Premier plans to spin off its bad loans

By KATHERYN FLOURNOY
Advocate business writer

Officials of Baton Rouge-based Premier Bancorp are expected to announce Thursday morning that the corporation is forming a separate bank to take over Premier Bank's bad loans and foreclosed real estate, a strategy planned to clean up the bank's balance sheet and enable it to earn money again.

A news conference has been called for 10 a.m. at which company officials also will announce Premier's second quarter earnings. The bank officials were to have met Wednesday night with members of the investment community to explain the new good bank/bad bank structure.

Officials weren't talking Wednesday afternoon about details of the Thursday morning news conference, although Neil Williams, chief financial officer, confirmed that the announcement of a separate bank to take over bad loans would be forthcoming.

"It's something that's very exciting to us," Williams said.

Based on a previous interview with Williams, the new structure may be patterned after a "bad-asset" bank implemented by Mellon Bank Corp. of Pittsburgh, Pa., in 1988. The bank, Grant Street National Bank, was formed to dispose of Mellon's non-performing assets. Grant Street also was part of a recapitalization plan at Mellon.

It is not known, but it is not expected, that Premier will announce a recapitalization plan Thursday. Although Premier Bancorp has suffered $81.698 million in total losses since 1986, the bank has maintained strong levels of capital. At March 31, 1989, its primary capital was $328 million.

Premier has reported nonperforming assets equal to 5.3 percent of its $4.3 billion in total assets at March 31.

Premier has tried to shed the nonperformers on its own; but the process has been slow and the results slight. The amount of bad loans and foreclosed real estate has decreased less than two percent since 1987.

Holding onto these nonperforming assets, which totaled $256.6 million at March 31, costs Premier money and opportunity.

Premier spent $97.7 million before taxes between 1986 and 1988, including $45.8 million in 1988 alone, to carry the bad loans. Furthermore, the money it spent to carry the bad loans could have been reinvested elsewhere, either in new loans or securities that could have been making money for the bank and ultimately Premier shareholders.

Another effect of Mellon's good bank/bad bank structure has been a rise in its stock price. Mellon's stock has moved up to about $37 a share from $25 a share since Grant Street, the "bad-asset," bank was formed.

Premier has hovered in the $4 range most of 1989, trading below $4 in the past 52 weeks. The low stock price prompted Premier directors earlier this year to put in a shareholder rights plan to thwart unwanted takeovers. The shareholder rights plan makes Premier less vulnerable to takeover attempts that might be encouraged by the low stock price.