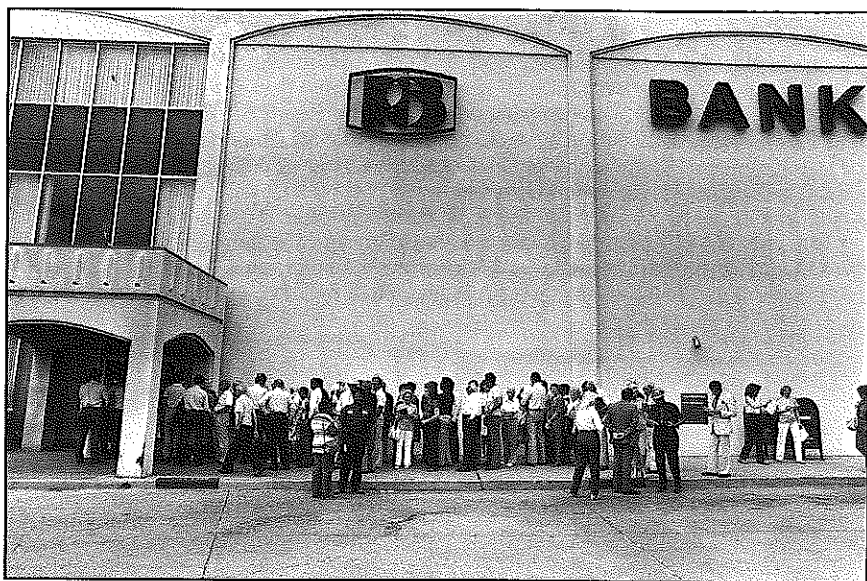


Penn Square: The Shopping Center Bank that Shook the World, Part 1—Boom



*By Michael J. Hightower**

No event looms larger in post-World War II Oklahoma banking than the collapse of Penn Square Bank. In some ways, the shopping center bank that shook the world fits the profile of manias in financial history that resonate to this day: “tulipmania” that rendered Dutch investors first spellbound and then broke when the bottom fell out of the bulb market in February 1637; the orgy of speculation in Louisiana real estate in the early eighteenth century that ended in a heap of devalued banknotes, bruised the Bourbon monarchy, and added a moniker with a French accent—*millionaire*—to America’s financial lexicon; the popping of the South Sea bubble in 1720 that brought many an aspiring millionaire in Great Britain to ruin; and the California gold rush of 1849, where the American Dream foundered in squalid mining camps and busted boom towns. Closer to our own time were the dot-com bubble, gestated in the womb of the “new economy,” and the Great Recession, grounded in the stubborn

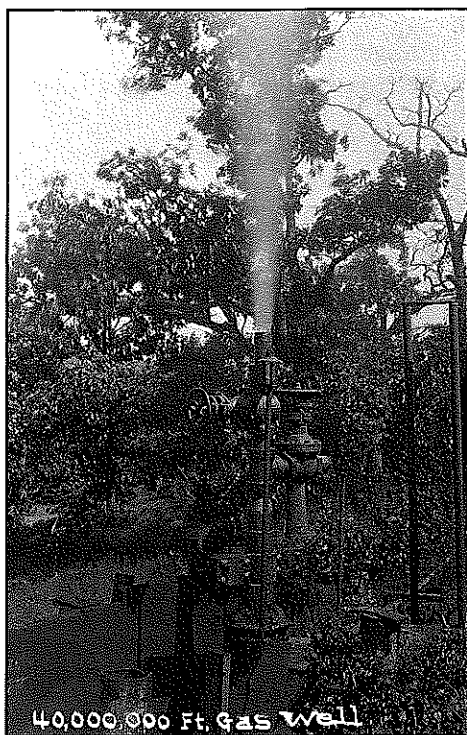
PENN SQUARE BANK

notion that home prices can only go up. We rely on the French for their elegant economy of words: *plus ça change*.

But really the rise and fall of Penn Square Bank, described by one chronicler as “a dinky Oklahoma correspondent bank that had turned out to have the fire power of Lee Harvey Oswald,”¹ was in a league of its own and, more to the point, pure Oklahoma—chock-full of hubris that has surfaced throughout the state’s history whenever natural resources have beckoned as the new *El Dorado*. The siren’s song this time came not from land or oil or precious metals, but rather natural gas deposits in the Anadarko Basin of western Oklahoma, available for the taking as long as one had the guts and money—or, more likely, someone else’s money—to drill to mind-boggling depths. The culprits were businessmen whose good-ole-boy charm belied a money lust that would have impressed the Medici bankers of Renaissance Florence. The victims included bank stockholders, investors, stock brokers, and perhaps most tragically, employees who were working at the wrong bank for the wrong people at the wrong time. Collateral damage extended to run-of-the-mill depositors with modest ambitions—say, putting braces on a child’s teeth or financing a patio for a ranch-style home in the suburbs. As customers at Penn Square Bank and a growing legion of its correspondent banks from coast to coast cashed their paychecks, made their deposits, and signed their loan papers, none suspected that men with less modest ambitions were ensconced in offices only a few feet away, pencils sharpened and phone lines humming, preparing to reap the whirlwind.

Two journalists deserve credit for chronicling the rise and fall of Penn Square Bank: Mark Singer, whose *Funny Money* combines the author’s insights as a native Oklahoman with the caustic wit of a New York journalist, and Phillip L. Zweig, a reporter for the *American Banker* who broke the story with a feature article on April 26, 1982 and eventually distilled months of investigative journalism into *Belly Up: The Collapse of the Penn Square Bank*. In late 2010 Zweig donated his research files—an enormous collection crammed into fourteen storage boxes—to the Oklahoma Historical Society, leaving Oklahomans with a portal into the history of those heady days.

Seasoned bankers will find this essay to be a tour of familiar territory or, more likely, a bad trip. For those who came on board in the years since the dust settled the Penn Square Bank fiasco is known more anecdotally than historically and perhaps as a morality tale hewn from a noxious chapter of Oklahoma history. But for an increasing number of Oklahoma bankers Penn Square Bank is ancient history, no more relevant to present-day concerns than the failure of the Capitol Na-



Forty-thousand-foot-deep gas well blowing natural gas (19659.11, Ira M. Spangler Collection, OHS Research Division).

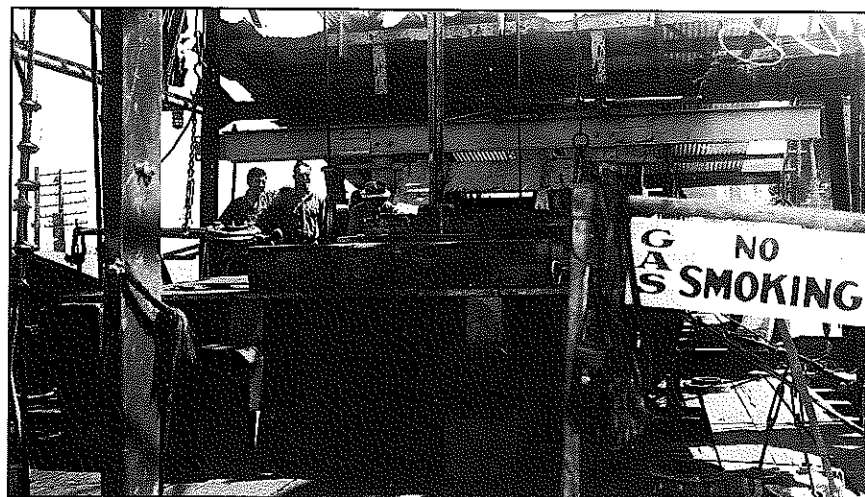
tional Bank of Guthrie in 1904, the Rose Anti-Wildcat Banking Bill of 1897, the Panic of 1893, merchant-banking in the Indian Territory, or freighting on the Santa Fe Trail. It is hardly original to suggest that Americans have short memories.

Wherever Penn Square Bank lies along the spectrum of relevance, one thing is certain: forgetting about it is not an option. If, as the philosopher George Santayana famously suggested, not learning from history dooms us to repeat it, then let us take a deep breath, revisit the Penn Square Bank story and its ugly aftermath, relearn the lessons, and pledge to remember them.² At the outset, it was Zweig, who tells us that *anadarko* is an Indian word meaning, "man who eats the honey of the bumble bee."³ One wonders if any of the protagonists in the Penn Square Bank drama took time to reflect on the etymology of *anadarko*—a honey pot if ever there was one, but one with a vicious sting.

