiating power. While the smallest rural savings banks continue their policy of support for the agrarian cooperatives and their partners, the larger ones are getting out of agrarian cooperativism."

Europe's large banks were under the most pressure to integrate. And while the ECB's directive may have hoped for integration through cross-border mergers, many large bank mergers instead bolstered defensive positioning in home markets. Spain provides an example. The second-largest Spanish bank, Banco Bilbao Vizcaya, was created by a 1988 merger of two Basque banks. Banco Central Hispanoamericano (BCH) was created in 1992 by a defensive merger motivated by the emerging single European market. In January 1999, the largest Spanish bank, Banco Santander, consolidated its position by merging with BCH, then third-largest. The seven large banks of Franco's era had become three (the third was Banco Popular Español).

And as with credit cooperatives, consolidation has given banks new strategic and managerial control challenges (Boot 2011). Consolidation offered large banks a chance to compete internationally with the largest global banks. Consider the case of Santander. This bank expanded systematically into foreign markets, especially Asia and America, in the 1990s. Taking advantage of its strategic emphasis on low-risk retail banking and its avoidance of

[5] Nonetheless, as Bateman (2013) notes, credit cooperatives offer some of the best examples of embedded banking; among them is the Caja Laboral Popular (CLP) achieved special fame as the financial arm of the Mondragon Cooperatives Corporation.

investment-banking activity (Mallet 2011b), Santander has entered offshore markets in the wake of their systemic crises. In the 1990s, it entered the Mexican and Argentinian markets. In July 2004 it acquired the UK's Abbey National. In June 2006 it purchased a fifth of the US's Sovereign Bancorp. In May 2007 it joined an offer for Abn Amro and acquired Banco Real, Abn Amro's subsidiary in Brazil. In July 2008, Santander acquired Alliance and Leicester, which had 24BN GBP in deposits and 254 branches; then in September 2008 it purchased Bradford and Bingley, a savings bank with 197 branches, 140 agencies, and 22.2BN GBP in deposits. In October 2008 it acquired the 76% of Sovereign it did not own. It acquired HSBC Finance Corp (USA), an auto financing company, in 2010. Santander was then forced to declare huge losses on its commercial real-estate lending in Spain. With 50% of its profit coming from Brazil, Chile, and Mexico, the bank has been stepping away from real-estate lending in Spain (Scott 2012). However, it refreshed its capital with a Mexican equity sale, and in 2012 bought two Polish banks (*Financial Times* 2012).[6]

The Competitive Threat from Cajas. Santander's reduced attention to the Spanish market is representative of a broader trend: large private banks' declining role in relationship banking. For one thing, large corporations have increasingly turned from bank credit to other sources of finance; for another, these banks have been under growing competitive pressure from Spain's cajas.

The cajas have historically had no owners, but instead were overseen by political leaders and clergy. They have some characteristics of regional development banks, providing 'soft finance' for local businesses and for governments in Spain's 17 autonomous regions (Stewart 2003). Post-Franco financial liberalization allowed cajas to offer the same products as banks for the first time. They benefited in the resulting competition from their close relationships with their home communities. By 2003, cajas had overtaken commercial banks in mortgage lending and increased their consumer loan share from a sixth to a half (Stewart 2003). Cajas had strong relationships with many local businesses, not only lending to them but also taking ownership positions.

Cajas' focus on mortgages and lower-income customers brought them substantial revenue. Jiménez and Saurina (2004) found evidence that cajas' loans were riskier than those made by other lenders, and that close bank-borrower relationships (like cajas') increase their willingness to take more risk. That said, the 2000s brought rapid growth for the cajas; two cajas assumed third and fourth place in overall asset size. They were now competing across the board with banks in an increasing number of markets: one caja bought a bank in Florida, while another undertook a (Spanish) joint venture with Wachovia, and a third bought a 25-percent interest in Mexican mortgage company (Stewart 2005).

The caja boom was in full swing by 2007 (*European Banker* 2007). Cajas paid out higher deposit interest rates paid than commercial banks; and they held share ownership positions in several Spanish banks and in 2,000 businesses, 95 percent of which were not listed on the stock exchange. Since cajas had no equity capital, they expanded by inaugurating new branches – 1000 in 2007 alone (Amaral 2008). This brought cajas' overall branch total to 24,600, compared with the 15,600 branches maintained by other Spanish banks. New branches were often loss-leaders, especially in smaller towns; but opening branches conveyed the 'personal commitment' for which cajas were known. Cajas' pursuit of this strategy was

[6] Now the largest bank in Europe, Santander's current global asset size of 1.27 TR Euros would make it the 4th largest BHC in the US. In 2013, Sovereign Bancorp was renamed Santander Holdings USA; it is the 29th largest BHC in the US as of March 31, 2013, with assets of $83 billion.

not uniform across space; Alamá and Tortosa-Ausina (2012) found some evidence of financially excluded areas within Spain. Barcelona-based La Caixa, the largest of the cajas, has 5,000 more branches in Spain than Santander.

