oil loans collateral that it had to borrow very heavily from the Federal Reserve to stay in circulation (Niering 58). Oil loans in Texas caused as many problems to banks as the oil loans did in Oklahoma.

First National Bank of Midland was the largest independent bank in Texas. It was located in the heart of the Midland-Odessa region, which accounted for 20 percent of the nation's oil production and was backed by some of the richest oilmen in Texas. The bank was a "mainstay of the large and small depositor for almost a century." But even then, it was not immune from the heavy losses that resulted from the business depression and price deflation of the energy sector. The failure of First National was caused by the loans and the out-of-town depositors pulling their money out of First National over concern about how many more problems would arise due to the bank's dependence on oil ("Problem Oil Loans" 11). First National was one of the best known banks in Texas to fail because of the problems in the energy sector.

Not only were the banks in Texas hit hard by business depression and price deflation in the energy sector, but they were also hit hard by price deflation and business depression in the real estate sector. Petrobank in Houston failed because of its lending practices. It was founded in 1983 by Houston real estate developer Al Fairfield, and because of its real estate loans, it was never profitable (Fury 20). Though banks were hurt by the price deflation
for real estate, saving and loan associations were the ones hurt the most.

Empire Saving and Loan Association in Mesquite, Texas was closed because of heavy loans made to finance the "runaway condominium growth along the city's eastern fringe." Empire financed around $500 million in real estate developments (Ringer and Albert, "Regulatory Closing Hinted for 2d Texas Thrift" 1). Empire had grown rapidly by financing these real estate loans, some of which were "barely worth the paper they were printed on" (Albert 1). So, when the economic boom ended, the default on real estate loans caused Empire to fail.

Texas was about the only state to have banks or saving and loan associations fail from having made real estate loans. Colorado also had a saving and loan association, the Sierra Federal, fail from what was claimed to be price deflation of real estate. Sierra Federal had made loans on Colorado mountain properties that would exceed the value of the collateral backing the loan. But part of Sierra's problems was the management's fault. Many of the loans were made without appraisals. In some cases, kickback or outright fraud was involved. So, though the price deflation and business depression of real estate may have been said to have been the cause, poor management would have been more accurate.
In fact, some bankers argued that business depression and price deflation can not be said to be the cause of any bank failures in the Eighties, but the problem was always management. They claimed that there was no direct relationship between local business conditions and banks' survival. The bankers that argue this support their argument by giving various examples. One example was the failure of Farmers State Bank of Lewiston, Illinois. It was situated in a town populated with struggling farmers and laid-off International Harvester workers. But the weaknesses found in Farmers State Bank were not evident in its immediate competitor (Spoonier 31-2). So, though price deflation and business depression were said to be the reason for the failure of Farmers Bank, some bankers argue that it was really the fault of the management. In fact, these bankers believed that local economies can not be said to be predictive factors in bank failures. Quite simply, the central problem in the Eighties was always poor management—"a trait that can normally be covered over in good times, but not in economic hard times" (Booker 32).

Though there were various reasons given to support the theory of why management was always the cause of the bank failures in the Eighties, there was enough other evidence given that showed this theory was not true. Price deflation and business depression were at least part of the cause for bank failures in the Eighties. Unlike the Thirties, it did not affect the whole United States nor was every sector
suffering from deflation. In the Eighties, the agricultural, real estate, and energy sectors were the three main industries that caused bank failures from price deflation and business depression. In real estate, only Texas was really affected, in energy, Texas and Oklahoma were affected, and there were twelve states affected by the agricultural sector. (These twelve states were already listed.) So, business depression and price deflation were a lot more responsible for failures in the Thirties than in the Eighties. Now a closer look will be taken at management as a cause of bank failures in the Eighties, not only at fraud, but also whether managements did a poor job by simply losing sight of prudent credit policies.

XII. Managerial Defects in the Eighties

Bank failures did not just happen from business depression and price deflation. The failures were mostly caused by management, whether by sins of commission or omission. There were four basic areas that got management into trouble in the Eighties. The first was a commitment to the status quo. The banks believed that what they had, they would continue to have. Some institutions made quantities of fixed-rate loans as though interest rates would never go up. The second area was an invincibility complex. There was an almost "walk-on-water approach to lending and investing." Another problem area of managements in the Eighties was that managements were willing to "bet the ranch." Many of the bankers seemed oblivious of the need to
manage their assets as a portfolio of risks. They were not alert to the risks such as transaction costs and operational risks, especially the risk of not being diversified enough. The fourth problem area for management was that there was a "lack of adequate systems and discipline in place to set a floor under the bank's performance." If a good set of systems and policies had been in place, then it would have minimized the number of problems the banks had when times got rough. Standardized procedures and systems would have ensured that the personnel, who were caught up in the trying to get new business, would have done it "safely and within properly defined policy parameters determined to be credit worthy" (Murray 4-6). These four areas led to inept managers.

The major cause of bank failures in the Eighties was inept and/or dishonest managers (Sinkey 114). An official at the FDIC felt that in the Eighties, there were very few banks closed because of economic factors, as managements were the main cause. The bank regulatory authorities in the United States claimed that most banks in the Eighties were forced to close their doors because of self-serving loans to management, general mismanagement of the loan cases, embezzlements, and other manipulations by bank officials (Rose, "Failing Banks and Bad Publicity" 60).
The best example of mismanagement of lending was Penn Square. "The energy outlook from earlier periods had been pretty good," so, the bankers at Penn Square assumed that they were dealing with impunity in the energy-lending area (Muck 67-8). Though the failure of Penn Square was partly caused by price deflation in the energy sector, the management at Penn Square did not diversify, and therefore, when the energy sector had trouble, the bank failed. The management at Penn Square was reckless and did not pay attention to the warning signals that appeared.

