1980s offered best and worst for La. banks

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In Louisiana banking history, the 1980s probably will be most remembered as the decade of failures.

Waves of economic calamity bashed the state, leaving 56 failed banks in their wake. Eleven-hour federal assistance rescued an additional four banks from collapse.

The decade began with changes in federal laws that removed some of the restrictions placed on banking after the Great Depression and which, some say, will change the face of banking forever.

State laws also changed, allowing banks for the first time to break free of parish, then state, lines for growth.

"It was the best of times and the worst of times," said Charles A. Worsham, executive director of the Louisiana Bankers Association. "We have seen banking go through a big transition."

Fred C. Dent, state commissioner of financial institutions, said: "For Louisiana, I feel it was a decade of self-discovery, in terms of finding out that we were vulnerable. We had had recessions, but we thought we were adversity-proof."

The first wave of Louisiana's economic woes began with bad crop years for state farmers in 1983-84, followed by the oil and gas market crisis from 1984-87, Worsham said.

The second wave came as the economy crumbled, and banks and the state began buckling beneath the weight of the growing number of loans gone sour, particularly in real estate.

"You had a real change in banking in Louisiana in that you've seen banks that were very, very powerful, like LNB, become weakened because of the crisis in oil prices and the subsequent recession," said banking analyst Elizabeth B. Roy of Morgan Keegan Co., Inc in Memphis.

For example, the $1.5 billion Louisiana National Bank — now Premier Bank in Baton Rouge — reported $82 million, or 10.9 percent of its gross loans, as non-performing on June 30, 1988, according to Sheshunoff Information Services, a Texas firm that tracks bank performance.

Non-performing loans are those loans no longer being paid off under their original terms. Premier Bancorp has since consolidated LNB and its other banks around the state into the single regional bank.

"Capital is largely the issue," Roy said, referring to the weakness that affected the banking industry. The costs of carrying the non-performers drained banks' earnings and capital bases, which probably accounted for the inordinate number of small bank failures, she said.

Thirty-eight of the 50 failed or assisted banks in the state counted total assets of $50 million or less, according to Federal Deposit Insurance Corp. reports. Twelve more failed in the $50 million- to $100 million-asset range.

Assets of some of these banks totaled about $2 billion, or one-tenth of the $35.5 billion in combined assets of Louisiana banks as of June 30, 1989, according to the latest report compiled by Sheshunoff.

During the decade of failures, the FDIC injected nearly $2.4 billion through cash advances, purchase discounts or by retaining assets to purchase of failed banks in the state. It paid $18.3 million to insured depositors of Security National Bank in Shreveport, which failed in November, the only bank in the state closed without a buyer.

"I'm not uncertain the only economic development we had in this state was this office with FDIC money," quipped Dent.

Though the economy took its toll, some of the failures stemmed from mismanagement and abuse by some banks, Worsham said.

A "lot of this would have been glossed over had the economy remained vibrant," he said.

"I think the implication is that we have siphoned off a lot of institutions that failed due to the economy and mismanagement, and you're getting down now to a hard core of very good, solid, well-run institutions," Worsham said.

"The only fly in the ointment is the tremendous amount of real estate out there that impacts everything," Worsham said.

Besides the foreclosed real estate that banks still hold, the Resolution Trust Corp. must dispose of more than $100 million in property from failed savings and loans in the state. The RTC was created by the savings and loan bailout bill signed into law on Aug. 9 to dispose of insolvent thrifts. By the end of 1989, 32 Louisiana thrifts had been conserved by the RTC. Six were resolved.

"As soon as we can get all of that crud out of the system, the better off we'll be," Worsham said.

Premier Bancorp chairman G. Lee Griffin said the effects of unloading the thrift holdings should be relatively minor outside of the New Orleans area, where most of the state's larger thrifts are located.

Griffin said he is encouraged by his bank's success in liquidating nearly $50 million in its own real estate holdings since August.

Premier announced in July it planned to spin off a separate liquidating bank to clear its books of $400 million in troubled loans. Originally scheduled for completion in October, the spin-off has been delayed awaiting regulatory approval and the sale of bonds for financing.

Meanwhile, Griffin said, "we're selling property every day."

While Premier suffers from some of the worst the 1980s had to offer, it also benefited from some of the best to which Worsham referred.

When Worsham arrived in the state in 1980, the key legislative issue was a change in state laws that would allow banks, through the formation of holding companies, to acquire banks statewide, he said.

The 1984 Legislature passed such a law, which took effect Jan. 1, 1985. A later law allowed banks, beginning July 1, 1988, to move statewide by branching.

"Many banks would have been devastated by this recession had it not been for bank holding companies," Griffin said. Some of Premier's seven banks might have been among the casualties, he said.

The new law provided a "safety net," Dent said.

