BANKING ON BETTER TIMES

LOUISIANA BANKING COMMISSIONER FRED DENT offers an analogy to characterize the state's—and Lafayette's—financial institutions. Banks and savings and loans, he says, are like athletes who have been training hard for several years to get in shape. They've shed the extra pounds and built up muscle. Now they are waiting for the whistle to sound so they can get back into the game of banking.

The community's financial institutions have indeed been on a rigorous workout program in recent years. They've been devoting constant attention to handling the problem loans they made during the go-go days of the early 1980s. Many have merged with bigger institutions and shed employees and locations. Others have disappeared because of government foreclosure. Profits have been squeezed.

The year 1989 saw a continuation of that trend in the Lafayette banking market. Local institutions—and the holding companies that own them—have continued efforts to restructure themselves after the state's financial crash. Loan demand remains soft. Banks are reporting losses or only modest profits. Financial managers are still adding to the reserves that protect against future loan losses.

But there are a few glimmers of hope as banks and S&Ls enter the new decade. After several years of healthy deposit growth, balance sheets are showing plenty of lendable funds on hand. An uptick in the local economy has made businesses—and hence their bankers—slightly bullish. They pronounce themselves ready to finance a local economic recovery. "We're flush with cash right now and we're looking to invest that in loans," says Danny Domingue, president of the Bank of Lafayette.

DOMINGUE IS AN APPROPRIATE symbol of the many changes that have taken place in Lafayette banking in the last decade. He had been an employee of Guaranty Bank for more than a decade when it merged with the statewide holding company known as Premier. He became senior lender for Premier's Lafayette operation and then left last July to take over the presidency of the independent Bank of Lafayette. His story could be repeated virtually the same way by hundreds of other local bankers.

But after several years of tremendous flux, it's getting somewhat easier to identify the players in the local financial game. A lion's share of the banking market—perhaps as much as 90 percent, by several bankers' estimates—is controlled by affiliates of the state's four largest holding companies (see accompanying story). Several independent banks—MidSouth National, Bank of Lafayette, Acadia National and America of Opelousas (which has a Lafayette branch)—are making a bid to be so-called "niche players."

On the thrift side, the Lafayette Building Association and Home Savings and Loan have emerged out of the S&L chaos as central forces, much as they have been for decades. They are joined by two regional S&Ls, Iberia Savings Bank of New Orleans-based thrifts, Pelican Homestead and Oak Tree Savings, also have locations here. First Louisiana Savings Bank, declared insolvent last year, remains in the hands of the Resolution Trust Corporation and its fate is uncertain.

Each of these institutions is following a different strategy to clean up its past messes and pursue new business opportunities. Most are still protecting their end zones: Some have had their defensive units on the field for years while others are just sending them in. A few institutions are already on offense, though they're playing conservatively.

Dominating the news during 1989 was Premier Bancorp's effort to rid itself of some $400 million in problem assets. In mid-year, Premier (which Guaranty joined in 1985) announced that it was creating a new bank, called Florida Street National Bank, which would purchase those bad loans and real estate from the parent bank and then seek to dispose of them. "We don't want these assets in 1990."

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So it was a shock when Hibernia announced in mid-March that it would report a $25 million loss for the first quarter of 1990 as a result of its decision to nearly double its loan loss reserves. The company also decided to add a total of $60 million in loans to non-performing status. These conservative moves were prompted, said bank management, by a new approach to credit procedures adopted by federal regulators in the wake of financial problems in the Northeast. Hibernia officials called the loss "a one-time event that is not indicative of either future earning capacity or capitalization. Analysts will be tracking closely Hibernia's performance in the months ahead to detect any further erosion of its profitability." While three of the four major bank companies in Louisiana have had mixed success recently, the fourth, First Commerce Corp., had cause to cheer in 1989. The New Orleans-based holding company, second largest in the state, announced its third consecutive year of double-digit earnings growth. Income was up 16 percent from the year before.

"It was a tough time for banks," says Neil Williams, chief financial officer for Premier. "It's a picture of the financing to do the deal. Then the bank can take a kick of bad luck, as has happened so often in recent years. The bank wanted to use junk bonds to raise some of the capital, but the market for that high-risk debt collapsed last fall. The bank was unable to finalize the creation of Florida Street and now is having an alternative approach—a private placement of junk bonds with a major financial company like GE Credit. Williams says there is a $50 million deal that will go through this year, though the bank has quit setting deadlines.

In the interim, however, Premier has consolidated its problem assets in its portfolio and is aggressively trying to clear them out. Some $75 million worth of loans and real estate have already been jettisoned, including the sale of one of the Brandywine buildings in Lafayette to the state of Louisiana. That led, in part, to a modest fourth quarter profit at the bank, the first since 1985. But losses at the bank for all of 1989 were more than $100 million, due in large part to provisions made for the creation of Florida Street.

The last part of 1989 and early 1990 saw two banks announce the news for the first time in recent years. Whitney Holding Co., a New Orleans-based company once highly profitable, posted a $50 million loss for the year, as opposed to $26 million in income for 1988. "The weak Louisiana economy finally caught up with the Whitney," noted a report prepared by analyst Peter Tuz of the Whitney, "we were trying to get some loans collected when there were still some banks out there willing to take our customers away from us. We were getting up at 100 cents on a dollar," says First Commerce Corp. president Ian Arnoff.

The bank took its licks because of that decision. Earnings in 1986 collapsed. The bank was criticized for its strategy of damage control, especially in Lafayette, where FCC bought First National Bank in 1985. But today non-performing loans in Lafayette have been cut in half, says Tuz of Howard Weil. "The FCC bank in Lafayette has done a great job of turning around the situation," he says. A recent examination of the holding company by federal regulators yielded no recommendations to increase loan loss reserves or declare more loans as non-performing, says Arnoff.

