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Community Banker of the Year: OFG Bancorp's José Rafael Fernández

By Kate Berry | November 15, 2023

Jose Rafael Fernandez, CEO and Vice Chair of OFG BanCorp, has weathered some tough times as the head of an upstart bank navigating Puerto Rico's once-crowded banking sector. The island is just coming out of a 15-year economic slump that began in 2006, before the U.S. financial crisis. The downturn lasted through its 2015 "death spiral" bankruptcy and the humanitarian disasters that followed Hurricanes Irma and Maria in 2017.

Fernández's longevity is something few bank executives can emulate. He has worked at OFG Bancorp for 32 years, and will celebrate his 20th anniversary as CEO next year. With Puerto Rico finally showing signs of growth due to an influx of government stimulus money, the banking industry and OFG, the island's third-largest bank, is benefiting from massive infrastructure investments.

"We used to say that when the U.S. economy sneezes, we get a cold," said Julian S. Inclan, Chair of OFG and American Paper Corp. in San Juan, Puerto Rico. "For the first time ever, we feel very positive about the economy and that we will be doing better than the U.S. economy for a few years. It's historical."

Fernández navigated rough waters early on as he sought to transform OFG Bancorp — the holding company for Oriental Bank, Oriental Financial Services and Oriental Insurance — from a small regional savings and loan. During the lean post-financial crisis years, he assembled an internal team of strategists to



Jose Rafael Fernandez, CEO and Vice Chair of OFG BanCorp, speaks to this year's class of Oriental interns on their graduation day. The company's summer internship program aims to provide students and recent graduates with a broad and integrated work experience. *Joe Colon photographer*

identify acquisitions and integrate them successfully.

With Puerto Rico's economy moving in the right direction, Fernández is calling attention to Oriental Bank's loan growth and a balance sheet that hit \$10 billion of assets in the third quarter.

Founded in 1964, Oriental was the first bank in Puerto Rico to operate a broker-dealer, an insurance agency and wealth management and trust units. Those businesses are benefiting from the higher rate environment and depositors fleeing to money market funds.

Fernández, who became CEO in 2004, thinks the island has the wind at its back, and he is ready to take advantage of the opportunity. All of this has led American Banker to name him as its Community Banker of the Year.

"For the first time in many decades, the Puerto Rico banking system has more core deposits than loans," he said in a recent interview. "We are in a situation where that provides us a great opportunity to deploy those core deposits for lending and our excess deposits are priced lower than excess deposits at banks in the states."



OFG Bancorp's headquarters in San Juan, Puerto Rico.

Three acquisitions

After 2008, when many of the island's largest banks including Banco Popular were lining up for assistance from the Treasury Department's Troubled Asset Relief Program, Fernández was plotting a strategy. He realized that the bank needed to raise capital and improve its core capabilities to set the stage for the next chapter.

Fernández said one of his best ideas was assembling an internal team of four strategists, himself included, to prepare for acquisitions after the 2008 financial crisis led to the failure of three of Puerto Rico's 10 largest banks.

"We started to realize that there were more shoes to drop in the banking industry in Puerto Rico and in order for us to be well-positioned, we had to be opportunistic and we had to be intentional," Fernández said. "Even though I had managed all the areas of Oriental throughout my career, it was on a very small scale from the banking side, and I realized that we had to recruit more experienced people running a bank."

The goal was to transition the bank toward core deposit funding and loan origination. Fernández worked closely with the bank's chief operating officer at the time, Ganesh Kumar, who is now OFG's

Chief Strategy Officer of U.S. business. He also made a key hire in Jose Ramon Gonzalez, a former president, CEO and director at Banco Santander Puerto Rico, who became a senior vice president running the bank. Gonzalez is now president and CEO of the Federal Home Loan Bank of New York.

In 2010, Oriental purchased the \$2.6 billion-asset Eurobank as part of a \$1.6 billion loss-sharing agreement with the Federal Deposit Insurance Corp. The successful integration of Eurobank set the stage for other more significant acquisitions as the Puerto Rican economy continued to falter.

Fernández also relied on Frank S. Cicero, an investment banker at Jefferies who is now a managing director at Keefe Bruyette & Woods, as a senior advisor. Cicero recalled how Fernández was willing to take calculated risks.

"He has a rare combination of pragmatism and vision — not to do too much too fast," Cicero said. "During the financial crisis, he took advantage of problems other banks had."

Fernández recalled: "The four of us basically set ourselves onto a path toward identifying which banks we should pursue."

The second target was Spanish banking giant Banco Bilbao Vizcaya Argentaria, which spent several years rebuffing the sale of its Puerto Rican bank operations. Fernández called the deal "a really, really uphill battle," given the mismatch of OFG being a smaller acquirer aiming to take over a larger competitor considered to be out of its league.

At the time, large U.S. banks were leaving Puerto Rico and BBVA wanted out for its own reasons, Cicero said. After three years of courtship, BBVA finally relented but still required that OFG raise additional cash at the close. In 2012, OFG paid \$500 million to purchase BBVA's operations in Puerto Rico. The purchase nearly doubled OFG's assets to roughly \$9 billion, added 36 branches and a deep bench of experienced bankers, many of whom are still with the bank today.

