

Banking by John Hoefle

Texas: big state, big bank crisis

The vultures from New York are circling overhead as the Lone Star State goes under.

As of November, the state of Texas posted 21 bank failures this year, with more on the way before year-end. This is just the most obvious consequence of the crumbling of the entire regional credit structure—built up over this century to serve the agriculture, energy, and shipping growth of the Southwest. Now, the vultures—the megabanks from New York, and some other out-of-state entities—are circling to pick over the remains.

The following are the bare bones of the picture.

The 21st bank failure was the Citizens State Bank of Donna, closed Nov. 6 by State Banking Commissioner James Sexton, who said that the bank had a "severely weakened capital structure." Donna is in the Rio Grande Valley. Most of the failed banks are agriculture-related. Texas ranks among the top five cattle-producing states in the nation, and cattle numbers themselves now stand at a 24-year low.

Financial troubles are causing most of the major Texas banks to suspend their stock dividend payments. First City, which lost \$265.2 million in the first nine months of 1986, suspended its dividend Nov. 20; it had been paying 25¢ a share. Allied suspended its dividends Nov. 19, one day after cutting its dividend from 21¢ to 11¢ per share. Earlier in November, MCorp suspended its dividend. InterFirst suspended its dividend after the second quarter.

As the banks go broke, their rank order of size in the state shifts.

InterFirst, which several years ago was the largest in the state, has dropped to fourth place. One year ago, InterFirst had assets of \$21.4 billion, and now has only \$18.5 billion. First City, in the \$16-billion range several years ago, has slipped to \$14 billion. RepublicBank, the largest Texas bank this summer, has slipped somewhere down the ranks.

The rumors are that Chemical Bank of New York will take over InterFirst; Chase Manhattan will take over Texas Commerce, soon after the first of the year.

As of Jan. 1, 1987, both interstate and branch banking will go into effect in Texas. These provisions were approved by the voters of Texas in a constitutional amendment this year. Virtually unrestricted interstate banking, in combination with branch banking, will completely transform the Texas banking system during the coming period. The banking interests in favor of these changes outspent those opposed by 10 to 1, and conducted a campaign to convince the public the law should be changed for their "convenience."

The economy is collapsing all around. For example, home mortgage delinquencies are at an all-time high in the Sunbelt. At the Harris County (Houston) public foreclosure sale held Nov. 4, exactly 2,738 properties were sold—a record, out of a total of 4,351 properties posted for foreclosure. October sales were a record high of 2,595. The December sales dropped to 2,443, out of a total of 3,955 properties post-

ed for foreclosure. But nobody is happy. The local foreclosures are 90-95% residential properties.

All the big-name Texas-based companies are announcing new layoffs and job terminations every day. On Dec. 2, Texas-based Pennzoil announced it had laid off 264 workers, part of a previously announced plan to reduce the company's workforce by 330, all in its oil and gas division. There were 137 jobs terminated in Houston. The Midland, Texas Pennzoil office was cut down to four: 17 were laid off, and 8 were transferred to Houston. The Corpus Christi office was reduced to four. The Denver office, and the marine division office in Houston were closed. Additional numbers were laid off in Shreveport and Lafayette, Louisiana, in Bradford, Pennsylvania, and in Parkersburg, West Virginia. Pennzoil cut 449 employees earlier this year.

This is typical. Texas Instruments is laying off 200 people in Stafford, Texas, as part of its previously announced plan to terminate 1,000 jobs in its operations worldwide.

Certain Texas bankers are scrambling for new maneuvers to buy time, and evade the real issue of the need to restore the real economy. Richard E. Lane, president of First City Bank-Central Park in San Antonio, and chairman of the Texas Bankers Association, said that his first state policy priority in 1987, is to repeal the constitutional prohibition on getting second home mortgages for general use purposes. The state constitution allows borrowers to obtain home equity financing only to buy a home, make home improvements, or pay taxes. A study by a Texas A&M professor claims that repealing the prohibition would generate \$4.15 billion annually and create 34,000 permanent jobs in Texas.