Paul A. Volcker Papers (MC279)
Box 24
[redacted] 1982

[redacted] BANK

FRB CHGO 99-198 (REV 12/75)

MEMORANDUM

# FEDERAL RESERVE BANK OF CHICAGO

TO: Mr. William H. Gram

DATE: July 9, 1982

FROM: Silas Keehn

SUBJECT: Board of Directors

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1982 JUL 13 PM 2:15

RECEIVED OFFICE OF THE CHAIRMAN

In a telephone conversation with Chairman Volcker on Monday evening, July 5th, Roger E. Anderson, Chairman of the Board of Continental Illinois National Bank, raised a question as to whether his membership on our Board of Directors might cause a potential problem in light of the extensive involvement of the Continental in loan transactions and loan participations with the [redacted]. Though it was far too early to accurately forecast at the time of the telephone call, Mr. Anderson surmised that potential funding problems for the Continental could develop during a period of uncertainty which might result in heavier utilization of the discount window and for a considerably longer period than would be normal for adjustment borrowing requirements.

After careful consideration, I met with Mr. Anderson on Thursday morning, July 8th, and he agreed that to avoid even the appearance of a possible conflict of interest, he would not participate in our Board meetings or receive the mailings normally sent to our Directors until the situation has become clarified.

Silas Keehn

cc: Chairman Paul A. Volcker
Mr. John Sagan

July 7, 1982

To: E. Gerald Corrigan
From: Ed Yeo's Office
Subject: List of Money Brokers

Bank Securities
Albuquerque, N.M.

Alan Werder
(305) 483-0636

John Loomis
Stanford, Conn.

Boberski & Co.
Chicago, Ill. (savings bank money)

Kircher, Moore
Denver, Colo.

Caisse de Depot et Placement
Montreal, Canada

Boettcher & Co.
Salt Lake City, Utah

Bremmer Advisory
Louisville, Kentucky

Brokers Capital
Chicago, Ill.

Capital Arbitrage, Inc.
Tahoe, California

Capital Holding Corp.
Louisville, Ky.

Venture Capital
Denver, Colo.

National Assn Fed [illegible]
John Hutchinson
Mal Nettlewood
Marriot Hotel

Baumgartner

<u>The following are in New York</u>:

| | |
|---|---|
| Polumbo & Co. | (212) 260-3456 |
| Tripp & Co. | (212) 742-2047 |
| Buttwood Securities | (212) 747-1380 |
| Trinity & Co. | (212) 483-4977 |

DRAFT 7/4/82

Dear Chairman Volcker:

You have asked our opinion on the condition of the [redacted]. In summary, we believe that the bank is in imminent danger of failing. The solvency of the bank is threatened on two fronts -- net worth and liquidity.

Net Worth

The bank is currently under examination by the OCC. To date our examination has identified losses in the loan portfolio that greatly impair gross capital funds. Additional ~~loss~~ loans were sold by the bank to its holding company and to one of ~~its~~ the bank's correspondents ~~and to its holding company~~ after identification by OCC as loss; the bank may ultimately be found liable for these losses. There ~~are~~ is substantial ~~unrealized losses~~ depreciation in the bank's securities portfolio. In addition, significant irregularities in loan documentation and other business practices may give rise to substantial contingent liabilities that will ultimately result~~ing~~ in loss to the bank. We believe that these and additional losses inherent in the bank's asset portfolio are likely to extinguish the remaining capital funds.

The bank is under a cease and desist order ~~from the OCC~~ from the OCC that required the injection of $30 million additional capital. To date the bank has been unable to ~~raise any additional capital~~ meet this requirement., ~~and~~ Both we and ~~the bank~~ bank management believe that the bank will be unable to raise additional capital without also receiving an assured long-term source of funding.

Liquidity

There has been adverse and widespread publicity concerning the bank, both nationally and locally. Moreover, the money market, which has been the major funding source for the bank, is aware of the bank's difficulties.

Heavy cash withdrawals took place on July 2nd and 3rd as news of the bank's problems spread. Certain major correspondent banks have refused to sell federal funds ~~lend~~ to the bank ~~, in the federal funds market~~. The bank's officers have since ordered its funding desk not to purchase federal funds from any source. Several large uninsured depositors have requested their money. We understand certain local banks refused to cash official checks of the bank, although we assume they are taking them for collection.

In these circumstances ~~and given the precarious condition of the bank,~~ we believe the bank is ~~will be~~ unable to meet fully the demands of its depositors and creditors ~~on Tuesday, July 6, 1982,~~ from private funding sources. Further, we believe that support from the money market and other sophisticated uninsured and unsecured lenders will continue to erode. This support at the present time approaches $300 million.

Therefore, we believe significant long-term funding support from the Federal Reserve will be required if the bank is to continue to meet the demands placed upon it. The amounts required may well approach or exceed $300 million. Without that support the bank will very likely be insolvent from a liquidity point of view.

Conclusion

~~While~~ It is obvious that as long as the Federal Reserve Bank lends to [redacted], it's liquidity is maintained. However, we cannot assure you that the bank will ever be viable. In fact, because of the tenuous nature of the capital structure, further identified losses on ~~any default on~~ a relatively few ~~, insignificant loans~~ assets could result in an insolvency, requiring immediate closing of the bank.

## SUMMARY FACT SHEET

| | | | |
|---|---|---|---|
| BANK NAME AND LOCATION | [redacted] | | |
| ASSETS | $525.4 million as of June 23, 1982 | | |
| DEPOSITS | $467.4 million as of June 23, 1982 | | |
| CAPITAL AND RESERVES (All Primary) | $42.9 million as of June 23, 1982 (Includes $4.0 million tax carry back that has been capitalized.) | | |
| CRITICIZED LOANS | Special Mention | $ 5.9 | million |
| | Substandard | 39.1 | million |
| | Doubtful | 5.9 | million |
| | Loss | 40.2 | million |
| | Total | $91.1 | million |
| CONTINGENT LIABILITIES | Participations Sold (sold without recourse liable for documentation) | 2,041<br>1925<br>116 | 116<br>90 |
| | Letter of Credit - Sold | $ 53.6 | |
| | - Held | 80.0 | |
| | - Total | $133.6 | (7-12-82) |
| | Loan Commitments - Sold | $206.0 | |
| | - Held | 371.0 | |
| | - Total | $577.0 1/ | |
| FEDERAL RESERVE LOAN | $5.2 million | | |
| UNINSURED DEPOSITS | Financial Institutions | $134.2 | million |
| | Others | 115.8 | million |
| | Total | $250.0 | million |

1/ $49.5 million of advanced under these loan commitments have been classified.

## STEPS IN PROPOSED [redacted] CLOSURE

(DINB OPTION)

1. Fed stops lending to [redacted].
2. OCC closes bank; FDIC appointed receiver.
3. FDIC charters DINB.
4. OCC grants DINB necessary banking powers.
5. Receiver puts insured deposits and FDIC puts equivalent cash into DINB.
6. Fed lends to receiver in amount equivalent to 50% of uninsured deposit claims, and gets receivership certificate.
7. Receiver transfers 50% of uninsured depositors' claims along with equivalent cash to DINB. Receiver gives uninsured depositors receiverships certificates for other 50% of claims.
8. Insured depositors withdraw funds from DINB.
9. Uninsured depositors withdraw funds from DINB.
10. DINB closes.
11. Receiver liquidates assets and pays dividends to claimants.

## ADVANTAGES

1. Bank opens on Tuesday and public is reassured.
2. Uninsured depositors take some loss--fosters market discipline while diminishing "ripple" failures.
3. Contingent claims are not guaranteed by Fed or FDIC.

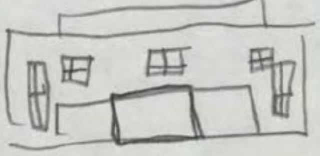
## ESTIMATE OF CONTINGENT EXPOSURE

| | Loans Purchased | Loan Commitments | Letters of Credit | Total |
|---|---|---|---|---|
| [redacted] | 1,054.6 | 89.4 | ? | 1,144.0 |
| [redacted] | 368.3 | 58.9 | 12.0 | 439.2 |
| [redacted] | 240.2 | 17.7 | 30.0 | 287.9 |
| [redacted] | 190.6 | 9.9 | ? | 200.5 |
| [redacted] | 115.3 | 8.6 | ? | 123.9 |
| SUB TOTAL | 1,969.0 | 184.5 | 42.0 | 2,195.5 |
| [redacted] | 23.3 | ? | ? | ? |
| [redacted] | 22.0 | ? | ? | ? |
| [redacted] | 15.1 | ? | ? | ? |
| [redacted] | 10.8 | ? | ? | ? |
| [redacted] | 7.5 | ? | ? | ? |
| [redacted] | 7.9 | ? | ? | ? |
| [redacted] | 6.6 | ? | ? | ? |
| SUB TOTAL | 2,062.2 | | | |
| 42 Other Banks | 32.0 | | | |
| SUB TOTAL | 2,094.2 | 207.0 | 53.6 | 2,354.8 |
| [redacted] [redacted] [redacted] | xxxx | 371.0 | 80.0 | 451.0 |
| TOTAL CONTINGENCIES | 2,094.2 | 578.0 | 133.6 | 2,805.8 |
| Less Big Five | 1,969.0 | 184.5 | 42.0 | 2,195.5 |
| CONTINGENT EXPOSURE EXCEPT FOR BIG FIVE BANKS | 125.2 | 393.5 | 91.6 | 610.3 |

40
60 additional

**COMPOSITION OF CONTINGENT EXPOSURE EXCEPT FOR BIG FIVE BANKS**

| | | | | |
|---|---|---|---|---|
| At [redacted] | | 371.0 | 80.0 | 451.0 |
| At Other Banks | 125.2 | 22.5 | 11.6 | 159.3 |
| | 125.2 | 393.5 | 91.6 | 610.3 |



330.0
723.5
250

## LARGE BANK EXPOSURE TO [redacted] PARTICIPATIONS

| Name | Total Assets | Exposure | Exposure as a % of Consolidated Primary Capital |
|---|---|---|---|
| * [redacted] Tulsa, Oklahoma | $ 500 | 15.1 | 61.0% |
| [redacted] Seattle, Washington | 10,492 | 368.0 | 57.0% |
| [redacted] Detroit, Michigan | 1,732 | 198.4 | 52.0% |
| [redacted] Chicago, Illinois | 45,146 | 1,000.0 | 50.0% |
| * [redacted] Chicago, Illinois | 6,195 | 118.3 | 34.0% |
| * [redacted] New Orleans, Louisiana | 1,189 | 23.3 | 30.0% |
| * [redacted] Reading, Pennsylvania | 637 | 10.8 | 25.0% |
| * [redacted] New York, New York | 76,838 | 241.5 | 7.0% |
| * [redacted] Tulsa, Oklahoma | 1,299 | 3.0 | 3.0% |
| * [redacted] Dallas, Texas | 10,901 | 22.0 | 2.0% |
| * [redacted] Hartford, Connecticut | 2,780 | 2.4 | 2.0% |
| * [redacted] Minnesota | 4,613 | 7.5 | .8% |
| * [redacted] Washington, D.C. | 2,994 | 1.5 | .7% |
| * [redacted] Louisville, Kentucky | 2,290 | .9 | .5% |
| [redacted]ts | 3,319 | 1.2 | .5% |
| [redacted] Dallas, Texas | 4,082 | 1.5 | .4% |
| * [redacted] Oklahoma City, Oklahoma | 857 | .1 | .2% |
| * [redacted] Dallas, Texas | 10,105 | .4 | .05% |

* Affiliated with a Bank Holding Company.
1/ State Member Bank.

Honorable Paul A. Volcker
Chairman, Board of Governors
of the Federal Reserve System
Washington, D. C. 20551

Dear Paul:

I thought it might be useful, in view of the complexity of the situation and the numerous solutions being considered, to review the background of the [redacted] matter and set forth our view of the available options.

## I. BACKGROUND

The Comptroller's office commenced an examination of [redacted] some time ago (I understand in early April). On Wednesday morning, June 30, Paul Homan requested an urgent meeting, at which time he described to me the seriousness of the situation and indicated that the Bank was in danger of failing.

I immediately dispatched approximately 10 FDIC examination and liquidation personnel to the scene. They were instructed to operate out of our Oklahoma City field office to the extent possible and, if they found it necessary to enter the Bank, they were to use identification badges to be issued by the Comptroller's office.

On Thursday, July 1, an article appeared in the American BAnker detailing the Bank's problems and noting the involvement of a number of several other large banks in $2 billion worth of loan participations purchased from Penn Square Bank. That same day the American Banker called to say that it had learned from "several banking sources" that FDIC personnel were examining the Bank. We declined comment for the record but, off-the-record, tried to persuade the editor of the American Banker to (1) kill the story, (2) delete the reference to the FDIC, or (3) delay the story for a few days. We said the story could be very harmful, particularly since at that point we were simply trying to gather information and did not know how serious any problems might be. The American Banker refused to grant any of our requests. Both the American Banker and Wall Street Journal ran articles on Friday, July 2.

In view of the probable press coverage on Friday, we dispatched another 50 or so liquidation personnel to the scene. They were to begin preparations for handling the possible failure of the Bank through either a purchase and assumption transaction or a deposit payoff.

Friday, July 2, was fairly uneventful except for the press stories and our continuing preparations for handling the potential failure. The Bank had some deposit outflow but nothing very serious.

