Oklahoma Bank and

Commerce History Project

a program of the Oklahoma Historical Society

Interview with Tom Loy
President, Metafund
Oklahoma City, OK, 11/5/2012
Interviewer: Michael J. Hightower
Audio taped and transcribed by MJH

TL described David Rainbolt's successes prior to beginning formal interview…

TL: …which might have financially killed Gene, if David hadn't done it. David says, "Oh, we were just lucky. MCorp was in bankruptcy, reorg, and all that." And I said, "Yes, that helped, but you still pulled off the deal, the grand slam home run in the bottom of the ninth inning." And he said, "I thank you, but it was more luck than skill." And I said, "No, I think it's the opposite!" And I mean that, truly. Anyway, I've got a lot to say about those guys. Now, what do you want to do with it?

MJH: You are a master at giving away credit. You really are.

Let me give you a quick intro, and then you can tell me about interest rates in the late 1970s and early 1980s. And [David Rainbolt and Jay Hannah] brought up a name that I haven't thought about in some time—Bert Lance. They felt pretty strongly that those two things belong in the BancFirst story.

It is Monday, November 5, 2012, and I am visiting with Tom Loy in the Metafund office in Oklahoma City, to discuss specific aspects of the BancFirst story, and specifically, the interest rate story of the late 1970s and early 1980s, and the largely forgotten Bert Lance scandal of the Carter administration, in that era. That's really it. Tell me what you know, what you remember, anecdotally—however you want to go at it.

TL: Okay. Let me ramble here a minute…

Pause, took some notes…

Not necessarily in proper chronological order, but let me start with Bert Lance, just because I haven't talked about Bert Lance in a long time. Let me tell you the quote that I have said to a lot of bankers over the last, gosh, thirty years: I got into banking in 1975, and had aspirations of creating my own banking empire. I was fortunate enough to work for Morrison Tucker, who we have talked about. I was also fortunate enough to be in the same town—or actually, it wasn't the same town at that point—being in the same state, with a guy named Gene Rainbolt. As soon as I got into banking, and I was already a student of history, a big history buff, and I became a banking history buff because, if you are interested in a ministry, you might as well become a student of its history. I did, and still am.

I found that Morrison Tucker was an inspiration in many ways. But I also found that, for me, as a non-wealthy person, Gene Rainbolt had created a prototype for my future banking empire. And before it ever got started, Bert Lance screwed it up.

I have told a lot of bankers that. So that's Tom Loy personally. Now, what is it I am referring to? You can go Google Bert Lance and find out a lot of stuff, that I used to know, but have forgotten. You probably know, or recently found out, that Bert Lance was OMB [Office of Management and Budget] director for Jimmy Carter, I think, and the reason was, he was a Georgia banker. Jimmy Carter was from Georgia. This was what I will politely refer to as "the Georgia mafia" connections. It's like, Bill Clinton had his Arkansas gang, and so on and so forth.

Anyway, Bert Lance gets into the Carter administration, and gets involved with a soon-to-be enormous international scandal around a bank called BCCI. Bert Lance was wheeling and dealing, and buying banks, and selling banks, and probably would have been fine, and he wouldn't have screwed up my banking strategy if it hadn't been the combination of his being in a presidential administration and the BCCI, both of which he was right in the middle of.

What came out of that, and what screwed up my banking career aspirations, was that Bert Lance was using a tool that a lot of bankers used, and Gene Rainbolt had come close to perfecting, and that is to borrow up to the hilt. Back in those days, you could borrow potentially more than the purchase price of a bank.

MJH: Was that in the late 1970s?

TL: Yes. Late 1970s. At that time, you could potentially borrow more than the purchase price of a bank, because—it doesn't matter why. We can get into that more, if you want. But if you can borrow up to the purchase price of a bank, now you don't have to put up any money to buy a bank. Well, obviously, not anybody can do this. You have to have some credentials, and you have to have some connections. But in essence, you can use the assets of the bank you're acquiring as collateral for the loan. Not only that, you get to use what are called "compensating balances" to buy down the loan value, on the loan that you are using to buy the bank. And Morrison Tucker was a master of this too. But nobody in Oklahoma did it to the volume extent that Gene Rainbolt did, ever before or since. Gene had, what, 35 to 40 some banks in his fold at his peak, and he rolled most of those into what is today BancFirst.

