

Remarks by Chairman Isaac before Midland Chamber of Commerce, Midland, Texas,
November 23, 1983.

WHEN THE FIRST NATIONAL BANK OF MIDLAND FAILED ON OCTOBER 14, THE MIDLAND-ODESSA AREA WAS REMINDED ONCE AGAIN OF AN UNPLEASANT FACT OF LIFE -- THERE'S NO SUCH THING AS A PAINLESS BANK FAILURE. PEOPLE AND BUSINESSES GET HURT. THE COMMUNITY AS A WHOLE EXPERIENCES STRESS AND UNCERTAINTY. WHEN THE INSTITUTION THAT FAILS IS A LEADER IN THE COMMUNITY -- INDEED, IS THE AREA'S LARGEST BANKING INSTITUTION -- THE EFFECTS OF AN INSOLVENCY ARE MAGNIFIED MANY TIMES.

THE FDIC'S TASK IS TO SORT THROUGH THE WRECKAGE AND WORK OUT THE LEAST DISRUPTIVE SOLUTION. WE HAVE A TWOFOLD MANDATE UNDER THE LAW:

FIRST, TO TAKE APPROPRIATE STEPS TO PROTECT DEPOSITORS.

SECOND, TO LIQUIDATE THE BANK'S ASSETS AND USE THE FUNDS TO REPAY THE BANK'S DEBTS, INCLUDING THE COST TO THE FDIC'S INSURANCE FUND. IF FUNDS REMAIN AFTER SATISFYING THOSE REQUIREMENTS, AND THEY RARELY DO, THEY ARE DISTRIBUTED AMONG THE BANK'S SHAREHOLDERS.

IT IS OUR LIQUIDATION ACTIVITY -- OUR CONVERSION OF THE BANK'S ASSETS, MOSTLY LOANS, INTO CASH -- THAT IS THE SOURCE OF GREATEST CONCERN TO THE BANK'S BORROWERS, AND I'LL GET TO THAT IN A MOMENT. BUT FIRST, LET ME TELL YOU ABOUT THE BASIC ELEMENTS OF OUR AGREEMENT WITH REPUBLICBANK FIRST NATIONAL OF MIDLAND.

REPUBLIC, WITH A BID OF \$51.1 MILLION, WON OUT OVER COMPETING BANKING ORGANIZATIONS FOR THE RIGHT TO ACQUIRE ALL OF FIRST NATIONAL'S DEPOSITS, INCLUDING THOSE THAT EXCEEDED THE \$100,000 INSURANCE LIMIT, AND TO PURCHASE CERTAIN ASSETS. THE ASSETS ACQUIRED INCLUDED FIRST NATIONAL'S SECURITIES AT MARKET; ITS BUILDING, FURNITURE, FIXTURES AND EQUIPMENT; ITS GOOD QUALITY INSTALLMENT LOANS; AND AN OPTION ON ITS MORTGAGE LOANS AT MARKET VALUE. IN ADDITION, REPUBLIC WAS GIVEN 30 DAYS, LATER EXTENDED TO 60, TO SELECT LOANS FROM FIRST NATIONAL'S COMMERCIAL LOAN PORTFOLIO.

AFTER ADJUSTING FOR REPUBLIC'S \$51.1 MILLION BID, WE PAID REPUBLIC APPROXIMATELY \$302 MILLION IN CASH. THAT REPRESENTED THE DIFFERENCE BY WHICH THE LIABILITIES REPUBLIC ASSUMED EXCEEDED THE ASSETS IT ACQUIRED. WE CALL THIS TYPE OF ARRANGEMENT A "CLEAN BANK" TRANSACTION BECAUSE THE FDIC RETAINED THE POOR QUALITY ASSETS WHICH LED TO FIRST NATIONAL'S FAILURE AND REPUBLIC PURCHASED THE BEST OF ITS ASSETS. REPUBLIC IS CURRENTLY ENGAGED IN AN EXHAUSTIVE REVIEW OF FIRST NATIONAL'S LOAN RECORDS TO ENABLE IT TO PURCHASE THE MAXIMUM NUMBER OF GOOD QUALITY COMMERCIAL LOANS WITHIN THE 60-DAY PERIOD. REPUBLIC MAY PURCHASE LOANS DURING THIS OPTION PERIOD FOR THE PRINCIPAL BALANCE PLUS ACCRUED INTEREST.

