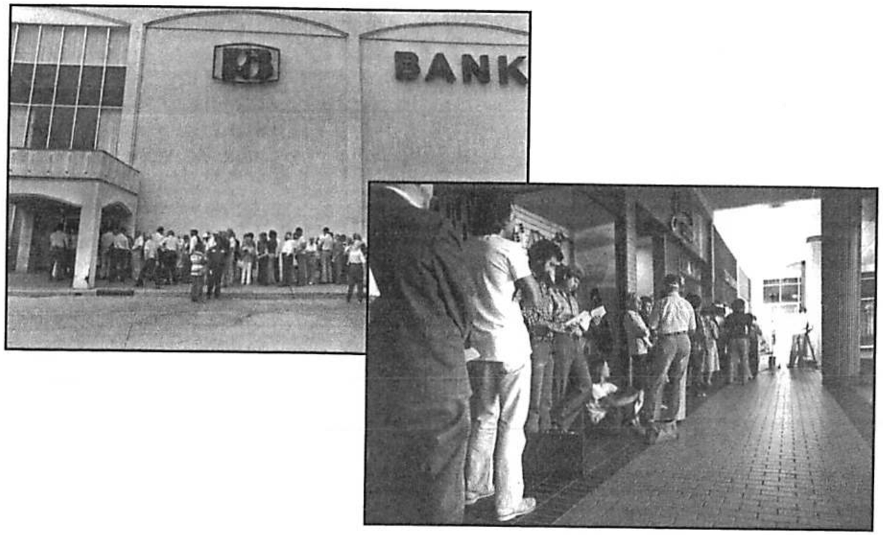
Penn Square: The Shopping Center Bank that Shook the World, Part 2—Bust



*By Michael J. Hightower**

Anadarko Basin fever seemed to be catching on everywhere—everywhere, that is, except the comptroller of the currency's office in Dallas, where Regional Administrator Clifton Poole and his colleagues were watching a disaster in the making. The examination of Penn Square Bank conducted in early 1980 was not the first, and certainly not the last, in a series of steps undertaken by federal officials aimed at curbing the bank's excesses. In June 1980 Penn Square Bank directors were required to submit periodic reports to the regional office in Dallas. In a foretaste of what lay in store for the high-flying bankers, they were summoned to a meeting in Poole's office on June 19. The meeting started badly and deteriorated when Poole ordered the directors to cease and desist the practices that were branding their bank as a renegade. For the rest of the year letters flew and phone lines hummed between Oklahoma City and Dallas, but not even stern warnings from the comptroller's office could put a damper on the bank's growth. In its annual report for the year ending on December 31, 1980, Penn Square Bank reported growth in assets of $288.26 million over the prior year, an increase of 103.7 percent.[1]

An examination conducted between January 5 and February 27, 1981, revealed "further deterioration in bank's overall condition."[2] On June 23 Poole notified the Federal Deposit Insurance Corporation (FDIC) of the bank's precarious condition, prompting that agency to participate in examinations for "contingency purposes."[3] In its spring 1981 report card issued on July 1, the comptroller's office in Dallas noted that the "overall deterioration in the loan portfolio is of significant concern to this examination due to this institution's overall cash management and liquidity problems." The report went on to accuse directors and senior management of failing to prudently supervise the bank's activities and, in a replay of the showdown a year earlier, summoned them to another meeting in Dallas.[4] In a no-holds-barred face-off on July 29, Poole told Jennings and his colleagues that they were "flirting with disaster" by failing to comply with nine of ten items listed in the "administrative agreement" reached the previous summer.[5] Once again, harsh words were exchanged; once again, Penn Square Bank directors stuck to their unorthodox growth strategy. The sparring continued for the rest of 1981, with the comptroller's office doing what it could to enforce compliance and the bank continuing to book loans. Penn Square Bank's annual report for 1981 showed a 36.7 percent increase in asset growth to a dizzying $394.16 million.[6]

Chairman William P. "Beep" Jennings was beaming. As he noted in the annual report, "Since 1974 assets and stockholders' equity have increased more than tenfold, while deposits are more than 12 times their level eight years ago."[7] Such was the momentum in Bill Patterson's energy lending department that, between September 30, 1981, and April 1982, the bank generated $900 million in loans.[8] Clearly dismayed by the juggernaut next door, one suburban banker near Penn Square Bank remarked, "This is crazy. It just can't last."[9]

While authorities tried unsuccessfully to bring Penn Square Bank to heel, it was business as usual in Bill Patterson's energy lending division, which was anything but usual. In the tsunami of press reports that attended the bank's closing in July 1982, analogies were drawn between the bank and Patterson's time at the Sigma Chi house at OU. The main differences were that bankers wore suits (most of the time, anyway) and had more money. Patterson's attire kept his staff guessing—one day it was a Tyrolean outfit, complete with a plumed hat and lederhosen, and on another day it was the tattered garb of a hobo. He pushed the limits of political correctness by strolling through the bank one day wearing a Nazi helmet emblazoned with swastikas.[10] One imagines reams of loan papers hitting the floor as stunned secretaries let go their cargo to gawk at their boss disguised as a storm trooper.

Quitting time, and sometimes pre-quitting time, was often heralded with the popping of champagne corks and rounds for everyone. On a really good day, when the streams to New York and Chicago and Seattle were teaming with loan participations, toasts and ribald banker banter were interrupted by Bill Patterson's call to action: "Let's rodeo!" There followed a quick trip to Las Vegas—the bank's jets were handy for that—where the revelry ramped up a notch and Patterson might be spotted wearing his signature Mickey Mouse ears.[11] Joel Champlin of Enid never experienced the fun and games but he was happy to recount stories of friends who had ringside seats at the bacchanalia. "And I have some friends who said that the amazing thing about Patterson was that he would go, go, go all the time," said Champlin. "One New Years, they took a jet, and they started in New York, and they partied, and they flew to Chicago, and then they flew to Denver, and then they flew . . . ."[12]

Champlin's voice trailed off as he struggled to describe a party scene that, even at a distance of three decades, continues to boggle the mind and defy the imagination. "And he was drinking champagne out of cowboy boots," said Champlin at last, "and he was putting them back on. So he was just a fun guy, incredible amount of energy—go, go, go the whole time!"[13] Celebrations closer to home often wound up at the bar Cowboys, where the reveler-in-chief quaffed beer from his boots and instigated food fights, leaving the wait staff with a mess, the bank with an ever-increasing expense account, and upstream bankers in town for business meetings with enduring impressions of Oklahoma.[14] "There's no way we'll ever do business with this guy," remarked an officer from Manufacturers Hanover Trust Company in New York who stopped in at Cowboys for a drink and witnessed Patterson in action. This time, Patterson's antics fell flat, and Manufacturers Hanover Trust Company saved a pile of money.[15]

Meanwhile, back at the bank, clerks and secretaries were no more successful than federal bank examiners in following the paper trail. But then, some of the secretaries might have been preoccupied. John Mabrey, senior executive vice president and chief administration officer at Citizens Security Bank in Bixby, was a bank examiner in 1979 and spent six weeks divining the secrets of Penn Square Bank's success. "One of Bill Patterson's secretaries had a $60,000 unsecured loan," recalled Mabrey. "She'd used the money to buy a Mercedes. I asked, 'Why didn't you take the Mercedes as collateral?'" And the answer? "Well, she's going to pay the loan back, so we really don't need the collateral."[16]

Tensions mounted between the oil and gas division and the note cage as the books careened out of balance by some $30 million.[17] In what one officer described as a shell game in which nobody could locate the pea, loans were stuffed in cardboard boxes and shipped upstream to Continental Illinois Bank, and the people on the receiving end did not even bother to look at them. They just said, "Leave them here. We'll wire you the money."[18] Such was Continental Illinois's faith in its winning strategy and modern-day gunslingers that nobody noticed when its loans at Penn Square Bank hit $1,056,000,000—six times its lending limit.[19]

As more and more bad loans cropped up, Patterson hit on an ingenious way to keep them off the books: simply advance interest on past due accounts, much like Chase Manhattan and Continental Illinois did with loans to Third World countries. As this practice became more common, the need arose to come up with a new moniker and "upstreaming of interest" was coined as one more assault on the English language. Another maneuver was to roll interest on one loan into a new loan as a way to pay the interest on the new one. In a particularly clever sleight of hand, loans were made to one company or partnership to pay off the notes or overdrafts to another company or partnership owned by the same company.[20] And so on.