How did Gene buy all those banks? Well, he did what I just described, but there is one important additional asterisk to it, which is the deal about comp balances. Compensating balances are balances that banks require many borrowers to keep at the bank. So a typical example is, "Yes, Mr. Hightower, we will lend you money for your business, but you have to promise to keep your business deposits at my bank, because I want to make more loans and grow my bank. We will even quantify it: you've got to keep at least 10 percent of the loan balance in a checking account at our bank. That shouldn't be a big deal, because your company has that many bank balances someplace right now anyway."

But here's the little-known kicker: Suppose I buy 51 percent of a bank, and borrow all the money to do it. I now control the bank, even though I don't own all of it. I can use compensating balances as a negotiating tool back at the bank. The bank says, "Mr. Loy, I want you to keep 10 percent of the loan balance in our bank." And I say, "Fine, but I want those balances to earn me something, and what I want it to earn me is a buy-down on my loan rate." And the banker says, "Yes." This is common practice, okay? Does that sound like a big deal? No! You go, "Well, instead of having to pay 6 percent on a loan, I only have to pay 5 percent. Instead of paying 4 percent, I only have to pay 3 percent," or whatever the going rates are. And you think, okay, instead of having to pay a higher interest rate, you agree to leave higher compensating balances from the company to the bank. Alright?

What's so critical here? What's the trick? The trick is—think about it. Remember when I said I only bought 51 percent of the bank? The comp balances are coming from all of the stockholders. So I am getting the benefit of the comp balances—I am getting a hundred percent benefit from the comp balances, because it's my loan. It's not a loan for all the other stockholders. It's just me, the 51 percent owner. So the minority stockholders are, in effect, subsidizing my purchase of their bank, because I own control of it.

Everybody did it. Morrison Tucker did it. Bert Lance did it. Gene Rainbolt did it. Lots of bank owners did it. And their philosophical / moral justification of it was, "Hey, I'm going to build value in this bank, net of comp balances and my loan and everything else. And the minority stockholders are going to be better off for my having bought this bank." And if they do well, that's true. So that was the moral / philosophical justification on everybody's side for doing it. And it was common practice until Bert Lance gets all involved in all this stuff we talked about, and then his little empire starts coming apart. People find out about this comp balance deal, and that was one thing they decided to hand their hats on, and go after bankers for. This was abuse of minority stockholders.

And that practice basically died with Bert Lance. And that was my plan for becoming a banking magnate. That was my plan for building a banking empire. I had seen what Morrison Tucker had done with his version. And then I saw what Gene Rainbolt had done to scale—admittedly smaller banks, in Gene's case, but nonetheless, a whole bunch of them. I thought, "I can do this! I don't have to be independently wealthy to do this. All I have to do is build a solid reputation. And if I build a solid reputation over a few years, I can grow my own Gene Rainbolt type banking empire.

That's probably more than you wanted to know about Bert Lance.

MJH: No. It had really faded from my memory.

TL: Okay, so what else was going on in the late 1970s and early 1980s? By the way, I got into banking in 1975. Alright?

September 6, 1979…Let me back up a minute. In the mid to late seventies, something started that is, in my strong historical opinion, the most significant set of events, circumstances, perfect storm—whatever you want to call it—to happen after the Great Depression. And that was, starting in the mid seventies, interest rates and inflation started skyrocketing. And this happened in an environment of pretty high regulation in the banking industry, including a little regulation called Reg Q. Reg Q limited the amount of interest, legally, that a bank or savings and loan could pay on deposits accounts. You couldn't legally pay more than 5 percent. Now today, that sounds like a high rate. But up until a few years ago, it sounded like a low rate, subsequent to the mid seventies, because in the real world…Banks had been able to pay 5 percent; savings and loans could pay 5 ¼. That had been the case for my lifetime, until interest rates started climbing in the mid seventies.

And what happened? Oil prices began climbing. Real estate prices began climbing. The price of gasoline at the pump doubled, then tripled, and so on. So we have this scary inflation going on. Jimmy Carter gets elected in 1976, with a major platform plank, "Whip Inflation Now." WIN—Whip Inflation Now. They had little smiley face buttons they were giving out all over the country that said, "WIN." Whip Inflation Now. I don't know how you do it with smiley face buttons, and nobody else seemed to know how to do it with anything else other than smiley face buttons, until Paul Volcker came along.

Paul Volcker, on October 6, 1979—and I remember that date for perverted, anal-retentive kinds of reasons—Paul Volcker announced that the Federal Reserve was going to change its monetary policy. And it was going to change its monetary policy to address the inflation that was building ever so rapidly, and they were going to do so by addressing the money supply and interest rates. And Paul Volcker said, "I am going to raise interest rates until they stifle this inflation. And I don't care how high I have to go."

