Banking by Harley Schlanger

The silent run on Texas banks

In Harris County (Houston), checking and savings deposits for the first quarter of 1988 are down a huge 6%.

There have been no long lines winding through empty streets, no frenzied mobs surging against locked doors, desperately demanding a return of their deposits. Yet, the silent runs against the banks of Texas in 1987-88 augur the coming of a depression as surely as did those more dramatic runs of 1931-32.

The drop in deposits in Texas banks in the last year has been massive. One bank, First RepublicBank Corp. of Dallas, admitted losses of more than $2 billion in deposits from December 1987 to February 1988. This admission brought national attention to the problem, and forced the bank and the Federal Deposit Insurance Corp. (FDIC) to take action to slow the losses. The bank stopped releasing deposit figures, and the FDIC "loaned" it $1 billion to try to stabilize the bank. There are rumors that it may cost the FDIC as much as $5 to $6 billion to save the bank, though FDIC chairman William Seidman continues to dispute these figures, saying it is "too soon" to estimate the probable cost.

Figures released the first week in April for Harris County (Houston) bank deposits for the first quarter of 1988, show that the total of checking and savings deposits was down 6% from the last quarter. For the year, beginning March 31, 1987, the decline was a whopping 18.2%, from $34.29 billion to $28.02 billion, a loss of over $6 billion in deposits. The worst is ahead.

The most immediate cause of the flight out of Texas banks has been the collapse of Texas real estate. Beginning in 1982, the major cities of Texas became centers of spectacular real estate speculation. One out of every two dollars loaned by major Houston banks from 1982 to 1987 was for real estate. The percentage of real estate loans in the loan portfolios for these banks has grown from under 20% to a range of 35-48%!

With office vacancy rates over 30%, and home foreclosures setting records, the banks have had drastic increases in their non-performing assets. This has forced a large-scale transfer of funds into loan-loss reserves, but this has not kept pace with the growth in non-performing assets. To hold the line, the write-offs of bad loans have been kept to a minimum.

This is no longer possible, as many of the loans are too far past due to hold on the books any longer. Thus, the full weight of the bursting of the real estate bubble is now beginning to hit Texas banks.

The latest to be hit are Texas American Bancshares (TAB) of Fort Worth and National Bancshares Corp. (NBC) of San Antonio, the sixth and eighth largest Texas bank companies by asset. Rumors about these banks were fed by a statement from an FDIC spokesman that the FDIC had granted open bank assistance to two "southwestern banks." On April 6, TAB chairman Joseph Grant denied these rumors as "absolutely erroneous." However, by April 7, it was revealed that these two banks are pursuing a merger, with FDIC assistance.

These two banks are perfect examples of the crisis. TAB, which owns 25 subsidiary banks, lost $115 million in 1986, and another $78 million in 1987. Forty-eight percent of its total loans are for real estate; 12.3% of its total loan portfolio consists of bad loans and repossessed properties. NBC, with 12 banks, lost $64 million in 1987, with problem assets totaling 13.5% of its loan portfolio.

The path pursued by the Reagan-Bush administration and the FDIC, under the direction of Bush crony (and Houstonian) James Baker III, has been to talk down the crisis while promoting mergers, takeovers, and opening the federal money spigots.

Mergers have had little positive effect, as demonstrated by the case of First RepublicBank (from two Dallas banks, Republic Bank and InterFirst). A merger with an out-of-state bank has also failed to help. Texas Commerce Bancshares, which merged with Chemical Bank of New York, is in serious trouble. Its flagship bank, Texas Commerce Bank-Houston, has had a deposit drop from $7.39 billion on March 31, 1987, to $6.7 billion on March 31, 1988.

Even more disastrous has been the attempt of a group headed by former First Chicago bank chairman Robert Abboud to pull off an FDIC-assisted takeover of First City Bancorp. Despite a pledge from the FDIC for $970 million, Abboud's group has failed to convince First City debtholders to surrender their debt, for an offer of 35-45¢ on the dollar. Two deadlines have passed, with only 60% of the debt purchased. The deadline was extended until April 12, with the amount required for purchase lowered from 90% to 70%. Yet, as of this writing, it appears doubtful that they will succeed.

At this point, pep talks from James Baker and the soothing illusions of sixty-five months of the "Reagan recovery" cannot stem this tide. Nor will $10-15 billion in bailouts preserve banking in Texas.