The Arab oil embargo of 1973 is as good a place as any to begin untangling the Penn Square Bank imbroglio. Anxious to flex their muscles in a world addicted to oil, members of the Organization of Petroleum Exporting Countries (OPEC) turned down their spigots and gloated as oil prices quadrupled to spawn what historian Steven A. Schneider labeled "the greatest nonviolent transfer of wealth in human history."⁴ As international finance sailed into uncharted territory, the arcane vernacular of economics was, for once, crystal clear: oil producing countries were running surpluses on their balance sheets, and other countries were not.⁵ To pass the time as they sat idling in gas lines, disgruntled Americans flipped on their car radios to hear Merle Haggard croon a mournful dirge that might be the unlikely Top 40 hit ever: "If We Make It Through December." The shortage psychology was felt in Washington, DC, when Congress suddenly woke up to the perils of dependence on foreign oil. A familiar refrain echoed from the halls of power in the nation's capital to the oil fields of Texas and Oklahoma: "drill, baby, drill!"

But drilling for more oil was only part of the answer. As geologists became more familiar with the Anadarko Basin, they realized that vast deposits of natural gas, primarily methane, were trapped in formations more than fifteen thousand feet below the surface. The Anadarko Basin covers approximately fifty thousand square miles and stretches from westcentral Oklahoma and the Texas Panhandle to Kansas and Colorado. Its sedimentary deposits range in thickness from two thou-

Three men on an oil rig platform, 1930-39 (23468.01.19, Walter M. Sartain Jr. Collection, OHS Research Division).



sand feet in the north and west to forty thousand feet in the south.⁶ By the late 1950s technology had advanced to the point where wells were descending more than two miles in what was entering the driller's vernacular as "the deep gas play," and geologists were confident that even deeper sedimentary layers were ripe for exploration. The only impediment to bringing that gas to the surface rested on a simple equation: the deeper you drilled, the more money you needed. Until the price of gas below fifteen thousand feet could be deregulated—that is, until its price could be divorced from the price of shallower gas and brought in line with the enormous cost of extracting it—then the riches of the Anadarko Basin would remain where they had been for eons, and consumers would have to look elsewhere for a solution to their energy dilemma.

In the spirit of free enterprise that has shaped banking and commerce in Oklahoma, one of the state's most daring entrepreneurs took center stage in the campaign to make drilling in the Anadarko Basin economically feasible: Robert Alexander Hefner III. A scion of Oklahoma wildcatters, Hefner was raised in Beverly Hills, California, where his tastes in polo, sailing in the Caribbean, and grouse hunting in the Cotswolds were cultivated. He arrived in his ancestral state as a freshman at the University of Oklahoma. On his way to a degree in geology, he took a course in stratigraphy that put the fire in his belly to go where no man had gone before—miles deep in the Anadarko Basin. In 1961 he met Laurence Glover in New York and through him became acquainted with David O'D. Kennedy. Both of them shared Hefner's interest in drilling for deep gas. By 1963 Hefner was the *H* in the GHK Company, a partnership destined to set the standard for audacity in natural gas exploration. Under the aegis of the GHK Company, Hefner and his partners accumulated leases around Elk City, Oklahoma—the de facto capital of the Anadarko Basin—and set out on their dual quest to secure financing for their drilling ventures and convince Congress to deregulate deep gas. At its peak the GHK Company's lease holdings amounted to roughly two hundred thousand acres, mostly within a one hundred-square-mile area surrounding Elk City.⁷

Fueled by visions of what natural gas could do for his country, Hefner made numerous trips to Washington, DC, to make his case before Congress. Speaking before the Senate Committee on Commerce in his capacity as chairman of the Independent Gas Producers Committee on November 7, 1973, Hefner left no stone unturned in his effort to win the hearts and minds of his listeners. His testimony included the current energy shortage, pricing structures, estimates of natural gas reserves, the staggering costs of exploration, and of course the clincher,

the need to deregulate prices and allow deep gas to find its market value. "Deregulation only of new gas prices is a specific, affirmative and, importantly, a simplifying step which will quickly increase the supply of our most desirable fuel during the critical near term," said the driller as he wound toward his conclusion. Not only would deregulation benefit consumers, promote investment in risky exploration, and enhance environmental quality, but it also would push America along the path of energy independence.⁸

Hefner struck much the same chord on March 24, 1977, when he testified before the House Committee on Interstate and Foreign Commerce. This time he brought the GHK Company's experience to bear on the potential of the deep gas play to mitigate America's potentially ruinous dependence on foreign sources of energy. "My experience in the deep Anadarko Basin," declared Hefner to what was surely a rapt audience, "has led to my firm belief that the potential natural gas resources remaining to be discovered in the deep Anadarko Basin are of crucial importance to the nation's energy resource base and thus to our national energy policy."⁹

Clearly comfortable in the political arena, Hefner found common cause with the Democratic ticket during the 1976 presidential campaign and served as chairman of the Oil and Gas Men for Carter.¹⁰ "He seemed to be everywhere, whether you were on the House or Senate side, or at the White House," recalled one observer. "He was a likable fellow, who seemed to be interested in this one particular subject. He was pretty effective; he came across as a pretty competent guy."¹¹

In November 1978 Hefner played to a larger audience when he was interviewed for a *National Geographic* article, "Natural Gas: The Search Goes On."¹² Unfazed by the technology required to extract oil from formations nearly five miles beneath the surface, Hefner posed with a drilling rig towering in the background. With his blond mane rippling in an Oklahoma breeze, the man who came to be known as "Mr. Deep Gas" coolly offered his prediction of an energy independent America. "We think we'll find between 70 and 360 trillion cubic feet of gas in the Anadarko between fifteen thousand and 40,000 feet," he said. "We're as sure as 150 million dollars in research and exploration can make us. We're even predicting gas production below 50,000 feet, with better technology."¹³

In his contributions to trade and technical publications Hefner extolled new technologies and pricing structures that were accruing to the benefit of the GHK Company and, by extension, the nation. "Deep gas offers US industry a way to back out foreign oil at a cost that will generally be either equal to or lower than oil," he wrote in the March

1979 issue of *Petroleum Engineer International*. "This will have the dual effect of reducing inflation while improving our environment—a truly noble national goal."¹⁴ The next month Hefner coauthored an article in the *Review of Regional Economics and Business* with Neil J. Dikeman, Jr., interim director of the University of Oklahoma's Center for Economic and Management Research, to report on the staggering amount of natural gas below fifteen thousand feet in the Anadarko Basin and its potential impact on Oklahoma's economy. Using sophisticated models that only an economist could love, Hefner and Dikeman described a bonanza in the making.

The gas which will be produced in 1982 will have an output value of approximately \$2.9 billion. Due to the multiplier effect, this volume of output will create outputs in other industries of approximately \$1.7 billion. An estimated \$1.3 billion in additional output will occur in Oklahoma.¹⁵

In the swirl of controversy over President Jimmy Carter's proposed gas tax in the late 1970s Robert Hefner found plenty of support for his conviction that natural gas, and not new taxes, was the solution to America's energy needs. Dismissing fears that America would freeze in the dark unless Congress could be compelled to levy a gas tax, the *Wall Street Journal* on April 27, 1977, admonished President Carter to brush up on his geology. In the process he would realize that natural gas deposits were far from depleted and that drilling for it should be encouraged through price deregulation. Estimates of US natural gas reserves ranged from twenty thousand to fifty thousand trillion cubic feet of natural gas, that is, "enough to last between 1,000 and 2,500 years at current consumption."¹⁶

On the eve of Ronald Reagan's presidential inauguration CBS newsman Harry Reasoner interviewed energy experts for *60 Minutes* who came to the same conclusion about America's energy crisis: there was no energy crisis except, perhaps, the one fostered by wastefulness, mismanagement, and shortsightedness. Then-Congressman David Stockman, who was about to become President-elect Reagan's advisor on economics and energy, cited studies indicating that natural gas could replace two to four million barrels per day of imported oil in the coming decade. Not surprisingly, Robert Hefner was tapped for his expertise in natural gas supplies. "What I like to say," said Hefner as his movie-star looks were beamed to viewers across America, "and I believe this completely, is that natural gas is the bridge fuel to 21st century energy technologies. And so, there's no question in my mind that we can get

well into the next century with natural gas until we've developed the other sorts of energy systems that we—there's no question we will develop in the 21st century."¹⁷

President Carter's signing of the Natural Gas Policy Act (NGPA) on November 9, 1978, was greeted with toasting and cheering throughout the oil patch. The legislation that Hefner and his brethren had worked so hard to push through had three fundamental goals: (1) to create a single natural gas market; (2) to equalize supply and demand; and (3) to allow market forces to establish the wellhead price of natural gas.¹⁸ With the stroke of a pen price controls on gas below fifteen thousand feet were lifted. Even though the new law was not slated to go into effect until November 1, 1979, pipeline companies were already building into their contracts an overwhelming incentive for producers to bring as many wells as possible on stream.¹⁹

And thus the Anadarko Basin was open for business. To paraphrase the journalist Mark Singer, it was as though Washington, DC, had pointed its finger at western Oklahoma and singled out its residents to become rich.²⁰ They complied and the scramble was on.

