A PAPER EMPIRE:
THE RISE AND FALL OF THE BUTCHERS

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A PAPER EMPIRE:
THE RISE AND FALL OF THE BUTCHERS

Standing on the steps of the United States Courthouse in Knoxville, one very quickly gets an idea of just how important the Butcher family was in this city. A few blocks to the east, the twenty-seven story building that served as the headquarters of United American Bank and the hub of the Butcher banking operations rises high above the skyline. A few blocks west, the Sunsphere, standing guard over the now quiet fairgrounds, reminds people of the excitement during the summer of 1982 when this sleepy river town played host to the world. Leaving the courthouse, on June 3, 1985, after having just been sentenced to twenty years in federal prison for defrauding his United American banks out of millions of dollars, these monuments of glass and steel must have been a painful reminder to Jake Butcher, a reminder of just how far he and his brother had come and just how far they had fallen.

Jake and C.H. Butcher had been living the epitome of the American dream. Having left their native rural Union County intent on making a fortune, the Butcher brothers had climbed to the top of the banking industry in Tennessee. Together, they calculated their net worth at $180,000,000 and their banks controlled over $3 billion in depositors' money. Jake lived in a $1.2 million mansion, Whirlwind, and owned a $600,000 helicopter which took him to work every morning or to the airport where a $2 million jet awaited. C.H. lived in an equally impressive house, Butchvue, and owned two of the finest quarter horses in the world.
But, this empire was bound to collapse. In reality, it was never anything more than a paper empire, a house of cards, constructed with other peoples' money by fraud and deception. It was only a matter of time before regulators caught on and called the brothers' bluff. In fact, one of the more significant questions emanating from the demise of the Butcher empire is why regulators did not do something about the Butchers sooner, why it took them so long to realize just exactly what was going on at the Butcher banks.

The demise of this empire left in its wake an awful nightmare, not only for the Butcher family, but also for bank regulators and hundreds of others who were touched in some way by the failure of the Butcher related banks and companies which fell like dominoes after the collapse of United American-Knoxville on Valentine's Day 1983. Today, Jake Butcher is waiting to begin serving his sentence and his brother C.H. is facing a multitude of charges. Bank regulators, like FDIC Chairman William Issac, have the grim task of explaining, in the face of heavy criticism, why something was not done sooner to prevent the collapse and people like Union County grocer Jack Morris anxiously wait to see how much of their life savings they will eventually recover, savings lost when C.H. Butcher's bank that really was not a bank folded.

This paper traces the rise and fall of the Butcher financial empire. It examines the Butcher brothers' phenomenal rise to power, their extensive involvement in politics, and the 1982 World's Fair, which many have come to call Jake's fair. It explores the final days of the empire, the questionable banking practices that led to its collapse, and how innocent people like Jack Morris were the unwitting victims of the brothers' lust for money and power. Finally, it questions the response of regulators and suggests some improvements in the regulatory system to prevent this type of situation from reoccurring.
THE RISE TO THE TOP

The Butcher story begins in Manyardville, population 675, the county seat of Union County. A half hour drive north of Knoxville, this area has been home to the Butcher family since 1790. Cecil H. Butcher, Sr., Jake and C.H.'s father, is the town's leading citizen. It was in his bank that the two brothers first learned the banking business.

In 1924, after teaching for five years, Cecil Butcher entered the business world with a "rolling store." He drove to surrounding counties, bought fresh produce and meat from local farmers and then sold it door to door. Later, he centralized his operations by building a general store in Manyardville. His store, which still exists today, carried everything that a rural family might want, from baby clothes and plowlines to turnip seed.

In 1929, C.H. Butcher, Sr. entered the financial world when he and two associates founded Southern Industrial Banking Corp, a small loan company designed to help people finance the cost of refrigerators, automobiles, and farm equipment. But, 1929 was a bad year to start a new business and Southern Industrial had very few customers in its early years.

Undaunted by the limited success of his first financial venture, C.H. Butcher, Sr., on October 1, 1950, acted to fill what he perceived as a need in the community. With the help of Manyardville attorney J. Howard Collet and two other men, he chartered the Union County Bank. A down home bank, where lunch is served in the back room to anyone who wants to eat, it remained the only bank in Union County for many years and is still thriving today.
It was in this bank that Jacob Franklin Butcher got his first job, sweeping the floors of his father's newly opened bank. Then, when he was old enough, he was promoted to teller. 5

Born in 1937, Jake left home at 19 to join the Marines. When he returned to Manyardville, he went to the University of Tennessee and earned a degree in business. After graduation, he formed his own gasoline distributorship, often driving the tankers himself over dangerous mountain roads.

Cecil Hidgie Butcher, Jr., a year younger than his brother, was the black sheep of the family. A tall, lanky youth, who was always getting himself into difficulty, he failed out of college on his first try. "I wasn't good for anything but shooting pool, drinking beer, and wrecking cars," he would recall later. 6

After he failed out of college, his father told him to get a job or get out. A three year stint in the army convinced him that his father was right. 7 He returned to Tennessee, got a degree in banking, and went to work at his father's bank. There, he applied what he had learned at school. He replaced the banana crates that were holding records with filing cabinets and helped his father to win a stock fight with a partner. It was the family's first lesson in bank takeovers.

