Oklahoma Bank and Commerce History Project

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Interview with Dr. Gary Simpson
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Audio taped and transcribed by MJH

MJH: It is Friday, November 9, 2012, and I am with Gary Simpson, Professor of Finance at Oklahoma State University, and also the OBA Chair of Commercial Bank Management. You have gracious enough to invite me into your office.

GS: I'm happy to have you.

MJH: What I would like for you to do is explain to me a bit of your personal experience—how you came to be here, how you came to be OBA chair, what that relationship has been like. And then, maybe you could describe some of the main milestones in your career, and some of the milestones in Oklahoma banking, particularly in the 1980s and 1990s.

GS: My career has been very much tied in with Oklahoma State [University]. We moved to Oklahoma in 1978. My first job out of graduate school was at Mississippi State University. I was there for three years. That was, what I thought was the most advantageous job that was available to me after I got my PhD.

I have been involved in banking, basically, since I was in high school. Definitely, during my first year or two of college, I decided that banking was the way I wanted to go. And I chose community banking, interestingly enough. I am a big believer in community banks.

MJH: Why?

GS: I don't know. I think they are just closer to the ground, and closer to their customers. Not that the bigger banks are not, but I just like the idea of the home town banker who knows people, and interacts with the community, and is part of the community.

MJH: Okay, so you came here in '78, as an associate professor?

GS: I came here as an assistant professor. I worked for the FDIC as a bank examiner for four years, before and during graduate school. I graduated from my undergraduate school and went to work for the FDIC. I took a leave of absence and got my MBA at Southern Methodist University. Then I went back to the FDIC and worked with them for a while. And then I decided to move into the academic realm.

MJH: That's kind of an interest transition. What made you want to go into academics?

GS: When I started, it would have been 1971, 1972…I came to the point where I needed to decide whether I wanted to be in banking or do something else. It just happened—I met some people, and talked to people…Things opened up, and I decided that, maybe, I would like academics better. Of course, the thing is, you never know what you're getting into. That's the funny thing: you never can predict what you're signing up for. It just worked out well. And I have always maintained an interest in banking. That's been kind of my largest area of interest.

MJH: How would you describe Oklahoma banking in the late 1970s? What were your overall impressions?

GS: First of all, there were over 500 banks at that time. There were over 500 charters, when I came here, which meant that you could go to the Oklahoma Bankers Association convention, and there were a lot of people there, because there were twice as many CEOs and so forth, and banks, represented. So banks were smaller. It was a little bit more seat-of-the-pants, you know, congenial group. The people were—I felt like there was more friendships and comradeship between those people. They did some things with each other, but it just seemed like there was more of a—it was a bigger deal, there was more entertainment involved, it was a place to have fun and talk to your friends, and keep up with people. In some cases, the banks did compete directly with each other. But the markets were so segmented that the guy 25 miles down the road from you was not a big competitor. The guy across the street probably was. There were a lot of one-bank towns, so these people were, basically, kind of like in a fraternity, almost.

MJH: When you mentioned "segmented," do you mean that one bank might specialize in ag lending, and another, real estate, that kind of thing?

GS: More geographic segmentation. It's amazing, but back in those days, people pretty much did business with banks very close to where they did business and lived. Of course, there was no branching to speak of, at that time, so you pretty much were limited to your local bank, unless you wanted to drive several miles. When I worked for the FDIC, there was always a question about anything that was called "out-of-market" loans. Why did you have to come 50 miles to get a loan?

MJH: Makes me think about Charles McCall in Atoka. He said that, about ten years ago, they branched over into Antlers. But they were going to carry the name, First State Bank of Atoka, I believe it was. And a guy at the sale barn down in Antlers said, "You might want to do that. You're not going to do any business if you come in here with the name of Atoka." So they promptly changed to Ameristate Bank. Even 20 miles away, there was a brand issue.

GS: Yes, and I think it's still there, to some extent. But now, of course, we've got a lot more of the statewide systems. BancFirst, of course, is the most obvious one. They were actually doing that too, through the…You know, for the life of me, I am embarrassed.

