Oklahoma Bank and

Commerce History Project

a program of the Oklahoma Historical Society

Interview with Bob McCormack
McCormack & Associates, Inc.
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Audio taped and transcribed by MJH

MJH: It is Wednesday, June 22, 2011, and I am in Bob McCormack's office in Duncan, Oklahoma, visiting with him as part of the Oklahoma Bank and Commerce History Project. So, thanks again, and thank you for the cup of coffee. If you would, just begin by telling me about your association with the banking business, what brought you into it, and as we go along, maybe pick up some milestones about Stephens County in particular.

BM: Well, I do have a story about community banking in Oklahoma. This may or may not be the kind of thing you're looking for. I grew up between here and Lawton. My family—parents, grandparents, aunts and uncles all banked at the Bank of Elgin, which was owned by a fellow named Bailey Stephens. The president of the bank at that time was Harry Leonard, who ultimately became the state bank commissioner of Oklahoma. When I was seventeen years old, my father was killed in an accident, and so we were all gathered up at my grandparents' house, and had notified all the relatives and that sort of thing. My grandmother said, "Has anyone called Harry?" And right after the family, it was Harry the banker. And something just clicked, and I first thought, "Well, why are we calling the banker?"

That's community banking personified, that after the family, the banker is the next guy that we would call with news like that.

MJH: That's exactly the kind of thing I'm looking for. That's wonderful.

BM: Something clicked. And I was raised on a ranch, and started out to school at Cameron in agriculture studies and things like that, but I don't know, that never left my mind. So I ended up going to Oklahoma City and going to the Oklahoma School of Banking, which was like a trade school for bankers. 101 Park Avenue. And this was in 1962. And I worked, while I was going to school there, I worked part-time at the First National Bank of Oklahoma City, right downtown.

MJH: I know that well…

BM: And I stayed there a year, and then had the opportunity to come back to…I kind of wanted to get back in this part of the country. And I talked to bankers around—in Lawton and Duncan and around—and I came to the Security National Bank in Duncan, and interviewed there, and just left there thinking, "Well, if this bank will hire me, I'll come back, and if not, I'll just stay where I'm at." And something about that bank seemed to fit. So a week or so later they called, and I came back to Security in Duncan.

Stayed there for twenty-two years. I kind of worked my way up from the bottom to cashier, CFO of the bank, in charge of all operations—data processing, and things like that. And in 1985, I went into business for myself and did consulting work with banks. And twenty-six years later, here we are.

MJH: So that's three: the First National in OK City…Coincidentally, you were there during the Vose years.

BM: Yes.

MJH: Before the Voses, there were the Johnsons.

BM: I don't go back…I remember Mr. C.A. Vose, Sr., but I don't go back any further than that.

MJH: The hand off to the Voses was in 1944, and at that time, my granddad was president of that bank.

BM: No kidding!

MJH: Yes. His father-in-law and his uncle were founders of it. It's a direct line back to before statehood. It's a pretty interesting story. I never went into banking myself. My brother did, and he's at Stillwater National in Oklahoma City. I kind of backed into it this way, because it's just a rich, interesting history. In fact, I was just in the lobby yesterday. You can hear a pin drop. People are coming and going from their offices or whatever, but it's just a big, beautiful place to be.

BM: It has probably been ten years since I've been there.

MJH: Maybe, why don't you tell me a bit about your stint at First National.

BM: Well, I was working part time while I was going to school, and I started out in the transit department, which was the area where all the checks were cleared. First National was the principal correspondent bank in the state at that time. Most community banks around the state sent their outgoing cash letters and checks for collection up to First National or Liberty, but First National had the lion's share of that business. One of their best customers was the Security National Bank in Duncan, and I kind of became familiar with them. And it was a big deal, because Security Duncan had the Haliburton account, so there was a lot of checks, a lot of items processed. So I was a gopher. I worked in the mail room, and ran proof machines, and things like that. One of the things I remember—a couple of things, when I was a gopher, I had to do the clearing over at the Federal Reserve every morning. Once a month, armored cars would come and park out in front of the Fed, and they would pick up a bunch of cash and take it to—I think Fort Sill was still paying in cash at that time, for the military. And so I'm walking down the street with this big sack full of checks on a two-wheel cart, and here's the armored car sitting outside, and a couple of guys standing outside with their pistols drawn, but they had them down by their side, and if you looked up, there was little port holes up there, and there was a rifle sticking out of each one of them.

Laughter…

And here I am with a cart and a sack! But I made it through.

MJH: What do you remember about C.A. Vose? Did you know him at all well?

BM: I did not. I was…At that time, there were probably four, four hundred and fifty employees in the bank, and I was up on the fourth floor, sorting checks and things like that. I met him, but didn't have much direct contact with him.

MJH: And that lasted about a year.

BM: Unhuh.

MJH: Then you made the transition over to Security National. What do you know about that bank, maybe some of its earlier history?

