Oklahoma Bank and

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Interview with Meg Salyer
Formerly, Chase Manhattan Bank of NY, 4/23/2012
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Audio taped at Salyer's office,
Accel Financial Staffing Solutions in OKC
Audio taped and transcribed by MJH

MJH: It is Monday, April 23, 2012, and I am with Meg Salyer at Accel Financial Staffing Solutions in Oklahoma City to discuss her experience with banking in Oklahoma and, specifically, her experiences with regard to Penn Square Bank in the 80s. That's it! Thank you. I know it's a busy day.

MS: That's okay, Michael, you're welcome. I'm not sure exactly where to begin, except with my introduction. I am a New Yorker; I grew up on Long Island. I actually graduated from Mount Holyoke in western Massachusetts. During that four-year time period, I got to go to Europe for a couple of years, and developed an extreme case of wanderlust, I would say. I went to an on-campus interview with Chase Manhattan Bank, and was hired at the end of my senior year to go work for them in New York City. I participated in the credit training program in 1976, went through the credit training program. I had actually been hired by the international banking department. It was my dream, probably, to be running the Paris office of Chase Bank! During the course of the training program, as pieces move around, a woman who was a couple of months ahead of me in the class ended up marrying an officer of the bank, and they did move to Europe and took my international spot, and I took her domestic spot.

And I went to work, initially, for what was called institutional banking…the correspondent banking division. Chase called it the institutional banking division. So my direct accounts relationships were other banking institutions. Within the Chase family, those were divided into banks with under $100 million in assets and then banks over $100 million. So I had the large banks, primarily on the West Coast—Washington, Oregon, northern half of California, Nevada. For a while I had Alaska for most of that time, and I had Hawaii for part of it…

So about February or March of 1981, the vice president of the bank that I had been working for, a gentleman named Dick Pinney—he had been to the Oklahoma bankers' convention in Chicago that year, and spent some time with a good friend of his whose name was Mike Tighe, and Mike was the lead ____ banker for Michigan National.

MJH: Could you spell those names for me?

MS: Dick Pinney I can. It's P-I-N-N-E-Y. You would have seen it. Richard H. Pinney, I think. And then Mike Tighe—I think it's T-I-G-H-E. You can find those in the book [Phil Zweig's *Belly Up*].

So…I think I need to step back and give you a little background. At this time—in the late seventies, early eighties—major, triple A, corporate borrowers, were accessing the commercial paper market and other things, and they weren't using that money the way banks use it…All of the banks were scrambling for opportunities to get involved with the middle market—smaller borrowers, and borrowers that borrowed at a higher interest rate. And so Chase actually hired McKinsey and Company to come in and do a study of the middle market for them, and how they might approach it. Some banks, you know, opened loan production offices directly in second and third tier cities and competed with the local banks.

McKinsey's approach for Chase was, rather than try to compete with the local banks, where you're likely to pick up only the lower grade credits that the local banks don't work, why not work with the local banks, and operate as an over line lender—that's one way to call it—and participate in their in-house credits that had grown too large for them to handle? So that's one piece of it. That was the Chase strategy.

The second overlay that we need to remember is that Oklahoma banking laws, at the time, were very different than they are today. And Michael, remember, this was twenty-five or thirty years ago, so I'm working off my memory!

Oklahoma banking laws were such that you could only have a single bank holding company. And as a result, I don't think there was a bank in the state that had capital that was sufficient to lend more than, probably, $15 million to any one customer. And it cost more than that to drill a deep well. And so, by force of legislation, the local banks—and it didn't matter if it was Penn Square or Bank of Oklahoma, or if it was Liberty Bank, or if it was Fidelity Bank—every one of those banks had to form partnerships in order to be able to fulfill the full-time needs of their clients that were people who came to them in the energy business.

So, enter Chase Bank. Mike Tighe and Dick Pinney were visiting at the bankers' convention, and Mike says to Dick something to the tune of, "You're missing a…real bet down in Oklahoma City, and there's a bank anxious to form new relationships for over line participations." So it appeared to be a pretty natural fit.