In 1968, the Butcher brothers got the break they had been waiting for. When a tiny bank in Lake City, in neighboring Anderson County, went up for sale, the Butchers, with the help of Jesse Barr, a rising young executive at Union Planters Bank in Memphis, outbid their competition. The Butcher banking empire had begun.
Three years later, against the advice of their father, who warned his sons that "Them bluebloods will never run with a man who's plowed a mule," the Butcher brothers applied for only the second new bank charter in Knoxville in forty years. They opened their new bank in the tiny community of Powell just a few miles from the Union County line. At first, Knoxville bankers scoffed. The idea of opening a new bank in this predominately blue-collar community was simply ridiculous. Soon though, branches of City and County Bank of Knox County, which would become the flagship of C.H. Butcher's banking chain, were popping up all over the county.

In 1975, Jake Butcher made his most important acquisition when he put together a $16 million loan package in a matter of days to buy 30% of the outstanding stock of the ailing Hamilton Bank of Knoxville. Much of the money for this acquisition came from Nashville and New Orleans businessman Frederick "Fritz" Ingram, who was convicted in 1977 on multiple payoff charges involving sludge hauling contracts in Chicago. Ingram financed the purchase for ten years at the prime rate set by two New York banks, a loan Jake Butcher was able to pay off seven and a half years early.

When the World's Fair opened in 1982, United American, which Butcher had renamed shortly after he acquired it, was the fastest growing bank in the state. It had assets of $760 million and was expanding so rapidly that regulators were constantly warning that it was seriously undercapitalized. In addition, Jake also owned the United American Banks in Memphis, Chattanooga, Lexington, Kentucky,
and Somerset, Kentucky. C.H. controlled twenty-two banks in Tennessee and Kentucky. His flagship, City and County Bank of Knox County, had assets of $255 million and C.H. was making plans to build his own skyscraper across the street from his brother's United American Plaza, only it would be roomier and costlier.

How did the Butchers manage to come so far, so fast? They borrowed money to buy a bank, paid it off, or at least appeared to pay it off, and then borrowed some more. As Jake told reporters during the 1978 governors race, "'When people ask me how I made so much money so fast, I tell them it's because I owe so much money. It's like when you start going barefooted in the spring. For the first few days those gravel really hurt, but then your feet toughen up and you don't notice it.'"

But, the Butchers' borrowing would eventually catch up with them. From its peak in 1982, the empire would have less than a year to live. Choked by a trail of paper, it folded when regulators, who had begun a simultaneous examination of all the Butcher banks the day after the World's Fair closed, started to discover what was really going on at the brothers' banks.

POLITICS AND MONEY

The Butcher family has been involved in politics for just about as long as anyone can remember. Cecil Butcher, Sr. was elected to the Union County School Board in 1928 and has been reelected every term since. His fifty-seven years of service in that capacity make him the longest standing school board member in the state.
Just as the Butcher brothers followed their father into the banking industry, they also developed his love for politics. Jake was the more visible of the two. C.H., on the other hand, who privately opposed his brother's quest for governor and whose only experience with public office was a two year stint on the Union County Commission, preferred to work behind the scenes, putting the power and influence of his banks to work whenever possible.

The Butchers first burst on to the state political scene in 1970 when Jake, fresh from his conquest of the bank in Lake City, went to Nashville to try to convince the legislature to elect him state treasurer. His hard fought and determined struggle fell a vote short, however, when the Democratic caucus decided, 38-37, to support his opponent for the job.

Undaunted by his defeat, Butcher, in early 1974, announced his candidacy for governor. Still relatively unknown statewide, Butcher used an expensive television campaign to overcome this handicap. The television spots, combined with an excellent organization in the Memphis area, enabled Butcher to place a surprising second behind the pre-election favorite, former Congressman Ray Blanton. Four years later, Butcher tried again, winning the most expensive primary in Tennessee history, but losing the general election to Lamar Alexander.

Alexander, who in the aftermath of Watergate had lost the 1974 general election to Blanton, traded in his blue suit for a plaid shirt and khakis and walked from one end of the state to the other. Separating himself as best he could from his Republican roots, Alexander
WHERE THE MONEY CAME FROM

As Jake Butcher's campaign spending went up, so did the debt of C.H. Butcher's Southern Industrial Banking Corp. to United American.

Cumulative Campaign Spending By Month:
July- $1.3 million
August- $2.1 million
September- $2.9 million
November- $3.7 million
December- $4.6 million

Southern Industrial's Debt To United American By Month:
July- $1.1 million
August- $1.4 million
September- $1.7 million
November- $2.3 million
December- $3.3 million
stressed his Smoky Mountain heritage as he went from town to town declaring that it was time for a change. Citing the scandal ridden Blanton administration, to which he repeatedly tried to tie Butcher, Alexander told the state's voters that if Tennessee was going to progress, patronage and good ole boy politics must become a thing of the past.