BM: I believe that bank was chartered in 1919 as a state bank, and in 1921 converted to a national charter. Somewhere not too long after that, a fellow named L.L. Humphries purchased the bank. He was still there in 1963 when I came to Duncan, and he was still active in the bank, serving as chairman of the board and principal shareholder. He still had an office at the bank and came to work every day. The president of the bank at that time was Roy Patton, who had previously been the state bank commissioner.

MJH: Could you spell that?

BM: P-A-T-T-O-N. Roy Patton, R.B. Patton, I believe. And Mr. Humphries owned the bank, or owned control of the bank until, I want to say '65, '66, something like that. He sold—it was interesting—the bank to Haliburton employee benefit fund. That didn't last long, because the Bank Holding Company Act of 1968 came along, and the benefit fund, because of that new law, either had to sell everything else they owned or sell their interest in the bank, because they couldn't have the same ownership with banking and other non-banking entities. So they sold the bank to the McCaslin family, local. Mack Oil Company was their—they were in the oil business. Mr. McCaslin had done very well—T.H. McCaslin, Sr. had done very well in the oil business. His son-in-law, Jack Mauer, was interested in the banking business, and came on the board and ultimately was chairman of the board, and represented the family interest in the bank until they sold to BancFirst seven or eight years ago, or whenever that was.

MJH: So, was it called Security National until it was sold?

BM: No, it was Security National, and—I left in 1985, so, 90ish or somewhere in there, maybe it was later than that, I guess—they changed their name to AmQuest. Security National was sort of the—and I guess it helped out by having the Haliburton account all of those years. Duncan is the hometown of Haliburton—this is where Haliburton started. But they were the principal banking entity in the southern half of the state. The other major banks outside Oklahoma City and Tulsa at that time were probably Central National Bank in Enid and the First National Bank of Bartlesville, and then Security Duncan, were kind of the principal "country banks," we called them back then, I guess we'd call them community banks now.

MJH: So they were Central National of Enid, and the other one was…

BM: Unhuh. And First National of Bartlesville. Of course, they had Phillips Petroleum in Bartlesville…

MJH: And then the third one was Security…I mean, in the smaller towns, Security National might be about the third…

BM: Well, as far as the size of the city, but—I think those banks were pretty much equal, as I recall.

MJH: I had an opportunity to interview Joel Champlin. Of course, that would have been First National of Enid. He never was in the banking business so much himself—it's been closed for about twenty-five years, since the early eighties…

BM: Yeah, maybe not quite that long, but yeah…

MJH: And I did visit with Mark White. He's at Osage Federal in Pawhuska and Bartlesville. But that's interesting to think of those three as being the three outside the metro areas.

BM: Yes, and there is a fellow that is still at Central National of Enid named Brud Baker—B-R-U-D Baker. I don't know if that's his real name or not. He goes all the way back to those days, so he might be a good contact for you.

MJH: That's great. Central National of Enid. Okay. Glad we got off on that. So Security National sold in the early eighties to AmQuest, and did AmQuest then sell to BancFirst?

BM: Sold to BancFirst, yes. And it was A couple of years after the State National Bank of Marlow sold to BancFirst. Security was a regional bank and provided some correspondent banking services to a half dozen or so banks in this area, and was beginning to acquire other banks. The same owners—this was before we had branch banking in Oklahoma—but the same principal owners, led by the McCaslin family, chartered the American National Bank in Duncan. It was on Highway 81 and Elk. So we chartered that bank, and it sort of operated like a branch, before we had branch banking I Oklahoma.

MJH: Okay, so the McCaslin family was principal in Security, and then they went out and chartered another bank.

BM: And it ultimately, became, merged in, once branch banking came around, it merged into Security and became a branch. Security also acquired the Cache Road National Bank in Lawton, which is at 36th and Cache Road, I think. And later, it acquired the American National Bank in Lawton. And I guess, in between there, it acquired the Exchange National Bank in Ardmore.

MJH: So Security National was kind of the banking hub, then, for the southwest, the whole southern tier…

BM: Like I said, it was probably…south of I-40, maybe…Of course, BancFirst started out in Shawnee. That's where their headquarters were for years, before they moved to Oklahoma City. And they were, of course, much more aggressive than anyone else in the state, with mergers and acquisitions and things like that.

MJH: That's a remarkable story. I was with David Rainbolt yesterday, and spent a couple of hours with him. And I just saw his dad. He was in the office, and he just got back from a three-week train trip across Siberia.

BM: No kidding! No kidding! He's a great guy.

MJH: He's a terrific guy. I had never met David, but I've known Gene for awhile. First thing he said was, "Well, what you want to do is buy farmland in Siberia. Global warming—that's going to be…"

Laughter…

And David said, "Well Dad, I don't want to be the first one to invest in that!"

Laughter…

BM: Sounds like a Brooklyn Bridge deal to me!

MJH: It might be. I don't think I'm going to do it!

