Making Money Again


Lafayette banks and thrifts, like their counterparts in other areas of the state and nation, reported a very profitable year in 1992. The trend toward increased earnings had begun in 1990 and 1991, but it accelerated last year. Net income from the locally owned banks and thrifts with operations in the Lafayette area was up 45 percent from 1991 to 1992. The four statewide holding companies with operations in Lafayette reported a 167 percent increase in net income.

Most dramatic was the turnaround among several holding companies. Whitney, which lost money last year, reported a $20.2 million profit in 1992; Premier's income was up sixfold from the year before.

Asset growth has been more modest, averaging 8 percent for locally owned institutions and 1 percent for state-wide holding companies. Most notable was the reduction in size of Hibernia Corp., which lost 22 percent of its assets, primarily through the sale of its Texas operations.

The shrinkage was necessary, however, in order to strengthen Hibernia's capital position and bring the bank in line with regulatory requirements.

Enhanced profitability has allowed the banks damaged during the depression of the 1980s to strengthen their financial statements. "Those profits enabled the banks to rebuild their balance sheets," says Graham Thompson, chief executive officer for First National Bank of Lafayette.

One of the major benefits of this strengthening is a reduction in bad loans carried by the banks. Many financial institutions were able to write off bad loans in 1992 because of their improved profit picture. Banks also used profits to build up their capital reserves, which were sorely depleted in the 1980s. All of these factors have made banks more attractive to federal regulators and reduced the number of problem institutions in Lafayette, Acadiana and Louisiana as a whole.

There are very few prospects for closings of banks or thrifts in the state during 1993.

The enhanced profit picture at local banks stems, in large measure, from the nationwide decrease in the cost of funds. As the prime rate was lowered, the spread between what the banks are paying on deposits and what they are receiving from loans and securities widens. That results in increased earnings for banks and thrifts.

A major benefit of enhanced profits is a reduction in bad loans carried by the banks.

BY RICHARD BAUDOUIN AND LESLIE TURK

Thompson disputes the notion, however, that the large spread is a result of local banks overpricing loans; i.e., not giving customers the benefit of the lower cost of money. Rather, the widened spread is a result of fixed rate securities which maintain their higher yields even as the daily cost of funds decreases, says Thompson.

"As prime has come down, we have lowered our prime," says Thompson.

Local factors have also contributed to the banks' improved financial condition, most notably a rapidly improving business picture. "The economy did smile on us in the last few years," says Hubert "Red" Dumesnil, vice chairman of Premier Bank/Acadiana.

More stable companies are now able to pay back delinquent loans, which were dragging down local banks' performances. That also reduces a bank's cost of operations, because supervising a delinquent loan is a very time-consuming and expensive proposition.

And that's not the only reduction in overhead which local financial institutions have achieved in recent years. Banks and thrifts have been slimming down, cutting employees and eliminating unnecessary expenditures. That belt-tightening is now paying off in enhanced profitability.

The good news is leavened, however, by a few threatening developments. Observers in the financial community are beginning to forecast the possibility of higher interest rates in the year ahead. That could have a very negative effect on the recovery of financial institutions.

Veribanc Inc., a newsletter which covers the financial industry, recently headlined an article, "High Interest Rates on the Horizon—Let's Hope Not." The article suggested that a number of factors might stimulate interest rates, including sharply reduced demand for federal securities, widening of the government deficit or accelerating price inflation. The article went on to warn that financial institutions holding long-term fixed assets, like debt securities and mortgages, would suffer. Particularly at risk are small banks.

While the largest 432 institutions are likely to have much of their interest rate risk hedged, most of the nation's 8,464 banks with assets of less than $100 million lack the technical and economic wherewithal to similarly insulate themselves. In this regard, these banks' portfolios are similar to the state of many S&Ls at the onset of inflation which occurred in the 1970s," the newsletter reports.

Ken Pickering, a New Orleans attorney who provides consulting services for banks, is also concerned about the negative effects
of high interest rates on the state's financial community. "What I see unfortunately in the future is that the interest income from securities and loans is dropping," says Pickering. "What you are going to see is a substantial narrowing of the spread."

The most effective way to offset this reduction in the spread is for a bank or thrift to increase the number of loans they book. Loans are more profitable than securities. "[Higher interest rates] are going to cut ... profit margins substantially if [financial institutions] are not able to generate loans or buy loans," says Pickering.