On Saturday, July 3, conditions deteriorated substantially. Long depositor lines formed, and there was extensive TV and other press coverage in the local community. The Bank did not have sufficient cash on hand to meet depositor demands and issued $1.8 million in cashier's checks. There is confusion as to why the cash was not available (the Bank's officers say the Fed vault was not open on Saturday, but the Fed says that the Bank was informed that it would make cash available upon request).

Approximately 30 FDIC personnel in Washington have been working virtually non-stop since Friday to prepare for every contingency. Our personnel in Oklahoma City have done likewise, and I believe we are now in position to follow whatever course of action is deemed appropriate.

## II. ALTERNATIVES

A. P & A Transaction. The preferred method of handling every bank failure is to merge it into another institution with FDIC assistance, and that was the first course of action considered in this case. Occasionally, we are not able to arrange a takeover by another bank for one of two reasons: (1) we have no acceptable acquirers or (2) the bank has a potentially large amount of contingent or unknown claims.

In the present situation, we have an extremely large amount of known and unknown potential claims. The Bank has sold loan participations totalling approximately $2.0 billion to a number of other banks. These loans may involve large losses and, thus, the participating banks may assert claims to require the repurchase of their participations or to cover their losses on them. Moreover, the Bank has issued loan commitments and letters of credit totalling in the range of $500-$900 million. If these commitments are not funded, the beneficiaries might bring suits to recover actual and consequential damanges in potentially staggering amounts. In addition, we have uncovered several items which give us reason to believe that fraud may be present, which could result in additional claims in an undeterminable amount.

These potential claims could prove groundless. If they do not, however, the potential liability for an acquiring institution in a merger transaction is enormous. No [redacted] bank could or should assume this risk. The FDIC cannot, should not, and will not.

We cannot, under our statute, enter into a purchase and assumption transaction unless our Board can make a finding that the P&A will likely be no more costly than a deposit payoff. It is extremely difficult to estimate the cost of a deposit payoff in this situation because our recovery in the receivership -- and, thus, our ultimate losses -- will be greatly affected by the amount of the contingent and unknown claims that are established. We know that our maximum exposure cannot exceed the amount of the uninsured deposits ($270 million or so) minus at least some modest recovery (say $30 million). On the other hand, a deposit payoff is virtually certain to cost us at least some minimal amount even if the contingent and unknown claims are not proven. In short, our best estimate, based on very sketchy information, is that a deposit payoff will probably cost us from a minimum of $20 million to a maximum of $240 million, with $140 million being the best estimate we can make at this time.

To enter into a normal P&A, with the FDIC assuming the contingencies, would require our Board to make a finding that it would ultimately cost us less than $140 million to do so. That finding cannot be made when we consider that the known contingencies are in the $2.5 billion-to-$2.9 billion range and that we have evidence which suggests the presence of other potential claims.

We have considered two possible ways to get around this problem. The first would be for the Federal Reserve and/or some or all of the banks participating in the $2.0 billion in loans to agree to hold the FDIC completely harmless on the entire $2.5-$2.9 billion in identified potential claims. Then the FDIC might be able to enter into a normal P&A wherein it would assume the risk of any unknown claims. A variation on this approach would be for the FDIC to enter into its normal P&A transaction and agree to be responsible for all losses from whatever source up to a maximum of $140 million. The Federal Reserve and/or some or all of the participating banks would agree to hold the FDIC harmless against all losses above this amount.

B. <u>Deposit Payoff</u>. The second alternative is to simply close the Bank and pay off the insured depositors. The uninsured depositors would receive receivership certificates for the amount of their claims. We would attempt to liquidate the assets as rapidly as possible in order to provide cash to the uninsured depositors at an early date.

You are concerned about exercising this option. One concern is the adverse impact on the insured depositors, which includes 29 commercial banks, 44 savings and loans, and 221 credit unions. How severely these institutions would be hurt would depend on how much they would ultimately recover from the receivership and the period of time over which they would be permitted to absorb any loss. A second concern is the adverse psychological effects a payoff of this size might have on financial institutions generally.

C. DINB. To address these concerns, we have discussed a third option. A Deposit Insurance National Bank would be formed. The insured deposits plus 50% of the uninsured deposits would be transferred to the DINB. The FDIC would fund the insured deposits (approximately $270 million) and the Federal Reserve would fund the 50% of the uninsured (approximately $135 million).

This plan would permit us to open the Bank as a DINB on Tuesday, July 6, and calm the public (particularly since it would show that the FDIC and the Federal Reserve were working in tandem to address the problems). Insured depositors would promptly receive all of their money. The uninsured depositors would promptly receive 50% of their money and would receive receivership certificates for the balance (the value of the receivership certificates would be determined at a later date). The FDIC would lose whatever it would lose in a straight deposit payoff, and the Federal Reserve would lose one-half that amount. The contingent claims would not be guaranteed by anyone.

D. Open the Bank with Fed Support. The final option is to open the Bank on Tuesday with support from the Federal Reserve. This would have no particular advantages, in our view, and could have a number of disadvantages.

Massive support from the Federal Reserve would be required since most of the uninsured depositors and many of the insured depositors would likely demand their money. To the extent that uninsured deposits are withdrawn, they would be receiving preferential treatment to the detriment of other general creditors (uninsured and unsecured claims would be transferred to the Federal Reserve which would purport to lend on a secured basis). The fairness and legality of this procedure would be open to question.

Even more serious is the possible psychological impact in the event long depositor lines form and receive media attention. Considering the high probability that the Bank would fail within a few days even with Federal Reserve support, one must seriously question the wisdom of taking this kind of risk.

## III. CONCLUSION

We have no good options. The one that appears best and most feasible at this point is Option C, the DINB. It would require the Federal Reserve to stretch its authority, but we are aware of no absolute impediments.

The FDIC will probably be in a position to open the Bank at normal hours tomorrow under a DINB arrangement. A deposit payoff might take somewhat longer. A P&A, at this late date, will take some time to arrange due to the number of parties that would be involved, although we have assembled the bidders package and have compiled the bidders list.

In short, the FDIC is prepared to move immediately in any appropriate direction. We can do nothing until a decision is made to close the Bank. That decision rests solely in the hands of the Comptroller but may be greatly affected by whatever decision the Federal Reserve makes about continued funding.

## ESTIMATE OF CONTINGENT EXPOSURE

[redacted]

| | Loans Purchased | Loan Commitments | Letters of Credit | Total |
|---|---|---|---|---|
| [redacted] | 1,054.6 | 89.4 | ? | 1,144.0 |
| [redacted] | 368.3 | 58.9 | 12.0 | 439.2 |
| * [redacted] | 240.2 | 17.7 | 30.0 | 287.9 |
| [redacted] | 190.6 | 9.9 | ? | 200.5 |
| [redacted] | 115.3 | 8.6 | ? | 123.9 |
| SUB TOTAL | 1,969.0 | 184.5 | 42.0 | 2,195.5 |
| [redacted] | 23.3 | ? | ? | ? |
| [redacted] | 22.0 | ? | ? | ? |
| [redacted] | 15.1 | ? | ? | ? |
| [redacted] | 10.8 | ? | ? | ? |
| [redacted] | 7.5 | ? | ? | ? |
| [redacted] | 7.9 | ? | ? | ? |
| [redacted] | 6.6 | ? | ? | ? |
| SUB TOTAL | 2,062.2 | | | |
| 42 Other Banks | 32.0 | | | |
| SUB TOTAL | 2,094.2 | 207.0 | 53.6 | 2,354.8 |
| [redacted] | xxxx | 371.0 | 80.0 | 451.0 |
| TOTAL CONTINGENCIES | 2,094.2 | 578.0 | 133.6 | 2,805.8 |
| Less Big Five | 1,969.0 | 184.5 | 42.0 | 2,195.5 |
| CONTINGENT EXPOSURE EXCEPT FOR BIG FIVE BANKS | 125.2 | 393.5 | 91.6 | 610.3 |
| COMPOSITION OF CONTINGENT EXPOSURE EXCEPT FOR BIG FIVE BANKS | | | | |
| * At [redacted] | | 371.0 | 80.0 | 451.0 |
| At Other Banks | 125.2 | 22.5 | 11.6 | 159.3 |
| | 125.2 | 393.5 | 91.6 | 610.3 |

*HAGERSTOWN: NO EVIDENCE FRAUD
BUT SELF DEALING. $20M-70M LOSS $\bar{x}$=40

7/5/82

# Removal Notice

FRASER

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to internal or confidential information.

## Citation Information

**Document Type:** Board of Governors

**Number of Pages Removed:** 2

**Citations:** Restricted-Controlled: Exposure of U.S. Banks to Mexico, December 1981.

## LARGE BANK EXPOSURE TO [redacted] PARTICIPATIONS

| Name | Total Assets (millions) | Exposure (millions) | Exposure as a % of Consolidated Primary Capital |
|---|---|---|---|
| * [redacted] Tulsa, Oklahoma | $ 500 | 15.1 | 61.0% |
| * [redacted] Seattle, Washington | 10,492 | 368.0 | 57.0% |
| * [redacted] Detroit, Michigan | 1,732 | 198.4 | 52.0% |
| * [redacted] Chicago, Illinois | 45,146 | 1,000.0 | 50.0% |
| [redacted] Chicago, Illinois | 6,195 | 118.3 | 34.0% |
| * [redacted] New Orleans, Louisiana | 1,189 | 23.3 | 30.0% |
| [redacted] Reading, Pennsylvania | 637 | 10.8 | 25.0% |
| [redacted] New York, New York | 76,838 | 241.5 | 7.0% |
| [redacted] Tulsa, Oklahoma | 1,299 | 3.0 | 3.0% |
| * [redacted]as Dallas, Texas | 10,901 | 22.0 | 2.0% |
| * [redacted]k Hartford, Connecticut | 2,780 | 2.4 | 2.0% |
| [redacted] Minneapolis, Minnesota | 4,613 | 7.5 | .8% |
| [redacted] Washington, D.C. | 2,994 | 1.5 | .7% |
| * [redacted] Louisville, Kentucky | 2,290 | .9 | .5% |
| [redacted] Boston, Massachusetts | 3,319 | 1.2 | .5% |
| * [redacted] Dallas, Texas | 4,082 | 1.5 | .4% |
| * [redacted] Oklahoma City, Oklahoma | 857 | .1 | .2% |
| [redacted] Dallas, Texas | 10,105 | .4 | .05% |

* Affiliated with a Bank Holding Company.
1/ State Member Bank.

## SMALL BANK EXPOSURE TO [redacted] PARTICIPATIONS 1/

| Name | Total Assets (millions) | Exposure (millions) | Exposure as a % of Bank Primary Capital |
|---|---|---|---|
| *[redacted] Healdton, Oklahoma | $28.8 | $6.6 | 271% |
| *[redacted] Nocona, Texas | 20.8 | 1.8 | 125 |
| [redacted], Oklahoma | 9.0 | .7 | 125 |
| [redacted] Nocona, Texas | 37.9 | 3.3 | 123 |
| *[redacted] McAlester, Oklahoma | 84.2 | 7.9 | 119 |
| [redacted] Blair, Oklahoma | 8.2 | .7 | 91 |
| *[redacted] Marlow, Oklahoma | 24.2 | 1.7 | 89 |
| *[redacted] Beaver City, Oklahoma | 34.7 | 3.1 | 88 |
| *[redacted], Oklahoma | 7.3 | .4 | 69 |
| [redacted] Wynnewood, Oklahoma | 14.4 | .5 | 42 |
| *[redacted] Liberal, Kansas | 46.8 | 1.3 | 38 |
| [redacted] Wagoner, Oklahoma | 32.5 | .9 | 36 |
| [redacted] Granite, Oklahoma | 11.1 | .3 | 33 |
| [redacted] Red Oak, Oklahoma | 10.9 | .3 | 33 |
| *[redacted] Cherokee, Oklahoma | 12.5 | .2 | 25 |
| *[redacted] Muskogee, Oklahoma | 81.0 | 2.1 | 23 |
| *[redacted] Higgins, Texas | 12.5 | .2 | 22 |
| [redacted] Yukon, Oklahoma | 57.3 | .8 | 22 |
| [redacted] Willow, Oklahoma | 6.1 | .1 | 20 |

* Affiliated with a Bank Holding Company.

1/ No State Member Banks.

| Name | Total Assets (millions) | Exposure (millions) | Exposure as a % of Bank Primary |
|---|---|---|---|
| * [redacted] Sioux City, Iowa | 318.7 | 2.6 | 15 |
| [redacted] Chandler, Oklahoma | 28.2 | .3 | 13 |
| * [redacted] Chickashaw, Oklahoma | 87.3 | 1.0 | 13 |
| [redacted] Midwest City, Oklahoma | 14.8 | .3 | 12 |
| * [redacted] Ardmore, Oklahoma | 130.0 | 1.0 | 12 |
| * [redacted] Tipton, Oklahoma | 6.8 | .1 | 12 |
| * [redacted] Oklahoma City, Oklahoma | 26.2 | .2 | 10 |
| [redacted] Blanchard, Oklahoma | 15.4 | .1 | 9 |
| * [redacted] Chandler, Oklahoma | 35.8 | .2 | 8 |
| [redacted] Enid, Oklahoma | 40.3 | .2 | 8 |
| [redacted] Wichita, Kansas | 278.6 | 1.2 | 7 |
| [redacted] Woodward, Oklahoma | 14.7 | .1 | 7 |
| [redacted] Mannford, Oklahoma | 17.8 | .1 | 6 |
| [redacted] Oklahoma City, Oklahoma | 57.2 | .3 | 6 |
| [redacted] Colby, Kansas | 65.3 | .2 | 4 |
| [redacted] Bristow, Oklahoma | 46.9 | .1 | 2 |
| [redacted] Bakersfield, California | 385.8 | .6 | 2 |

* Affiliated with a Bank Holding Company.
1/ No State Member Banks.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

DATE: 7-22-82

TO: Neal Soss Chairman

FROM: John E. Ryan

---

Boards of Directors
- Chase
- SeaFirst

# Removal Notice

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to copyright protections.

