



CHAPTER 4

Continental Illinois National Bank and Trust Company

Name of Institution:	Continental Illinois National Bank and Trust Company
Headquarters Location:	Chicago, Illinois
Date of Resolution:	May 17, 1984
Resolution Method:	Open Bank Assistance Transaction

Introduction

The Continental open bank assistance transaction is the most significant bank failure resolution in the history of the Federal Deposit Insurance Corporation (FDIC). Continental Illinois National Bank and Trust Company (Continental), Chicago, Illinois, received interim financial assistance from the FDIC on May 17, 1984, and received permanent financial assistance on September 26 of the same year. Continental is the single largest bank ever to require financial assistance from the FDIC in the history of the United States; but it was also noteworthy for several other reasons. First, the FDIC made a public statement before a final resolution, guaranteeing that all depositors and other general creditors would suffer no loss. Second, the FDIC took a significant ownership position in the bank holding company, effectively making Continental a government-owned bank. Third, Continental was the first assisted bank in which the assets acquired by the FDIC were serviced by the bank itself under a separate servicing agreement. Finally, the Continental open bank assistance transaction affirmed for many the notion that certain banks were simply “too big to fail.”¹

1. Most of the institutions considered “too big to fail” were actually closed, with shareholders generally losing their entire investments. The “too big to fail” designation came about because these troubled institutions were resolved by paying off both their insured and uninsured depositors, so that no depositors, or other creditors with the same priority as depositors, lost money.

General Description of the Bank

Continental, a subsidiary of Continental Illinois Corporation (CIC) since the organization of the holding company in 1969, had been in business for more than 124 years and had been assisted in 1933 by the Reconstruction Finance Corporation (RFC) because of an over-investment in utilities loans and out-of-territory lending.² During the two decades before its resolution in 1984, Continental had become an institution striving for growth. During that period, the bank developed extensive international operations; established internal divisions to render specialized services to the bank's oil, utility, and finance company customers; and developed a separate real estate department to make commercial and home loans. Continental also established a large network of correspondent banking relationships in the United States and throughout the world. At its peak in 1981, the bank ranked sixth among multi-national banks and was the largest domestic commercial and industrial lender, employing more than 12,000 people. With approximately \$40 billion in assets, Continental was, as of March 31, 1984, the largest bank in Chicago and the seventh largest bank in the United States, in both assets and deposits. In May 1984, Continental had 57 offices in 14 states and 29 foreign countries.³

Background

Continental had been aggressively pursuing a growth strategy since the late 1970s. By 1981, Continental was the largest commercial and industrial (C&I) lender in the United States. Between 1976 and 1981, Continental's C&I lending jumped from approximately \$5 billion to more than \$14 billion, and total assets grew from \$21.5 billion to \$45 billion. Continental's loans-to-assets ratio increased from 57.9 percent in 1977 to 68.8 percent by year-end 1981; its return on assets (year-end net income divided by year-end assets) stayed at 0.5 percent during the same period, while the return on equity (year-end net income divided by year-end equity) was 14.4 percent.⁴

Indications of Continental's developing problems surfaced in 1982 with the closing of Penn Square Bank, N.A. (Penn Square), Oklahoma City, Oklahoma.⁵ Continental was the largest participant in oil and gas loans at Penn Square and experienced large losses on those participations. Not only were the loans poorly underwritten, there was a clear indication that Continental had not conducted appropriate due diligence on the loans purchased. Continental's own loan portfolio was also experiencing problems, particularly in the energy

2. Irvine H. Sprague, *Bailout* (New York: Basic Books, 1986), 232.

3. United States General Accounting Office, Staff Study, "Financial Crisis Management: Four Financial Crises in the 1980s," GAO/GGD-97-97 (May 1997), 35.

4. FDIC, *History of the Eighties—Lessons for the Future*, vol. 1, *An Examination of the Banking Crisis of the 1980s and Early 1990s* (Washington, D.C.: FDIC, 1997), 236.

5. See Chapter 3, Penn Square Bank, N.A., for more information.

sector. In the second quarter of 1982, after Penn Square failed, Continental reported \$1.3 billion in nonperforming loans and other assets, including participations purchased.⁶

Because Continental had aggressively pursued C&I lending, it had little retail banking business and relatively small total core deposits. It relied primarily on federal funds and large certificates of deposits (CDs) purchased in the secondary market. When Penn Square failed, Continental found itself unable to fund its domestic operations from domestic markets and turned to foreign money markets at higher rates.

In 1982, stock analysts downgraded their earnings estimates on Continental, and its share price dropped nearly 62 percent from its peak the year before.⁷ In addition, the major rating agencies downgraded the bank's credit and debt ratings. Continental had also made significant loans to the less-developed countries (LDC) and was hurt by Mexico's default on its obligations in 1982.⁸ In 1983, two of Continental's major shareholders sold all their Continental stock.⁹

Continental's asset quality and declining income problems continued through 1983 and into 1984. At the end of the first quarter of 1984, Continental's nonperforming loans had increased to \$2.3 billion, due in large part to troubled LDC loans.¹⁰ Its positive net income of \$29 million was derived solely from the \$157 million sale of its credit card business to Chase Manhattan Bank. By April 1984, Continental's share price had dropped again.

Large foreign depositors became nervous after hearing rumors of Continental's imminent failure, and, in May 1984, began a high-speed electronic deposit run on the bank. The run may have been triggered by U.S. investment banking firms, acting on their own, making inquiries in Japan to see if there were any banks interested in taking over Continental. What is certain is that banks in the Netherlands, West Germany, Switzerland, and Japan had increased their rates on loans to Continental. Reuters, the British news agency, picked up that information and put it on its news wire on Tuesday, May 8, 1984. When a second news story came out on Wednesday, May 9, from Commodity News Service that a Japanese bank was considering buying Continental, Japanese and European money was quickly withdrawn. Foreign bankers withdrew more than \$6 billion before May 19. In the U.S., the Chicago Board of Trade Clearing Corporation withdrew \$50 million on or about May 9; word of the withdrawal hit the wire services, and a deposit run ensued.¹¹

By Friday, May 11, Continental's borrowings at the Federal Reserve Bank of Chicago (Federal Reserve) discount window to make up for its lost deposits had reached \$3.6 billion.