But the market for loans in Acadiana and the rest of the state is very problematic. "Extremely competitive, very soft market," is how Premier/Acadia president John Dejean describes it simply. Though the economy has improved in the last few years, only a few businesses are willing to undertake the kind of major expansions which generate the need for borrowed capital.

And, particularly in Lafayette, the number

Higher interest rates could have a negative effect on the recovery of financial institutions.

of financial institutions chasing those few good loans has increased exponentially in the last few years. Banks from New Iberia, Abbeville, Opelousas and Thibodaux have all established beachheads in the Lafayette market and are aggressively seeking out good customers.

"There's fierce competition among banks for good, quality loans," says Bob Bacon, executive vice president of First Acadiana National Bank, headquartered in Opelousas.

Many bankers have also complained in recent years about the negative effect of more stringent regulation of banks by federal examiners. Burned by the thrift meltdown of the 1980s, federal regulators are scrutinizing the practices of surviving institutions with ever more increasing intensity. Bankers say they are hesitant to make many loans because they are afraid of how they will be viewed by those in charge of overseeing the industry.

"All banks are still being burdened to some extent with new and more restrictive regulations with regard to lending and other areas," says Bacon.

Increased requirements for borrowers scare away some customers, says Dejean. Certain loans backed by real estate now require up to three appraisals, says Dejean, which can turn off a potential borrower. And the mushrooming paperwork also presents a problem for banks. Up to 30 percent of the cost of making a loan comes from the simple task of filling out forms.

But perhaps the biggest downside of this

CONTINUED ON PAGE 29
tightening regulation is the chilling effect it has on the banker who is on the front line, i.e., the loan officer. "He looks over his shoulder. He's got bank examiners, he's got internal auditors, loan review committee," says Dumesnil.

But there is some hope for relief from the burden of federal mandates. President Bill Clinton acknowledged the problem and called for a loosening of credit restrictions in order to increase the flow of funds to communities. And four federal regulatory agencies recently released policy changes designed to increase the flow of credit.

These four agencies—the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp., the Federal Reserve Board and the Office of Thrift Supervision—are targeting a number of areas for changes. They include:

- reducing the amount of documentation a borrower must supply before receiving a loan;
- encouraging bankers to take into account the reputation of a borrower for repaying loans when deciding whether to issue additional credit;
- limiting the number of appraisals needed; and
- refocusing the examination process.

Bankers have responded to the proposed changes with optimism, though many want to see more specifics before making a final judgment. "I'm interested to see what he's going to propose and how he's going to implement it," says Dejean.

The Community Bankers of Louisiana, an organization of independently owned institutions, released a statement calling the changes "encouraging signs." The net effect would be to increase lending and thus create more jobs, according to C.R. "Rusty" Cloutier of Lafayette, president of the organization.

"It will be easier for banks to lend money, especially to small and medium-sized businesses. This means job creation and community growth," says Cloutier. "These efforts are great news for communities as well as community banks."

Cloutier, who is president of MidSouth National Bank of Lafayette, said a major bonus of the regulatory relief will be the allowance for banks to lend money based on the character of an individual.

"Banks will once again be allowed to use the borrower's reputation and character as a factor in lending. The over-regulation has forced banks to replace character and reputation with formulas and ratios," says Cloutier.

In general, banks and thrifts are optimistic about 1993 despite the portents of higher interest rates. The economic recovery and increasing profits are encouraging some banks to make plans for expansions and acquisitions. "We view the economy as relatively stable, with some modest growth," says Bacon.

What follows is a brief overview of financial institution performance in 1992 and prospects for the year head.

STATEWIDE HOLDING COMPANIES

FIRST COMMERCE CORP. brought a new president and chief executive officer to its affiliate First National Bank of Lafayette. E. Graham Thompson, who was president of First Commerce's Baton Rouge affiliate for six years, replaced David Sweatt.

In January of 1992, First Commerce made its most profitable acquisition ever when it...
took over $1.1 billion in deposits of the failed Pelican Homestead and Savings Association from the Resolution Trust Corp. It retained nearly 64 percent of Pelican’s deposits, and by March the acquisition was contributing to increased earnings per share. Pelican was financed through First Commerce’s ability to raise capital with new issues of convertible preferred and common stock, both of which had common equivalent prices of twice tangible book value.