Butcher, who would end up spending $4.6 million before it was all over, relied mostly on television. The commercials stressed Butcher's Horatio Alger like existence. The most famous has Butcher walking through an Anderson County hollow, not far from his million dollar home, as a song proclaims that "Jake Butcher was born the Tennessee dream. Jake Butcher cares for you and me."

Polls taken a few days before the election indicated that it would be close. It was not. Alexander carried eight of the state's nine congressional districts and won by a margin of over 100,000 votes. The national networks were able to call the race just moments after the polls closed.

What caused this tremendous defeat? Certainly, a number of factors contributed: an unpopular Democratic governor, the enthusiasm generated by Alexander's novel walk, and a lack of support from Butcher's primary opponents.15

But, in the opinion of most political analysts, the major reason was the controversy surrounding Butcher's finances. His $198,736 salary, which was more than any of the chairman of the New York banks made, and his receipt of $153,187 more in commissions from the sale of credit life insurance, a policy the Comptroller of the Currency publicly opposed, was made an issue by his opponents.
Furthermore, there was a perception on the part of some people that Butcher was trying to buy the office and that he would spend any amount of money in order to win. As Roy Nixon, a former mayor of Shelby County and a Butcher supporter said, "'Hell, I just got tired of seeing Jake's mug on television every time I turned it on.'"16

Following his 1978 defeat, Jake turned his attention to organizing the World's Fair. But, this did not mean that the Butchers were through with politics. In 1982, for example, the family backed both major party nominees for governor. Jake and his banks poured a million dollars into the campaign of Knoxville mayor Randy Tyree, while C.H. privately backed Alexander, a popular incumbent, who looked like a sure winner. This decision paid great dividends the following spring when Alexander, in an unprecedented move, called federal officials and state banking leaders to the governor's mansion in a vain effort to save C.H.'s crumbling banking chain.

Tyree and Alexander were not the only politicians who benefitted from Butcher money. Loaning money to political campaigns and the business ventures of candidates and their friends was a regular activity of the Butchers and their banks. Bert Lance, President Carter's controversial budget director, his companies, and relatives had eleven loans from Butcher banks totaling $4.1 million. United States Representative Harold Ford of Memphis had an $83,000 loan from United American and two loans of $100,000 and $60,000 from C.H. Butcher's Southern Industrial Banking Corp. Tom Jensen, the former Tennessee House Republican leader, had a loan from Southern Industrial for $295,000.
The Butchers loved politics as much as they loved money. As far as they were concerned, the two went hand in hand. Money is the lifeblood of politics and they knew it. They used their power and resources to finance Jake's two races for governor and to build a network of powerful friends around the nation. These close links between the Butchers, their banks, and key politicians raised a lot of eyebrows. But, as they usually did, when any of their banking practices were questioned, the Butchers shrugged off the criticism. As Jake Butcher once asked, "'If you can't loan money to your friends, who can you loan money to....'?" 18

THE WORLD COMES TO KNOXVILLE

On May 1, 1982, as President Reagan and numerous other dignitaries, joined by 100,000 spectators, gathered to celebrate the opening of the first international exposition in the United States in eight years, the leaders of Knoxville's World's Fair could finally take a moment to enjoy the fruits of their labor. The culmination of an eight year struggle, the fair was a reality. Jake Butcher and his associates had pulled off what many considered the impossible. Overcoming financing headaches, government red tape, and the defeatist attitude of "We don't do things like that in Knoxville," they had brought a multi-million dollar international exposition to a town that the Wall Street Journal a couple of years before had described as that "scruffy little city." 19

The originator of the fair idea was Stewart Evans. In October 1974, Evans, then Executive Director of the Downtown Knoxville Association attended a meeting of the International Downtown Executive Association.
in Tulsa. He was there for a specific purpose. Like others in Knoxville, he was looking for a way to revitalize the downtown area. A comprehensive study of downtown Knoxville completed earlier that year had shown that the area had great potential for redevelopment but that it needed a special project or "quantum leap" that could condense twenty five years of gradual growth into five or six.20

One of the speakers at the Tulsa meeting was King Cole, a city planner who directed the 1974 World's Fair, which was in progress at the time in Spokane, Washington. Cole spoke with enthusiasm about the fair and what it had done for Spokane. The fair, Cole said, had "...brought 20 or 30 years of progress to Spokane in a single stroke."21

Evans was captivated. Here was the "quantum leap" that the city so badly needed. Returning to Knoxville, he began to push his idea among community leaders.

In 1975, Evans' efforts paid off when Mayor Kyle Testerman agreed to appoint a seventeen member advisory committee to see if the idea was feasible. Though a staunch Republican, Testerman did not hesitate to appoint Butcher as chairman. Butcher's enthusiasm was immediate. "'I am not skeptical by nature and I have to be shown that something cannot be done,'" he said later. "'I felt from the beginning that we could draw eight to ten million people to a major event like the world's fair.'"22

In 1976, the city, on the committee's recommendation, decided to pursue a fair for 1980 with "energy as a theme. It became immediately obvious, though, that it was going to be a long hard struggle.
The Commerce Department rejected the city's application to be United States' nominee for a World's Fair in 1980, opting instead to support a fair in Los Angeles, a fair which, ironically, was never held. But, in March 1977, the Commerce Department did agree to support a World's Fair in Knoxville in 1982. In April 1977, the Bureau of International Expositions, which governs World's Fairs, gave its approval.