In the shadow of these major players, a number of banks and thrifts are jockeying for position to serve the smaller portion of the banking market not aligned with the four holding companies. Those institutions are betting that their local ownership, small size and personal banking will appeal to customers who feel lost in a multi-billion dollar holding company.

But that strategy still demands that management take some risks. MidSouth National Bank was opened in 1984 as a locally owned bank with one location. MidSouth president C.R. "Rusty" Cloutier notes the bank realized quickly that in order to compete with the big institutions it had little choice but to expand its presence in Lafayette regionally and to the retail customers. So it has acquired two failing banks, Breaux Bridge Bank and Trust and Commerce and Energy Bank, thus increasing its branches in Lafayette and St. Martin parishes to eight.

That kind of growth does not come without cost. "It's been expensive to do," says Cloutier. In 1989 the $87.2 million (assets) bank lost $1 million, but it also became the largest independently owned bank in Lafayette. The Bank of Lafayette is trying to position itself as a hometown bank which can handle the needs of smaller customers. The bank's management is stressing the bank's local ownership and relationship to the community in a new marketing campaign it has launched. But president Domingue says that he faces some inherent problems as he tries to grow along that course. For example, the bank has only two locations, does not have a credit card operation and does not buy so-called "indirect paper," that is, loans generated by car dealers and other merchants.

All of these ideas and others are being examined by Domingue, but he still must address problems left over from the past. "It's still difficult. Banks are still struggling with non-performing assets," says Domingue. He has been increasing loan loss reserves at the bank, which has had the effect of depressing earnings. In 1989, the $46.9 million bank reported a loss of $464,000.

The future of Acadian National Bank is uncertain. The $33.5 million bank has seen a steady erosion of its capital base over the last year; its Dec. 31, 1989 statement of condition showed with only $50,000 in equity capital, well below regulatory minimums. A deal to sell the bank to First National of Opelousas fell through earlier this year. "Other banks are still looking at us," says president...
Maxinne Castille. "There is no time frame on that."

The region's thrifts face all of the problems of their banking counterparts with the added difficulty of an uncertain regulatory environment created by the savings and loan bailouts. A number of local S&Ls have gone by the wayside in recent years, some of them quite dramatically. The ones that survived focused on the traditional markets served by this industry—home owners and small savers. "We did not venture out on the tangents of deregulation," says Don Guidry, president of Lafayette Building Association.

Local thrifts are stressing their traditional strengths in real estate and personal finance. "The S&L industry is a group of boutique banks with an orientation towards home lending," says Patrick Little, executive vice president of Teche Federal Savings Bank of Franklin. That coincides with a modest rebound in the local residential real estate market, which the thrifts feel they are well-suited to take advantage of. "We must have 25-30 new homes that we are financing right now," says Robert Earle Billeaud, president of Home Savings and Loan in Lafayette. Adds Larry Mouton, president of Iberia Savings Bank: "Our construction lending is up considerably over last year and the year before. . . . Appraisers tell us the price of housing is firming."

Local S&Ls reported varying degrees of profitability in 1989. Iberia Savings, which acquired certain assets of failed Acadia Savings last year, made a profit of $800,000. The New Iberia-based institution had year-end assets of $369 million. Teche Federal ($151.6 million in assets) reported profits of just over $300,000.

The two Lafayette-based institutions were not so fortunate. Home Savings ($173 million in assets) took

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a $3 million loss after writing down a number of loans and increasing its loan loss reserves. "We wanted to go ahead and finalize write-downs in 1989 and start 1990 fresh," says vice president John Bordelon. LBA ($226.7 in assets) also took a loss for the year—$1.05 million—as it continued to address problems left over from the real estate slump of the 1980s.

THE LOCAL FINANCIAL INDUSTRY is banking its hopes for 1990 and beyond on continued recovery of the oil and gas industry, growth in the retail sector and an increase in new home starts. Ever the optimists, bankers also like the improved mental outlook of Lafayette business people and consumers. "The '80s are behind us. People are taking a different attitude," says Domingue.

The brighter financial picture is showing up in healthier bank accounts and increased savings and checking balances. "A lot of people are moving back to Lafayette. Deposits are pouring in," says Cloutier of MidSouth. "We have been highly liquid, not recently, but for the last three years," says Red Dumesnil, vice chairman of Premier Bank of Lafayette.

Deposits, of course, show up on the liability side of the balance sheet. In order to make money, financial institutions have to loan money. Unfortunately, good borrowers are in short supply. "Loan demand is soft. Not many people feel good enough to go out and borrow money," says Cloutier. "There is no real investment loan demand out there."

And competition for bankable deals is fierce. "When you have an A+ credit, you are sharpening the pencil," says Dumesnil. The result is tighter interest margins that further deflate earnings.

But the good news is that nearly all the banks and thrifts that have survived have enough capital on hand to operate, even in a soft economy. Most of the financial institutions in the community have a capital-to-assets ratio of between 5.5 and 6 percent, not exactly Fort Knox but high enough to satisfy the regulators, at least for now.

And of course the issue of bank safety is really a moot one. How safe is your money in a local bank? "How secure is the federal government?" asks Cloutier. None with deposits in a local bank or thrift has lost money as a result of a failure in recent years, notes Cloutier.

But bankers are tired of focusing on those kinds of issues. If the economy continues to improve, banks are ready to participate in the recovery. As they work out their problems left over from the past, financial institutions will be more willing to take chances on loans. Dumesnil is encouraged by an increase in loan applications he has seen in the first quarter of 1990. Williams of Premier Bancorp sees positive signs in Lafayette and neighboring communities. "These people are like the timid boy stepping in the swimming pool," says Dent. "They really want to be bankers again."