There was a name that process, where people strung together banks, through ownership. A guy like Gene Rainbolt would own forty percent of this bank and thirty percent of that bank, or maybe fifty percent, of several banks. Basically, he was doing a branching system, but not calling it that.

MJH: So when you first got here, you found a more congenial group, and there was a lot of geographic segmentation, and so forth. Describe to me how that changed in the late 1970s and early 1980s. What kind of things did you see?

GS: Penn Square. Penn Square. And I don't fault those bankers at that time, because I think they knew how to deal with this. There was more handshake lending, and more good-ole-boy [relationships]. Relationships were really important. And then, Penn Square comes along. First of all, about half of those people disappeared. They weren't there any more. We're down to a couple of hundred—two or three hundred banks. So, there were a lot of people who were there. You have probably heard the story. There was one Oklahoma Bankers Association [meeting]. Homer Paul—you maybe have met Homer—Homer drives a Brahma bull out onto the ballroom floor. It was tame! It was like a tame Shetland pony!

MJH: I have not heard that story!

GS: You might confirm that story. Double check—you might fact-check me on that one. I did not see that, but it was a story that went around.

MJH: And that was at a convention?

GS: At a convention, yes. But then, Penn Square came along, and bankers saw that bad things could happen to you. And they saw their friends, in many cases, destroyed by what happened in those days. And then, of course, what was really, really striking about that: when you see a bank like First National Bank [and Trust Company of Oklahoma City]…When a First National Bank craters, that changes everything.

MJH: As an aside, my great grandfather and his brother are the guys who founded that bank.

GS: Is that right?

MJH: Yes. The Johnson brothers in 1927. So when that cratered, we took it kind of personally.

GS: I am sure it impacted you and people directly, and all the people who were working there. But I mean, that was a ripple effect all through the banking community, because people thought, "My God, if it can happen to the First National Bank of Oklahoma City, anything can happen."

MJH: Yes, that was huge. So there was Penn Square in the summer of '82, and there was a domino effect that changed the industry. How about branching in particular? What did you perceive? Were you doing some studies at that time? Were you involved in that in any way, with the legislature? What was your experience with the whole move to branching?

GS: At that time, the branching movement was kind of seen as an antidote to bank failures, because you didn't have all these small, isolated, banks. And once again, in those segmented geographic markets, they were not well diversified. If your small market went down, you went down. Of course, the argument was, if you could get a branching system, you might have a bank that has a problem over here, but it might be offset over here. Bob Harris, who was basically the head of the OBA at that time, put together different groups of people at different points in time to try to talk about what was going to happen. He talked to a lot of people. He was a major force in trying to get things stabilized, in my opinion.

MJH: That was Roger [Beverage]'s predecessor.

GS: Right. Bob was an interesting guy. He was a very polished, professional, impressive guy. He's one of these people—he could have been a good politician. He was a tall guy who walks into a room and immediately makes an impression. But he was very down to earth, and he was very popular with the bankers and with the public, and people in the state legislature. He was trying to pull things together, and interact with people in the legislature, just trying to figure out what was going to happen to us. Oklahoma was the epicenter of all these things, in those days.

MJH: I also learned, in crossing over to BancFirst, that David was one of the real proponents. He was one of the ones who was doing so much to promote branch banking. He was one of the lobbyists, and I guess he was pretty persuasive, back in those days.

GS: Yes. As you might guess, the Rainbolts had always believed in multi-office banking. They had that system of banks, really, that was a branching system long before…Now, I'm not saying that they did anything illegal or anything. That was the way that you did multi-office banking, back in those days. It was [done] all over the United States. People did that.

MJH: Is that the term you were trying to remember—multi-office banking?

GS: No, it's something else. I can't remember what it's called now. That's what it was, multi-office [banking]. Then, we went to the holding companies, kind of, to get the multi-office banking, and then we went to an out-and-out branching system, like you might see in California.

MJH: I have talked to the head of the Community Bankers Association [of Oklahoma], Craig Buford.

GS: Yes. I don't know him well. A lot of these people, you say their names, and I have seen them, maybe I know who they are, I have read of them, but as far as a lot of interaction with them, I probably haven't had.