## Citation Information

**Document Type:** Corporate reports (excerpts) **Number of Pages Removed:** 5

**Citations:** Annual Report, Chase Board of Directors (excerpt), undated.

Annual Report, Seafirst Board of Directors (excerpt), undated.

Why close the bank?

1. Not Book Insolvent
2. No publicity in [redacted]
3. 80% of Portfolio reviewed

1. OCC declares book insolvency and closes bank.

2. FDIC is appointed receiver.

3. FDIC sets up DINB to accommodate only the ongoing banking needs of insured depositors.

4. FDIC as receiver issues certificates to uninsured depositors.

5. Federal Reserve agrees to accept certificates as collateral at discount window at 80 percent of face value.

# ESTIMATE OF CONTINGENT EXPOSURE

| | Loans Purchased | Loan Commitments | Letters of Credit | Total |
|---|---|---|---|---|
| [redacted] | 1,054.6 | 89.4 | ? | 1,144.0 |
| [redacted] | 368.3 | 58.9 | 12.0 | 439.2 |
| [redacted] | 240.2 | 17.7 | 30.0 | 287.9 |
| [redacted] | 190.6 | 9.9 | ? | 200.5 |
| [redacted] | 115.3 | 8.6 | ? | 123.9 |
| SUB TOTAL | 1,969.0 | 184.5 | 42.0 | 2,195.5 |
| [redacted] | 23.3 | ? | ? | ? |
| [redacted] | 22.0 | ? | ? | ? |
| [redacted] | 15.1 | ? | ? | ? |
| [redacted] | 10.8 | ? | ? | ? |
| [redacted] | 7.5 | ? | ? | ? |
| [redacted] | 7.9 | ? | ? | ? |
| [redacted] | 6.6 | ? | ? | ? |
| SUB TOTAL | 2,062.2 | | | |
| 42 Other Banks | 32.0 | | | |
| SUB TOTAL | 2,094.2 | 207.0 | 53.6 | 2,354.8 |
| [redacted] | xxxx | 371.0 | 80.0 | 451.0 |
| TOTAL CONTINGENCIES | 2,094.2 | 578.0 | 133.6 | 2,805.8 |
| Less Big Five | 1,969.0 | 184.5 | 42.0 | 2,195.5 |
| CONTINGENT EXPOSURE EXCEPT FOR BIG FIVE BANKS | 125.2 | 393.5 | 91.6 | 610.3 |
| COMPOSITION OF CONTINGENT EXPOSURE EXCEPT FOR BIG FIVE BANKS | | | | |
| At [redacted] | | 371.0 | 80.0 | 451.0 |
| At Other Banks | 125.2 | 22.5 | 11.6 | 159.3 |
| | 125.2 | 393.5 | 91.6 | 610.3 |

Continental Reports

(1) Continental no Caps

(2) Am Banker has fraud story

2 officers from Chase resigned

Sea FIRST open admission

| | Total | Top 5 | Rem. |
|---|---|---|---|
| Part | 2,093.6 | 1,968.4 | 125.2 |
| L/C | 133.6 | 42.0 | 91.6 |
| Commit. | 579.0 | 184.5 | 394.5 * |
| | | | 611.3 |
| | | Other Banks | 78.4 |
| Still | | | 532.9 |

468

| | |
|---|---|
| * Hibernia | 23.0 |
| * 1st Dallas | 22.0 |
| Utica | 15.1 |
| Bank of Penn. | 10.8 |
| * 1st of Memr. | 7.5 |
| | 78.4 |

* 394.5 soft due to master notes

## [redacted] CRITICIZED PARTICIPATIONS
(000s Omitted)

| | Total Participations Outstanding | Special Mention | Substandard | Doubtful | Loss | Total Criticized Participations |
|---|---|---|---|---|---|---|
| [redacted] | 15,100 | 0 | 2,483 | 1,688 | 1,436 | 5,607 |
| Tulsa, Oklahoma | | SAME | SAME | SAME | SAME | |
| C.of.C [redacted] | 368,000 | 8,449 | 18,423 | 17,758 | 31,011 | 75,641 |
| Seattle, Washington | | 0 | 25,027 | SAME | 29,581 | |
| C.of.C. [redacted] | 198,400 | 9,000 | 17,192 | 6,743 | 17,210 | 50,145 |
| Detroit, Michigan | | 0 | 16,809 | 7,166 | 18,149 | |
| C.of.C. [redacted] | 1,000,000 | 26,190 | 82,394 | 32,290 | 44,825 | 185,699 |
| Chicago, Illinois | | 20,727 | 67,283 | ~~87,542~~ 37,542 | 43,318 | |
| C.of.C [redacted] | 118,300 | 3,377 | 4,727 | 4,270 | 2,452 | 14,826 |
| Chicago, Illinois | | 0 | 9,402 | 3,180 | 6,134 | |
| C.of.C [redacted] | 23,300 | 0 | 0 | 0 | 0 | 0 |
| New Orleans, Louisiana | | SAME | 500 | SAME | SAME | |
| C.of.C [redacted] | 10,800 | 0 | 0 | 0 | 0 | 0 |
| Reading, Pennsylvania | | SAME | 300 | SAME | SAME | |
| C.of.C. [redacted] | 241,500 | 4,050 | 12,698 | 4,372 | 16,869 | 37,989 |
| New York, New York | | 6,058 | 14,707 | SAME | 20,783 | |

Per John McDowell

DRAFT 5

FDIC CREATES DEPOSIT INSURANCE NATIONAL BANK
TO HANDLE INSURED DEPOSITS OF
[redacted]

The FDIC Board of Directors announced today that it has established a Deposit Insurance National Bank (DINB) to assume the insured deposits of [redacted]. [redacted] was closed today by Comptroller of the Currency C. T. Conover, who named the FDIC receiver.

Conover said: "The bank began to experience serious problems after rapid growth resulted in deteriorating asset quality. The bank was the originator and servicer of a significant number of loans for energy related purposes. Losses centered on these energy related loans, together with funding difficulties, resulted in the bank's insolvency."

The new bank, named the Deposit Insurance National Bank of Oklahoma City, will open for business in the offices of the failed bank at 9:00 a.m., Tuesday, July 6, 1982, and will remain open each day as late as is necessary to serve depositors. The DINB will be managed by G. Michael Newton, a career FDIC employee, pursuant to the direction of the FDIC Board of Directors.

The DINB was established pursuant to Section 11 of the Federal Deposit Insurance Act. All insured deposits in the closed bank have been transferred to the DINB, and those funds will be available to their owners to the same extent that they were available at the Penn Square Bank prior to its closing. Funds deposited in interest-bearing accounts will continue to earn interest at the contract rate, subject to the federal insurance limit of $100,000.

Depositors with amounts on deposit in the [redacted] in excess of the insurance limit of $100,000 will have their deposits up to the insurance limit transferred to the DINB, while the excess will constitute a claim against the [redacted] receivership. Such depositors will be issued a "Receiver's Certificate" in an amount equal to the uninsured portion of their deposit. The excess depositors' claims will be given general creditor status, which means they will share in liquidating dividends with FDIC and other general creditors from the collection of the bank's assets by the receiver.

For examination purposes, the Federal financial institution regulators have agreed to allow institutions under their jurisdictions to carry any of the Receiver's Certificates at 80% of face value. This percentage may be adjusted from time to time, based upon periodic reviews of the value of the receivership estate.

The number of deposit accounts is about 28,000, and total deposits are approximately $465 million. Depositors are advised that arrangements have been made to permit the continued clearance of checks drawn on the Penn Square Bank and such checks will be honored by the DINB to the extent of the funds transferred.

The FDIC as receiver has succeeded to all the assets of the insolvent [redacted]. The receiver will expect borrowers to continue repayment of their loans in accordance with the terms of their loan agreements with [redacted]. James P. Hudson will be in charge of the FDIC's receivership activities.

Most employees of the [redacted] initially will be retained as employees of either the new bank or the receiver.

The Board of Directors of the FDIC determined that it could not arrange an assisted merger of the [redacted] into another bank due to the existence of a large amount of contingent claims that might be asserted and the possible existence of other claims in an amount undeterminable at the present time.

1981 LOAN COMMITMENTS FOR MERGERS

| LEAD BANK | COMPANY | LINE OF CREDIT ($ billion) |
|---|---|---|
| Citibank | Mobil | 6 |
| Chase Manhattan | Texaco | 5.5 |
| Bankers Trust | Gulf | 5 |
| Chase Manhattan | Marathon | 5 |
| Morgan Guaranty | Cities Service | 4 |
| Citibank<br>Manufacturers Hanover<br>Bank of Montreal | Seagrams | 3.2 |
| unknown | Shell | 3 |
| Bank of America | Conoco | 3 |
| Citibank | Pennzoil | 2.5 |
| Chase Manhattan | Allied Corporation | 2 |
| Morgan Guaranty | Sohio | 2 |
| Citibank | Dome Petroleum | 1.8 |
| Morgan Guaranty | Fluor | 1 |
| SUBTOTAL | | 48.0 |
| other smaller commitments | | 25.5 |
| TOTAL | | 73.5 |

# Removal Notice

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to internal or confidential information.

## Citation Information

**Document Type:** Board of Governors

**Number of Pages Removed:** 15

**Citations:**

Restricted-Controlled: Loan Participations Sold by [Redacted] Bank, 1982.

Restricted-Controlled: Large/Small Bank Exposure to [Redacted], N.A. Participations, 1982.

Restricted-Controlled: Memo from Bill Taylor to Jack Ryan, "[Redacted] Bank (asset size $360 million)," June 29, 1982.

## ESTIMATE OF CONTINGENT EXPOSURE

| | Loans Purchased | Loan Commitments | Letters of Credit | Total |
|---|---|---|---|---|
| [redacted] | 1,054.6 | 89.4 | ? | 1,144.0 |
| [redacted] | 368.3 | 58.9 | 12.0 | 439.2 |
| [redacted] | 240.2 | 17.7 | 30.0 | 287.9 |
| [redacted] | 190.6 | 9.9 | ? | 200.5 |
| [redacted] | 115.3 | 8.6 | ? | 123.9 |
| SUB TOTAL | 1,969.0 | 184.5 | 42.0 | 2,195.5 |
| [redacted] | 23.3 | ? | ? | ? |
| [redacted] | 22.0 | ? | ? | ? |
| [redacted] | 15.1 | ? | ? | ? |
| [redacted] | 10.8 | ? | ? | ? |
| [redacted] | 7.5 | ? | ? | ? |
| [redacted] | 7.9 | ? | ? | ? |
| [redacted] | 6.6 | ? | ? | ? |
| SUB TOTAL | 2,062.2 | | | |
| 42 Other Banks | 32.0 | | | |
| SUB TOTAL | 2,094.2 | 207.0 | 53.6 | 2,354.8 |
| [redacted] | xxxx | 371.0 | 80.0 | 451.0 |
| TOTAL CONTINGENCIES | 2,094.2 | 578.0 | 133.6 | 2,805.8 |
| Less Big Five | 1,969.0 | 184.5 | 42.0 | 2,195.5 |
| CONTINGENT EXPOSURE EXCEPT FOR BIG FIVE BANKS | 125.2 | 393.5 | 91.6 | 610.3 |

371
330
701

COMPOSITION OF CONTINGENT EXPOSURE EXCEPT FOR BIG FIVE BANKS

| | Loans Purchased | Loan Commitments | Letters of Credit | Total |
|---|---|---|---|---|
| At [redacted] | | 371.0 | 80.0 | 451.0 |
| At Other Banks | 125.2 | 22.5 | 11.6 | 159.3 |
| | 125.2 | 393.5 | 91.6 | 610.3 |

# Removal Notice

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to copyright protections.

## Citation Information

**Document Type:** Magazine article

**Number of Pages Removed:** 3

**Citations:** Zweig, Philip. "Investors, Regulators React to [Redacted] Situation," *American Banker*, July 6, 1982.

FEDERAL RESERVE BANK OF KANSAS CITY
KANSAS CITY, MISSOURI 64198

July 5, 1982

Mr. Paul M. Homan
Senior Deputy Comptroller
for Bank Supervision
490 East L'Enfant Plaza, S.W.
Washington, D.C. 20219

Dear Mr. Homan:

Pursuant to the information contained in your letter of July 5, 1982, concerning the current financial condition of the [redacted], the Federal Reserve Bank of Kansas City is not prepared to extend further credit to the bank in its current condition.

In reaching this decision, we have taken into consideration among other things your evaluations of the quality and condition of the bank's asset portfolio, its capital position and its inability to comply with the terms and conditions of the cease and desist order. We further noted the bank's heavy reliance on purchased funds which you believe will not be available in the future.