When the mismanagement of lending began, warning signals appeared. The three main signals were questionable credit policies, heavy dependence on purchased funds, and excessive parent leverage. It was obvious from the loan growth at these banks that they were lending too aggressively to either customers outside of their usual trade area or customers in their local markets whom other banks had rejected or both. Also, these banks were paying too high of a yield on loans (Booker 34). Mistakes in the credit area were "inextricably linked to errors in the management of interest rate risk" (Rose, "Random Thoughts" 1).

Identical characteristics appeared in the failures of a lot of the banks: reckless management, out-of-area lending, self-dealing, under capitalization, and high risk lending" (Dince 67). Farmers Savings Bank's problems were linked to its extensive mortgage-banking and mortgage-servicing
businesses. "They were trying to compete with Salomon Brothers and Merrill Lynch," said one executive. But Farmers lacked the capital, and because of this it failed (Luke 3). High risk lending was one of the most common reasons for failures by management.

High risk lending was the main cause of the failure of Century National Bank in Florida. Century was said to have employed loan criteria best described as risky, and at worst as foolhardy. As one executive stated, "It's pretty clear that we got over-extended on loans that could not be properly justified. The lending policies were too lenient." In fact, 24 percent of the loans at Century went bad. The management at Century were just too reckless. It was said that part of the reason for the failure was that all of the bank officers were black. "It is also enormously difficult for black loan officers to serve these communities. They get tremendous pressure from their peers. If they don't make the loans, they are considered to be selling out" (Black-owned Florida Bank's Collapse Takes With it a Community's Dreams" 23-4). The mismanagement of the banks caused bank failures in the Eighties.

Brokered funds were also said to be a cause of bank failures in the Eighties. But the truth was that the banks did not manage their use of these funds, which caused banks to fail. For example, the West Coast Bank in Encino, California failed, and brokered funds were said to be the cause as more than 50 percent of the bank's deposits came
from these brokered funds. But the fault was with the management of the bank, which had been paying top market rates on some short-term certificates of deposits and was also paying brokers twice the going fee for bringing funds (McCue 3-8). This reckless management caused the West Coast Bank to fail.

Managements also were reckless in their loans to third world countries. Though no specific bank was said to fail primarily from these loans, some of the big banks were deeply troubled by them. For example, at the end of 1987, the Bank of Boston, the thirteenth largest United States bank, was said to write off $200 million of its total $1 billion in Third World loans and set aside $470 million to pay for losses it might sustain on the rest. Other banks, led by New York’s Citicorp, announced at the beginning of 1988 that they had set aside huge amounts to cover losses on Latin debt (Hornik and Svoboda 60). Though a bank has yet to fail from these Third World loans, these bad loans caused by management helped to rock the banking system.

Reckless management was also said to be responsible for the failure of First National Bank and Trust Company of Oklahoma City. Though it was not specifically said how much was lost simply from mismanagement, millions of dollars were lost. About $3 million was paid to the chairman, Mr. Cairns, who was there for only six months (Paschal 22). This kind of mismanagement could be considered more dishonest than inept management.
Dishonesty was a very large cause of the bank failures in the Eighties. Some, like the First National Bank of Jacksonville, Alabama, were closed because of fraudulent loan activity ("Fraudulent Loans Lead to Alabama Failure" 3). These cases of criminal misconduct were quite common in the Eighties.

Evidence showed that criminal misconduct alone was responsible for about 50 percent of the bank failures in the Eighties and showed:

A deeply disturbing picture of a banking industry that suffers too many failures due to insider fraud, a bank supervisory system that frequently fails to detect, investigate or penalize such fraud, and a law enforcement system that frequently fails to prosecute it. ("House Report Backs Stiffer Curbs to Stem Insider Abuse" 14-7)

American State Bank of Thomas, Oklahoma, was forced to close because of fraudulent activity. Oklahoma authorities discovered insider abuse and unsafe lending practices. The bank's management and business associates were involved in an embezzlement scheme (Albert, "Oklahoma Authorities Close Bank- 66th Failure of the Nation" 10). The United American Bank in Knoxville, Tennessee, was also forced to close because of a controlling group of insiders, which made "poor quality loans to directors and their interests" ("Mishap at the World Fair" 95). Some banks tried to end their abuse, but they had gone to far too save themselves.
Park Bank of Florida attempted to eliminate potential liabilities. Chairman Richard O. Jacobs sought to retrieve the company credit cards of director Gary R. Froid. Froid was said to have used his card for personal purchases, including a model of a World War II fighter plane. Former Park executive vice president James W. Matthews had two credit cards, each with a limit of $99,999, issued by Park. Other directors had cards with no limits (Park's Officers Fought to Save Themselves in Bank's Last Days" 8). But Jacobs could not save the bank from all the credit card abuse and Park Bank failed.

