IberiaBank rises to the top

Lafayette bank poised to become largest based in Louisiana

BY TED GRIGGS
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Ten years ago, IberiaBank Corp. was little more than a tiny Lafayette bank with a stock-market ticker symbol, but the company has transformed itself into one of the biggest and strongest financial institutions in the South.

It's also about to become the largest bank headquartered in Louisiana, once Mississippi's Hancock Holding Co. completes its $3.5 billion acquisition of New Orleans-based Whitney Holding Corp.

Whitney ended 2010 with assets of $11.8 billion, $9.4 billion in deposits, and the equivalent of 2,672 full-time employees.

As of Dec. 31, IberiaBank had $10 billion in assets, $7.9 billion in deposits, and the equivalent of 2,122 full-time employees.

Since 2005, IberiaBank has entered 28 new markets and acquired more than 170 branches. It ended 2010 with $252 million of 2,122 full-time employees.

IberiaBank has increased by more than 25 percent over the last three years.

Last year, more than 150 banks failed. Byrd said he expects a similar number this year.

"We think the opportunity still exists for another few years. I think personally it's going to be a tremendous amount of consolidation in the United States from a bank perspective," Byrd said.

"We've got about 7,500, 8,000 banks, I wouldn't be surprised if in two or three years we didn't have half that many."

Gerald Hanweck, a finance professor in George Mason University's school of management, said the FDIC is less reluctant these days to shut down a troubled institution because it doesn't want to record any more losses. It's already underwater.

A growth strategy based on acquiring failed institutions can pay off big, Hanweck said.

Bank of America got to its current size by making smart deals during the savings-and-loan crisis and recession of the early 1990s.

It's possible to lose money by picking up a failed bank, but it's very difficult if the buyer puts together a loss-share agreement with the FDIC, Hanweck said.

Under these agreements, the acquiring bank's losses are limited. In general, the FDIC covers 90 percent of losses up to a certain level.

In the past, it used to take buyers 12 to 18 months to get the bad loans off its books or to renegotiate them at better terms, Hanweck said. But the failed banks being acquired have such bad real estate debt.
that it could take three to five years in some of these markets, such as north Florida, tying up capital that could be put to use elsewhere.

"You have to be willing to stay the course. That's the mantra that should be adopted," Hanweck said.

Still, if a company is willing to make the bet, failed banks can be great deals, he said. The bank gets deposits and new customer relationships that may lead to new loans.

William Staats, a financial consultant and former LSU banking professor, said two things can limit the acquisitions of failed banks: capital and how quickly IberiaBank can turn around the properties, particularly in Florida.

"They've got good people, but that market is so bad right now," Staats said. "But the way they got in is the way to get in, with FDIC assistance."

Staats said while capital will be the main constraint to acquisitions, IberiaBank can always raise money by selling more stock.

Last year, IberiaBank issued around 6 million shares of stock, netting $329 million as a result.

"The key thing is as they grow, they will need more capital," Staats said. "It just depends on how fast they're able to get the earnings out of the new acquisitions."

R. Christopher Whalen, managing director and co-founder of bank rating firm Lord, Whalen LLC in Torrance, Calif., said buyers of dead banks are getting assets for pennies on the dollar.

When a bank is declared insolvent, the FDIC steps in as the receiver, Whalen said. The agency offers the deposits and the assets it thinks a buyer will consider, but most of the loss has already occurred.

The assets' book value is essentially set by the purchase, he said. The question is what's the fair value of the assets?

"That's where the vigorish is for Iberia and for all these other banks," Whalen said.

IberiaBank appears to be better at determining this number than some of its competitors, Whalen said. The company has consistently shown operating excellence.

For example, loss given default, the amount a bank could lose when a borrower defaults on a loan, is well over 90 percent for the banking industry, Whalen said. Basically that means there are no recoveries out there.

But IberiaBank's loss given default is in the 70s, which shows how aggressive the company's loan servicing operations are, Whalen said. IberiaBank is out there working those loans, which is how it can achieve 10 percent higher recoveries than the industry.

IberiaBank has had success in reducing the losses from bad loans.

In its 2010 annual report, IberiaBank reported that projected losses from three failed banks acquired in 2008 and 2009 were $291.5 million lower than the $1.4 billion originally projected.

"The thing about Iberia is they're in a growing part of the country," Whalen said.

"It's a dangerous part of the country, but they seem to understand."