The Federal Reserve Bank of Kansas City believes that continued credit extension to the bank is not consistent with the Federal Reserve's lending policies under the circumstances where the prospect of repayment of the loan is in jeopardy, and where there are no apparent prospects for returning the bank to a viable and safe and sound financial condition in the foreseeable future. The extension of Federal Reserve credit in these circumstances would be contrary to the public interest.

Sincerely,

Roger Guffey

Roger Guffey
President

# The London School of Economics and Political Science

(UNIVERSITY OF LONDON)

Chairman of the Court of Governors
Sir Huw Wheldon

Houghton Street,
London, WC2A 2AE
Telephone 01 405 7686

Send them @15

Sent 3/26/84

15 March 1984



Dear Mr Volcker,

As you know the Honorary Fellows Dinner takes place this year, at LSE, on Tuesday, 22 May. Ralf Dahrendorf was in fact already an Honorary Fellow before he was appointed Director of the School, and we can therefore hope to see him at future dinners in his own right as a Fellow. This next dinner however will be the last one which he attends as Director of the School, and several of our number have suggested to me that a special presentation from the Honorary Fellows would be in order. There is certainly no doubt at all that he would very much appreciate such an act.

After the final Court of Governors Meeting of the session in July, we will, I hope, be in a position to see the portrait we have commissioned from Mr. Rodrigo Moynihan and towards which you, along with many others connected with the School, are being asked to subscribe. At the same time this portrait, although in a sense being "presented" to Ralf Dahrendorf, will stay at the LSE.

I am therefore, and naturally in the hope that this will command general agreement, going to set about finding some appropriate gift from the Honorary Fellows which we can possibly get suitably inscribed. I will, if I may, call on two or three of our company, who have the time and the inclination, to help me in this. I am thinking in terms of a painting or a print.

I have made a few enquiries as to what would be a sensible and seemly sum for each of us to subscribe, and £10 seems to be the sum which emerges. I am going to assume, if I may, that I can go ahead along these lines; and what I propose is this: that you send me, if you will, £10 for this purpose. If £10 is too much, please send whatever is agreeable to you. Equally, if you feel you can send more than £10 so much the better. In any event, if there is a deficiency I will make it up myself; and if too much comes in I will give whatever is left over to the LSE 1980s Fund.

I have asked the School to handle the funds for me. Subscriptions should therefore come to me (in the attached envelope) with cheques being made payable to "LSE Fellows' Presentation".

Yours sincerely

Huw Wheldon

Huw Wheldon
Chairman, Court of Governors

Mr. P.A. Volcker,
President,
Federal Reserve System,
20th Street & Constitution Avenue N.W.,
Washington D.C. 20551,
U.S.A.

Advances to Depository Institutions Under § 10(b)

Advances may be made by Reserve Banks to depository institutions under § 10(b) of the Federal Reserve Act on demand or time notes with maturities of not more than four months and which are secured to the satisfaction of the Reserve Banks (12 U.S.C. 347b). Accordingly, the Federal Reserve could establish the policy of providing credit to depository institutions secured by receivership certificates they have received from the FDIC as representative of the institution's claim against the receivership of a failed bank.

While the Act establishes a maximum maturity of four months, there is precedent for the Federal Reserve to indicate that the loan is expected to be renewed, or repaid out of funds as they are received from the FDIC.

The Federal Reserve could also establish a special rate for advances under this policy. Such rate could be above or below the basic discount or advance rate.

Advances could also be made not only to depository institutions that hold receivership certificates but also to those that agree to lend to third parties that receive certificates from the FDIC. The certificates and/or the third parties' notes could then be used as collateral to secure the advance to the depository isntitution from the Reserve Bank. In effect this would enable depository institutions to liquify their loans to third parties who hold certificates and who require funds. The System could specify that as a condition of lending to the depository institution the rate charged by the depository institution to the third party could not exceed a specified rate. The Act does not require that the notes of the depository institution be "full faith and credit" obligations of the depository institution. Therefore, loans to depository institutions also could be without recourse or payable solely out of the proceeds from the receivership as the receivership's assets are liquidated.

Advances to Nondepository Institutions Under § 13(3)

In the event the System desires to lend direct to individuals, partnerships or corporations rather than proceeding through intermediary depository institutions, it could invoke the emergency lending provisions of the Federal Reserve Act. Section 13(3) of the Federal Reserve Act authorizes Federal Reserve Banks, in unusual or exigent circumstances and upon an approval of at least five members of the Board to discount notes for individuals, partnerships and corporations. If the Board concludes that the effects of the failure of a bank would be widespread and would likely to result in substantial adverse effects upon the banking industry and financial markets, it would appear that the Board could find that unusual and exigent circumstances are prevalent.

Since the provision requires that the Reserve BAnk discount "eligible" notes, it would be necessary for a borrower to execute a short-term note with a maturity of not more than 90 days. As indicated above, the Federal reserve could indicate its willingness to extend the note at maturity. The proceeds would have to be used for agricultural, industrial and commercial purposes. A statmeent to the borrower to this effect would appear adequate to satisfy this condition.

The Federal Reserve also have to determine that the borrower is unable to secure adequate accommodations from other banking institutions. Based upon the nature of the collateral to be provided and the terms and conditions of the loan, it would appear that this condition could also be met without much difficulty.

Section 13(3) also requires that the notes be either endorsed or secured to the satisfaction of the Reserve Bank. Receivership certificates could be regarded as adequate security since they represent a claim against assets of the receivership. The extent to which the System desires to apply a "haircut" would have to be determined. However, it is possible that the loan could be made for the full amount of the certificate. The System could indicate that the loan is expected to be repaid out of funds as they are received by the borrower from the FDIC. As an alternative, the borrower could assign its rights to the certificate directly to the Federal Reserve so that the System could obtain repayment directly from the FDIC.

# Removal Notice

FRASER

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to copyright protections.

## Citation Information

**Document Type:** Magazine article

**Number of Pages Removed:** 3

**Citations:** Zweig, Philip. "Investors, Regulators React to [Redacted] Situation," *American Banker*, July 6, 1982.

# Removal Notice

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to internal or confidential information.

## Citation Information

**Document Type:** Internal Report

**Number of Pages Removed:** 18

**Citations:** Seattle First National Bank, December 1981 Performance Report, 1982.

Public Entities

| Name and Location | Uninsured Amount | Maturity |
|---|---|---|
| University of Oklahoma | 220 100 ? | 8-27 |
| City of Oklahoma City | 500,000 | 9-20 |
| do. | 500,000 | 9-13 |
| do. | 900,000 | 10-12 |
| State of Oklahoma | 600 000 | 8-23 |
| ✓ | 100,000 | 9-3 |
| ✓ | 100,000 | 9-3 |
| ✓ | 6 000,000 | 9-17 |
| Univ. of OKLA | 141,100 | 7-26 |
| City of OKLA CITY | 900,000 | |

Other (Not Personal)

| | | |
|---|---|---|
| U OF OKL. OK | 230,100 | 8-27 |
| Mid PLAINS PETROLE OKC | 100,000 | 7-18 |
| | 150,000 | 7-2 |
| OKL. FARMERS UNION OKC | 100,000 | 8-3 |
| CKROAT, INC PROFIT OK | 1,900 | 7-12 |
| JONES IGA OKC | 10,000 | 7-13 |
| [illegible] | 18,000 | 7-15 |
| OSS, DUB CO. INC OKC | 100,060 | 7-9 |
| | 100,000 | 9-13 |
| CITY OF OKL. CITY OK | 500,000 | 9-20 |
| | 500,000 | 9-13 |
| | 900,000 | 10-12 |
| OSS, DUB CO, INC. | 55,000 | 9-9 |
| PRESIDENTIAL LIFE KANSAS CITY | 40,000 | 7-6 |
| | 120,800 | 8-6 |
| AL GENES EMPLOYE OKC | 161,100 | 7-14 |
| chart DIS PENSI OKC | 38,600 | 7-1 |
| EAGLE PETROLEUM CO OKC | 18,700 | 7-26 |
| | 123,200 | 7-26 |
| OKLAHOMA FARMERS UNION OKC | 100,000 | 7-6 |
| CKGT OIL COMPANY OK | 1,400,000 | 8-2 |
| OWELL STONE INS OK | 519,000 | 9-22 |
| STATE OF OKL. | 200,000 | 8-23 |
| Physicians LIABILITY FIRE CO. OKC | 300,000 | 9-8-82 |
| PARAGON INVESTMENTS OKC | 200,000 | 7-6-82 |
| TEXAS CAPITAL CORP HOUSTON, TX | 100,000 | 7-18-82 |
| ACADEMY COMPUTING OKC | 185,679.79 | 6-30-82 |
| STATE OF OKL | 100,000 | 9-3 |
| | 100,000 | 7-3 |
| | 6,000,000 | 9-17 |
| SIMON BROTHERS PTN #2 OK | 304,900 | 12-17 |
| AIR FORCE CENTRAL | 900,000 | 6-30 |
| RANDOLF AFB TX | 1,800,000 | 11-22 |
| | 600,000 | 6-23 |

| | | | |
|---|---|---|---|
| YMCA | OKC | 187,040.67 | 7-26 |
| AMERICAN I | 2 OKC | 100,000 | 7-26 |
| | | 200,000 | 8-2 |
| | | 380,000 | 8-3 |
| SOUTHWEST EXPLORATION | OKC | 495,014 | 7-16 |
| MORRIS CORP " | " FUND WASH.DC. | 100,000 | 6-7-83 |
| UNITED WELFARE FUND SECURITY DIV. JACKSON Heights, NY | | 900,000 | 7-27 |
| DRABEK & HILL INC | OKC | 5,402.42 | 6-30 |
| HOSPITAL CASUALTY | OKC | 100,000 | 8-5 |
| | | 200,000 | 9-8 |

# Removal Notice

FRASER

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to personally identifiable information.

## Citation Information

**Document Type:** Research material

**Number of Pages Removed:** 5

**Citations:** List of persons with uninsured amounts of money in [Redacted] Bank, 1982.

| | | NAME | LOCATION | UNINSURED PORTION | MATURITY |
|---|---|---|---|---|---|
| * | 1 | BANK OF WILSON | WILSON, OK | 2,000,000 | 9-17-82 |
| | 2. | FIRST BANK OF | , OK | 9292.21 | 5-2-84 |
| | | | | 109,232.21 | 5-2-84 |
| | | | | 108,232.21 | 5-6-84 |
| | 3 | UNITED BANK OF | KANSAS CITY, MO | 59,945.20 | 11-3-82 |
| | | KANSAS FOR | | 106,630.13 | 11-3-82 |
| | | RESIDENTIAL LIFE | | 106,630.13 | 11-3-82 |
| | | INSURANCE CO. | | | |
| | | ~~[illegible]~~ | | | |
| | | ~~[illegible]~~ | ~~BROCTON~~ | | |
| | 4. | TIMBER COMMUNITY BANK | , OR. | 10,000 | 7-8-82 |
| | | | | 100,000 | 7-9-83 |
| | 5. | PULASKI BANK, | LITTLE ROCK, ARK. | 335,000 | 7-7-82 |
| * | 6. | BOSSIER B + TR. | BOSSIER CITY, LA | 6,227,000 | 7-9-82 |
| | | FOR WESTSIDE | | 1885,000 | 7-9-82 |
| | | HABITATION CENTER | | | |
| — | 7. | FORT HOOD NATIONAL | FORT HOOD, TX | 400,000 | 8-26-82 |
| * | 8. | FIRST NATIONAL BANK | KILLEEN, TX | 900,000 | 8-26-82 |
| | 9. | FARMERS & MERCHANTS | HUTSONVILLE, ILL | 100,000 | 5-19-83 |
| — | 10. | PENN SQUARE BANK | | 75,671.63 | 8-19-82 |
| | | T.D. BLACK GOLD | | | |
| | | FRATERNITY | | | |
| * | 11. | FIRST NATIONAL BANK | CHANDLER, OK | 900,000 | 7-6-82 |
| | | OF CHANDLER | | | |
| | 12. | INDEPENDENCE STATE BANK | INDEPENDENCE, KS | 100,000 | 7-20-82 |
| | | | | 120,000 | 7-15-82 |
| | 13. | PENN SQUARE BANK | | 113,381.79 | 8-19-82 |
| | | HOLD FOR TRUST | | 100,000 | 8-3-82 |
| * | 14. | VALLEY NATIONAL BANK | SALINAS, CA | 1,900,000 | 7-21-82 |
| | 15. | EXCHANGE BANK | SKIATOOK, OK | 75,000 | 6-30-82 |
| | 16. | ADAIR STATE BANK | ADAIR, OK | 75,000 | 6-30-82 |
| * | 17. | FIRST WAGONER BANK | WAGONER, OK | 1,400,000 | 7-6-82 |
| * | 18. | MANNFORD STATE BANK | MANFORD, OK | 1,900,000 | 7-6-82 |
| — | 19. | FIRST NATIONAL BANK | BATAVIA, ILL | 100,000 | 5-18-83 |
| | | | | 100,000 | 8-26-82 |

BRJ

| | | |
|---|---|---|
| 20. UNITED MISSOURI BANK | 40,919.36 | 10-15-82 |
| AGENT FOR PRESIDENTIAL | 184,573.62 | 11-3-83 |
| LIFE INS. | 101,171.23 | 9-3-82 |
| | 20,242,685.08 | |