Former president and vice president of a Chinatown bank in New York used fraudulent yellow certificates, so named for the color of paper they were issued on, to "generate a personal slush fund that defendants used to hide failed loans, purchase bank stock, and finance real estate projects in New York and Taiwan." More than 1,400 yellow certificates were issued, which the defendants kept off the books in fictitious names such as "Amy Chen" and "Thomas Wang." By "falsifying signatures and camouflaging fund transfer, the two had more that $15 million at their disposal illegally" (Sudo 3). Illegal activities were numerous in banks that failed in the Eighties.

Investigators found illegal activity in the Metropolitan Bank and Trust Company of Tampa, Florida, also. The bank was reimbursing people who had donated money to various political campaigns, including the 1980
Carter-Mondale re-election drive. Loans or contributions to at least two members of the Florida Cabinet and a prominent state senator were discovered (Tucker 30). These illegal activities caused Metropolitan Bank and Trust to be closed.

One of the more unusual cases of fraud in banks was when Farmers State Bank in Clarissa, Minnesota failed. They had conspired with a cow-leasing firm and were said to sell fraudulent leases to Marquette Bank of Minneapolis ("Fraudulent Cow-leasing Scheme Milks a Bank" 2). Not only were fraudulent activities responsible for a lot of bank failures but also failures of saving and loan associations.

The Citizen Federal Saving and Loan in Mississippi was also closed because of insider abuse. Dr. Villiard, the majority owner, arranged for $15 million in loans to Florida developer, John Swaim. The money was then sent back to Dr. Villiard to help him buy part of North Mississippi ("Mississippi S and L Failed Under Weight of Bad Loans, One Tied to its Owner" 2). Not only did unfamiliar saving and loan associations or banks have insider abuse, but even well-known ones like Continental Illinois and Chase Manhattan had insider abuse.

Chase officials ignored bank policy and purchased energy loans from Penn Square without the approval from Chase's Global Petroleum Division. Another major bank tied to Penn Square also ignored its bank policy by participating in loans through its correspondent offices, all without the
consent from the bank's main energy department (Much 68). Continental's John Lytle, a vice president who headed Continental's midcontinent division in the gas and oil group, received more than $500,000 in personal loans at favorable rates from Penn Square (Weiner 16). This was hardly mentioned though when Continental almost failed.

One of the main differences between the bank failures in the Thirties and the Eighties was how big a role management played in the failures of the banks. Most of the failures in the Eighties could have been avoided if the banks' managements would had used safe and sound practices. In the Thirties though, even safe and sound management could not save all of the banks, because the major cause was not inept or dishonest management but the economy and partly the structural defects in the banking systems. We will now turn to a discussion of the structural defects in the Eighties.

XIII. Structural Defects in the Eighties

Illinois was said to have structural laws that caused part of Continental's problems.

At least part of the blame for Continental was said to lie with the state of Illinois antiquated banking laws. A prohibition against a bank having more than one branch made it hard for Continental to find customers with whom it had daily contact and whose creditworthiness it could easily gauge. To achieve growth it was obliged to get into businesses which it did not fully understand including energy and distant real estate. ("Buddy, Can You Spare Four and a Half Billion Bucks?" 91)
The individual states which had the largest number of failures were unit banking states that had little or no branching. Texas led the list. The experience of the United States in the Eighties seemed to indicate that small, rural banks operating predominantly in limited-branching or unit banking states were most likely to fail. The bank failures in Texas led the list. Next was Georgia, which had heavy casualties among uninsured private banks, followed by Colorado and Illinois, both unit banking states, and Michigan, a limited branching state (Scott and Rose 7). So, industry structure was related to the failure rate in each state.

Evidence seemed to bear out that a greater incidence of failures occurred among the smaller banks and among banks operating in more competitive markets. About 75 percent of the United States' "banks failing since World War II had, at the time of their closing, total deposits of $4 million." More than 50 percent held deposits of about $2 million. In contrast, less than 10 percent of failures occurred at banks with more than $10 million in deposits.

This is a convincing argument against a banking system composed of many small banks operating few branch offices—characteristic of the United States system—and in favor of a few large bank operating many branches, as in Canada. The argument is that small banks frequently are unable to diversify their loans and investments adequately to withstand adverse economic and financial developments. With few branches these banks are unable to expand into different geographic markets and offset losses in one markets by
gains in another. (Rose, "Failing Banks and Bad Publicity" 61)

This was said to be part of the problem at Penn Square, also. Archaic banking laws were said to have brought about its failure. Former district deputy controller in Dallas, Mr. Poole, felt that if Oklahoma had not restricted branch banking, Penn Square probably would have been a branch operation because of its small size and suburban location, and its oil and gas lending would not have gotten out of control. He also felt that the southwestern states resisted interstate banking, which left the "oil patch banks to increase their dependence on local energy credits" (LaCresse, "Poole's Pocket Guide to Failures" 11). Poole felt that the archaic banking laws helped to bring about failures in the Eighties.

Roger Noall, an executive vice president of Central Corporation, a medium-sized bank holding company in Cleveland, disagreed with Poole and others about archaic banking laws causing failures. He felt that the problems in banking now were due to technological change, such as automated teller machines. He felt that banks were failing because "You certainly don't need all the banks, particularly the branches, and it's getting so you almost don't have to go to a bank anymore" (Dorfman 72).
The main difference between the Thirties and the Eighties in structural defects was that in the Eighties there were fewer banks in states that had structural defects in their laws. Bank failures that did occur in these states with structural defects were usually helped along their path to destruction by these archaic banking laws. But structural defects in the Eighties were as responsible as the structural defects in the Thirties, in causing the failures.