While 1977 was a year of success for the fair organizers, 1978 started out badly. The Knoxville International Energy Exposition had to "...fight, scratch, and claw, not only to raise money for the fair, but to survive." As fair president Bo Roberts said later, "'There were times when we were taking up collections just to meet the payroll.'"

The most significant setback of 1978 was the Department of Housing and Urban Development's rejection of a $13.8 million urban development action grant to develop the fair site. But, the organizers of the fair were not going to give up without a fight. Utilizing Jake Butcher's close personal relationship with President Carter, the fair was able to raise money from a variety of sources not just one. He persuaded the Carter administration to give the fair and the city an aid package from several agencies totaling $12.5 million.

Butcher also played a very important role in the next major phase of the fair's development, the arrangement of private financing. Butcher used his corporate and banking connections to design a five tier financing package involving forty-three banks.
With financing arrangements completed and construction underway on the exhibition site, opponents of the fair became more vocal. Residents of the Fort Sanders neighborhood next to the fair site feared that the fair would disrupt and eventually destroy their historical community. Other opponents were concerned that Knoxville would not be able to absorb the increased traffic and that the fair would increase noise and draw large crowds of "undesirable elements." But the largest share of objections came from people who felt that the fair was "...only a vehicle by which a handful of people will make a lot of money if it succeeds, while taxpayers will end up footing the bill if it fails."28

At the center of this controversy was Jake Butcher. In April 1982, a Chicago Tribune study of Knoxville building permits showed that of the $48 million being spent to erect pavillions and other fair properties, $38 million was going to projects being built by companies with close ties to the Butchers.29

Butcher never denied these findings. Instead, he defended the role of his friends in the development of the fair. "'Every world's fair,'" he said, "'...has required financing by independent businessmen, individuals willing to stick their necks out from the beginning and to take the risks.'" 30

Butcher, though, continued to insist that he would not profit from the fair. When reporters from around the country asked Butcher how much he stood to make from the fair, he proclaimed proudly, "'Not a dime.'" 31

Court records, however, tell a much different story. Halfway through the fair, for example, the Eastern Carribean Tourist Agency
opened an exhibit and rum bar. Using a Swiss bank account, two intermediaries representing the Caribbean countries, and a Caribbean bank, Butcher loaned the group $200,000 to participate. The loan was supposed to be paid off out of proceeds from the bar, which were to be delivered to United American daily. The bar revenue was delivered as scheduled, but records show that no part of the loan was ever repaid.32

Today, Knoxville wonders whether it was all worth it. While the fair site itself, now a city park, stands almost deserted, save an occasional employee from a nearby office building on his lunch hour, all around the city the benefits of the fair, which drew eleven million people and generated over $25 million in tax revenue, are clearly visible. A $224 million road system has replaced Knoxville's infamous "Malfunction Junction," a downtown bottleneck where three interstates used to merge into a two lane road, and four new hotels and a multi-million dollar convention center have made the city a more attractive destination for conventions. But, the most important benefit has been psychological. Says former mayor Randy Tyree, "'We don't have the problem anymore of people saying we better not try this or that, because we may not be able to do it.'"33

BANKING, BUTCHER STYLE

The successful culmination of the World's Fair was the peak of the Butcher empire. On November 1, 1982, the day after the fair ended, when hotel rooms became available in Knoxville, FDIC examiners entered twelve Butcher banks. The simultaneous examinations surprised the Butchers and prevented them from moving their bad loans from bank to
bank as they had done in the past. Only now did regulators realize
the full extent of the problems facing the Butcher banks. Only now
was the fraud which was being perpetrated by the Butchers and their
seemingly endless string of paper companies discovered.

For years, stories about bad loans and insider dealings
at the Butcher banks, especially United American-Knoxville, had
circulated in the financial community. Yet, even the most ardent
Butcher critics were shocked by what the FDIC found. Jake Butcher
was once quoted as saying that "the only way you can go bankrupt
when you have a bank is to shovel it out the back door."\textsuperscript{34} In reality, this is exactly what he and his brother were doing.

To truly appreciate the inner workings of the Butcher banking
empire, one has to understand the role played by Jesse Barr, the embezzler
turned financial consultant, and David Crabtree, the whiz accountant.
They watched over the Butchers' collection of companies and shifted the
paper around as needed. They were the leaders of a small group of
individuals who, according to sworn statements, "...devoted 100% of
their time to fronting for the Butchers."\textsuperscript{35}

Jake Butcher's friendship with Jesse Barr began in Memphis
in the late 1960's when a mutual friend introduced them. Barr, who
grew up in Cleveland, Mississippi, was a rising star at Union Planters
Bank in Memphis and Butcher often stayed at his home when he went there
on business.