# Credit Unions

| | | |
|---|---|---|
| NKER Credit Union, Ok. | 190,000 | 8/23/82 |
| Pontiac Rd ECU Pontiac, Mich | 308,610.91 | 7/2/82 |
| Eaton Baytown CU Baytown | 100,000 | 9/18/82 |
| | 100,000 | 9/18/8 |
| | 100,000 | 12/12/82 |
| Educat Employ CU | 100,000 | 9/24/8 |
| | 100,000 | 11/5/82 |
| | 200,000 | 11/12/82 |
| Whyseheuser Cr. Longview, Wash | 100,000 | 11/2/82 |
| | 100,000 | 5/18/8 |
| Cascade FCU, Seattle, Wash | 100,000 | 7/12/8 |
| Safe Fed CU, Shaw AFB, So. Carolina | 200,000 | 8/26/8 |
| Lincoln FCU, Ft. Wayne, Ind. | 400,000 | 7/19/8 |
| ? Danest Schpple FCU, Phoenix Arizona | 400,000 | 5/19/ |
| | 200,000 | 6/1/ |
| | 100,000 | 6/3/ |
| Sharonview FCU, Charlotte N.C. | 63,595.72 | 9/9/8 |

Credit Unions

| | | | |
|---|---|---|---|
| First Peoples FCU | Cumberland MI | 100,000 | 9/9/82 |
| Capital Corp. FCU | Lardone | 1,100,000 | 10/8/82 |
| NAFCU Corp. FCU | Arlington, Va. | 200,000 | 7/9/82 |
| | | 2,500,000 | 8/9/82 |
| | | 1,000,000 | 8/18/8 |
| | | 507,000 | 7/7/83 |
| | | 100,000 | 10/25/82 |
| | | 1,000,000 | 8/9/82 |
| | | 100,000 | 8/4/82 |
| | | 205,000 | 8/24/8 |
| Capital Credit Union, | OKC | 100,000 | 8/17/8 |
| | | 100,000 | 8/17/82 |
| Okla. National Employees CU | Tulsa | 400,000 | 10/4/8 |
| DPW Employees CU | OKC | 200,000 | ? 7/ |
| Morsent Community Union | | 875,000 | 8/2/82 |
| Ctr. Credit Union | Grand Plains, Tx | 1,685,000 | 7/19/8 |
| NASA Fed. Cr. Union, | Riverdale ? | 100,000 | 9/12/8 |
| Harbor Hose Fire FCU, | Torrance, California | 100,000 | 7/7/82 |

## Credit Unions

| | | | |
|---|---|---|---|
| Ent Fed Cr.U ? | Col. Spgs, Colorado | 100,000 | 4/27/83 |
| Rollins Emp. Fed. CU | Lakeland Fla | 300,000 | 5/19/83 |
| Los Alamos Credit | Los Alamos N.M. | 400,000 | 7/23/82 |
| Utah State | Salt Lake City, Utah | 300,000 | 7/29/82 |
| | | 1,000,000 | 7/30/82 |
| Albuquerque U.S.? FCU | Albuquerque, N.M. | 100,000 | 7/23/82 |
| | | 300,000 | 12/7/82 |
| Universal Credit Union, | St. Louis, Mo. | 500,000 | 8/23/82 |
| Mare Island CU | Verey Ca. | 200,000 | 9/8/82 |
| Los Angeles City FCU | Los Angeles Ca. | 900,000 | 8/9/82 |
| | | 1,000,000 | 8/9/82 |
| Stenbaker CU | KC, MO. | 100,000 | 11/1/82 |
| | | 100,000 | 5/26/82 |
| Kern Schools FCU | Bakersfield Ca. | 200,000 | 9/30/82 |
| U.S. Emp. FCU | OKC | 100,000 | 7/29/82 |
| | | 200,000 | 7/29/82 |

Credit Unions

| | | | |
|---|---|---|---|
| IBM Poughkeepsie Emps FCU | Poughkeepsie, N.Y. | 1,000,000 | 9/8/82 |
| | | 500,000 | 12/15/82 |
| CRUC - FCU - | Oakridge, Tenn. | 200,000 | 7/20/8[illegible] |
| Gateway CU | St. Louis, Mo. | 423,000 | 7/13/82 |
| DM FCU | Tucson, Arizona | 200,000 | 9/27/82 |
| | | 500,000 | 10/12/82 |
| B ? | Omaha, Neb | 400,000 | 8/6/82 |
| Central Fla. FCU | Orlando | 100,000 | 12/14/82 |
| Emerson Cr. Union | St. Louis Mo | 100,000 | 11/19/8[illegible] |
| Highland Community Cr. Union | | 100,000 | 7/12/8[illegible] |
| Pask Employees CU. | Chicago Ill | 100,000 | 12/7/8[illegible] |
| Navy Orlando FCU | Orlando, Fla. | 1,900,000 | 7/6/82 |
| LoneStar Steel FCU | Lone Star tex | 100,000 | 8/24/82 |
| | | 100,000 | 7/7/82 |
| | | 100,000 | 9/8/82 |
| India Laboratorie FCU | albuquerque, N.M. | 900,000 | 8/12/82 |
| | | 1,000,000 | 7/9/82 |
| | | 1,000,000 | |

Credit Unions

| | | | |
|---|---|---|---|
| Indiana Univ. Fed. CU | Bloomington, Indiana | 939,531.59 | 7/12/82 |
| | | 1,027,308.88 | 9/9/82 |
| Southwest Corp FCU | Dallas tx | 900,000 | 7/20/82 |
| | | 2,900,000 | 7/28/82 |
| Certified Employee FCU | Commodore, Cal | 25,436.37 | 7/23/8 |
| Teacher Cr U. | So Bend Ind. | 900,000 | 4/28/83 |
| IBM/NY Metro Employees CU | NY, NY | 100,000 | 5/16/82 |
| | | 100,000 | 7/19/82 |
| Dan River Community FCU | | 900,000 | 8/26/82 |
| | | 1,000,000 | 11/15/82 |
| Fairchild FCU | Spokane, Wash | 100,000 | 6/28/82 |
| | | 100,000 | 6/23/82 |
| Polaroid Emp. CU. | Waltham, Mass | 900,000 | 7/8/82 |
| | | 1,000,000 | 8/16/82 |
| St. Louis Fed ? CU | St Louis Mo. | 150,000 | 8/2/82 |
| McCoy Fed CU | Orlando, Fla. | 100,000 | 8/30/82 |
| Aleo CR Union | Bettendorf, Iowa | 1,170,805.33 | 7/1/8 |

Credit Unions

| | | |
|---|---|---|
| LITELCO Cr. Un. Salt Lake City, Utah | 200,000 | 8/31/82 |
| | 200,000 | 10/5/82 |
| Seattle Teko FCU, Seattle, Wash | 100,000 | 7/6/8 |
| Honeywell Fla. CU Clearwater, Fla. | 443,947.81 | 6/20/8 |
| Old Hickory Employees CU. Old Hickory, Tenn. | 100,000 | 8/6/8 |
| Univ FCU c/o Am Natl Bank Austin, Tx | 150,000 | 5/19/8 |
| State Employees CU Lansing, Mich | 100,000 | 8/10/8 |
| | 100,000 | 7/29/8 |
| Texas Share Gty CU Austin Tx | 150,000 | 3/18/8 |
| Ventura Co. CU Ventura Ca | 140,000 | 5/23/8 |
| Shrine Little Flower CU Royal Oak Michigan | 100,000 | 7/26/ |
| Silver State School CU Las Vegas Nev. | 400,000 | 8/23/8 |
| Anheush-Bush-Emp Cr Union St. Louis, Mo. | 400,000 | 9/29/8 |
| | 700,000 | 10/5/8 |

Credit Unions

| | | | |
|---|---|---|---|
| Braul Corp CU | Welwich RI | 900,000 | 9/29/82 |
| | | 900,000 | 6/27/8 |
| North American CRU | OKC | 150,000 | 7/6/82 |
| Chiphone F C | Elkhart, Ind. | 400,000 | 10/11/82 |
| T & C FCU | Anties, Mich | 109,480.70 | 5/17/8 |
| | | 105,366.64 | ?, |
| Westernaid FCU | Los Angeles | 75,614.58 ? | 8/23/ |
| Peat trakes CU | albuquerque | 100,000 | 8/24/8 |
| Plico R & H | OKC | 100,000 | 7/27/8 |
| Lushy FC | Burns Park Co | 400,00 | 5/27/8 |
| Duns ? School FCU | Wynadote, Mich | 100,000 | 8/19/8 |
| Nallis FCU | Las Vegas, Nev | 400,000 | 8/23/8 |
| | | 500,000 | 9/10/8 |
| | | 150,000 | 10/26/8 |
| H. Cords Corp FCU | Burlington, Mass | 1,412,000 | 7/6/8 |
| | | 275,000 | 7/6/8 |

Credit Unions

| | | | |
|---|---|---|---|
| Teachers FCU | Farmingville, N.Y. | 100,000 | 7/3/82 |
| Pueblo Teachers CU | Pueblo, Colo | 100,000 | 6/6/8 |
| Monterey FCU | Monterey Ca. | 400,000 | 9/6/82 |
| Royal FCU | Highland Oregon | 100,000 | 10/2/82 |
| Mission FCU | San Diego | 400,000 | 9/13/82 |
| Employees CU | Cumberland, Md. | 200,000 | 7/19/8 |
| Tucson Teachers FC | Tucson, Ariz. | 200,000 | 7/19/82 |
| State Dept. FCU | Arlington ? | 900,000 | 10/4/82 |
| ACF Employees FCU | Toledo, Ohio | 300,000 | 6/22/8 |
| State Employees CU | Albany, N.Y. | 400,000 | 12/11/8 |
| Oklahoma Health FCU | OKC | 100,000 | 7/12/8 |
| | | 500,000 | 7/21/8 |
| | | 100,000 | 7/23/8 |
| | | 100,000 | 7/26/82 |

Credit Unions

| | | | |
|---|---|---|---|
| School Emp. | Kansas City | 9,333 | 8/17/8 |
| | | 200,000 | 8/17/8 |
| FD Lade CU | Eugene Oregon | 100,000 | 6/10/8 |
| Republic EMP FCU | Ohio | 3,375 | 3/17/ |
| Challenger KC FCU | Kansas City KS | 200,000 | 9/15/8 |
| | | 200,000 | 9/10/8 |
| IBM WMA FCU | Gaithersburg, Md. | 200,000 | 7/24/8 |
| | | 100,000 | 6/23/8 |
| IBM Crag FCU | Racezan, N.C. | 912,395.83 | 8/20/8 |
| | | 900,000.01 | 7/20/8 |
| | | 250,000 | 6/30/8 |
| | | 500,000 | 7/2/8 |
| | | 251,421.89 | 7/7/8 |
| | | 251,726.56 | 7/9/8 |
| Indiana Telco FCU | Indianapolis Ind. | 500,000 | 11/18/8 |
| | | 500,000 | 12/1/8 |
| | | 1,000,000 | 12/28/8 |
| Red River FCU | | 900,000 | 4/2/8 |

Credit Unions

| | | | |
|---|---|---|---|
| American Fed CU. | E. Grand Forde Min | 100,000 | 7/5/82 |
| ~~[illegible]~~ | | | |
| Fort Mammoth FCU | Ft. Mammoth, Mt | 100,000 | 11/2/8 |
| | | 125,000 | 6/23/8 |
| St. Louis Fed Cr. Union | St. Louis | 150,000 | 9/1/82 |
| ~~[illegible]~~ Pialla Co. CU | St. Petersburg, Fla. | 900,000 | 8/6/8 |
| | | 1,000,000 | 8/9/8 |
| Houston Area teachers | | 400,000 | 10/29/8 |
| APCO Emp CU | Birmingham Ala | 500,000 | 9/8/82 |
| Bolling FCU | Washington DC | 900,000 | 7/12/8 |
| Univ. of Iowa CU | Iowa City, Iowa | 900,000 | 10/4/8 |
| IBM Costal FCU | Raleigh N.C. | 251,929.64 | 7/12/8 |
| Arizona Teleco FCU | Phoenix Ariz. | 400,000 | 8/12/8 |
| | | 500,000 | 10/29/8 |

| | | | |
|---|---|---|---|
| IBM Interstate FCU | Rye, N.Y | 900,000 | 8/17/82 |
| Credit Union of Jo | Mission, KS. | 100,000 | 7/14/82 |
| | | 100,000 | 7/14/82 |
| | | 200,000 | 9/8/82 |
| General Foods CU | White Plain, N.Y. | 100,000 | 8/23/82 |
| | | 200,000 | 7/28/82 |
| Miles Emp. FCU | | 400,000 | 7/27/82 |
| Topical Telco FCU | | 500,000 | 9/28/82 |
| Vanderburg FCU | | 250,000 | 8/26/8 |
| Jax Navy FCU | | 600,000 | 9/27/82 |
| | | 700,000 | 11/1/82 |
| San Diego Gas FCU | San Diego, Ca | 208,010 | 9/7/82 |
| School Employees | Kansas City | 204,759.58 | 8/27/82 |
| | | 213,148.96 | 9/3/82 |
| Fed Emp. CU | Atlanta, Ga. | 150,000 | 8/31/82 |