Now the effects of the bank failures in the Eighties will be discussed. The main effects examined will be the same as the ones of the Thirties: economic, legal, international, and impact on society. Then a comparison will be made between the Thirties and the Eighties.

XIV. Economic Effects in the Eighties

The effects on the economy of the bank failures in the Eighties were slight. Most of the banks that failed in the Eighties generally only affected the immediate communities (Melichar 437). Even the severe problems of the farm loans and the agricultural banks had only limited effect on the banking system as a whole (Melichar 444). The FDIC totally dismissed the notion that the problems of the farm banks posed a threat to the banking system as a whole because most of the problem farm banks were relatively small ("Bank Failures and the FDIC" 11). Larger bank failures had more of a distinct economic impact.
The immediate effects of the failure of Penn Square Bank with $400 million assets were obvious. Seafirst lost nearly $100 million in 1982, primarily because of bad loans it purchased from Penn Square. This forced Seafirst to be rescued by BankAmerica Corporation, which purchased it in 1983. Loans purchased from Penn Square by Continental Illinois Bank and Trust Company of Chicago contributed to a loss of more than $1 billion at the bank in 1984 and Continental's virtual collapse (Weiner, LaCresse, and Bennett 1). Thus, the failure of Penn Square had more economic effect other than on its immediate community. But usually only the immediate communities were affected in the Eighties.

The moderate economic consequences in the Eighties were in deep contrast to the economic effects in the Thirties. The damage to the economy in the Thirties was deep and severe, and in fact, the bank failures in the Thirties helped wreck the whole economy. In sharp contrast, the economic consequences of the bank failures in the Eighties were only felt by the immediate community, with the exception of banks like Penn Square, where a few other communities were affected, but never the whole economy of the United States. Therefore, the comparison of the economic effects of the Thirties and the Eighties helped to prove that the banking crisis in the Eighties was not a repetition of the banking crisis in the Thirties. The legal consequences of the Eighties, which will now be discussed,
also will help to prove this.

XV. Legal Consequences in the Eighties

The savings banks felt that new laws were needed because of many failures that started to occur in the early Eighties. So, these banks started an "intensive lobbying campaign in Congress," concentrating on getting government assistance without having to merge and lose their jobs. Part of the campaign was also a plea for more time to improve their situations. At the same time, thrift institutions were lobbying for an expansion of their investment powers (Fritz 16). All of this lobbying brought about a legislative act in 1982, the first major legislative act for the failing banks and thrifts in the Eighties.

The major legislative act that Congress passed because of the failing of banks and thrifts was the Garn-St. Germain Depository Institutions Act of 1982. This legislation gave relief, if only temporary, to the thrifts. There were four major provisions of this Act. The first was that "federally chartered savings associations and savings banks gain new investment powers and restructuring changes." Another provision was the "FSLIC-insured institutions can tap new capital assistance program to boost net worth." The third provision of the Act was that "federal preemption is extended to those state laws restricting due on sale and alternative mortgage instruments." The last provision was that "broader authority is granted to the FSLIC and FDIC to
aid troubled financial institutions" ("Leveling the Playing Field" 31-3).

Probably the most important provision, which was vigorously opposed by commercial bankers, allowed the saving and loan associations and savings banks to offer a larger variety of business and personal loans in addition to their usual investments. This resulted in their being less confined to investing in long-term mortgage loans. Thus, the Garn-St. Germain Act bought time for thrift institutions (Fritz 18). But this Act was not enough to stop the failures and more legal action was taken.

The Federal Home Loan Banks in Dallas and San Francisco launched a program in which two major Wall Street firms began selling $100,000 certificates of deposit on behalf of sick thrifts. In addition, the Federal Home district bank of Dallas started an experimental program of asking "healthy institutions to make deposits in management consignment thrifts, with the Federal Home Loan Bank acting as the agent" ("Bank Board Sets Pilot Plan to Aid Thrifts" 1). Not only was the Federal Home Loan Banks making changes, but the FDIC started proposing changes too.

In the Spring of 1983, the FDIC report stated that its reliance on the purchase and assumption method of handling failed or failing banks came from a "concern for disruptive effects of a payoff." The FDIC proposed several methods of payoffs that it could use and abandon purchase and
assumption. The first was the modified payoff. In this method, the FDIC would estimate the potential recovery and determine how many uninsured depositors and other creditors were covered, based on this estimate. Another method was coinsurance, which required legislative approval. Coinsurance would have a set legal amount for the uninsured depositor's recovery and would "remain the same no matter how much the FDIC recouped" ("FDIC Proposes Market Discipline, Other Sweeping Changes in Report" 66). Not much was done about this proposal.

By the end of October 1983, problem banks were giving the FDIC a lot of problems. So, the FDIC ruled that any bank that it considered a problem bank "must get FDIC permission before it accepts any more broker's deposits" ("Why American Banks Are Getting Broker and Broker" 83). The FDIC felt that this would help to stop the failures in the Eighties as almost all of the banks that failed in the early Eighties depended on money brokers for part of their funds ("Going for Broke" 58). But a House subcommittee report after this concluded that brokered deposits played no role in the bank failures of the Eighties (Garsson 3-5). So, this rule by the FDIC did not stop any bank failures.

In 1984, the FDIC decided to make another requirement. Banks, as of June 30, 1984, had to disclose the amount of loans that they purchased from other banks. This requirement was an aftereffect of the failure of Penn Square (Weiner, LaCresse, and Bennett 8). But again, this
requirement neither stopped or slowed down the bank failures in the Eighties.