One more event contributed to push the deep gas play into overdrive. It was heralded by more saber rattling from the Middle East, this time in the form of a revolution that toppled the Shah Mohammed Riza Pahlavi of Iran on January 16, 1979, and elevated to power a theocratic regime led by the Ayatollah Khomeini. Thus began a nightmarish stream of televised images—of Old Glory and presidential effigies engulfed in flame, of black-clad imams clutching their Korans and enjoining the faithful to resist the seduction of western ways; of throngs of bearded zealots chanting "death to America." But nothing was more poignant, and nothing was more deeply seared into America's collective consciousness, than the footage of fifty-two blindfolded hostages marched at gunpoint from the American embassy in Tehran and paraded before a roiling mob. CBS anchor Walter Cronkite became the unofficial scorekeeper for a game that nobody wanted to play by closing his newscasts with a tally of how many days the hostages had languished in captivity.

Once again Americans were forced to acknowledge their vulnerability to foreign energy supplies. And once again America's oil and gas industry was summoned to the rescue. But this time Robert Alexander Hefner III was leading the charge.

Both the cause and the effect of the energy boom that was gathering steam in the Anadarko Basin was bankers' increasing willingness to fund drilling ventures. At the international level political turmoil was no longer a deal killer for bankers eager to boost their income-earning assets by making energy loans to developing countries. Top American banks that decided the reward was worth the risk included Chase Manhattan, whose projected total capital investment in the petroleum industry worldwide in 1980 was \$51 billion. By 1985 bank executives planned to double their commitment to energy lending to \$119 billion.²¹

Closer to home, President Carter was playing the role of counselor-in-chief with his suggestion that a malaise was casting a pall across the land, and specters of a "national catastrophe" resulting from dependence on foreign oil were fueling predictions that oil would rise to eighty and maybe even ninety dollars a barrel by 1990. Bankers answered the clarion call by tailoring their lending policies to accommodate the demand for domestic oil production. Some loans went abroad to help non-OPEC members ramp up their production and thereby pay for their own oil imports. "Petrodollars" entered the financial lexicon as money poured from US banks in the form of loans to foreign customers to pay for imports; those countries used the money not only to pay for OPEC oil but also to finance economic development and service their debts to American banks. As interest on loans to developing countries piled up, bankers did not have to ponder very long what to do with their windfall: lend it!

As money cycled and recycled between US banks and OPEC members and nonmembers, some of America's top banks perceived energy lending as the ticket to prosperity. One of those banks was Continental Illinois National Bank of Chicago, the seventh largest bank in America. Its chairman, Roger Anderson, came to Continental in 1946 after four years in the US Navy, where he had acquired a taste for disciplines well suited to banking: accounting, controls, budgets, and statistics.²² A dry and prim man with a taste for shapeless suits and prone to banalities in his speeches, Anderson was an unlikely candidate for leading his bank to the pinnacle of global finance. But beneath his drab exterior was an ambition to lend enough money to earn Continental Illinois a seat at the table with the likes of Chase Manhattan, Citibank, and Bank of America.²³

Under Roger Anderson's stewardship Continental Illinois retained the services of McKinsey and Company, a management consulting firm that touted 15 percent annual growth rates and a concept known as "decentralization by market segment." This rather inelegant turn of phrase referred to the strategy of segmenting markets, pushing lending

authority down to the lowest possible levels in the organization, and encouraging officers to act independently in their specialized markets. McKinsey and Company also recommended that big banks become more aggressive in soliciting business from their correspondent banks, that is, participating in loans that were too big for small, regional banks to handle on their own.²⁴ Bankers' money-making predilections were thus reinforced by McKinsey and Company's foolproof strategy, and loan officers were dispatched from Chicago to roam the West like latter-day gunslingers—young, ambitious, competitive, and above all, willing to take risks.

The strategy paid off. Between 1975 and 1980 Continental Illinois hit its 15 percent annual growth target, and operating profits almost doubled. In terms of its energy portfolio, the bank became ever more aggressive in lending directly to oil companies and buying energy loans from other banks. It was all enough to make business journalists and analysts sit up and take notice. In the estimation of many it was one of the best managed companies in the country.²⁵ Almost two years into its McKinsey and Company makeover the prestigious *Dun's Review* in 1978 ranked it among the nation's five best managed companies; others included Boeing, Caterpillar, General Electric, and Schlumberger.²⁶ Business overseas was booming as well. Loans in Asia, Africa, and Latin America doubled. In 1981 alone, assets in Latin America grew by a billion dollars.²⁷

Perhaps most impressive of all was the way that Roger Anderson succeeded not so much by the sweat of his own brow as by the sweat of other and equally ambitious brows. As noted in *Institutional Investor*, "He truly believed that he could set broad goals and then let the people out in the field do the rest—trusting that their entrepreneurial instincts would keep them and the bank out of trouble."²⁸ Freed from the tedium of bureaucracy back in Chicago, young and hungry loan officers scoured the land for opportunities to test their mettle in the prestigious oil and gas division. As one officer quipped, "Oil and gas was to lending officers what a SWAT team is to a cop."²⁹ In August 1984 *Institutional Investor's* editorial board named Anderson the banker of the year—an accolade meant not to acknowledge his success, but rather his role in bringing down Continental Illinois after the boom turned to bust.³⁰

While Chase Manhattan was financing foreign oil ventures and Anderson's troops were scouting for business in America's heartland, Seattle First National Bank was looking to expand beyond its traditional niches in lumber, fishing, and aerospace, none of which were doing very well in the doldrums of the 1970s. Even though the bank's managers

knew next to nothing about energy lending, they decided that oil and gas might be a perfect match for America's nineteenth largest bank. Contrary to its image as a conservative lending institution, Seafirst, as it was generally known, was aggressive to the point of recklessness in pursuing a 15 percent annual growth rate. At the helm of this financial dynamo were a vice chairman who fell asleep during important meetings, a senior vice president with a flair for exotic fashion, and a chairman who entertained on the roof of the fifty-story corporate headquarters and flew his party guests in by helicopter.³¹

The man chosen to head up Seafirst's Energy Department, John R. Boyd, was described as a super-salesman and a smooth talker who kept everyone in stitches. "He was probably one of the funniest people I ever met," recalled one banker who knew him. "When the going got serious or tough, he'd bend the thing around so it was funny, and he got his way out of it."³² Sometimes his humor backfired. Such was the case when he returned from a trip to Abu Dhabi sporting the duds of a traditional Arab sheik and strolled into a meeting of the World Banking Credit Committee. They threw him out. Boyd was also a master of good-buddy banking, and he had a room filled with gifts that he kept on hand for special clients. The lucky ones wound up with a \$150 carved duck decoy from Eddie Bauer—just the thing for the banker who has everything.³³

Like Continental Illinois, Chase Manhattan and Seafirst were in thrall to McKinsey and Company's formula for success, a formula that signaled the dawn of a new day. Bankers were no longer the denizens of musty buildings and wearers of green eyeshades. They were now providers of "financial services," masters of electronics and holding companies and global capital flows. Perched atop glistening towers of glass and steel and fueled by personal ambition and corporate strategy, they answered their country's call for energy independence by making loans to domestic oil and gas companies and participating in loans with correspondent banks that lacked the capital to go it alone. And what better place to flex their financial muscles than the Anadarko Basin of western Oklahoma where seasoned drillers like Robert Alexander Hefner III had the guts and technological wherewithal to enlist deep gas in the cause of America's renewal.

The stage was set for an historic convergence of interests. At that point, anything could happen. Something certainly did.

The big problem with financing expensive drilling ventures in Oklahoma was that the banks were too small. Until banking laws were overhauled in 1983 Oklahoma was a unit banking state, meaning that banks were restricted to a single office. The state's archaic banking structure dated back to the formation of its banking laws at the turn of the twentieth century when hardscrabble populists in the William Jennings Bryan mold resurrected the ghost of Thomas Jefferson with their suspicion of banks in cahoots with Eastern money men. Even after the Twin Territories were united in a single state and firmly entwined in national networks of banking and commerce, few regions of the United States exhibited more opposition to big banks and more support for antitrust laws than Oklahoma. Grassroots populism, mirrored in Oklahoma's constitution as well as its prohibition against branch banking, fostered hundreds of small banks and kept them from becoming large. By the 1970s Oklahoma and Texas, its ideological twin, were home to some two thousand banks, representing more than 13 percent of the national total.³⁴

Another problem in securing financing for drilling ventures had to do with the nature of the oil and gas industry. Simply put, how is a banker supposed to value oil and gas for the purpose of establishing collateral? Drillers can dazzle their bankers with complex equations and geological maps until the proverbial cows come home, but at the end of the day, the value of their properties is basically a petroleum geologist's best guess—not the strongest plank to stand on in a loan committee meeting. Until the twin dilemmas of large-scale financing and valuation of mineral properties in capital-poor Oklahoma could be solved, all the guts and whizbang technology in the world would be insufficient to unlock the wealth buried fifteen thousand feet or more in the Anadarko Basin.

