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CENTENNIAL JOURNAL: 100 Years in Business

An Oklahoma Bank That Wasn't OK, 1982

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PENN SQUARE, A GO-GO OKLAHOMA CITY BANK based in a shopping center, failed July 5, 1982, cutting confidence nationwide in the big banks that had bought many of its shoddy loans.

Comptroller of the Currency C. Todd Conover that day said, "I have become satisfied that the bank is insolvent." As the Federal Deposit Insurance Corp., the bank's receiver, began paying off the \$271 million of insured deposits, examiners uncovered a quagmire of bad loans made to wildcat oil and natural-gas drillers and other venturers.

William G. Patterson, in charge of the fallen bank's energy loans and described by Fortune as the "swinger who broke Penn Square Bank," had a star role in the debacle. A flamboyant young figure who entertained clients and associates by drinking liquor out of his cowboy boot and by wearing Mickey Mouse beanies, Patterson arranged most of the messy loans. As many loans fell due, they were covered by even larger loans, parts of which were sold to big banks.

Penn Square's demise hurt a range of banks and creditors, but it nearly killed Continental Illinois Bank, which had bought more than \$1 billion, or half, of the risky loans that Penn had made in its spree. Only a \$4.5 billion federal rescue package in 1983 saved Continental. In return, the government became an 80% owner (currently 26%) of the Chicago bank and ousted its top management in 1984.

Both Patterson and John Lytle—a Continental officer fired in 1982 and later charged with taking a kickback from Penn Square to have his bank buy Penn Square loans—pleaded guilty, in plea bargainings, in 1988 to misapplications of bank funds. Lytle was sentenced to 3 1/2 years in federal prison, Patterson to two years. At the sentencing, the judge said that Patterson "was not ready for the responsibility he was thrust into at Penn Square."

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