By August 1984, there was a "political bombast about Continental Illinois." All through the summer of 1984, Congress debated on a new banking law. Both the Senate and House of Representative agreed on the need to plug legal loopholes which made "nonsense of laws governing where banks can expand and which companies can enter the banking industry." The comptroller said that unless Congress amended the law by October, he would agree to 300 applications for new banks which exploited the loopholes.

Congress was also arguing over the amount of power the bank should have. Mr. St. Germain was against giving the banks more power when they were making a mess of what they already had. Meanwhile, the Reagan Administration threatened to veto any legislation that did not give banks wider powers ("All Over Bar the Bombast?" Congress was not able to reach an agreement by the end of the year, so the comptroller of the currency, Mr. Todd Conover, decided that he could no longer hold up the 300 applications. One member of the FDIC's board was especially reluctant about this decision. He felt that a year in which 70 banks had already failed and around 800 were problem banks was no time to create new risks ("Freed to Fold 27-8").
Another consequence of the bank failures in the Eighties was that the FDIC adopted a policy in July 1986 of permitting banks to purchase—at a discount—the failed institutions' substandard loans. "The assuming bank could purchase substandard agricultural loans for 90 percent of their total book value and accrued interest. If the bank purchased more than half of the bad loans, that figure would be reduced to 85 percent" (Easton 1-13) The FDIC had experimented with this for about a month. This policy was aimed at getting rid of the assets that the FDIC kept acquiring from the increased number of failed banks (Ringer, "FDIC Advertises Sale of Loans from Failed Oklahoma Bank" 7). This new policy was largely intended to overcome reluctance of healthy institutions to bid on failed banks and to get rid of some of the bad assets that the FDIC had collected. These bad assets included furniture, steel, plastic manufacturing, travel agencies, meat markets, advertising agencies, knitting mills, paintings (including two Renoirs), autos (a 1935 Rolls Royce), 1,000 artificial Christmas trees, and a hospital (Scheibla 49).

The FDIC made one major innovation in 1987. The FDIC offered a bidder funds up front to take over an entire institution rather then having the agency take the bulk of the problem loans (Rosenstein, "Rate of Failures Grow, But Concern Doesn't" 9-16). The new policies of the FDIC were the result of the bank failures that occurred in the Eighties.
State legislations also started to make new laws because of all of the bank failures. In the beginning of 1987, a partial long-term solution was the result of a new Texas law. This law permitted bank takeovers by out-of-state institutions. One large bank agreed to a takeover by a major New York institution, and two larger banks in Dallas merged mainly as a defensive move to remain competitive (Niering 58). Several other state legislatures also made changes.

The main thrust of legal effects of the bank failures in the Eighties did not deal with the banking system but rather the inept and dishonest managers, since this was the major cause of the bank failures in the Eighties. Numerous lawsuits were filed, and even Congress went to action to stop the insider abuse.

Forced with the evidence that "criminal misconduct within financial institutions has been a major contributing factor," a House Government Operations subcommittee told financial regulators that this abuse should be halted. The panel said that it found:

A deeply disturbing picture of a banking industry that suffers too many failures due to insider fraud, a bank supervisory system that frequently fails to detect, investigate or penalize such fraud, and a law-enforcement system that frequently fails to prosecute it. ("House Report Backs Stiffer Curbs to Stem Insider Abuse" 14-7)
The FDIC and FSLIC decided to do something about all this insider abuse. The FSLIC sued the directors and officers of the Sierra Federal Saving and Loan Association in Denver. The FDIC alleged that the defendants failed to have safe and sound banking practices and violated numerous federal regulations. The president, Charles Rector, was sent to prison as he was convicted of "misapplying the thrift's funds and fixing records to cover it up" ("FDIC Seeks $52 Million from Ex-Sierra Officers" 6). The FDIC was far from the only one to file lawsuits when banks failed from managerial defects.

The shareholders of the holding company of the failed Park Bank of Florida filed a lawsuit against the directors of the bank. This lawsuit contended that Park's former directors "formed interrelated companies for their own profit." The suit claimed that the customers of Park were forced to go to these companies in order to get loans at the bank ("Park's Officers Fought to Save Themselves in Bank's Last Days" 8). Chase Manhattan sued six of its former officers for negligence that the bank claimed caused the huge losses Chase took when Penn Square went under. The amount of the lawsuit was a breathtaking $175 million (Glaberson 39).

Another suit alleged that mismanagement of pension and employee savings plans and was filed by 51 former employees of the failed First National Bank and Trust Company of Oklahoma City. No money had been disbursed to members of
the pension and savings plans since the bank failed. The plaintiffs claimed that:

More than $14 million was siphoned off from the plans in July 1984 to help the ailing bank and its holding company and that large sums from the two funds were invested in the company's stock while its price was plunging. The former employees also charged that their insurance policies lapsed because they were not notified that the bank had stopped paying the premiums. (Paschal 22).

Not only were banks' directors sued when banks failed in the Eighties, but so were the companies that audited them. Peat, Marwick, Mitchell and Company was sued numerous times when it gave Penn Square Bank a clean audit opinion, and the bank failed four months later. The FDIC, the trustee for First Penn Corporation (Penn Square's parent), and numerous others sued the audit firm (Bennett, "Peat Marwick Faced Lawsuits After Its Audit" 10).

