ANOTHER ONE BITES THE DUST

By Chuck Springston

Sept. 14, 1984. At a press conference announcing his appointment as president of Lafayette’s Southwest National Bank, Robert L. Randolph Cullom says: “We don’t foresee any mergers or acquisitions at this time. We can accomplish everything we want to accomplish through participating loans.”

Cullom’s statement about participating loans is “still a true statement to some degree,” says Robert T. Holleman, chairman of Southwest’s board. (A participating loan is an arrangement in which a small bank can offer a large loan by providing part of the loan itself and getting the rest of the amount from bigger “participating” banks.)

“But the main thing we have to look out for is the stockholders of the bank. In the long run it would be better for us to stay an independent bank or would it be better to join hands with another good performing bank. Hibernia for the last 11 years has paid dividends and good dividends. They’re one of the top performing banks in the country.”

Southwest’s merger is the latest in an onslaught of bank mergers that have swept across Louisiana since passage in June 1984 of the state’s multi-parish banking law. The law allows a bank holding company based in one parish to buy banks in other parishes. (A holding company generally exists only as an umbrella organization to own other companies.)

Guaranty Bank & Trust Co., Lafayette’s largest bank, and First National Bank & Trust Co., the second largest bank, have already announced mergers. Guaranty joined Louisiana Bancshares Inc. of Baton Rouge, and First National hooked up with First Commerce Corp. of New Orleans.

Rumors about a pending merger involving Lafayette’s third largest bank, American Bank & Trust Co., have begun making their rounds in the banking community. One of the hottest rumors has American merging with Commercial National Bank of Shreveport.

“The only thing I could comment on it is the fact that Commercial National has not announced any mergers. That’s about as far as I can go,” Walter Stuart, president of American Bank, told The Times. Although stingy with specifics, Stuart freely acknowledges, that American has been looking at mergers in general. “We have had numerous discussions and we still do have discussions,” he says.

“Of course, what you’re primarily always having to consider is the interest of your community and your shareholders.”

The comments of Holleman and Stuart reveal a force at work in bank mergers that has generally been glossed over in announcements of acquisitions: the pressure to improve a bank’s stock price.

Announcements of most mergers have focused on benefits such as these:

- “economies of scale,” resulting from the ability of a banking conglomerate to buy computer or accounting services in quantity and spread the costs around among member banks;
- the pooling of resources and customer bases to justify expensive investments in new products and technology;
- the ability to make larger loans (although independent banks can enter into participating loan agreements with other banks, multi-parish banking advocates argue that loan packages can be put together faster and more efficiently among the banks tied together in one holding company).

But a major reason for a bank’s decision to accept or reject a merger offer may have little to do with debates over relatively abstract themes (like “independence” and “community banking”) vs. nuts-and-bolts considerations (like expanded services and advanced technology opportunities).

A bank’s board of directors could be under subtle or direct pressure from stockholders who merely want the best return on their investment.

In the Southwest National case, the return remains unclear to the general public and apparently to stockholders, as well. Asked what price Hibernia was offering Southwest stockholders on a per-share basis, Holleman said, “I would hate for something like this to come out before the stockholders received any information from the banks.” He added that the information would probably be available in “another month to six weeks.”

One shareholder told The Times he heard through bank employees that the price could be about $26 per share, although a final price hasn’t been set yet. Southwest stock was issued at $25 per share and at one time was selling for as much as $100. But it’s been going for only about $18 in recent months.

Although the per-share breakdown isn’t officially available yet, some information on the financial terms of the

The Times of acadia

August 29, 1985
Col. 1-4; pg. 28
deal has been released. Hibernia will offer 358,000 shares of its class A common stock in exchange for Southwest's stock (the exchange ratio isn't being released yet, Holleman says). Hibernia also has the option to purchase 31,250 shares of authorized but unissued Southwest stock.

If a Southwest stockholder chooses to swap his shares he will receive some portion of a $4.9 million pot of money Hibernia has set aside to buy him out. Southwest has 582 stockholders.

Of course, like most mergers there's more to this merger than a mere stock play. Hibernia's strong trust department—which invests people's money entrusted to its care—was also a factor. "Their trust department is the largest in the South. It's one of the top three or four in the country," Holleman says.

Interestingly, unlike Guaranty and First National, which have stressed that they will retain their current names, Southwest has agreed to change its name to Hibernia National Bank of Lafayette, after the merger receives approval from stockholders and regulatory authorities.

Other banks in the Hibernia system will eventually change their names. Holleman says, and Southwest decided to do it right away because the Lafayette bank is only 5 1/2 years old and "most people in the business and commercial ends of our community know the name Hibernia and the reputation it has."

Like Guaranty and First National, Southwest will retain its own board of directors, although Hibernia Corp. will have representation on Southwest's board and Southwest will have representation on Hibernia's board. Southwest will also keep its current management team, Holleman says, but notes, "We certainly would not be considered an independent bank. We would be under the policies of Hibernia."

Ironically, Stuart of American Bank, one of the biggest advocates of multi-parish banking, notes that the mergers of Guaranty and First National make his bank "the largest independent bank in Southwest Louisiana other than Calcasieu Marine (in Lake Charles)."

Although American is certainly open to merger possibilities, Stuart says, "there's a bit of attractiveness" in being the largest independent bank in the Acadiana area. "As the largest independent, people who want to access this market are interested in talking to us when it comes time to offer some technology, computer programs or loan participations."

The Southwest merger agreement, which needs approval from federal regulatory agencies as well as stockholders, is expected to be complete in four to six months. Holleman says a stockholders' meeting will probably take place sometime this fall.