Some people took note. The bond market took note and started selling off like crazy. Interest rates immediately started going higher in the bond market, just based on the fact that Volcker said he was going to raise rates. And he hadn't even raised them yet. He just said he was going to. But it had the effect of raising rates on bonds immediately. And he did start raising the discount rate, and the fed funds rate, and he raised them every week for awhile. They kept going up, and people said, "This won't go on forever." And of course it didn't, but it went on long enough for the prime rate to get into the 20s; for long-term treasury rates to get into the high teens; for fed funds rates to routinely trade in the 20s and, on settlement day, which used to be once a week, then it subsequently became every other week—on settlement day, when rates were most volatile, when banks had to settle their reserve accounts at the Fed—on settlement days, fed funds rates went into the 40s, on a number of days. On other days, they dropped to 1 percent. But the norm was in the 20s.

There were very high rates. The long-term effect was, it worked. The short-term effect was that rates were sky-high, as I just described, and the effect that had, along with the

Middle Eastern oil embargo—all this perfect storm stuff that was going on—the effect it had on banks was almost indescribably profound. Banks were sitting under the regulation of Reg Q, which meant that, while interest rates were going up, banks can't pay more than 5 percent on savings accounts, nor, I think, the highest rate they could pay on any CD [certificate of deposit] was 7 ½. I might be off a little on that. And I think savings and loans could go to 7 ¾, on a CD longer than 5 years, or something like that. It's been a long time, but I am close.

What's your competitive ability, with those legal restrictions on what you could pay on deposits, and what's going on in the marketplace? Well, the marketplace—anybody with $10,000, which was a lot, but anybody with $10,000 could buy a Treasury bill. Anybody with $5,000 could buy Treasury notes, and anybody with $1,000 could buy Treasury bonds. Well, that's a lot of people! Not everybody, but it's a lot of people, and what are they going to do: buy a CD for 5 or 8 percent, or buy Treasury bills, notes, and bonds that are now up at 9, 10, 12, 15 percent?

The answer is obvious. People started disintermediating the banks. It's a big word that never got used until the late seventies, and then anybody around banking began to know a lot about what it meant, which was money coming out of banks and going directly into instruments that banks might themselves otherwise be buying. In other words, you put money into a deposit account at a bank, and they are going to put some of it into those same Treasury securities. And you could always go invest your money in those same Treasury securities, but it was a hassle, or an unknown, or a mystery, or whatever, so most people didn't do it. Well, a lot of people started looking into it, and said, "Hey, now you can get twice what a bank will pay you, by investing in Treasury securities, and it's still guaranteed by the U.S. government!" Because it is the U.S. government. And people started taking money out of banks.

So what happened? First of all, one morning…The savings and loan industry was encountering the same problem, with this disintermediation thing. But it's even worse in the savings and loan industry basically only had one kind of asset, and one kind of liability. Banks had multiple liabilities, at a minimum, checking accounts, savings accounts, and CDs. Savings and loans basically had only one—you can call it two if you want—but they were all savings accounts. They had savings accounts, and CDs. That was all they had. No checking accounts. They had only one kind of asset: mortgage loans. Banks had commercial loans, retail loans, some mortgage loans—different kinds of loans. Some of they were fixed-rate loans; some were floating-rate loans, underline <u>fixed</u> and <u>floating</u>.

So banks were getting disintermediated, and when they do, and it starts hurting their funding, that's going to starting them falling in the marketplace. Not the deposit marketplace; the open marketplace. And they have to start paying these new, much higher rates to get money to fund their loans. Many of those loans are already on the books. The fixed-rate loans are a problem. Why? Because they are fixed at rates for a longer period of time, and they are all single-digit rates. None of them are even close to being 10 percent. They are 5, 6, 7, 8, 9 percent, but they are not 10 percent. We're talking late seventies.

Savings and loans have the same problem. Which means, they are beginning to fund some of their fixed-rate loans at negative spreads. You've got a 9 percent loan, you've got a 7 percent loan—now you're paying 10 percent for the money. Not a good plan! You can't make it up on volume, as the old joke goes!