6. FDIC, "Report on Continental Illinois" (FDIC, 1985), 12.

7. FDIC, *Lessons for the Future*, 241.

8. FDIC, *Lessons for the Future*, 241.

9. FDIC, *Lessons for the Future*, 243.

10. FDIC, *Lessons for the Future*, 243.

11. Sprague, *Bailout*, 152-153.

By Monday, May 14, the bank announced that it had put together a private funding line of almost \$5 billion from 16 of the nation's largest banks, led by Morgan Guaranty Trust Company of New York. The following lines appeared in an article in the *American Banker*, with a London, England, dateline:

The old-fashioned run on a bank by retail depositors has, on the whole, become a phenomenon of the past because of the safeguards erected over the last half-century. However, the phenomenon of a run on a bank in the Euromarkets is a new challenge for banks, supervisors, and central banks as lenders of last resort.¹²

The Resolution

The resolution of Continental comprised a two-step process involving interim financial assistance initially and permanent financial assistance four months later.

Interim Solution—May 17, 1984

On Tuesday, May 15, the FDIC met with the Federal Reserve and the Office of the Comptroller of the Currency (OCC) to discuss alternatives for working with Continental. Continental's insured deposit accounts totaled only about \$3 billion; its uninsured deposit accounts and other creditor claims totaled more than \$30 billion. Former FDIC Chairman Irvin H. Sprague recalled later, "At first glance, a payoff might have seemed a temptingly cheap and quick solution. The problem was there was no way to project how many other institutions would fail or how weakened the nation's entire banking system might become."¹³ The risks involved in Continental's potential failure extended beyond the bank itself. They included a potential liquidity crisis for other banks with significant foreign deposits, a decrease in foreign investor confidence in U.S. institutions, a severe blow to the unaffiliated depositor banks, and a negative effect on financial markets in general. Many small banks had correspondent bank accounts and federal funds sold to Continental, placing those funds at risk should Continental fail. For the FDIC, permitting Continental to fail and then paying off only the insured depositors (as had happened in Penn Square two years earlier) was not considered to be a feasible option. With more than \$30 billion in uninsured deposits, a liquidity failure would have occurred without FDIC assistance; such a failure could have caused other bank failures and tied up creditors in bankruptcy for years.

In addition to its funding problems, Continental had billions of dollars of troubled loans and many outstanding lawsuits. Those loans and legal entanglements were draw-

12. M.S. Mendelsohn, "Continental Seen as Biggest Banking Setback Since 1931: Run Was the First Instance of Large-Scale Withdrawals of Credit Lines in the International Interbank Market," *American Banker* (May 21, 1984), 1.

13. Sprague, *Bailout*, 155.

backs to attempts to attract a merger partner for Continental. Given the complexity of the problem and the liquidity crisis at hand, there may not have been enough time to structure a merger transaction, even if a potential merger partner had been interested.

Only one alternative remained: to provide Continental with open bank assistance. The FDIC's authority to provide open bank assistance, which the FDIC used in the 1980 near-failure of First Pennsylvania Bank, N.A. (First Penn), had been expanded by the Garn–St Germain Depository Institutions Act (Garn–St Germain) of 1982.^{14,15} Before Garn–St Germain was passed, the FDIC was required to deem a bank “essential” to its community before it could provide assistance. The new legislation eliminated the essentiality test except in instances in which the cost of open bank assistance would exceed the estimated cost of liquidating the institution.

The decision was made to continue funding Continental at the Federal Reserve discount window, and to try to forestall further runs by the injection of cash (in the form of a subordinated note purchase) from the FDIC. On Thursday, May 17, 1984, in a joint press release with the Federal Reserve and the OCC, the FDIC announced that Continental would be provided with interim assistance, which had the following components:¹⁶

- The FDIC issued an explicit guarantee that all depositors (insured and uninsured) and other general creditors of Continental would be fully protected and that service to the bank's customers would not be interrupted in any subsequent resolution.¹⁷
- The FDIC asked a group of seven commercial banks to provide a \$2 billion interim capital infusion through a subordinated note purchase. Four years earlier, 27 large commercial banks had participated in the assistance provided to First Penn to demonstrate the banking community's faith in the bank's recovery. Therefore, seven of the nation's largest banks agreed to share equally in \$500 million of the \$2 billion interim capital infusion.¹⁸ The FDIC provided the remaining \$1.5 billion in subordinated debt. Continental accepted FDIC restrictions

14. For more information, see Chapter 2, the case study of First Pennsylvania Bank, N.A.

15. The Garn–St Germain Act was comprehensive legislation that brought about major changes in federal laws governing the activities of financial institutions. Among the many provisions of the act, two were drafted specifically to enhance the FDIC's failed-bank resolution capabilities. The first dealt with open bank assistance, and the second authorized the Net Worth Certificate Program.

16. Comptroller of the Currency, Federal Deposit Insurance Corporation, and Federal Reserve Board, *Joint News Release* (May 17, 1984).

17. The bankers requested some guarantee statement, expressing concern that depositors might not understand that the large subordinated note virtually committed the FDIC to a transaction other than a deposit payoff, which meant that all depositors would be paid in full.

18. The seven banks were Bank of America National Trust and Savings Association (San Francisco, Calif.), Bankers Trust Company (New York, N.Y.), The Chase Manhattan Bank (New York, N.Y.), Chemical Bank (New York, N.Y.), Citibank, N.A. (New York, N.Y.), Manufacturers Hanover Trust Company (New York, N.Y.), and Morgan Guaranty Trust Company of New York (New York, N.Y.). Other banks subsequently purchased participations in the loan from the FDIC. FDIC, “Report on Continental Illinois,” working paper (1985), Part 2, 3.

related to hiring, replacement, or removal of members of senior management and of Continental's board of directors, as well as to general control of the bank. CIC, Continental's holding company, guaranteed that under certain circumstances assets in the holding company would be used to repay the FDIC.

- To further augment the financial resources available to Continental, a group of 24 major U.S. banks agreed to provide more than \$5.5 billion in funding on an unsecured basis throughout the period during which a permanent solution was developed. The agreement was arranged between Continental and the group of commercial banks for which Morgan Guaranty Trust Company of New York acted as agent. Without the FDIC's explicit guarantee to depositors and general creditors of Continental, that line of credit likely would not have been available.