Okay, so really, south of I-40, Security National would be the go-to bank.

BM: Mm, Mmm. Then I guess the oil bust in the eighties sort of slowed everybody down.

MJH: So tell me about…So actually, you left in the mid-eighties…'84…

BM: ’85, yes, ’85.

MJH: Probably a good time to get out of the business. Tell me about your experiences…Here, we’re probably near the Anadarko Basin, aren’t we, or not too far from that region? So maybe tell me a bit about the boom and the bust as it affected your bank.

BM: Well, one thing I remember about the energy business, is one time the bank examiners came into the bank and asked me for a list of all of our loans that were tied to the energy segment of our economy. And I just handed him the entire journal and said, “Well, they probably all are.” Whether it’s the oil company down the road or the oil servicing or the men’s store across the street from the bank, we’re all tied to the energy business here. I guess, as with any boom and bust, it’s hard to know what’s real or what’s normal. Recently, the cattle business has been really good, for three or four years now. I talked to one of my bankers who had a lot of cattlemen for customers, and I said, “How many of those guys think it’s always going to be this way?” He said, “Probably about half of them.”

And it was kind of that way in the energy business, with the boom and the increase in oil prices. It had a lot of impact, and a lot of money changing hands and a lot of really bad growth. I think Duncan didn’t, maybe didn’t bite into it as much as…I remember, in those days, Elk City people were renting out a place in their garage for somebody to put a cot for eight hundred dollars a month, and things like that. We never got…

It’s a lot of old money in Duncan. It was between Duncan and Alva about the highest bank deposits *per capita*. I did a study at one time, and I thought that was kind of interesting. There was a lot of money in Duncan, and a lot of old money, so we certainly participated in the boom, but maybe not to the extent that some of the other communities did. But…

MJH: Alva…I did meet Marilyn Myers, and learned all about Gertrude and her sister. I mean, there’s wonderful stuff up there.

BM: Yes, mm mmm, okay, okay…

MJH: I guess I had never been to Alva, and certainly didn’t know about that story.

BM: Yes, at one time, they had the highest bank deposit *per capita* income in the state.

But there was just that euphoria, and you know, one thing I remember is people that worked for Haliburton, maybe in the machine shops, they had a really excellent retirement plan, and they would retire, or take early retirement, and they’d take most of their retirement money and buy some big lathe or machine and put it out in their garage and do overflow work for Haliburton, and…But it didn’t just slow down—it just stopped. And there were a lot of those people with those machines that they owed on or invested their whole retirement in, and that was worth about what it would weigh. You know, a lot of people driving around in town cars and buying airplanes and would go…You know, we had all of that.

Now here's a…The first year I was in business, 1985, which was, kind of, a couple of years after the bust began. I used to brag that, the first year that I was in business, I made more money than all the banks in Stephens County combined. Now, it helped that one of them lost $2.3 million!

Laughter…

They were negative, and I managed to stay in the positive. There were—I think there were nine financial institutions in Stephens County at that time. And I think the first year I was in business, I worked for seven of them.

MJH: I wonder how many of those were still around by 1990 or so?

BM: Well, the bank in Velma was one of them, and they're still around. And they're now a branch, as you probably know, of the First National Bank of Ardmore. The bank in Comanche was one, and it's just now a branch of the American National Bank in Ardmore. The First National and the State National in Marlow—the First National is still there, the State National is a branch of BancFirst. Three banks in Duncan—the Security National Bank, the Oklahoma National Bank, and the First National Bank, which became…they gave up their national charter, and became First Bank and Trust, somewhere along the way.

And all of the three Duncan banks, the two Marlow banks—all of those banks survived, sort of. The First Bank and Trust in Duncan ended up, in an FDIC bailout—a 13B bailout program thing, where ____ Jones purchased the bank at that time through that, and the FDIC put some money in to keep the bank together, and ____ put some money in and ended up with control of the bank.

MJH: There's Security National and First Bank and Trust. What would be the third bank here?

BM: Oklahoma National.

MJH: Oh, that's right.

BM: Which is now a branch of ArVest, But all of the banks, except maybe the First Bank and Trust, survived all of this. The First National of Marlow did not. It did not survive. It had to get closed down and opened back up. We had the First Federal Savings and Loan in Duncan that failed, and there was a Duncan Savings and Loan that failed. They were not necessarily victims of the boom and the bust, but of interest rates.

These numbers will be close: In 85, there were fifty-two savings and loans in Oklahoma. The last time I looked, there were nine. Of course, they had no diversification. Basically, they were taking six month CDs that they were paying four percent for and making thirty year fixed mortgage loans and getting eight percent yield, and just doing very well with that four percent spread. But then, when the boom came, the cost of money…Those CDs were all of a sudden costing twelve and up to sixteen percent. And of course those fixed rate mortgages were still yielding eight. So it was the interest rates that caused their demise, as well as a lot of the others. It wasn't necessarily because they had bad loans.