Some bankers were jealous of Penn Square Bank's track record and became more aggressive in their lending policies. Others, stodgier and perhaps trained in old-school methods of bookkeeping, tried to "discipline" their errant competitor. Liberty Bank of Oklahoma City stopped accepting Penn Square Bank's letters of credit and the First National Bank and Trust Company of Oklahoma City forced the shopping center bank to secure its Federal Reserve funds lines.[21] But nothing, it seemed, could stop Penn Square Bank from stealing customers from its competitors by offering deals of a lifetime. John Mabrey and his examination team left the bank on a Friday afternoon and were astonished when they returned the following Monday to find that an unusual remodeling job had taken place over the weekend. "They had cut a wall out and driven a Rolls Royce in the lobby, and put the wall back up!" exclaimed Mabrey, still incredulous thirty-plus years later. The deal was simple: deposit $1 million and leave it in the bank for five years, and the car was yours. "That's while the examiners were there!" continued Mabrey. "Instead of interest, they would give you a Rolls Royce. That was crazy! They did it while the examiners were there! They could have waited two weeks, and we wouldn't have known about it."[22]

Mabrey and his colleagues filed their reports, but to no avail. "We would write up the report and send it on, but they wouldn't really do much about it," said Mabrey. "Everything was going along so good."[23]

Mabrey paused to reflect on his six-week experience of watching a disaster in the making—a disaster that nobody was inclined to stop.

By the time Phillip L. Zweig arrived in the Southwest from New York to cover the deep gas play for the *American Banker*, the boom was somewhere near its crescendo and there was no shortage of newsworthy stories. But as he wound his way from bankers' offices in Dallas to towering rigs and bustling boomtowns in the Anadarko Basin he was beginning to suspect that something was amiss in the gas boom's financial underpinnings. Before he left New York he had studied statistics on Oklahoma banks published by Alex Sheshunoff and Company, and one bank whose name made easterners think it was in Pennsylvania was notable for its extraordinary asset growth rate. Nestled next to Shelly's Tall Girl Shop and swabbed with a drab whitewash, the bank's low operating expenses indicated that it was booking and monitoring a lot of loans with very few people. Zweig's interest was piqued but he did not give the bank much thought as he transitioned from New York high rises to the wide vistas of Oklahoma.

In the course of Zweig's conversations and interviews the bank kept coming up, and when it did, eyes rolled and brows furrowed and sentences dangled. Revealing a flair for understatement, Zweig acknowledged that bankers "are not comfortable talking about other banks, particularly those that might be in trouble."[24] What is more, the peripatetic Zweig sensed that the glow was fading from the oil boom euphoria. Oilfield service companies were having a tough time collecting their money from contractors and bankers were beginning to reminisce about other booms that had ended badly. The easy-come-easy-go attitude was probably encoded in the genes of native Oklahomans, but it was enough to give a New York journalist pause for reflection.

From Dallas high rises to Oklahoma gas rigs, an implacable logic was taking hold, and it confirmed economics' designation as "the dismal science": frenzied natural gas production, OPEC's diminishing clout in manipulating fuel prices, and slackening demand attending the new conservation ethos were conspiring to produce an oversupply of natural gas and push prices ever lower. As the chief financial officer of one deep gas producer explained, pipeline companies were becoming overextended on their take or pay contracts. Simply put, pipeline companies were buying more gas, deep and shallow, than they could possibly sell.[25] Like the proverbial canary in the coal mine, the stock market foretold dark days to come. By October 1981, prices of most oil and gas common stocks were down 30 percent from the previous

year. According to lease broker Steve Knox, "The whole Ponzi scheme stopped in January."[26]

So maybe the real story was not in western Oklahoma, but rather in the offices of a place called Penn Square Bank over in Oklahoma City. Zweig's reportorial radar went on high alert when bank officials met his initial inquiries with stonewalling—an unpardonable sin to any journalist and a sure sign that he was onto something. Board Chairman Beep Jennings became belligerent when Zweig asked him about his bank's loan losses in 1981. Such financial information is a matter of public record and was easily obtainable from the FDIC but it did not appear in the bank's annual report. "Get them yourself!" snapped Jennings to the startled reporter. Which he did, and discovered that Penn Square Bank's loan losses had risen more than tenfold over the previous year. Even more shocking than the losses was the purpose for borrowing the money in the first place. The bank's money was spent not on oil and gas production, but rather to purchase racehorses.[27]

Comparing the coverage of troubled banks to "a high-wire balancing act," Zweig knew he had to tread lightly. Overt criticism could trigger a run on the bank, but excessive restraint would compromise his responsibilities as a journalist and might put depositors at risk. Zweig's commitment to ethical journalism was not enough to keep Jennings from summoning a special meeting of Penn Square Bank's board of directors on April 2, 1982, to discuss how to handle the gadfly from New York. Enraged by inquiries that he castigated as flat-out accusatory, Jennings referred to the reporter's facts as "highly inaccurate and in some cases absurd."[28] Bank President Eldon Beller noted that he had spoken to Preston Morrow in the comptroller of the currency's office and given him an unambiguous message: if Mr. Zweig "continued to make inaccurate and harmful statements about the Bank to third parties, which could harm the bank, he [Mr. Beller] would expect the Comptroller's Office to assist us at our request."[29] By then, Jennings had heard enough. He closed the meeting by admonishing the board to maintain "a low-key approach" when Mr. Zweig came calling.[30]

After checking and rechecking his facts and consulting with his editors back in New York, Zweig broke the story on April 26, 1982, with a four thousand-word article in the *American Banker* under the title, "Oklahoma's Penn Square Bank, Maverick Oil Patch Lender: Some Say It's Bet Too Heavily on Energy."[31] Referring in his opening paragraph to Penn Square Bank's reputation as Continental Illinois's loan production office in Oklahoma City, Zweig cut directly to the chase: the bank was up to its eyeballs in loan participations and sinking deeper.

> Having sold more than $2 billion in participations—almost seven times the $300 million in loans the bank now has on its own books—Penn Square may well have originated more loans relative to its own portfolio than any other bank in the nation. The volume of participations relative to loans varies considerably from bank to bank, but it is certainly unusual for outstanding participations to exceed net loans.[32]

The news got worse. Nationwide, drilling rigs were being idled as declining prices for oil and gas prices could no longer support the enormous costs of operation. This was particularly bad news for Penn Square Bank whose "huge volume of participations, rapid growth, highly aggressive lending practices, some acknowledged snafus in loan documentation, and a dramatic rise in chargeoffs [loans no longer deemed collectible] in 1981 [had] made it the object of some sharp criticism in Oklahoma banking circles."[33] Meanwhile, some of the bank's most highly leveraged borrowers, including Robert A. Hefner III, Carl Andersen Jr., and Carl Swan were "believed to be experiencing serious cash flow difficulties."[34] Older banks downtown were increasingly wary of Penn Square Bank's strategy of earning fee income rather than holding assets. Despite Chairman Jennings's declaration that no correspondent "has ever lost a penny on a Penn Square loan," upstream bankers were signaling that the volume of their loan participations exceeded their comfort level "because of what they called the customary 'moral obligation' of a loan originator to buy back loans that go bad, particularly loans sold downstream."[35] Jennings, characterized as "an old-school entrepreneur," dismissed criticisms of his bank as plain old jealousy and insisted that the $4.2 million in 1981 chargeoffs represented a one-time write-off of bad real estate loans, not energy credits, much of which he expected to recover. "Taking a short puff on his ever-present cigar, Mr. Jennings asserts that his institution has been a boon to the expansion of the capital-intensive oil and gas industry in Oklahoma, a state he describes as relatively cash-poor despite its robust energy economy."[36] "Our growth," explained Jennings to the prying reporter,

> appears so dramatic because we started with such a small base. By moving into an active posture early, and concentrating efforts on independent producers, perhaps when other banks were not, we established an original base of producers who are our very best salesmen. Word gets out pretty quickly that Penn Square is interested in the oilman.[37]

Early on, the local press did not seem to pay much attention to Zweig's article. Perhaps suspecting, as Oklahomans are apt to do, that New York journalists are incapable of getting anything right west of the Hudson River, the *Sunday Oklahoman* and the *Oklahoma City Journal Record* published articles in May and June 1982 portraying Penn Square Bank as a community-oriented bank with a winning formula. On May 2, the *Sunday Oklahoman* credited Beep Jennings with orchestrating a revolution in energy lending. Before Penn Square Bank came on the scene, energy lending, at least in central Oklahoma, had been the almost exclusive preserve of the First National Bank and Trust Company of Oklahoma City. True, Liberty and Fidelity Banks were coming on strong, and the First Continental Bank in Del City had broken the $140 million-dollar mark in assets to become the ninth largest bank in the Oklahoma City area. But nobody could match Penn Square Bank and its practice of marketing energy loans to larger banks. Boasting that his bank was selling 80 percent of its energy loans to upstream banks, Jennings laid claim to a distinguished tradition pioneered by merchant bankers in England. Orthodox bankers had doubts about Penn Square Bank's notoriety as Continental Illinois's loan production office in the oil patch, but no matter. By March 31, 1982, Penn Square Bank was ranked as the fourth largest bank in the Oklahoma City metropolitan area and among the top ten banks in the state. The *Sunday Oklahoman* mentioned Zweig's article briefly and almost dismissively, more as a foil for Beep Jennings's bravado than an indication of impropriety.