So I got the phone call in, probably, February or March, and they said, "You know that trip you're planning to Seattle? You need to cancel it, and you're going to Amarillo and Oklahoma City." And I guess wondered who I made mad, and secondly, hopped on a plane. I think I made my first trip to Oklahoma City in April of 1981, and I called on Frank Murphy, who was president of the bank at the time. He arranged for me to meet with Bill Patterson the next day, and Bob

Kotarski, which is K-O-T-A-R-S-K-I. Bob was really—if he wasn't at the time, he became the head of their correspondent lending division. At the end of that meeting, I went back to New York with credit opportunities totaling seven and a half million dollars. I think there were six different participation requests. And so, those credit opportunities, obviously, had to be reviewed by our credit team. I don't know whether it was timing or—I'm not sure exactly, I can't remember what the reason was—but I actually had to present those credits to an executive vice president level at the bank, which I did. And we talked about each of them. Some of them were energy, but more of them were other things besides that. People, Michael, that you know pretty well!

Laughter…

At the end of the day, the question—the major questions—that was raised, was, "Do you think there is any more business?" So, the original six credits—I think there were six—the original six credits, we approved. And that was the beginning of what was about a year and a half relationship with Penn Square. In that eighteen-month time frame, my portfolio went from zero to about $300 million.

MJH: That's incredible. So you say it was about a year and a half?

MS: Yes. April of '81 to—well, a little less than that—April of '81 to July of '82.

MJH: So was this a major account of yours at that point?

MS: It was the only account of mine. I mean, it became…As that portfolio began to grow, my responsibilities changed. Essentially, Penn Square was the *only* account that I was working on, and I wasn't alone. I had a couple of junior officers assisting, and as we got toward the end of things, I had a couple of direct peers that were working on it as well.

MJH: How would you sum up that experience? After all these years have gone by, how do you remember that?

MS: First of all, it was an incredibly exciting, very (no pun intended!) high-energy, very intense, time. I wasn't alone in it, but everyone who was engaged in it…It was working seven days a week. We were meeting with clients all the time. I was traveling back and forth between New York and Oklahoma City on a very regular basis. And when I wasn't here, there might be somebody from the bank in my office, delivering documents, working on loan requests, meeting with customers. It was, you know, all points ahead! We were just, busy!

I can't speak for anybody but myself, that were in any of the other banks, but we were working very hard, creating files, keeping track of documents, and working with all of the support groups at the bank, making sure that, you know, when we were funding loans, that we had all of the documentation we needed in files, that we were advancing credits, that we were seeing payments. It was just a highly busy time. That $300 million represented, probably, 190 individual loans. And, you know, within that grouping, a smaller amount of customers—there were multiple borrowings by, you know, the same customers…

MJH: When did you first realize that things were maybe not going as well as you thought? When did you begin to see trouble on the horizon?

MS: I think the way I would describe it…And Michael, I don't know how to phrase this exactly, but I think this applies to many things besides Penn Square. I obviously have had a lot of time to think about this over the years! There are many situations that require the confidence of a really good story behind it to make it work, to make it hold up. Unfortunately, as I am talking, the only thing I can think of quickly, to be illustrative, would be things that also collapsed—and maybe that's the reason. You know, Enron, in its early years, had a really good story to tell. And people listened to the story, and the facts lined up, and it made sense.

I think what I have just told you about Chase's direct focus and working in the middle market, and finding a market where there was banking legislation that made that marketing approach a perfect fit; and add to that—I'm sorry, we didn't talk about the Penn Square Bank management at all, but add to that, Bill Jennings, who was able to put together this merchant-banking concept. You know, he took a multiple hundred-year concept—I mean, merchant-banking was not a new idea. This kind of a set up had operated all over the world, where somebody that had resources partnered with somebody that had access to somebody that needed those resources, and you put those parties together, and by doing that, you earned a fee.