Credit Unions

| | | | |
|---|---|---|---|
| Whiteman Community CU | | 100,000 | 12/12/8 |
| Argentin Santa Fe CU | Kansas City, KS | 100,000 | 8/2/8 |
| Indiana Teleco FCU | Indianappolis Ind | 900,000 | 10/5/8 |
| | | 2,000,000 | 10/5/8 |
| Wright Patman Cong. FCU | Washington, D.C. | 400,000 | 7/21/8 |
| | | 500,000 | 10/20/ |
| K-25 Federal CU | Eskridge, Tenn. | 100,000 | 7/2/ |
| | | 300,000 | 12/20/8 |
| NAFCU Corp. FCU. | Arlington, Va. | 100,000 | 7/21/8 |
| | | 1,850,000 | 7/21/8 |
| | | 650,000 | 7/19/8 |
| | | 125,000 | 7/28/8 |
| | | 100,000 | 7/30/8 |
| Cardis Emp. CU. | Texas City, Tx. | 100,000 | 7/20/8 |
| | | 200,000 | 7/27/8 |
| IBM Kingston Employees FCU | | 900,000 | 7/2/8 |
| | | 1,045,864 | 8/25/ |
| | | 1,000,000 | 5/27/8 |

- Credit Unions

| | | | |
|---|---|---|---|
| Fort Knox Fed. | Ky | 150,000 | 9/27/82 |
| IBM Endicott Onago | Endicott NY | 900,000 | 5/25/83 |
| Monsanto Community Union | St. Louis | 900,000 | 7/15/8[illegible] |
| Mt. Carmel CU | Pueblo Colo | 800,000 | 7/16/8[illegible] |
| Travis FCU | Travis AFB | 900,000 | 8/11/8[illegible] |
| | | 1,000,000 | 11/16/8[illegible] |
| McGuire Public Employees | | 1,101,186 | 7/1/8[illegible] |
| | | 1,751,000 | 7/19/8[illegible] |
| Ogden Railway | Ogden Utah | 900,000 | 7/2/82 |
| | | 300,000 | 11/26/82 |
| | | 200,000 | 12/6/82 |
| Western Aire FCU | LA. | 400,000 | 5/19/83 |
| Sea Air FCU | Seal Beach Cal | 100,000 | 5/20/83 |

# Savings & Loans

| | | |
|---|---|---|
| Anchor Savings & Loan Somers Point, N.J. | 1,100,000.00 | 7/1/82 |
| | 1,000,000.00 | 11/15/82 |
| | 401,333.33 | 7/7/82 |
| | 430,412.11 | 7/8/82 |
| | 135,000.00 | 7/12/82 |
| | 131,000.00 | 11/22/82 |
| Frontier Fed. S&L Anca City, Ok | 750,000.00 | 8/10/82 |
| Boston Savings Boston, Mass. | 900,000.00 | 7/27/82 |
| St. Louis Co. Fed. S&L Duluth, Minn. | 200,000 | 8/17/82 |
| | 500,000 | 8/31/82 |
| ? Bearard Fed Sav. Sunrise, Fla. | 3,900,000 | 7/27/82 |
| Fairfax Sav., Baltimore, Md. | 913,750 | 9/27/8 |
| 1st Fed. Sav., Grand Rapids, Minn | 900,000 | 6/30/8 |
| ?. Berahed Fed. Sunrise, Fla, | 2,000,000 | 7/28/8 |
| American Fed Loan, East Gr. Forks, Minn | 100,000 | 7/20/8 |
| | 250,000 | 9/3/8 |
| | 100,000 | 7/6/8 |
| | 100,000 | 7/9/8 |

Savings & Loans

| | | |
|---|---|---|
| Yoakum Fed. Sav. Yoakum, Tx. | 10,000 | 10/26/82 |
| Merritt Sav. & ? Baltimore, Md. | 400,000 | 7/1/82 |
| Sun Sav & Loan, San Diego, Cal. | 350,000 | 8/2/8 |
| | 500,000 | 8/16/8 |
| Killeen Savings, Killeen, Tx. | 400,000 | 8/4/8 |
| Mississippi Valley S&L Burlington, Iowa | 300,00 | 8/13/8 |
| 1st Fed Sav. Assoc. Madison, Conn. | 400,000 | 8/9/8 |
| First Okla. S&L Tulsa, Okl. | 50,000<br>150,000 | ? 9/25/<br>8/25/8 |
| ? O'Charmark Savings Elizabeth, N.C. | 150,000 | 8/23/8 |
| Lancaster ? Lancaster, Pa. | 7,398 | 8/25/8 |
| Custom Savings Co. Baltimore, Md. | 1,000,000<br>900,000 | 12/28/8<br>8/10/8 |
| Home Fed. S&L Rome, Ga. | 100,000 | 9/9/8 |
| Stanford Federal, Palo Alto, CA. | 900,000 | 7/30/8 |
| Centennial Sav. Arnington, N.J. | 908,750 | 7/9/82 |

Savings & Loans

| | | | |
|---|---|---|---|
| Cardinal Savings, | Richmond, Va. | 900,000 | 8/9/82 |
| People Homestead Sav. Assoc. | | 100,000 | 8/10/82 |
| | | 150,000 | 9/9/82 |
| Centennial Savings | | 100,000 | 8/3/82 |
| Pennington NOW | ? | 425,000 | 7/6/82 |
| | | 214,825 | 6/30/82 |
| | | 800,000 | 7/15/82 |
| Maxwell - Fed | Montgomery Ala. | 900,000 | 7/26/82 |
| 1st Fed S&L | Hibbing, Minn. | 100,000 | 8/12/82 |
| | | 400,000 | 8/20/82 |
| | | 300,000 ? | 7/16/82 |
| | | 130,000 | 7/26/82 |

# Removal Notice

FRASER

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to internal or confidential information.

## Citation Information

**Document Type:** Board of Governors

**Number of Pages Removed:** 4

**Citations:** Restricted-Controlled: Loan Participations Sold by [Redacted] Bank, 1982.

July 6, 1982

# CONTINENTAL ILLINOIS CORPORATION

231 South LaSalle Street, Chicago, Illinois 60693

## News Release

**For more information:** Gerald E. Buldak (312) 923-5200



STATEMENT

(Attribute to Continental spokesman)

Reports in the press indicate that Continental Bank is involved in loan participations with the now closed [redacted].

We have reviewed a large number of these loans with special emphasis on those brought to our attention by examiners from the Office of the Comptroller of the Currency. Our analysis obviously is not yet complete. However, a great deal of work has been done and we have concluded to make a large extraordinary addition to our provision for loan losses over and above the provision already planned. On this preliminary basis, the quarter's provision will build the reserve to a level adequate in our opinion to cover any losses in our entire loan portfolio, including participations with the Penn Square Bank.

While we have not yet completed a profit and loss statement for our second quarter, we anticipate a loss but our present analysis indicates that we will show a profit for the first half of the year, even after this extraordinary provision.

-30-

DRAFT 7/4/82

We wish to bring to your attention our opinion on the condition of the [redacted]. In summary, we believe that the bank is in imminent danger of failing. The solvency of the bank is threatened on two fronts -- net worth and liquidity.

Net Worth

The bank is currently under examination by the OCC. To date our examination has identified losses in the loan portfolio that substantially impair gross capital funds. Additional loans were sold by the bank to its holding company and to one of its correspondents after identification by OCC as loss; the bank may ultimately be found liable for these losses. There is significant depreciation in the securities portfolio. In addition, irregularities in loan documentation and other business practices may give rise to substantial contingent liabilities that will ultimately result in losses to the bank. In our judgment, these and additional losses inherent in the bank's asset portfolio will extinguish the remaining capital funds.

uxci

The bank is under a cease and desist order from the OCC that required the injection of $30 million additional capital. To date the bank has been unable to meet this requirement. Both we and bank management believe that the bank will be unable to raise additional capital under present conditions.

Liquidity

There has been adverse and widespread publicity concerning the bank. Moreover, the money market, which has been the major funding source for the bank, is aware of the bank's difficulties.

Heavy cash withdrawals took place on July 2 and 3rd as news of the bank's problems spread. Several major correspondent banks have refused to sell federal funds to the bank. The bank's officers have since ordered its funding desk not to purchase federal funds from any source. Several large uninsured depositors have requested their money. We understand that certain local banks refused to cash official checks of the bank, although we assume they are taking them for collection.

In these circumstances, we believe the bank is unable to meet the demands of its depositors and creditors from private funding sources. Further, we believe that support from the money market and other sophisticated uninsured and unsecured lenders will continue to erode. This support at the present time exceeds $300 million.

Therefore, we believe significant long-term funding support from the Federal Reserve would be required if the bank is to continue to meet the demands placed upon it. The amounts required may well exceed $300 million. Without that support the bank will very likely be unable to remain in operation in its present circumstances.

Conclusion

We do not believe that the bank will be viable in the foreseeable future. As noted above, this judgment is based upon the likelihood of a negative capital funds position and the inability of the bank to obtain private funding. In the light of these circumstances, we wish to be apprised of your intentions in providing loans to this bank.

MEETING ON [redacted] WORKOUT 7/13/82

| | |
|---|---|
| Press Martin | F. Res Bd |
| Jack Ryan | F. Res. Bd. |
| Michael Bradfield | F. Res Bd |
| Francis D. Logan | Milbank Tweed - Chase |
| RICHARD J. HIGGERSON | CHASE MANHATTAN BANK |
| STEPHEN R. WHITE | NORTHERN TRUST CO. |
| DAVID W. FOX | " " " |
| John B. Snyder | " " " |
| Douglas Mires | Michigan National Bank |
| Paul C. Sauder | " " " |
| Perry Driggs | " " " |
| Herbert K. Peterson | " " " |
| GERALD K. BERGMAN | CONTINENTAL ILLINOIS BANK |
| RICHARD S. BRENNAN | " " " |
| Arland D. Hatfield | Seattle - First National Bank |
| NEIL SCHICKNER | DAVIS, WRIGHT, TODD, RIESE & JONES / SEATTLE-FIRST |
| Silas Keehn | Federal Reserve Bank of Chicago |
| William Taylor | Board of Governors |
| Paul M Homan | Comptroller of the Currency |

Attention Mike Bradfield

FEDERAL RESERVE BANK OF KANSAS CITY
KANSAS CITY, MISSOURI 64198

July 4, 1982

DRAFT

The Honorable C. T. Conover
Comptroller of the Currency
490 East L'Enfant Plaza, S.W.
Washington, D.C. 20219

Dear Mr. Conover:

Pursuant to the information contained in your letter of July 4, 1982, concerning the current financial condition of the [redacted] [redacted], the Federal Reserve Bank of Kansas City is not prepared to extend further credit to the bank in its current condition.

The Federal Reserve Bank of Kansas City believes that continued credit extension to the bank is not consistent with the Federal Reserve's lending policies under the circumstances where the prospect of repayment of the loan is in jeopardy, and where there are no apparent prospects for returning the bank to a viable and safe and sound financial condition. The extension of Federal Reserve credit in these circumstances would be contrary to the public interest.

Sincerely,

DRAFT

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

July 5, 1982

Mr. Roger Guffey
President, Federal Reserve Bank of Kansas City
925 Grand Avenue
Kansas City, Missouri 04198

Dear Mr. Guffey:

We wish to bring to your attention our opinion on the condition of the [redacted]. In summary, we believe that the bank is in imminent danger of failing. The solvency of the bank is threatened on two fronts -- net worth and liquidity.

Net Worth

The bank is currently under examination by the OCC. To date our examination has identified losses in the loan portfolio that substantially impair gross capital funds. Additional loans were sold by the bank to its holding company and to one of its correspondents after identification by OCC as loss; the bank may ultimately be found liable for these losses. There is significant depreciation in the securities portfolio. In addition, irregularities in loan documentation and other business practices may give rise to substantial contingent liabilities that will ultimately result in losses to the bank. In our judgment, these and additional losses inherent in the bank's asset portfolio will extinguish the remaining capital funds.

The bank is under a Cease and Desist Order from the OCC that required the injection of $30 million additional capital. To date the bank has been unable to meet this requirement. Both we and bank management believe that the bank will be unable to raise additional capital under present conditions.

Liquidity

There has been adverse and widespread publicity concerning the bank. Moreover, the money market, which has been the major funding source for the bank, is aware of the bank's difficulties.

Heavy cash withdrawals took place on July 2nd and 3rd as news of the bank's problems spread. Several major correspondent banks have declined to sell federal funds to the bank. The bank's officers have since ordered its funding desk not to purchase federal funds from any source. Several large uninsured depositors have requested their money. We understand that certain local banks refused to cash official checks of the bank, although we assume they are taking them for collection.

In these circumstances, we believe the bank is unable to meet the demands of its depositors and creditors from private funding sources. Further, we believe that support from the money market and other sophisticated uninsured and unsecured lenders will continue to erode. This support at the present time approaches $300 million.

Therefore, we believe significant long-term funding support from the Federal Reserve would be required if the bank is to continue to meet the demands placed upon it. The amounts required may well approach or exceed $300 million.

Conclusion

We do not believe that the bank will be viable in the foreseeable future. As noted above, this judgment is based on the likelihood of a negative capital funds position and the inability of the bank to obtain private funding. In light of these circumstances, we wish to be apprised of your intentions in providing loans to this bank.

Sincerely,

Paul M Homan

Paul M. Homan
Senior Deputy Comptroller
for Bank Supervision

FEDERAL RESERVE BANK OF KANSAS CITY
KANSAS CITY, MISSOURI 64198

July 5, 1982

Mr. Paul M. Homan
Senior Deputy Comptroller
for Bank Supervision
490 East L'Enfant Plaza, S.W.
Washington, D.C. 20219

Dear Mr. Homan:

Pursuant to the information contained in your letter of July 5, 1982, concerning the current financial condition of the [redacted], the Federal Reserve Bank of Kansas City is not prepared to extend further credit to the bank in its current condition.

