


Bank & Thrift - Industry News
Rumor Mill: Texas and Louisiana likely to see small deals in near future
EXCLUSIVE

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 By [Nick Gorski](#)

Texas and Louisiana could prove to be long-term pockets of economic strength relative to the rest of the U.S., thanks to plenty of activity in the energy sector and rebuilding efforts after Hurricane Katrina, and several industry observers are predicting more deal activity in the two states in the near future.

[Whitney Holding Corp.](#)'s recent [acquisition](#) of [Parish National Corp.](#) for \$165 million is one of the larger bank deals announced this year, and Texas has also seen a handful of smaller deals in the past few months, such as [ST Financial Group Inc.](#)'s [agreement](#) to merge with [Snook Bancshares Inc.](#)

Banks and thrifts in the two states have managed to [sidestep](#) some of the credit issues that are roiling the rest of the banking industry, and as a result, M&A is expected to increase.

According to Daniel Bass, managing director at Carson Medlin, a number of factors will drive acquisitions in Texas. "People still want to get into Texas because of the demographics; because of the oil and gas," he said. Jonathan Briggs, vice president at New Orleans-based Chaffe & Associates, told SNL that the oil industry is propelling the Louisiana economy forward as well.

The oil industry is "really picking up and booming over the last twelve months, with more exploration, production, and ... the related services," he said. "The economy in places like Houma and Lafayette are just doing really, really well."

Even New Orleans, which still hasn't [found its footing](#) after Katrina, is benefiting from an inflow of Federal and insurance money, Briggs said. Additionally, he said, the state never saw the same problems in real estate as the rest of the country, and never had the associated run-up in pricing.

Janney Montgomery Scott analyst Kevin Reynolds told SNL that Louisiana, especially along Interstate 10, is completely different from the rest of the country. "The stimulus of rebuilding from Hurricane Katrina and Hurricane Rita, and the job growth that all of that creates, and the need to rebuild houses, [and] people moving because of the job opportunities that are there that aren't in a lot of other places" are all factors in why the state is doing well, Reynolds said.

Commerce Street Capital Managing Director Jacob Thompson said potential M&A activity in Texas is closely tied to the state's overall economic health, and demographic factors — such as population growth, as well as a pro-business climate and affordable housing — have kept the state's economy afloat. Thomson told SNL that banks in Texas were generally healthy and benefiting from the troubles of the larger national and regional banks. "If you look at, especially, the community banks that we talk to, they've seen increased loan demand over the last six months," he said. "They don't have to compete as hard on price, and they're certainly not going to compete on underwriting. So they've been able to take advantage of the increase in demands."

Another factor that will drive deals this year is the specter of an increase in the capital gains tax. "If you can sell before the end of the year, and have a 15% capital gains rate, versus next year at 20% [or] 25%, then you'd be willing to take less," Bass told SNL. "Your expectations have probably gone down if you can get it in by the end of this year."

Bass also said there were a number of creative deals being proposed, to try and bridge the gaps between buyers and sellers. "I've seen sellers accept an escrow, and they'll put part of the purchase price in escrow, and as long as the loans don't go bad, they'll get that in a year, with interest," he said. "I think that's a great way to bridge any of the pricing differences."

For the most part, deals in both Texas and Louisiana will be in-market acquisitions.

Briggs told SNL that there were "several" deals coming up in Louisiana markets in the near future, but they will be on the small side. "There are enough attractive markets in the state that I think that's what's going to spur deals here in Louisiana," he said. "There are banks that don't have a presence in some of the high growing markets here that will look to make small acquisitions here to get into those markets."

In Texas, Bass said, there will be many smaller deals, because many private investor groups are looking to "buy a charter on cheap," and expand into a metropolitan market from there. Rather than go through the de novo process and endure a year or more of negative earnings, Bass said, groups can start with some infrastructure and a deposit base to grow from. "[Patriot Bank](#) bought a [bank](#) in Honey Grove, Texas, and now they're the largest independent bank in Houston, largest privately held," he said. "[Vista Bank Texas](#) in Houston, they did the [same thing](#). A lot of the copycats going on, but it's a good strategy."

Thompson said that, in many cases, these groups are former management teams of banks that were acquired in the past. As the noncompete agreements expire, the groups reform to run a new bank. "Sort of putting the band back together, if you will," Thompson said. "Management teams are going to go back to some of their original investors, and they're going to find a platform out there that they can get control of and then branch into a ... larger market."

Bass also said some larger deals could happen by the end of the year. "There's a number of larger banks that are talking, and that's more than they were doing six months ago," he told SNL. Though buyers and sellers still have some separation on prices, he expects a few deals involving banks with \$300 million to \$500 million in assets, especially if a capital gains increase is likely to occur.

There likely will not be quite as many deals as in past years, nor at what Thompson called the "prolific multiples" of deals from a few years ago. "Historically, Texas is good for 25 to 30 transactions a year," he said. "So yeah, it's slow, but ... it differs from the rest of the country in that there's something actually going on."

According to Reynolds, Louisiana and Texas are good places for buyers with a long-term outlook of expansion, if there are any buyers capable of doing so. "They'd probably want to look in that geography for companies that are seeing strong deposit growth and strong loan growth," he told SNL. "So possibly, I think it would be reasonable to look for Louisiana, Arkansas, Texas, as pockets of strength, and maybe even the Mississippi and Alabama gulf coast."

Briggs said that the Whitney/Parish deal was important, because it was the largest deal in the state in "quite some time." He added that there weren't many buyers right now capable of doing a deal that size that are interested in the Louisiana market, despite the local economy.

"There aren't very many out-of-market, out-of-state banks that are buying into Louisiana right now, or that are even looking at buying into Louisiana right now," Briggs said. "We're hoping that's going to change as the rest of the nation sees that Louisiana isn't quite as bad as they think it is."

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