How about savings and loans? They're even worse, because all of their loans are fixed-rate loans. At this point in time, in the late 1970s—it sounds odd to a young person reading this today—but in the late seventies, there were no floating-rate mortgage loans. If you had a mortgage loan, it was a fixed-rate [loan]. And borrowers don't like a floating-rate loan, generally speaking, anyway. So that's why there weren't any. But there didn't need to be, because rates had never been volatile on mortgage loans. And they still weren't, generally speaking, but for savings and loans, all of their mortgage loans were at rates of 7, 8, 9 percent or less, and the vast majority of them were less—5, 6, 7 percent fixed-rate loans. So what was happening to them when they were getting disintermediated? People take money out of their savings accounts or CDs or savings and open a money market account. The savings and loans had to do the same things the banks did, only it's affecting them a lot more, because all of their assets were fixed-rate loans—are fixed-rate—and so now, they were getting negative spreads on everything. Which means they are losing money!

So what happens in this environment? Primarily led by the savings and loans, this great lobbying effort goes out to Congress: "You've got to let us compete in the market, in two ways. Number one, you've got to let us pay something more than the current Reg Q rate to go get money, but don't make us pay full fare on everything. In other words, we don't want to start paying 12 and 15 percent on everything, but we need to be able to pay something more than the Reg Q rate."

So Congress came up with the money market deposit CD, and it required a minimum deposit of $10,000, and it was tied to the six-month Treasury bill rate. It was called a six-month money market CD. It allowed banks one instrument—a clever lobbying ploy—so that, we don't have to pay full fair for 5, 10, 20, 30-year Treasury rate. We only have to pay the six-month rate, which was lower than the longer rate. And we get to stop, or at least slow down, some of this disintermediation.

Alright, so that addresses part of our funding problem. But the savings and loans needed even more than that, because even if they paid the six-month money market rate, that was still 9 or 10 percent. And they would still lose money on that. So they said, "We need more lending authority. We need to be able to invest in other kinds of real estate, because we really are experts at real estate." This was a bald-faced lie. They weren't experts in real estate. They were experts in mortgage finance, but that doesn't mean you're an expert in real estate. But they convinced Congress that they were experts in real estate, so Congress told the s & ls —the savings and loans—that they could go buy junk bonds. And a guy named Michael Milken at Drexel Burnham Lambert made junk bonds famous. He made them famous by giving them free credibility and a liquid market. He started pooling junk—high risk—bonds into pools, and said, "Yeah, some of them are going to fail, but statistically, most of them aren't going to fail, and there are high enough rates that even the losers aren't going to bring down the rates that much." So if you invest in Drexel Burnham [Lambert]'s pool of junk bonds—he called them high yield bonds, which was true, they were, at least on the face of them—but whether they paid off was another question.

He said, "If you will buy these pools, you will get a much higher than justified, normal risk-return ratio, even though some of them will fail. But you will get the super high returns." They were booking these loans at 12, 15, 20 percent and—these bonds, I mean—and Drexel Burnham [Lambert] was underwriting them like crazy to industrial companies that needed financing, unbankable financing, and they are floating their bonds, and now they've got this market for them, because not only were there individuals out there who will invest in these pools, to some extent, but Congress let the savings and loan industry invest in junk bonds.

That was one of the dumbest Congressional ideas of all time.

In 1980 and 1982, you have the Monetary Control Act and the Garn-St. Germain Act. And they do a variety of things, one of which was to start the systematic deconstruction of Reg Q; and the other was to let savings and loans do all kinds of ridiculous investments that they have no business investing in. And I say that because they were funded with federally insured deposits—federally insured by what was then called FSLIC, of Federal Savings and Loan Insurance Corporation, which basically went bankrupt because of this. And that fund was merged into the FDIC, and is now all part of the FDIC. But billions and billions and billions of dollars were lost—I can't remember the number. It seems like $400 billion rings a bell, but I can't remember for sure. It's been a long time! It was in the late 1980s, when FSLIC rolled over on its back and put its little legs up in the air and breathed its last breath. And the commercial banking industry took it on the chin, along with taxpayers, to take over FSLIC and merge it into FDIC.

