Oklahoma Bank and

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Interview with Gayla Sherry
Liberty Bank of OKC and Federal Reserve Bank, 3/9/2011
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Audio taped at OBA and transcribed by MJH

MJH: It is Wednesday, March 9, 2011, and I am with Gayla Sherry, who is president of Gayla R. Sherry Associates, Inc. of Oklahoma City, which is primarily a human resources consulting firm, and we are meeting at the offices of the Oklahoma Bankers Association to talk about Gayla's experience in banking in Oklahoma City. Thank you so much for coming over here and bringing all your toys [bank artifacts, which I took to OHS].

Laughter

If you want to just start, tell me about your experiences. As I understand, you were with Liberty Bank in Oklahoma City, beginning in 1977…

GS: I went to Liberty National Bank in 1977 after getting a business degree at the University of Central Oklahoma. Like most college grads, I started looking for jobs in my junior year, and had worked my way through college, working for a division of General Electric that financed refrigerators, mobile homes, those kinds of things. So I kind of got a knack for the financial services industry, and was honored to be hired by Liberty, because at the time it had an excellent reputation not only as a bank with quality services, but it was viewed as being very progressive for advancing women into management. This was important to me, because my undergrad degree was in Management, and that was important to me. And in fact, one of their vice presidents, named Ellen Chitwood, had spoken to one of my classes, and I was just really fascinated by her and her work, and she was very well known in their Marketing Department. Liberty, at the time, was really the first to come out with a Visa. At the time, it was called BankAmericard. A lot of Liberty's commercials were done my Ed McMahon, from *The Tonight Show*. We would have customers call us and ask for Ed McMahon, because people thought that he worked for us. So, it was a really—I think those days, the late seventies and into the early eighties, before the oil bust, were really a heyday for Liberty. It prided itself…the management prided itself on quality service, promoting people from within, and really was proud to train bankers that then became officers and presidents and owners of other states' banks. Today, there is a number of people who are Liberty alumni who are managing banks. There's a little alumni group still around, and it's not unusual at all to find bank officers—well, Ken Fergeson comes to mind, he owns the national NBC group, Jim Tarkington (?), if I think long enough, I can think of some other names—but that was the thing that Liberty was proud of: the training was so good that you became…you went out and became your own banker.

At the same time, of course, were enjoying the oil boom, and I think Liberty tended to view the First National Bank of Oklahoma City as its primary competitor. There was a joke about it: “The oldest and coldest.” So when Liberty built its new building in the late seventies, it tried to make it taller than First National, and some of that kind of rivalry that happened. But Liberty always enjoyed a lot of customer relationships. The primary stockholder was John Kirkpatrick, who was very involved in the arts and chamber, and community service was a real focus as well.

I really started in a clerical position and moved up. I became an administrative assistant for the head of operations, and then took over—was made the manager—of the safekeeping of collections and safe deposit area. The collections area wasn’t loan collections. It was…we collected on drafts, particularly oil and gas drafts. This happened during the oil boom, so the volume was incredible. We had a lot of the oil customers—some big, Devon was our customer, and is extremely large now; some other, smaller oil companies—but because of Liberty’s reputation of training quality people, and as Penn Square grew, astronomically, really, in the late seventies and early eighties, most of us at Liberty were kind of scratching our heads and saying, “What’s going on?” They’re growing too fast. And they would raid our staff. I had several employees leave the draft collections department to work there. And I always had this gut feeling that something’s not right, because they were offering salaries that were double what Liberty was paying. Liberty was not…was very progressive, I should say, in salaries—they were very competitive. And so, for them, at Penn Square, to offer twice the amount, I just thought, “This is weird.” I just had a sense that it was a house built on sand, instead of rock. It just never seemed to back up.

But there were times that the executive management at Liberty would notice their oil customers moving to Penn Square as well. Occasionally, they would ask me, as the manager of the department, “What’s going on? Are we not offering them the best services? Are we charging too much? Why are we losing customers to Penn Square?” But I’ll never forget, the day after Penn Square failed, those same managers and executives came to me and said, “We weren’t doing anything like them, were we?”

