

Banking by Joyce Fredman

MCorp seeks federal bailout

The last of the larger Texas banks, with \$20.1 billion in assets, has succumbed to the weakening economy.

The inflated sense of importance with which members of the commercial banking community have been arrogantly strutting around has been pricked, by two well-deserved events. For weeks, the banking lobby has told anyone willing to listen how much more stable they are than the savings and loan community; testimony has been heard ad nauseum as to what a clean, profitable business their brand of usury is.

The exposure of the Bank of Credit and Commerce International Holdings, S.A. as a drug-money laundromat grabbed headlines. But only three days earlier, an exposure equally as devastating financially, although not nearly as sensational, had taken place.

MCorp, Texas's number-two banking concern with \$20.1 billion in assets (First RepublicBank of Dallas had \$26.8 billion in assets) and 26 subsidiaries, made public their decision to seek a federal bailout, rumored to be as much as \$2 billion.

MCorp is the ninth major Texas financial institution to seek a bailout. More significantly, should the transaction in fact cost \$2 billion, which appears more than likely, it would be the third-largest banking bailout in history, after the 1984 Continental Illinois fiasco, and last summer's \$4 billion First RepublicBank transition to NCNB of Texas.

The demise of MCorp was not difficult to predict. It is the story of Texas and the story of "Recovery" banking. As the collapse of the Texas economy has accelerated, real estate has continued to plummet. The creation of a Potemkin Banking Village by merging

collapsing banks was an idea living on borrowed time.

No matter how many billions of dollars in fresh capital were poured into the "new" banks by regulators, they continued to experience massive loan losses. These banks, which carried large portfolios of energy loans in the early 1980s, switched to real estate when the energy boom fizzled. Now, these large real estate portfolios, amounting to 35% to 50% of all loans, have broken the bank, so to speak.

MCorp is the classic case. It is the product of a 1984 merger of Dallas's Mercantile Texas Corp. and Houston's Southwest Bancshares, Inc. Thirty-six percent of its loan portfolio is in real estate loans. Real estate for MCorp, as for other banks, has been expensive. MCorp has \$675 million in foreclosed real estate, of which \$664.3 is foreclosed Texas real estate. Of that, 38% is in the Dallas-Ft. Worth area and 27% is in Houston.

The company has had \$352.4 million in net losses as of the second quarter 1988. The first half of 1988's loan-loss provisions and writeoffs totaled \$373 million, including a \$124.6 million provision for second-period losses, the highest level in more than a year. Gene H. Bishop, chairman and chief executive officer, said MCorp expects to post a record third-quarter net loss of about \$525 million—exceeding the cumulative (\$352.4 million) net loss for the previous 10 quarters.

Bishop and others had fought desperately to keep up appearances. MCorp was the first in Texas to break up large, uninsured deposits into fully

insured deposits of less than \$100,000, which were spread among the subsidiary banks. This was meant to prevent large deposits from leaving the bank. In fact, in early September, word was that MCorp banks were so flush with cash, they routinely sold the surplus to other banks.

Non-performing loans appeared to be leveling off at \$1.6 billion on Sept. 30, 1987. The 1987 fourth quarter showed its loan-loss provision dipping compared with the previous two quarters.

But these statistics proved to be as illusory as the "Recovery." By 1988, non-performing assets rose again, jumping nearly 125% in the year's first half. Non-performing loans and foreclosed real estate hit \$1.77 billion, or 14% of total loans and foreclosed assets, costing MCorp approximately \$95 million in lost interest income and expenses this year.

So, on Oct. 7, CEO Bishop gave a press conference to announce the bailout. Although he was purposefully unclear in regards to the terms of the bailout, a few points were clarified. Federal aid would be somewhere near \$1 billion. MCorp proposes to raise \$100 million in a stocks rights offering to existing shareholders, in addition to contributing as much as \$400 million in "resources" from the bank holding company, including sizeable holdings of stock obtained in previous sales of MCorp subsidiaries.

Another \$300 million (or more) in outside capital needs to be raised, which Bishop assured would come from Texas: "It's important to have a strong, locally owned institution" that is "closer to the needs of the Texas economy."

Those expected to bid are New York's Citicorp, San Francisco's Wells Fargo & Co., and Carl Lindner, Cincinnati banker, raider, and reputed mob-financier.