So, prior to Bert Lance, a bank charter was the greatest franchising opportunity in America. If you got a banking franchise, a bank charter—you may think a McDonald's franchise is guaranteed to do well, but I would say a banking charter is a better franchise deal than McDonald's, because you have to be a reasonably decent manager and business person to make a McDonald's work. McDonald's will help you a bunch, but with a bank charter, you several laws that say, "You make a margin. You make a spread." There's no such law that gave McDonald's a guaranteed spread on its burgers. But banks had a guaranteed spread on their loans because Reg Q wouldn't let you pay a real market rate on deposits, and you had a protected territory, because they didn't give a charter to just anybody who wandered up to the state banking commission or the Comptroller of the Currency and said, "Hey, I'd like to buy a charter." So, bank charters were a guaranteed, capital, franchise opportunity, and you combine that with the comp balance, buy down of the rates, and the ability to fund a hundred percent of a bank acquisition, and you have a license to make money! And that was my battle plan, and Bert Lance screwed it up.

But not only that, it radically transformed the banking industry that we knew in America. After Bert Lance—not just because of Bert Lance, but after Bert Lance—and because of the Reg Q, the disintermediation, the high rates, the oil embargo that helped drive up oil prices in the mid-seventies that, you could argue, was what started the inflation explosion in the seventies—put all that together, and that was the perfect storm. I don't know what other people would say about what the most profound and prolific economic issues and incidences were of the latter half of the 20th century, or post-World War II 20th century, but I would say this was it. This was profoundly it. And it affected everybody in the banking industry.

I mean, I am only half joking when I say that Bert Lance screwed up my empire plan, but it's really more true than not true, not just for me, but for anybody who was doing it or trying to do it through the 1970s and 1980s, because suddenly, banking became a very different business. A banking charter was no longer a license to make money. It was a good deal, if you did it well, but suddenly, banks started failing. Penn Square, Fourth of July weekend, 1982—you know all about that one. That was one of the first big dominoes. It wasn't the first big domino. The first big one, I would say, was probably First Pennsylvania Bank. My mind is failing me, as to what year that was. First Pennsylvania Bank failed primarily not because of credit risk, which is the normal reason banks fail—the normal underlying risk. First Pennsylvania failed because they were more of a non-bank than a lending bank, and they bet money in the mid-seventies—they bet that interest rates weren't going to go up.

There are Treasury issues that are referred to by coupon and year of maturity. There were the eights of '86, the nines of '87, and the nines of '94. And the reason those stick in my mind is because the eights of '86 were the first Treasury coupons, maybe ever, and certainly in my lifetime, that had a coupon rate with a handle of 8 percent or higher (a handle meaning the number to the left of the decimal). We hit an 8 percent coupon, and then we hit a nine percent coupon, on bonds that matured in 1987 and 1994. And those were all issued in the 1970s. First Pennsylvania [Bank] loaded up on all of them. And so did a lot of banks, but First Pennsylvania loaded up on more of them because they were more of a bond bank than a loan bank. And they were [?], because the disintermediation and interest rate increases of the late 1970s and early 1980s turned their spreads negative on all those bonds. All of those 8 percent and 9 percent bonds were suddenly being funded with 12 and 15 percent money. And First Pennsylvania went belly up primarily because of interest rate mismatch or interest rate risk, whatever you want to call it. This profoundly changed a concept called "interest rate sensitivity" and a concept called "asset liability management." Those were new in the seventies. No one ever said stuff like "interest rate sensitivity," because there wasn't any! Reg Q limited how high deposit rates could go, and just the economy in the world of new regs limited how much volatility there was in loan rates.

MJH: Back to BancFirst: David Rainbolt came back to work for his dad 3 weeks before Penn Square flopped. What do you know about the effects of the perfect storm on BancFirst, and how did he navigate through it?

TL: The effect was exactly what a Finance 101 textbook would say would be the effect on any highly leveraged institution. Finance textbooks have two kinds of leverage: operating leverage; and financial leverage. Financial leverage is nothing more than borrowing money. Financial leverage compounds your return. If things are going well, financial leverage will increase your return. If things aren't going well, financial leverage will drive you over the cliff faster than you would have gone without leverage, because you have the repayment—principal and interest obligations—on the debt. And so funding a business with your own money, whereas, if times get tough, you just don't make any income. But if you have debt, and times get tough, you still own debt service. So, when times get tough, financial leverage is a problem.