Senate Banking Committee Chairman Jake Garn (R-Utah) was quoted as saying that the FDIC arrangement for a short-term funding package to assist Continental represented both a concern and a relief: "a concern because such a significant institution has experienced a funding problem and a relief because the doctor has arrived with the medicine."¹⁹ Senator Garn likened the situation to that of First Penn, which was rescued in a similar fashion by the FDIC in 1980. He said that First Penn "ended up better able to service corporate and individual customers" and he hoped the assistance to Continental would "result in a similar recovery in a shorter period of time."²⁰

After the interim solution was in place, the FDIC tried to locate either private investors willing to buy or merge with the bank without FDIC assistance or a partner that would merge with Continental with FDIC assistance. Three of the nation's largest banks sent teams into Continental to review its condition and assess merger possibilities. Continental itself tried to find a merger partner. Foreign banks showed no interest, and investment bankers tried but failed to put together a satisfactory transaction. No serious merger partner or private investor group was found that was willing to acquire Continental at a reasonable price. The various potential acquirers all cited nonperforming loans (including LDC debt), substantial litigation, funding shortfalls, and interstate branching restrictions as problems hindering a merger. During the same time, deposits continued to flow out of Continental, worsening its liquidity problem.

Permanent Solution—September 26, 1984

As Senate Banking Committee Chairman Garn stated, in dealing with Continental the FDIC faced a situation much like that of First Penn. Both banks were large institutions with heavy correspondent relationships, and a payoff of either institution would have had

19. John Morris and Lisabeth C. Weiner, "US Rescues Continental Illinois Corp.," *American Banker* (May 18, 1984), 1.

20. Morris and Weiner, "US Rescues Continental Illinois Corp.," 1.

serious adverse consequences for unaffiliated depositor banks. Both banks had significant amounts of nonperforming loans and other assets. First Penn's nonperforming loans totaled \$328 million, and Continental's nonperforming loans and other assets totaled \$5.2 billion. Both institutions presented the FDIC with the possibility of having to make large cash outlays in the event of a payoff: \$5.3 billion for First Penn and \$3 billion for Continental. In both cases, the FDIC would have been required to take into the receivership a large amount of loans for liquidation if a payoff had occurred. Had the FDIC paid off First Penn, it would have acquired \$8 billion in assets; and had it paid off Continental, it would have acquired more than \$30 billion in assets. At the time of the assistance from the FDIC, both institutions were experiencing deposit runs and were borrowing heavily from the Federal Reserve. In both cases, merger partners were sought, but none could be found. Therefore, both banks applied to the FDIC for open bank assistance.

Differences existed between the institutions, however. First Penn's problems were fairly straightforward, being caused initially by the bank's heavy investment in long-term government securities before a period of rising interest rates. Given time, along with assistance and oversight by the FDIC, the situation at First Penn stabilized and the bank returned to profitability. Continental's troubles, however, resulted from its deteriorating loan portfolio caused by high-risk lending. The full extent of the losses was not clear when assistance became necessary.

Given the lack of a merger partner and the undesirability of a deposit payoff, the FDIC viewed open bank assistance as the only viable solution to the Continental problem. It held discussions with Continental officials to work out the terms of the permanent assistance agreement. They had many issues to resolve: (1) Problem loans had to be removed from the bank to stem its losses; (2) provisions had to be made for funding the bank's operations, including arrangements necessary for its future borrowing from the Federal Reserve; (3) the bank's capital had to be increased; and (4) Continental had to strengthen its management staff and board of directors.

The issue of the holding company debt complicated any assistance plan. Some of the debt instruments required debtholder approval to sell CIC's principal asset, which was Continental. Covenants in the debt instruments prevented infusions of capital into the bank from outside the holding company without the approval of debtholders. Those covenants precluded the FDIC from taking a stock position in the bank, which would dilute CIC's ownership interest in the bank. The debt instruments were widely held around the globe; overseas investors held some of the bonds, and some of the bonds were bearer bonds. Debtholder approval of a transaction giving FDIC stock in the bank would have been difficult, if not impossible, to obtain. Therefore, the assistance would have to be provided to the holding company rather than to the bank itself.

In a payoff or a purchase and assumption (P&A) transaction, the holding company's shareholders would have received nothing or nearly nothing. The FDIC believed that the shareholders' interests should be treated similarly in any assistance package. CIC shareholders did hold some leverage, however, because the assistance would be provided directly to the holding company, which required their approval.

CIC's debtholders were in a much stronger position than were its shareholders. CIC had \$300 to \$400 million in deposits in Continental and a similar amount of commercial paper obligations. As CIC's debt matured, its deposits in Continental were drawn down to pay off the obligations. In that sense, the long-term debtholders and other holding company creditors were fully covered, because the interim assistance agreement specified that all deposits in Continental would be fully protected.

In July 1984, the FDIC, along with Continental officials, the U.S. Treasury, the OCC, and the Federal Reserve, developed a plan to provide permanent assistance to CIC to resolve the institution. The required approval of the shareholders of Continental's holding company was received at a special meeting in September, and the permanent assistance was put into place on September 26, 1984.

The permanent assistance program required changes in the bank's senior management. A new chairman of the board and a new chief executive officer were named. The program, which also called for substantial financial aid that flowed through CIC to the bank, included the following components:²¹

- The FDIC assumed \$3.5 billion in debt from Continental to the Federal Reserve Bank of Chicago.
- In exchange for the FDIC's assumption of the Federal Reserve debt, Continental transferred assets with an adjusted book value of \$3.5 billion (transferred loans) to the FDIC. On Continental's books, those assets had a book value of \$4.5 billion and an unpaid legal principal balance of \$5.2 billion. The assets were transferred to the FDIC in two parts, as follows:
 - The FDIC received a package of nonperforming, classified, or otherwise poor-quality loans with a book value of \$3 billion. The unpaid legal principal value was \$3.7 billion, because \$700 million in assets already had been charged off by the bank. For transaction purposes, those assets were valued at \$2 billion (their adjusted book value). The \$1 billion difference between the \$3 billion book value and the \$2 billion adjusted book value required the bank to take a charge of \$1 billion against its capital.
 - Continental also gave the FDIC a note for \$1.5 billion. The note was to be repaid at any time within three years by giving the FDIC additional loans of Continental's choice with a book value of \$1.5 billion, which would increase the adjusted book value of the assets transferred to the FDIC to \$3.5 billion.
 - To offset the \$1 billion charge to capital required by the loan sale, the FDIC infused \$1 billion in capital into the bank by purchasing two separate preferred stock issues in CIC, which was then required to downstream the \$1 billion to Continental as equity. The two components of the FDIC's \$1 billion capital infusion were as follows:

21. Terms of the permanent assistance agreement are taken from FDIC, *1984 Annual Report*, 28-29.

- The FDIC purchased a \$720 million issue of permanent, nonvoting, junior perpetual preferred stock (32 million shares at \$22.50 per share). The preferred stock was convertible upon sale to a third party into 160 million shares of common stock of CIC, giving the FDIC effective control over 80 percent of the common stock.²² No preferred dividends would be paid unless dividends were declared on the common stock. If the holding company declared a dividend on its common stock, it also would be required to pay the FDIC dividends on the 160 million shares underlying the convertible preferred stock.
- The FDIC also purchased a \$280 million issue of permanent, adjustable-rate, cumulative preferred stock (11.2 million shares at \$25 per share) of the parent holding company, CIC, callable at CIC's option. Dividends were to be indexed to the interest rates of U.S. Treasury notes. During the first three years, the dividends could be paid in cash or in additional adjustable-rate preferred stock.
- Under the terms of a restructuring plan approved by CIC shareholders, Continental Illinois Holding (CIH) was formed for the purpose of subjecting the equity interests of existing CIC shareholders to an option granted to the FDIC under the plan. The FDIC option, as it was called, was designed to compensate the FDIC for losses incurred on transferred loans. The 40.3 million outstanding shares of CIC were acquired by CIH through a merger in which each CIC common share was converted into one share of CIH, subject to the FDIC option. The stock was to remain in the holding company for five years. At the end of five years, a determination would be made to assess the FDIC's loss under the loan purchase arrangement. If the FDIC suffered loss under the loan purchase agreement, or in the carrying costs and cost of collection, the FDIC could exercise its option rights in proportional amounts according to the amount of that loss. The purchase price was to be calculated on the basis of one share of stock for every \$20 of the FDIC's loss. If the losses exceeded \$800 million, the FDIC would have the option rights to acquire 100 percent of the 40.3 million shares for a nominal price (\$0.00001 per share). That provision was commonly referred to as the "make whole" arrangement. If the FDIC did not incur losses under the loan purchase agreement, any remaining loans and other assets acquired under the loan purchase arrangement would be transferred back to the bank.²³
- All holders of CIC's other securities (debt and preferred stock) remained in their positions as holders of CIC (and not CIH) securities.
- The FDIC received certain protections under the assistance plan safeguarding its

22. The FDIC would have preferred dealing strictly at the bank level, but the holding company had outstanding indenture agreements that precluded a direct capital contribution into the bank.

23. FDIC, *1985 Annual Report*, 44.

ownership interest against potential dilution and its veto power over the nomination of any board member.

- The \$2 billion subordinated note to Continental from the FDIC and a group of commercial banks was repaid.
- The FDIC reaffirmed its guarantee that all depositors and other general creditors of Continental would be fully protected and service to bank customers would be uninterrupted.
- The FDIC was assigned any claims against present and former directors and officers, employees, and bonding companies and accounting firms for acts or omissions that occurred before the permanent aid package was implemented. Any recoveries on such claims would be credited to the loan purchase arrangement. The FDIC committed to provide additional capital or other forms of assistance if the permanent aid package proved insufficient for Continental.
- The assets purchased by the FDIC continued to be serviced by Continental employees with FDIC oversight. (See “The Liquidation,” below.) Repayment of the Federal Reserve debt by the FDIC was scheduled through quarterly remittances funded by the net collections on the purchased loans. Any shortfall at the end of five years was to be paid from the FDIC’s funds.

The FDIC’s assistance transaction with Continental was in many ways similar to the assistance it provided First Penn. Both transactions (1) required commercial banks to provide at least a part of the funds; (2) granted the FDIC some form of stock, warrants, or a combination to purchase stock; (3) were effective for a term of five years; (4) involved commitments for lines of credit from the Federal Reserve; (5) required the approval of holding company shareholders; and (6) required the bank to submit to FDIC oversight during the term of the assistance.

The primary difference in the transactions was that the FDIC acquired none of First Penn’s assets. All of First Penn’s assets remained with the bank. Another difference was in the cost to the FDIC. The assistance to First Penn was fully repaid, and the total cost to the FDIC was zero. The eventual cost of the Continental transaction was notably higher at \$1.1 billion, which was 3.28 percent of Continental’s total assets, a relatively low ratio considering the size of Continental.

The Liquidation

The size of the portfolio of troubled loans and other assets acquired from Continental (an adjusted book value of \$3.5 billion, with an unpaid legal balance of \$5.2 billion) was greater than the FDIC’s total inventory of assets for liquidation at year-end 1983 (\$4.3 billion book value). The FDIC had neither the staff nor the facilities to manage the

liquidation of such a large volume of assets. Many of the loans were international loans or were related to specialized businesses, such as energy and shipping. Servicing such loans required expertise that the FDIC liquidation staff did not have.

On September 26, 1984, the FDIC and Continental entered into a service agreement, under which Continental would liquidate the unpaid principal balance of \$5.2 billion that was transferred to the FDIC. The mix of assets was approximately 50 percent energy loans; 20 percent international shipping loans; 20 percent corporate, individual, and marketable securities; and 10 percent commercial mortgages and real estate development loans.

Under the terms of the agreement, the FDIC owned the assets, and Continental set up a special unit, the FDIC Asset Administration (FAA), to manage and dispose of the assets. As the assets were liquidated, the portfolio collections (gross collections minus the asset-related expenses that the FAA was permitted to pay) were applied as follows: First, cash was applied to expenses of administering the pool, which included the salaries of FDIC and FAA staff, plus overhead expenses associated with the portfolio; second, interest on the Federal Reserve debt was paid; and third, funds were applied to principal owed on the Federal Reserve debt.

The goal of the service agreement was to administer the transferred loans and maximize their net present value. Both the FAA staff and FDIC oversight staff were located in the offices of Continental. At its peak, the FAA had more than 250 employees. The FDIC oversight staff included specialists hired to oversee oil and gas loans, real estate loans, international lending, and other types of loans, plus accountants and attorneys to monitor the agreement.

The authority to approve asset disposition decisions was delegated to certain individuals within the FAA and to various levels of authority within the FDIC organization. The FAA had unlimited restructure, settlement, and sales authority, but limits were placed on its capital expenditures. The FAA had no authority to approve indemnifications, and the FDIC's oversight staff reviewed the FAA's asset disposition decisions to ensure that the FAA complied with the FDIC's policies and procedures, managed the FDIC's assets in an appropriate manner, and had accurate accounting systems and budgeting processes.