MJH: It was interesting, talking to him and also Roger [Beverage]. Between them, they describe a pretty contentious period.

GS: I think that's true.

MJH: What was your experience with that?

GS: I think it was contentious. It was incredible contentious, because…And of course, Roger came in after Bob Harris went down to Texas, and Roger, I think, is…Actually, he and Bob Harris were friends, good personal friends.

MJH: They were both from Nebraska.

GS: Yes, they were good friends. Bob got the opportunity to take over as head of the Texas Bankers Association, and then Roger came, and he kind of picked that up. But yes, oh yes! There were meetings when bankers clashed, and there's no telling what happened in the closed meetings. It's what you would expect, right? You've got basically a unit banking state that's converting into a multi-office state, and people with those franchises, those charters, in small towns, were scared to death that they were going to have Bank of America across the street from them. So they were very much anti-multi-office banking, whether you do it through holding companies or you do it through branches. And usually it was the smaller banks. In some ways, the smaller banks were protected, because nobody wanted their markets.

MJH: If you look at some of the commentaries during and after that period, you find that a lot of those fears were really unfounded. It wasn't such a Darwinian struggle for survival. As I understand it, banks in similar markets, and of similar size...There were a lot of concentric circles that didn't necessarily touch. But it definitely was not some slaughter.

GS: No, it was not. And the people in the metropolitan areas, Tulsa and Oklahoma City, already were competing with each other. And it also turned into a kind of a rural – urban conflict. The people out in the smaller, rural banks were afraid that the people from Oklahoma City and Tulsa were going to come in and open branches across the street. There was even a time period—you may remember this, too—when the Japanese were in such ascendancy. There were people who were afraid that there was going to be a Japanese bank across the street. I mean, that was not a standard comment. You do occasionally hear that, partially tongue-in-cheek, because about that time, people were making crazy statements, about how the Japanese were going to take over, and the Japanese model…It's kind of interesting how history plays out, isn't it? But there was just this general fear of…I have this segmented market. Basically, [they] had a monopoly, in many cases, or an oligopoly. They were afraid of that.

MJH: As soon as that began to level out, that was about the time of the [savings and loan] crisis. What were some of your experiences or memories of that period?

GS: The s and l crisis was also scary. We had quite a few s and l's in Oklahoma that went belly up. As very often does happen, when you get into those things, you've got institutions failing, you get these sharks coming in, and these people made it much worse. People complain about what happened over the past five years. That could have been a lot worse. I mean, you saw some dishonest people, or unscrupulous people, come into the

marketplace over the past five years, but actually, not to the extent that we saw during the savings and loan period.

MJH: That's an interesting observation. I have read Martin Mayer's books…

GS: Right! Yes! He was here once! He gave a talk here once. Interesting guy.

MJH: I've read several: *The Greatest Ever Bank Robbery*. He cites a lot of examples. S and l's could buy different kinds of properties when restrictions were lifted. It was Katy-bar-the-door. Those people were doing all kinds of things.

Was 1989 when the Resolution Trust Corporation was formed?

GS: Probably about then. I'd have to go back and check. I don't remember exactly.

MJH: But at the same time, in the banking business around here—some of them might have benefitted from the demise of the savings and loans, too. Didn't they?

GS: In some ways, yes. In some ways they did. Back in those days, probably, banks made more home mortgages than they do now. In fact, I was in a meeting last night—an OBA meeting—and we were talking about how banks are getting out of the single-family mortgage business. Back in those days, they were in it more, so yes, that's true, they were competing more with the s and l's.

MJH: So they would have taken over a lot of those mortgages, or people would have gone to them. If a local s and l cratered, [people] might have said, "I guess I'd better go to the bank to renegotiate."

GS: Yes. And I'm working from bad memory here, but the Local Federal morphed into a bank, didn't it? Have you come across Local Federal? It was a major savings and loan, here in Oklahoma. But I can't remember when that happened.

MJH: I don't spend a whole lot of time on that. I could go down so many rabbit holes. But this one [the savings and loan crisis] is kind of unavoidable. And I have done some work on which ones had properties on the block, from Duncan to Checotah to…all over the place. I don't spend a whole lot of time on that.