MJH: I was visiting with Frederick Drummond, and he's got a glass on his desk, and one thing he keeps under glass, so he can see it all the time, is a note from the early eighties showing an interest rate of eighteen percent. He just kind of keeps that there as a memento of those nutty days, I guess.

BM: One day, at Security, along in there, I sold Fed funds—I was gathering up all the money I could gather up, on a Friday, so I could sell it for the entire weekend—for twenty-four percent. Twenty-four percent: that's the highest I recall Fed funds being, but it was crazy. The cost of CDs—twelve percent, up to sixteen percent. And you know, a lot of people, building drilling rigs and things…We had a lot of ____ as security. Looking back, you wonder, "How did you make a loan out of that?" You'd be building a rig, and it never got out of the…Before they got it finished, the bust came. So it was worth about what it weighed, at that time.

MJH: So you were still at Security when Penn Square failed in July '82.

BM: Yes.

MJH: What specific things do you remember about that watershed event?

BM: Well, that place grew so far and so fast. And of course, Bill Jennings, "Beep" Jennings, came from Healdton down the road here. We were acquainted with him. Everybody that I knew and talked to—we all knew it wouldn't work! It couldn't last! It was just going too far, too fast. You hear all the stories—buying airplanes and Lincoln town cars and all the stories that you heard; selling participations in all those deals, with banks in Chicago and Washington State and…You kind of wonder how much of the book did they create, by lending all that money and getting all the money from Chicago and Washington and maybe some other place?

MJH: That certainly contributed to the hype, and wooed a lot of folks in to the belief thatthings can only go up.

BM: They had some of the old First National people, who went over to Penn Square. Dale Mitchell was over there, as I recall; a fellow that I worked with, Jim Pitts—P-I-T-T-S—was in the operations part at Penn Square. But it was just crazy, and everybody that I knew in the banking business just knew it wasn't going to work. It couldn't last. The price of oil, as I recall, went up to forty-four dollars a barrel. And they were sort of operating under the premise that it was just going to keep going up and hit a hundred dollars a barrel. And if that had happened, they'd still be here today! I don't know, but the next thing you knew, oil was fourteen dollars a barrel. And that's when everything started coming unwound.

Another thing at Security that I failed to mention earlier is that, after Penn Square failed, the owners—the McCaslin family—of Security and the ownership of Citizens National Bank of Muskogee—the Rooney family—went together and chartered the Charter National Bank in Oklahoma City, which was located in the drive-in property of Penn Square. So you can kind of get a vision of what, kind of how it…Drive-in banks, you tend to think, a little place about this size, there's some ____ out there. But their drive-in facility was more room than we needed to found a new bank.

Laughter…

That group purchased the property from the FDIC, who was the receiver for Penn Square at that time, and chartered the new bank, the Charter National Bank, there. Ultimately, the Security people kind of got out of that deal, and the Rooney people ended up with it. It ended up selling to…Bank IV?

MJH: Actually, I didn't realize…So the McCaslins and the Rooneys…And the Rooneys were First National of Muskogee?

BM: Citizens National. And I worked on the charter application and gathering that up, things like that. A fellow named Albert Hurley was the CFO at Citizens Muskogee, so he and I worked together on a lot of the paperwork and applications and financial stuff.

MJH: I wonder how long they operated at Charter Bank, Charter National Bank?

BM: They were one of our clients. We did audit work there. Time goes by so fast, I hate to say. We could look it up on fdic.gov. Do you know how to do that, by the way?

MJH: I haven't done that yet.

BM: You go to the FDIC website, and there's a place for bankers. You can go in there and do research on banks, and then you can look at active banks, or inactive banks. I'm not sure exactly how far back it goes.

MJH: Okay. So maybe, they'd have dates of their charters, closures, mergers, other things.

BM: Yes. And I think that the Oklahoma Bankers Association website has—in fact, I know it does—a lot of that information.

MJH: I think I have about gotten to the point where I have gone through all the hard copies of the old magazine—I just finished 1995 yesterday—but now I think they have the monthly magazine online, in pdf, or something or other.

BM: Yes, but I think if you go to their website, they have history of the banks. There's one that changed hands two or three times. I remember one of the banks in Woodward, I think, has changed hands about three times…

MJH: That's s good idea. So, you experienced the fiasco of the eighties, and about that time, you're going into your own business. Tell me about McCormack and Associates.

BM: Well, I actually had, I thought, without being a president of a bank, I had about the best job in the state of Oklahoma. I was in charge of everything except the trust department and lending. I never really wanted to be president of a bank. It's not that I thought I couldn't do the work. But just the requirements of fund raising things, and making sure you get to Rotary every Wednesday, and I think you might have had to actually learn to play golf, you know, and I didn't want to do that.