In reaching this decision, we have taken into consideration among other things your evaluations of the quality and condition of the bank's asset portfolio, its capital position and its inability to comply with the terms and conditions of the cease and desist order. We further noted the bank's heavy reliance on purchased funds which you believe will not be available in the future.

The Federal Reserve Bank of Kansas City believes that continued credit extension to the bank is not consistent with the Federal Reserve's lending policies under the circumstances where the prospect of repayment of the loan is in jeopardy, and where there are no apparent prospects for returning the bank to a viable and safe and sound financial condition in the foreseeable future. The extension of Federal Reserve credit in these circumstances would be contrary to the public interest.

Sincerely,

Roger Guffey

Roger Guffey
President

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

July 5, 1982

Mr. Roger Guffey
President, Federal Reserve Bank of Kansas City
925 Grand Avenue
Kansas City, Missouri 04198

Dear Mr. Guffey:

We wish to bring to your attention our opinion on the condition of the [redacted]. In summary, we believe that the bank is in imminent danger of failing. The solvency of the bank is threatened on two fronts -- net worth and liquidity.

Net Worth

The bank is currently under examination by the OCC. To date our examination has identified losses in the loan portfolio that substantially impair gross capital funds. Additional loans were sold by the bank to its holding company and to one of its correspondents after identification by OCC as loss; the bank may ultimately be found liable for these losses. There is significant depreciation in the securities portfolio. In addition, irregularities in loan documentation and other business practices may give rise to substantial contingent liabilities that will ultimately result in losses to the bank. In our judgment, these and additional losses inherent in the bank's asset portfolio will extinguish the remaining capital funds.

The bank is under a Cease and Desist Order from the OCC that required the injection of $30 million additional capital. To date the bank has been unable to meet this requirement. Both we and bank management believe that the bank will be unable to raise additional capital under present conditions.

Liquidity

There has been adverse and widespread publicity concerning the bank. Moreover, the money market, which has been the major funding source for the bank, is aware of the bank's difficulties.

Heavy cash withdrawals took place on July 2nd and 3rd as news of the bank's problems spread. Several major correspondent banks have declined to sell federal funds to the bank. The bank's officers have since ordered its funding desk not to purchase federal funds from any source. Several large uninsured depositors have requested their money. We understand that certain local banks refused to cash official checks of the bank, although we assume they are taking them for collection.

In these circumstances, we believe the bank is unable to meet the demands of its depositors and creditors from private funding sources. Further, we believe that support from the money market and other sophisticated uninsured and unsecured lenders will continue to erode. This support at the present time approaches $300 million.

Therefore, we believe significant long-term funding support from the Federal Reserve would be required if the bank is to continue to meet the demands placed upon it. The amounts required may well approach or exceed $300 million.

Conclusion

We do not believe that the bank will be viable in the foreseeable future. As noted above, this judgment is based on the likelihood of a negative capital funds position and the inability of the bank to obtain private funding. In light of these circumstances, we wish to be apprised of your intentions in providing loans to this bank.

Sincerely,

Paul M Homan

Paul M. Homan
Senior Deputy Comptroller
for Bank Supervision

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

July 5, 1982

Mr. Roger Guffey
President, Federal Reserve Bank of Kansas City
925 Grand Avenue
Kansas City, Missouri 04198

Dear Mr. Guffey:

We wish to bring to your attention our opinion on the condition of the [redacted] In summary, we believe that the bank is in imminent danger of failing. The solvency of the bank is threatened on two fronts -- net worth and liquidity.

Net Worth

The bank is currently under examination by the OCC. To date our examination has identified losses in the loan portfolio that substantially impair gross capital funds. Additional loans were sold by the bank to its holding company and to one of its correspondents after identification by OCC as loss; the bank may ultimately be found liable for these losses. There is significant depreciation in the securities portfolio. In addition, irregularities in loan documentation and other business practices may give rise to substantial contingent liabilities that will ultimately result in losses to the bank. In our judgment, these and additional losses inherent in the bank's asset portfolio will extinguish the remaining capital funds.

The bank is under a Cease and Desist Order from the OCC that required the injection of $30 million additional capital. To date the bank has been unable to meet this requirement. Both we and bank management believe that the bank will be unable to raise additional capital under present conditions.

Liquidity

There has been adverse and widespread publicity concerning the bank. Moreover, the money market, which has been the major funding source for the bank, is aware of the bank's difficulties.

Heavy cash withdrawals took place on July 2nd and 3rd as news of the bank's problems spread. Several major correspondent banks have declined to sell federal funds to the bank. The bank's officers have since ordered its funding desk not to purchase federal funds from any source. Several large uninsured depositors have requested their money. We understand that certain local banks refused to cash official checks of the bank, although we assume they are taking them for collection.

In these circumstances, we believe the bank is unable to meet the demands of its depositors and creditors from private funding sources. Further, we believe that support from the money market and other sophisticated uninsured and unsecured lenders will continue to erode. This support at the present time approaches $300 million.

Therefore, we believe significant long-term funding support from the Federal Reserve would be required if the bank is to continue to meet the demands placed upon it. The amounts required may well approach or exceed $300 million.

Conclusion

We do not believe that the bank will be viable in the foreseeable future. As noted above, this judgment is based on the likelihood of a negative capital funds position and the inability of the bank to obtain private funding. In light of these circumstances, we wish to be apprised of your intentions in providing loans to this bank.

Sincerely,

Paul M Homan

Paul M. Homan
Senior Deputy Comptroller
for Bank Supervision

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

July 5, 1982

Mr. Roger Guffey
President, Federal Reserve Bank of Kansas City
925 Grand Avenue
Kansas City, Missouri 04198

Dear Mr. Guffey:

We wish to bring to your attention our opinion on the condition of the [redacted] In summary, we believe that the bank is in imminent danger of failing. The solvency of the bank is threatened on two fronts -- net worth and liquidity.

Net Worth

The bank is currently under examination by the OCC. To date our examination has identified losses in the loan portfolio that substantially impair gross capital funds. Additional loans were sold by the bank to its holding company and to one of its correspondents after identification by OCC as loss; the bank may ultimately be found liable for these losses. There is significant depreciation in the securities portfolio. In addition, irregularities in loan documentation and other business practices may give rise to substantial contingent liabilities that will ultimately result in losses to the bank. In our judgment, these and additional losses inherent in the bank's asset portfolio will extinguish the remaining capital funds.

The bank is under a Cease and Desist Order from the OCC that required the injection of $30 million additional capital. To date the bank has been unable to meet this requirement. Both we and bank management believe that the bank will be unable to raise additional capital under present conditions.

Liquidity

There has been adverse and widespread publicity concerning the bank. Moreover, the money market, which has been the major funding source for the bank, is aware of the bank's difficulties.

Heavy cash withdrawals took place on July 2nd and 3rd as news of the bank's problems spread. Several major correspondent banks have declined to sell federal funds to the bank. The bank's officers have since ordered its funding desk not to purchase federal funds from any source. Several large uninsured depositors have requested their money. We understand that certain local banks refused to cash official checks of the bank, although we assume they are taking them for collection.

In these circumstances, we believe the bank is unable to meet the demands of its depositors and creditors from private funding sources. Further, we believe that support from the money market and other sophisticated uninsured and unsecured lenders will continue to erode. This support at the present time approaches $300 million.

Therefore, we believe significant long-term funding support from the Federal Reserve would be required if the bank is to continue to meet the demands placed upon it. The amounts required may well approach or exceed $300 million.

Conclusion

We do not believe that the bank will be viable in the foreseeable future. As noted above, this judgment is based on the likelihood of a negative capital funds position and the inability of the bank to obtain private funding. In light of these circumstances, we wish to be apprised of your intentions in providing loans to this bank.

Sincerely,

Paul M Homan

Paul M. Homan
Senior Deputy Comptroller
for Bank Supervision

~~Attention Mike Bradfield~~
Attention Mike Bradfield

FEDERAL RESERVE BANK OF KANSAS CITY
KANSAS CITY, MISSOURI 64198

July 4, 1982

DRAFT

The Honorable C. T. Conover
Comptroller of the Currency
490 East L'Enfant Plaza, S.W.
Washington, D.C. 20219

Dear Mr. Conover:

Pursuant to the information contained in your letter of July 4, 1982, concerning the current financial condition of the [redacted], the Federal Reserve Bank of Kansas City is not prepared to extend further credit to the bank in its current condition.

The Federal Reserve Bank of Kansas City believes that continued credit extension to the bank is not consistent with the Federal Reserve's lending policies under the circumstances where the prospect of repayment of the loan is in jeopardy, and where there are no apparent prospects for returning the bank to a viable and safe and sound financial condition. The extension of Federal Reserve credit in these circumstances would be contrary to the public interest.

Sincerely,

DRAFT

DRAFT 7/4/82

We wish to bring to your attention our opinion on the condition of the [redacted].
In summary, we believe that the bank is in imminent danger of failing. The solvency of the bank is threatened on two fronts -- net worth and liquidity.

Net Worth

The bank is currently under examination by the OCC. To date our examination has identified losses in the loan portfolio that substantially impair gross capital funds. Additional loans were sold by the bank to its holding company and to one of its correspondents after identification by OCC as loss; the bank may ultimately be found liable for these losses. There is significant depreciation in the securities portfolio. In addition, irregularities in loan documentation and other business practices may give rise to substantial contingent liabilities that will ultimately result in losses to the bank. In our judgment, these and additional losses inherent in the bank's asset portfolio will extinguish the remaining capital funds.

The bank is under a cease and desist order from the OCC that required the injection of $30 million additional capital. To date the bank has been unable to meet this requirement. Both we and bank management believe that the bank will be unable to raise additional capital under present conditions.

Liquidity

There has been adverse and widespread publicity concerning the bank. Moreover, the money market, which has been the major funding source for the bank, is aware of the bank's difficulties.

Heavy cash withdrawals took place on July 2 and 3rd as news of the bank's problems spread. Several major correspondent banks have refused to sell federal funds to the bank. The bank's officers have since ordered its funding desk not to purchase federal funds from any source. Several large uninsured depositors have requested their money. We understand that certain local banks refused to cash official checks of the bank, although we assume they are taking them for collection.

In these circumstances, we believe the bank is unable to meet the demands of its depositors and creditors from private funding sources. Further, we believe that support from the money market and other sophisticated uninsured and unsecured lenders will continue to erode. This support at the present time exceeds $300 million.

Therefore, we believe significant long-term funding support from the Federal Reserve would be required if the bank is to continue to meet the demands placed upon it. The amounts required may well exceed $300 million. Without that support the bank will very likely be unable to remain in operation in its present circumstances.

Conclusion

We do not believe that the bank will be viable in the foreseeable future. As noted above, this judgment is based upon the likelihood of a negative capital funds position and the inability of the bank to obtain private funding. In the light of these circumstances, we wish to be apprised of your intentions in providing loans to this bank.

MEETING ON [redacted] WORKOUT 7/3/82

| | |
|---|---|
| Preston Martin | F. Res. Bd. |
| Jack Ryan | F. Res. Bd. |
| Michael Bradfield | F. Res Bd |
| Francis D. Logan | Milbank Tweed - Chase |
| Richard J. Higgerson | Chase Manhattan Bank |
| Stephen R. White | Northern Trust Co. |
| David W. Fox | " " " |
| John B. Snyder | " " " |
| Douglas Mires | Michigan National Bank |
| Paul C. Sauder | " " " |
| Perry Driggs | " " " |
| Herbert K. Peterson | " " " |
| Gerald K. Bergman | Continental Illinois Bank |
| Richard S. Brennan | " " " |
| Arland D. Hatfield | Seattle - First National Bank |
| Neil Schickner | Davis, Wright, Todd, Riese & Jones / Seattle-First |
| Silas Keehn | Federal Reserve Bank of Chicago |
| William Taylor | Board of Governors |
| Paul M Homan | Comptroller of the Currency |

W.T. 4.1 B

Rice

800 million

$ 1.5 billion

MHJ

Gramley

746 million

Coyne

1.6 Billion

Bradfield

$2 billion

Keehn

8

$ 2 Billion

$ 500 million

JRyan

PM $500 million

. DRAFT 5

FDIC CREATES DEPOSIT INSURANCE NATIONAL BANK
TO HANDLE INSURED DEPOSITS OF
[redacted]

The FDIC Board of Directors announced today that it has established a Deposit Insurance National Bank (DINB) to assume the insured deposits of [redacted]. [redacted] was closed today by Comptroller of the Currency C. T. Conover, who named the FDIC receiver.

Conover said: "The bank began to experience serious problems after rapid growth resulted in deteriorating asset quality. The bank was the originator and servicer of a significant number of loans for energy related purposes. Losses centered on these energy related loans, together with funding difficulties, resulted in the bank's insolvency."

The new bank, named the Deposit Insurance National Bank of Oklahoma City, will open for business in the offices of the failed bank at 9:00 a.m., Tuesday, July 6, 1982, and will remain open each day as late as is necessary to serve depositors. The DINB will be managed by G. Michael Newton, a career FDIC employee, pursuant to the direction of the FDIC Board of Directors.