Then the music stopped. From an increase of profits of 19 percent in 2007, they slumped to an 0.2 percent gain in the first quarter of 2008 (Amaral 2008). Expansion by branch opening had, in turn, reached a limit. As of 2008, Spain had approximately 1150 persons per bank branch; in the same year the US, for example, had 3800 persons per branch. In response to the housing slump, the cajas attempted to diversify. Their search for new products included insurance, investment funds, and business lending.

Securitization. From the late 1990s on, mutual funds have taken deposits away from banks. Banks reacted by creating their own mutual fund subsidiaries. Banks continued to use their subsidiaries' funds to support loan growth. This was done by shifting the locus and form of credit provision from relational to arms-length, and from loan-making to securitization. Securitization was considered a safe form of investment due to unique Spanish laws (subsequently softened, but not repealed) requiring that originators bear the risks of the securities they originated, and covered or even over-collateralize their risk exposure, under "dynamic provisioning" clauses (Fernández de Lis and Herrero 2008).

Securitization grew by 900 percent in Europe between 2000 and 2008; and Spain was second only to the UK in the volume of its securitised assets. Some 70% of Spanish savings banks securitised in the 2000-08 period, compared to 50% of commercial banks and credit cooperatives. And whereas securitization in the US usually involves the off-loading of credit risk ("originate-to-distribute"), Spanish banks retained much of their credit risk ("originate-to-hold" lending), often issuing *cédulas hipotecarias* (mortgage-covered bonds). Cardone-Riportella *et al.* (2010) show that securitization based largely on real estate reached a frenzied high in 2007. The total volume of assets securitized was 137 billion Euros in that year, 46 percent more than in 2006. Of that total, real-estate transactions constituted 46 percent, commercial loans 14 percent, and credit to small and medium enterprises, 7.5 percent.[7]

The upshot of these trends toward concentration and securitization is that relationship banking matters less at all levels. The small banks more committed to relationship banking have been growing more slowly than large banks (Benito 2008), and making loans that can be traded at arms-length. And as noted, the nature of credit relations with agrarian cooperatives has been shifting, with smaller borrowers less favored than before. Cajas have retained their relationship banking practices, but they have increasingly focused on housing loans, and are seeking new lines of business. Academic studies record the same trends. For example, Martín-Oliver (2010) finds that bank branches are losing their influence on lending equations. And Karaivanov *et al*. (2010) find that there are many unbanked firms that rely on other non-financial firms or family-tied groups for financing.

Since small and medium enterprises rely far more heavily on relationship banking for credit than do large firms, these trends in Spanish banking – all of them at play before the outbreak of the crisis – have had a disproportionate negative impact on these firms. A comparative study of France and Spain by Deeg and Perez (2000) provides some evidence. These authors

[7] One might question why securitization raced ahead while housing prices were already falling. Carbó-Valverde *et al*. (2012) suggest loan performance explains ratings changes with a lag of four quarters; more plausible is the finding by Martínez Solano *et al*. that bank stock prices rise when securitizations are announced.

argue that the traditionalist and top-down character of banking in Spain builds path dependence into financing patterns. They write:

> "… the sectors in which the banks have maintained their stakes have been those least exposed to foreign competition or where a return was assured in some other way (in particular, utilities and firms with majority public ownership). By contrast, banks have often stayed away from the more competitive and innovative sectors of the Spanish economy where multinationals and foreign investors have been key investors.
>
> "The principal impression that emerges from the literature on SMEs (which are largely family owned in Spain …) is the extreme difficulty that these firms have had in attaining investment finance at acceptable terms in Spain. Spanish SMEs depend heavily on bank finance in terms of external sources of finance, given the absence of a viable small firm equity market and the underdevelopment of the Spanish venture capital market" (Deeg and Perez, 133)

Housing Bubble and Financial Crisis. Bank of Spain studies had already identified a bubble in the Spanish housing market by 2002.[8] According to the Bank of Spain (the Spanish Central Bank), between 1997 and 2007, the average housing price in Spain rose by 115% in real terms, versus 80 percent in the United States and 40 percent in the Eurozone. Demand was spurred by foreign vacation-home seekers and by Spain's immigrants (equal to about 10 percent of the population). Many immigrants worked in construction, a sector whose direct contribution to GDP grew to 14 percent.[9]

The cajas financed both the construction and the purchase of housing; housing accounted for 41% of their loan total. There was a remarkable acceleration in the period immediately before the crisis: between 2004 and 2007, credit to the construction and real-estate sectors, respectively, grew by 24.6 percent and 43 percent per annum. So risks and solvency problems, when they came, were concentrated among cajas.

Between 1997 and 2007, housing loans as a percentage of GDP increased from 28.4% to 102.9%. The widespread use of credit for housing exceptionally increased households' private debt. This debt rose from 52.7% of disposable income in 1997 to a maximum of 132.1% in 2007. As a result, the effort of individuals to acquire a dwelling rose from 4.3 years of salary at the beginning of the cycle to 9.1 years at the end of it. This was an unsustainable level. Also unsustainable was the pace of home-building. In the boom decade, 500,000 dwellings were being built annual, versus a demographic demand of 350,000. The result was an oversupply of unsellable homes at the onset of a prolonged economic slump in Europe. By 2010, Spain had a million completed unsold dwellings (Rodriguez 2011).