Laughter…

And so I had gone about as far as I could go, at Security or anywhere else in the state, without becoming president of a bank. So I was at a Sheshunoff meeting down in Austin, and they were—Alex Sheshunoff made a presentation, and he was saying, "The banking examiners are now expecting banks to have budgets, and financial plans, and do strategic planning." And then the other thing was that, you know, 1985—I mean that's when PCs were first coming out. The IBM PC—Apple had been around a little while, but that was just emerging. And all of those things—that was my deal. That's what I did for a living, and so I was just, I don't know, I woke up one morning and decided to pronounce myself a consultant.

I had worked with six or eight of our correspondent banks, and I would help them with their problems or give them advice or, if they had a question about their ____ reports, and several of them were on our…We had spun off our data processing department into a separate company, and provided those services to other banks, and I just enjoyed helping those other banks, and the smaller banks, and working with them, and helping them solve their problems. So I woke up one morning and decided that was what I was going to do.

MJH: In that time period, what would you say were some of the bigger problems and challenges facing your clients?

BM: Well, that was an opportunity, but I think the challenges were to have financial planning and budgeting. Believe it or not, that was pretty rare in the banking business back in those days. Now, there were people—asset liability management, another thing, we were doing that, before we even knew what to call it. But there were people, and Mr. Ira Green was one of them, he didn't know what to call it either, and he didn't have anything on a computer or even on a…It was intuitive, to him. He just did it. But, policies and procedures, things like that, and when times got tough and they were closing banks, and found that banks were just weak in having good policies and having good procedures. A lot of those lenders were more like entrepreneurs in those days, and didn't have a lot of oversight or corporate governance. So all of those things kind of were behind the scenes—the operational and financial stuff, again, was what I was interested in and what I was doing.

Early on, a lot of our work ended up being in installing personal computers in banks, and putting software on them, and training banks to use them. We set out to be market oriented and not really have a real hard picture of what we were going to look like, and just find out what the needs were in business, in the banking business, and which ones we could help solve, and figure out a way to make a little money at it.

When I left the bank, Jack Mauer—After I resigned, he came around to see me, and he wanted to see if my decision was final, and he didn't put a lot pressure on me or anything, but I could stay if I wanted to. I guess this was encouragement. He said…I want to get this exactly right now. He said, "I don't know if these tight-assed old bankers can be separated from their money or not, but if anybody can do it, you can!"

Laughter…

But he did keep me on as a consultant. He gave me a retainer for a year, to continue with the asset liability management and to help train my replacement. It was a big decision for me. I had three kids in school at that time. So he kept me on retainer for a year to do that. At least I knew I could feed my family. I didn't know if I could do much else…

MJH: Could you spell his name?

BM: M-A-U-E-R.

MJH: I guess it's safe to say, then, that your going into business for yourself was driven by new technology, new legislation, and regulation?

BM: Regulation, yes, yes. And a lot of these things, a lot of the regulation we have now is just totally unnecessary and doesn't help anybody, particularly the people it's supposed to help.

MJH: I do want to tap into what you think about all that, for sure.

BM: Looking back, a bank or any business needs policies and procedures. They need an organization chart, and who's supposed to do what. Banks were just really slow in coming around to that—in having financial plans and budgets. They were used to just flying by the seat of their pants, I guess. I still use this today: Well, if you're lending to one of your commercial borrowers out here, and you start asking them questions about, "Well, who are your major competitors, and how you're going to price your product, and what is your continuity—what if something happens to you, continuity of management—now what? What is your financial and capital? Do you have enough capital to make wealth?"

Banks are asking their customers all of those questions, but nobody was asking the banks. So, a lot of those things—it was hard to say that banks didn't really need those policies, or didn't really need those procedures, and things like that. It's just good business.

But that's not the way it is now!

MJH: Can you think of any milestones along the way, late eighties through the nineties? Any particular legislation, any particular issues that strike you? But then I would like you to comment some on where we are today with all these new regulations.

BM: And one thing that's…I guess in Oklahoma, it's not all that unique, but somewhat, but the Security National Bank…L.L. Humphries bought the bank and managed it from 1923, say, and he was president of that bank until Mr. Patton came, which I think was, maybe, 1959, somewhere in there. And then, after that, Charles Storms was the president of the bank, for about three years. And then Gene Wheeler was president of the bank for about ten years. So that's, what, four bank presidents from about 1925 to 1985, for sure. So, not much turnover at the top.

I guess some of the big deals along the way…Regulation Q, which regulates the interest you can pay on deposits.

MJH: When was that?

BM: I'm trying to remember…Early to middle sixties, '65, '66, something like that. The first CD that banks were able to offer under that reg was a six-month treasury bill CD. So, most of the banks had checking accounts and savings accounts, and then you could offer a CD for six months and pay…a certain percentage above what the six-month treasury bill was. It was just kind of lopped into that. And then that just kept up, and getting broader and broader and broader, until today, most recently, we don't have Regulation Q anymore. Over time, we got the NOW accounts, and where you could pay interest on a transaction account. And when we had Reg Q, it would dictate how much interest you could pay on a savings account—you could pay two percent, then they would change it to two and a half or three.

