

Banking by EIR's Houston Bureau

Texas banks ready to crash

Some claim it's the fault of bad management, and prepare to invite in new, out-of-state management—but so far, no buyers.

EIR warned in February that the oil price crash would wipe out most of the big Texas banks' nearly \$200 billion in assets—not only because of bankruptcy in the oil field, but because of the collapsing commercial real-estate bubble. We showed that real estate accounted for over a third of Texas banks' loans, and that the overbuilt, speculative market could bring down 9 out of the top 10 Texas banks.

The banking crash is occurring, although still in slow motion. North of the border, three of Oklahoma's top banks have already failed, all of them billion-dollar institutions. In Texas, smaller institutions are dropping by the wayside, while a "slow-motion deposit run" bleeds the larger ones to death.

Months ago, Texas' state banking authorities vowed they would never do what Oklahoma did, and invite out-of-state "carpetbankers" in to buy out their failing financial institutions for about the cost of a discount air ticket to Dallas. Now, the Texas legislature has pushed through legislation permitting such takeovers—except there are no buyers.

On Sept. 18, Texas Independence Bank of Pasadena, a Houston suburb, became the 17th bank to fail in Texas in 1986, and the 101st bank to fail nationally; and on Sept. 17, Texas officials shut down Texas Bank & Trust in Lubbock. The bank, partially owned by the state's former governor, Preston Smith, was the 102nd bank in the United States, and the 18th in Texas

to fail this year. Federal regulators blamed a variety of bad commercial loans that showed "faulty lending decisions," for the insolvency.

But the state's top banks are also running losses that cannot be sustained for long. Allied Bancshares of Houston, the sixth-largest bank company in Texas, has announced an estimated third-quarter loss of \$40 million. Allied will increase its loan loss provision by \$110 million, and take a \$14 million write-down. Allied will charge off \$82 million in loans for the quarter, resulting in a loan loss reserve of \$140 million at the end of the quarter, up from \$111 million at the end of the second quarter. About 35% of the loans being charged off are in energy, with 25% in real estate, and the remainder in commercial and individual loans. Problem real-estate loans comprise one-half of Allied's non-performing assets, and energy loans 30% of non-performing assets.

Allied said the increase in its loan loss provision and the write-down of foreclosed real-estate assets followed an evaluation of the bank's loan portfolio by its internal credit department.

Banks across the country are faking their books to cover up the effect of the crash of real-estate prices, and nowhere as brazenly as in Texas. Houston and Dallas have 30% more office space than developers can rent out, and the situation is becoming worse, not better; that suggests that at least 30% must be written off the price of existing office space, and probably

50%. That write-off alone is sufficient to wipe out the shareholders' capital of several of the large Texas banks.

"There is evidence of a kind of slow or uneven run" against Southwest banks, an unnamed regulator told the *Wall Street Journal* Sept. 22. The *Journal* noted:

"These aren't just isolated examples of depositor skittishness. Although none of the withdrawals could be characterized as a run, InterFirst's big Dallas bank lost \$2.5 billion, or 61% of its negotiable certificates of deposit and foreign deposits between Jan. 8 and Sept. 3, according to Federal Reserve Bank statistics. . . . Similarly, First City's Houston bank, according to a second-quarter report to federal regulators, says its foreign deposits fell 37% to \$988 million, and domestic deposits slid 12% to \$3.04 billion. Domestically, the decline stemmed from a \$145 million drop in brokered deposits and a \$322 million decrease in time deposits of \$100,000 each or more."

To liquidate these deposits, the banks have had to sell off their most liquid assets, such as U.S. government and other bonds. The assets left on their books are their illiquid, and mostly dubious, loans to energy, real estate, and agriculture.

Texas Banking Commissioner James Sexton, addressing a banking seminar in Houston Sept. 18, blamed bad management, saying that many of the banks were so mismanaged, that they wouldn't have survived even under ideal conditions. He has never seen a bank failure, he said, where bad management wasn't at least half the problem. The argument is that out-of-state management would succeed where local management failed; but unless the Federal regulators subsidize takeovers to the tune of tens of billions, that advertisement is unlikely to attract buyers.