GS: The only reason I even bring that up is because you mentioned that the banks benefitted [from the savings and loan demise]. What made me think of that was the Local Federal, I think, morphed into a bank that still exists. My memory is not good on that. I don't remember what happened. It was a major force here in Oklahoma. I mean, they were a big s and l.

MJH: I know about Sooner Federal, Continental in Oklahoma City. So there were some big hitters, as well as a lot of smaller ones.

GS: And then you had the MidFirst thing…That's a very, very unique institution.

MJH: What is your experience with MidFirst?

GS: Well, first of all, they're huge, for Oklahoma's size. Basically, they just have a different business [model]. They are a savings bank charter. Basically, savings banks are more likely to be involved in mortgages, and real estate. But they just have a little bit different business model. I'm not totally sure that I understand exactly what that is.

MJH: I did a project with George a couple of years ago. He tells the story of buying a charter in Stilwell, Oklahoma, from a little savings and loan. He didn't really care anything about the institution itself, but he just needed the charter. So the whole MidFirst enterprise really began with that little bitty charter. He eventually located it back to Oklahoma City, and used that as sort of a platform—he and his father-in-law—to expand into Midland Mortgage [Company], and that eventually morphed into [MidFirst Bank]. Basically, what he needed was a bank to put all his money in, because he was minting money in the mortgage business. He thought, "We might as well put it in our own."

That is a really unique story.

GS: That is. That really is. Sometimes, when I do studies, if you run some kind of screen on data, they will pop out! They're numbers look kind of unusual. Particularly, they look kind of unusual in that they look like they have a lot of delinquent loans. I called and talked to a fellow there. I don't remember who it was. He was not the president. He was knowledgeable, and he said that they have mostly government guarantees on all of those, that they look terrible. I also called some people in Washington, and they said, "Yes, we know those people down in Oklahoma, at MidFirst. We know them. They just have a different business model." I kind of asked if they were concerned, but they weren't going to say to me—just some guy calling them up. But they did not seem concerned about it. It seemed like they had government guarantees on those things. But anyway, it is different. You don't hear bankers talking about seeing MidFirst as kind of this…They don't talk about MidFirst the way they talk about [Tinker?].

First of all, MidFirst does not have a tax subsidy. They pay their taxes, so the bankers are, I think, good with that. Then you have the commercial bankers, so they are good with that. But Tinker—they are not good with that.

MJH: I know Roger [at the OBA] would sure like to get their dues into the OBA, but I don't think that's going to happen.

GS: Probably not.

MJH: How would you describe the return to profitability in the 1990s? Do you have any particular memories?

GS: Oh yes, the golden era started then.

MJH: Describe the golden era.

GS: The golden era was…This is a gross oversimplification, but you had a lot of consolidation. The banks had consolidated down. I have to be careful here, because I don't want to say something that makes it look like those guys who were doing business back in the early seventies didn't know what they were doing, or that they were not good bankers. But there was a change. You got the more professional banker. You got the fellow who was going to ask about cash flows and financial statements more often. And you got people who were more concerned about things like interest rate risk. They were managing the bank in a more technical, technological, analytical framework. I think, basically, what that is, those people were successful.

Also, you saw the tenor of the collegiality change a little bit, at that time.

MJH: Tell me about that.

GS: As a barometer, the attendance at the Oklahoma Bankers Association conventions started to change. You don't see as many people from the larger banks there. And you don't see as many people there, as many CEOs. It became somewhat of a small bank phenomenon. Basically, the way I read it, the people were managing banks didn't have time to be out socializing. They see their jobs as much more demanding. There were more things to get taken care of.

MJH: I have heard the comment from some [bankers] that it's not as much fun as it used to be.

GS: It's not as much fun. Yes. You hear that. Oh yeah, you hear that. That's partly because the regulations were just marching along, and marching along, and marching along. Those people in the nineties had more regulations to deal with than the people in the seventies. After the Penn Square [Bank failure] and the savings and loan [debacle], regulations got more and more and more onerous.

MJH: Absolutely. What would say were some of the macroeconomic factors, maybe, that brought is out of the doldrums?