On June 6 it was the *Oklahoma City Journal Record*'s turn to report on Jennings's financial savvy. In a speech to the Kiwanis Club of Oklahoma City, Jennings dispensed free advice to folks wondering what to do about economic problems that were beginning to cast a pall on Oklahoma's energy boom: "Put hay in the barn, tighten belts and learn to make do."[38] As heads around the room no doubt bobbed in unison, Jennings cautioned his listeners not to expect much of a drop in interest rates. He then touched on a favorite theme in business circles: congressional ineptitude. "Congress," intoned the bank chairman to more bobbing of heads, "has the lowest credibility, in regard to fiscal policy, that it has ever had."[39] He asserted that inflation was more to be feared than unemployment ("Ask the people of Germany. They know what inflation can do.") and, in an abrupt change of pace, urged his listeners to do their part for historic preservation. Beyond their aesthetic value, said Jennings, restored buildings make "good economic sense—these building restorations not only preserve history, but are useful economically."[40]

While Beep Jennings was playing to the home crowd, his colleagues upstream were showing signs of stress. Fielding questions about a precipitous drop in Continental Illinois Corporation's stock occasioned by problems in the bank's burgeoning energy loan portfolio, Chairman Roger Anderson put on his game face. "Sometimes we have seen these worries enlarged out of proportion, especially when memory fails to recall banking's proved ability to cope with and reconcile them," he explained in an interview in the *Chicago Tribune* the day after Zweig's article was published in the *American Banker*.[41] Perhaps to bolster his own confidence, he concluded, "Our loans are very well grounded."[42] The noose tightened a month later when the *Wall Street Journal* weighed in on the effects of Continental Illinois's aggressive lending. Once a favorite of analysts and business school graduates alike, Continental Illinois was sinking under the weight of problem loans. Of special concern were energy loans. With about 15 percent of its total loan portfolio in oil and gas, Continental Illinois was betting much more on energy than most banks outside the Southwest. Chargeoffs against earnings in 1981 were nearly triple the average rate of the previous five years. Lawrence Fuller, a bank analyst with Drexel Burnham Lambert, Incorporated, put it this way: "They have been very aggressive, and it is costing them now."[43]

In signs that the times truly were changing, Detroit was beginning to roll out fewer gas guzzlers and consumers were climbing aboard the conservation bandwagon in increasing numbers—good news for the planet but bad news for bankers who were counting on high energy prices to fuel their lending sprees.[44] Morgan Guaranty Trust Company discerned a "fundamental shift in the demand for and supply of oil" that might bring a drop of 25 to 30 percent in the price of oil in 1982-83. This seismic shift spelled trouble not only for oil exporting countries, but also for domestic companies whose fortunes were increasingly tied to international markets.[45]

By the late spring of 1982, a pall of uncertainty was hovering above the oil patch and its shadow reached to the whitewashed dynamo in the Penn Square Shopping Center. Perhaps it was some consolation that bankers had company in their impending fall from grace. For months federal snoops had been prowling the back roads of Oklahoma and nabbing county commissioners on the take. In what became the largest scandal of its kind in American history, county commissioners by the score were exposed for their habit of receiving kickbacks and bribes in the manner of Third World kingpins, long since accepted as a cost of doing business in just about all of Oklahoma's seventy-seven counties. Their good-ole-boy mischief proved irresistible to Gary Trudeau,

author of the comic strip *Doonesbury*, and provided him with fodder for his unique take on popular culture. For the edification of serious readers worldwide, the *Economist* on November 7, 1981, blew the lid off Oklahoma's dirty little secret.[46]

Long before her last name changed to Salyer and she was elected as Ward Six councilperson in Oklahoma City, Meg Sipperly was Chase Manhattan Bank's designated hitter for structuring loan participations with Penn Square Bank, and she pinpointed the moment when the wheels started coming off the bus. She and some Chase associates had scheduled a dinner with two of Penn Square Bank's most frequent borrowers: Frank Mahan, who earned the distinction of being one of the few people who could get kicked out of Junior's, a popular venue for Oklahoma oilies, and William E. "Billy" Rowsey, homegrown Okies who had combined their resources in fall 1979 to form a drilling concern, Mahan & Rowsey, Incorporated.[47] "The Mahan-Rowsey is probably the first largish credit that we had an opportunity to look at," said Salyer.

> So, the two of them came to New York with Bill Patterson and—I can't think who else from the bank—but, you know, one or two from Penn Square, and we had dinner in New York with, I think, two senior vice presidents of Chase. There was at least one VP, myself, and then several others. Frank Mahan was so rude at that dinner that two people got up and left. And the next day, you know, I just said I wouldn't ever have anything to do with him. It was not a relationship that I managed or had anything to do with.[48]

Searching for a way to summarize her thoughts, Salyer borrowed a line from Mark Singer's *Funny Money*, one of two books to capture the Penn Square Bank story. "This place is evil," said one of the interviewees for his book.[49]

The young Meg Sipperly was dumbfounded by a business boom that was quickly morphing into a morality tale, and she found herself staring up at the underbelly of American business. "Most of these were normal people operating on the facts and circumstances at the time, involved in a crazy, heady . . . "

Her voice trailed off as she reflected on the experience, now thirty years distant. "Did people drink wine out of their shoes from time to time? Yes! Did people throw quail out of their pockets? Yes! It was probably all partly just a relief from the incredible, crazy tension. Was everybody minting money? Yes! And then the cards began to come down, and there was lot of scrambling to place blame."[50]

The beginning of the end of Penn Square Bank can be dated to April 19, 1982, a week before Phillip Zweig's article was published, when the comptroller of the currency launched his final examination. The long-suffering Regional Administrator Clifton Poole quickly notified his superiors in Washington, DC, that "potentially serious problems" were coming to light.[51] More examiners with expertise in energy loans were brought in from Houston, Dallas, and other cities to lend their assistance, prompting one Penn Square Bank employee to remark, "They were like rabbits. They seemed to multiply overnight."[52] Simultaneously examiners supervising the big three correspondent banks—Continental Illinois, Chase Manhattan, and Seafirst—were advised of the "poor quality" of loans and the likelihood of significant losses. A banker who examined Penn Square Bank loans after its collapse commented, "The collateral was misfiled or not filed. It was just horribly documented. There wasn't a good loan in the lot."[53] So much for Bill Patterson's mantra: "There are no bad deals. Every deal can be corrected with money."[54]

In May an energy loan expert was sent to Chicago to assist with an assessment of Continental Illinois's portfolio. Back in Oklahoma City, as many as thirty borrowers were identified on June 16 as possible violators of Penn Square Bank's legal lending limits, and employees were cautioned against extending additional credit to them.[55] On June 28 large depositors began withdrawing their funds.