Problems are often opportunities in disguise, and in this case opportunity came knocking in the form of Penn Square Bank. Chartered by the comptroller of the currency as Penn Square National Bank of Oklahoma City on February 12, 1960, the bank's organizers included Robert S. Kerr, Dean McGee, and William P. "Beep" Jennings, president of Healdton Bank in southern Oklahoma.³⁵ As the only child of a small-town banker, Beep Jennings was weaned on community banking, and he combined his professional responsibilities with volunteer work that included a stint as president of the State Chamber of Commerce. He left Penn Square Bank in 1964 and went to work at Fidelity Bank in downtown Oklahoma City, where he served as an executive vice president and chief lending officer. Longing to run his own show, Jennings returned to Penn Square Bank in the mid-seventies as a co-



Senator Robert S. Kerr, photo by Harris and Ewing, Washington, DC (23138.GO.US.SR.1.3, Kerr-McGee Corporation Collection, OHS Research Collection).

owner with Larry Rooney and Stanley Lee.³⁶ Each owned a quarter of the bank's stock; the rest was parceled out among stockholders. As chairman of the Penn Square Bank board of directors, Jennings—only fifty-one years old, affable, optimistic, good-natured, and perhaps less hardnosed than he thought he was—settled in for the duration.³⁷

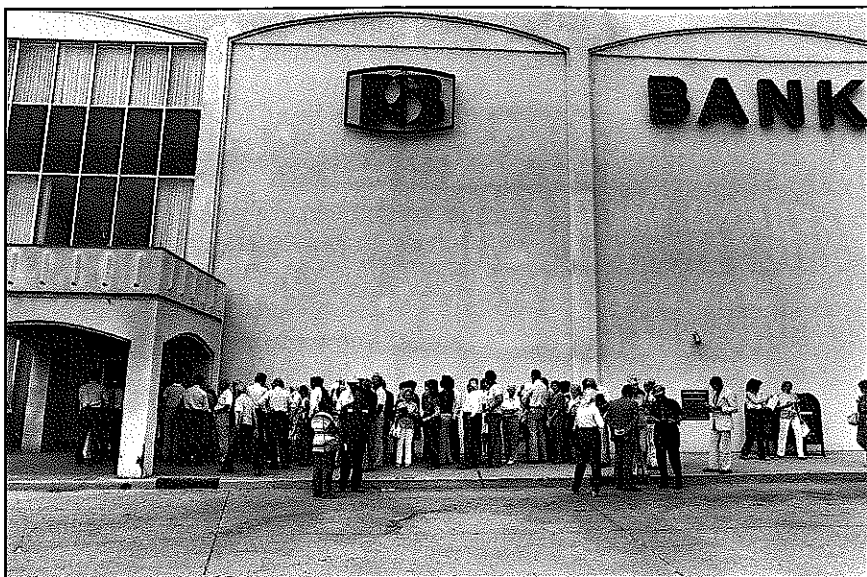
It was hard not to conclude that Jennings's star was on the rise, and people were taking notice. "As a bank business developer, Bill has no superior," wrote Fidelity Bank Chairman and Chief Executive Officer Jack T. Conn in his 1979 memoir, *One Man in His Time*. "He was an excellent executive vice president of Fidelity, and the incredible growth of Penn Square under his management adds more laurels."³⁸ According to State Bank Commissioner Robert Empie, "If you were having a dinner party of some size, you'd want Beep as your emcee, and he knows the oil business [author's emphasis]." Perhaps ominously, Empie continued, "But he's not a detail man, or an operations man."³⁹ Whatever his qualifications as a bank business developer or executive vice president or emcee or oilman, one thing is certain: Jennings's remarks to the bank's shareholders in January 1976 gave no evidence of the mayhem to come.

While our growth in 1975 has been impressive, the principal emphasis in 1976 will be toward quality and safety. In a period of declining loan demand, which is the rather universal forecast for

the coming year, banks must be cautious not to lower lending standards in an effort to hold or increase earnings. The past high earnings rate of 1.5 percent on average total assets in 1975 may possibly be reduced in 1976 in the interest of soundness and liquidity.⁴⁰

And then one morning, Jennings announced at an eight o'clock meeting that he wanted to start an oil and gas department at Penn Square Bank. At the time assets were about \$40 million, and the bank's loan portfolio included only one oil and gas loan. Contrary to Empie's assessment nobody, including Jennings, knew much about oil and gas lending. Much later Jennings explained his concept that was by no means original but had yet to be tested in a really big way: a bank did not have to lend on its own assets if it could loan on another bank's assets.⁴¹ Better yet, why not tap into the pecuniary interests of money center banks, where officers with visions of 15 percent annual growth rates dancing in their heads were already on the lookout for loan participations? In the evolving vernacular of the oil patch, banks with lots of capital were "upstream," whereas banks with less capital such as Penn Square Bank were "downstream," and both monikers could be molded into verbs and perhaps other linguistic forms not yet imagined. If correspondent relationships with upstream banks could be exploited to their full potential then Penn Square Bank, perched expectantly downstream like a fly fisherman in a mountain brook, would reap the benefits of loan origination and servicing fees, all at minimal risk to shareholders and at maximum benefit to the bank's asset base, which in 1977 was not quite \$70 million.⁴²

Jennings's brainstorm, plagiarized though it was, had yet to morph into policy when he hired William George "Bill" Patterson in 1977. Patterson's thin resume as an assistant cashier at the First National Bank and Trust Company of Oklahoma City was no impediment to a professional boost at Penn Square Bank. Jennings had known the young man from Bartlesville for years. What is more, Patterson had recently married his way into Panhandle royalty by taking as his bride the daughter of the president of the First National Bank of Amarillo whose family was close to the Jennings family. Nor were Patterson's youthful antics as a Sigma Chi at the University of Oklahoma a deal killer, even though his nickname, "Monkey Brains," followed him into adult life as a distinctly unbanker-like moniker. Jennings found him winsome. During his first year on the job Patterson's diligence and winning ways gave credence to his reputation as a man who "could sell snowmobiles to Okies."⁴³ Before long it was a sure bet that Bill Patterson—hand-



Depositors queue outside the doors of Penn Square Bank as they wait to try to withdraw money, July 6, 1982. Photo by Bob Albright (copyright 1982, the Oklahoma Publishing Company).

some, hard working and, like John R. Boyd at Seafirst, always up for a good time—stood to make Penn Square Bank a pile of money.

Patterson had been at Penn Square Bank only about a year when Jennings put him in charge of oil and gas lending. By then, Americans had had their fill of the problems in the Middle East and were more anxious than ever to burn their own fuel. Merle Haggard's woeful tune "If We Make It Through December" had dropped a few notches on the Top 40 hit list, but it still captured the mood of an angst-ridden nation. What President Carter branded as "a national malaise" was felt by Robert A. Hefner III, and his tireless writing and lobbying and mugging for the cameras on behalf of deregulating deep gas were vindicated with the passage of the Natural Gas Policy Act (NGPA) on November 9, 1978. In anticipation of the law going into effect in late 1979 pipeline companies were loading their contracts with incentives for drillers to ramp up their production. And all the while, corporate gunslingers with a license to deal were prowling the Southwest in search of oil and gas loans in which to participate and drillers to finance.

A perfect storm was in the making. Few suspected that Penn Square Bank, its bland, three-story edifice poking between trendy shops and eateries, would become its eye.

Frank Murphy was president of the bank when Jennings and his partners bought their majority stake. A self-described "country boy" from Chelsea, Oklahoma, Murphy presided over steady growth and conservative lending, and he was a stickler for sound collateral and proper documentation. Not surprisingly for this modest and cordial man, he took an instant dislike to Jennings's protégé for what he perceived as insubordination.⁴⁴ Any reservations Murphy had about his competence were put to rest in March 1981 when Patterson was promoted to executive vice president in charge of the energy loan division.⁴⁵ Murphy's successor, Eldon Beller, who became president on April 16, 1981, was similarly disposed toward conservative banking. He came to Penn Square Bank from the venerable First National Bank and Trust Company of Oklahoma City, where he had served as executive vice president and chief lending officer.⁴⁶ That institution's reign as the state's largest and most profitable bank stemmed from its old school policies. Any reservations he might have had about Jennings's gung-ho loan officer were muted by a salary that was twice that which he had earned at First National. In all likelihood Beller's agreement to manage all of the bank's activities except the energy division had something to do with his sizeable compensation.⁴⁷

Favored by the chairman and given more or less free rein by the president, Patterson rose in the ranks to become senior executive vice president and a director of the bank. With 16,182 shares representing 7.2 percent of the stock, Patterson became one of the principal owners of First Penn Corporation, the bank's parent company.⁴⁸ Gifted with the power of persuasion and granted the clout to go with it, Patterson threw his considerable energy into shaping the oil and gas division to the contours of his own blustery style. It was early 1979 and twenty-two-dollar-per-barrel oil was a few months from its run-in with Iranian mullahs and their anti-Western bravado. Nevertheless, all the signs pointed to a surge in oil and gas prices, particularly now that deep gas prices were heading toward deregulation.

