Capital One buys Hibernia
Second-largest La. bank to be part of national lender

BY TIMOTHY BOONE
Advocate business writer

Hibernia Corp. is now in Capital One's wallet.

Capital One Financial Corp., the fifth-largest issuer of credit cards in the United States, outlined its $5.3 billion purchase of Hibernia of New Orleans on Monday morning.

The deal is Capital One's first foray into commercial banking.

"Capital One wanted Hibernia, they liked our very strong legacy," said Jim Lestelle, a spokesman for Hibernia. "They were really impressed with the progress we made."

Along with getting the biggest bank in Louisiana, Capital One is also acquiring a company that is expanding its presence in the lucrative Dallas and Houston markets. Hibernia has 26 branches in metro Dallas and Houston and plans to open 40 more in the next two years.

According to Rich Fairbank, chairman and chief executive officer for Capital One, based in McLean, Va., Dallas and Houston are two of the fastest-growing markets in the United States and are areas that are underserved by banks.

"Along with making us more diversified and stable, this gives us an opportunity to grow in Texas," Fairbank said during a conference call with analysts and reporters.

J. Herbert Boydstun, Hibernia's...
president and chief executive officer, told The Associated Press it’s too soon to say how many Hibernia employees will lose their jobs as a result of the merger.

"There’s minimal overlap," Lestelle said. "They’re not a commercial bank, so this is a perfect fit. This will work better than any kind of bank acquisition would ever work."

Hibernia will drop its name and become known as Capital One. Lestelle said there was no timetable set for the name change.

"It won’t happen immediately," he said.

Boydston has agreed to remain with Capital One for three years and will continue as Hibernia’s president, reporting to Fairbank.

The purchase, which is expected to close in the third quarter of this year, will create a new kind of bank, Fairbank said: A traditional local-scale deposit bank with national lending power.

"Customers will be doing business with a bank with strong earnings power and a widely respected and known brand," Lestelle said.

Willie Staats a former banking professor at LSU’s E.J. Ourso College of Business Administration who is a consultant in Baton Rouge, said he wasn’t surprised that Hibernia was sold, but he was surprised that Capital One was the buyer. Well-run regional banks such as Hibernia have been attractive takeover targets.

"The speculation was off and on that somebody could buy Hibernia for the right price," Staats said. "I thought it would be a major national bank, somebody like Wachovia, who doesn’t have a presence in Louisiana and Mississippi and would want to fill in that blank."

Capital One had been looking to diversify by entering commercial banking for some time, because of slowing growth in the credit-card industry. As the baby boom generation grows older, Staats said they need credit less and less.

Capital One had $1.5 billion in earnings last year, and credit cards accounted for 90 percent of that. After the merger, the company expects $1.8 billion in earnings, with 75 percent coming from credit cards and 16 percent from Hibernia consumer, small-business and commercial banking.

Ryan Batchelor, an analyst for Chicago-based Morningstar, said he wasn’t surprised by the deal, because Capital One had wanted a retail bank with a cheap deposit base. But Batchelor said he was surprised by the price: Capital One is paying $33 for each Hibernia share, 24 percent more than the most recent closing price.

"If I were a Hibernia shareholder, I would be jumping for joy," he said. "That’s quite a hefty premium."

Fairbank defended the cost of the acquisition, saying the price was in line with similar deals.

Hibernia opened in September 1870, after 12 men got together to start a bank to revitalize the New Orleans economy, which had been devastated by the Civil War. In 1917, it became the first large bank in the South to enroll in the Federal Reserve System and it was one of the few banks to survive the Great Depression.