The amounts being sought were often very high and sentences were long. For instance, when Mr. Hellerman in Florida was caught for fraud, he was given a 32 year term in prison and $1.75 million fine. This was to send a "strong message to people that might consider similar activities" (Fraust 1-22).

All these lawsuits were startling at first. This had not happened before. These legal actions showed a big difference in the failures of the Thirties and the Eighties. In the Thirties, the legal action was centered on banking
regulation and insurance. No one sued the failing banks' officers as the failures were mainly the result of the bleak economy. But in the Eighties, with managements being the major cause of the bank failure, the legal concerns were mostly concentrated on suits against the management. There was little evidence that the people were concerned about the regulation of the banks. The only letters that the Congressmen received were from people who wrote all the time anyway. In fact, the foreign businesses were probably more concerned because the legal consequences of the bank failures in the Eighties affected them. This effect on the international business world will now be examined.

XVI. International Effects of Bank Failures in the Eighties

The international effects of the bank failures were responsible for the way the FDIC handled the Continental crisis. The Federal Reserve let it be known by the way that it handled the situation at Continental Illinois that the FDIC would not allow any of the fifteen largest banks in the United States to fail, because the effect on the international system would have been too great (Gillespie 34).

If Continental had been allowed to fail:

The interbank markets, both domestic and European, would have dried up—except for banks with the cleanest balance sheets. A massive liquidity crunch would have savaged the world financial system.
What's more, Treasury bills rates would have fallen sharply. As banks’ cost of money went up, so would the prime rate. Borrowing would have slowed. Long-term yields would have risen. (Nagan and Kaufman)

With all these developments, the government had no choice but to bail out Continental. The international economy and trade would have suffered greatly as it became harder to finance transactions (Nagan and Kaufman 20). Even with the bailout of Continental, the foreign nations were still affected.

The difficulties of Continental were viewed as the "biggest international banking setback since the collapse of 1931." Around 65 percent of Continental’s $28 billion of deposits were drawn from banks outside of the United States, although a large part of those came from its twenty foreign branches. This heavy dependence on wholesale deposits from abroad made Continental "especially vulnerable to the first known instance of large-scale withdrawals of credit lines to a bank in the international interbank" (Mendelsohn 1-31).

Those adverse developments, such as the near failure of Continental, "increased rate tiering or reduced credit lines for some banks in the interbank market." Most bankers believed that a failure of a major bank would have a chain effect in the international banking system. So, in the case of the United States, large failing banks were merged into a sound institution with no loss to the general creditors or depositors in any branch abroad or in the home country. The
objective of this was to "prevent bank failures from exerting a destabilizing impact on the markets the banks serve" (Gilbert 72).

Not all the bank failures in the United States in the Eighties had a negative international effect. The failure of Seafirst brought about a benefit in the international markets for Seafirst's customers. Since Seafirst was made a wholly owned subsidiary of BankAmerica Corporation, Seafirst could now provide overseas customers service with its access to BankAmerica's international network. No other Northwest bank could previously do this (Major 60). Some banks failures had a surprising effect on the international market.

The failure of the Home State Savings Bank in Cincinnati, Ohio, "one of the most financially conservative cities in America," caused the value of the dollar to fall. "The dollar fell 5.2 percent against sterling and 3.5 percent against the D-mark in the first three days" after its failure. The price of an ounce of gold rose $35.70 in a day ("More Bank Failures to Come" 16-7). Though the failure of small banks like the Home State Savings Bank were not the makings of an international banking crisis, the world's financial structure in the Eighties caused these failures to have an international effect.
The difference in the world's financial structure in the Thirties and the Eighties was the big difference in how the international banking system was affected by the bank failures in the United States. In the Thirties, there was little effect in foreign countries as the banking systems were not so interrelated. In the Eighties, because of the vast significance of international trade, the failures or near failures of the banks in the United States affected the international banking situation.

Though the effects on the international business world increased in the Eighties, the impact on society in the United States in the Eighties was less than in the Thirties. This impact on society in the Eighties will now be analyzed.

XVII. Social Impact of Bank Failures in the Eighties

Though the numbers of commercial bank failures were high in the Early Eighties, they were never perceived as a banking crisis. According to Steve Katsanos, an FDIC spokesman, the failures showed "no systematic problems" with the commercial banks, as they only represented ten percent of the industry. There was no negative impact on society from the failures, according to the FDIC (Bush 12). The confidence of society in the banking system was never lost.

The closing of the $1.6 asset First National Bank and Trust of Oklahoma City was calmly received in the Southwest. The day that the bank reopened, the lobby seemed calm. Several customers stood in line and even deposited money
(Ringer, "Oil Bank Investors Calm, But Failure of First Oklahoma May Spur Congress" 7-15). The closings of savings institutions and commercial banks and the collapse of private deposit insurance funds in Maryland and in Ohio led to the concern that confidence would wane. But to a large extent, customers did not seem to be aware of the so-called crisis, and there was no waning of confidence in society (Spooner 52). The main reason, of course, was the guarantee on deposits of $100,000 or less.

Besides the guarantee of deposits that assured people, other methods were taken to reassure the customers. When the Cincinnati-based Home State Savings Bank had a bank run, 500,000 depositors were affected. A three day bank holiday was declared. People blamed the media for starting the panic as the panic had not begun until the newspapers and television stations had begun to report on the failure. So, the media started a campaign to get the deposits back in the institution. People of the media publicly pledged to put money back in the thrift. Pizza Hut said it would give free pizzas to depositors, and a bowling alley promised free bowling.