Back then, banks pretty much had a monopoly on checking accounts and commercial lending, and their cost of money was pretty much fixed and controlled.

MJH: I understand. There was so little competition for deposits and so forth, what I am beginning to understand—it was regulation and technology, and the regulations were trying to catch up with it, bringing in all the competition…

BM: They broadened…Back then, credit unions were probably doing what credit unions were supposed to be doing, and savings and loans weren't allowed to have checking accounts, or make any kind of a loan other than a mortgage loan on your home. And all those powers, of course, were expanded.

July 21st of this year, the last part of Reg Q is going to be gone, because banks will now be able to pay interest on commercial checking accounts. About the only thing left of Reg Q, is gone. And it's opened up the market interest rate. Maybe the most unfortunate—one of the most unfortunate things now is that credits unions, which have just expanded beyond what their original intent was—of course, it irks all of us bankers that they can be out competing with us, but they don't have to pay any income taxes.

MJH: I didn't realize that. So credit unions don't pay income tax?

BM: They don't pay income taxes. So, they have lobbied, and got their powers expanded, where every year they are more and more competitive with commercial, community banks. They don't have to pay income tax! So, if they can make commercial loans or take checking accounts, then they can pay a higher rate for their deposits and charge a lower rate for their loans, and still come out okay, if you don't have to pay income tax.

MJH: It's kind of a broad question, but I guess it's sort of inevitable: Where do you see the biggest challenges in the banking industry? There's so much competition, and so much regulation coming down the pike, a lot of the things we've been talking about…Where do we stand now, and where do you think we're going?

BM: Well, it's the regulations. It's virtually impossible, I guess, to calculate the cost of all this regulation, and this Dodd-Frank Bill, is of course the most recent and the most onerous—twenty-three hundred pages of legislation that, I bet my house, ninety percent of the people in the Congress that voted for it didn't read the whole thing. There's going to be five hundred new regulations coming out of that. This new Consumer Protection Bureau, which has pretty much undefined powers…Some of the smaller banks are already finding it hard to—I don't want to say hard to compete, they can compete, if we'll just let them alone and let them do what they do. But all the rules and regulations…

Well, in the last three or four years, the bank in Velma was about a twenty-million-dollar bank, and it was owned by the Butkin family. And the bank in Waurika was about a twenty-million bank, and it was owned by the Stewart family. And they were doing okay. They were profitable every year, and they weren't growing really fast. But you just keep piling on and piling on, and you couldn't really see the future in the deal. Both of them were in communities that weren't necessarily growing. There should be a way that they could stay in their communities and serve their communities, as long as they could make money and they had their own capital at risk. But basically they were forced out by all of the new regulations. Neither one of these banks were for sale, but they kind of knew what was going on, and then somebody came around and made them an offer, and they were out of there.

MJH: Are they both now branches?

BM: It was Waurika National Bank, and it is now a branch of the First Bank and Trust of Duncan. And the Velma bank is a branch of the First National of Ardmore. So you look at that, and you say, "Well, back then, if you're a twenty or twenty-five-million-dollar bank, it's pretty tough to compete. We do compliance / audit work—it's our forte—and when we go do a compliance / audit for the bank in Velma, a twenty-million-dollar bank, and then say we go do a compliance / audit for a hundred-million-dollar bank, well, we have to cover the same ground—the sample size is smaller and things like that—but, you know, they're one-fifth the size of a hundred-million-dollar bank, but, you know, we have to charge them seventy-five percent as much as that other bank, you see. They just couldn't spread the cost of compliance…And what they are paying us is a small percentage of the cost of compliance. They just have a smaller asset, or smaller revenue base to spread that cost of compliance across.

I don't what the number is now. Rainbolt has bought, BancFirst has bought, three or four this year, eighty, hundred-million-dollar banks, maybe even a little larger? And in most of those cases, it's where the owners—family-owned banks, and the owners were in their seventies, maybe they didn't have children interested in banking.

Banking's not fun anymore. You feel like you're work, and you're working for the regulators or the government, rather than your customers and your community, and your shareholders.

MJH: That's almost a direct quote from Ben Walkingstick.

BM: Well, he's one of those guys, Ben is. Yes.

MJH: I caught him—I really appreciated it, he came in from a deer hunt out at Waynoka to meet me there in Chandler. Actually, I got there the week that the BancFirst signage went up. I drove down Main Street looking for Union, and didn't see it. I thought, "Maybe that's it—that's the address." But, we kind of laughed about that. But he said exactly the same thing: "It's just gotten not to be much fun."