Laughter

So, it shifted from “What’s going on with them? Do we need to change and be like them?” to, “Oh, gee, I hope we weren’t like them!” because of the failure.

The other really significant memory that I have of the Penn Square situation was that as part of the safekeeping group, I had employees that would maintain securities—municipal, state, and federal securities, government securities—on behalf of the customers. And they were kept in a vault. We would process the interest payments as the coupons matured. We would pay the customers when their treasuries and actual bonds matured. And in Oklahoma, there was a regulation, at the time—I presume it’s still in place—that, for every dollar that a bank had deposits in the state, that had a pledge back of collateral securities as collateral to protect those deposits. And from about ’77 through ’82, that five-year period, I just thought pledging was what the processors called “a pledging of securities as collateral”—I thought, “This process is kind of stupid. I don’t know why we do it.” It seemed to be a lot of work. But then, when Penn Square Bank failed, and I saw that those securities that were pledged is what kept state funds on deposit at Penn Square from going away—in other words, the taxpayers lost no money—it suddenly made a lot of sense to me, and to the staff who were doing pledging. It was kind of this giant, “Oh, we get it now!”

The other thing that I noticed as Penn Square failed was, many more customer inquiries about FDIC insurance. I think, for the most part—obviously I wasn’t in banking back in the Great Depression, when the FDIC went into place—but I think customers kind of took that for granted. Maybe we did too, as bankers. And, oh, we could tell people, “Your funds are protected with the FDIC.” But until Penn Square, it’s kind of like the pledging—I just never really connected how important that FDIC insurance was. And we had lots of questions about how to structure accounts to make optimum protection of those deposits.

And then of course, as I was saying earlier, I think, there’s not a banker who was in Oklahoma at the time that doesn’t recall that period of time when the bank was shut down. It’s kind of like now, everybody remembers where we were on 9/11. But bankers remember, ____ remember, particularly those in the profession: “Oh yeah, I remember that night that they shut down. I remember it was a holiday weekend.” I remember there was a full moon, and I don’t know what that meant. But of course, it was hot in July. And I remember sitting out in the back yard with my husband, and we were having a drink, looking at the moon, and talking about it. And I remember saying, “They’re never going to close it. It won’t happen.” And so it was just…

MJH: And this would have been the weekend of…

GS: Yeah. The July Fourth weekend.

MJH: When did you first find out that it had closed? What were your thoughts?

GS: The Friday before that weekend, there was some indication that it was going to be closed, or that it was going to at least get a cease and desist order, and there were some executives at Liberty that actually had some information ahead of time. It wasn’t improper—it was appropriate for them to know. And so, they had to set up these meetings, to let us know that was a possibility, and for those of us who worked with Penn Square as a customer, just to be kind of be forewarned, and that we might need to come in over the weekend—over the holiday—to work. So we sort of had an inkling of it. But even then, and I won’t speak for the executives, but (or anyone else) I remember thinking then, “That’s not going to happen. Something will happen: they will find the capital, they will change management…” Because again, I had had that inkling earlier on, that with them raiding my staff, thinking, “Something’s not adding up here.” And then of course, there were lots of morning drive radio shows that were making fun of Penn Square. And I have no way of knowing if they were true, but the stories of Bill Patterson drinking Scotch out of his cowboy boot…

MJH: That his the national press in a big way.

GS: Absolutely. And, you know, I know, going out on the weekend for dinner or drinks or something, that the oil boom was kind of a crazy time. It was just, I don't know, we called it "yeehaw banking"—it just…the cowboy stuff, the bourbon, like there's no tomorrow. I remember—I think it was one of the Hefners being quoted—that oil will *never* drop below $33.00 a barrel. Ever. And projected that it would go up in the hundreds. It was just like, it's going to be this way and keep growing, and keep booming, forever. I just think there were some smart bankers around, scratching their heads, saying, "Nothing lasts forever." Even the oil customers we had were concerned, who had been through the boom-and-bust cycle before, and just were wise, that, you know, it can't last like this forever.

