FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC REPORT ON RECEIVERSHIP OF PENN SQUARE BANK, N.A. AND OPERATIONS OF THE DEPOSIT INSURANCE NATIONAL BANK OF OKLAHOMA CITY, OKLAHOMA

Penn Square Bank was closed July 5, 1982, by the Comptroller of the Currency, who named the FDIC receiver.

Status of the Penn Square Receivership

Upon appointment as receiver, the FDIC acquired for liquidation all the assets of Penn Square totaling $511.3 million. In addition, the FDIC acquired $8.2 million in assets which had been charged off by the bank prior to its closing. The liquidation portfolio included the following categories of assets at book value:

Cash and Due From Banks	$ 27,695,235
Securities	48,424,725
Installment Loans	22,382,169
Commercial Loans	334,030,402
Mortgage Loans	48,885,019
Owned Real Estate	5,818,718
Other Assets	8,446,206
Overdrafts	15,617,418

In addition, Penn Square had outstanding loan participations sold to other banks totaling $2.1 billion as of the date of the closing.

As of December 29, 1983, the FDIC had collected $500.4 million in principal and interest on loans, securities, and other assets. Out of the total collected, $235.1 million was paid to the holders of loan participations sold by Penn Square, $5.7 million repaid secured advances from the Federal Reserve to Penn Square, $16.9 million was paid to owners of pledged deposits and approximately $87.6 million was paid to uninsured depositors and other creditors holding receiver's certificates for proven claims. As of December 29, 1983, the FDIC had invested excess collections in treasury bills totaling approximately $133.6 million.

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Receivership Income and Expenses

Expenses of the liquidation from inception of the receivership to December 29, 1983, totaled approximately $16.2 million, or 3.24 percent of collections. The ratio of expenses to collections will increase significantly as the liquidation progresses and the quality of the remaining assets declines. Expenses of the receivership were as follows:

Salaries and Employee Benefits	$7,725,543	Equipment	$444,839
Outside Services	1,244,579	Supplies, Computer & Court Costs	$627,557
Travel	744,280	Interest Expense	326,081
Building and Lease Costs	1,101,152	Owned Asset Operating Expense	33,608
		Legal	3,956,826

Interest income of the liquidation from inception of the receivership to December 29, 1983 totaled approximately $52.2 million, as follows:

Loans	$31.2 million
Securities	2.0 million
Mortgages	6.1 million
Treasury Bill Investments	12.9 million

The receivership staff includes liquidators, in-house attorneys, loan work-out specialists, and bookkeeping and clerical employees. In addition, oil and gas experts have been retained. The receivership staff totals 157, including 8 permanent FDIC employees and 149 former Penn Square and other locally-hired employees. Prior to the closing, Penn Square had 383 employees.

Litigation By and Against the Receivership Estate

The FDIC, in its capacity as receiver of Penn Square, is involved in extensive litigation, a significant amount of which had been filed prior to the bank's closing. At the present time there are pending approximately 800 different legal actions in which the FDIC is a party. Roughly 20 percent of these actions are bankruptcy proceedings in which FDIC is involved as a creditor. Many of the actions are suits to collect on loans and other assets of Penn Square.

Several major claims have been made in actions brought against the FDIC as receiver of Penn Square and other parties arising out of the bank's energy-related lending activities. These suits raise legal issues regarding letters of credit, the rights of loan participants, and general bank receivership principles. Some litigants have raised allegations of fraud on the part of certain oil drilling companies and Penn Square officers.

Bond Claims and Directors Liability Matters

FDIC personnel have been conducting a thorough examination of Penn Square's records since July 5, 1982, with a view toward developing and presenting substantial claims under Penn Square's bankers blanket bond. The FDIC is also investigating potential claims against former officers and directors of the bank and the bank's accounting firm.

Criminal Irregularity

The FDIC is conducting, in conjunction with the FBI, a thorough investigation of the events and activities which led to Penn Square's failure. At the present time, the FDIC has discovered 451 matters which may constitute criminal offenses under federal law. Evidence in these matters has been referred to the Justice Department for further investigation and possible prosecution.