BM: Yes, and it's work, going to work every day, and you just dread it, and you wonder what's going to happen next, or what's going to be the hot button for the bank examiners this time around. It's onerous. I don't know what's going to happen. I have a hard time visualizing or imagining how it's going to get fixed or how it's going to get better. This entire Dodd-Frank Bill…Well, at first there was talk and movement. Roger Beverage was involved, you know, "We've got to do something, we've got to lobby, we've got to get this whole bill just thrown out and overturned." Well, it didn't take but about fifteen minutes for that to go away, and say, "Well, that's never going to happen. We'll have to chip away at some of the edges of this thing, and try to…" There's been some delay, and maybe a little bit of re-work, but it ended up being ninety percent of it is going to come through.

MJH: Is it July…?

BM: July 21. Yes. It's a one-year date when a lot of these things take effect.

Now Gene Rainbolt and BancFirst are a very good regional bank. But, I want to use the Marlow, the State National Bank, as an example. When it was State National Bank and owned by the Green family, every good thing that ever happened in Marlow, is not because they were there, but they were involved with it. They were involved with the city and the city council. They were on the school board of the Marlow…and even maybe the treasurer—some of their employees would be treasurers of their outlying school districts, involved in industrial

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…spending a lot of money in the community, allowing and / or requiring their entire staff to be involved in the community, and go to those Lion's Clubs and cook hamburgers for the football team. And now, even though they are owned by BancFirst, and even though they are a really good regional bank, it's a bank now. And I can see it. I'm twelve miles away, and I go by there three times a week. It's just not happening. They don't have the budget. They don't allocate…They don't allow the staff that time. Not to say they're not a community oriented, regional bank, but it's just not the same if you're a branch or if you're a bank. And that is, I think, a prime example, and I don't know—you could probably look at the sales tax receipts in Marlow, then and now, and see how it did, or the population of the community, or measure it a lot of different ways, and it's just not the same. It's not the same.

And that's going on all over the state and all over the country. And I don't know what the numbers are. We had a couple of our clients that were twenty-million-dollar banks that gave up the ghost, and then you see Ben [Walkingstick] and some of the other people with hundred-million-dollar banks. It's not that they couldn't survive, or they can't still figure out how to make it work. You don't get to worry about taking deposits and making loans anymore; you get to worry about if you do it right or check the right boxes or dot all the "i"s and cross all the "t"s. The load…The Bank Secrecy Act…has been around for years. But it's just banks involved in law enforcement and Justice Department and this sort of thing, with all of the DTRs and FARs (?) and things that banks have to fill out.

It's just a heavy burden. One thing: You look at the banks that have failed in the last couple of years—and Oklahoma has been pretty fortunate, because there haven't been that many—but…And we see all the press releases that come around, but a lot of the banks that have failed, you see where a two-hundred-million-dollar bank has failed, and the cost to the insurance fund is going to be eighty million dollars. A six-hundred-million-dollar bank fails, and the cost to the insurance fund is going to be two hundred and fifty million dollars.

And I'm thinking, "Where are all these regulators?" And all of these, ninety percent of them, were because of bad loans—construction loans, land development loans, primarily that kind of stuff. Where were they? Well, they were down at the bank, looking at all these CTR (?) forms, and making sure they either put a "check" on doc thirty-six or not, and stuff like that. I don't know this, but I'm going to say that half of the regulators, the bank examiners, half of their time, and half of their staff, is allocated towards compliance, not to safety and soundness. Had they taken a lot of those resources, instead of making sure you checked the right box on line thirty-six, and had those people over looking at loans, or loan administration, or loan underwriting, you wouldn't have these banks where the cost to the fund is thirty or forty percent of the total assets of the bank! Now, how can you get that bank to pass?

MJH: What's happening now…and after July 31, it's going to ramp up…

BM: Oh yeah, oh yeah, and nobody really knows…They haven't written all the regulations. Twenty-three hundred pages of legislation and five hundred, probably, of new regs…They haven't written them all yet. They don't know what they're going to be, or what the bureaucrats, and what their interpretation of the law is going to be, and then how is that going to be interpreted by the examiners out in the field. It's just a big unknown, and it's uncertainty, and that's not good in anybody's business, if there's uncertainty.

MJH: It's bound to affect how people make their loan decisions, and a farmer or small business persons comes in looking for a loan—They're going to be thinking of all those headaches and hassles rather than how to build that business.

BM: Yes. Is this going to be a classified, do they not put it on the books? If you want to go a little extra for this person that has always performed in the past, and maybe they're in a little rough patch here? If it doesn't fit the cookie cutter…

MJH: Any further thoughts…I guess predictions are out of the question, but any more thoughts from your position—as someone who gets to see a lot of different banks. That's unique.

BM: Well, it is. That's where our clientele is. We're pretty much over the entire state, with a focus on the central part of the state. But we kind of see what's going on all over. Right now, it's a little strange, because everywhere I go, loans are going down, loan volume is declining in banks, and deposit levels are increasing. Money is just having a hard time finding a home. A lot of times, it just ends up down at the bank, in checking or savings or a CD. So, asset and liability management—finding something to do with that money—is a challenge for banks. Loans are going down, deposits are going up. You could go buy a one-year treasury bill and get them to turn at .17 percent—.0017. Or Fed funds sold will get you about that same amount. Tie you money up for five years in a treasury and you get 161.