TO FULFILL THE REQUIREMENT THAT WE MAXIMIZE RECOVERIES FOR THE BENEFIT OF FIRST NATIONAL'S CREDITORS AND SHAREHOLDERS, WE PLAN TO OFFER THE REMAINING LOANS FOR SALE ON A COMPETITIVE BID BASIS TO BANKS AND OTHER FINANCIAL INSTITUTIONS. OUR MARKETING PROGRAM FOR THESE LOANS WILL BEGIN IMMEDIATELY AFTER REPUBLIC'S 60-DAY OPTION PERIOD EXPIRES. THE FDIC WILL RETAIN THE RIGHT TO REFUSE ANY AND ALL OFFERS.

THE COMPETITIVE BIDDING PROCEDURE WILL BENEFIT THE COMMUNITY BY STIMULATING REPUBLIC AND OTHER AREA INSTITUTIONS TO ACQUIRE THE GOOD QUALITY LOANS. NOTHING WOULD MAKE US HAPPIER THAN TO TURN ALL OF THE BANKABLE QUALITY LOANS OVER TO AREA FINANCIAL INSTITUTIONS CAPABLE OF MEETING YOUR "FULL SERVICE" BANKING NEEDS.

LET ME TURN NOW TO OUR PROCEDURES FOR COLLECTING THE LOANS THAT ARE NOT SOLD.

AFTER WE BALANCE THE BOOKS FOR THE BANK'S LAST DAY OF BUSINESS, WE SET UP OUR OWN BOOKS. AS SOON AS PRACTICAL WE SEND OUT NOTICES TO THE BANK'S LOAN CUSTOMERS ADVISING THEM OF THE BANK'S CLOSING AND ASKING THEM TO CONTINUE MAKING PAYMENTS ACCORDING TO THE TERMS OF THEIR NOTES, WITH CHECKS MADE PAYABLE TO THE FDIC. THE BANK'S FAILURE DOES NOT MEAN THAT NOTES BECOME DUE AND PAYABLE IMMEDIATELY. OUR STAFF GENERALLY WILL FOLLOW PROCEDURES SIMILAR TO THOSE THE BANK USED TO NOTIFY CUSTOMERS OF DUE DATES FOR PAYMENTS OR SENDING LATE NOTICES, IF NECESSARY.

THE CLOSING OF A BANK MAY CREATE PROBLEMS FOR THOSE LOAN CUSTOMERS WHO HISTORICALLY RENEWED THEIR DEBT AT MATURITY. WHENEVER A NOTE INDICATES IT IS DUE AND PAYABLE ON A DATE CERTAIN, WE GENERALLY REQUIRE THAT IT BE REFINANCED ELSEWHERE AT MATURITY.

THE FACT THAT WE TRY TO COLLECT A LOAN AT MATURITY DOES NOT MEAN THAT WE WILL NOT ASSIST THE BORROWER IN PAYING OFF THE LOAN. ALTHOUGH WE BILL LOAN CUSTOMERS FOR PAYMENT AT MATURITY, WE ARE ALWAYS WILLING TO PROVIDE COOPERATIVE DEBTORS A REASONABLE AMOUNT OF TIME TO REFINANCE. IN SOME SITUATIONS, DEBTORS PROVIDE US APPROPRIATE DOCUMENTATION OF THEIR INABILITY TO REFINANCE THEIR DEBT. IN THESE CASES, WE REQUIRE THE DEBTOR AND ANY GUARANTORS TO GIVE US CURRENT FINANCIAL STATEMENTS SO WE CAN DETERMINE THE AMOUNT OF FUNDS AVAILABLE FOR REPAYMENT OF THE LOAN ON A PERIODIC BASIS. WHENEVER WE ARE UNSECURED OR UNDERSECURED, AND IT'S RELATIVELY CLEAR THAT THE LOAN CUSTOMER CANNOT PAY AT MATURITY, OUR FOCUS IS TO GAIN ADDITIONAL GOOD QUALITY COLLATERAL AND TO ENTER INTO A REALISTIC REPAYMENT PROGRAM WITHIN THE MEANS OF THE BORROWER.

