FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC AUTHORIZES SECOND LIQUIDATION DIVIDEND, PROVIDES STATUS REPORT ON RECEIVERSHIP OF PENN SQUARE BANK, N.A., OKLAHOMA CITY, OKLAHOMA

On July 23, 1984, the Board of Directors of the Federal Deposit Insurance Corporation authorized the payment of a second liquidation dividend of 15 percent, or about $64.9 million, to holders of Receivers' Certificates in Penn Square Bank, N.A. of Oklahoma City, Oklahoma. Approval to begin payment of the dividend will be sought from the U.S. District Court for the Western District of Oklahoma.

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

After the second dividend is paid, the remaining amounts due on proven claims will total approximately $280.2 million. In addition to proven claims, there are $744.5 million in claims that have been rejected by the receiver.

Remaining assets to be liquidated, as of July 20, 1984, amount to approximately $266.2 million, exclusive of $168.9 million invested in treasury bills.

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 objected on the grounds 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

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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.

To facilitate the payment of the second dividend, the FDIC proposed to increase its reserve to approximately $95.0 million. This reserve is equal to 35 percent (20 percent first dividend, and 15 percent second dividend) of the adjusted claims in litigation against the receiver.

The following information updates earlier reports on the status of the liquidation.

Status of the Penn Square Receivership

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

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 May 31, 1984, the FDIC had collected $573.9 million in principal and interest on loans, securities and other assets. Out of the total collected, $276.2 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 May 31, 1984, the FDIC had invested excess collections in treasury bills totaling approximately $154.0 million.

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Receivership Income and Expenses

Expenses of the liquidation from inception of the receivership to May 31, 1984, totaled $19.3 million. These expenses represent 3.36% of total collections and 6.59% of net 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 & Employee Benefits	$9,381,511
Outside Services	1,427,972
Travel	783,570
Building & Lease Costs	1,339,226
Equipment	516,108
Supplies, Computer & Court Costs	749,585
Interest Expense	326,081
Owned Asset Operating Expenses	40,146
Legal	4,766,835

Interest income of the liquidation from inception of the receivership to May 31, 1984, totaled approximately $63.2 million, as follows:

Loans	$35.0 million
Securities	2.0 million
Mortgages	6.7 million
Treasury Bill Investments	16.0 million
Other Income	3.5 million

The receivership staff included 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 110, including 3 permanent FDIC employees, and 107 former Penn Square and other locally hired employees. Present staffing represents a decrease of 47 employees from December 31, 1983 totals. 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 has been filed prior to the bank's closing. At the present time, there are pending approximately 1,060 different legal actions in which the FDIC is a party.

Roughly 27 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.

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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 principals. 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. To date, the FDIC has collected $6.2 million from claims against former officers and directors of Penn Square Bank. The FDIC is continuing with its investigation in regard to unsettled claims against former officers and directors of the bank and the bank's accounting firm. On June 28, 1984, a suit was filed in Federal District Court against the Penn Square Bank officials for $138 million by the FDIC. The suit concentrates on alleged improper management practices focusing on "Energy Loan Concentrations" and insider loans to officers, directors and related interests.

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. On July 18, 1984, the Federal Grand Jury issued a 34 count indictment charging former Executive Vice-President and Director of Penn Square Bank, William G. Patterson, with wire fraud, misapplying bank funds and making false entries. This indictment was the first against an officer of Penn Square Bank since it was closed July 5, 1982. The U.S. District Attorney said the Grand Jury probe, which started 15 months ago, will continue and charges against others are possible in the months to come.

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 July 20, 1984, had issued 2,609 receiver's certificates in the total amount of $432.7 million.

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.

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.

Status of the DINB's Operations

A Deposit Insurance National Bank (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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