The last day of June 1982 was a busy one, both in Oklahoma City and Washington, DC. It was then that the comptroller asked FDIC Chairman William M. Isaac to summon a meeting to discuss the imminent failure of Penn Square Bank. Isaac responded by dispatching ten examination and liquidation personnel to Oklahoma City. The bank's shoddy paperwork, including some three thousand loans that were improperly documented, made their task all but impossible. Ugly words—insider loans, cozy relationships, kickbacks, altered documents, and criminal referrals—foretold lawsuits to come.[56] The comptroller also issued a notice of the charges against Penn Square Bank and a temporary cease and desist order requiring bank officials to take immediate action to rehabilitate their bank. To retain liquidity the bank tapped the Federal Reserve for $20 million. On the advice of an unnamed advisor, the GHK Company started pulling its money out.[57]

The next day Phillip Zweig answered a call from a source whom he had come to refer to as "Deep Vault,"someone who had been of invaluable help in researching his April 26 article in the *American Banker* and whose secrecy reminded him of "Deep Throat," the informant who helped Bob Woodward and Carl Bernstein break the Watergate scandal for the *Washington Post* in the early 1970s. "It's time for you to pack your bags," said Deep Vault, no doubt in a conspiratorial whisper. "Things are really bad here."[58]

On July 2 Chairman Jennings called a special meeting of the Penn Square Bank board of directors. In a series of sessions, punctuated by recesses, that lasted pretty much all day, the directors came face to face with the consequences of the bank's runaway growth. Jennings began by summarizing his meeting the previous day with representatives of the comptroller's office and reminding officers that they were no longer permitted to authorize loans or pay overdrafts. If anyone was surprised to hear that Bill Patterson had been suspended, the minutes do not show it. Jennings also reviewed the goings-on upstream, where representatives from Continental Illinois, Northern Trust, Chase Manhattan, and Seafirst were enduring their own trials by fire at the hands of officials from the comptroller of the currency's office. About twenty Penn Square Bank shareholders, surely wondering if they were throwing good money after bad, had signed subscriptions for additional capital stock. Marion C. Bauman, regulatory counsel from McAfee and Taft, explained the FDIC's process for taking over a bank and assured his listeners that depositors would be protected to the extent allowed by law. There was some discussion about whether or not the bank was technically insolvent. National Bank Examiner Steve Plunk was mentioned as one of the people who thought it was. Late in the day, Chairman Jennings closed the meeting by alerting board members of the probability of more meetings over the Fourth of July weekend.[59] It is safe to assume that nobody was surprised.

More than four years later Shirley Vint, manager of Penn Square Bank's wire transfer department at the time of the failure, testified in court that July 2, 1982, was "a madhouse." Her testimony was part of a consolidated trial of lawsuits stemming from Penn Square Bank's failure. One of the participants in the trial was Downriver Community Federal Credit Union of Ecorse, Michigan, that held $4 million worth of certificates of deposit in the bank. The credit union had instructed its money broker to have a $1 million certificate wired out of the bank when it matured on July 2. Needless to say, the certificate was not wired out that day.[60]

While directors were shielded behind closed doors, Vint was fielding phone calls "in the hundreds." The Federal Reserve funds wire machine, which implemented wire transfers, was inoperable almost as soon as the bank opened on July 2. Employees in her department were told not to use the machine until further notice from the Federal Reserve. Transfers had to be performed using a code and required authorization from Vice President Bert Davis and one other bank officer. The rest piled up on her desk. "Our biggest depositor had moved all his money out the day before," said Vint. "You didn't have to be a genius to figure out what was happening."[61]

Throughout the examination that began in late March 1982, Steve Plunk and his team were under pressure to follow the lead of the previous examination team—described by Plunk as "the dream team" because of its members' extraordinary acumen in sniffing out financial wrongdoing—and give Penn Square Bank a clean bill of health.[62] But within days of arriving at the bank, Plunk's interest was piqued by a balance sheet account labeled, "Other." Upon inquiry, he discovered that the account was reserved for interest paid on behalf of borrowers who could not service their loans. Stunned, Plunk demanded to know who the borrowers were. "They were pretty much the core people at Penn Square," said Plunk. The list not only included bank directors, but it also read like a Who's Who of major players in the Anadarko Basin. "Basically, those loans were past due," continued Plunk, the incredulity in his voice undiminished by the passage of three decades. "And they were past due for a substantial period."[63]

Plunk's radar went on high alert and no amount of pressure from his home office in Dallas or increasingly hostile bank directors and officers in Oklahoma City could derail him and his team from getting some answers. As a native of Tennessee, his challenges were compounded because he was targeted as an outsider who did not understand energy lending. Nevertheless, his team was less than two weeks into the examination when Plunk informed Clifton Poole in Dallas that he was ready to declare the bank insolvent. As a former field examiner, Poole knew that the thirty-one-year-old Plunk was onto something big, and he distinguished himself as the only person in a position of authority who supported the examination team's findings. After a five-minute conversation with his subordinate, Poole was ready to alert the higher-ups in the comptroller of the currency's office in Washington, DC, that Penn Square Bank was in serious trouble. "The ball was in motion," said Plunk. "And it just spiraled from that point on."[64]

Plunk considered himself fortunate to be able to focus with laser-like intensity on the financials. "All I needed to know was, did they have more bad loans than they had capital? And I kept that narrow focus. That was probably the most fortunate part during that whole thing. I didn't ponder their repercussions, or what it was going to do

to the world, or what it was going to do to [Federal Reserve Chairman Paul] Volcker. I just said, do they have more bad loans than they have capital? And I was convinced they did."[65]

Plunk's tenacity put him squarely in Bill Patterson's crosshairs. He was alarmed when bank officers, including President Eldon Beller, either stonewalled or deflected his questions to the renegade loan officer. "I couldn't really get a lot of information out of the officers," said Plunk. "They didn't know, or they didn't want to report anything without talking to Bill Patterson."[66] Inevitably, Plunk's persistence landed him in Patterson's office (that is, when the peripatetic loan officer was actually in his office), where he found an increasingly agitated executive whose patience with the bank examiners was wearing thin. Plunk recalled showing up one day with a stack of loan documents that he wanted to review with him. "I could not keep him focused," said Plunk. "He would jump up on the couch, point at a map of Oklahoma, and tell me how many oil and gas reserves there were!"[67] Their relationship hit rock bottom when Patterson threatened to pull some strings at Continental Illinois Bank to get him fired. "I could call them, and they could get you fired," said Patterson. And Plunk's response? "Well, besides that, Bill, how is this loan going to pay?"[68]

Steve Plunk never met Phillip Zweig, but he thought that his reporting was accurate. He credited his articles in the *American Banker* for signaling the beginning of the end. "He was having almost a daily article in the *American Banker*," recalled Plunk, who was placed under a gag order and prohibited from talking to the press. Pressured from all sides, Penn Square Bank entered what Plunk described as a deathwatch. "The dead rats just kept floating to the top of the punch bowl," he said.[69] Like the harried Shirley Vint in the bank's wire transfer department, Plunk characterized the bank's final hours as "a madhouse."[70]

As Penn Square Bank officials scrambled to keep their house of cards from collapsing, H. E. "Gene" Rainbolt, then president of Federal National Bank of Shawnee and whose banking interests would one day coalesce into the BancFirst Corporation, perceived an opportunity to add to his holdings. His son, David, had been working at Republic Bank in Dallas and had returned to Oklahoma to help his father manage his investments just as the economy was starting to cool. His first assignment was to represent his father's management services company, Thunderbird Financial Corporation, at a meeting to bid on Penn Square Bank's assets. David showed up with little confidence that Sid Carroll of the FDIC would accept his five-million-dollar bid for a bank whose assets were valued at upwards of a half-billion dollars.