At the Home State Savings Bank, telephone lines were opened just to answer questions from customers and to reassure them. The other banks in Cincinnati reassured their customers, too. One executive, whose firm was insured by the FSLIC, had employees photocopy the FSLIC certificate that federally insured thrifts were required to keep.
Customers who wanted assurance that their money was safe were given a copy of the FSLIC seal (Ringer, "Free Pizza, Bowling, and Telephone Line Aim to Reassure Ohio Thrift Customers" 16-7).

Even as the rate of bank failures grew in the Eighties, public concern did not. "From 1982 through the first half of 1987, 535 banks were closed or given aid." Though the statistics sounded like a crisis— it was only a crisis on paper. The public and bankers seemed almost unconcerned about all of the bank failures in the United States (Rosenstein, "Rate of Failures Grows, But Concern Doesn't" 9-16). In fact, confidence in the banking system actually rose while bank failures increased. A survey was taken and customers' confidence in the banking system increased when bank failures were at a post-war record high.

While consumers were aware of all the bank failures, they expressed little concern over it. This, the survey claimed, demonstrated that "the public generally recognizes the stability of the banking system" (Weinstein 1-15). Especially in the days of doubt and anxiety following the stock market crash, the United States banks got a vote of confidence when Americans rushed to put more of their money into "nice, solid, federally insured savings and checking accounts" (Hornik and Svoboda 60). The public really did not question the soundness of the United States banking system.
The Federal Reserve officials and other bank regulatory agencies asserted that questions about the soundness of the American banking system were blown out of proportion (Nagan and Kaufman 20). Even the crisis at Continental did not trouble their customers very much. Though the pension fund clients of Continental were concerned that the troubles on the commercial side might affect trust department operations, the clients mad no immediate changes in their accounts (Burr 2). The confidence of society was not affected by all of the bank failures in the Eighties.

The failure of the banks did have some impact on society, even if society's confidence was not lost. The impact of the failures was especially felt by the farmers. When the banks tried to collect on their bad loans to avoid failures, there were scattered threats of violence from the farmers, who felt manipulated and wanted to strike out at someone or something. Most of their protests were about farm foreclosures. Some forty supporters of a farmer, Ray Parks, gathered in front of their local courthouse and sang loudly to prevent an auctioneer from hearing any bids on his 595-acre spread, so the auction was postponed (Magnuson 32). Incidents like this became common among farmers.

When the second local bank closed in Vertigre, Nebraska, Father Battiaito led a "highly visible crusade devoted to blasting the FDIC for its insensitive dealings with farmers who owe debts" to the failed Vertigre banks. He claimed that these borrowers were being pushed out of
business and humiliated by the FDIC (Ringer, "Priest Assails FDIC Treatment of Flock" 1). Some people tried to get President Reagan to help the farmers out.

Elizabeth Kahoun was so angry that she placed telephone calls to both President Reagan and Agricultural Secretary John Block, but to no avail. Ms. Kahoun said that if the bank was forced to foreclose on the loan, "Dad will probably die and Mom will go bonkers, and I am suing the United States Government for bringing this evil on this family" (Magnuson 34). The hatred for the farm bankers grew considerably.

One farm bank officer stated that being an agricultural banker was "a very stressful job." Bankers watched as friendships disappeared, and their status in the community slide because farmers blame them for their problems at the bank (Bennett, "Farmers and Bankers Withering on Same Vine as Crisis Deepens" 10). But the bankers' hands were tied.

No matter what arrangements were made, the failure of a bank posed a serious problem for borrowers whose loans were delinquent and who were already in a weak financial condition. The borrowers found it was difficult, if not impossible, to find a new lender. Often, the FDIC faced the task of foreclosing on these bad loans. Even the borrowers in good financial conditions experienced inconvenience as they had to "document their financial position and history to new and understandably wary lenders." When agricultural
banks failed, efforts were made to help the farmers. Groups such as bankers' organizations, state extension services, and the Farmers Home Administration worked to provide better guidance, advice, and support to these borrowers (Melichar 438).

The impact felt by society in Knoxville was more intense. During a 60-day period, one bank collapsed, two banks merged, and a third bank was involved in a takeover. The names of some of the concerned banks were First American Bankshares Inc., First American Bank, and United American. These similar names caused confusion and really made the customers become more aware of the FDIC insurance at certain banks (Baxter 22). But even with all this confusion, there was no panic in the community.

One particular bank that failed in the Eighties had an impact on the black community. Century National Bank in Florida was a black-owned bank. When it failed, the dream that a black-owned bank could prosper also disappeared. As one black leader remarked:

The black community suffered a major defeat. The most unfortunate thing is that we in the community are going to decide that we're not competent in areas of high finance. It's not true, but this is what many in the community are going to think. ("Black-owned Florida Bank's Collapse Takes With It a Community's Dreams" 23-4)
Law firms were also affected by the bank failures in the Eighties. Occasionally, the consequences to the law firm were negative. The largest law firm in Pinellas County, Florida broke up as a result of the lost business from Park Bank. Not only did the firm close its Tampa office, but it also cut the number of attorneys in its St. Petersburg office ("Florida's Largest Law Firm Topples in the Park Bank Wake" 21). Usually though, the bank failures in the Eighties were a benefit to the lawyers. The FDIC in 1986 spent about $40 million on lawyers, and the FSLIC spent around $15 million. In fact, the FDIC spent more on outside lawyers than any other federal agency. One law firm in Chicago had fees totaling $12.3 million for three years as a result of the bank failures (McTague 24-6). Some lawyers really benefited from these failures.