I don't know Gene's personal situation with his bank stock debt, but I know it generically and industrially, because I am pretty sure Gene was borrowing up to the hilt to buy these banks, and he was paying those loans off with comp balances and then his personal cash flow, meaning dividends from those banks, assuming they were profitable, to pay debt service on those loans over a long period of time, 20 or 30 years, maybe 15 at a minimum. Again, I don't know that for a fact, and I don't know how much of that you want to disclose in a book. But Gene had a lot of leverage—a lot of financial leverage. And when banks started getting disintermediated, and interest rates started going up, Gene's cost of debt service, I am willing to bet everything I've got, began to exceed his cash flow from his banks, which means he was in trouble. He was in trouble of being what you'd call in the home lending world, "foreclosed upon." He was in jeopardy of having to start giving back assets, just like Donald Trump did on real estate assets, or anybody else would when they get upside down on owing more than they own, or having debt service coverage be less than one-to-one. If your cash flow is $100, incoming, and your debt service is $310, you've got a problem. And I am assuming Gene was in that position.

The primary bank stock debt that was publicly known at that time, that I remember, related to BancFirst, was at MCorp, the parent company of the Mercantile Bank of Dallas, which was a very prominent institution in the Southwest.

MJH: Was that MBank? MCorp?

TL: MCorp, or MBank. Originally, it was the Mercantile National Bank. They did change the name to MBank, and they changed the parent company, the holding company, name, to MCorp. Alright? That's where their debt was. And by the way, parenthetically, it is worth noting that the banking crisis or collapse or whatever you want to call it in the 1980s included the failure, if I remember right, the failure or the equivalent of failure (meaning someone took them over in lieu of failure) of nine out of the ten largest banks in the state of Texas. Frost [Bank] in San Antonio was the only bank among the ten largest that survived. I am pretty sure that's correct. You can check my facts on that.

Big banks in Dallas; big banks in Houston—the top four or five of each all failed. And MBank was one of them. And David is correct when he says they were just lucky, because MCorp was basically a failure, and in reorg mode. But David is too modest when he says that's how everything got restructured. In a nutshell—and you need to get the details from David—in a nutshell, David refinanced all that bank stock debt at what I remember roughly to be 35 to 45 cents on the dollar. You can get the actual numbers from David, to the extent that he wants that to be allowed to be used in the book. But he not only restructured the amount—say, we originally owed, whatever it was, $50 million, and now we only owe $15 [million]—but he also got the terms spread out and restructured at a fixed lower rate. So suddenly, net cash flow goes from significantly negative to significantly positive, and suddenly United Community Corp / BancFirst becomes solvent. Arguably, the day before David signed that deal, they were insolvent, I'll bet. Maybe not insolvent from a balance sheet standpoint, but insolvent from a cash flow or income statement standpoint.

So they probably couldn't have services the debt much longer, and Gene's whole empire would have unraveled. And I don't mean that as a criticism of Gene. He was a victim of this perfect storm. But he was a victim of a perfect storm partly because of his own strategy. And I am admitting, it was my strategy too, until Bert Lance screwed it up. But it was to borrow up to the hilt, which magnifies your performance, as I said—you borrow up to the hilt, borrow anything, and it magnifies your performance. If you do well, you become a wealthy hero. Donald Trump does this strategy. He doesn't like to give personal guarantees, he doesn't like to cross-collateralize anything; because he wants to be able to jettison his bad stuff when times go bad. I mean, Trump's a brilliant negotiator. I am always amazed that, every time there has been an economic downturn, Donald Trump loses some properties. But when it turns back up, he realizes that the properties he lost were his weak ones, and he winds up retaining all of his pristine properties.

Well, anyway…Sorry, that was a digression.

Gene was sitting there facing a best case scenario, I think, of being able to keep some, but maybe not very many, of his banks, and his empire. I think he was on the precipice of having to give up a significant amount, if not all, of his banking empire, and maybe have to start over again. Personally, he might have been fine, but corporately, for United Community Corporation / BancFirst, I think he was on the edge, and I think David saved the day.

Again, David is partly right. He was at a good point in time, by luck, that MCorp was in trouble, if not already in reorg, and the bad banks they were working with. I can't remember whether he renegotiated that with the old MCorp, or was it the new RFT…I can't remember the entity that he renegotiated with. But it was basically MCorp debt, or MBank debt, that they had. And I give David huge kudos for pulling that deal off. In hindsight, he makes it sound like he just walked in there at the right point in time, and they agreed. I don't think that's the case at all. I think David negotiated a grand slam home run in the bottom of the ninth.

BancFirst as it is today, is a function of 3 profound themes: (1) Gene Rainbolt's structural founding of the whole thing in its original essence; (2) this perfect storm confluence of forces that we talked about, ranging from high interest rates and high inflation rates, the oil embargo in the Middle East, and all of that; and (3) David Rainbolt coming in at the right time—being the right guy, at the right time, to restructure and, magically, overnight, transform BancFirst's balance sheet into a strong institution. And from there, it has done nothing but build positively ever since.