"Let's say there were fifteen or twenty bidders," recalled David about a meeting just before the July Fourth holiday of 1982. "In any event, we are in there, and Sid walks in, and he said, 'We discovered information that would preclude us from doing a purchase and assumption in this thing, and we are going to liquidate the bank. Close it.' They sent us all back home. And the rest has been written about."[71]

While Penn Square Bank directors were circling their wagons in the board room, Shirley Vint was scrambling to stave off chaos in the wire transfer department, and David Rainbolt was reporting to his father on the stillborn bidding, members of the Federal Reserve Board of Governors in Washington, DC, were rearranging their plans for the Fourth of July weekend. At 2:45 p.m., Friday, July 2, the first in a series of emergency meetings was convened to discuss the fiasco in Oklahoma City. Towering above his colleagues, the cigar-chomping Federal Reserve Chairman Paul Volcker wanted to know what others thought about the decision made by the FDIC and comptroller of the currency to arrange an immediate takeover of Penn Square Bank. A verbatim passage from the minutes of that charged meeting reads as follows:

> The bank was reportedly in danger of imminent failure because of sizable loans, including participation loans, that might not be collectible, coupled with significant deposit outflows. The bank, with nearly $500 million in deposits at the end of 1981, had made more than $2 billion in loans to oil and gas exploration companies in the region and then sold participations in those loans to banks throughout the country, including some money center banks. With the downturn in prices for energy-related products, many borrowers now were unable to repay the loans. Also, the bank had made commitments for additional loans, but it was believed many of those commitments had not yet been funded.[72]

Officials recognized that the bank might need a loan from the Federal Reserve to operate the rest of the day, with the understanding that a takeover would be arranged over the weekend. A sticking point was whether or not the Federal Reserve should extend credit under the circumstances. One board member questioned why the bank was not closed immediately rather than at the close of business. The answer, self-evident to those who had been working the case, was that the comptroller of the currency had not yet completed the bank exam and was not ready to declare it insolvent. The board finally agreed that the Federal Reserve Bank of Kansas City could lend money to Penn Square Bank "provided acceptable collateral was pledged."[73]

Discussions resumed at 4:30 p.m. on Saturday. By then, it was becoming clear that arranging a takeover would be difficult as long as federal examiners were unable to determine what portion of the bank's loan portfolio was uncollectible. Moreover, allegations of fraud made potential acquirers reluctant to assume the bank's liabilities. More officials from the FDIC and comptroller of the currency's office joined the meeting, including FDIC Chairman William M. Isaac, who reported that the FDIC was closing the bank because it saw little chance of finding a merger partner. There was a great deal of concern about uninsured depositors and the damage that the closing would do to public confidence in the financial system.[74] The bad news continued on Sunday, when the board of governors learned that potential acquirers were still spooked and that examiners were still a long way from determining the extent of bad loans. The best the comptroller of the currency could do was promise to prepare a statement of the bank's condition prior to its opening for business on Tuesday, July 6.[75]

The moment of truth arrived at 2 p.m. on Monday, July 5, when staff reported that fears concerning loan losses and unknown contingent liabilities had derailed efforts to arrange a takeover of Penn Square Bank, either by a single institution or a consortium. The meeting recessed until 5 p.m. so that discussions could be held with officers of the comptroller of the currency and the FDIC. When the meeting resumed, Chairman Volcker reported that the comptroller of the currency and the FDIC "foresaw no possibility of arranging a takeover of Penn Square Bank. Because no other alternative proved feasible, the Comptroller would declare the bank insolvent and close it later this evening, with no immediate payout to the uninsured depositors."[76] Ultimately the FDIC projected that, after collection of insurance from the bonding agents and settlement of all suits and claims against Penn Square Bank, uninsured depositors might be reimbursed at no less than eighty percent of their claims.

Oblivious to the events in faraway Washington, DC, Gayla Sherry, then manager of the draft collections department at Liberty Bank and Trust Company of Oklahoma City, was spending a quiet evening with her husband. Her experience no doubt reflects countless others on that steamy holiday weekend. "I remember there was a full moon, and I don't know what that meant," recalled Sherry nearly three decades later. "But of course, it was hot in July. And I remember sitting out in the back yard with my husband, and we were having a drink, looking at the moon, and talking about it. And I remember saying, 'They're never going to close it. It won't happen.'"[77]

That evening, Comptroller of the Currency Todd Conover called National Bank Examiner Steve Plunk in Oklahoma City and went through a scripted prelude to declaring a bank insolvent. Having dispensed with the formalities, Conover told Plunk, "I have become satisfied that the bank is insolvent. I have appointed the FDIC as receiver. Please advise the bank that we are closing it and appointing the FDIC as receiver effective at 7:05 p.m., Central Daylight Savings Time."[78]

Headlines on Tuesday, July 6, blared with news of the FDIC's seizure of Penn Square Bank and its twenty-eight thousand accounts. In his prepared statement, Comptroller of the Currency Conover said that "at closure the bank held total assets of approximately $525 million and total deposits of $470 million."[79] He assured depositors with less than $100,000 that they would get their money; corporate depositors and others with accounts exceeding $100,000 would be considered as claims against the failed bank.[80] The failure was the fourth largest commercial bank failure in the history of the FDIC, the twenty-first bank failure in the United States in 1982, and the largest Oklahoma bank to fail since the Great Depression.[81]

History lessons and statistics meant little to depositors who congregated at the bank to catch a glimpse of their financial futures. A young man, clad in a maroon bathing suit and sporting a slight sunburn from the Fourth of July weekend, leaned against his pickup truck and stared vacantly at the bank. He asked a reporter if he would have to wait in line to get his money. When told that he did not need to sleep in his truck, he shouted angrily, "You don't have $100,000 in this stupid bank."[82] Four young men wearing cowboy hats parked their white Continental in front of the bank. Asked if they were affiliated, one man in the front seat replied tersely, "No comment." He then buried his face in his hands and cried.[83] A policeman stood guard at the entrance while television cameramen photographed the lengthening line of depositors. An ambulance, its lights flashing, drove onto the sidewalk outside the oil and gas division offices where Bill Patterson had erected his ill-fated empire. According to a member of the ambulance service, he and his crew had been summoned as a precaution. The driver commented, "We'll sure be needed before the day is over."[84]

Bankers whom Phillip Zweig interviewed for the *American Banker* were by no means shocked by the failure, although some were a bit surprised that the FDIC had resorted to an outright liquidation. Penn Square Bank's poor management and renegade lending practices were no secret among the banking *cognoscenti*. "Everybody knew that Penn

Square was horrible," recalled BancFirst President David Rainbolt. "I mean, I don't think that anyone expected the entire economy was collapsing, because it was just Penn Square Bank, and it was notoriously sloppy. They just thought it was a bad bank. And it didn't take much of a cooling in the economy to take Penn Square Bank out. It just took just a little bit of the bloom falling off the rose—that was enough to do in Penn Square Bank. It had no resilience, because it was so sloppy and mismanaged."[85]

Just down the road from from Beep Jennings's hometown of Healdton, Bob McCormack, who was then working at Security National Bank of Duncan, watched in disbelief as Bill Patterson steered his bank off the cliff. "Everybody that I knew and talked to—we all knew it wouldn't work," said McCormack. "It couldn't last. It was just going too far, too fast. The price of oil, as I recall, went up to forty-four dollars a barrel. And they were sort of operating under the premise that it was just going to keep going up and hit a hundred dollars a barrel. And if that had happened, they'd still be here today! I don't know, but the next thing you knew, oil was fourteen dollars a barrel. And that's when everything started coming unwound."[86] The downward slide in oil prices was mirrored in deterioration in the natural gas market—bad news in the gas patch, and fatal to the great enabler in Penn Square Shopping Center.

Nobody at the time wanted to talk about Penn Square Bank for fear of being accused of bad-mouthing a competitor, spreading rumors, sour grapes, or a combination of all three." They are now becoming more talkative," wrote Zweig a few days after the FDIC takeover, "and the specifics of these practices are beginning to emerge. The facts make the rumors pale in comparison, according to many local banking sources."[87]

Some were relieved that maybe, just maybe, they had dodged a cannonball. Gayla Sherry recalled her bosses' alarm as their oil and gas customers peeled off from her bank to do business at Penn Square. Then, when the cards came tumbling down, those same executives did an abrupt about-face. "Occasionally, they would ask me, as the manager of the department, 'What's going on? Are we not offering them the best services? Are we charging too much? Why are we losing customers to Penn Square?' But I'll never forget, the day after Penn Square failed, those same managers and executives came to me and said, 'We weren't doing anything like them, were we?' So, it shifted from, 'What's going on with them? Do we need to change and be like them?' to, 'Oh, gee, I hope we weren't like them!'"[88]

In an editorial in the August 1982 edition of the *Oklahoma Banker*, the Oklahoma Bankers Association put the best face on a dire situation. The OBA praised government officials and journalists for mitigating panic with "timely, responsible, and reassuring comments."[89] Of utmost importance was the fact that Penn Square Bank was unique in its exposure to the energy market. "OBA officials and bankers across the state continued to point out that typical Oklahoma banks have loan portfolios which are widely diversified, thereby insulating those banks to the cycles of any one industry."[90] In a sure sign of stability, bankers pointed out that the state's banks ranked in the top five in the nation in earnings in 1981. Touting the health of their industry and fielding members' questions at a rapid clip, the OBA was a source of calm in a tumultuous summer. The editorial closed with a plea for professionalism that people had come to expect of their bankers: "As events resulting from the failure of Penn Square Bank begin to unfold over the coming months, it is imperative that members of Oklahoma's banking community continue to act with prudence, responsibility and professionalism in dealing with this unique and unfortunate situation."[91]