5. Some Context: The 1980s US "Triple Banking Crisis" and Subprime Crisis

Coming out of the Depression, the US, like Spain, had a functionally and geographically segmented financial system, with money-center banks focused on large firms and rich households, other commercial banks focused on medium or small units, and savings and loan associations and mutual savings banks (collectively known as thrifts) made mortgage loans.

---

[8] Pagés and Maza 2003) established that housing prices, having risen 55 percent in the 1998-03 period, were 30 percent above their 1991 peak; and Ayuso and Restoy (2003) found the Spanish housing market was overpriced by 20 percent in 2002.

[9] These statistics are drawn from Carballo-Cruz (2011), who is also the source of the other uncited statistics in this section and in section 6.

These arrangements began breaking down in the 1960s, and were further weakened by macroeconomic instability - several years of high inflation, high interest rates, and recession – between 1974 and 1982. People pulled their savings out of deposits and into mutual funds. Banks were permitted to create some mutual-fund-like instruments, but were not able to capture back much of the savings they lost. And when oil prices collapsed, the loans that had anticipated continued high oil and commodity prices could not be validated.

By 1982, a triple banking crisis afflicted the US banking system: some money-center banks were technically insolvent (or nearly so) due to their large exposures to failed loans to Latin America; other money-center banks (and some regional banks, including every large bank in Texas) were insolvent because of their exposure to loans on failed real-estate development projects in the "oil patch" states (Texas, Oklahoma, Louisiana); and many thrifts were illiquid, and in some cases insolvent, because borrowing rates spiked above the rates on their stock of mortgages.

Three mistakes were made in this time period. First, the policy of too-big-to-fail banks was established and applied to Continental Illinois Bank of Chicago.[10] Federal funds were used to permit its resolution. While the notion of "systematically important" institutions may be defensible, introducing this designation while deregulating invited further problems.

That commitment to deregulation was the second mistake. Policy-makers assumed deregulation would make the US financial system more competitive. A federal deregulation law (the Garn-St Germain Depository Institutions Act of 1982) provided $50 billion to close failed thrifts, and also permitted thrifts to make a wider range of loans and to undertake more activities. It is important to note that thrifts and banks alike can be chartered, under American law, at the federal or state levels; thus what activities they are permitted depends on which level of government charters them. Many states reacted to (or anticipated) the federal deregulation of thrifts by making their charters even more permissive. This problem of "two-tiered" regulation created a race-to-the-bottom for regulatory oversight. Meanwhile, the new landscape of possibility for thrifts seemed boundless. Thrifts chartered in Arizona, for example, could own real-estate developments, finance their construction, and sell mortgages to their buyers.

The third mistake was the treatment of insolvent savings and loan associations. First, resolution of problems thrifts was delayed. Then, those buying failed thrifts – via mergers or acquisitions supported by federal cash infusions – frequently obtained (or held) thrift charters in permissive states. The results were disastrous. Between 1982 and 1989, when a subsequent thrift reform was passed (the Financial Institutions Reform, Recovery, and Enforcement Act of 1989), a huge number of thrifts got further into trouble. Rather than reining in their activities, many thrifts engaged in wildly speculative and often fraudulent activities. The most famous case is that of Charles Keating, who owned Lincoln Savings Bank of Arizona, and who sold fraudulent bonds to finance non-existent real-estate waterfront developments in the middle of the desert (Black 2005). Curry and Shibut (2000) calculated the cost of the 1989 bailout bill, for institutions whose assets had totaled $500 billion, at $154 billion. Half the thrifts in the US failed between 1986 and 1995.

The Subprime Crisis. The US mortgage finance system was restored to order by a rapid shift to securitization. Initially, US mortgages could be securitized by qualifying for underwriting by two government sponsored enterprises (Fannie Mae and Freddie Mac). Qualifying mortgages had to meet certain thresholds regarding the loan/income ratio and price level. This insured the security of these securities, as they were both adequately collateralized and affordable for their holders. With time, however, a number of private

[10] Dymski (2012) provides a detailed analysis of the emergence of the too-big-to-fail doctrine.

underwriters appeared, each willing to underwrite riskier or higher-value loans. The system was on a slippery slope to the creation of subprime mortgages: that is, mortgages whose repayment terms, fees, and interest rates made them almost certain to default unless the prices of the homes on which they were taken out grew immensely in value. These mortgages, as detailed in Dymski (2009), were disproportionately marketed to minority borrowers, many of whom could have qualified for conventional loans. Subprime loans are antithetical to the principle of relationship banking: borrowers were given loans that were certain to default unless unprecedented housing-price growth was sustained.