When the word hit the streets that Penn Square Bank was serious about financing drillers, some of Oklahoma's most renowned entrepreneurs made their way to Patterson's office. What they found when they arrived was a high-energy loan officer who refused to let paperwork get in the way of a lucrative deal. What is more, Patterson's mastery of delegation ensured that a secretary's lack of formal education was never a deal killer in her promotion to the ranks of the money-

managers. According to a former bank officer, "You could walk in the door without a financial statement or any formal written proposal, and if what you outlined verbally sounded feasible you could sit down and sign your name to a note and maybe some oil and gas mortgages all prepared in blank."⁴⁹ One bank officer claimed that most of Penn Square's loan documents were signed in blank. At one point, only three loan officers and a small support staff were managing a billion-dollar portfolio. Overdrafts and sloppiness became commonplace. In a pinch, or in a swank bar, deals were scratched on cocktail napkins.⁵⁰

During an interview at his ancestral home in Enid in April 2011, Joel Champlin recalled the story of a friend who dropped by Patterson's office in search of funding for a drilling operation. Just out of college and untutored in the fine art of financing, the young man arrived to see a room full of prominent bankers, including some from Continental Illinois of Chicago who had come to sop up their part of the gravy train. Reassured by the presence of rock-solid bankers, Champlin's friend mustered his courage and told Patterson that it would be nice to have \$500,000 but that he could probably make do with \$100,000.

"Son," said Patterson, "you can't do shit with five hundred thousand! How about five million? What could you do with that?"⁵¹

Speechless, the young man declined and made for the door. "Here I am, and I didn't have a dime, and this guy was willing to loan me five million, and I'm just a kid out of college! I said 'no.' It scared me. Anybody who would loan me that was crazy!"⁵²

As Patterson was hitting his stride in what amounted to an independent fiefdom, Penn Square Bank's assets grew from \$90.82 million on December 31, 1978, to \$141.48 million a year later. Impressive—so impressive, in fact, that the comptroller of the currency conducted a special examination in early 1980 and declared the bank to be "a matter of special supervisory concern."⁵³ Specific problems included rapid growth of loans and assets, insufficient liquidity, inadequate capital, an increase in classified assets, violations of banking laws, and a preponderance of loans concentrated in the oil and gas division.⁵⁴ National Bank Examiner Bill Chambers showed a flair for metaphor when he put Penn Square Bank on a watch list of the most closely monitored and poorly managed banks in the country and accused its management of operating on "the ragged edge of acceptability."⁵⁵ A Washington, DC, official did some rough calculations and came to a stunning conclusion: Penn Square's growth rate put it on track to become the third largest bank in the country by the end of the century. Awestruck, a senior official in the comptroller of the currency's office in Washington, DC,

remarked to a colleague, "There's something in Oklahoma City that's growing. It's weird. It's just weird."⁵⁶

Closer to home Penn Square Bank's competitors agreed. Gayla Sherry was managing the draft collections department at Liberty Bank and Trust Company of Oklahoma City during the go-go days of the early 1980s, and she was plenty busy with oil and gas drafts. But neither she nor her colleagues could keep up with Penn Square's blistering pace, particularly when the headhunters showed up to woo her staff with big-time salaries. As she recalled in an interview in March 2011:

As Penn Square grew, astronomically, really, in the late seventies and early eighties, most of us at Liberty were kind of scratching our heads and saying, "What's going on? They're growing too fast!" And they would raid our staff. I had several employees leave the draft collections department to work there. And I always had this gut feeling that something's not right, because they were offering salaries that were double what Liberty was paying. Liberty was very progressive, I should say, in salaries—they were very competitive. And so, for them, at Penn Square, to offer twice the amount, I just thought, "This is weird." I just had a sense that it was a house built on sand, instead of rock. It just never seemed to back up.⁵⁷

The concerns of both the comptroller of the currency and Sherry flew beneath the radar of Patterson's most frequent visitors, including Hefner, aka Mr. Deep Gas, whose first loan was a modest \$300,000 and was made at a time when his finances were severely strained. Hefner was destined to push the limits of a concept known as "debtor's leverage," which goes something like this: if you owe the bank \$100,000, you lose sleep; if you owe the bank \$10 million, the banker loses sleep.

Hefner's audacity found its match in another frequent visitor to Patterson's welcoming office—Carl Swan. It was said that just being in his circle of acquaintances was enough to boost one's credibility, much like belonging to the right club confers status on its members. Unlike the debonair Hefner, Swan earned his keep in the oil patch as a roughneck and mudman, and his workingman's journey to the inner circle conferred dignity on his wealth. By the mid-seventies Swan was a rich man, and few doubted that he would follow through on his pledge to parlay his modest millions into a billion.⁵⁸ On his way to that billion, Swan met J. D. Allen, a man who rose from humble origins in Ringling, Oklahoma, to rub shoulders with the likes of Las Vegas

showman Wayne Newton and several US presidents. His international travels took him to London, where he was probably as close as the average Brit would ever get to J. R. Ewing of *Dallas* fame. Along their way to becoming two of Penn Square Bank's largest customers, Allen and Swan launched the Longhorn Oil and Gas Company as a vehicle to strike it rich in the Anadarko Basin.

Patterson's knack for wooing local business was nothing compared to the attention he lavished on out-of-town bankers who arrived at Penn Square Bank from upstream. One of them was John R. Lytle, a lifelong Chicagoan who spent his career at Continental Illinois and was placed in charge of the bank's midcontinent oil and gas division in 1977. The next year, when *Dun's Review* recognized Continental Illinois as one of the five best-managed companies in the United States, the bank was meeting Chairman Roger Anderson's goal of 15 percent annual growth in assets largely by becoming a significant player in energy lending. About \$1 billion of its loan participations floated upstream from Penn Square Bank and helped Continental Illinois realize an all-time record net income of \$254.6 million in 1981.⁵⁹ In their brief but exhilarating dance at the pinnacle of energy lending, Lytle formed close friendships with Jennings and Patterson, friendships destined to be among the first casualties of Penn Square Bank's demise in the summer of 1982.

Where Lytle was conventional, his counterpart at Seafirst, John R. Boyd, was more like Patterson. Much as Patterson had a reputation as a party animal, Boyd was a trickster. He liked to appear bare-chested at office parties with a cigarette dangling from his mouth and a drink in each hand. He was known to chomp on cigars (particularly hand-rolled Jamaican Macanudos) and, sporting hats in the style of Chairman Mao, chat on the phone with business clients. Boyd was a regular at the Rainier Club where he lingered over lunch with his clients, bought a half-dozen of his prized cigars on the company tab, and strolled back to work with a handful. He had a subscription to the *New York Times*, but rather than read it and perhaps acquire some tips on business deportment, he stacked them unread against his wall like timber at a Pacific Northwest logging operation.⁶⁰

On Seafirst's way to \$400 million in Penn Square Bank loan participations, the fun-loving Boyd added a new expression to the financial lexicon: "dump-truck banking." It happened when "Wild Bill" Patterson, as he was affectionately known, and some associates arrived in Seattle in Penn Square Bank's Rockwell Commander jet (one of two aircraft requisitioned for the trip) "filled with good lookin' young dollies" for the 1981 Christmas bash.⁶¹ Also along for the ride was documentation

representing some \$100 million in loans that Penn Square Bank needed to unload before the end of the 1981 accounting period.

"Here come the guys from Oklahoma!" Boyd bellowed as Patterson and his crew swaggered into the dining room. "They practice the dump truck theory of banking," continued the banker-turned-emcee. "They pile loans into a dump truck, bring them to Seattle, pick up cash and dump it back at Penn Square."⁶² The crowd went wild.

Turns out those loans were the sorriest batch of bad paper Seafirst had ever bought from Penn Square Bank. According to former Seafirst officers queried for a four-part series published in the *Seattle-Post Intelligencer* in the summer of 1983 under the heading, "The Wrecking of Seafirst," the Christmas 1981 loans had already been sold to Continental Illinois National Bank and a few other banks of its stature. When their shoddiness came to light, the upstream bankers decided to ship them back downstream.⁶³ Like a school of determined salmon, Patterson and his brigade loaded up the rejects, hopped on another upstream current, and churned their way to Seattle.