"If we had not been able to have banks buying banks in other states, we would have seen them cronyed down, for sure," he said. "We would not have been able to heal the wounds."

State laws passed in 1985 also allowed Louisiana banks to cross state lines, through reciprocal agreements, first to 16 states from Texas to Maryland in January 1986, and nationwide in 1989.

These changes in laws brought significant shifts in the banking players during the decade.

Some banks had bought interstate banks, Worsham said.

"I think the interstate banks would come in and eat us up," he said.

As it turned out, only Grenada, Miss.- based Sunburst Bank took advantage of the opportunity, buying failed Capital Bank and Trust Co. in Baton Rouge in May 1988.

Sunburst had saturated the Mississippi markets, said A. Jackson Huff, president and chief executive officer, of Sunburst in Sheffield, Ala.

"The purchase of Capital allowed Sunburst inexpensive entry into an area of potential growth, he said.

"Our acquisition came at just the perfect time," Huff said. "We're here in time to take advantage of the full benefit of the economic recovery."

Sunburst is awaiting regulatory approval to merge with Commercial National Bank and Trust Co. in Baton Rouge.

Another Mississippi bank, Deposit Guaranty Bank in Jackson, is awaiting approval to merge with Commercial National Bank in Shreveport.

The unstable Louisiana economy probably has deterred other out-of-state banks from moving in, said Huff and others.

"Before the oil and gas market collapsed, Louisiana and Texas were considered real attractive takeover targets," analyst Roy said. "If the economy improves . . . you will have, suitors coming in and looking at the possibility of taking a position."

The first foreign investment in a Baton Rouge bank came in December 1988, when British entrepreneur Alan J. Lewis, through his holding company, Alan-American Bank & Trust Co., spent $8 million to buy failing Baton Rouge Bank and Trust Co. in an $18 million FDIC-assisted transaction.

Lewis said he bought the bank to serve as a bridge for foreign investment in Baton Rouge and Louisiana.

Outside investment, whether foreign or domestic, benefits a community by stimulating job growth, said Baton Rouge attorney J. Bill Jr., who first encouraged Lewis to buy the bank and who served as president of the holding company until Jan. 1.

Whether foreign investors choose to reinvest profits locally or pay dividends to shareholders back home, the community benefits from the investment, Gill said.

"It's not the profit that is the key element," he said. "It's the investment — the jobs that are created and the
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Banking "is the most community-oriented investment because the success of your bank depends on the success of the community," Gill said.

New Orleans-based Hibernia Corp. was the only Louisiana bank to venture out of the state for growth. It acquired 10 failed banks and thrifts in Texas from August to December 1989.

While Hibernia still plans to expand its Louisiana holdings when possible — it has acquired 15 banks in the state since 1985 — the bank plans to take full advantage of opportunities for inexpensive entry into four Texas markets, Dallas-Fort Worth, Houston, San Antonio and Austin, said Larry McIntosh, chairman and president of Hibernia's Baton Rouge region and its bank in Texas.

Finally, beneath the activity generated by the economy and new state laws, federal deregulation that began in 1980 brought rumblings of its own.

"There's a saying that the only thing that's wrong with banking in Louisiana is that President Reagan gave us everything we wanted — no inflation, low interest rates and deregulation — and we can't stand it," said E. Graham Thompson, president and CEO of City National Bank and a member of American Bankers' legislative committee.

"It has put more pressure on banks to manage their interest spread — the rate you pay for deposits vs. the rate you charge for loans," Thompson said.

"It changed the face of banking," Griffin at Premier said. Up until 1980, banks basically were subject to laws passed in 1927, 1933 and 1934, he said.

After deregulation, the percentage of deposit accounts on which banks paid interest grew from 20 percent to more than 80 percent, he said.

"That's why you see banks charging more fees," Griffin said. "We no longer have this interest-free money."

LBA found that many bankers did not know how to compete, Worsham said.

"We had seminars on how to price — what goes in to offering a checking account, what to consider when charging for it, like equipment, postage, labor," he said. "Our bankers had to get very astute (about) pricing."

Bankers will have to become even more sophisticated if their 1990 goals are met. The banking industry will continue its push for expanded powers to sell insurance, real estate and serve as full-service brokers.

Said Dent: "I see the banks as becoming depositories of financial information where ordinary customers can go and sort through their investment goals."

While larger banks probably will assume that "personal banker" role, smaller banks likely will choose a particular niche, "because they need to get a foothold to compete," Worsham added.

Overall, local bankers say they are cheered by promising economic indicators that show slow, but steady growth for Baton Rouge and the state.

"Slow, steady growth would be an excellent environment for banking," Roy said. "You're not getting ahead of yourself. You have more controlled growth."

The next decade is bound to be better that the last for banking, said Worsham.

"If we can just lick those wounds, just sit back and say, 'God, we survived.' Now, let's look at what we need to be doing."