The FDIC paid for all asset-related expenses and overhead of the FAA, as well as for incentive compensation, which was based on a tiered scale.²⁴ Incentive fees were paid on the net recovery only, *after* interest was paid on the Federal Reserve debt. Continental paid bonuses to FAA professional staff; that expense was billed to the FDIC. Over the

24. The FAA was paid incentive compensation based on a tiered scale ranging from 0.6 percent to 2.25 percent of net collections. Compensation for the first tier was determined by 0.6 percent multiplied by the aggregate net collections between \$250 million and \$1 billion. The percentage increased incrementally through a total of four tiers to 2.25 percent of net collections between \$3 billion and \$4.5 billion. Effectively, the more money the FAA collected, the more incentive fees they earned, which increased their motivation and tended to align the interests of the servicer with those of the FDIC.

life of the contract, the FDIC paid \$8 million in incentive compensation to the FAA, or 0.35 percent of recoveries net of asset-related expenses and 0.62 percent of recoveries net of asset-related expenses and interest paid on the Federal Reserve debt.

Although the original servicing contract was for a five-year period, in the summer of 1988, Continental wanted to transfer FAA employees to other duties in the bank. Accordingly, the service agreement between the FDIC and Continental was terminated, and in October 1988, the FDIC assumed responsibility for the management and disposition of the remaining assets for the last 11 months of the five-year period of the permanent assistance plan.

The permanent assistance agreement with Continental expired on September 26, 1989, and collection proceeds during the term of the agreement totaled \$2.3 billion net of asset-related expenses. Approximately \$1 billion were applied to interest expense, and a \$1.3 billion payment was made on principal owed under the FDIC–Federal Reserve agreement. The collections were on \$4.3 billion of the \$5.2 billion unpaid legal balance of assets to be liquidated. The FDIC made the final payment for the indebtedness at the Federal Reserve of \$2.2 billion and later liquidated the remaining assets.

The service agreement with Continental was, in effect, the FDIC’s first asset management contract. Because the results of the agreement were considered favorable, the FDIC entered into other contracts with private-sector servicers for the management and disposition of FDIC assets in connection with future resolutions. The contracts generally were cost-plus contracts, with the FDIC also paying incentive fees based on net collections.²⁵

The Stock Transactions

The FDIC provided \$1 billion in capital to Continental by purchasing two separate preferred stock issues in CIC: (1) \$720 million of permanent, convertible, nonvoting, junior preferred stock (32 million shares at \$22.50 per share) and (2) \$280 million of permanent, adjustable rate, cumulative preferred stock (11.2 million shares at \$25 per share). Later, because of losses incurred on the transferred loans, the FDIC exercised its option and obtained an additional 10,080,089 shares of Continental Bank Corporation (CBC)—the former shareholders’ portion—for a nominal price of \$0.00001 per share of common stock.²⁶

Expressed interest in the banking community, and certainly at Continental itself, indicated that the FDIC should sell its equity position as soon as possible. Within the broader banking community was concern about potential competitive disadvantages in competing against “nationalized” banks. Within Continental, concern eventually developed about the

25. For additional information, see Part I, Resolution and Asset Disposition Practices, Chapter 14, Asset Management Contracting.

26. In 1988, the name of Continental’s holding company was changed from Continental Illinois Corporation (CIC) to Continental Bank Corporation (CBC).

potential competitive disadvantages of operating as a “nationalized” bank. A public policy question concerned the extent to which FDIC ownership positions were a desirable part of bank failure resolution transactions. The FDIC was interested in selling its ownership position, but not at just any price or necessarily immediately. The first sale of a portion of the FDIC’s stock position did not occur until two years after the original transaction. The FDIC did not divest itself entirely of its ownership position until mid-1991, seven years after the original assistance transaction. The FDIC consulted with outside financial advisors for recommendations on the timing and size of the various sales of the Continental equity position.

By November 1985, Continental had sufficiently recovered so that the FDIC authorized the bank to upstream \$60 million in earnings to CIC. The dividends paid on December 31, 1985, included \$14.6 million to the publicly held preferred stock and \$40.9 million to the FDIC-owned preferred stock. The private holders received cash; the FDIC received additional adjustable rate preferred shares in lieu of cash.²⁷ In March 1986, Moody’s Investor’s Services, Inc., upgraded the debt ratings of Continental.²⁸

In December 1986, the FDIC sold 10.5 million shares, or roughly one-third of its junior perpetual convertible preferred stock, for \$259.4 million.²⁹ Two years later, in December 1988, the FDIC sold approximately another third of its interest for \$277.2 million.³⁰ In August 1989, the FDIC sold 7.2 million shares of the junior perpetual convertible preferred stock for an additional \$216.9 million, leaving 3.3 million shares.³¹ On each sale of the convertible stock, the stock was converted to common stock at the time of sale. Also, in August 1989, the FDIC sold all 12.8 million of its adjustable rate preferred stock for \$272.8 million.³²

On October 24, 1989, because of the losses under the loan purchase agreement, the FDIC exercised its option and purchased from CIH all of its rights to 10.1 million shares of common stock in CBC (formerly CIC) at a price of \$0.00001 per share, a total of \$403, which eliminated any investment the CIH shareholders had in Continental’s holding company.³³ Those shareholders thus received no benefit from the FDIC’s assistance to Continental.³⁴

27. FDIC, *1985 Annual Report*, 45.

28. Sprague, *Bailout*, 211-212.

29. FDIC, *1986 Annual Report*, 44.

30. FDIC, *1988 Annual Report*, 51.

31. FDIC, *1989 Annual Report*, 92.

32. FDIC, *Equity Investment Portfolio, Bank Insurance Fund* (December 31, 1993), 13-14.

33. Although there were originally 40.3 million shares in CIC, there was a 4-for-1 reverse stock split on December 12, 1988, which resulted in the total outstanding shares held by CIH being reduced to 10.1 million.

34. At the time of the permanent assistance transaction, the current shareholders of CIC were issued a transferable right to acquire, on a pro rata basis, approximately 40 million shares of CIC at the benchmark market price of \$4.50 per share if they exercised that right within 60 days of the effective date of the transaction, or at \$6 per share if they exercised that right during the subsequent 22 months. The rights and shares issued under this offering were not subject to the “make whole” provisions of the loan purchase agreement.