Seafirst's 1981 Christmas bash was about eight months in the future when Meg Sipperly, a Long Island native and corporate loan officer at Chase Manhattan Bank in New York, made her first trip to Oklahoma City. Long before her name switched from Sipperly to Salyer and she was elected in 2008 as Ward 6 Councilperson for Oklahoma City, Meg graduated from Mount Holyoke College and was recruited by Chase Manhattan's international banking department.⁶⁴ "It was my dream, probably, to be running the Paris office of Chase Bank," said Salyer during an April 2012 interview.⁶⁵ But destiny had other plans, and she found herself commuting not to the Champs Elysées but to the West Coast—until, that is, she received a fateful call from one of her senior officers. "You know that trip you're planning to Seattle? You need to cancel it. You're going to Amarillo and Oklahoma City."⁶⁶

Wondering how she had managed to cross someone so early in her career, Sipperly made her first trip to Oklahoma City in April 1981. Her first meeting was with Penn Square Bank President Frank Murphy and Bob Kotarski, head of the bank's correspondent lending division. By the time she caught a plane back to New York, her briefcase bulged with six credit participation opportunities totaling \$7.5 million. "And that was the beginning of what was about a year and a half relationship with Penn Square," said Salyer. "In that eighteen-month time frame, our portfolio went from zero to about \$300 million."⁶⁷ At

its peak, Chase Manhattan's Penn Square Bank portfolio represented about 190 individual loans; in that group was a much smaller number of customers who took out multiple loans.⁶⁸

As Chase Manhattan's loan participation portfolio increased in size, so did the frequency of Meg Sipperly's trips to Oklahoma City. "Essentially, Penn Square was the only account that I was working on, and I wasn't alone," she said. "I had a couple of junior officers assisting, and as we got toward the end of things, I had a couple of direct peers that were working on it as well."⁶⁹ More than three decades after earning her banking spurs in Oklahoma, the rechristened Meg Salyer's memories of the adrenaline rush she felt as a young woman in charge of a multimillion-dollar account remained as vivid as ever. "It was an incredibly exciting, very (no pun intended!) high-energy, very intense, time. I was working seven days a week. We were meeting with clients all the time."⁷⁰

Chase Manhattan Bank's involvement in energy lending dated back to the glory days of Rockefeller's empire. But now, spurred on by McKinsey and Company's no-holds-barred strategy for success and lured by the goings-on in the Anadarko Basin, Chase Bank gave the youthful Sipperly broad latitude to participate in Penn Square Bank's application of an ancient business practice: merchant-banking. "This kind of a set up had operated all over the world," explained Salyer, "where somebody that had resources partnered with somebody that had access to somebody that needed those resources, and you put those parties together, and by doing that, you earned a fee."⁷¹ Collecting fees from upstream bankers was thus a new twist on a time-honored tradition, a tradition that Jennings was honing to the contours of a red-hot business climate.

Like so many success stories that turn to bust, the energy boom of the early 1980s had the backing of a compelling narrative: daily doses of America-bashing images from the Middle East; entrepreneurship deployed in the interest of America's energy independence; technology that made drilling for deep gas possible; oil prices climbing to the stratosphere; deregulated deep gas left to find its market value; state banking legislation that pushed small banks into the embrace of large ones with piles of capital; and most of all, the distinct possibility of getting rich. But according to Salyer, most people wanted to make their money legitimately. "It is my firm belief," explained Salyer, the conviction in her voice still resonant after three decades of thinking about it, "that most of the people that were clients of that bank, that were borrowers at that bank, were legitimate, honest people trying to

create a business or trying to stay in a business, in a climate that was receptive to that happening."⁷²

As the pace of activity ramped up to warp speed, the facts on the ground seemed to support the narrative that had taken up residence in Oklahoma's collective consciousness. As she scrambled to execute Chase Manhattan's strategy in a booming economy, Sipperly had no reason to question the constellation of factors that was accruing to the common good. "It was a circumstance of timing and strategy that all came together," she said.⁷³ Neither Salyer nor most of the people who lived through and made money in those giddy days could have anticipated Chase Manhattan Bank's annual report for 1982, whose shocking message was too much for even the most skillful spin master to soften.

It is with mixed feelings that we review the performance of the Corporation in 1982. On the one hand, it was a difficult year for the Chase. We absorbed substantial losses—the result of our well-publicized problems relating to Drysdale Government Securities, Inc., and to loans acquired through the Penn Square Bank, N.A., which failed in July.⁷⁴

In 1982 Chase Manhattan charged off \$75 million in energy-related loans acquired through Penn Square Bank. "The future value of this portfolio obviously will be affected by conditions prevailing in the energy market," continued the somber letter to stockholders. "But the \$75 million charged off represented our best estimate at year-end 1982 of losses incurred."⁷⁵

Seems like everyone was having trouble with estimates.

Continental Illinois, Seafirst, and Chase Manhattan were not the only institutions enamored of banking with the guys from Oklahoma. Three others—Northern Trust, Michigan National, and Hibernia—joined the party as "spillover banks" whenever the Big Three decided that they, too, needed some help. Meanwhile, Hefner kept up his punishing pace of advocacy on behalf of deep gas. On April 23, 1981, he was granted a hearing before the Senate Subcommittee on Energy Regulation of the Energy and Natural Resources Committee. "I urge the Subcommittee to give our industry the chance to produce the energy America needs to achieve non-inflationary, steadily improving, real economic growth," concluded Hefner to listeners who surely ap-

preciated his celebrity status.⁷⁶ He was back in Washington, DC, on November 6, 1981, to make a statement before the Senate Committee on Energy and Natural Resources. This time he made three key points: (1) the Natural Gas Policy Act (NGPA) was "not just working well, it is prompting the largest natural gas drilling boom in the history of the industry"; (2) "the NGPA is providing or can provide, if properly implemented, maximum incentives for production of all of the natural gas in the United States remaining to be found"; and (3) speculative problems, including inflation and high interests rates, were hampering production.⁷⁷ "Our industry is one of the great success stories in America today," declared Hefner. "To stay that way we need exactly what our customers need: stable costs, reasonable credit, and a buoyant economy."⁷⁸ Even as controversy raged over further decontrols of natural gas aimed at bringing its price closer to the energy equivalent of crude oil, Hefner stuck to his guns, insisting that three-quarters of the nation's gas-bearing sediments lay below fifteen thousand feet. As he said in an October 1981 story in *Fortune*, "We've got to focus capital where we can find the giant, Prudhoe Bay-type reserves."⁷⁹

By then neither Congressmen nor bankers, and certainly not drillers, needed convincing that the deep gas play in the Anadarko Basin was the real McCoy. In the early morning hours of January 28, 1981, two perennial oil patch losers Clark Ellison and Buddy Appleby awoke to the news that they were overnight millionaires.⁸⁰ The No. 1 Tomcat, an exploratory well about three miles north of Eakly in Caddo County, Oklahoma, in which they held a 7 percent interest, had rumbled and belched its way to glory as one of the biggest strikes ever. The operator, Ports of Call Oil Company of Oklahoma City, had been aiming for the Hunton formation at a depth of 20,000 feet. But pay dirt happened to be at 15,335 feet in the sandstone and shale deposits comprising the Springer formation, leaving plenty of leeway to qualify for deregulated deep gas prices.⁸¹

Workers first noticed that something big was afoot when the drilling mud disappeared into the hole. With a deafening roar that rendered communication all but impossible and left no time to engage the rig's giant stack of blowout preventers, the crew scrambled for cover as the well blew out and spewed natural gas into the air at a rate of more than one hundred million cubic feet per day. With deep gas selling for ten dollars per thousand cubic feet, a million dollars worth of sweet natural gas a day was raining down on cotton fields and peanut patches, prompting authorities in Eakly to make plans for an evacuation. For days after the blowout, residents waited anxiously for wind shifts

to signal a hasty departure. Gathering at the recreation center they greeted each other with the cheerful query, "You ready to go?"⁸²

For Ellison and Appleby, who had lost their wives and fortunes and most of their dignity in years of unsuccessful ventures, the No. 1 Tomcat stood to make them about \$50,000 per day, or nearly \$1.5 million per month. The Washington Gas Light Company's 19 percent interest in the well transformed a standard gas distribution company into a player in the big leagues. Within days, its stock price surged from \$18.50 to more than \$40.00. Lease bonuses that had been in the range of \$500 per acre shot up to \$3,000 per acre—if, that is, unleased acreage could be found. One local farmer who agreed to lease his thirty acres got a check for nearly \$1 million. Never mind that the rush of gas at the No. 1 Tomcat caused the collapse of some of the shale layers in the Springer formation at the bottom of the hole and shut off the flow, leaving owners of mineral interests with much to fret about and Ports of Call Oil Company with a major headache.⁸³ As John Lehr of the Tulsa-based fund Samson Properties quipped in an interview with *Oil and Gas Investor* in December 1981, "The hardest problem in the Anadarko today is how to say 'no' to investors with money to spend."⁸⁴