Congress wasted little time in opening a formal inquiry into the failure. In summer 1982, bank directors, senior officers, and representatives of Penn Square Bank's accounting firms—Peat, Marwick, Mitchell & Company, and Arthur Young & Company—testified before the House Banking, Finance, and Urban Affairs Committee. Others included Clifton Poole, the comptroller of the currency's regional administrator; Roy E. Jackson, the FDIC's regional director; and Robert A. Hefner III of the GHK Company, whose previous hearings in the nation's capital had been much more enjoyable. In days of grueling testimony, the outrageous practices that had fueled Penn Square Bank's growth came to light: the notorious "upstreaming of interest"; sloppy or missing documentation on multimillion-dollar loans; loans that exceeded legal lending limits to individuals and companies; and of course, the tangled sinews binding Penn Square Bank to its upstream, big-city correspondents. According to former President Eldon Beller, there was no way to control the bank's oil and gas division as long as Bill Patterson was reporting directly to Chairman Beep Jennings. "I never had complete control over Bill Patterson and oil and gas," said the disgraced bank president.[92] In case committee members were slow to catch on, Beller commented, "The growth of the bank was so dynamic that it outstripped personnel and physical plant."[93] The drama was replayed in December when hearings were held before the US Senate Committee on Banking, Housing, and Urban Affairs.[94]

Just as there are several ways to measure the boom so, too, are there ways to measure the bust. The clearest indication that the boom had turned to bust lies in the declining number of drilling rigs operating in Oklahoma. Hughes Tool Company, one of the world's largest oilfield service operators, has been keeping track of rotary rigs since the 1930s and its reports are acknowledged as a reliable bellwether—some might say the Bible—of domestic drilling activity.[95] According to its weekly tally, Oklahoma suffered a precipitous drop in active rigs in 1982, from 882 on January 25 to 448 on September 13.[96] For the week ending on October 8, Oklahoma led the nation in active rigs idled; the state was down 3.6 percent from the previous week for a total of 366, compared to 380 the week before. This dismal showing represented a 54.7 percent drop from 809 active rigs in Oklahoma during the same week in 1981.[97] The decline in drilling in Oklahoma mirrored the nationwide trend: on August 16, 1982, there were 2,645 rotary rigs in operation, down from the record of 4,530 in late 1981.[98]

Matters went from bad to worse as the operators who remained in business contended with falling prices. According to Hans Helmerich of Tulsa-based Helmerich and Payne, gas that sold for $10 per thousand cubic feet (mcf) in late 1981 was going for $5 to $6 by September 1982. "That changes so many factors and has a domino effect," he said. "Whereas last year, deep gas looked like a blockbuster economically, this year it has 60 percent of the attractiveness it had. The economics of a field are changed."[99] Helmerich's fellow Tulsan and independent oilman Wayne Swearingen of Swearingen Management Associates blamed the troubles on a toxic brew of low natural gas prices, cost overruns on deep drilling, and reduced demand for gas. As he noted in a newspaper interview, "I doubt there is a section anywhere else in the United States that has been more severely hurt by that combination of factors than the section below 15,000 feet in western Oklahoma."[100] For Robert A. Hefner III the downturn was nothing less than apocalyptic: "For our business," said the veteran driller in an interview for the *New York Times*, "this has been worse than the crash of 1929."[101] By the spring of 1983, the GHK Company was receiving about $5 per mcf of natural gas—about half the anticipated price. Of the company's twenty-three exploratory gas wells operating in 1982, only one was still in operation.[102]

Bad news for drillers translated into equally bad news for oilfield supply companies. Michael Rogers, who had recently been hired as a human resources manager for Thunderbird Financial Corporation, the forerunner of BancFirst, was in the audience when Keith May, a former national bank examiner who went on to serve as a commercial loan officer at Fidelity Bank, spoke to a group of bankers in August 1982. "Nobody's paying anybody," said May to his stunned listeners. "There's gridlock in the oil patch."[103]

In 1982 spending for oil and gas exploration in the US was off 25 percent from the previous year, down to $24 billion, and oilfield goods and service companies were bracing for a staggering loss of $8 billion.[104] "Our part of the business has been in free fall," said John D. Platt, chairman of Geosource, a maker of geophysical equipment and provider of seismic services, in September 1982. "Every month since January, in division after division, we've had business outlooks that have been too optimistic. You almost have to wait until a month is over before you decide what to do the next."[105]

In a survey of twenty-seven oilfield supply firms in late 1982, the *Oklahoma City Journal Record* found that, with only one exception, companies had suffered a complete reversal from a year earlier in terms of sales, payroll, and, perhaps most importantly, in terms of hope.[106] "It's the pits," said John Haggin, executive vice president of the Association of Oilwell Servicing Contractors. "The people that are in real trouble are the ones that are highly leveraged. They are in bad shape, particularly with the financing company. It's scary to see the fate of the drillers and well service contractors."[107] Drilling contractors who bought rigs with borrowed money in 1981 were particularly hard hit. Less drilling meant less demand for rigs, and many contractors were unable to meet their interest payments. Of an estimated 5,400 land rigs in the US, fewer than half were in use by fall 1982.[108] The layoffs, as reported by *Business Week* in September 1982, were nothing short of horrific: 4,000 at Halliburton, 7,000 at Dresser Industries, 2,250 at Smith International, and 2,500 at Hughes Tool Company.[109]

In a related measure of the busted economy, the downturn in drilling hit communities in the Anadarko Basin fast and hard. City sales tax revenues in the three largest cities tell the story of vanishing resources. From 1982 to March 1984, revenues dropped from $5,660,996.11 to $225,470.70 in Elk City, from $3,123,059.28 to $235,685.37 in Clinton, and from $1,920,886.51 to $124,421.53 in Weatherford.[110] At the same time, bankruptcies among oil and gas companies were zooming off the charts. "We've been setting new records each month," said Steve Livshee, deputy chief clerk for the bankruptcy court of the Western District of Oklahoma in April 1983.[111] According to Sam Hammons, one-time director of the state's Energy Department, for every company that had declared bankruptcy, "there are five others teetering on the brink. What we're seeing is a classic boom and bust. We're in a horrendous squeeze."[112] Speaking to what must have been a somber crowd

at the Fifth Annual Oil and Gas Conference in Oklahoma City in September 1983, William D. Neary, senior partner in the Dallas law firm of Thompson and Knight, reported that oil and gas bankruptcies were "four times more prevalent in 1983 than at any other time in memory."[113] Among Neary's clients was the GHK Company, one of several Oklahoma companies that were trying to reach workout agreements with their creditors as an alternative to declaring bankruptcy. "You can have enough creditors that it is impossible to deal with them all," explained Neary. "But Texas and Oklahoma are way ahead in their willingness to seek a voluntary settlement."[114]

No matter how settlements were reached, one thing was certain: the bust signaled the end of the million-dollar handshake that had always been a source of pride among Oklahoma oilies. "The oil business has traditionally been a handshake business," explained Joe McEuen, head of Sterling Pipe and Supply Company of Oklahoma City, a few months after the debacle. "Now, everything has to be documented. You have to dot every 'i' and cross every 't' before a deal can be made."[115] McEuen, clearly a proponent of the handshake school of business, pointed his finger directly at Penn Square Bank for destroying a time-honored tradition. "There was a new psychology after Penn Square went under that made everyone more cautious," he said. "That has caused a tremendous shortage of cash right now that everyone is having to deal with."[116]

Contrary to popular opinion, not all banks in Oklahoma were caught in the maelstrom. "Bill Jennings was a friend of mine," said Gene Rainbolt. "But, prior to Penn Square's failure, we refused to accept their certificates of deposit as collateral for loans. We were *so* aware of the exceptions that they were doing in their lending."[117]

"It didn't affect us at all," said Brian Shipp, president of Idabel National Bank. Nestled in the southeast corner of McCurtain County, Shipp's bank has relied on timber, tourism, and agriculture to bolster its loan portfolio, and energy lending might as well have been taking place on another planet. "Most of the local banks, to my knowledge, don't do a lot of lending outside their market area. So the oil bust didn't affect us. Nor did the oil boom! I have read the books about Penn Square, and the bankers drinking champagne out of cowboy boots. That did not exist around here."