Banks evolved new processes for the creation and marketing of securities, and an ever-expanding set of mechanisms for transforming, underwriting, and off-loading risk. The key means of offloading risk was an expanding set of secondary markets for loan-backed securities. Whether off-balance-sheet risks originated by banks was ultimately banks' responsibility would emerge as a central challenge in the subprime crisis of 2007-08; another crisis-related challenge would involve the adequacy of liquidity to support banks on- and off-balance-sheet loan portfolios. But initially, 'out of sight, out of mind' was the applicable principle. Consequently, banks began to market new loan instruments that took advantage of the possibilities opened up by securitization. Some banks – primarily large megabanks that either were, or would soon be, designated as "too big to fail" – also took advantage of their centrality in interlocking subprime markets to generate earnings from buyers and sellers, underwriters and speculators, alike: they made loans, bundled and sold securities, serviced mortgages, and took short or long positions in real and synthetic subprime instruments.

Later it would become clear that banks' individual decisions to increase expected profits by expanding into securitization and into more loan markets were taken without considering their contribution to heightened liquidity and default risk in the overall credit markets. That is, spillover effects were ignored. But the extent of these spillovers was not clear until the money markets supporting securitized debt collapsed in September 2007.

Instead of exploring the subprime crisis at length, we make three points about that history here. First, the deep recession that occurred after the first shock of the subprime crisis undercut the conditions needed for many small banks to sustain successful localized investment-savings cycles in their home cities. In the four years after 2008, 367 commercial banks – 5.3 percent of the 2009 total, failed. A disproportionate number were small business-focused banks operating in areas with high concentrations of subprime loans. Second, one consequence of the too-big-to-fail machinations that accompanied the subprime crisis itself was that the four largest US megabanks - JP Morgan Chase, Citibank, Bank America, and Wells Fargo – have acquired close to half the US volume of all the major categories of lending. At the same time, these banks' lending to small business has not increased notably since 2008; in particular, business and mortgage lending has remained stalled. Third, the implementation of quantitative easing, in its various manifestations, has privileged large banks' balance sheets and ease of access to funds, over and against smaller banks.

In the context of this telescoped history, an enumeration of the further mistakes made in the subprime crisis would be as follows: 1) the absence of any prudential oversight over the multi-site process of the creation, bundling and distribution of high-risk loans separating risk-creation from risk-bearing for their issuers; 2) the failure to implement any oversight mechanism for insuring that consumer rights were not abused in the creation and distribution of new subprime loan products; 3) creating a toxic macroeconomic atmosphere that puts otherwise-viable community-serving banks at risk; 4) permitting the resolution of a crisis linked to the overly speculative and imprudent behavior of large banks, to unfold in a way that further disadvantages smaller banks relative to large banks, post-crisis.

6. The Spanish Banking Crisis

The lending slowdown Spain preceded the outbreak of the Eurozone crisis. In early 2008, credit to companies in Spain grew at annual rates exceeding 30% (twice the Eurozone average). In late 2009, the growth of credit to companies became negative, declining to -4.2 percent in early 2010. The weak macroeconomic environment significantly increased banking credit risk in the southern European countries (Castro 2013). The announcement of the Greek bailout in May 2010 then had a “wake-up call” effect on European bond and bank equity prices (Mink and de Haan 2013). European authorities ordered stress tests, hoping to reassure markets about the strength of European banks’ balance sheets. However, five of the seven banks that failed July 2010 “stress tests” were cajas (Mallet 2010b).

The banking industry’s exposure to construction and property development transmitted the housing crisis to the banking sector (Carballo-Cruz (2011). In late 2010, the default rate for credit to real estate developers reached 14 percent, and for construction companies, 11 percent. The default rate for housing loans was below 2.5 percent, due to the fact that under Spanish law, repayment obligations remain for loans to individuals, even when the assets purchased with those loans have been vacated.

Responses to the crisis. The reactions of the cajas and Spanish policy-makers to the crisis were slow Carballo-Cruz 2011). The initial idea was to mobilize private-sector resources to address the banking sector’s problems. In 2009, an institution for organizing the bank restructuring – the Fund for Orderly Bank Restructuring (FROB) - was created with a small amount of public funds, and in anticipation of substantial private-sector subscriptions. However, this fund was undersubscribed, and cajas delayed responding to the crisis (Mallet 2010a); their profits plunged but they delayed making staff cuts. Finally, in May 2010 the Bank of Spain seized CajaSur of Cordoba (and later a second caja), and forced action on its demand that the cajas consolidate. By September, the 42 cajas were being restructured into 18 holding groups (Mallet 2010c). Concentration processes, by the end of 2010, affected 40 of the 45 cajas. Most involved the use of a consolidation mechanism – the Institutional Protection Systems (SIP) – permitted the formation of coalitional entities that retained some autonomy. By the end of 2010, only 17 savings-bank entities remained. The largest of these consolidated entities, formed on December 2, 2010 with 4.5 billion Euros in public support, was Bankia. The Caja Madrid held a controlling interest in this ‘cold fusion’ merger, which included offloading of toxic assets into a ‘bad bank’ (Banco Financiero y de Ahorros).