MJH: In terms of being at Liberty, would you consider the executive team at Liberty to be among the wise ones?

GS: Absolutely. Absolutely. And I'm trying to remember even all of them at the time—I don't think any of them were foolish at all, and in fact, one reason that Liberty withstood that particular bust, was that the—and I didn't work a lot in the lending area, particularly commercial lending—but I think that Liberty did a good job of balancing the portfolio. And, yes, there were some losses in the oil field; there were some related losses in real estate. Because any time, obviously, that an economic sector like Oklahoma, that has such a large piece of the pie as oil and gas, and it floundered, it's going to upset the other sectors. And real estate was tough. I know that we built a big workout team for real estate and some of the commercial loans. But it really tended to withstand the financial stress of that particular time.

MJH: What was in the loan portfolio to balance it?

GS: Commercial loans. Again, I didn't work a lot with the details, but I understand that Liberty's practice was to not fund a hundred percent of production loans. And certainly, exploration…I think the philosophy was that the borrower had to have fifty percent—again, these are not exact—but a major portion of the funding had to support either exploration or production. There had to be some sources other than the loan. So even if the loan went into default, there was enough value in the well or the asset to recover at least part of it. And again, these are probably rumors, but there were stories flying that Penn Square was funding a hundred to a hundred and ten percent of exploration because they were banking on (excuse the pun) they were counting on the price of oil per barrel to triple and double, and so on. So they felt like funding a hundred percent of oil at $33.00 a barrel would be safe because they could get $100.00 a barrel. And in reality, I think the worst it did was drop maybe to $9.00 or so, after the failure.

MJH: Those are memorable times.

GS: Absolutely. And then Liberty hit hard times, after that, not because of that. I'm not sure exactly why. Of course, law changed in '83 when you could start branching, and obviously that was after Penn Square. Liberty and First National of Tulsa merged.

MJH: When was that?

GS: About '84 or '85. And obviously, there were redundant functions, and I never really knew the details of the merger, but it seemed that after that, things got really, really tough financially. In part, there were redundant functions. In fact, my job in Oklahoma City was moved to Tulsa, so I could either move to Tulsa or find something else at the bank, or leave. And fortunately…I didn't want to relocate, and so I chose to stay here. I continued…Let me back up. As a result of some of those financial problems that we encountered, as well as the redundant operations in Tulsa and Oklahoma City, which obviously are very close together, Liberty laid off a lot of people. There were several lay-offs—there was a large one, I think, spring of maybe, '84, and a series of layoffs through '85 and '86. The layoff in '86 was what cost my job. So I was fortunate, with some background in human resources and training, and I had been in bank operations. I was the head of the job placement center at Liberty, for about a year. And instead of hiring consultants to come in and help employees develop resumes and interview skills and so forth, I did that internally. And then in the meantime, Liberty opened up a branch at 122nd and May. So I ended up, after doing the outplacement, I became the assistant manager of that branch, and ran the operations, did some retail lending, for about a year. At that point, I could tell that career and salary growth was going to be kind of limited, and I decided to go back to school and get a master's just to maybe compete in the job market a bit better. There were a lot of people looking, a lot of bankers unemployed, so I kind of wanted to have a competitive edge. So I went back to school, and then in early '88, joined the Federal Reserve Bank, the branch here in Oklahoma City. There is a branch of the Tenth District in Kansas City.

Ironically, I was hired in business development, which at the Fed, is calling on banks who are members of the Fed and ensuring the quality of banks—that the Fed's operation services are clean-cut, handling and so forth. So my background at Liberty, and working with correspondent banks was really helpful, because I already knew a lot of them. But ironically, I remember the first task I had was to—when a bank fails, when I was at the Fed, a staff member of the business development staff would circulate a memo (and again, this was paper then, before email), would circulate a memo to all the bank's staff (the Fed staff) as well as the bank customers, that a bank had failed, and what was happening with its assets. So my very first day, I did the memo about—I believe it was Union Bank, in Oklahoma City, failing. So I thought, "Wow! My life is full of bank failures!"