In 1973, with the assistance of Barr who by then was an
Executive Vice President, the Butchers bought 20,000 shares of Union
Planters stock. Then, in late 1974, they made an unsuccessful attempt
to get a seat on the board of directors. During this takeover try, federal authorities began an investigation of Barr. A grand jury indicted him on forty-one charges. These included conspiring to use bank funds to speculate in real estate, deceiving the bank in obtaining loans by failing to disclose his interest in several partnerships that borrowed money, receiving kickbacks of cash and furniture for arranging loans, and embezzling and misapplying bank funds.36

In September 1976, a Memphis jury convicted Barr on twenty-five of the charges. From that moment on, federal law prohibited him from working in a bank, even as a teller. Instead Barr, both before and after a short stay in prison, became a personal consultant to the Butchers. "'I am employed by Jake and C.H. Butcher as personal consultant to their financial affairs. I am paid by the Butchers themselves," he would tell reporters who questioned his involvement with the Butcher banks.37

Barr's salary was $1 a year, a ruse to avoid the $17 million judgment Union Planters had obtained against him. The Butchers funneled money to Barr through Management Associates, a consulting firm formed by his wife Connie and hired by the Butchers. Thus, while he was able to claim that he was destitute and unable to pay the court judgment, a joint financial statement signed by he and his wife showed that they had a combined net worth of $1.4 million, including investments in an Atlanta skyscraper, the newest hotel in downtown Knoxville, and the Holiday Inn convention center at the Atlanta airport.38

David Allen Crabtree attained his accounting degree from the University of Tennesse in 1970. After graduation, he joined
Ernst and Ernst (now Ernst and Whinney), who the Butchers used to conduct audits of some of their banks. He met Jake and C.H. Butcher and went to work for them as their personal accountant.

A July 1982 financial statement listed his net worth as $15.5 million, with an annual income of $665,000. The interests listed in his name included everything from banks and savings and loans to night clubs and a mining company. Much of Crabtree's wealth came from companies that creditors now describe as nothing more than "sham and shell companies formed by certain individuals...for their own purposes, and as a fraud against creditors."40

Barr and Crabtree controlled the day by day operations of the Butcher empire. Barr's responsibility was the banks, while Crabtree's job was to watch over the multitude of Butcher related companies.

One day just before the World's Fair opened, for example, the examiners turned up at one of Jake's banks. Among the things they wanted to see were some loan records. Barr, tucked away in an office on the twenty-third floor of United American Plaza, moved quickly. Using a thick stack of index cards that contained the details of the various loans and spending much of the day on the telephone, he shifted the loans to the other Butcher banks.

Crabtree's office was two floors below Barr's in Suite 2136, where he and a staff of lawyers and accountants directed the more than sixty corporations and partnerships that were the recipients of millions of dollars in loans from the Butcher banks. One of these companies, for example, was West Knoxville Investment, which obtained $14,7
million from the Butchers, $7.9 million from United American alone.

Only three of the loans were secured and the security for these loans is now worthless stock in various Butcher banks. First Tennessee Bank, who took over United American after it failed in 1983, claims the company is a fraud and has sued to recover the proceeds of the loans.

Authorities now question the value and validity of the companies that were headquartered in Suite 2136. The majority of them have filed for bankruptcy and most of the loans have been written off as uncollectible. Crabtree, who like the Butchers has been forced into involuntary bankruptcy, is the focus of an intense investigation and will soon face trial on a litany of charges.

Meanwhile, Barr, his employers' banking empire now a shambles, has pleaded guilty to charges of bank fraud, falsifying bank records, and conspiracy. He awaits word as to just how long his second stay in the federal prison system will be.

THE END OF THE EMPIRE

The simultaneous examination, which the FDIC started on November 1, 1982, was the beginning of the end of the Butcher empire. By December 1982, Jake Butcher was desperately looking for new capital for his bank. He reached an agreement with the Arkansas life insurance subsidiary of the financially ailing Baldwin-United Corp. to buy $10 million in United American stock. At the same time, though, United American agreed to buy $13 million in long term bonds. Like so many things the Butchers did, it was a paper transaction, not a real infusion of capital. Today, the Securities and Exchange Commission is conducting an investigation of the transaction.
At the beginning of January 1983, the FDIC belatedly put United American on the problem bank list and on January 25, it told the bank's board that the bank was insolvent. The FDIC wanted more than $90 million in bad loans written off and they wanted Jake Butcher removed as the bank's chief executive. The board members, refusing to accept that their bank was insolvent, drafted a plan to try to appease the regulators. They planned to contribute $30 million in new capital. Butcher himself would contribute $10 million, funds that would be generated by the merger of his Chattanooga and Knoxville banks.

FDIC Chairman William Issac quickly rejected the plan. Instead, on February 3, he ordered United American to issue a forty-seven word press release stating that the bank expected additional, unspecified loan losses. United American then sued the FDIC over the dispute. The details of the suit were sealed, an unusual step that signaled to the Knoxville community that there were indeed serious problems at United American.

The suit was a bluff; the bank had no capital to back it up. It was being forced to borrow millions of dollars from the Federal Reserve Bank in Atlanta just to meet depositors' demands.

By February 10, United American's debt at the Federal Reserve was $55 million. On February 11, a Friday, depositors drained $25 million out of United American and two banks severed its line of credit. Some Knoxville banks and merchants even refused to accept checks drawn on United American accounts.

