CHAPTER 1

Overview

Part I of this publication, Resolution and Asset Disposition Practices, detailed the processes used by the Federal Deposit Insurance Corporation (FDIC) and the Resolution Trust Corporation (RTC) in resolving failing banks during the banking crisis of 1980 through 1994. Part II, Case Studies of Significant Bank Resolutions, presents case studies of the 10 most notable problem banks to illustrate some of the FDIC's resolution processes. The case studies also show the effects on the FDIC of changes in banking legislation in the 1980s and 1990s. Although a representative sample of problem banks was selected, three of the case studies involve banking entities in Texas because that portion of the country suffered most from the banking crisis. The bank studies (see table II.1-1) are presented in chronological order.

Structure of the Case Studies

Because the individual financial institutions selected for the case studies were unique in both their characteristics and their resolutions, it was neither possible nor logical to present all of the case studies in the same format. Certain information, however, is important for each study, and all information is presented essentially in chronological order.

Each case study begins with an Introduction that explains what is unique about the bank and its resolution and why it was chosen for this publication. A General Description of the bank follows the Introduction, and after that a Background section on the events or activities that got the bank into trouble.

Following the Background, each case study provides information about the resolution process itself and may discuss the marketing, bidding, and bid selection for the bank. There may be a discussion of the Structure of the Transaction. Portions of each study will discuss Shareholder Litigation (if any), the Stock Transactions (for those resolutions in which the FDIC provided capital assistance), and the FDIC's Resolution Costs. Each case study ends with a discussion of the Lessons Learned from the resolution and the resultant Effect on Future Resolutions.

Resolutions

To fully appreciate the case studies, it is necessary to understand that the powers and tools available to the FDIC in resolving failing bank situations were quite limited when the banking crisis began. Gradually, as the banking crisis proceeded, the FDIC received expanded powers through new legislation.

Table II.1-1.

Significant Bank Resolutions

($ in Millions)

Chapter	Name of Financial Entity and Location	Short Name	Total Assets	Resolution Cost	Resolution Date	Key Issues
2	First Pennsylvania Bank, N.A. Philadelphia, Pennsylvania	First Penn	$7,953	$0	04/28/80	First large open bank assistance
3	Penn Square Bank, N.A. Oklahoma City, Oklahoma	Penn Square	517	65	07/05/82	Largest payoff at that time
4	Continental Illinois National Bank and Trust Company, Chicago, Illinois	Continental	33,633	1,104	05/17/84	Largest bank ever resolved
5	First City Bancorporation of Texas, Inc. Houston, Texas	First City	11,200 and 8,852	1,069 and $0	04/20/88 and 10/30/92	Open bank assistance; bridge banks
6	First RepublicBank Corporation Dallas, Texas	First Republic	33,448	3,856	07/29/88	Open bank assistance; bridge banks
7	MCorp, Dallas, Texas	MCorp	15,749	2,840	03/28/89	Bridge bank
8	Bank of New England Corporation Boston, Massachusetts	BNE Corp.	21,754	889	01/06/91	Cross guarantee; bridge bank
9	Southeast Banking Bancorporation Miami, Florida	Southeast	10,478	0	09/19/91	First large loss sharing
10	Seven Failing Banks in New Hampshire Various Cities, New Hampshire	The New Hampshire Plan	4,377	891	10/10/91	Unique resolution strategy
11	CrossLand Savings, F.S.B. Brooklyn, New York	CrossLand	7,269	740	01/24/92	Conservatorship; stock sale
	Totals		**$155,230**	**$11,454**		

In the early 1980s, the FDIC used open bank assistance (OBA) to resolve some of the larger problem banks that were in danger of failing. First Penn, described in Chapter 2, describes the successful use of OBA that resulted in no cost to the bank insurance fund. Another example of OBA is demonstrated in Chapter 4, Continental, the most controversial resolution in the case studies. From that transaction arose the theory of "too big to fail" and fears about inequities in the resolution process, as well as concerns about "nationalization" of banks. Chapter 5 discusses an unsuccessful open bank assistance package to First City, a bank that later failed. Chapter 6, First Republic, illustrates an interim assistance package provided to keep the holding company's banks open until a more permanent resolution could be completed.

The Garn–St Germain Depository Institutions Act of 1982 gave the FDIC the ability to solicit out-of-state buyers in emergency failing bank situations. This legislation was important in several resolutions, particularly in the large failure situations in Texas, where the local economy had made qualified buyers scarce. See Chapter 6, First Republic, and Chapter 7, MCorp.

The Competitive Equality Banking Act of 1987 gave the FDIC the important resolution authority to establish a bridge bank. A bridge bank allows the FDIC time to evaluate the institution to prepare for a P&A transaction and invite potential purchasers in to perform due diligence reviews of the bank's records to prepare their bids. The FDIC's first large bridge bank was established to complete the resolution of First Republic, which is described in Chapter 6. Bridge banks also were used to resolve other large banks, as described in Chapter 5, First City; Chapter 7, MCorp; and Chapter 8, BNE Corp.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 gave the FDIC cross guarantee authority, which allows the FDIC to assess other banks in a holding company for the costs of resolving a failing bank within that holding company. This cross guarantee authority was used in the resolution of the failing banks of First City, as discussed in Chapter 5, and BNE Corp. in Chapter 8.

Chapter 3 relates the story of Penn Square, a failed bank for which the FDIC paid off the insured depositors because of a large number of contingent liabilities, and which was the largest payoff at that time. The FDIC's first loss sharing agreement was in the resolution of Southeast, discussed in Chapter 9. Chapter 10, The New Hampshire Plan, describes how the FDIC addressed the resolution of seven banks that all failed on one day in the same state, using a new transaction structure by grouping and selling the seven banks as two separate franchises. Chapter 11, CrossLand, is the account of another departure from the FDIC's usual practice, where the FDIC placed a failed mutual savings bank in a pass-through receivership and created a new savings bank that the FDIC operated for 18 months.

Assets

On a number of these large banks, the FDIC used outside asset management firms to work out the problem loans acquired. Chapter 4, Continental, describes the FDIC's first use of a contractor to work the FDIC's assets. Several of the other chapters discuss the evolution of the FDIC's use of asset management firms. See Chapter 6, First Republic; Chapter 7, MCorp; Chapter 8, BNE Corp.; and Chapter 10, The New Hampshire Plan.

As the crisis deepened, it became apparent that whenever the FDIC took ownership of a failed institution's assets, it bore all the risks and expenses of liquidation. To alleviate this situation, the FDIC developed loss sharing, an important asset disposition process. Loss sharing is discussed in Chapter 5, First City; Chapter 9, Southeast; Chapter 10, The New Hampshire Plan; and Chapter 11, CrossLand.

Liabilities

The effect of bank resolutions on an institution's general creditors, shareholders, debt-holders, and management staff is discussed in each of the case studies. In three of the studies, the FDIC issued explicit statements fully protecting depositors. Those situations are reviewed in Chapter 4, Continental; Chapter 5, First City (1988); and Chapter 8, BNE Corp.

Equity

Except for the resolutions of Penn Square, in Chapter 3, and the First City banks (1992), in Chapter 5, the FDIC provided cash infusions into all the banks in exchange for equity positions. The details on the stock transactions, along with the overall costs to the insurance fund of each resolution, are included in each of the studies. In only one instance did the FDIC fail to recover 100 percent of its investment; see Chapter 5, First City (1988). Chapter 9, Southeast, and Chapter 10, The New Hampshire Plan, depict the FDIC's use of capital injections specifically to increase the pool of potential bidders.

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