And so the stars lined up to produce a boom that struck at the heart of what it means to be an Oklahoman. Statistics are one way to measure the frenzy that gripped western Oklahoma in those heady days: the price of Oklahoma crude oil increased tenfold between 1972 and 1981; natural gas prices, unshackled from their chains, shot up; and employment in the oil patch grew from around thirty-four thousand in the early 1970s to a peak of one hundred and two thousand in 1981.⁸⁵ At the same time, personal income zoomed off the charts. According to the Oklahoma Commerce Department's Bureau of Economic Analysis, Oklahoma from 1979 to 1981 was second only to Alaska in its percentage increase in personal income. "There was a very rapid growth in mining," declared bureau spokesman David Cartwright, who clearly had a flair for understatement.⁸⁶ Not only was Oklahoma's percentage increase in total personal income second highest in the nation, but its percentage increase in per capita personal income also gave the state a number two ranking, again topped only by Alaska. During those giddy years, earnings in the oil and gas industry went from \$1.491 billion in 1979 to \$3.304 billion in 1982. Wholesale trade shot up 54 percent, and machine manufacturing increased 51 percent.⁸⁷

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Prosperity in the oil patch meant big business for oilfield suppliers. According to Denver-based Petroleum Information Corporation, industry revenues rose from \$16.1 billion in 1979 to \$31.7 billion in 1981 for an increase of 97 percent. During that same time period, revenues of eight of the largest oilfield supply companies surged 56 percent, and their profits climbed 102 percent. Few expected the oilfield industry's torrid growth to continue indefinitely. But nearly everyone thought it would last long enough, surely through 1982 and perhaps into the mid-1980s, to justify ramping up production of drilling rigs and rock bits and other tools of the trade. Rig builders turned out eleven hundred rigs in 1981, adding 30 percent to the US total in a single twelve-month period. In early 1982 they were confident that they would find customers to buy an additional fourteen hundred. Rosy predictions had the added effect of luring hundreds of entrepreneurs into the oilfield supply business. Between 1979 and 1981 more than four hundred new oilfield companies, operating in garages and machine shops from Texas to the Rocky Mountains, joined the International Association of Drilling Contractors, all bent on striking it rich in "th'awl b'ness."⁸⁸

Cities that had the good fortune to sit on top of the bounty felt the effects of the boom in their sales tax revenues. From 1977 to 1982 revenues went from \$866,548.40 to \$5,660,996.11 in Elk City, from \$763,859.48 to \$3,123,059.28 in Clinton, and from \$609,579.10 to \$1,920,886.51 in Weatherford.⁸⁹ At the peak of the boom in late 1981, Elk City was home to six banks, leaving plenty of options for depositing the money raining in from the eight hundred or so rigs then drilling in Oklahoma.⁹⁰ But if you were looking for a place to put your head down for the night, the options dwindled. Bob McCormack, a veteran banker from Duncan whose company, McCormack & Associates, Inc. had provided consulting services to banks since 1985, recalled Elk City as the red-hot center of the drilling frenzy. "I remember, in those days, Elk City people were renting out a place in their garage for somebody to put a cot for eight hundred dollars a month,"⁹¹ said McCormack during an interview in June 2011. Duncan certainly felt the heat, but not to the same extent as Elk City and its bustling neighbors to the north.

Never far from the action were Hefner and Patterson, each captivated by what the Anadarko Basin had to offer and each daring to go where others feared to tread. Basking in their glow like a watchful parent was Penn Square Bank Chairman Jennings, whose model of correspondent banking had catapulted his bank to a position of leadership in oil and gas lending. As he told journalist Mark Singer, "I believe that, beyond lending money, a banker has to encourage and create opportunities. Concern for a customer and a desire to see him

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succeed are not inconsistent with a sound credit policy. I think I'm a damn good credit man and I'm a damn good collector."⁹²

The deep gas play in the late 1970s and early 1980s unleashed a testosterone-charged era of what Gayla Sherry and her incredulous colleagues dubbed "yeehaw banking,"⁹³ a southwestern version of "dump truck banking" that captured the fancy of John Boyd and his gang in Seattle. Blithe predictions that oil prices would soar into the hundreds of dollars a barrel, mixed with hubris on a fantastic scale, suffused with western bravado and iconic imagery that form the deepest strata of American culture made this boom compare favorably to other economic booms woven into the fabric of Oklahoma history. Oil wells spudded in the Indian Territory became the genesis of empires trespassing on federal land that rendered Oklahoma the only state in the Union to be identified with land-grabbing n'er-do-wells (sooners, that is); Indian land fraud that enriched the few, and forever besmirched Oklahoma's claim as a crucible of democracy; scrambles to become the first banker in town, and never mind the capital; real estate bubbles that turned paupers into princes and, sometimes, back into paupers; gushers that put millions in people's pockets and a glossy sheen on untold acres of prime farm land—these and other experiences that shaped Oklahoma

Depositors line up outside Penn Square Bank on the morning of July 6, 1982, to withdraw funds. Photo by Jim Argo (copyright 1982, the Oklahoma Publishing Company).



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history continue to flow like an underground aquifer through Oklahoma culture. With guts and a few dollars—other people's dollars—and a push from the gods of good fortune, the American Dream could become the American Reality, in this case with an Oklahoma accent. Seen in its historical context, the Anadarko Basin boom was simply the latest, but surely not the last, journey to the Promised Land.

But numbers cannot begin to describe the dreamscape that drew pilgrims by the thousands to those arid plains. At the time of this writing in 2012, you could still bring tears to an old Oklahoma oilie's eyes by asking him or her to recall the boom times: sleepy villages transformed into dynamos of buying and leasing and drilling; hairdressers and plumbers and school teachers mortgaging their homes to cash in on "th'awl b'ness"; cocktail banter about penny oil stocks and off-the-chart leasing bonuses; hardscrabble ranchers driving their wives to dinner in sleek new Cadillacs; fistfights breaking out in county court houses as landmen (and women) wrestled for ponderous deed books that recorded every transaction visited upon every scrap of land in those blessed environs; and pickup truck bumpers proudly displaying a whole new genre of oilfield witticism—"Oilfield Trash And Proud Of It," and that all-time favorite, "Please Don't Tell My Mother I'm Working in the Oil Patch. She Thinks I'm a Piano Player in a Whorehouse."

Oh, the joy of easy money! The delight, after generations of mundane toil, in finding the key to prosperity in the flatlands of western

The insolvent Penn Square Bank furnished chairs Wednesday for those holding high-dollar certificates of deposit, July 7, 1982. Photo by Bob Albright (copyright 1982, the Oklahoma Publishing Company).



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Oklahoma, their starkness the perfect camouflage for the treasures below.

Like Icarus on his mythic flight from the labyrinth, Oklahomans were soaring toward the sun on wings made of wax. Who among them could have foreseen the day when bumper stickers on dented and weathered pickup trucks would signal the end of the party and, metaphorically, the unfortunate boy's plummet into the sea by reading, "Lord, Please Give Us Another Boom. We Promise Not To Piss It Away This Time."

A crowd gathers around one of the Penn Square Bank cars auctioned Thursday, September 9, 1982. Photo by Paul B. Southerland (copyright 1982, the Oklahoma Publishing Company).



Endnotes

*Michael J. Hightower, a native of Oklahoma City, serves as principal researcher for the OHS Oklahoma Bank and Commerce History Project. This is the first of two articles on the rise and fall of Penn Square Bank adapted from his forthcoming book on the history of Oklahoma banking. This and another book on Oklahoma's commercial history, *Commerce on the Prairies: Bartering and Banking on the Oklahoma Frontier*, are slated for publication by the University of Oklahoma Press. The photography on page sixty-eight is copyright 1982, the Oklahoma Publishing Company.

¹ James P. McCollom, *The Continental Affair: The Rise and Fall of the Continental Illinois Bank* (New York: Dodd, Mead & Company, 1987), 17.

² Santayana's oft-quoted passage can be found in Chapter XII, "Flux and Constancy in Human Nature," in *Reason in Common Sense*, one of five volumes published from 1905 to 1906 that express the Spanish-born American philosopher's outlook on morality. The complete quotation from Santayana's work seems appropriate at the beginning of this synopsis of the rise and fall of Penn Square Bank: "Progress, far from consisting in change, depends on retentiveness. When change is absolute there remains no being to improve and no direction is set for possible improvement: and when experience is not retained, as among savages, infancy is perpetual. Those who cannot remember the past are condemned to repeat it [author's emphasis]." See George Santayana, *The Life of Reason, or the Phases of Human Progress: Reason in Common Sense* (London: Archibald Constable & Co., Ltd., 1906), 284.

³ Phillip L. Zweig, *Belly Up: The Collapse of the Penn Square Bank* (New York: Crown Publishers, Inc., 1985), 5.

⁴ Steven A. Schneider, *The Oil Price Revolution* (Baltimore: Johns Hopkins University Press, 1983), 103. To understand how policies in the 1970s sowed the seeds of America's economic decline, see Judith Stein, *Pivotal Decade: How the United States Traded Factories for Financing in the Seventies* (New Haven: Yale University Press, 2010).