The next morning, FDIC officials invited the region's larger banks to a meeting Sunday in Atlanta. There United American would be sold at auction, in the first test of the emergency interstate banking acquisition law which Congress had passed just a few months before.
THE DOMINO EFFECT

February 14- State banking authorities close United American-Knoxville.

February 15- United American reopens as part of First Tennessee

February 17- FDIC Chairman William Issac assures the public that C.H. Butcher's banks are sound. The Butchers know better.

March 10- Southern Industrial Banking Corp files for bankruptcy

May 27- United American-Chattanooga, United Southern Bank of Nashville, City and County Bank of Knox County, City and County Bank of Oak Ridge, and City and County Bank of Rockwood are closed by state banking authorities. It is the largest single day of bank failures in U.S. history since the Great Depression.

July 29- First Peoples Bank of Washington County is closed. This is the last major bank failure in Tennessee directly attributable to the after shock of the collapse of United American-Knoxville.
On Monday February 14, 1983, Tennessee's banking commissioner, Billy Adams, took the final step. Declaring the bank insolvent, he ordered it closed and the doors padlocked. The next day, United American reopened as a part of First Tennessee, the Memphis based bank holding company, which was the winner in the FDIC's complicated bidding war.

Two days later, Issac told reporters that C.H.'s banks were solvent. But, Issac was to be proven wrong. The Butchers knew that their financial empire had been destroyed by the closing of United American. As Jake would later say, "'They might as well have closed C.H.'s bank on the same day.'"45

For three months, C.H. Butcher tried to find a way to sell his bank holdings. It was too late. C.H.'s banks had numerous loans that were secured by now worthless United American bank stock. Additionally, some of the borrowers were now cut off from credit they had previously enjoyed at United American. Consequently, according to Issac, "'Loans at other banks became losses when they had not previously been loss loans.'"46

On May 27, 1983, United American Bank in Chattanooga, United Southern in Nashville, and City and County Banks in Knoxville, Rockwood, and Oak Ridge were declared insolvent and closed. It was the largest single day of bank failures since 1936.

The failure of the eight Butcher banks between February and August of 1983 represented the FDIC's largest loss ever. The eight failed banks, with total assets of $1.5 billion, will probably cost the FDIC between $200 and $500 million.47 It will be years before the actual figure is known.
LARGEST BANK FAILURES

1. Franklin National Bank, New York, N.Y. Closed October 8, 1974
   Deposits $1.445 billion, Assets $3.656 billion

   Deposits and liabilities $620 million, Assets $1.4 billion.

3. United States National Bank, San Diego, California. Closed October

4. United American Bank, Knoxville, Tennessee. Sold to First Tennessee

5. Banco Credito y Ahorro Ponceo, Ponce, Puerto Rico. Closed March 31,

   Deposits $470 million, Assets $517 million.

   Deposits $310 million, Assets $446 million.

   Tennessee National Corp. February 16, 1976. Deposits $336 million,
   Assets $412 million.

   Deposits $253 million, Assets $272 million.

10. Metropolitan Bank and Trust Co., Tampa, Florida. Closed February

*11. City and County Bank of Knox County, Knoxville, Tennessee. Sold
    to Third National Corp. May 27, 1983 Deposits $227 million,
    Assets $244 million.

12. The Drovers' National Bank of Chicago, Illinois. Closed January 29,

    Sold to First American Bank July 29, 1983. Deposits $176 million,
    Assets $176 million.

*Butcher related
On the walls of Morris Quick Stop in rural Union County are newspaper clippings which tell the story of the failure of the Butcher empire. But, these clippings are of more than just passing interest to the store's owner, Jack Morris. When C.H. Butcher's Southern Industrial Banking Corp. filed for bankruptcy on March 10, 1983, Morris and 6,299 other small investors like him saw $52 million of their savings disappear. If they are lucky, some years from now they might get back fifty cents on the dollar.

Southern Industrial Banking Corp., which Cecil Butcher, Sr. had founded in 1929 and turned over to his sons in the 1970's, was a finance company which made consumer and commercial loans. It funded these loans by selling uninsured investment certificates to retail customers at significantly higher rates than local banks were paying on their insured money market accounts.

Because it was founded in 1929, before the enactment of the state banking laws prohibiting the use of the terms banking, banks or bank by nonbanks, Southern Industrial was able to continue using the word "banking" in its corporate name. With the passage of the state's Industrial Loan and Thrift Act in 1951, Southern Industrial fell under the jurisdiction of the state insurance department. The department does not classify loans and could only declare a company insolvent if a certificate came due and the company did not pay. Its primary responsibility is to see that a company has the minimum capital of $25,000 for each location.