Laughter

Because even by '88 and into '89, there were still many banks failing. It seemed like…gosh, it seemed like there were several a week. It was kind of like, "Okay, it's Friday, who's failing?"

MJH: Remember the tally that *The Daily Oklahoman* kept?

GS: Yes…Absolutely…

MJH: What was the process, when those banks failed? What was the Fed's involvement in that?

GS: I can only speak from the operational side. The Fed has a credit "Chinese Wall" where, by design, the examination and inspections, the workout when they fail, is done by the examinations group. And that is a completely different segment of the Fed that, by design, doesn't mix with the operations side. And so, we were not always privy—nor should we have been—privy to knowing all of the details on the regulatory side. But from an operations standpoint, by the time I joined the Fed (and this sounds kind of crass) but the process of banks failing, and the assets being taken by somebody else, was almost just routine, because there were so many. The bank kept its same routing number, the checks would still clear, we would still send cash out, and they would still deposit cash back with us. So, it just was kind of a routine process of just changing the name on the records. Sometimes there were management changes, but not always.

MJH: Who were the big losers in most of these failures?

GS: I think the image of banking was probably the biggest loser. And again, after Penn Square, and in a few after that—I think Oklahoma National, maybe, was not long after that—but after the scare of Penn Square, and the public realizing…And I'll credit the local media for doing a good job, both television and print, of… I'm sure I wasn't working closely with the OBA at the time, or really the Fed, with Penn Square—but I think the media and the associations and the regulatory side had very stable, reassuring approaches to the public. "Your funds are safe, they're insured." Yes, there were some people who lost deposits. But for the most part, the average consumer—they just sent him new checks. A new checkbook, with new checks.

MJH: And I guess the depositors' losses would be only if you had more than $100,000 in the bank, and that's not going to be very many.

GS: [Right]

MJH: How about bank shareholders?

GS: Well, certainly. Penn Square's shares went belly-up (a credit to an author), and the employees who lost jobs…For a while, unfortunately, in hiring, if you were from Penn Square, then, "eew…" It was unfair. It really was. But I think for the most part, especially if they weren't involved at all in the decision making and the oil and gas lending piece…To be a teller at Penn Square was being a teller. Certainly, I don't think the banking industry held that against them, but if you were a loan officer, and you worked for Bill Patterson, you'd probably have a tough time finding a job, just because of that stigma of the, like I said earlier, the "yeehaw banking." Employees who had 401k's—most of those are funded with bank stock. I know I lost a lot at Liberty. My 401k devalued significantly because it was common that, whatever the employee put in, and the bank matched, that matching would be in Liberty stock, or Penn Square stock, or whatever the organization was. And so, obviously, if the stock tanks, then there goes the value of the 401k. So when Wall Street had its troubles a few years ago, I thought, "Yes, I've been through this before!"

Laughter

Of course I'm a little older now, and it costs!

MJH: There's not as much time to make it up.

GS: Not as much time to make it up.

MJH: Maybe you could comment a little bit on where you think we are now. You've worked in one of the biggest commercial banks in the state, and you have worked at the Fed, and now you've got your own business—what are some of your thoughts about where we have been, and where we are going? Maybe you can address some of the problems of 2008 and going forward.

GS: Obviously, I am not as close to the bankers now as I was, during that time. The customers that I have, or the clients I have, who are banks, are smart. Especially those who hire me to help them with human resources—they recognize the value of their staff, they recognize their return on investment in training, in solving problems, in resolving conflicts, in training some of those things that I do. And so, I think the clients that I have are progressively smart. They understand the industry, the importance of customers, customer and employee retention. And I think it's a whole new industry. I think it's maybe lost…I don't know, it seems that with branching and opening in grocery stores and so on—and I know that the industry is thriving because of that expansion—but it seems it has lost a little bit of its luster, and its professionalism, in some ways. You used to could see, tell a banker, because he was wearing a suit, walking up the street. It's just kind of different now. But I don't know that that's bad. I think, especially the bankers who have been through, especially the Penn Square days, the failures, the '08 issue, and now they are smart or they wouldn't have survived that.