But there was nothing out of the ordinary with any of the things I am sharing with you. But it was a circumstance of timing and strategy that all came together. We have talked a little bit about the borrowers here. The energy business was heating up so much, and there was so much competition, and everybody was, you know, out trying to secure and hold leaseholds, that it wasn't how much money *cost* to borrow that was an issue; it was *access* to it. These were borrowers—most people think about when you borrow, you borrow at the prime rate, or something above it. Well, that would typically be a *Wall Street Journal* prime rate. Oklahoma had its own prime rate, which was a point above *Wall Street Journal* prime. And these lenders, not being triple A lenders, were borrowing at something above Oklahoma prime. So New York City banks and Chicago banks were booking loans at three over prime, which was substantially greater than could have been achieved if we were lending to General Motors or General Electric or Exxon or anybody in that market. So it was *highly* profitable for banks, just so attractive. We were following the strategy that they laid out, which was the middle market, with a banking partner.

There was nothing about that story that would really cause any question. My recollection is that, suddenly, articles…and Phillip Zweig—began writing some stories. People began to be curious about what the heck are all these bankers doing in Oklahoma City, and what's going on down there, and there were some stories that began to be written. The *New York Times* did something. But the *American Banker* really sort of laid out some questions, and I think that began, those stories that all made sense—you know, we've got gas, we've got oil approaching $40 a barrel, which at the time was, you know, amazing, and nobody saw any problem with that story. And we've got embargoes, we've got OPEC—we have no reason to believe that the price of oil isn't going to continue to go up. We've got legislation in Washington that deregulated deep gas, and we've got gas selling at $9.00 per mcf, and nobody sees any reason that that's not going to happen. So the only thing you need to make all this work is access to capital.

There was a very legitimate, honest, business purpose in getting the story for this to happen. And then there's a BUT.

There's a management team that runs pretty loosely. You've got bankers in that organization that probably aren't as trained as maybe some others, certainly. You have momentum that's sort of propelling this forward. You've got customers clamoring for access to capital, and you've got people willing to give it to you.

So, also, within that mix, it's highly likely that you're going to get a couple of bad apples. It is my firm belief that most of the people that were clients of that bank, that were borrowers at that bank, were legitimate, honest people trying to create a business or trying to stay in a business in a climate that was receptive to that happening. But, there were some that weren't. And the worst of the worst were Frank Mahan and Billy Rowsey.

MJH: Oh yes, I've read about them. So, did you do business directly with them?

MS: That's a longer story than I am going to be able to tell you, probably. I need to be very careful, because I am the master of ceremony [at a meeting this afternoon]. I really have to be cautious. But—and I'd be happy to talk to you again, Michael—but…Frank Mahan and Billy Rowsey…The particular transaction that I know the best—they professed that they were going to build a deep drilling rig. And it was a large credit: $15 million, I think, at the time, was the original credit. And, you know, from a banking perspective, it's as complicated to book a $500,000 loan as it is a $15 million loan. It costs as much; it takes as much administrative time. As an institution, you would probably look to booking fewer, larger loans than you would loads of little loans. Chase would, I would say—a fairly typical company, chase the kind of leads as First Continental, Michigan National, were all there first. You can tell by the story I told you originally that, with six loans totaling $7.5 million, we were looking at lots of little stuff. And as we went up above me in the chain of management at the bank, there was the wherewithal to be able to be involved in the some of the bigger credits.
The Mahan-Rowsey is probably the first largish credit that we had an opportunity to look at. So, the two of them came to New York with Bill Patterson and—I can't

think who else from the bank—but, you know, one or two from Penn Square, and we had dinner in New York with, I think, two senior vice presidents of Chase. There was at least one v.p., myself, and then several others. Frank Mahan was so rude at that dinner that two people got up and left. And the next day, you know, I just said I wouldn't ever have anything to do with him. It was not a relationship that I managed or had anything to do with.

But a decision was made to go ahead, and Chase ended up funding the credit. But it wasn't one that I had direct account responsibility for.

It turned out that, at the end of the day, they weren't building a drilling rig. A lot of it went to other kinds of things. One of the biggest issues that, at the end of the day, when the Comptroller of the Currency, reached a place where he—and the examiners—reached a place where they thought they needed to close the bank or sell the bank, there were some hanging issues, I would say, that made it impossible to monetize what the ultimate risk would be to a purchaser or purchasers.

Typically, when a bank fails and it is sold, there is a stop gap that the FDIC would put on it, and absorb those losses. In the short window that, I think, the Comptroller's office believed they had, they couldn't identify what they thought that number was. And so no purchaser stepped up, so they closed the bank.