On June 6, 1991, the FDIC's remaining 3.3 million shares of the junior perpetual convertible preferred stock were also converted to CBC common stock, bringing the FDIC's total shares in CBC to 14.2 million.³⁵ On the same day, the FDIC then sold all its shares of CBC common stock in two transactions for \$173.9 million. Approximately \$50.1 million of the proceeds can be attributed to the converted junior perpetual convertible preferred stock.³⁶

The June 1991 sale completed the return of Continental to private ownership and produced a net gain to the FDIC of \$200 million in excess of the \$1 billion capital investment originally provided to Continental. Dividend income on the stock amounted to an additional \$202.2 million.³⁷ A summary of the stock transactions is included in table II.4-1.

FDIC Resolution Costs

The FDIC's maximum financial commitment in Continental's open bank assistance transaction was \$4.5 billion. The commitment consisted of two parts: (1) \$3.5 billion in debt that the FDIC assumed from Continental to be repaid to the Federal Reserve and (2) a \$1 billion capital contribution. In return for that financial commitment, the FDIC received the following: (1) \$3.5 billion (adjusted book value) in assets, (2) \$1 billion in preferred stock, and (3) the option to purchase all the former shareholders' common stock in the holding company at a nominal price should the FDIC suffer sufficient losses.

The FDIC did not realize the full \$3.5 billion adjusted book value from the assets in liquidation. After paying interest of \$1 billion on the Federal Reserve debt and collection expenses on the service agreement of \$176 million, about \$1.3 billion in proceeds during the term of the service agreement were used to pay down the principal on the Federal Reserve debt. After paying the remaining \$2.2 billion in debt with its own funds and then partially reimbursing itself from collections on the remaining assets, the FDIC was left with a \$1.5 billion net deficit position.

From an accounting perspective, the sale of the FDIC's equity positions reduced the deficit from \$1.5 billion to \$1.3 billion. A \$1 billion preferred stock original investment was sold for about \$1.2 billion. The loss on the FDIC's books was further reduced from \$1.3 billion to the final \$1.1 billion figure by factoring in approximately \$200 million in dividends received by the FDIC. The \$1.1 billion loss figure represents 3.28 percent of Continental's assets at the time of resolution. Although in a present value context the loss is somewhat higher, in the period of time over which the various stock proceeds

35. FDIC, *Equity Investment Portfolio, Bank Insurance Fund*, 13-14.

36. FDIC, *Equity Investment Portfolio, Bank Insurance Fund*, 13-14.

37. FDIC, *Equity Investment Portfolio, Bank Insurance Fund*, 13-14.

Table II.4-1

Summary of the FDIC's Stock Transactions in the Continental Permanent Assistance Plan

Date	Transaction	Beginning Number of Shares	Shares Sold, Written Down, Converted	FDIC Stock/Equity Investment	FDIC Proceeds from Sales	FDIC Book Value of Transaction	Gain or Loss on Transaction	FDIC Dividend Income
Junior Perpetual Convertible Preferred								
09/26/84	Original purchase	32,000,000		\$720,000,000				
12/01/86	Sale		(10,000,000)		\$247,000,000	\$225,000,000	\$22,000,000	
12/12/86	Sale		(500,000)		12,350,000	11,250,000	1,100,000	
12/09/88	Sale		(1,036,190)		27,199,988	23,314,275	3,885,713	
12/16/88	Sale		(10,000,000)		250,000,000	225,000,000	25,000,000	
08/15/89	Sale		(7,200,000)		216,900,000	162,000,000	54,900,000	
01/01/91	Prior dividends through 1990							\$173,434,472
01/31/91	Dividends							1,019,941
03/31/91	Dividends							1,019,941
06/06/91	Converted to CBC common stock		(3,263,810)	(73,435,725)				
	Totals	32,000,000	(32,000,000)	\$646,564,275	\$753,449,988	\$646,564,275	\$106,885,713	\$175,474,354
Adjustable Rate Preferred								
09/26/84	Original purchase	11,200,000		\$280,000,000				
12/15/85	Shares dividend	1,637,922						
08/15/89	Sale		(12,837,922)		\$272,805,843	\$280,000,000	(\$7,194,158)	
	Totals	12,837,922	(12,837,922)	\$280,000,000	\$272,805,843	\$280,000,000	(\$7,194,158)	\$0
CBC Common Stock								
10/24/89	Purchase option	10,080,809		\$403				
10/24/89	Dividends from option							\$14,151,152
01/01/91	Prior dividends through 1990							7,560,607
01/31/91	Dividends							2,520,202
03/31/91	Dividends							2,520,202
06/06/91	Conversion of Jr. Perpetual (3,263,810 x 1.25)	4,079,763		73,435,725				
06/06/91	Sale to ESOP		(500,000)		\$6,375,000	\$9,000,000	(2,625,000)	
06/06/91	Sale to public		(13,660,572)		167,478,606	64,436,128	103,042,478	
	Totals	14,160,572	(14,160,572)	\$73,436,128	\$173,853,606	\$73,436,128	\$100,417,478	\$26,752,163
Grand Total, All Stock		58,998,494	(58,998,494)	\$1,000,000,403	\$1,200,109,437	\$1,000,000,403	\$200,109,033	\$202,226,517

Source: FDIC, *Equity Investment Portfolio, Bank Insurance Fund* (December 31, 1993).

were received, the FDIC's overall cost on the Continental transaction was modest, given the size of the bank and when comparing it to most other large bank transactions.

Table II.4-2 provides a more detailed account of the cost to the FDIC for the Continental resolution.

Issues

There were two primary concerns that arose from the Continental transaction. The first was whether some banks were "too big to fail," creating inequities in the resolution process. The second was whether the FDIC's protection of creditors other than insured

Table II.4-2

Continental Resolution Costs as of December 31, 1995

(\$ in Thousands)

FDIC's Expenses	
Federal Reserve debt assumed by the FDIC	\$3,500,000
Purchase of 32 million shares junior perpetual convertible preferred stock	720,000
Purchase of 11.2 million shares adjustable rate preferred stock	280,000
FDIC's Total Expenses	\$4,500,000
FDIC's Recoveries	
FDIC net recoveries on assets (principal)*	\$1,992,566
Sale of junior perpetual convertible preferred stock	753,450
Sale of adjustable rate preferred stock	272,806
Sale of CBC common stock	173,854
Dividends received on junior perpetual convertible preferred stock	175,474
Dividends received on CBC common stock	26,752
Federal and state tax refunds	1,125
FDIC's Total Recoveries **	\$3,396,027
FDIC's Total Resolution Cost	\$1,103,973

*Net recoveries is after payment of all liquidation expenses and the interest on the debt to the Federal Reserve.