These moves were not sufficient to disperse pressure on Spanish securities. In early 2011 the cajas were threatened with nationalization if they did not raise more equity (Mallet 2011a). Market pressure on the sector (and on Spanish securities more broadly) heightened due to the cajas’ balance-sheet opacity and to continuing revelations of more problem loans and housing price declines. Some cajas finally sold shares, most notably Bankia: its public subscription of 3.3 billion Euros in July 2011 was hailed as the definitive step in resolving the Spanish banking crisis. But loan losses continued to mount. In May 2012, Bankia required a further public bailout of 10 billion Euros (Johnson 2012). Only two months later, Spain was forced to accept a 100 billion Euro bailout package from the International Monetary Fund-led “Troika.” Under the terms of this package, Spanish banking institutions at all levels would have to demonstrate that the adequacy of their capital.

Mistakes made and made again. We turn from the unresolved efforts to understand the exact amounts of Spanish banks' balance sheet damage to a consideration of the lessons for the Spanish banking crisis from recent US experience, starting with the 1980s "triple banking crisis." The first lesson is to avoid labeling any institution "too-big-to-fail." Spain has not faced the failure of "systematically important" megabanks in the same way as has the US; but its large cajas' woes have become intertwined with the nation's efforts to manage its crisis.

The deregulation mistake made in the US was partially repeated in Spain, as Spain – like the US – was slow to impose firmer guidelines on its cajas. Further, the rechartering of cajas that were already effectively insolvent – in Spain's case, via the SIP mechanism – represents an almost exact duplication of US action under its 1982 Garn-St Germain Act. The result in that case was that giving renewed life to these 'zombie banks' led to much greater publicly-paid losses some years later. This is precisely the pattern now in play with the cajas: as in the US, hubris has not led to repentance, but to new life.

Turning to lessons from the US subprime crisis, there is some evidence that predatory loans to lower-income families may be part of the current problem – dynamic provisioning notwithstanding. However, as in the US case, no precise data on the extent of predatory lending exists. Where Spain has bettered the US is in its far more rigorous oversight of the securitization process. This said, that oversight had unintended consequences. The US system of securitization established a nest of interconnected securities claims. Once housing prices and homeowners' carrying capacity collapsed, the immediate result was an impenetrable set of unsatisfied cash-flow claims; the longer-term result was 12 million foreclosures and continuing acrimony among frustrated wealth-owners. The Spanish system was designed to avoid such tangled webs of cross-cutting claims; but instead, loan defaults stay with their originating banks. The use of collateral guarantee provisions was designed for every contingency but the one that happened – a systematic deep collapse of housing prices. The Spanish system also has not learned from US experience that it is difficult or impossible to resolve structural banking problems in a low-growth macroeconomic environment.

7. The Future of Relationship Banking in Spain

Spain is a nation in which small and medium enterprises account for a large amount of employment, enterprise, and economic growth. And it is widely recognized that enterprise capacity depends crucially on credit availability; see, for example, Perez *et al.* (2007) and Casasola-Martínez and Cardone-Riportella (2009). Spain's banking system has been designed in the post-Franco era to have businesses of each size-class serviced by banks operating at parallel scales. As noted, any banking system will tend to centralize credit-creation and, in crisis periods, to centralize liquidity, as a consequence of which the banking system contributes to uneven regional growth. That said, the design of the post-Franco Spanish system respected Spain's historical development and also the diverse patterns of its business enterprises, often family-owned.

This system was disturbed, however, from the 1990s onward by shifts and adjustments made in anticipation of joining the European Monetary Union; these shifts pushed banks toward larger combinations and away from the smaller markets they had previously served. The housing boom of the 1990s and 2000s, in turn, disturbed this pattern further. In particular, cajas – who have occupied the critical middle rung in the enterprise-bank ladder – were pulled heavily into financing housing construction and home purchases.

This was the state of things when the financial crisis hit Spain. The crisis found Spain's banks and its government in denial. Some of the mistakes made in the US in dealing with its 1980s and its 2008- crisis were repeated in Spain, including the failure to move aggressively in response to the outbreak of crisis, and to move more aggressively to block the financial system from doing more damage. The result is that the Spanish financial crisis has carried on, unresolved. The operational capacities of banks at all levels of Spain are compromised, just when the small and medium enterprises they serve most need them. Banks in Spain are worried about their capital adequacy and about the magnitude of their credit-portfolio risk, and not in a posture to provide the credit that will renew Spanish economic growth.[11]

The steps taken to resolve Spain's banking crisis have emphasized the need for more capital, and for bigger and fewer banks than in the pre-crisis scenario. Special attention has been paid, in addition, to Spain's largest banks in this crisis-resolution drama. Several of Spain's cajas, which had already "super-sized" themselves in competing for growth in the 1990s and 2000s, have become systemically important. The super-sizing process itself moved these cajas' attention away from serving their (former) home markets; the capitalization process will take these institutions further in the direction of being generic, national-market-spanning general banks. The cajas who did not super-size may not survive, or may survive with a vastly reduced loan-making capacity. If things unfold in this way – with "two tiers" of Spanish banks, with the upper tier comprised of two former cajas – then it will be crucial for smaller cajas and for credit cooperatives to play a reinforced role in the localized provision of productive credit. But here we must emphasize the key lesson from the Los Angeles ethnic-banking experience: that is, a small, locally-based banking sector can revitalize a community only when its activities are reinforced by the lending activity of larger banks, and when the national economy has a robust base-line level of economic activity.