GS: Certainly there were some. The economy was expanding. We were not in a tailspin. Overall, the economy was favorable. Businesses were borrowing money. There were loans that could be made, that you could make money on. Interest rates were pretty favorable. The stars were aligned, [in terms of] macroeconomic factors, for that to happen. But I think, then, you mix that in, and you've basically got a more professional approach to banking. The bottom line counts for more. Not that they don't care about their communities. I've got to really be careful!

MJH: Sure. That has been a huge theme, everywhere I go—community involvement.

GS: I think the bankers still were very much community involved. But if you consider what happened to us a few years ago, you can't be fooling around here. You've got to pay attention to what you're doing.

MJH: We're talking about people's lives.

GS: Yes. And [the attitude was], "We're not going to make any money unless we stay on top of this thing."

MJH: In terms of macroeconomics, there was a more diversified economy too, and it was less dependent on oil and gas. Did you see some of that too?

GS: Some, some. Of course, in Oklahoma, we've talked about this for a hundred years. And we have expanded our manufacturing base a little bit, but we are still an energy and ag state. Which helped us last time, right? Back when I first came here—of course, Bob Sandmeyer [?] was the dean, and he was heavily involved in our *Economic Outlook*, at that time. Of course, Bob was an economist. Have you come across Bob?

MJH: I have come across his name.

GS: Yes. He got his PhD in Economics here, and he was the dean for a pretty long time, gosh, for twenty-something years. That's a long tenure for a dean in this day and time. Bob was an economist, and he was very interested in keeping up with the *Economic Outlook*, and had an active part in it. One of his things, which many regional economists around Oklahoma agreed with—people down at OU, and all over—was that we needed to expand our base, and not be so tied to energy and agriculture. That did happen to some extent, but really, we're still [all about] energy and agriculture.

MJH: There's a resurgence going on now, with new drilling techniques, and that kind of thing.

GS: Some, some. Anyway, there was some kind of general consensus with policymakers…And I think people in the legislature, as well, were buying into this. Of course, Larkin [Warner] was in on some of these discussions as well. But you know, "We need to get something else going for us, more diversification. We're not diversified enough. We need to get some manufacturing, or some international trade, or something else going here—high tech, whatever we can get going.

MJH: I worked for the Tulsa [Metro] Chamber for about three years, as Communications Director, and there was a moment when we were convinced that Tulsa was going to become "the buckle of the technology belt," or something like that. I remember that our CEO [Jay Clemens], was so fired up about that, because he thought he had hit on the key to not being all about energy in Tulsa.

GS: That was the general policy consensus, and it still is. I don't say it's a bad idea. It's just one of those things that's easy to say and hard to do.

MJH: And there's an awful lot of competition.

GS: Yes. And the other side of the coin is, that's not such an original idea. A lot of people have thought of it.

Anyway, we were still—even in that golden age…Then, of course, comes in this major thing in the banking industry, which for somebody like myself, and people who had been working in banks, it's stunning: the movement to real estate lending. A few years ago, the way banks tended to think of their big customers, they were businesses. They were financing commerce. Now, you're financing real estate. And you look at the numbers, and real estate is the dominant category. And in the nineties, I think the banks did use that concept to become more profitable.

MJH: I guess, once real estate values weren't tanking all over the place…

GS: Right, right.

MJH: So, would you say that resurgence in the real estate market was one thing that led banks out of [their troubles]?

GS: I think it did help. Now, we're not talking so much about financing long-term, single-family mortgages. We're talking about interim construction lending, commercial construction lending. Primarily, that's what we're talking about: commercial real estate and interim construction—financing the builders.

MJH: That's interesting. You sure do see that in downtown OKC.

GS: Sure. You bet! And it's still the way to make money. Because what's happened, a lot of these markets have been taken away from banks by other competitors. And so they have kind of moved where they thought they had an advantage.

MJH: Do you see any more continuity in ag lending, or were there any particular changes in the eighties or nineties, that you recall?

