Drexel shouldn't affect Premier bonds

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The sale of approximately $113 million in junk bonds to complete financing for Premier Bancorp's bad-bank spin-off should not be affected by the Chapter 11 bankruptcy filing by Drexel Burnham Lambert Inc.'s parent company, Premier's executive vice president said Wednesday.

The private placement investors to whom the bonds have been marketed since mid-January are more interested in the value of the proposed liquidating bank's real estate than the status of the junk bond market, said Neil Williams, executive vice president of both Premier Bancorp holding company and Premier Bank.

Investors have agreed to buy about $20 million to $40 million of the junk bonds but no money will change hands until the entire issue is sold, Williams said.

Those who have agreed to buy the bonds can change their minds until then, he said.

"We figured in mid-January that our best bet would be with the private placement investors," Williams said. "I'm glad we did. The thing that happened this week just further nails the coffin on the junk bond market."

News that Drexel — the investment house that pioneered the high-yield junk bond to finance corporate takeovers — had filed for court protection from creditors on Tuesday stifled a steadily deteriorating junk bond market punctuated by the stock market's Oct. 13 mini-crash.

"Right now the junk bond market is just frozen," said analyst Reid Nagle of SNL Securities. "There are no new issues. Ultimately, it will clear up — it's the swing of a pendulum," Nagle said. "There is no way to predict when."

The sale of its junk bonds is the final hurdle Premier faces in its proposed spin-off of Florida Street National Bank.

Regulatory approval has been granted for the creation of the special bank that will exist only to liquidate the approximately $400 million in low-quality assets — mostly foreclosed real estate — it will buy from Premier at a discounted rate of $280 million.

Premier Bancorp plans to help FSNB raise part of that purchase price by loaning it $40 million and giving it another $15.5 million in exchange for shares of common and preferred stock. The common stock will be distributed to Premier's shareholders.

But FSNB must raise $225 million by selling bonds, half of which are investment grade and half of which are junk bonds.

The investment-grade portion is oversubscribed three times, meaning the bonds have three times the necessary commitments to purchase, Williams said. When investors subscribe, they commit to buy a bond but may still back out if they choose, Williams said.

Investors will not put money down for either portion until the closing, and a closing will not be scheduled until all the bonds are subscribed, Williams said.

Five or six of approximately 12 potential private-placement investment groups have visited Baton Rouge to review the low-quality assets FSNB plans to buy, Williams said.

Several others have said they will schedule trips, he said. The private placement groups include insurance companies and conglomerates, he said.

But Williams said Wednesday that commitments obtained so far on the junk bonds had been based on an interest rate of 14-14½ percent "which we had expected to pay all along."