I'm trying to find one of my bank's money, and all of these are fifteen year mortgage backed securities that yield 2.60 or 2.80. Tie your money up for fifteen years for less than three percent. All this money that's piling up in your banks, a lot of it in checking accounts that can leave tomorrow, and you're…It's a balancing act. So asset and liability management is very challenging. And, as loans go down, that affects the economy of our communities and our state and our country. You don't spur the economy by creating government jobs, because that's a zero sum deal. Ultimately, we have to pay for that. So ultimately, it doesn't add anything to the economy. You've got to have the grassroots, the small business people growing, and that's where…Seventy percent of the jobs are in small businesses. Banks have to lend money. There's an old rule of thumb, I guess it still holds true, that when a bank makes a loan, that's new money. It's not like somebody got down in the basement in Washington and churned out some currency. When a bank makes a loan, that's new money. That's money that wasn't here before.

That money—the rule of thumb is, turns over seven times in that community before it leaves. So, if a bank makes a loan for a manufacturing company to come to town, well then they bring jobs in, and those people buy homes, and they shop, and a new convenience store will pop up and support them—and that's how it works, and that's how it did work. We're not going to solve the problems by punishing the successful people, and taxing the businesses or taxing the rich people. I heard somebody on TV, they were talking about raising taxes on businesses and raising taxes, and one of the commentators asked the other one, he said, "Have you ever worked for a poor person?" They've got to be…They don't have that impetus, and there's all this uncertainty of what's going to happen next, and what's the effect going to be, and what's the law going to be, and what the regulation or interpretation of it going to be.

Last year, about this time, everybody was sitting around saying, "Well, we don't know what the banking laws are going to be, we don't know what the cost of health insurance for our employees is going to be, and we're not sure what our income tax is going to be, so let's go out and grow and expand." Well, that's not going to happen.

MJH: You've given me a lot of homework. This is terrific…

Turned off recorder, then turned it back on…

BM: …around the country. In fact, I think Mick [Thompson] has been chairman, national chairman of the state bank supervisors. One thing we have going for us is out state bankers association, our state bank commission—they are very, very strong and promote community banking. And then our economy in Oklahoma is supported by the energy business, has been good.

In the last bust, it all started on the left coast and the right coast and all ended up in Oklahoma, where we had real estate problems, we had energy problems, and we had agriculture problems, and it finally came here. I don't know that I see that happening this time. The price of homes in Oklahoma didn't double in a five-year period like they did in Arizona and Nevada and Florida. So they're not going to get cut in half like they did in those places. I think we're going to have a pretty soft landing, but again, it's just kind of hard to see what's going to create the growth. Somebody asked me the other day—one of my bankers sent me an email and said, "Well, rates are low, and they've been low, and it looks like they're going to stay low. How long do you think the economy is going to be like this?" And I said, "Well, I don't know, but at least until the next election."

MJH: Do you work with the Community Bankers Association too?

BM: I have in the past, but we're not an active member of that association at the present time. We're kind of over…There's fourteen of us, and probably, off the top of my head, fifty percent of our revenue is derived from doing compliance audits and compliance training and compliance support for banks, so we're spending all of our time trying to figure out all of these things, and what regs are coming, and…I've got one person—well she's sort of semi retiring, works three days a week—but that's about her full-time job, is to keep track of all this stuff and communicate it to our staff, and train them. Each of our staff members is assigned—somebody's looking at the FDIC website, somebody's looking at the Fed, somebody at the state, somebody at the Comptroller of the Currency, somebody reads the ABA newspaper, somebody reads the OBA newspaper—it's hard work for us to keep up. We're not going to be very good as a consultant, and we're not ahead of all those people up there on that map.

Laughter, pointed at wall map with push pins representing client banks.

MJH: There's fourteen of you in McCormack and Associates?

BM: Unhuh. We have an office in Norman. Technology is such that, to a large extent, it really doesn't matter where…There's five or six of us here, and five or six in Norman, one in Oklahoma City, one in Marlow, one in Ada. So really, wherever we can find the people that can do our kind of work, with the technology, I can do what I can do from home just as well as I can do it from here, pretty much.

MJH: It's a blessing…

Turned off recorder, then turned it back on, began talking about D.B. Green in Marlow…

BM: He was our first client, and one of the things we did was install a PC in the bank and put the bank's general ledger, accounting on it, because it wasn't that convenient to do otherwise. And I remember D.B. saying when we finished that up, he said, "Well, I'm glad we got this PC in here, and we got this done, and we got the general ledger on it, and that's probably the only PC we'll ever need in this bank!"

MJH: Oh really?

BM: And I said—and this was 1985 or 1986—and I said, "D.B, there will be a day there will be a PC on everybody's desk in this bank. I can't tell you exactly what they will be doing, but there will be one on every desk." He still remembers that!

End