In the 2008 matter, I think Oklahoma got kind of a bum rap. We do this, I know, but after the Wall Street bust and so on, in '08, I think some, especially nationally, tended to broad brush the whole industry. You know, "It's just a bunch of yahoos who don't know what they're doing. All they are after is making a whole bunch of money, on the backs of investors."

And that's not the Oklahoma bankers I know. Because they are solid, because they have lived through these times, but never engaged in those kinds of practices that caused the '08 crisis. And I think they have just become kind of guilty by association. Again, I am not privy to financial status of banks. I know, occasionally now, we have one that fails. But for the most part—and again, I'm not going to have a failing bank as a client, because training is not going to be a priority if it's failing—so, you know, obviously, the clients that I have are doing well, or they wouldn't be focused on the kind of work that I provide for them. But overall, my impression is that they're smart—they value their customers, they value their employees, and maybe resent, just a little bit, the East Coast stuff.

MJH: Do you think that some of the *good* qualities that come out of failures and challenges and so forth, do you think those are getting passed on to new generations?

GS: I think so. You know, there's nothing like living through it, to make you stronger, and how you pass that along to some of these family banks in Oklahoma, to your son or grandson, or daughter or granddaughter, but I think that, if there are enough people, enough bankers who lived through those…either one—the '82 with Penn Square, and then the 2008—that they do pass along the importance of prudent life management, prudent lending practices. And again, I'm just not on that side of the banks so much. But I think, and I have always thought, highly of regulators. I think very highly of the Fed. I know that there has been a little bit of—well, not a bit—but some criticism of Bernanke and Tim Geithner and some of those, and obviously I don't know them. But being at the Fed as long as I was, I know that you do not get to those levels in the Fed by being stupid. I don't know the relationship with the New York Fed now, with the Wall Street banks, but again, you just don't become the head of the New York Fed by having your thumb in your ear.

MJH: No, that would have to be true. As a final thought: What do you think some of the main challenges are now, particularly in Oklahoma banking? What do you see in terms of challenges and / or opportunities?

GS: I think Oklahoma has done a great job in diversifying the economy. That may be a lesson learned out of Penn Square, where we aren't just oil and gas—oil and gas is a cornerstone of our economy—but I really, and particularly in Oklahoma City, we have had some phenomenal leadership that has really advanced the city to being a destination. I travel quite a bit, and at one time, it was, "Oh, yeah, Oklahoma City, I have stopped there, I've eaten at the Denny's on my way to…wherever," and now it's, "Yeah, we stopped there, we spent some time at Bricktown, and the bombing memorial, and there's the Thunder…" We've got some things for people to do now. We don't toll up the sidewalks at five anymore. So, I think that the state and local leadership was just really run well to make Oklahoma more of a jewel in the crown instead of just a "passing through."

I think our reputation as a state, because of tragedies like the bombing, tornadoes, the different things that we go through as a state, I think you hear of "the Oklahoma standard," and I think that's true of the state, and I really think that's true of the financial industry that supports the state.

So I think there are lots of opportunities for growth, but smart growth, not just the rapid growth that we have seen, that we saw with Penn Square, and some of the others. I think the industry's biggest issue is competition. We've got—of course, there have always been credit unions—but in my mind, broader than that, are the online banks. You know, you can get a credit card anywhere. It's time to compete, and I think, in that competition, all they have to differentiate themselves is service. So I think that, as long as they focus on service, and meeting people's needs, that that's what matters.

MJH: I'm so glad I brought my tape recorder!

Laughter

GS: Because I start talking and don't stop!

MJH: Exactly. That's the right thing to do.

Any other thoughts? Not that we can't visit again sometime…

GS: Absolutely! I can't think of anything…

MJH: Well, thank you so much.

END