And if you look back at the banking industry, where it is today, and where it was in the seventies, every bank today, I would argue, has been *profoundly* affected by those forces, not only directly, but significantly indirectly, because of who used to be around then and isn't today. If you look at a list of the top 50 banks in America in 1975, and look at them today, you'll say, "What the heck! Where did all of those guys in '75 go?" The only names that you would see that would be familiar would be Bank of America, J.P Morgan and Chase combined, and what is today Citicorp, which, in the seventies, maybe Citi Group today—maybe Walter Wriston had turned it into Citicorp, I'm trying to remember what the dates were. It was the old First National City Bank of New York City that became Citicorp under Walter Wriston and…But gosh, you could just go through the list of huge New York banks, and Chicago banks, and Dallas banks, and Houston banks, and L.A. and San Francisco-based banks—the money centers of America—and none of those entities exist today. Bank of America: you'd say, "Well, they survived." Actually, they didn't. NC and B became NationsBank. NationsBank bought B of A. So B of A was basically failing. And NC and B kept the Bank of America name—or kept the Bank of America name. But Bank of America basically disappeared. Continental Illinois…You can find the names. But, it's just incredible! Huge banks disappeared through failure or merger.

The ones that were dramatically affected by Penn Square—Why did Penn Square happen? Well, it all became a function, in simple terms, of these same forces: rising interest rates, rising oil prices, and a guy named Bill Patterson who said, "You don't have to know anything about banking. All you have to realize is that oil prices are going to go up forever, so you can lend money to anybody for any kind of oil deal." Obviously, that wasn't true, but a lot of people bought into that, including some of the biggest banks in the country, including Chase Manhattan Bank, including Continental Illinois, including Seattle First National Bank. Some of the biggest banking institutions in the nation bought into the Bill Patterson hype, which was based on nothing more than rising interest rates and rising oil prices. And rising inflation, and lots of other things too, from real estate to washing machines.

MJH: Is that it? My goodness! I think David and Jay's recommendation [that I interview you] was right on!

TL: I can't really do justice to articulating how significant and influential I think those forces were. Were there other things going on? Sure. Were there regulatory lapses? Yes. But the regulatory lapses, in many respects, were also a function of these other forces. The regulators had never seen interest rate risk. We had guys who had been bank regulators or bank examiners for 20 years, 40 years, and they had never seen interest rates do this.

They had never known a post-Reg Q world. So this was as new to them as it was to kids coming out of college. So, were bank regulators caught flat-footed by the eighties? Absolutely! So the Penn Square deal—you read *Belly Up* and *Funny Money* and just the general history of Penn Square, and you say, "How the heck could this have happened?" Back to all these same points! Nobody had seen commodity prices—not in the United States. In Germany and Argentina and some other places around the world, in the past hundred years, you have seen hyper inflation. But you haven't seen that kind of inflation, that kind of spike in interest rates, in the modern history of the United States. And so, if that says that not only banks, but the regulators that regulated the banks, and the customers that did business with the banks, and the guys like Bill Patterson who worked in the banks—It's so profound! And you put all that together, and you look at where we are today, or even look at where banking was by the early 1990s, and then you start seeing the influence of the Internet, and PCs that already started in the late seventies. But the y didn't have a profound influence on banking until all this other stuff had gone by. Did the Internet have a huge influence? Absolutely! But that's 1990. By 1990 or '91, the landscape of the banking world in this country and beyond had just changed enormously.

And now I'm repeating myself! But I am only doing so because this is just so profound, and BancFirst was lucky, and they were good. I'd say Gene was good, and then he was lucky—he was good and lucky!—then he got unlucky, and then he got really lucky again when he talked David into coming home. And David was good, and a little bit lucky.

MJH: This has been great. I take all these notes, because it helps me to get oriented, and I do a written transcription of this thing.

Laughter…

TL: It will look pretty dysfunctional on a transcript!

I have tried to rattle through kind of quickly, because I knew you were recording. If I thought you were just taking notes, I would have talked a lot more slowly. But I thought, since you're recording, I'll try to give you the two or three hour version in an hour.

MJH: That's pretty well done. I am impressed. Thank you!

Turned off recorded, turned it back on for one more anecdote about Morrison Tucker…

TL: …the United Oklahoma Bank failed in 1987. One of his other banks, Union Bank, also failed. Morrison Tucker was sued by the FDIC for an improper loan from the United Oklahoma Bank to the Union Bank. Have I told you this anecdote?