Farmers State Bank of Quinton Board Chairman Bill Jordan had much the same story. "Really, it didn't have any effect on our bank, *per se*," he said. "Being a small, community bank, we weren't really big enough to be involved in the oil and gas loans at that particular time."[118] But in terms of banking culture, Penn Square Bank's implosion released a tidal wave over the industry; when it receded, nothing was the same. "I think as a result of that, we got a lot more conservative," continued Jordan as his associates nodded their heads in unison.[119] According to Executive Vice President Laura Miller, Farmers State Bank's problems appeared in the form of plummeting prices for cattle and real estate. "We had a lot of loan losses," she said. "And we were very conservative for awhile there. Everybody was tightening their belts."[120] Longtime board member, bank customer, and Quinton's most celebrated chuck wagon racer Jerry Fowler chimed in with his own memory of the bad old days of belt tightening. "She got real tight on me!" he exclaimed, pointing at Laura Miller from across the room. Laughter ensued as Fowler, sporting a cowboy hat and red kerchief, continued in his signature southeast Oklahoma drawl, "I remember those times! I remember those times! It got *real personal*!"[121]

Steve Baggerly, president of the Bank of the Panhandle in Guymon, described banks such as his that were never awash in energy loans, but whose business cultures based on trust provided scant cover when regulators came calling.

> The crisis in the late eighties and early nineties changed the face of banking, and it changed the relationship between the customer and the banker. The days of going in and getting an unsecured loan because, you know, 'I know Michael Hightower [for example], he's a good guy, he's always paid, so he wants $10,000, sure, no problem . . . .' Michael wasn't any different in '83 than he was in '79, the bank wasn't really different, but the regulators were not going to have that type of relationship anymore. They were going to demand information.[122]

Charlie Butler, president of the First National Bank of Hooker, insisted that "the character issue still repays the loans."[123] But after Penn Square Bank went down, the regulators would have none of it. Asked what regulators thought about "character loans," Butler answered without hesitation: "They had no idea what you're talking about." The veteran banker summed up the seismic shift in lending practices in a single sentence: "There's not many handshake deals anymore."[124]

Nor were there many human resources managers interested in hiring people with Penn Square Bank on their resumes. "I considered it a stain on their record," said Michael Rogers, who earned his banking spurs at Thunderbird Financial Corporation several years before the

company morphed into United Community Corporation and, in 1989, the BancFirst Corporation. "Should you hire a person with a Penn Square background, or not? That was the question."[125]

Given the extent of Penn Square Bank's unorthodox lending practices, nobody was surprised to find lawsuits sprouting like weeds, and keeping track of them became something of a cottage industry. A detailed account of litigation that spanned the 1980s lies beyond the scope of this article, but a few highlights should suffice to illustrate the consequences of the bank's failure for Oklahoma's legal system. In the spring of 1983, the FDIC prepared two class action lawsuits on behalf of depositors who lost millions in the Penn Square Bank collapse. Of particular concern to the FDIC were about 150 credit unions that lost $111 million in uninsured funds, all of it in certificates of deposit larger than the $100,000 maximum insured by the FDIC. Savings and loans were in a similar predicament—much of their holdings in Penn Square Bank were in uninsured CDs. Federal regulators, who first estimated that $190 million of the bank's deposits were uninsured, later upped that figure to $250 million.[126]

In January 1984 former Penn Square Bank Vice President Thomas S. Orr waived a grand jury indictment and pled guilty to tax evasion and fraud, in part for arranging money for racehorse sales and then profiting by serving as a broker for those deals. US Attorney William S. Price called Orr's admission "the first breakthrough and the first major step in the investigation" of Penn Square Bank's demise.[127] In June the FDIC's lawsuits finally made it to the litigation stage. In its sixty-six page, $138 million suit, the FDIC estimated the losses from "several years of alleged negligent and reckless practices at the bank" would reach $90 million, plus interest.[128] The lawsuit sought to recover the loss and $50 million in punitive damages from six bank officials and directors: Beep Jennings, Eldon Beller, Bill Patterson, Carl W. Swan, and directors John R. Preston and C. F. Kimberling. As noted in the *Daily Oklahoman* and *Oklahoma City Times*, "The lawsuit adopts many of the allegations made in hundreds of earlier lawsuits filed across the nation since the bank failed. Those suits have been filed by borrowers, uninsured depositors and investors in Oklahoma oil and gas ventures financed through Penn Square Bank."[129]

In July Bill Patterson was named in a thirty-four-count (later reduced to twenty-five) federal indictment charging him with wire fraud, misapplying bank funds, and making false entries.[130] Jurors were asked to decide who was the real Bill Patterson: was he "an egotistic master of deceit who built a house of cards with bad loans" or was he the fall guy in "a treacherous, insidious plot" designed to offer him up as a scapegoat for Penn Square Bank's fall from grace?[131] His acquittal on September 27, 1984, shocking to many, hinged on the issue of intent; as one juror who requested anonymity explained after the trial, evidence of Patterson's alleged intent to defraud Penn Square Bank or any other bank "just wasn't there."[132] As he left the courtroom with the help of one of his attorneys, all the weeping and choking Bill Patterson could say was, "Nobody knows what I've been through the past two years. I'm just so tired I can hardly stand up."[133] He went home, went to sleep, and awoke to the news that a Chicago grand jury had issued a sixteen-count indictment against him for the damage he had inflicted on Continental Illinois National Bank.[134]

The litigation continued in August 1986 when an overloaded court system consolidated lawsuits into a five-phase legal proceeding. Claims against bank officers and directors, in addition to claims against the FDIC for its own alleged wrongdoing, were tried first. Lawsuits not requiring a jury were considered in later phases.[135] Among the most damaging testimonies was that of National Bank Examiner Stephen Plunk, who cited upstreaming of interest as the most serious problem the bank had in terms of threatening its solvency. "I had never seen anything like it," said Plunk.[136] The bank examiner further testified that former President Eldon Beller lied to examiners when he was confronted about making interest payments on behalf of customers who were unable to do so.[137] Further damaging testimony came in the form of allegations that Penn Square Bank officials were guilty of fraud in presenting false financial statements to asset management firms and credit unions that held certificates of deposit at the bank. "Penn Square Bank made material misstatements and omissions," said Tom Dann, attorney for Downriver Community Federal Credit Union, a plaintiff from Ecorse, Michigan. "Either they knew the financial statement was false, or they recklessly misrepresented its financial condition, knowing they didn't have a basis to know if it was true or not."[138]

While the legal system groaned under the weight of lawsuits, ordinary people revealed yet another measure of declining fortunes as they cut their losses and figured out how to get on with their lives. One of the first businesses to go was oil and gas exploration leasing. In 1981 the Anadarko Indian Agency auctioned off a lease for a record-breaking $11,000 an acre. And then came the bust. "At our last sale, we had 79 tracts to lease but only sold 12," said Agency Administrator Bill Titchywy. "The money is just not there anymore to buy the land. Basically, the bottom has fallen out."[139] But not all auctioneers were

ready to throw in the towel. Equipment auctions with anything from hydraulic cranes and tractors to chain saws became a familiar sight along Oklahoma highways in the early 1980s. "More and more people are interested in cash today," said Ray Patterson, owner of Ray Patterson and Associates of Frederick and secretary of the Oklahoma State Auctioneers Association.[140] Business was also on an upswing for charity workers as legions of unemployed oilfield workers abandoned the dreams that brought them to western Oklahoma and stood in line for handouts. A tearful caseworker at a Salvation Army kitchen in Oklahoma City commented that "sometimes we have to turn the pot over in our kitchen to show them we have no food left."[141] The American Red Cross in Stillwater made a public request for more food for the needy, prompting churches in the area to join the bandwagon. As a Red Cross spokesman explained in August 1982, "Throughout Oklahoma and the country church groups are being asked to get more involved in charity. As the government reduces spending on social programs and as more and more people become jobless, the church is often a last resort for a needy family."[142]