**Stock transactions not discounted to reflect present value.

Sources: FDIC, *The Cost of Large Resolution Transactions* (March 12, 1996), FDIC Division of Finance, and FDIC Division of Research and Statistics.

depositors eroded market discipline in a way that intensified banking problems in later years.

Regarding the issue of inequitable treatment, it is clear that failing banks of different sizes were not always treated in the same manner. Failures of large banks were generally resolved through P&A transactions or open bank assistance transactions, both of which usually provided full protection for uninsured depositors and other general creditors. Failures of small banks, however, were more likely to result in insured deposit payoffs that afforded no protection for other failed bank creditors. The difference existed because healthy institutions generally bid acceptable prices to acquire larger failing banks, but did not always do so for smaller banks. Continental was one of the few, and therefore significant, large failing banks for which the FDIC did not receive an acceptable bid. Although Continental received open bank assistance, most of the institutions considered “too big to fail” were actually closed. The inequity was a result of the size of the banks, not their resolution methods.

Concerning the market discipline issue, however, the answer is less clear. The effect on creditors would have been very different if the FDIC had arranged a P&A transaction. Historically, in a P&A transaction, the FDIC had protected all depositors against loss, just as they were protected in the resolution of Continental. Typically, P&A transactions also eliminated the investment of a failed bank's shareholders. Continental's open bank assistance transaction had the same result for the holding company's common stock shareholders. They lost their investments as a result of the “make whole” arrangement. The only other significant group of Continental's creditors was the holders of the holding company debt. In closed bank transactions, holding company creditors and debtholders are not protected against any loss. Even in the Continental resolution, however, the net result of a P&A transaction likely would have had the same result as the open bank assistance. The holding company had sufficient deposits in the bank to pay its debts, and it drew down those deposits as debts came due. As a depositor in the failed bank, the holding company was protected in the open bank assistance. Because a P&A transaction also would have protected all depositors, the effect on the holding company would have been the same.

Critics of open bank assistance argue that the FDIC should have conducted a transaction that protected only insured depositors and caused a loss to Continental's uninsured depositors and general creditors. Such a transaction may have been less costly to the insurance fund, but probably not in an amount large enough to make cost savings the critical factor in determining the appropriate resolution strategy for the bank. In a payoff, the FDIC's only cash outlay would have been the \$3 billion in insured deposits. The FDIC's recovery would have come from its pro rata share with uninsured depositors and general creditors of more than \$33 billion (book value) in assets. The liquidation of \$33 billion in assets, however, certainly would have resulted in losses, perhaps substantial losses, and the FDIC would have shared in those losses. The FDIC's total costs may have been less than the \$1.1 billion that resulted from the open bank assistance transaction, but probably not in any significant amount.

Paying off Continental's insured deposits and liquidating its \$33 billion in assets would have caused serious disruption in the financial markets, but it might have had a significant impact on market discipline. The dilemma facing the regulators was whether that disruption was worth the potential long-term benefits provided from enhanced market discipline. The prevailing view at the FDIC and the other regulatory agencies at the time was that ensuring financial stability in the U.S. banking industry was far more critical than enhancing market discipline, and the decision was made to provide protection for all depositors and general creditors.

In reviewing the Continental resolution it is easy to question whether a payoff of insured depositors at Continental might have prevented greater problems in the future. A payoff of insured depositors at Continental may not have had any serious influence on the problems growing in the savings and loan industry crisis. There are two types of market discipline: (1) shareholder discipline, meaning responsible behavior by financial institution investors, and (2) depositor discipline, meaning the selection of sound, well-managed institutions by depositors looking for a place to invest their savings. Concerning shareholder discipline, many savings and loan institutions had become critically undercapitalized, and investors in those institutions saw no way to recover their investments. Those shareholders saw no lessening of their investment risk as a result of the Continental transaction, because Continental's shareholders lost their investments. Shareholders in thrifts with adequate capital, however, had every incentive to provide market discipline and install competent management in the savings and loan institutions to protect their interests. By the time the thrift crisis occurred, though, shareholders of many savings and loan institutions essentially had no risk at all because the capital of the institutions was already at or near zero. Shareholder investments were gone, so the incentive was for them to continue and, in fact, expand on their high-risk activities. Concerning depositor discipline, the question is whether a payoff of insured deposits at Continental would have reduced the tendency for depositors to chase the highest interest rates at savings and loans institutions. Because deposit brokers had the ability to keep deposits insured, a payoff at Continental probably would not have changed depositors' behavior in seeking higher interest rates.

The FDIC made a statement of assurance, at the time of the interim assistance, that provided protection to all depositors and general creditors. That statement also was criticized, because such a public statement before a final resolution was a departure from standard FDIC practice. Continental had a very high percentage of uninsured depositors, and the FDIC reasoned that, in the absence of such a statement, the bank run was likely to continue. The run was causing a liquidity problem that likely would have forced some form of interim solution such as open bank assistance, and all depositors would have been protected anyway.

The FDIC believed that there was enough ambiguity in its failure resolution actions that, as a rule, uninsured depositors and other general creditors were left with some level of risk because they could never be certain of complete protection. Deposit runs that

later occurred at some of the larger Texas banks seem to support the view that depositor discipline was still a factor in the public's behavior.

Shareholder discipline was enhanced as a result of the Continental resolution, because the shareholders of Continental's holding company were not protected. Under the permanent assistance plan, the FDIC purchased \$1 billion of preferred stock in CIC, which resulted in an immediate 80 percent dilution of shareholder value, and the FDIC also received certain protections under the assistance plan safeguarding its ownership interest against potential dilution. The FDIC received an option on all remaining shares in the holding company and had the right to purchase the shares of common stock at a nominal price if it suffered a certain level of loss under the loss purchase agreement. Because of the FDIC's option, the original shareholders' stake in the assisted institution was heavily dependent on the collections from the loan purchase program. The FDIC did suffer a loss and exercised its option to purchase the remaining shares of common stock in the holding company. The interests of Continental's former shareholders were eliminated. Therefore, while all depositors and creditors of Continental were made whole financially, the holding company shareholders were not, and shareholder discipline was enhanced.

