

A MOST UNUSUAL BANK EXAMINATION

Golf clubs as "cover." Hushed up flights to Dallas. Files going out the back door on a dolly. What was going on?

* * *

The poster child of banking excess during the energy lending boom of the early 1980s was Penn Square Bank in Oklahoma City. It failed Fourth of July weekend, 1982. At that time I was the credit administrator of the First National Bank of Midland, Texas, a very large oil bank of its day with about \$2 billion in assets and a significant concentration of oil-field-related credit.

The Comptroller's Office was concerned about banks with energy concentrations and within a day or two of that eventful weekend, a representative of the OCC duty station paid a call on my bank's CEO and informed him that an on-site safety and soundness examination would be commenced in about two weeks.

Two agendas collide

This did not go over well.

"You can't come in here now" the CEO blurted. "We're starting to sell \$30 million in new equity, and in a small community like Midland, examiners in the bank will 'spook' the market for our offering."

The bank had been growing rapidly over the previous several quarters. While it had retained a substantial amount of its earnings, it still needed more equity to satisfy projected loan growth over the next year or two. The board, consisting largely of local business people with substantial net worths, had agreed to underwrite the offering as a group. While this guaranteed the offering would be completed, the board wanted a broader participation of local ownership that this offering would help to accomplish.

There was no deterring the local OCC team. They were under orders from Washington to take a close look at our oil loans.

Help from an upstream ally

The CEO of First National Bank in Dallas, our closest upstream correspondent, heard of the OCC's insistence and within a day, was on the phone to our CEO offering the use of his bank's large conference room in its Dallas high-rise headquarters. The OCC quickly concurred with the change of venue, and we set to planning how we would accomplish such a task in a remote location with minimal disruption to our day-to-day business and with the utmost secrecy.

The fact that we almost completely succeeded in doing both is a testament to the quality of our staff and the degree of cooperation with the OCC examiners. Midland is nearly 300 miles west of Dallas on I-20.

The CEO designated a point person for Dallas, Bill Parker, a 40-ish consumer and small business lender with considerable experience in all phases of lending, but no direct experience with oil and gas production loans. What Bill had, though, was an abundance of common sense; a straight shooter style of communicating; and a way of getting virtually anyone he dealt with to cooperate with him.

Bill moved into the Adolphus Hotel, which was home to him for the next few weeks, and set up his office in an empty room near First National's conference room. He became the bank's primary face-to-face representative for the exam.

As credit administrator, I set up an assembly-line process in a large conference room in Midland. Every credit that was called for examination ran through that room and under the attentive eyes of credit professionals for complete and adequate documentation and credit information that was either definitive or suggestive of asset values. If a financial statement was "stale," a new one was quickly ordered through the handling officer.

A bit of innocent subterfuge and a lot of hard work

Lenders are curious people and they can read signals pretty well. But no one directly asked me or anyone else, to the best of my knowledge, what was going on.

Bill Parker was missed after several days but the cover story was that he was traveling. He also made sure that when he came home on weekends, he was visible playing golf or visiting the mall with his kids.

Each Thursday the examiners would give Bill a list of credits to be examined the following week. We spent the rest of Thursday and the entire weekend scrubbing the files and making sure they were in the best possible shape both in terms of content and appearance. We made sure that there were no papers falling over the floor when opened up and no worn-out covers or dividers.

On Sunday evening, Bill and a maintenance man with a dolly would show up at the Credit Administration conference room and take the files downstairs to a van and then transport them to the bank's plane, a King Air 200, for the flight over to Dallas. Life for those of us on the Midland end would be a little easier for a few days as we resumed our normal business, until the next call for production of information came in on Thursday.

This operation went on for about four weeks and it was a seven day a week work schedule for all of us in credit administration.

The CEO and the senior lender were available to assist Bill in any credit discussions and spent a lot of time on the phone between Midland and Dallas with the examiners. Occasionally it was necessary that certain loan officers be available for direct questioning. They would be flown over one at a time or in a small group on the bank plane and return home without divulging to those without a "need to know" where they had been or what they were doing.

Eventually, the examiners learned what they needed to know about our loans, the equity offering closed as scheduled, and a significant part of the new \$30 million in equity came from new shareholders. When the offering closed, secrecy was unnecessary and we told the story of what had been going on for over a month. Our loan quality was determined to be something less than pristine under the circumstances, though the examiners believed that the bank was solvent. Barring any material further decline in energy prices, we should survive, they thought.

A time for looking backward

What brought back the memories of this bizarre event in banking-and certainly one of the most bizarre events in my banking career-was the sad news that Bill Parker died this past week of cancer. He had gone on to become the president and CEO of West Texas State Bank of Snyder and retired a few years ago after several years in that job. The family moved to College Station as Barbara, his wife, had a career advancement opportunity that she wanted to pursue. Bill reluctantly agreed to move to the "big city" saying ruefully at leaving Snyder, "I never knew a town that was too small."

Bill was a remarkable banker and a remarkable colleague and friend. This story is mainly about him and the unusual gifts he brought to his work that summer; gifts that are increasingly rare today.

- About Ed O'Leary:

Veteran lender and workout expert O'Leary spent more than 40 years in bank commercial credit and related functions, working with both major banks as well as community banking institutions. He earned his workout spurs in the dark days of the 1980s and early 1990s in both oil patch and commercial real estate lending.

O'Leary began his banking career at The Bank of New York in 1964, and worked at banks in Florida, Texas, Oklahoma, and New Mexico. He served as a faculty member and thesis advisor at ABA's Stonier Graduate School of Banking for more than two decades, and served as long as a faculty member for ABA's undergraduate and graduate commercial lending schools.

Today he works as a consultant and expert witness, and serves as instructor for ABA e-learning courses and a frequent speaker in ABA's Bank Director Telephone Briefing series. You can hear free audio interviews with Ed about workouts here. You can e-mail him at etoleary@att.net. O'Leary's website can be found at www.etoleary.com.