This suggests that efforts to restore the solvency of Spain's banks – which has become virtually the only question that matters (other than the volume of bad loans) for Spain's large banks – should be supplemented by policies to re-instill vigor and energy into smaller local markets and small banks. One key is to recognize, in the law and in public discourse, that banks that focus on multinational competition and overseas markets are themselves engaged in a redefinition of banking: what is "modern" and what is "outdated." This was the path that led to the subprime implosion in the US.

The questions will be how to make the space for embedded banking. In the case of Los Angeles' ethnic banks, the impetus was provided by minority communities banding together for economic survival and then success, and facilitated by a legal structure that made it relatively easy to charter a bank. An impetus of this kind would have existed when the cajas were created; but much history has passed since then. Can this spirit be renewed?

It is possible to outline several ways to move forward. First, a Community Reinvestment Act along US lines, which requires every bank to have a public plan explicating how every bank is meeting the credit needs of all the banking sub-markets it serve, would be a useful addition to Spain's legal roster of banking law. Second, providing more resources for credit cooperatives – perhaps through tax-investment incentives – would permit more finally-enabled but still socially accountable experiments in local cooperation and control.

Third, a robust public investment bank would also help to ensure that visionary entrepreneurs and inventors have the resources needed to create new industries and new jobs. The case of the National Bank for Social and Economic Development (BNDES) in Brazil is worthy of

[11] Appleyard (2013) tells almost exactly this story for the case of Great Britain.

study and emulation (Bateman 2013). BNDES operates at two levels, national and regional (localized). At the national level, it nurtures industries and provides support for infant and even national-champion industries; as such, it plays its role in providing a stable income floor for Brazil. At the local level, BNDES puts some of its resources into community-development banking entities in Brazilian cities and towns (including some microfinance funds that loan to small businesses in favelas). Providing some portion of its support for local enterprises through these smaller portals assures that lending is embedded, as it makes use of localized knowledge and informal insights that published statistics will be unable to capture.

In sum, the policy innovations discussed here may the potential to offset the quadruple ratchet that is forcing Spanish banking to move away from relationship banking and in the direction of using standardized algorithms to deliver credit at a distance from the households and small-medium enterprises they are meant to serve. These innovations will certainly not work the same way in Spain as they have elsewhere; and they may not work at all. The BNDES model would be difficult or impossible to export wholesale to Spain: the strong regional character of Spanish economic identity and growth might make it impossible to have one entity serving the entire nation. And if there were regionally distinct developmental banks, the question of equity in the distribution of resources across regional mini-BNDES's would arise. There is no clean and simple answer to such design dilemmas.

But the point is not that this makes movement in this direction impossible; even widely-celebrated institutions such as BNDES face charges of being unbalanced and unfair in their distribution of lending. The real question that emerges from the Spanish economic crisis is what less-than-perfect mechanism can be created and sustained, in a contentious political environment, to renew the embedded banking that can renew the capacity of Spain's critically important small and medium enterprises. Restoring the fortunes and balance sheets of Spain's megabanks will not constitute an answer to this question, whose urgency will be apparent if crisis turns, as seems likely, to stagnation.

Bibliography

Alamá, Luisa, and Emili Tortosa-Ausina, "Bank Branch Geographic Location Patterns in Spain: Some Implications for Financial Exclusion," *Growth and Change* 43(3), September 2012: 505-43.

Aldana, Carolyn, Maria Chee, Gary A. Dymski, Wei Li, and Yu Zhou, "Chinese American Banking and Community Development in Los Angeles County: The Financial Sector and Chinatown/Ethnoburb Development," *Annals of the American Association of Geographers* 92(4), 2002: 777-796.

Aldana, Carolyn, Hyeon-Hyo Ahn, Gary A. Dymski, and Wei Li, "Ethnobanking in the USA: from antidiscrimination vehicles to transnational entities," with *International Journal of Business and Globalisation* 4(2), 2010: 163-91.

Altunbas, Yener, and David Marqués, "Mergers and acquisitions and bank performance in Europe: The role of strategic similarities," *Journal of Economics and Business* 60, 2008: 204-22.

Amaral, Rodrigo, "Can Cajas Ride Out the Storm?" *The Banker*, July 2008.

Appleyard, Lindsey, "The Geographies of Access to Enterprise Finance: The Case of the West Midlands, UK," *Regional Studies* 47(6), 2013: 868-79.

Ayuso, Juan, and Fernando Restoy, *House Prices and Rents: An Equilibrium Asset Pricing Approach*. Banco de España: Servicio de Estudios - Documento de Trabajo no. 0304. Madrid, 2003.

Bateman, Milford, "Financing local economic development: in search of the optimal local financial system," In: ÖFSE (Hg.) Österreichische Entwicklungspolitik, Analysen Berichte, Informationen mit dem Schwerpunktthema "Private Sector Development – Ein neuer Businessplan für Entwicklung?" Wien, 2013: 43-52.

Benito, Enrique, *Size, Growth, and Bank Dynamics*. Banco de España: Servicio de Estudios - Documento de Trabajo no. 0801. Madrid, 2008.