There also was a belief at the FDIC that, while market discipline for investors and shareholders was desirable, depositor discipline was more of a mixed blessing. In practice, depositor discipline generally affected only unsophisticated depositors. Sophisticated depositors, who really should have provided depositor discipline, generally were already out of a failing institution by the time it was closed. This situation continued to be true long after the resolution of Continental. As a result of all of Continental's deposits being fully protected, the potential cost savings and potentially enhanced market discipline that might have resulted from a more consistent pattern of imposing losses on uninsured deposits were not viewed as overwhelming.

Effect on Future Resolutions

The methods used in the Continental transaction for handling the problem assets appear to have worked out reasonably well. The servicing agreement between the FDIC and Continental, under which Continental worked the FDIC's assets with FDIC oversight, was viewed as an effective way of handling large volumes of assets that had to be liquidated. The servicing costs were relatively low, and the FDIC needed only a relatively small staff to provide oversight. That agreement became the basis for many subsequent transactions in which an assisted or acquiring bank's employees worked FDIC receivership assets under FDIC oversight.

The problems with Continental highlighted some of the difficulties faced by the FDIC in its resolution of large institutions. The problem of resolving a large institution in just a few days was highlighted in 1984 testimony before Congress by then-FDIC

Chairman William M. Isaac, who was questioned about the explicit guarantee given to Continental's depositors and creditors:

Arranging a merger in a few days' time would likely have been impossible. Even if it had been possible, prospective purchasers would not have had an opportunity to evaluate the bank and thus, would have required substantial FDIC financial involvement to protect against the uncertainties. In short, it would have been a buyer's market and extremely expensive to the FDIC. At the same time, a merger would have had the same effect as a capital infusion in that all depositors and other general creditors of the bank would have been protected, while shareholders would have been exposed to the risk of loss.

Granting permanent direct assistance was rejected for several reasons. First, not enough was known about the bank and its true needs. Second, sufficient time was needed to resolve all of the legal and accounting complexities and to arrange for new management. Finally, we believed we should exhaust every reasonable avenue for a private sector resolution before resorting to permanent direct assistance.³⁸

Finding a merger partner for Continental was hampered in large part by interstate banking restrictions. Those problems may have influenced provisions of the Competitive Equality Banking Act (CEBA) of 1987, which amended the Federal Deposit Insurance Act (FDI Act) of 1950. CEBA permitted out-of-state holding companies to (1) acquire large stock or mutual banks before the bank's failure, (2) acquire all or parts of holding companies with large banks in danger of closing, and (3) have expansion rights in the states of acquisition through the bank holding company structure.

CEBA also provided the FDIC with another important tool for resolving large troubled institutions: the bridge bank. A bridge bank is a newly chartered, full service national bank controlled by the FDIC. When a bank is closed by its chartering authority and placed in receivership, the FDIC may establish a bridge bank to provide the time needed to arrange a permanent transaction.³⁹ By establishing a bridge bank, the FDIC avoids the problems cited by FDIC Chairman Isaac of immediately evaluating the failing institution and finding a merger partner or liquidating the institution. A bridge bank provides prospective purchasers the time necessary to assess the bank's condition before submitting their offers. Absent systemic risk, the decision to "bridge" an institu-

38. Inquiry into Continental Illinois Corp. and Continental Illinois National Bank: Hearings before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs, House of Representatives, 98th Cong., 2d Sess. (September 18, 19, and October 4, 1984), 1.

39. The FDIC, in either its corporate or receivership capacity, may establish a bridge bank when an insured bank is or may be closed. However, the FDIC does not have the authority to bridge a thrift institution; in that instance, the FDIC would have to use a conservatorship instead of a bridge bank. A bridge bank can be operated for two years, with three one-year extensions, after which time it must be sold or otherwise resolved. See Part I, Resolution and Asset Disposition Practices, Chapter 6, Bridge Banks, for greater detail.

tion must be based on whether a bridge bank resolution will result in the least costly resolution of the failing institution.⁴⁰

The Continental resolution experience was the key to how the FDIC would deal with the coming banking crisis. On July 14, 1986, the First National Bank and Trust Company of Oklahoma City (FNB&T), Oklahoma City, Oklahoma, with \$1.6 billion in total assets, failed and was assumed by First Interstate Bank of Oklahoma City, N.A. (First Interstate), a newly chartered bank subsidiary of First Interstate Bancorp, Los Angeles, California. The FDIC had been trying for several weeks to work out an open bank assistance transaction, but FNB&T was never able to satisfy the necessary requirements. Finally, the FDIC agreed to a negative premium of \$72 million to recapitalize the bank in Oklahoma City, which meant that the FDIC actually paid First Interstate to take over the deposit liability of FNB&T. The resolution of FNB&T was the first time the FDIC accepted a negative premium bid.

The resolution of FNB&T was similar to that of Continental in two ways: first, the FDIC took an equity position in the bank in the form of special preferred stock, with the provision that the FDIC would share half of any profits if the bank earned more than an 80 basis point return on assets; and second, the assuming bank agreed to work the FDIC's \$300 million in assets under a servicing arrangement. The agreement further provided full protection to all depositors.⁴¹

Over time, open bank assistance became regarded as an acceptable way to resolve large troubled institutions. On July 17, 1987, the FDIC and BancTexas Group, Inc., Dallas, Texas, entered into an agreement under which the FDIC made a one-time contribution of \$150 million in conjunction with an infusion of additional private capital obtained from a rights offering. Again, the similarities to the open bank assistance at Continental were that the FDIC received warrants, exercisable over 20 years, to purchase common stock in BancTexas Group, Inc., equal to 10 percent of the holding company's common equity. In addition, the FDIC acquired no assets from any of the \$1.3 billion holding company's 11 banks.⁴²

On September 9, 1987, the FDIC agreed in principle to an open bank assistance agreement with First City Bancorporation of Texas, Inc. (First City), Houston, Texas. A full description of the First City transaction is provided in the next chapter, First City Bancorporation of Texas, Inc.

40. For further information about bridge banks, see Part I, Resolution and Asset Disposition Practices, Chapter 6, Bridge Banks.

41. James E. Heath, FDIC Division of Research and Statistics, *Bank Failures (Texas)*, working paper (1997), 63-70.

42. Heath, *Bank Failures (Texas)*, 1-3.



**Then-Acting Chairman Hove
conducts the press conference
at FDIC headquarters on
October 30, 1992, announcing
the closing of 20 bank
subsidiaries of First City
Bancorporation of Texas, Inc.,
Houston, Texas.**

