La. banks 'not ready' for mergers
State's economy may keep interstate acquisitions few

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A July 1 legislative trigger that will open Louisiana to regional interstate banking already has drawn inquiries from two major out-of-state financial institutions, while Louisiana's banks may be thrown out of contention from wounds inflicted by the state's weak economy.

In recent interviews concerning the prospects for continued intrastate banking and impending interstate banking, officials of the state's three largest bank holding companies didn't rule out the possibility of interstate mergers, but they expressed doubts that out-of-state institutions would be interested in Louisiana because of problems in banks and in the state's economy.

One said that a recent announced acquisition of Texas Commerce by Chemical Bank in New York could be a signal that Louisiana is still of interest to outsiders. Oil-reliant Texas and its banks share the same problems as Louisiana.

Fred Dent, Louisiana's commissioner of state financial institutions, said he has had two inquiries from "major regulations" since January. He has gotten an informal phone call requesting copies of the state's banking laws. The other was a personal visit from bank executives. He would not reveal the names of the companies nor the state in which they are based.

"Both were obviously exploratory, but both of the groups evidenced what I would consider a sincere interest in Louisiana. Both (were) exploring the Louisiana atmosphere both economically and from the perspective of both of the groups," Dent said.

"The ones who came in person were, quite frankly, upbeat about Louisiana," he said. "They came a long way to see us."

Dent said no specific banks were discussed as prospects.

"It was just strictly exploratory," he said.

After two years of mergers within the state, Louisiana banks at mid-year can acquire or be acquired by banks in Alabama, Arkansas, Florida, Georgia, Kentucky, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and the District of Columbia, provided those areas have enacted legislation. "Most of them don't have the stock price and the earnings to get into that activity," said McNeece, who is also chairman of Hibernia's Baton Rouge bank.

Hibernia is in a position to be a player because its markets have been improved by problem loans and has worked out the "synergies" of its in-state mergers, while other institutions continue to struggle.

Merger arrangements are a matter of three considerations: market conditions, bank quality and quality of bank management, bank officials said.

"You haven't seen any early announcements, and I don't think that you'll see as many as would have happened if you'd had a better economy and large profitability in the banks," said C.W. "Chuck" McCoy, president and chief executive officer of Baton Rouge-based Louisiana Bancshares Inc.

"Out-of-state banks are reluctant to come to Louisiana because they don't know the depth and the breadth of the negatives of our economy and how they're going to affect banks. Banks to the east of us and in the southeast regions are very interested in Louisiana, but they want us to get our problems behind us so that they can properly evaluate what they're getting," McCoy said.

With the Chemical Bank/Texas Commerce announcement, some now wonder if Louisiana long has been considered a good hunting ground because it traditionally has ranked second in deposits in the Southeast, behind Florida.

Major bank holding companies in the Southeast can find too many other better markets now, than to be interested in Louisiana, said Ian Arnot, president and chief executive officer of First Commerce Corp. in New Orleans. He said he would be surprised to see any companies from Georgia, Florida or North Carolina interested in Louisiana.
Mergers

CONTINUED FROM 1J

“I’m not going to say there’s not going to be any (mergers),” he said.

“It was believed that most of the activity as far as coming in Louisiana would be by Texas institutions. They’re all wounded ducks, right now,” sharing in Louisiana’s oil patch problems, McCoy said. “Those banks over there are having to work on their problems rather than creating new situations and perhaps new problems.”

Louisiana banks are in the same mode, as they ponder cross-state expansions.

“I think we want to finish digesting what we did in the first round,” Arnof said. That means completing the consolidation of “back-office” operations. First Commerce is concentrating on strengthening itself to either compete against out-of-state banks or fetch an attractive price from an acquirer.

McCoy said LBI’s “strategy is to develop a highly profitable, extremely efficient operation, an institution that is competitive in every respect — one that the marketplace views as a good investment.”

As part of its positioning, LBI announced two weeks ago that it is changing its name to Premier Bancorp to give it a more flexible image in the state and region.

“If a bank outside Louisiana wants to pay a premium over their prices, we have to do what’s best for our shareholders,” McCoy said.

Despite paying attention to internal matters, the big bank holding companies won’t lose sight of the possibilities of interstate banking, said Lawrence McIntosh, president of Hibernia in Baton Rouge.

Although no plans were discussed, McNiece said Hibernia has developed banking relationships and is well-positioned in the Gulf South region. The institution has been active for years in creating “partnership” loans with banks in surrounding states to meet its growth objectives and insulate itself from economic downturns in Louisiana.

First Commerce would be more apt to proceed into interstate banking along the Gulf Coast, specifically the Interstate 10/12 corridor, Arnof said. Potential markets cited included Biloxi, Miss.; Mobile, Ala.; and Pensacola, Fla.

He justifies that as a natural step, based on studies showing a dominant east-west trade and transportation flow through Louisiana along I-10 and I-10/J-12. There is virtually no north-south activity in the state, he said. It also makes more sense to stay along the I-10/J-12 corridor in terms of geographical expansion and efficiency in operations, Arnof said.

McCoy said he doesn’t see many opportunities in Louisiana’s neighboring states. Setting aside the problems in Texas, many of the best and sizeable banks there have been absorbed by major institutions in Houston and Dallas/Ft. Worth.

“It just wouldn’t make sense for a Louisiana bank to go to Texas and buy a $15 million or $25 million bank. The cost of operating that far and that remote would be almost cost prohibitive,” McCoy said.

Smaller banks are prevalent in Arkansas and Mississippi, Alabama banks are being sought by Atlanta.

“If you start acquiring $25 million and $50 million banks, there’s an awful lot of good ones in Louisiana. So you could grow just as much remaining in Louisiana if you’re after that size bank than you could going outside the state, and you’d probably be a lot better off,” McCoy said.

Eventually, the large “money center” banks in New York, Chicago and California will get into Louisiana, McCoy said, possibly by latching onto a Texas bank that has made an acquisition in Louisiana.

McCoy said he would like to see at least one major holding company domiciled in Louisiana, although each must do what’s best for shareholders.

“We’d like to think we’re going to be that bank,” he said.

Only the economy will determine for sure how many remain Louisiana-based, Arnof said. With a better economy, more will survive. Otherwise, there will ultimately be only one, maybe two.