Black, William K., *The Best Way to Rob a Bank Is to Own One: How Corporate Executives and Politicians Looted the S&L Industry*. Austin: University of Texas Press, 2005.

Boot, Arnoud W.A., "Banking at the Crossroads: How to Deal with Marketability and Complexity?" *Review of Development Finance* 1, 2011: 167–183.

Boot, Arnaud W.A., and Anjan J. Thakor, "Can Relationship Banking Survive?" *Journal of Finance* 55(2), April 2000: 679-714.

Boot, Arnaud W.A., Stuart I. Greenbaum, and Anjan J. Thakor, "Reputation and Discretion in Financial Contracting," *American Economic Review* 83(5), December 1993: 1165-84.

Cabral, Inês, Frank Dierick, and Jukka Vesala, "Banking Integration in the Euro Area," *European Central Bank Occasional Paper Series No. 6,* December 2002.

Carballo-Cruz, Francisco, "Causes and Consequences of the Spanish Economic Crisis: Why the Recovery is Taken so Long?" *Panoeconomicus* 2011(3): 309-328.

Carbó-Valverde, Santiago, David Marques-Ibanez, and Francisco Rodríguez-Fernández, "Securitization, risk-transferring and financial instability: The case of Spain," *Journal of International Money and Finance* 31 (2012) 80–101.

Cardone-Riportella, Clara, Reyes Samaniego-Medina, and Antonio Trujillo-Ponce, “What drives bank securitisation? The Spanish experience,” *Journal of Banking & Finance* 34 (2010) 2639–2651.

Casasola-Martínez, Maria José, and Clara Cardone-Riportella, “ ‘Too important to fail’: ¿Favorecen las relaciones bancarias la situación crediticia de las PYMEs españolas?” *Universia Business Review*, CUARTO trimestre 2009

Castro, Vitor, “Macroeconomic determinants of the credit risk in the banking system: The case of the GIPSI,” GEMF Working Papers 2013-12, GEMF - Faculdade de Economia, Universidade de Coimbra.

Chee, Maria, Gary A. Dymski, Wei Li, and Yu Zhou, “Banking on Social Capital in the Era of Globalization: Chinese Ethnobanks in Los Angeles,” with, *Environment and Planning A.* Vol. 33, 2001: 1923-48.

Chick, Victoria, “The Evolution of the Banking System and the Theory of Saving, Investment and Interest,” *Economies et Sociétés* 20, *Monnaie et Production* 3, 1986: 111-26.

Chick, Victoria, and Sheila C. Dow, “A post-Keynesian Perspective on the Relation between Banking and Regional Development,” In *Post-Keynesian Monetary Economics: New Approaches to Financial Modelling*, edited by Philip Arestis. Cheltenham, UK: Edward Elgar, 1988: 219-250.

Corgel, John B., and Gerald D. Gay, “Local Economic Base, Geographic Diversification, and Risk Management of Mortgage Portfolios,” *Real Estate Economics* 15(3), September 1987: 256-67.

Curry, Timothy, and Lynn Shibut, “The Cost of the Savings and Loan Crisis: Truth and Consequences,” *FDIC Banking Review* 13(2), 2000: 26-35.

Deeg, Richard, and Sofia Perez, “International Capital Mobility and Domestic Institutions: Corporate Finance and Governance in Four European Cases,” *Governance: An International Journal of Policy and Administration* 13(2), April 2000: 119–153.

Diamond, Douglas W., “Financial Intermediation and Delegated Monitoring,” *Review of Economic Studies,* vol. 51 (July 1984), pp. 393–414.

Diamond, Douglas W., Philip H. Dybvig, "Bank runs, deposit insurance, and liquidity," *Journal of Political Economy* 91(3): 1983: 401–19.

Dow, Sheila C., “The Regional Financial Sector: A Scottish Case Study,” *Regional Studies* 26, 1992: 619-31.

Dow, Sheila C., “The Stages of Banking Development and the Spatial Evolution of Financial Systems,” in *Money and Space Economy*, edited by Ron Martin. London: Wiley, 1999: 31-48.

Dow, Sheila C., and Carlos J. Rodriguez-Fuentes, “Regional Finance: A Survey,” *Regional Studies* 31(9), 1997: 903-920.

Dymski, Gary A., “Racial Exclusion and the Political Economy of the Subprime Crisis,” *Historical Materialism* 17(2), 2009: 149-179.

Dymski, Gary A., “Understanding the Subprime Crisis: Institutional Evolution and Theoretical Views,” Working paper at the Kirwan Institute for the Study of Race and Ethnicity, Ohio State University, January 2010.

Dymski, Gary A., “Genie out of the Bottle: The Evolution of Too-Big-to-Fail Policy and Banking Strategy in the US,” mimeo, Leeds University Business School, University of Leeds,

Elsas, Ralf, “Empirical Determinants of Relationship Lending,” *Journal of Financial Intermediation* 14, 2005: 32-57.

Elyasiani, Elyas, and Lawrence G. Goldberg, “Relationship Lending: A Survey of the Literature,” *Journal of Economics and Business* 56, 2004: 315-30.