IN MOST CASES, WE LIMIT OUR PERIOD OF FORBEARANCE TO ABOUT ONE YEAR, BASED UPON A SPECIFIC REPAYMENT PROGRAM AGREED TO BY THE DEBTOR. THIS DOES NOT NECESSARILY MEAN WE WOULD EXPECT THE ENTIRE BALANCE TO BE AMORTIZED OVER THE ONE-YEAR PERIOD. AT THE END OF THAT TIME, THE LOAN CUSTOMER WOULD EITHER PAY THE LOAN OFF OR, IN THE EVENT OF CONTINUED FINANCIAL DIFFICULTIES, A NEW FINANCIAL STATEMENT WOULD BE PROVIDED TO US AND REVIEWED BY OUR STAFF IN THE SAME MANNER I JUST DESCRIBED.

IN ALL CASES, WE EVALUATE WHETHER THE CUSTOMER HAS BEEN COOPERATIVE AND HAS THE ABILITY TO PAY THE LOAN OFF AT THE END OF THE PERIOD. AS LONG AS THE DEBTOR CAN DEMONSTRATE A LEGITIMATE NEED FOR A WORKOUT PROGRAM AND THE VALUE TO BE REALIZED BY THE FDIC THROUGH THE PROGRAM EXCEEDS OUR EXPECTED RECOVERY IN AN ADVERSARIAL RELATIONSHIP, WE PREFER TO WORK WITH THE LOAN CUSTOMER.

AS RECEIVER OF A FAILED BANK, WE HAVE A FIDUCIARY RESPONSIBILITY TO MAXIMIZE RECOVERIES FROM THE FAILED BANK'S ASSETS. IN VIEW OF THIS RESPONSIBILITY, WE MUST BE CAREFUL NOT TO ALLOW COLLATERAL VALUES TO DISSIPATE. TO THE EXTENT WE CAN STRENGTHEN OUR POSITION BY OBTAINING NEW COLLATERAL AND ENTERING INTO REPAYMENT PROGRAMS THAT ARE REASONABLE IN RELATION TO THE BORROWER'S ABILITY TO PAY, WE CAN CLEARLY DOCUMENT PROPER PERFORMANCE AS RECEIVER FOR THE BANK.

I BRING THIS UP BECAUSE OF THE DISTRESSED CONDITION IN THE OIL AND GAS INDUSTRY AND ITS HEAVY IMPACT ON THE ECONOMY IN THE MIDLAND-ODESSA AREA. AS A RESULT OF OUR INVOLVEMENT IN THE PENN SQUARE FAILURE AND OTHER FAILURES IN THIS AREA, WE ARE VERY MINDFUL OF THE SHARP DROP IN PRICES FOR OIL RIGS AND OTHER MACHINERY AND EQUIPMENT AND THE GENERALLY DEPRESSED VALUE OF OIL AND GAS RESERVES.

IN ORDER TO BEST EVALUATE THE RELATIVE ADVANTAGES AND DISADVANTAGES OF ENTERING INTO FORBEARANCE ARRANGEMENTS WITH DEBTORS IN FINANCIAL DIFFICULTY, WE CONSULT PERIODICALLY WITH SEVERAL EXPERTS IN THE PETROLEUM FIELD CONCERNING THE FUTURE PROSPECTS FOR PETROLEUM-RELATED EQUIPMENT AND PRODUCTS. WHEN, FOR INSTANCE, WE OBTAIN RELATIVELY CONSISTENT ADVICE THAT THE NEAR-TERM AND MID-TERM OUTLOOKS ARE FOR IMPROVEMENT IN PRICES, THEN WE CAN JUSTIFY A MORE LENIENT REPAYMENT PROGRAM IN CERTAIN SITUATIONS. NEVERTHELESS, WE EXPECT BORROWERS TO STRENGTHEN THEIR DISTRESSED LOANS WITH ALL AVAILABLE COLLATERAL.

IN SUMMARY, WE WANT TO WORK WITH LOAN CUSTOMERS IN A COOPERATIVE MANNER. THE KEY TO A SUCCESSFUL WORKING RELATIONSHIP WILL BE THE WILLINGNESS OF DEBTORS TO WORK WITH REPUBLIC, OTHER AREA FINANCIAL INSTITUTIONS AND THE FDIC TOWARD THE SYSTEMATIC AND TIMELY PAYMENT OF THEIR INDEBTEDNESS. SINCE THE FDIC OBVIOUSLY CANNOT PROVIDE DEBTORS WITH NEW, ONGOING LOAN ARRANGEMENTS, IT WILL BE DESIRABLE FOR ALL LOAN CUSTOMERS TO SECURE A PERMANENT LENDING SOURCE AS SOON AS POSSIBLE.