

June 17, 2009

**Research Update:**

# Whitney Holding Corp. Downgraded To 'BB+/B'; Outlook Negative

**Primary Credit Analyst:**

Daniel E Teclaw, New York (1) 212-438-8716; daniel\_teclaw@standardandpoors.com

**Secondary Credit Analyst:**

Catherine Mattson, New York (1) 212-438-7392; catherine\_mattson@standardandpoors.com

## Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Related Research

Ratings List

## Research Update:

# Whitney Holding Corp. Downgraded To 'BB+/B'; Outlook Negative

## Overview

- We feel weaker operating performance relative to peers is likely as industry risk remains high.
- We have lowered our counterparty credit rating on Whitney Holding Corp. to 'BB+/B'.
- We believe financial performance could still be pressured, with few signs of a firm economic recovery.

## Rating Action

On June 17, 2009, Standard & Poor's Ratings Services lowered its counterparty credit rating on Whitney Holding Corp. to 'BB+/B' from 'BBB/A-2'. We also lowered the counterparty credit rating on Whitney National Bank to 'BBB-/A-3' from 'BBB+/A-2'. The outlook is negative. The ratings are removed from CreditWatch Negative, where they were placed May 4, 2009.

## Rationale

The downgrade reflects our view that Whitney's financial fundamentals should remain weak relative to peers' in the context of a weakening economic environment. Whitney should remain challenged in particular by its commercial real estate exposure in the southeast footprint. The downgrade is part of an industry review that incorporates our belief that the operating environment will continue to deteriorate in a weakened economy.

We see Whitney's earnings-generation capacity as weak. Although to date Whitney has generated an adequate net interest margin, we expect it to decline as a result of the low interest rate environment and decreasing loan demand, in addition to higher levels of nonaccrual loans. Moreover, we believe revenue diversification is limited, deriving mainly from traditional banking businesses with no specific specialty and a particularly high dependence on spread income.

Operating efficiency is, in our view, also relatively weak due to the high service nature in executing its community banking model. These financial fundamentals are also subject to weak general economic conditions and credit dynamics in a limited geographic footprint that spans the Gulf Coast from Houston to Florida's panhandle and Tampa, FL, with concentration in Louisiana, specifically New Orleans.

We think Whitney's exposure to commercial real estate will likely further pressure performance, particularly because of its high exposure to the troubled Florida real estate markets. About 15% of the company's loans are in Florida, which also constitutes two-thirds of nonperforming loans. We expect general weakness in the Florida residential market to continue at least into

mid 2010. At that point we believe a pricing floor for housing should have been reached, allowing for a more expedient and orderly liquidation of problem assets.

Whitney's current capital levels partially offset the noted earnings and credit-quality weaknesses, permitting the company some additional flexibility to withstand unforeseen credit events. Compared to other banks in our rated universe, Whitney's overall capitalization is positioned above this group's median, as calculated under our risk-adjusted capital framework. Also, Whitney's tangible common equity-to-tangible assets ratio is a relatively healthy 6.68%. Still, capitalization ratios should remain pressured through 2010 according to our recent credit stress testing without significant capital rebuild.

## Outlook

The outlook is negative. If credit continues to deteriorate further than we expect and weakens the reserve and capital base significantly, we could lower the rating further. If credit stabilizes and earnings improve enough to resume meaningful internal capital generation, we could revise the outlook to stable.

## Related Research

- "Credit Stress Testing For Financial Institutions," April 29, 2009
- "Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009
- "Stress Testing U.S. Financial Institutions," April 29, 2009

## Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Whitney Holding Corp. Counterparty Credit Rating	BB+/Negative/B	BBB/Watch Neg/A-2
Whitney National Bank Counterparty Credit Rating	BBB-/Negative/A-3	BBB+/Watch Neg/A-2
Certificate Of Deposit Local Currency	BBB-/A-3	BBB+/Watch Neg/A-2
Subordinated	BB+	BBB/Watch Neg

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