European Banker “The Good Times for Spain's Powerful Cajas,” *European Banker*, February 2007: 7.

Fama, Eugene, “Banking in the Theory of Finance,” *Journal of Monetary Economics* 6, 1980: 39-57.

Fernandes, Abel Costa, and Paulo Mota, “The Euro Zone Peripheral Countries’ Sovereign Debt Crisis: Also a Case of Non-Mature Democracies?,” *Panoeconomicus* 2013(3) (Special Issue): 291-310.

Fernández de Lis, Santiago, and Alicia García Herrero, “The Housing Boom and Bust in Spain: Impact of the Securitization Model and Dynamic Provisioning,” *Housing Finance International* 23(1), 2008: 14-19.

Financial Times, “Santander: In Pole Position,” *Financial Times*, February 28, 2012.

Gerschenkron, Alexander, *Economic Backwardness in Historical Perspective*. Cambridge: Harvard University Press, 1962.

Hahn, Frank, “Discussion,” in *Models of Monetary Economics*, edited by John Kareken and Neil Wallace. Minneapolis: Federal Reserve Bank of Minnesota, 1980: 161-6.

Hernando, Ignacio, and Jorge Martínez Pagés, *Is there a Bank Lending Channel of Monetary Policy in Spain?* Banco de España – Servicio de Estudios, Documento de Trabajo no. 0117. Madrid: 2001.

Jiménez, Gabriel, and Jesús Saurina, “Collateral, Type of Lender and Relationship Banking as Determinants of Credit Risk,” *Journal of Banking and Finance* 28, 2004: 2192-2212.

Johnson, Miles, “Bankia’s Failure to Face Reality Brings Back Crisis,” *Financial Times*, May 7, 2012.

Karaivanov, Alexander, Sonia Ruano, Jesús Saurina, and Robert Townsend, “No Bank, One Bank, Several Banks: Does It Matter for Investment?” Banco de España: Servicio de Estudios - Documento de Trabajo no. 1003. Madrid, 2010.

Laeven, Luc, and Fabian Valencia, “Systemic Banking Crises: A New Database,” *IMF Working Paper* WP/08/224, November 2008.

Mallet, Victor, “Spain's cajas pay price of inaction,” Financial Times, June 2, 2010: 24. (2010a)

Mallet, Victor, “Cajas Undergo Profound Transformation,” *Financial Times*, September 6, 2010: 16. (2010b)

Mallet, Victor, “Profits drop sharply at Spanish cajas,” *Financial Times*, September 16, 2010: 16. (2010c)

Mallet, Victor, “Cajas Eye IPOs as Key to Survival,” *Financial Times*, February 2, 2011: 16. (2011a)

Mallet, Victor, "Santander Predicts Return to Big Profits," *Financial Times*, September 29, 2011. (2011b)

Martín-Oliver, Alfredo, "From Proximity to Distant Banking: Spanish Banks in the EMU," Banco de España: Servicio de Estudios - Documento de Trabajo no. 1008. Madrid, 2010.

Martínez Solano**,** Pedro, José Yagüe Guirao, Fulgencio López Martínez, "Asset Securitization: Effects on Value of Banking Institutions," *The European Journal of Finance*, Vol. 15, No. 2., 2009: 119-136.

Melian-Navarro, Amparo, Vanessa Campos-Climent, and Joan Ramon Sanchis-Palacio, "Analysis of Mergers Between Rural Savings Banks and Their Influence on Agrarian Cooperatives: The Valencian Case in Spain," *Innovar* [online] 21, n. 41, 2011: 91-110.

Mink, Mark, and Jakob de Haan, "Contagion during the Greek Sovereign Debt Crisis," *Journal of International Money and Finance* 34, 2013: 102–113.

Pagés, Jorge Martínez, and Luis Ángel Maza, *Analysis of House Prices in Spain.* Banco de España: Servicio de Estudios - Documento de Trabajo no. 0307. Madrid, 2003.

Pérez, Francisco, Juan Fernández de Guevara, Rado Selovics, Manuel Illueca Muñoz, Joaquín Maudos Villarroya, José Manuel Pastor Monsálvez, and Emili Tortosa-Ausina. *Banca Relacional y Capital Social en España: Competencia y Confianza.* Fundación BBVA. Valencia: Valencia Institute of Economic Research, 2007.

Perez, Sofia A., "Systemic Explanations, Divergent Outcomes: The Politics of Financial Liberalization in France and Spain," International Studies Quarterly 42(4), December 1998: 755-84.

Porteous, David J., *The Geography of Finance: Spatial Dimensions of Intermediary Behaviour.* Avebury, Aldershot, 1995.

Rodríguez, Julio, "El Mercado y la Política de Vivienda," *Economistas* 126, 2011: 97-109.

Scott, Mark, "Santander Earnings Plunge 94% on Real Estate Woes" *New York Times Dealbook*, October 25, 2012.

Stewart, Jules, "Cajas build on their good fortune," Euromoney, June 2003: 1.

Stewart, Jules, "Banks Feel Effects of Cajas' Success," *The Banker*, November 2005: 1