GS: I don't recall any, because it's sort of…For some banks in Oklahoma, ag lending is very important. That's their business. But the thing about ag lending, which is a little but different from a lot of the lending that banks do, is that you have this major, major force of, basically, the federal credit system. Farm credit. My brother has worked for farm credit for a hundred years. He's quite a bit younger than I am, but basically, he's got twenty-five years in with farm credit. But that's a major force. The banks and the farm credit are doing the same thing.

MJH: I have talked with Felix Hensley and Kent Crain in Ponca City, out of one of the farm credit offices. That gave me a really good perspective, to understand how they were able to weather the ag downturn of the 1980s. Somehow or another, they kept interest rates so much lower while everybody else's were skyrocketing. I guess they had more leniency with their customers, because they understood the agricultural cycle of wheat and cattle and all that. So, that was an interesting perspective.

GS: It's important in a state like Oklahoma, or any other state too—Nebraska, Kansas, Texas. But, in a way, agriculture is really important to some people, but to others—and I'm talking

about bankers in Oklahoma—to others, it's not. Real estate…If you go back and look at the numbers, there's a handful of banks that are ag banks, and the rest are real estate banks.

Even Bank of Oklahoma—what are they financing? They are financing construction, medical facility construction; Stillwater National [Bank] has been into that a lot—casino construction. That's turned into…the Bank of Oklahoma is making money doing that. And other types of construction: shopping centers, office buildings, manufacturing facilities, stuff like that.

MJH: Would you say that really ramped up in the golden age of the nineties?

GS: I would say, yes. There were multiple factors, but that, I would think, had to be a factor. In the golden age of the nineties, banks made money. They were profitable. And I am not saying it was easy for them, or handed to them on a platter. I think they earned it, because they had become much more cost conscious, much more bottom line conscious, much more analytical. And then of course, also, they had diversification, because almost everybody had branches by then. So you had some diversification to help even things out.

MJH: Going back just a little bit, do you have any particular memories, or lessons, from the big interest rate spike of the early 1980s? Rates were up at 20, 22 percent…

GS: Do you mean for bankers, or people?

MJH: Really, in terms of the ways that it changed how banks operated. The reason I bring this up is that I was talking to David [Rainbolt] and Jay Hannah the other day. Jay—what a character!

Laughter…

GS: Jay, he really is!

MJH: I have enjoyed working with those guys so much. They brought up a name that I haven't thought about in years, and that is Bert Lance, in the Carter Administration. Then they sent me to talk with Tom Loy at Metafund, and he's a friend of mine anyway.

GS: I know Tom well!

MJH: So he gets on his lecture about the way that Bert Lance acquired banks and got into so much trouble. Those who tried to adopt his model, couldn't anymore. I just wonder if you have any particular perspective of that.

GS: One thing about Bert Lance: a lot of people don't even think about Bert Lance much anymore except old-timers like Tom and me. He was the guy, the kid in the class who did a bunch of crazy stuff and got the entire class in trouble. Everybody else was fairly clean, but he's the one who did the crazy stuff and got everybody upset. He was one of the first of those who—and we've seen it happen over and over again since then, when the actions

of a single individual would be the catalyst for major pieces of legislation that impacted the banking industry.

MJH: How would you sum it up? I am kind of familiar with the business model. Basically, as I understand, he was using almost total borrowed money to acquire interest in banks…

GS: It was a leverage play. Right. Now that you mention it, I have forgotten all the details on how he did that. But basically, he bought banks [with none of his money]. He got infinite leverage. He got no equity in the deal, which means that he had a leverage factor that was huge.

MJH: And that was really how Gene did it.

GS: To some extent. That's still the way banks operate. Banks still use huge amounts of leverage. That's the way the banking business works. That's why bankers have to be conservative, because they have so much leverage. You've got to just about make an "A" on every test if you're a banker, because your leverage will just eat you alive.

MJH: What were some of the pieces of legislation [passed during that period]? Garn-St. Germain?

GS: Yes. I would have to check my history on this, and you're the man to check it, I guess. You're the historian. There was a major piece, and I think it might have been Garn-St. Germain.

MJH: I need to make that link. That was 1982. Like you said, I haven't spent a lot of time thinking about Bert Lance.

GS: I don't spend a lot of time thinking about him either.