The DINB was established pursuant to Section 11 of the Federal Deposit Insurance Act. All insured deposits in the closed bank have been transferred to the DINB, and those funds will be available to their owners to the same extent that they were available at the Penn Square Bank prior to its closing. Funds deposited in interest-bearing accounts will continue to earn interest at the contract rate, subject to the federal insurance limit of $100,000.

Depositors with amounts on deposit in the Penn Square Bank in excess of the insurance limit of $100,000 will have their deposits up to the insurance limit transferred to the DINB, while the excess will constitute a claim against the Penn Square Bank receivership. Such depositors will be issued a "Receiver's Certificate" in an amount equal to the uninsured portion of their deposit. The excess depositors' claims will be given general creditor status, which means they will share in liquidating dividends with FDIC and other general creditors from the collection of the bank's assets by the receiver.

It is not possible to forecast the ultimate recovery

For examination purposes, the Federal financial institution regulators have agreed to allow institutions under their jurisdictions initially to carry any of the Receiver's Certificates at not more than 80% of face value. This percentage may be adjusted from time to time, based upon periodic reviews of the value of the receivership estate.

The number of deposit accounts is about 28,000, and total deposits are approximately $465 million. Depositors are advised that arrangements have been made to permit the continued clearance of checks drawn on the [redacted] and such checks will be honored by the DINB to the extent of the funds transferred.

The FDIC as receiver has succeeded to all the assets of the insolvent [redacted]. The receiver will expect borrowers to continue repayment of their loans in accordance with the terms of their loan agreements with [redacted]. James P. Hudson will be in charge of the FDIC's receivership activities.

Most employees of the [redacted] initially will be retained as employees of either the new bank or the receiver.

The Board of Directors of the FDIC determined that it could not arrange an assisted merger of the [redacted] into another bank due to the existence of a large amount of contingent claims that might be asserted and the possible existence of other claims in an amount undeterminable at the present time.

# NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

For: IMMEDIATE RELEASE

Date: July 5, 1982, p.m., CDT

At p.m., (CDT) today, the Comptroller of the Currency, C.T. Conover, declared the [redacted] insolvent and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver.

The [redacted] was chartered on February 12, 1960, under the name [redacted] and adopted its present name in 1975. At closure the bank held total assets of approximately $524 million and total deposits of approximately $465 million.

The bank began to experience serious problems after rapid growth resulted in deteriorating asset quality. The bank was the originator and servicer of a significant number of loans for energy related purposes. Losses centered in these energy related loans, together with funding difficulties, resulted in the bank's insolvency.

The FDIC is expected to issue a more detailed statement later today.

# # # # #

130.

150

TC: THE BOARD OF GOVERNORS OF

THE FEDERAL RESERVE SYSTEM

20TH AND CONSTITUTION AVENUE, N.W.

WASH. D.C. 20551

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1982 JUL -6 AM 9:54

RECEIVED
OFFICE OF THE CHAIRMAN

YOU ARE ADVISED THAT [redacted]
[redacted], [redacted] N [redacted] WAS ON THIS DAY
PLACED IN THE HANDS OF THE FEDERAL DEPOSIT INSURANCE
CORPORATION, RECEIVER

C.T. CONOVER

COMPTROLLER OF THE CURRENCY

12/RMC/8186

07060940 M3AEU 0005**07060940 M3BEN 0005

7/5/82

Proposed Draft Letter to Mr. Conover

Dear Mr. Conover:

Pursuant to the information contained in your letter of July 4, 1982, concerning the current financial condition of the [redacted], the Federal Reserve Bank of Kansas City is not prepared to extend further credit to the bank in its current condition.

In reaching this decision we have taken into consideration among other things your evaluations of the quality and condition of the bank's asset portfolio, its capital position, and its inability to comply with the terms and conditions of your cease and desist order. We further noted the bank's heavy reliance on purchased funds which you believe will not be available in the future.

The Federal Reserve Bank of Kansas City believes that continued credit extension to the bank is not consistent with the Federal Reserve's lending policies under the circumstances where the prospect of repayment of the loan is in jeopardy, and where there are no apparent prospects for returning the bank to a viable and safe and sound financial condition in the foreseeable future. The extension of Federal Reserve credit in these circumstances would be contrary to the public interest.

Sincerely,

~~Attention Mike [illegible]~~

Attention Mike Bradfield

FEDERAL RESERVE BANK OF KANSAS CITY

KANSAS CITY, MISSOURI 64198

July 4, 1982

DRAFT

The Honorable C. T. Conover
Comptroller of the Currency
490 East L'Enfant Plaza, S.W.
Washington, D.C. 20219

Dear Mr. Conover:

Pursuant to the information contained in your letter of July 4, 1982, concerning the current financial condition of the [redacted] the Federal Reserve Bank of Kansas City is not prepared to extend further credit to the bank in its current condition.

The Federal Reserve Bank of Kansas City believes that continued credit extension to the bank is not consistent with the Federal Reserve's lending policies under the circumstances where the prospect of repayment of the loan is in jeopardy, and where there are no apparent prospects for returning the bank to a viable and safe and sound financial condition. The extension of Federal Reserve credit in these circumstances would be contrary to the public interest.

Sincerely,

DRAFT

add
[illegible]

Federal Deposit Insurance Corporation

# Office Memorandum

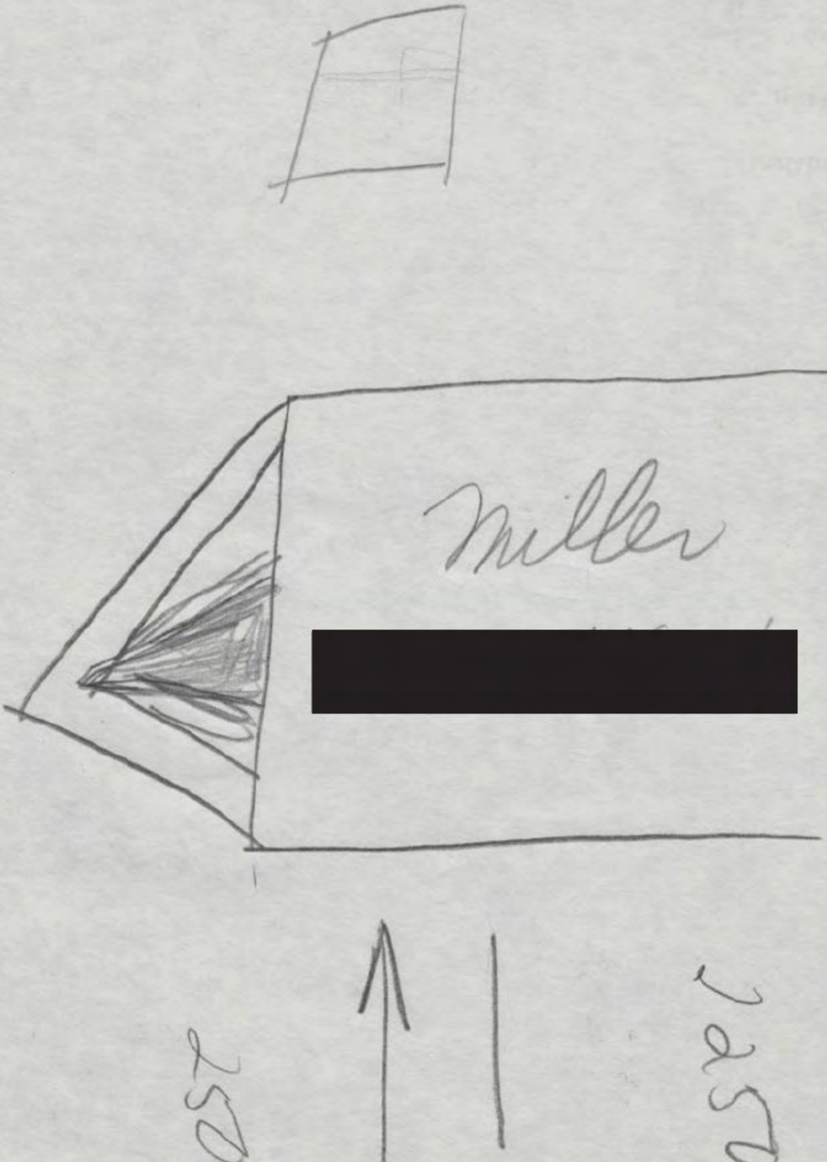
DATE:

TO :

FROM :

SUBJECT :

Roger Guffey
President
F R Bk of K C
925 Grand Ave
K C Missouri
64198


Miller
[redacted]
250
250

TELE FAX # [redacted]

the max

## Critical Criteria For A Purchase And Assumption Transaction

A. Known contingencies reduced to ~~manageable levels by:~~ a level below the amount ~~due~~ of cost to the

1. participating banks holding FDIC harmless

2. new lending commitments assumed in whole or in part by largest participating banks

3. FDIC receives hold harmless on a portion of outstanding letters of credit

B. Federal Reserve Bank makes a loan of approximately $330 million to the FDIC (or FDIC as receiver) under following conditions:

1. FDIC note is secured and repayable out of proceeds from Bank loan portfolio adjusted by removal of known or expected loss items. ~~60~~ $70

   a. Loan would be made at discount rate and any difference between discount and return to FDIC on the portfolio securing the Fed loan would serve as a reserve to be used towards making up any loss on the portfolio relative to the principal amount of the Fed loan

   b. FDIC would commit to liquidating portfolio as rapidly as feasible to repay Fed loan consistent with full repayment of principal

   c. Loan would have a formal maturity of 90 days but would be rolled over as necessary consistent with repayment from proceeds of liquidation

C. FDIC would assumed responsibility for remaining contingencies as reduced by steps taken under (A) and (B).

DRAFT 7/4/82

Dear Chairman Volcker:

You have asked our opinion on the condition of the [redacted]. In summary, we believe that the bank is in imminent danger of failing. The solvency of the bank is threatened on two fronts -- net worth and liquidity.

Net Worth

The bank is currently under examination by the OCC. To date our examination has identified losses in the loan portfolio that greatly impair gross capital funds. Additional ~~loss~~ loans were sold by the bank to its holding company and to one of ~~its~~ the bank's correspondents ~~and to its holding company~~ after identification by OCC as loss; the bank may ultimately be found liable for these losses. There ~~are~~ is substantial depreciation ~~[illegible] losses~~ in the bank's securities portfolio. In addition, significant irregularities in loan documentation and other business practices may give rise to substantial contingent liabilities that will ultimately result~~ing~~ in loss to the bank. We believe that these and additional losses inherent in the bank's asset portfolio are likely to extinguish the remaining capital funds.

The bank is under a cease and desist order from the OCC ~~from the OCC~~ that required the injection of $30 million additional capital. To date the bank has been unable to meet this requirement. ~~raise any additional capital, and~~ Both we and ~~the bank~~ bank management believe that the bank will be unable to raise additional capital without also receiving an assured long-term source of funding.

Liquidity

There has been adverse and widespread publicity concerning the bank, both nationally and locally. Moreover, the money market, which has been the major funding source for the bank, is aware of the bank's difficulties.

Heavy cash withdrawals took place on July 2nd and 3rd as news of the bank's problems spread. Certain major correspondent banks have refused to sell federal funds ~~lend~~ to the bank. ~~in the federal funds market.~~ The bank's officers have since ordered it's funding desk not to purchase federal funds from any source. Several large uninsured depositors have requested their money. We understand certain local banks refused to cash official checks of the bank, although we assume they are taking them for collection.

In these circumstances ~~and given the precarious condition of the bank,~~ we believe the bank is ~~will be~~ unable to meet fully the demands of its depositors and creditors ~~on Tuesday, July 6, 1982,~~ from private funding sources. Further, we believe that support from the money market and other sophisticated uninsured and unsecured lenders will continue to erode. This support at the present time approaches $300 million.

Therefore, we believe significant long-term funding support from the Federal Reserve will be required if the bank is to continue to meet the demands placed upon it. The amounts required may well approach or exceed $300 million. Without that support the bank will very likely be insolvent from a liquidity point of view.

Conclusion

~~While~~ It is obvious that as long as the Federal Reserve Bank lends to Penn Square, it's liquidity is maintained. However, we cannot assure you that the bank will ever be viable. In fact, because of the tenuous nature of the capital structure, further identified losses on ~~any default on~~ a relatively few assets ~~, insignificant loans~~ could result in an insolvency, requiring immediate closing of the bank.

In these circumstances we ~~believe~~ have a question whether it ~~it~~ would ~~be~~ ~~not~~ be in the public interest for this institution to receive additional funding ~~fr~~ from your Bank

MEETING ON [redacted] WORKOUT 7/3/82

| | |
|---|---|
| Press Mastin | F. Res. Bd. |
| Jack Ryan | F. Res. Bd. |
| Michael Bradfield | F. Res Bd |
| Francis D. Logan | Milbank Tweed - Chase |
| Richard J. Higgerson | Chase Manhattan Bank |
| Stephen R. White | Northern Trust Co. |
| David W. Fox | " " " |
| John B. Snyder | " " " |
| Douglas Mires | Michigan National Bank |
| Paul C. Sanders | " " " |
| Perry Driggs | " " " |
| Herbert K. Peterson | " " " |
| Gerald K. Bergman | Continental Illinois Bank |
| Richard S. Brennan | " " " |
| Arland D. Hatfield | Seattle - First National Bank |
| Neil Schickner | Davis, Wright, Todd, Riese & Jones / Seattle-First |
| Silas Keehn | Federal Reserve Bank of Chicago |
| William Taylor | Board of Governors |
| Paul M Homan | Comptroller of the Currency |