Multi-parish banking

It’s somewhat unusual to see the business community split over a bill in the Legislature. It’s even more unusual to see a particular industry split over a bill. But such is the case with multi-parish banking legislation being debated this session.

Louisiana bankers have hardly formed a united front on the issue. Some are strongly for it. Others are just as vehemently against it.

Several bills dealing with multi-parish banking have been filed in the Legislature this session. Some would allow banks to open branches outside their home parish. But the bill currently seeing the most attention, Senate Bill 346, would instead allow a holding company with a bank in one parish to buy an already-established bank in another parish. (A holding company is a firm that basically exists only as an umbrella organization to own several other companies.) The purchased banks then would become subsidiaries of the holding company.

SB 346, which has the backing of Gov. Edwin Edwards, was approved unanimously by the Senate Commerce Committee May 16 and passed the full Senate May 22 with a 22-17 vote. Locally, Sen. Allen Bares voted for it; Sen. Armand Brinkhaus against it. The bill is scheduled to be heard by the House Commerce Committee this week.

With the legislative battle beginning to heat up, The Times asked two prominent bankers in Lafayette to give their views on multi-parish banking. Walter Stuart, president of American Bank & Trust Co., favors the legislation. John Kenaley, president of Hub City Bank, opposes it.

PRO

Walter Stuart
American Bank & Trust

Q. Is multi-parish banking necessary for the economic development of the state?
A. The financial services industry is in a state of "turmoil." Our industry is the latest of a growing number of major sectors of the economy swept up in deregulation as our economy changes from an industrial economy to an information economy and from a local or national economic base to a global or international one.

If Louisiana banks are going to compete, to be active participants in these changes within the financial services industry, they must be given the opportunities to compete and to expand.

Banks have witnessed an almost overwhelming amount of increased competition within the financial services industry. Thrifts, savings and loans, insurance companies, investment firms, credit unions, etc. have all become competitors.

How can we compete with these players when we are basically tied to one geographical location? For example, savings and loans and many other types of finance companies now branch statewide and are being given more and more commercial banking powers.

On the national level, we’re seeing efforts in the direction of interstate banking. Nationwide banking is already here. Look around our city and note (continued on page 22)

CON

John Kenaley
Hub City Bank

Q. Is multi-parish banking necessary for the economic development of the state?
A. The argument for multi-parish banking is that Louisiana needs some super banks to finance super-large industries. If you combined all the money in all of the banks in Louisiana and put it in one bank, you would still have the same amount of money as before. The only way to consolidate money is to take the money away from the smaller communities. Where else would it come from?

Basic economic measurements that compare 10 states which permit and which prohibit multi-bank holding companies show no superior economic performance in terms of employment growth, per capita personal income and unemployment. Economist Jerome C. Darnell observed in reporting a recent study that “growth does not appear to be closely linked to a particular style of banking organization.”

Q. What effect will multi-parish banking have on a bank’s corporate or business customers (including agribusiness)?

For many years Louisiana has managed to lead the nation in industrial expansion without multi-bank holding companies, and now the backers claim it’s a necessity? The banks in Louisiana do not suffer from a shortage of capital.

From the corporate, business or agribusiness (continued on page 23)
Stuart (continued from page 21)

the Merrill Lynch offices, Sears financial network being organized, etc. It is in the economic interest of this state for the banking industry to consolidate within our state prior to this situation. Out-of-state banks are already offering attractive financing for economic growth to our corporate customers. With consolidation, a given bank holding company will have the capital base, size, expertise, and ability to handle these large loans. Those Louisiana banks that wish to join together will have the opportunity to do so. Does it make sense for our banking industry to sit back and observe Louisiana companies being served by out-of-state banks? For those dollars to be funneled into another state?

Q. What effect will multi-parish banking have on a bank’s corporate or business customers (including agribusiness)?

A. For those holding companies that choose to acquire several banks throughout the state and define their markets on a large scale, they will be able to handle not only larger dollar volumes, but also more complicated loans and more specialized loans for corporate customers. They will be able to pool their resources and the resources of all the lenders within the holding company. This situation will result in a holding company’s ability for faster turn-around times on loan approvals. Administratively, it will be much more efficient to arrange loan participation within a given holding company as opposed to among several different and separate correspondent banks.

In the area of agribusiness, the federal government is heavily involved subsidizing loans at lower interest rates for farmers. I do not see multi-parish banking legislation as having a detrimental effect upon agribusiness customers. The same positive factors mentioned above apply to this segment as well.

I’ve heard several comments regarding the impersonal nature that will suddenly appear within banking if multi-parish legislation becomes effective. But to be profitable and survive, banks must continue to offer what their target market, their customers, desire. Market research studies demonstrate again and again that all customers desire personalized service. Multi-parish legislation isn’t going to change that basic business fact.

Let’s face it, with the increase in competition, if a given bank is not providing the service or product you want, you certainly have other choices. That’s a key issue here. Banks will be able to determine their own philosophy. Some will choose to cross parish lines and acquire other banks to increase their capital base and lending ability to meet the needs of the state’s large corporate customers. Others will define their market on a local level and will choose to remain independent.

Q. What effect will multi-parish banking have on a bank’s general customers or “the average consumer”?

A. The same points I mentioned in regards to the corporate customers hold true for consumers as well. Over the long run, it really will be the average consumer’s choice whether or not to be affected significantly by multi-parish legislation. They will have even more choices than now. In a free enterprise system (which is what this multi-parish legislation really is), banks will choose their own markets.

There will be several banks that will choose to define their markets as the community where they are currently located. One of my fellow bankers summarized that point well recently. He said that there will always be a place for a “banque de la familia.”

On the other hand for those customers who wish to utilize more sophisticated services or products, they will be able to access those by utilizing the services of a multi-bank holding company. Due to an increase in the capital base, it will be more cost-effective for these banks to offer more lending expertise, more efficient products and services such as home-banking terminals. For cost reasons, these services may have been prohibitive in the past. It really will be a financial supermarket. Another effect will be increased competition in the financial services industry in the long run as banks must become better managers and more cost-effective in order to survive.

Kenaly (continued from page 21)

standpoint, the idea of multi-banking is also questionable. Since a multi-banking network will be expensive to maintain, will customers be willing to pay more interest on their loans and higher fees for the marginal benefits associated with statewide networks? For these reasons, it does not appear the consumer will lead the way to statewide multi-banking.

Two major farm states have turned thumbs down on multi-banking legisla-

tion this year. Multi-banking legislation lost in Indiana and Kansas, two of the largest farm states in America. The Louisiana Farm Bureau Federation last month voted to oppose multi-bank holding companies in Louisiana. The State Farm Bureau Board feels a locally controlled independent bank can better serve the needs of farmers and rural Louisiana.

Q. What effect will multi-parish banking have on a bank’s general customers or “the average consumer”?

A. The mission of a successful community bank is to respond to the needs of the customers for which it serves. The only mission of a multi-bank holding company is to increase the value of stock shares. The average consumer in California was found without exception to be charged significantly higher rates by multi-bank holding banks than by the smaller community banks. Service charges by holding company banks are consistently higher than those of independent banks. Survey after survey has proved that.

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