MJH: But David [Rainbolt] started talking about him, and then [Tom] Loy gave me a whole lecture on it. So I need to connect some dots.

GS: Now, the high interest rate spike was, to me, more of a national policy thing. It was not local. It was—once again, I must be cautious in calling it a "big failure"—but essentially, it's kind of a long story, and I'll keep it as short as possible. Basically, the way it worked was this: As a national goal, we wanted people to have housing. Still do. So, essentially, these institutions called savings and loans came into being. And they said, "Here's what we'll do. We'll finance housing for people. The way we'll do that, because people don't have enough money to pay for a house all at once, we'll make 30-year, fixed-rate mortgages to people. And we'll fund those with savings and demand deposits, which are primarily savings." Those savings were not necessarily 30-year CDs. In other words, there was a huge mismatch of the finding opportunities. And there was a huge amount of interest rate risk.

But, here's the deal: People said, "Well, are the savings and loans totally crazy?" No. They understood they had huge amounts of interest rate risk. Either they misinterpreted national policy goals at a federal level, or somebody actually promised them this—"If you will finance housing for the long term with short term funds, we will keep interest rates stable." As long as, at the federal level, the Fed keeps interest rates stable, then that savings and loan, the people at the savings and loan, don't look quite so stupid, basically, right?

But somewhere along the line, we got this huge amount of inflation, due to other policies, national policies, the Fed had to renege [on its promise]. Some people felt like they threw the savings and loans under the bus.

MJH: So that's about the interpretation that I've gathered.

GS: I think I had a CD that was, like, 21 percent! When you're paying 20 percent for your money and you've got most of your mortgage portfolio at 6 percent, you're dead in a very short period of time. With a mismatch of 3 percent, you can stagger along for a long time and cash flow an institution. But with that much [of a mismatch], your capital is gone in a short period of time.

Anyway, to make a long story short: Basically, it told financial institutions that interest rate risk is a problem, and nobody was going to be watching out for them.

MJH: That's a big story. I was visiting with Frederick Drummond up in Pawhuska, and he has a piece of glass on his desk. To this day, he has a—I'm not sure what it is—but it shows and interest rate of 21 or 22 percent. He said, "I just keep that there to remind me [of those times]."

GS: One of the interesting things: Back when I was in college, even when I was in an MBA program—which was a few years ago now; I got my MBA in 1970—but even up until the 1980s, until the savings and loan crisis, bankers didn't think much about interest rate risk. Either there was this general assumption, kind of an implied guarantee, that public policy would not let interest rates go crazy. Once that happened, when people saw that, yes, interest rates can go crazy—that changed the way you manage a bank.

A big part of what I do in my classes that I teach here is talk about interest rate risk. That's the modern way to wreck a bank. The old-fashioned way is to make too many bad loans.

MJH: You have covered an awful lot. I don't want to get too far beyond 2000. At some point, I will. But really, the decade of the 1990s was what most folks would recall as the golden era of banking? Anything that I have read in the OBA magazine, or any figures that I have seen, indicates [prosperity]. Reserves were going down, bad loans were going down…

GS: Oh yes. That was a good time. This is all anecdotal and intuitive. A person, if he wanted to, could dig into that and kind of tease out what caused what: macro factors and this, that, and the other. I reviewed a paper for a professional meeting once, written by a person at the FDIC…Actually, this golden age occurred all across the country. It was not

just in Oklahoma, although Oklahoma was one of the leaders in that. Anyway, the paper basically said that the reason we had this golden age was because of regulators who stepped in and made the banks do what they were supposed to do. So basically, they were kind of claiming credit: "We righted this ship. We figured out what needed to be done."

My argument was, and I raised the question: "Is it possible that the bankers became better bankers—that they understood more about what was going on; that they understood interest rate risk better; they understood that you have to have a more sophisticated approach; that you have to be concerned about cash flows and financial statements; and the way you structure loans, and so forth."

I didn't convince the people at the FDIC of that, because of course, even though they're their own boss, they have an agenda. They have to make themselves look important. But there was some of that.

The regulators also became more sophisticated, and did cause the banks to be more professional, I think.

MJH: That's a good, upbeat note.

End