# First City Texas fails, again

*The second bailout of First City Bancorp. of Texas is an omen of banking's catastrophic future.*

The folly of bailing out insolvent banks during a deepening depression, as a substitute for dealing with the problems causing the depression, was demonstrated anew with the seizure by federal regulators of the 20 banks belonging to First City Bancorp. of Texas the evening of Oct. 30.

The failure of Houston's $8.8 billion First City ranks as the largest bank failure this year, and the eighth largest bank failure in U.S. history. But that's only part of the story, since this is the second time that the Federal Deposit Insurance Corp. (FDIC) has bailed out First City. With a combined cost of nearly $1.5 billion for the two bailouts, First City is among the five costliest bank failures in U.S. history.

The crisis at First City came to a head in 1986, for which the bank posted a loss of $402 million, the largest loss ever by a Texas bank. In January 1987, with its credit rating at junk-bond levels, the bank began a desperate search for outside capital or, failing that, a merger partner.

By June 1987, the Texas banking crisis escalated, with the shotgun marriage of the bankrupt InterFirst Corp. with RepublicBank Corp., creating the ill-fated First RepublicBank Corp.

One month later, a small Texas bank, BancTexas Group, received a $150 million bailout from the FDIC in connection with a takeover by the Hallwood Group. Like First City, BancTexas would later join the select group of banks which have been bailed out twice.

In September 1987, a group headed by former First Chicago and Occidental Petroleum chairman A. Robert Abboud, announced a deal to acquire the foundering First City. The deal called for the Abboud group to put up $500 million in cash, and the FDIC to put up $970 million. That would make the deal the second largest FDIC bank bailout to date, after the $4.5 billion bailout of Continental Illinois in 1984.

The response by regulators to the proposal was typical of the idiocy one hears today. Then-Comptroller of the Currency Robert Clarke, a Houston banking lawyer, called the Abboud move "a pretty good endorsement" of Houston's banking future.

"Those people have analyzed the market pretty well and they concluded that they want to be here," Clarke said in September 1987. "That's pretty good testimony." Clarke also cited the pending takeover of Houston's Allied Bancshares by First Interstate Bancorp. of Los Angeles, saying he had "a definite feeling" that the Texas economy was turning around: "We all know it's going to happen, it's just a question of how long it will take."

Clarke's comments didn't help much, as both First City and First RepublicBank made Morgan Stanley's list of the 10 worst stocks worldwide in 1987. Two other Texas banks, MCorp and Texas American Bancshares, joined them on the list of the worst 10 performers on the New York Stock Exchange that year. During 1987, First City lost 88% of its market value, while its stock dropped to 40¢ a share.

The Abboud takeover of First City was finally completed in April 1988, but only after much difficulty. The Abboud group had great trouble raising the $500 million, and also had to extend four times its deadline for convincing First City's bond holders to accept 35-45¢ on the dollar for their bonds. By this time the bank company, which had $13.7 billion in assets at the end of 1986, had shrunk to $12.2 billion.

It was also no longer the second largest bank failure in U.S. history, having been bumped to third place by the March 1988 collapse of the $33 billion First RepublicBank, for which the FDIC initially projected a cost of $1 billion.

Despite the signs of impending disaster, Abboud penned a commentary in the Oct. 31, 1988 *Houston Chronicle*, boasting that Texas was on its way to becoming a "regional financial center." "This regional recession is ending and the Texas economy—including its banks—is coming back," Abboud insisted.

Once again, reality refused to bend to the delusions of the spin doctors. By March 1991, with the bank being ravaged by depositor runs and under orders from federal regulators to raise additional capital and tighten lending standards, the First City board fired Abboud.

That didn't help, either. One year later, on March 31, 1992, with the bank facing a regulatory demand that it raise an additional $300 million in capital, First City issued a press release which stated, "Substantial doubt exists as to the ability of First City to continue as a going concern" without assistance from the FDIC.

But the zombie First City has not gone away. Federal regulators are now planning to sell the insolvent banks to others, and you can bet that whoever buys it, will one day turn up at the FDIC's bailout window themselves.