The Butchers took advantage of this freedom from regulation and used Southern Industrial as a haven for loans so bad that the FDIC would never tolerate them in a bank. By January 1983, they had
moved $25 million in questionable loans into Southern Industrial, swapping them for collectible consumer loans.\textsuperscript{52}

It was not until January 31, 1983, that investigators for the Tennessee Department of Insurance realized what was going on. When they arrived at Southern Industrial, the bad loans did not show up on the company's computer printouts of its loan portfolio. But, when they found a box of index cards in a secretary's filing cabinet, they discovered what the Butchers were really using Southern Industrial for. The index cards contained records of loans to eight individuals, the Butchers and their associates such as Barr and Crabtree. These individuals had ninety-one loans for $28.5 million, almost half the company's loan portfolio.\textsuperscript{53}

In response to these findings, Southern Industrial and the state, on February 6, reached a verbal understanding in which Southern Industrial agreed to stop taking deposits without first warning potential investors of the shaky nature of the company. Two weeks later, though, Southern Industrial launched an intensive advertising campaign and began selling certificates again. It stopped this sales effort only after the state threatened to slap the company with a formal cease and desist order.

Meanwhile, the failure of United American had set off a run on Southern Industrial. Like the loans, most of the withdrawals were by insiders. Anne Wilde, Jake Butcher's sister-in-law withdrew $378,000. A nephew of C.H. Butcher, Jr. withdrew $111,500.\textsuperscript{54}

The run cost the firm $27 million in deposits and forced it to file for bankruptcy. Today, Southern Industrial is under the
control of a court-appointed bankruptcy trustee who is trying to get what he can out of the failed company. It is a slow process, complicated by allegations of widespread forgery of loan documents. He has gotten judgments for $8 million but so far has only been able to collect $163,500.55

The failure of Southern Industrial has caused personal hardship for many. Jack Morris has been unable to add the storage room he wanted for the store and has had to take an occasional part-time job to make up for the interest income he has lost.56

But for others, the fallout from the collapse of Southern Industrial has been much worse. In a letter to bankruptcy court, for example, Otta Peryaro, who now lives in New York, told officials, "'I have lost more than $10,000 which is all of my lifesavings that I painfully put away during my 18 years of work. I had to leave Knoxville because suddenly I found myself without a penny and no job. I found a job in New York...and for two weeks I had to sleep in the car and eat only bread and a bowl of soup because that is all that I could afford.'"57

The economic grief and hardship the failure of Southern Industrial caused people like Jack Morris and Otta Peryaro is the truly tragic side of the collapse of the Butcher empire. These were innocent people, not greedy criminal bankers.

Some would say that these people assumed the risk, when, in search of higher interest rates, they put their money in an uninsured institution. But, as Jack Morris says, "'I've always trusted people and they[the Butchers and Southern Industrial]have been in business since 1929, they're local, country people and you should have confidence in them.'"58
WHERE WERE THE REGULATORS?

Could all of this have been prevented? Where were the regulators, the people charged with protecting the interests of Jack Morris and Otta Peryaro? Granted, they finally discovered what was going on, but could they have acted sooner? A House Government Operations subcommittee which held hearings on United American's collapse thinks so. It labeled the FDIC's handling of the Butchers and their banks as "extreme regulatory neglect." 59

One of the regulatory breakdowns, cited by the subcommittee, for example, was the FDIC's unwillingness to carry out regular simultaneous examinations of the Butcher banks. As far back as 1976, the Comptroller of the Currency had recommended "coordinated examinations" at the Butcher banks and in 1980, an FBI agent, investigating the failure of Butcher related City and County Bank of Campbell County, informed the FDIC that the Butchers had been hindering his investigation by transferring loans between their various banks and that simultaneous examinations ought to be conducted. 60 These were carried out in 1976 and 1978, but the next one was not held until 1982.

The subcommittee investigation also revealed a number of other violations of FDIC policy. With the exception of the last examination, for instance, the Butchers always received a week's notice before examiners came to the bank. This grace period gave Jesse Barr time to transfer questionable loans to other banks.

Likewise, FDIC guidelines call for a bank to be investigated at least once a year. In one instance, though, United American was allowed seventeen months between examinations. Furthermore, in 1981,
after the FDIC criticized the bank's high number of insider loans and gave it a lower rating, it failed to require a memorandum of understanding with the bank's board. Such a memorandum is supposed to detail a plan of action by the board to remedy the bank's problems.

Issac, while admitting his agency had failed to a certain extent in its regulation of the Butchers, is generally proud of the efforts of the FDIC. Testifying before the House subcommittee, Issac said, "'My judgment is that we should have had a better exam in 1981. If we had had a better exam, I'm not saying the bank would not have ultimately failed, but the losses would have been held down some. But, it was not easy to uncover the problems we uncovered in 1982. I'm just thankful our people were able to find it in 1982 instead of waiting until 1985 or 1986.'"62

The FDIC, though, is not the only organization which has had to answer questions about its audit and oversight procedures in the wake of the collapse of United American. The efforts of the state of Tennessee, the bank's principle regulatory agency since 1976, when Butcher turned in his national charter to avoid the Federal Reserve's more stringent reserve requirements, were also less than adequate. It was not until January 1983, when FDIC officials alerted them, that state bank regulators realized that there was something amiss at United American.

