Banking by EIR Economics Staff

New failures rock Southwest banking

The bankruptcy of Mainland Savings appears to have set off a chain reaction in the oil-producing states.

Another billion-dollar-plus bankruptcy will hit the United States' stricken oil-producing states at the beginning of May, according to sources at the Federal Savings and Loan Insurance Corporation (FSLIC), the chief regulatory agency for thrift institutions.

The next savings and loan to fail will be even bigger than Houston's Mainland Savings, which went under at the beginning of April. The Louisiana-based institution is one of several ready to be closed, according to bankers.

The Mainland failure marked a turning-point in FSLIC policy: For the first time, big depositors, who had lent Mainland more than the $100,000 maximum guaranteed by the insurance fund, did not get their money back. The FSLIC has barely $2 billion of ready cash available to cover *$1.2 trillion* of savings and loans' deposits. At least $60 billion of these deposits are in immediate danger.

Mainland's failure, and the way in which the nearly exhausted FSLIC handled it, appear to have set off a chain reaction. Big S&Ls in trouble were previously able to "bid" for big deposits from pension funds, life insurance companies, or other major lenders, with the understanding that the FSLIC would always stand behind them. Now that the big investors stand to lose, the market for "brokered" deposits has ceased to exist.

A long list of troubled institutions in the oil-producing states is ready to fall, like a series of dominoes. As previous deposits come due, these institutions are unable to find new ones to replace those maturing.

Nine out of the 10 top Texas banks are in immediate danger, due to the 60% collapse of oil prices since last December. Six of them have already been warned by federal regulators that they are on the "danger list" prepared by the Treasury.

One of Texas's largest banks, First City Bancorp of Houston, has already begun to sell off its remaining assets in return for the short-term credit needed to stay in business. It fell below its required net worth after declaring a $232.4 million loss for the first quarter of 1986. In desperation, First City has pledged the stock of all but one of the 64 banks it owns, as well as five of its non-bank subsidiaries, to obtain a $250 million line of credit from its creditors. The one bank not pledged was First City National Bank of Houston, the flagship bank which accounts for half of First City's $16.1 billion in assets and most of its energy loan problems. In other words, First City has sold off its good assets, and retained its bad assets.

Meantime, the top three Oklahoma bank holding companies have reported losses for the first quarter of 1986. The state's number one bank, Banks of Mid-America Inc., posted a loss of $5.9 million, compared to a profit of $4.2 million in the first quarter of 1985. BancOklahoma Corp., the state's second-largest, reported a net loss of $43.9 million, compared to a first-quarter 1985 profit of $2.9 million. The third-largest bank, First Oklahoma Bancorp., announced losses of $37-45 million for the quarter.

Comptroller of the Currency Robert Clarke is like a man caught in a rainstorm; when the tree under which he takes shelter soaks through, he looks for a bigger tree. That is a short-term strategy, at best, but it is all that the Treasury has to offer. It wants emergency legislation to allow out-of-state banks to take over failing banks and their holding companies, and singled out Texas as a particular trouble spot.

Clarke, in Houston to address a convention of the Texas Bankers Association, said he "would expect Texas bankers to have some fear about the introduction of a new competitor," and advised them "to make arrangements" to take care of troubled banks on their own if they want to keep the money-center banks out of the state.

However, the second-largest money-center bank, San Francisco-based Bank of America, admits that its own problems might place it in the firing line, along with the Texas institutions. A top bank officer said that Bank America Corp. would likely remain vulnerable to serious loan losses despite a modest return to profitability and increases to the bank's loss reserve in the first quarter. "The most important objectives are to get earnings growing consistently and not get any big shocks of the size to wipe out earnings," Bank America Chief Financial Officer John Poelker told Reuter news service April 29. "But we are still six to eight quarters away from that kind of dependability of earnings."

The bank reported a first quarter net profit of $63 million, recouping some of its record $337 million of net losses in 1985.