"It was the most transformative, challenging and successful acquisition that we've made because it not only increased our scale, it really added a tremendous amount of talent," Fernández said.

The deal launched OFG to the No. 3

position among Puerto Rican banks. It then renamed itself Oriental, which in Spanish means "eastern," a nod to its founding in Humacao, located on the eastern side of the island. The BBVA purchase also allowed its parent company to raise capital without eliminating its dividend or diluting shareholders.

"You can say José's been lucky, but you create your own luck," said Cicero. "The BBVA deal showed José's ability to be flexible. They did all the blocking and tackling down there and then things fell their way and they were positioned to take advantage of it."

By 2019, OFG completed its third acquisition, purchasing Canada-based Scotiabank's Puerto Rico and U.S. Virgin Island operations for \$550 million. That purchase added \$3.2 billion in deposits plus \$2.5 billion in residential and commercial loans, 21 branches and roughly 1,000 employees.

"So much of the Puerto Rico story is the macroeconomy," said Alex Twerdahl, managing director of equity research at Piper Sandler. "The grass isn't 100% green down there yet, there's still a lot of work to be done and there's a lot of money that still has to be deployed. With the island very much on the upswing, the challenge for any bank CEO is navigating through it while maintaining discipline."

At a time when many banks are struggling to keep net interest margin above 3%, OFG posted a net interest margin in the third quarter of 5.8%. Net interest margin is the best measure of a bank's profitability. Loans also have been growing steadily at around 2%, and roughly 6% for the year, Twerdahl said.

Once the three acquisitions were under its belt, OFG focused its efforts on delivering on a "digital-first" strategy. It also created a philanthropic arm that became what Fernández called "a ready army," when earthquakes and hurricanes ravaged the island five years ago.

Given the turmoil at U.S. banks in March, OFG's deposit levels have held up well, said Twerdahl. In the third quarter, deposits were flat sequentially and down only 0.3% from the same period a year earlier, he said.

In the third quarter, the bank's cumulative deposit beta, which represents the change in the cost of deposits over the change in the Federal funds rate, was 13%



“We were very focused on being good stewards of capital and trying to be the best stewards of people that we could be,” said José Rafael Fernández, head of OFG Bancorp. *Joe Colon*

for total deposits and 18% for interest-bearing deposits only. That compares with a median cumulative total deposit beta of 24% in the second quarter, he added.

Working in a laboratory

Fernández never intended on becoming a banker. After graduating from Notre Dame University in 1985, he planned to go to medical school and was working at a lab conducting experiments in biochemistry, measuring the brain hormones of rats to determine if they had some relevance to human intelligence.

That’s when he had an epiphany.

“I hated it, and I’m not fond of rats,” said Fernández, 60. “That’s when I realized medicine wasn’t for me.”

Becoming a banker wasn’t necessarily on his mind either.

While attending a Notre Dame alumni event, he met José Enrique Fernández, who at the time was the CEO of investment bank Drexel Burnham Lambert Puerto Rico. The two shared more than their similar names. The elder Fernández soon convinced the younger Fernández to take a job working for minimum wage at Drexel in Puerto Rico, and over the next five years, Fernández became a successful stockbroker.

After getting married, he pursued an MBA at the University of Michigan at Ann Arbor. When he graduated, the elder Fernández convinced him to return to Puerto Rico to work at a bank that he had taken a small stake in: Oriental Financial Group’s Oriental Bank & Trust, the bank’s name at the time.

“I took the risk — and the rest is history,” Fernández said.

Inclán, OFG’s Chair views the bank’s and Fernández’s evolution over three decades as one of personal and professional growth. Fernández has made a number of changes that reflect his management style, including renaming committees so they are now called “teams,” to better reflect a cooperative, collegial environment. “He’s unselfish and focused on the well-being of the institution and its stakeholders, especially employees,” Inclán said.

For a long time, OFG has been the first among Puerto Rico’s banks to report

earnings ahead of its larger competitors: the \$70.8 billion-asset Banco Popular and the \$19.2 billion-asset FirstBank, a subsidiary of First BanCorp.

Billing itself as a “challenger bank,” Oriental Bank has created a brand identity over the years by pushing the “digital-first” strategy that it launched in 2014. This year, Oriental launched a proprietary self-service portal that is driving customers away from branches for routine transactions and services. One of the portal’s innovations is automating letters of verification for bank accounts and statements.

Moving forward, OFG has been looking to expand in the U.S. where the bank has operated a loan participation office in Charlotte, North Carolina, and originates Small Business Administration loans through a relationship with the \$10.8 billion-asset Live Oak Bank, in Wilmington.

Asked what insights he has learned over more than three decades in banking, Fernández focuses on the importance of the bank’s employees to the company’s growth. He rattles off the names of his top seven senior managers in finance, commercial lending, retail operations, risk and human resources.

“One word comes to mind: trust,” he said. “Acquiring a larger bank requires a great sense of trust and maturity from the bank being acquired. These guys are the ones who trusted in me, and in the team and our mission. They bought into the vision.

“We were very focused on being good stewards of capital and trying to be the best stewards of people that we could be,” Fernández added.