First Commerce officials say they plan to take advantage of future acquisition opportunities.

Thompson says FNB of Lafayette is planning to remodel one branch, relocate another and add two new branches. He would not disclose the specifics.

**HIBERNIA CORP.’S restructuring** resulted in a completely new management team for 1992. After creating significant loan loss reserves in 1990 and 1991, directors recognized that Hibernia needed new leadership. Of the top 42 managers listed in the 1990 annual report, 23 have left the company and 13 have new responsibilities. Only six are serving in the same capacities as before.

Hibernia officials say they spent last year listening to what customers had to say about banking services and made significant changes in the way they did business. They extended hours, introduced full-service Saturday banking at about half of their locations and offered broader deposit and loan product lines.

Last year Hibernia also completed the sale of its Texas bank to Comerica Inc., thereby achieving the 1991 recapitalization and reorganization goals of the company and its Louisiana bank. The sale generated net proceeds of $56.2 million.

Hibernia added $178 million in equity capital last year, accomplished through the restructuring of debt and a shareholder rights offering. By the end of the year, shareholders’ equity had increased more than 85 percent from the end of 1991 and totaled $369 million.

**PREMIER BANCORP** enjoyed a banner year of financial success in 1992, continuing to reduce problem assets and completing a plan announced in 1991 to strengthen the bank’s capital base and the company’s liquidity. Premier also saw the market value of its common stock increase substantially, closing at $15 on Dec. 31, up 135 percent from the closing price of $6.38 on Dec. 31 of 1991.
The company’s primary focus in 1993 will be to reduce non-performing assets.

Premier officials are not letting speculation of an early Banc One buyout prevent them from attempting to make acquisitions of their own.

WHITNEY HOLDING CORP. has continued to make significant progress in reducing its non-performing assets. The total level of non-performing assets, which includes non-performing loans, foreclosures and other real estate owned, declined from a high of $216 million at the end of the first quarter of 1991 to $111.2 million at Dec. 31 last year.

While its 1992 figures point to continued success, officials say, to a large degree Whitney’s future is dependent upon regional and national economic conditions as well as the health of the banking industry. The region’s economic diversification away from reliance on the energy industry is developing slowly, officials say, and while there are some signs of economic encouragement, the company does not anticipate a dramatic turnaround.

Last year the company’s mortgage loan department almost doubled its volume over 1991. This area has expanded its product offerings over the past year to accommodate all forms of home and real estate ownership as well as housing rehabilitation and neighborhood revitalization.

The company is further enhancing its customer service center by offering a Voice Response Unit, which provides an option for customers who do not want to contact an employee personally.

In 1993 the retail division will enhance both its overdraft protection and the personal line of credit, officials say, along with deposit accounts directed toward mature and young adult markets.

LOCALLY OWNED BANKS

BANK OF LAFAYETTE made its first significant profit since 1985 last year, says president and chief executive officer Danny Domingue. The bank’s 1991 profit was $11,700, versus $746,000 in 1992.

“The bank has made significant improvement in its non-performing loans over the course of 1992,” Domingue says. It also saw a big improvement in its level of non-performing assets, and Domingue is predicting that in 1993 the bank’s level of non-performing assets will be reduced by 50 percent.

Provided this happens, Domingue says, the bank will meet all tests for adequately capitalized banks under new fiduciary rules.

Although the bank is considering expansion, he says, any action is probably a couple of years down the road.

The bank will strengthen marketing efforts this year, Domingue says.

FIRST ACADIANA NATIONAL BANK improved its profits by more than $1 million last year, thanks in part to an Iberia Parish acquisition.

Chief operating officer Bob Bacon says the bank acquired its third financial institution in three years when it took over the Bank of Iberia in the first quarter of last year. It now has 11 locations in four parishes, including Lafayette, St. Landry, Iberia and Vermilion.

In order to counter competition from brokerage houses and insurance companies, last year the bank will be getting into the selling of mutual funds and annuities, Bacon says.

HOLDING COMPANIES

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LOCALLY OWNED BANKS

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KEY INDICATORS OF LOCAL BANKING PERFORMANCE

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<th>Key Indicators</th>
<th>Assets (as of Dec. 31)</th>
<th>Net Income (for year)</th>
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<td></td>
<td>(in millions of dollars)</td>
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