Likewise, one of the big questions surrounding the bank's collapse is how its outside auditors missed what was going on. Ernst and Whinney reviewed the bank's records in January 1983, while the FDIC was in the midst of its examination, and gave the bank a clean bill of health. As a result, both the FDIC and FBI are investigating whether there is any liability on the part of Ernst and Whinney for the collapse of United American.
Bank audits are considered highly subjective, partly because there is no physical inventory to count. Yet, even so, experts say there should not have been such a big difference of opinion between Ernst and Whinney's report and the FDIC report. 63

The major criticism leveled against Ernst and Whinney is that its auditors never contacted the FDIC examiners, but relied instead on management, who told their auditors that the FDIC findings were not known and that management had no reason to believe that they would materially effect the 1982 statements. 64 Ernst and Whinney was given that assessment January 27, two days after the FDIC had told the board that the bank was insolvent.

While Ernst and Whinney concedes that it made no effort to contact the FDIC, it says the reason was it had dealt with the Memphis regional office before and knew that it had a policy of not discussing findings directly with outside auditors. 65 The FDIC denies such a policy exists. James Sexton, director of bank supervision for the FDIC told House investigators, "'In no instance would access to the report have been denied to the auditors before the failure. At worst, Ernst and Whinney may have been asked to make a written request which would have been promptly approved.'" 66

This is not the first time Ernst and Whinney has been embarrassed by a bank failure. In 1974, they audited Franklin National and found nothing to criticize before that bank failed. Two years later, the FDIC sued the firm charging it with failing to provide "correct opinions" on Franklin National's financial condition, including the adequacy of its reserves to cover bad loan losses. Ernst and Whinney settled out of court and although the amount paid has never been disclosed, it is known that the legal fees alone were more than $10 million. 67
The demise of the Butcher empire raises some serious questions about the bank regulatory system in the United States. But, it is not an isolated case. Bank failures are at their highest level since the Great Depression and many of these failures are the result of fraud and insider dealings. A study by the House Government Operations Committee showed that of the 105 failures of banks and savings and loans from 1980 to mid 1983, about half of the bank failures and one fourth of the savings and loan failures could be attributed to criminal activity.

Clearly, some reform of the regulatory system is needed. It would appear, for example, that closer cooperation between regulatory agencies and outside auditors is warranted. Regulatory agencies like the FDIC should as a matter of course provide information to outside auditors and if a regulatory agency is in the process of auditing a bank, outside auditors should withhold their final report to the bank's management until that audit is completed and the results known.

In addition, chain banks and closely related banks should be treated as one financial institution, not many. Simultaneous examinations of both banks and nonbanks, like Southern Industrial, should be held on a regular basis and the different regulatory agencies should share information with each other. This will prevent widespread shifting of bad loans between banks and allow for easier and quicker identification of potential problems.

EPILOGUE

If the World's Fair was Jake's greatest moment, June 3, 1985, had to be one of his lowest. Having pleaded guilty to defrauding his United American Bank, Butcher was sentenced to twenty years in prison.
In passing sentence, U.S. District Judge William K. Thomas, ignoring pleas for leniency from Butcher and his attorney, assessed the maximum penalty allowable under the plea bargain agreement. It means that at the very least, Butcher will have to serve six years and eight months in a federal prison.

"Your multi-million dollar fraud was, if not the sole cause, at least a contributing cause of UAB-Knoxville's failure.... Because you have stolen millions of dollars from your own banks, your offenses are of the highest severity," Thomas told Butcher during sentencing. Thomas said that he had taken Jake's community and civic achievements into account when determining the sentence. But, he declared, "In retrospect if the people of East Tennessee had their druthers, I think they are glad they had the World's Fair or Jake's fair. But, equally they would still like to have Jake's bank as a force in the community and a Jake Butcher who had not shattered their trust and confidence in himself and as a banker."

The Sunsphere and the United American Plaza, which Butcher could see as he left the courthouse that day, will long stand as monuments not only to the success of the empire, but to the fraud, greed, and corruption which destroyed it. Charred by the bank failures, the long criminal investigations, and the bankruptcy proceedings, these structures more and more have come to represent the real world of the Butchers, a world made of paper and fueled by other peoples' money.
ENDNOTES


4 Borrowed Money, Borrowed Time, p. 20.


8 Borrowed Money, Borrowed Time, p. 20.


12 Nolan, p. 1B.

13 Borrowed Money, Borrowed Time, p. 20.


16 Fox, p. 15.

17 Borrowed Money, Borrowed Time, p. 37.
Borrowed Money, Borrowed Time, p. 37.


28 Siler, p. 11.


33 Calonius, p. 37.


40  Chester, p. A8.


43  Borrowed Money, Borrowed Time, p. 30.

44  Borrowed Money, Borrowed Time, p. 30.

45  Borrowed Money, Borrowed Time, p. 31.

46  Borrowed Money, Borrowed Time, p. 31.

47  Borrowed Money, Borrowed Time, p. 31.

48  Borrowed Money, Borrowed Time, p. 33.

49  Borrowed Money, Borrowed Time, p. 33.


51  Ewing, p. 2.

52  Borrowed Money, Borrowed Time, p. 33.

53  Borrowed Money, Borrowed Time, p. 33.

54  Borrowed Money, Borrowed Time, p. 34.

55  Borrowed Money, Borrowed Time, p. 34.

56  Borrowed Money, Borrowed Time, p. 34.
Borrowed Money, Borrowed Time, p. 34.


Stricharchuk, p. 5.

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Balloch, p. A5.
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