The Mahan-Rowsey [affected] the GHK credits, because what happened was, you know: Penn Square had been very proud to say that—and you'll have to get somebody to tell you, it isn't true—that they had never had a criticized loan at one of their upstream banks. But two things happened to change that.

The first thing was, we had made a loan to an individual—his name was Alan Settle (?)—to purchase a marina in St. Petersburg, Florida. His intent was to convert that marina into condominium homes. Docks, basically, that quickly became shorthanded as "dockominiums." He had purchased the marina from a family. The family had a first mortgage. Chase and Penn Square funded a participation for the conversion. And the plan was that—like you do with a housing development—you do a group closing on the first "x" number of lots. That would be sufficient to pay off the first mortgage, and move the bank into the first position until all the rest of the project sold out. We were perfectly comfortable with working and paying for the marina, and we were perfectly comfortable with our collateral position. But, timing is everything. The project didn't go as intended. The first mortgage holders were still there. And my credit team came to the conclusion that we were going to go ahead and foreclose. But we were totally comfortable with the collateral position. The deal didn't work out. Happens all the time! We were just going to foreclose and take over the property.

That set in motion—unbeknownst to me, until after we foreclosed and I read these books—but that set in motion Bill Patterson's activities. He had used some of those—I have never heard him say this, but that's what is written—he had…There were customers that might have left a note, signed, in effect, and left him with something to do something with. Bill had access to those notes. Some of those notes were used to take out the condominium loan. Chase could pay back all of his money. And so Chase could have told the story that we never had a criticized loan…

That was the first thing. The second one was the Mahan-Rowsey loan. And so, when the Mahan-Rowsey loan, and people figures out what the Hell was going on, Bill scrambled to try to find a way to have that credit taken over. And he ultimately got Hefner's GHK Company to warehouse the rigs with a very large, $30 million note. And that's the note that was altered.

And so there's too much to tell you. Those are the two big issues that really caused the whole thing to blow up.

MJH: I know you've got to run. This is so great for you to do this. Thank you so much for doing this on short notice.

Turned off recorder, thought Meg was leaving, then turned the recorder on to record her concluding comments…

MS: Phil Zweig was a sensationalist who, I would even imagine at this point, takes a lot of credit for bringing the bank down. The bank…That action by the FDIC would never be taken again. I truly don't believe it. And the effect that it had on everything, including your family, and taking down First National. I mean, you just go through the list. Those banks don't exist anymore. Seattle First Bank doesn't exist anymore. I mean, you just go through the list. It's just unbelievable what the repercussions were of closing that shopping center bank down. Just because—and it's not fair to say "just because," but I am going to—just because they were afraid they didn't have enough time to analyze things like letters of credit that the bank had issued for its own customers for its own drilling programs. But there would have been a way, there should have been a way, to save it.

But when you've got this overlay…This is Monday morning quarterbacking, but I just don't think, in hindsight, they would do it again. But Phil [Zweig], and when he wrote that book—he must have called me ten times. He tried to talk to me. He found me at my parents', on Long Island. He found me…I never gave him an interview. But when you read that book, you would not believe that. I have a very poor taste in my mouth for that guy.

On the other hand, we had Mark Singer, who I am sure you know, and I hope you talk to. I read it again recently, which was very interesting. With, obviously, a twenty-five year different perspective, I hadn't picked it up in that long. And something struck me, so incredibly. Some person that Mark talked to, one of the ex-FDIC guys, basically said, "This place is evil." And Mark said, "I heard those words, and I was dumbfounded." And I think, if you read it carefully, you will see that Mark's story is a lot more along the lines of what I am trying to express—that most of these were normal people operating on the facts and circumstances at the time, involved in a crazy, heady…Did people drink wine out of their shoes from time to time? Yes! Did people throw quail out of their pockets? Yes! It was probably all partly just a relief from the incredible, crazy tension. Was everybody minting money? Yes! And then the cards began to come down, and there was lot of scrambling to place blame.

Somebody like Bill Patterson takes $2 million of his wife's inheritance, a week before the bank closed, and put it in bank stock: Did he think anything he was doing was wrong? Or…No…

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