Lawyers were not the only ones to benefit from the bank failures of the Eighties. Appraisers, firms called in by FDIC to value the collateral of the bank, also benefited. Consultants and contractors made money through publications, rating services, and seminars. Other financial institutions benefited not only from the loss of a competitor, but the price tag on acquiring a firm was lowered. Reasons include "savings account deregulation, more liberal branching laws, and the sheer volume of failed banks, which have made prospective buyers less willing to bid top dollars for failed institutions."
The media benefited from the bank failures, also, as the failures were thought to be sensational news. Politicians also gained publicity and scored points by responding to the failures. But most of all the beneficiaries, the most unusual was the general community. This was because the FDIC pumped a lot of cash in the community, and the new owners of the bank were looking for loans to make. Restaurants, hotels, and other local merchants benefited as the FDIC sent staff members to the area (Rosenstein, "Success Thru Failures" 13). But for most in the society in the United States, bank failures in the United States in the Eighties had only a very slight impact.

The very fact that bank failures in the Eighties had but a very slight impact on society showed that the failures could not be said to be a repetition of the bank failures in the Thirties. The impact on society in the Thirties was tremendous. Therefore, just by comparing the impact on society alone proved that history was not repeating itself in the Eighties with the bank failures.

XVIII. Conclusion

A comparison of the causes and effects of the bank failures in the Thirties and the Eighties proved that the bank failures in the Eighties were not a repetition of the bank failures in the Thirties. The bank failures in the Thirties caused a national crisis, while the bank failures in the Eighties never reached that proportion. This was
partly because the bank failures of the Thirties and the Eighties were caused by different factors, and therefore, the effects of these failures were different.

The main difference in the bank failures in the Thirties and the Eighties was that in the Thirties the FDIC had not yet been created. This legal consequence of the bank failures in the Thirties prevented a lack of confidence from growing and bank runs from occurring in the Eighties. The creation of the FDIC was one of the main reason that bank failures in the Eighties was not a repetition of the bank failures in the Thirties.

Though there were similarities, the bank failures of the Thirties and the Eighties were caused by different factors, and the effects of the Thirties and the Eighties were different. By comparing the causes and effects of the Thirties and the Eighties, no one could state that the bank failures of the Eighties were a repetition of the bank failures in the Thirties.
Table 1: Number of Failures Before the Creation of the FDIC and the Estimated Losses of Bank Depositors

<table>
<thead>
<tr>
<th>Year</th>
<th>Number failing</th>
<th>Estimated losses of bank depositors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>505</td>
<td>$60,000,000</td>
</tr>
<tr>
<td>1922</td>
<td>366</td>
<td>38,000,000</td>
</tr>
<tr>
<td>1923</td>
<td>646</td>
<td>62,000,000</td>
</tr>
<tr>
<td>1924</td>
<td>775</td>
<td>79,000,000</td>
</tr>
<tr>
<td>1925</td>
<td>618</td>
<td>61,000,000</td>
</tr>
<tr>
<td>1926</td>
<td>976</td>
<td>83,000,000</td>
</tr>
<tr>
<td>1927</td>
<td>669</td>
<td>61,000,000</td>
</tr>
<tr>
<td>1928</td>
<td>498</td>
<td>44,000,000</td>
</tr>
<tr>
<td>1929</td>
<td>659</td>
<td>77,000,000</td>
</tr>
<tr>
<td>1930</td>
<td>1,350</td>
<td>237,000,000</td>
</tr>
<tr>
<td>1931</td>
<td>2,293</td>
<td>391,000,000</td>
</tr>
<tr>
<td>1932</td>
<td>1,453</td>
<td>168,000,000</td>
</tr>
<tr>
<td>1933</td>
<td>4,000</td>
<td>540,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>14,808</td>
<td>1,901,000,000</td>
</tr>
</tbody>
</table>

Table 2: Number of Failures After the Creation of the FDIC and the Losses to the FDIC

<table>
<thead>
<tr>
<th>Period</th>
<th>Number Failing</th>
<th>Estimated Losses to the FDIC ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1934-64</td>
<td>454</td>
<td>$30.49</td>
</tr>
<tr>
<td>1965-78</td>
<td>394</td>
<td>123.41</td>
</tr>
<tr>
<td>1979</td>
<td>10</td>
<td>7.8</td>
</tr>
<tr>
<td>1980</td>
<td>10</td>
<td>21.0</td>
</tr>
<tr>
<td>1981</td>
<td>10</td>
<td>556.7</td>
</tr>
<tr>
<td>1982</td>
<td>42</td>
<td>1,069.1</td>
</tr>
<tr>
<td>1983</td>
<td>48</td>
<td>584.9</td>
</tr>
<tr>
<td>1984</td>
<td>79</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>138</td>
<td>2,700.0</td>
</tr>
<tr>
<td>1987*</td>
<td>156</td>
<td>5,744.1</td>
</tr>
<tr>
<td>Total</td>
<td>1,161</td>
<td>10,837.5</td>
</tr>
</tbody>
</table>

* The numbers used in 1987 is as of October 30, 1987.

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