Banks suffering with state

By KENNETH E. PICKERING

Banking in Louisiana is more difficult than it was just a few years ago. Then, banks were growth oriented, concerned with acquiring deposits, opening new branches and expanding services.

Today, our banks are survival oriented.

The economic picture is not good in any region of the state. Southwest Louisiana has an oil and gas-related economy and has been severely depressed. Unemployment is running at all-time high, and individual and company bankruptcies have increased dramatically in the last two years.

Real estate values in many of the municipalities of south and southwest Louisiana have declined by 20 percent or more. Northeast Louisiana, an agricultural area, is caught in the national farming disaster with farm values declining 40 percent or greater. Northwest Louisiana, involved in both oil and farming, is suffering a double bind, with unemployment running about 12 percent.

Baton Rouge has been affected also with increases in unemployment and a decline in real estate values.

In New Orleans unemployment is running very high, with substantial job losses in the oil industry. Office buildings are vacant; hotels and motels are barely over 50 percent occupied.

In 1988 has been a difficult year for many banks, which have taken losses in their loan portfolio and seen their profits substantially drop or even turn into losses. Banks have been forced to look at their operating costs and make cuts in personnel. The industry is weathering the economic storm, but this storm has weakened several of our banks, which has made this banks problems.

A problem bank can be loosely defined as one which has difficulties collecting its loans; having insufficient profits; or, in fact, losses; and/or suffering a reduction in its capital account.

The Office of Financial Institutions examines each state bank approximately every 18 months and, when a bank becomes a problem, we set up a report system where they make written reports to my office on either a quarterly or monthly basis. We work with the Federal Deposit Insurance Corp. with these institutions to make every effort to correct their problems. We may require an injection of new capital, a change in management or even a change in ownership by helping the bank find a merger partner or buyer who can solve the problems. If these attempts fail, then under the law we have no choice but to close the institution when it becomes insolvent.

We have had six banks closed in Louisiana this year. The first two were closed and sold in January under the multi-bank holding company law, enacted in 1964, a very important tool in assuring that we have bankers willing to assist when we have a closing. This law allows a bank holding company to own banks anywhere in Louisiana. In both closings, a bank holding company acquired the new institutions.

The banks were closed at 2 p.m. on a Friday and were reopened at 9 a.m. on Saturday as a new bank with new management.

After resolving these two crises, it became evident to me in early 1986 that we needed new tools with which to work to insure the continued operation of banks which might have to be closed, because only by finding a buyer for a failed bank could we prevent any loss to depositors.

The Office of Financial Institutions submitted legislation in the 1986 session to give more flexibility in solving these problems.

Act 197 allows an acquiring bank to purchase the assets and liabilities of a failing bank prior to closure and to convert the locations into branches of the acquiring bank in which parish they are located. This and other changes have been very useful and in the last four closings the failed banks became branches of the acquiring bank, with all depositors being protected to the full amount of their deposits rather than just the FDIC's $100,000 insurance limit.

It is important that everyone understand that not one depositor suffered any loss in the six banks that were closed and few even experienced any inconvenience.

Fortunately, there is a positive aspect to these troubled times - the experiences of the last few years and the responses to them from the FDIC, this office and the industry itself, i.e., higher capital, leaner operations, better loan and collection practices, will have long-term benefits. When these economic difficulties have passed, and they will, there will emerge a stronger and more flexible Louisiana banking industry than ever before to serve the public and fuel our state's economic development.

Editor's note: Kenneth Pickering is Louisiana commissioner of financial institutions.