⁵ Darrell Delamaide, *Debt Shock: The Full Story of the World Debt Crisis* (New York: Doubleday, 1984), 34.

⁶ *Oklahoma Encyclopedia of History & Culture*, s.v. "Anadarko Basin," by Bobby D. Weaver, <http://digital.library.okstate.edu/encyclopedia/entries/A/AN003.html>.

⁷ Zweig, *Belly Up*, 11; Mark Singer, *Funny Money* (New York: Alfred A. Knopf, 1985), 35-36, 76-77.

⁸ Testimony of Robert A. Hefner, III, chairman of the Independent Gas Producers Committee, hearings before the Committee on Commerce, US Senate, 93rd Cong., 1st Sess., November 7, 1973, box 10, Phillip L. Zweig Penn Square Bank Collection, Research Division, Oklahoma Historical Society, Oklahoma City (hereafter cited as Zweig Collection).

⁹ Testimony of Robert A. Hefner III, managing partner, the GHK Company and Gas-anadarko, Ltd., before US House of Representatives, Committee on Interstate and Foreign Commerce, Subcommittee on Energy and Power, March 24, 1977, box 10, Zweig Collection.

¹⁰ Singer, *Funny Money*, 79.

¹¹ Zweig, *Belly Up*, 51.

¹² Bryan Hodgson, "Natural Gas: The Search Goes On," *National Geographic*, November 1978, 632-51, box 10, Zweig Collection.

¹³ *Ibid.*, 641.

¹⁴ Robert A. Hefner III, "Deep Drilling in the Anadarko Basin," *Petroleum Engineer International*, March 1979, box 9, Zweig Collection.

¹⁵ Robert A. Hefner III and Neil J. Dikeman, Jr., "The Economic Impact of Deep Gas Well Drilling in the Oklahoma Sector of the Deep Anadarko Basin," *Review of Regional Economics and Business*, April 1979, 9, box 5, Zweig Collection.

¹⁶ "1,001 Years of Natural Gas," *Wall Street Journal*, April 27, 1977, box 3, Zweig Collection.

¹⁷ "What Energy Crisis?" transcript of CBS television's *60 Minutes*, December 28, 1980, box 9, Zweig Collection.

¹⁸ Natural Gas Supply Association, "The History of Regulation: The Natural Gas Policy Act of 1978," 2010, <http://www.naturalgas.org/regulation/history.asp#gasact1978>.

¹⁹ Zweig, *Belly Up*, 91.

²⁰ Singer, *Funny Money*, 79.

²¹ "Banks Take on Energy Financing," *American Banker*, February 28, 1980, box 2, Zweig Collection.

²² McCollom, *The Continental Affair*, 38-39.

²³ "Banker of the Year: Roger Anderson of Continental Illinois National Bank," *Institutional Investor*, August 1984, 69, box 10, Zweig Collection.

²⁴ Zweig, *Belly Up*, 74-75.

²⁵ Robert A. Bennett, "Chilling Specter at Continental," *New York Times*, May 20, 1984, box 8, Zweig Collection.

²⁶ McCollom, *The Continental Affair*, 195.

²⁷ *Ibid.*, 239.

²⁸ "Banker of the Year: Roger Anderson of Continental Illinois National Bank," Zweig Collection.

²⁹ Zweig, *Belly Up*, 73.

³⁰ "Banker of the Year: Roger Anderson of Continental Illinois National Bank," Zweig Collection.

³¹ Bruce Ramsey and John Snell, "The Wrecking of Seafirst: A Handful of Executives Bring Down the Bank," *Seattle Post-Intelligencer*, July 11, 1983, box 6, Zweig Collection.

³² *Ibid.*

³³ *Ibid.*

³⁴ Zweig, *Belly Up*, 32-33.

³⁵ "The Rise and Fall of Oklahoma City's Penn Square Bank," *Daily Oklahoman*, August 1, 1982, box 10, Zweig Collection.

³⁶ Jack T. Conn, *One Man in his Time*, ed. by Odie B. Faulk (Oklahoma City: Western Heritage Books, Inc., 1979), 481.

³⁷ Singer, *Funny Money*, 13-17.

³⁸ Conn, *One Man in His Time*, 481.

³⁹ Roy Rowan, "The Swinger Who Broke Penn Square Bank," *Fortune*, August 1982, 122-23, box 4, Zweig Collection.

⁴⁰ Chairman of the Board's Comments to Shareholders Annual Meeting, January 19, 1976, box 12, Zweig Collection.

⁴¹ Singer, *Funny Money*, 19-20.

⁴² "The Rise and Fall of Oklahoma City's Penn Square Bank," Zweig Collection.

⁴³ Singer, *Funny Money*, 59-53; "The Swinger Who Broke Penn Square Bank," 122, Zweig Collection.

⁴⁴ Singer, *Funny Money*, 62.

⁴⁵ "The Rise and Fall of Oklahoma City's Penn Square Bank," Zweig Collection.

⁴⁶ *Ibid.*

⁴⁷ Singer, *Funny Money*, 114-16.

⁴⁸ "The Swinger Who Broke Penn Square Bank," 122, Zweig Collection.

⁴⁹ Zweig, *Belly Up*, 118.

⁵⁰ *Ibid.*, 119.

⁵¹ Joel Champlin, interview by author, April 27, 2011, Enid, Oklahoma.

⁵² *Ibid.*

⁵³ "The Rise and Fall of Oklahoma City's Penn Square Bank," Zweig Collection.

⁵⁴ Ibid.

⁵⁵ Zweig, *Belly Up*, 121.

⁵⁶ Ibid., 122.

⁵⁷ Gayla Sherry, interview by author, March 9, 2011, Oklahoma City, Oklahoma.

⁵⁸ Singer, *Funny Money*, 48-51.

⁵⁹ "Chilling Specter at Continental," Zweig Collection.

⁶⁰ Ramsey and Snell, "The Wrecking of Seafirst: A Handful of Executives Bring Down the Bank," Zweig Collection.

⁶¹ Ibid., "The Wrecking of Seafirst: Seafirst's 'Truckloads' of Bad Loans," *Seattle Post-Intelligencer*, July 14, 1983, box 6, Zweig Collection.

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⁶³ "The Wrecking of Seafirst: Seafirst's 'Truckloads' of Bad Loans," Zweig Collection.

⁶⁴ Accel Financial Staffing Solutions, <http://www.accelfinancial.com/team.html>.

⁶⁵ Meg Salyer, interview by author, April 23, 2012, Oklahoma City, Oklahoma.

⁶⁶ Ibid.

⁶⁷ Ibid.

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ "Letter to Stockholders," *The Chase Manhattan Corporation Annual Report 1982*, 3, box 3, Zweig Collection.

⁷⁵ Ibid.

⁷⁶ Statement of Robert A. Hefner, III, before the Subcommittee on Energy Regulation, Energy and Natural Resources Committee, United States Senate, First Session, 97th Congress, April 23, 1981, box 2, Zweig Collection.

⁷⁷ Summary of Statement of Robert A. Hefner, III, before the Committee on Energy and Natural Resources, United States Senate, 97th Cong., 1st sess., November 6, 1981, Zweig Collection.

⁷⁸ Ibid.

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⁸⁰ "After a Lifetime of Dry Holes, Oil Partners Strike It Rich with Oklahoma Gas Well," *Wall Street Journal*, February 17, 1981, Zweig Collection.

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⁸² "Deep in the Anadarko," Zweig Collection; "Eakly Residents Crack Jokes, But Poise for Flight," *Daily Oklahoman* (Oklahoma City, OK), January 30, 1981, box 10, Zweig Collection. See also "Lucky Wind Eases Gas Worries," *Daily Oklahoman*, January 31, 1981, Zweig Collection.

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⁸⁴ "Deep in the Anadarko," Zweig Collection.

⁸⁵ *Encyclopedia of Oklahoma History & Culture*, s.v. "Oklahoma Economy," by Larkin Warner <http://digital.library.okstate.edu/encyclopedia/entries/O/OK041.html>.

⁸⁶ "Oil Boom Put State Near Top in Increase of Personal Income," *Daily Oklahoman*, September 6, 1983, box 11, Zweig Collection.

⁸⁷ Ibid. Personal income is the income received by persons from all sources, including income from the government, and is measured before deduction of personal income taxes

and other personal taxes.

⁸⁸ "Oil-Field Suppliers: The Crash after a Boom—An Uncertain Future," *Business Week*, September 27, 1982, box 10, Zweig Collection.

⁸⁹ "Oil Boom's Gone but Optimism Returns in Western Oklahoma," *Sunday Oklahoman* (Oklahoma City, OK), April 8, 1984, box 12, Zweig Collection.

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⁹³ Sherry, interview.