Something's up in the local financial community, but it's not another merger—not yet, anyway. First Federal Savings & Loan of Opelousas, Iberia Savings Bank and Teche Federal Savings Bank are planning to convert from mutual to stock ownership. Additionally, a Home Savings Bank official confirms his institution is studying its options as well.

"It's surely something we've looked at," says John W. Bordelon, president of Home Savings. "At this particular time we have no plans to convert. We're looking at all the advantages and disadvantages."

The recent announcements come on the heels of an August announcement by LBA Savings Bank that it would convert to stock and reorganize into a holding company with a commercial bank subsidiary. Once that's completed, the commercial bank subsidiary will acquire the Bank of Lafayette.

Larrey Mouton, president and chief executive officer of Iberia Savings, says preliminary estimates indicate that $65 million to $100 million in capital will be raised in his thrift's offering. However, he says the stock is still being appraised, and a final amount won't be known until the end of the year.

Uses for the new capital include expanded lending and branch locations, as well as upgraded equipment and technology, Mouton says. He says the institution, which currently has $486 million in assets, would like to have two more locations in Lafayette.

Officials maintain the timing is right for conversions, especially with the ongoing consolidations and the general push for increased market share. "Financial institutions' stocks seem to be doing well. The market is receptive, and the public is receptive," Mouton says.

Thrifty have pulled themselves back up to levels of profitability in recent years after suffering setbacks when the local economy crashed in the mid-1980s. For the most part, troubles seem to be behind those that survived the S&L crisis.

Financial institutions have been consolidating at a phenomenal pace over the last couple of years, which analysts say is necessary for any institution to compete. And the move to stock ownership puts these local institutions in a better position to make acquisitions or—for the first time—be acquired themselves.

A mutual institution can't be bought out, says Bordelon. "At this point, there's no stock to sell, so what are they going to buy?" Basically, deals for mutuals can only come in the guise of a merger with another mutual institution.

Both Teche Federal and Iberia Savings insist they intend to remain independent or buy other banks themselves in order to increase market share.

"There is the chance you would be bought out," says Bordelon. "In a mutual, you're working for a salary and that's it," says Bordelon. On the other hand, converting to stock gives loyal customers the option of owning a portion of the company, he says, and sometimes allows the community to invest its money in a local institution. But it also puts an added level of pressure to increase net income, whereas the major pressure for a mutual is to provide better services, he says.

"If you're a mutual, people leave you alone," says Carl Dorf of Los Angeles, who is the fund manager for Pilgrim Regional Bank Shares. Pilgrim is a $167 million mutual fund that invests in both banks and thrifts. Dorf says, however, that a thrift which converts faces the hassles of public scrutiny as well as having to file regulatory reports.

For some thrifts, the benefit of conversion has far outweighed these drawbacks. In the past, the thrift's stock was sometimes discounted far below market value, allowing the stock to be bought very cheaply. In some instances, the depositors bought it all, and the next day it was worth much more than they had paid. "It was a bonanza for depositors," he says.

What's more, the directors and officers had structured the deal so they had options on the stock that others didn't. "They knew what was going on, and they knew how to benefit disproportionately," he says.

Dorf says there's been some cracking down over the last few months on thrift conversions. "The regulators have put more pressure on the companies to have the value more fully reflect what it should sell for in the marketplace," he says.

"Financial institutions' stocks seem to be doing well. The market is receptive, and the public is receptive."

—LARREY MOUTON, IBERIA SAVINGS BANK

Bordelon. "The bottom line is if the right price comes along, you're gone."

The board has a fiduciary responsibility to present what is a good deal to the shareholders. The board could lose an element of control in that stockholders could vote members in and out and put significant pressure on board members to sell," he says.

Conversions are advantageous to an institution's depositors (which of course includes board members and officers of the bank as well as most employees), but they do have some drawbacks.

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Teche Federal, which has $280 million in assets, is converting from a federal mutual savings bank to a federal capital stock savings bank. It will operate as a subsidiary of a newly formed holding company, which will be owned by the shareholders who purchase its common stock. The holding company will own all of the outstanding capital stock of the converted savings bank.

"Teche Federal will offer the shares of stock of the holding company to qualifying members of the bank in
a subscription offering and—to the extent any shares remain unsold—to the general public in a concurrent community offering,” says Patrick Little, Teche Federal’s president. Little says he’s been advised not to disclose preliminary figures on what the bank expects to raise.

Iberia Savings is also forming a holding company that will offer shares of its common stock. Both plans are subject to various regulatory and other approvals.

Virtually all mutual thrifts are considering similar options as far as converting to stock. “It’s been happening,” Dorf says. “It’s not something that just started this year.”

“We have been studying the issue for several years,” Mouton says. “We think we need to get into the mainstream of the corporate world.”

Mouton says he was afraid to wait any longer to make the move for fear that regulations might make conversions more costly or more difficult in the future. “It seems like everyday there’s a new rule, a new thought process we have no control over. That’s why we wanted to go ahead and get it finished.”

Dorf says depositors or eligible members of thrifts that waited this long may not cash in big like a number of others. “It probably would have been more beneficial to any one of them to do it six months ago,” he says.

But Home Savings’ Bordelon still wants to keep his options open. “We’re just not convinced that’s necessarily the right way to go,” he says.