While the auction business boomed and charity workers scrambled to keep up with demand, Tim Haynes, owner of Haynes Wrecker Service in Elk City, was experiencing a bust in his side business—renting U-Haul trailers. "I'd say that 75 percent of the people are moving out of state," he said in July 1982.[143] L. L. Himelic, manager of an Elk City apartment complex, noticed a slackening of demand for housing. At the height of the boom, he only had to call the first person on his waiting list to fill a vacated apartment. As the economy cooled, several calls were necessary to find a renter.[144] Elk City Assistant Police Chief Randy Smith, who had contended with increased vandalism during the boom times, noted that people were moving away from the area. Smith had a personal reason to regret the loss of population—all four of his rental houses in nearby Sayre were vacant. On the upside, fewer squatters were camped along the highway, and there were not as many arrests for public intoxication.[145] The exodus was also evident in state parks that had been home to oilfield workers unable to find accommodations in town. "We were overrun with tent people all trying to get on in the oil fields," said Foss State Park Superintendant R. L. Pyron. "It was like *The Grapes of Wrath* in reverse—Oklahoma began looking like California did to the Okies in the dust bowl days."[146] Superintendant Pyron guessed that people who lost their jobs and could no longer afford the camping fees simply left when their time limits ran out.

"This was a booming town," said Clarence Lewis, a service station attendant in Sayre in August 1982. "Money wasn't no object around here for four or five years. Now people are broke. If you don't believe it, look at this." He pointed to a clipboard full of charge slips. "All credit. People use to pay in cash."[147] Shop owner Gloria Larson of Burns Flat was likewise concerned about the postboom future. "I'm scared that when the oil boom is gone, this will be a ghost town," she said.[148] Her fears were born out by the Oklahoma Employment Securities Commission's report that unemployment in Washita County, where Clinton and Weatherford are located, doubled from 1981 to 1982.[149] Among the recently unemployed Anadarko Basin workers was Jimmy Lane, a native of Tennessee who came to Oklahoma via Texas aboard a Greyhound bus. "You could just hang your name on the wall and they'd come to the bar and find you," said Lane at the nearly empty Calmez Hotel in Clinton where he was staying in October. "People were everywhere; you'd see guys walking down the street with backpacks. They were sleeping in the halls and on the floor. You couldn't find a place to stay; now there's just eight rooms rented in this whole hotel."[150] Robert Glomski, Lane's roommate at the Calmez and a native of Michigan who came to Clinton by way of Wyoming and Texas, exhibited the kind of pluck one would expect from an itinerant oil field worker. "We've heard there's work at Hobbs, N.M., and the Texas Panhandle," he said. "I'll keep after it somewhere as long as I've got 10 fingers. When I lose a finger, that's it."[151]

But the return to earth was not entirely bad news, particularly for longtime residents who had seen enough of runaway growth and inflated expectations. "About 50 percent of the out-of-staters have split since the slowdown," said Burns Flat bartender Roger Lee. "All the locals will be damn glad when it's over, that I can tell you."[152]

If there was a silver lining to the bust of the 1980s, it lay in the sense of humor that has seen Oklahomans through hard times and will surely do so again, and again. The humor this time flowed from the pen of songwriter Nita Lee, a Logan County housewife who, with the help of her son and daughter, penned a ballad to commemorate the good ole boys at Penn Square Bank whose ambitions took them to the pinnacle of their entrepreneurial dreams and left them high and dry when the chickens came home to roost.

It was summer 1982, and everywhere Lee looked banks were busting and businesses were folding and lawyers were suing and drillers were crying and roustabouts were packing their bags and hitting the highway. The underbelly of the American Dream was exposed for all to see, and it was not a pretty sight. But Lee, recently returned from

a recording studio in Nashville, found opportunity where others saw only despair, and she became the hottest item on local radio stations with the rowdy tune, "Who Said the South Wouldn't Rise Again?" "The whole thing was just something to laugh about," she said. "It's the fall of something and it's kind of sad, but the American people have always been able to find the humor in something."[153]

Jokes and anecdotes, and at least one song, survive as the most persistent reminders of the Penn Square Bank debacle. Yet as the seasons pass, fewer people remain to tell them, and they have fewer listeners to shake their heads in wonderment and perhaps chime in with their own stories. Other booms and busts have come and gone, and the iconic histories of Penn Square Bank—Mark Singer's *Funny Money* and Phillip Zweig's *Belly Up*—are left to gather dust in library stacks and on bankers' bookshelves. In a world of ebooks and iPads, Penn Square Bank's slide to oblivion might one day be complete.

All the more reason, then, to revisit Penn Square Bank's meteoric rise and catastrophic fall, not only for their obvious value as a morality tale, but also because the bank's collapse in July 1982 signaled a paradigm shift that reverberated far beyond Oklahoma City. That sultry July Fourth weekend marked the beginning of a depression in the oil patch unrivaled since the 1930s. Banks nationwide teetered, and some sank, under the weight of unwise loan participations. Character lending succumbed to blizzards of documents and armies of regulators. Oklahoma's archaic unit-banking laws came under fire and were eventually overhauled altogether, as bankers scrambled to remain solvent. Banks whose balance sheets were hopelessly mired in bad paper became easy prey for stronger ones whose management had avoided the seductive allure of easy money. The lucky ones survived as branches of more prudent banks. But many bankers suffered the indignity of watching as FDIC officials shut down their banks, parceled out whatever they could salvage from the wreckage to depositors and creditors, and left vacant buildings as monuments to imperial ambitions.

But some just minded their own business. Idabel National Bank felt nary a ripple from the events in Oklahoma City and other towns whose bankers had joined Beep Jennings' journey to the Promised Land. "We have not had any booms, but we haven't had any busts either," said President Brian Shipp. "From a banking standpoint, that's good."[154]

Shipp paused to reflect on his bank's routine, rather mundane by some standards, of providing financial services to its community, and on McCurtain County's lack of experience with bank failures. "You know," he said finally, "the busts can put you out of business. So, you can do without the booms if it means staying in business and living to play another day."[155]

The last word on the rise and fall of Penn Square Bank belongs to Carlisle Mabrey III, president and CEO of Citizens Security Bank in Bixby. Other than the cultural shift that obliterated character lending and heralded a thorough realignment of banking relationships, Citizens Security Bank's experience was limited to collateral damage in the form of plummeting prices for real estate and agricultural products. Mabrey credited his family's tradition of conservative lending for avoiding the get-rich-quick schemes that led so many to ruin.

"I'm going to say, Dad's conservatism, along with our board, the older folks on our board, who had been through some ups and downs, kept us from getting into serious trouble," explained Carlisle as his brother John nodded his head in agreement. "What's the deal? The conservatives keep their heads when everybody else around you is losing theirs! That's kind of the way it was!"[156]

And, perhaps, that is the way it still is.

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 second 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 photographs on the title page are courtesy of the Oklahoma Publishing Company.

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✯ NOTES AND DOCUMENTS

The Oklahoma Historians Hall of Fame

Richard Lowitt and Rennard Strickland

By Paul F. Lambert and Elizabeth M. B. Bass

Since 1993 the Oklahoma Historical Society has annually honored up to four individuals, both professional and amateur, in its Oklahoma Historians Hall of Fame. Recipients are selected on the basis of their contributions to the preservation, collection, interpretation, and dissemination of Oklahoma history. These criteria were first published in *The Chronicles of Oklahoma* 72 (Summer 1994). To date, seventy-nine individuals have been inducted.

Early honorees included Grant Foreman, Joseph B. Thoburn, Muriel H. Wright, Edward Everett Dale, and Angie Debo. In addition to historians, the award has been bestowed on artist Charles Banks Wilson, Cherokee genealogist Emmet Starr, author John Joseph Mathews, and Apache educator Mildred Imach Cleghorn. The inductees are honored at the awards banquet held during the Oklahoma Historical Society's Annual Meeting in April each year. In April 2012 David Dary, Kenny A. Franks, Richard Lowitt, and Rennard Strickland were inducted into the Oklahoma Historians Hall of Fame. The inductees are featured in this issue and the previous issue of *The Chronicles*.

Richard Lowitt

Richard Lowitt's career led him from New York City to the History Department at the University of Oklahoma (OU) in 1987. Born in 1922 he received MA and PhD degrees in history from Columbia Univer-