Receiver's Certificates

Depositors with amounts on deposit in Penn Square in excess of the insurance limit of $100,000 had their deposits up to the insurance limit transferred to the Deposit Insurance National Bank ("DINB"), while the excess became a claim against the Penn Square receivership. Each such depositor was issued a "Receiver's Certificate" in an amount equal to the uninsured portion of the deposit. The excess depositors' claims have general creditor status, which means they share in liquidating dividends with the FDIC and other general creditors from the recoveries realized from the receiver's liquidation of the bank's assets.

The receivership as of December 29, 1983, had issued 2,591 receiver's certificates in the total amount of $434.9 million.

On March 11, 1983, the FDIC as receiver obtained court approval to begin payment of the first liquidation dividend which amounted to approximately $87.6 million or nearly 20 percent of proven claims.

The remaining amounts due on proven claims total approximately $347.3 million. As noted previously, the receiver holds approximately $133.6 million in treasury bills. There also exists, in addition to the $347.3 million of proven claims, approximately $670 million in claims rejected by the receiver. The FDIC has set aside approximately $79.5 million in reserve for those claims pending the outcome of related litigation.

Remaining assets to be liquidated as of December 29, 1983, amount to approximately $282.4 million, exclusive of the $133.6 million invested in treasury bills.

Estimated Recovery for Holders of Receiver's Certificates

The Federal Deposit Insurance Corporation has determined that depositors with accounts in Penn Square Bank that exceeded the $100,000 insurance limit may realize 65 percent recovery of their uninsured deposits. This is a tentative estimate and is subject to revision depending on future collections on Penn Square assets and the outcome of a large number of legal actions.

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The extent of recovery on the uninsured portions of Penn Square deposits is expected to be less than in most other bank liquidations. The FDIC bases its estimate on the exceptionally poor quality of Penn Square's assets, the extent of litigation stemming from the bank's failure, and the generally depressed state of the energy industry.

Cause for Delay in Paying Additional Liquidating Dividends

When FDIC, acting as receiver of Penn Square, first announced its intention to pay a liquidating dividend to those who had proved their claims to its satisfaction, others who had claims pending against the receiver in the U.S. District Court for the Western District of Oklahoma objected on the ground that the receiver had made no provision for the payment of their claims. As a consequence, FDIC agreed to establish a reserve sufficient to pay pending claims against the receiver up to the same amount as would be paid to those who had already established their claims. This would protect anyone who later prevailed on their claim against the receiver. For this purpose FDIC conservatively estimated that it might have to pay as much as 85 percent of the claims then pending against the receiver. The FDIC chose this conservative approach in order to satisfy those who had asserted substantial claims against the receiver in suits filed in the Western District that there would be ample funds to make up their share of any previous dividends, should they prevail. This was done to ensure that these claimants would not be able to block the receiver's payment of a liquidating dividend to those who had already proved their claims, including depositors with claims for uninsured deposits. The receiver consequently set aside from the initial liquidating dividend an amount which would afford those claimants who later proved their claims a payment equal to that being paid to those participating in the dividend. This amount was 20 percent of the amount estimated by FDIC as the maximum amount of pending claims it might have to recognize. The Court then permitted FDIC to proceed to pay a first liquidating dividend to those holding proven claims but retained jurisdiction to review the payment of subsequent dividends.

The FDIC legal staff in Oklahoma City periodically reviews unproven claims against the receiver. To date, no major claimant has established a valid claim. In several cases, however, the original claim has been revised downward. The FDIC legal staff is reviewing and verifying these downward adjustments and soon will be prepared to recommend to the Receivership Court that an overall reduction be made in the legally required reserves, to coincide with the payment of a second liquidating dividend. It is FDIC's expectation that the Receivership Court will permit it to make adjustments in the existing reserve to take account of developments since that reserve was first established. The result will be to release funds to the Penn Square receiver which can then be made available for distribution to claimants as part of a second liquidating dividend. The staff is presently unable to determine the exact amount of the adjustment but doubts that it will increase the second liquidating dividend more than 5% at most. Also, in order to secure approval from the Receivership Court to pay a second liquidating dividend, FDIC will again have to agree to set aside a certain percentage of the funds available as part of the reserve to cover those who still hold pending claims against the receiver. This will reduce to some extent the funds available to distribute to those holding proven claims.

Status of the DINB's Operations

The DINB was established by the FDIC in order to make the insured deposits immediately available.

On August 18, 1983, the FDIC executed an agreement with Charter National Bank, N.A., a newly-chartered bank, to purchase the remaining $458,400 in deposits and operate from Penn Square's former motor bank.

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