MJH: No, but I have read it.

TL: The FDIC and Morrison Tucker's lawyer both politely told me they wanted to depose me over that deal. And I said, "I don't want to, but I understand legally you can. Whichever one of you deposes me, I intend to be a hostile witness. I just don't want to be a part of it. You're trying to blame a guy for all kinds of things—did he do some stuff wrong? Sure. But we all do."

Well, the FDIC did depose me. And the FDIC's attorney started the deposition. And Morrison Tucker was there. He started the deposition—and admittedly, this was a little arrogant on my part, but it was also truthful, but I was kind of showing off, because I knew some details that I knew that nobody else in the room would know.

The attorney started and he said, "Mr. Loy, do you understand what we are here for?"

And I said, "Yes."

"We're talking about the loan made from United Oklahoma Bank to the Union Bank shortly before Union Bank failed, which means the loan was a total write off for the United Oklahoma Bank, and then United Oklahoma Bank failed. So we are suing Mr. Tucker for an improper loan made under Section 23A of the Federal Reserve Act. Are you familiar with the loan?"

"Yes."

"Are you familiar with Section 23A of the Federal Reserve Act?"

"Yes."

"Did you ever tell Mr. Tucker that this loan should not have been made?"

"Yes."

"Why did you tell him it should not be made?"

"Because I told him it was a violation of Section 23A of the Federal Reserve Act."

And he said, "Would you agree that the loan that the United Oklahoma Bank made to the Union Bank was the first domino in a series of dominoes that led to the failure of the United Oklahoma Bank?"

I said, "No, I disagree."

And he said, "If not then, do you think there was some other first domino?"

And I said, "Yes."

And he said, "Okay, what would that be?"

And I said, "Paul Volcker's changing of monetary policy on September 6, 1987."

Laughter…

Or excuse me, 1979.

This deposition was going on in, probably, 1988 or 1989, so this was 10 years after the Volcker change.

The attorney had no idea what I was talking about, and I strongly suspected that he wouldn't, so he said, "Okay, I don't know what you're talking about. Explain."

So I gave him about a ten-minute description, summarizing some of the things I told you. Actually, it was probably more than 10 minutes. But it was pretty fast, and more succinct than I gave you. But it was spontaneous, and I was pretty proud of myself when I read the deposition. I said, "That wasn't too bad!" Because I basically said, "Banking changed in the 1980s, and it changed because of these things that we just talked about: Oil embargo; inflation; interest rates skyrocketing. And I said, "Paul Volcker solved the inflation and hyper interest rate rising problem and started in 1979. But to do so, he had to exacerbate the problem until the investment universe saw that he was serious. He was going to raise rates, continually, until we got a handle on inflation."

It took interest rates into the 20s! And I said, "That just profoundly changed the Reg Q world that banks lived in." So I said, "Either the first domino is the first OPEC meeting in the early or mid-seventies, or it's October 6"—did I say September?—I meant "October 6, 1979. I think that was the first real domino." And I said, "If it is not now obvious to you, therefore, the loan from United Oklahoma Bank to Union, which I agree was a 23A violation, but I also see Morrison Tucker's point as to why he believed then, and believes today, that maybe there is some room for interpretation there. I clearly thought it then, and I think now it was a 23A violation. I understand why you are accusing him of that, but I would not agree with you that that is what caused the fall of United Oklahoma Bank. Nor was it even a significant domino. It was just one of many things that happened in this giant maelstrom or perfect storm."

MJH: What a good story! Was he successfully sued? What happened?

TL: I never heard the details, because they were not made public. I assume they settled. That's what it looked like. Morrison Tucker sold his house, and he and his wife moved into an apartment. I think he gave up most of his personal liquid assets, to settle. The Fed had a direct case against him. I did him the best I could be saying it might be subject to interpretation. But Bill Johnson quit over that loan. He resigned. I said, "I'm not going to resign, because I don't believe in abandoning ship. Nor do I believe in Bill abandoning ship." He was CEO, and I was CFO, and I said, "I think Bill was factually correct. As to whether he should quit or not, that's his choice. For me, I choose to stay, but I am telling you, Mr. Tucker, that is was a 23A violation." And he said, "No, it's not." And we had an argument. Because of that, the Fed had him dead to right. I don't what the settlement was. I know he lost his house.

End