December 3, 1982

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

Penn Square 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 equal to $2.1 billion as of the date of the closing.

As of October 31, 1982, the FDIC had collected $221.4 million in principal and interest on loans, securities, and other assets. Out of the total collected, $101.6 million was paid to the holders of loan participations sold by Penn Square, $7.5 million was used to repay secured advances from the Federal Reserve to Penn Square, and $13.5 million was paid to owners of pledged deposits.

Receivership Income and Expenses

Expenses of the liquidation from inception of the receivership to October 31, 1982, totalled approximately $3.0 million, or 1.36 percent of collections. The ratio of expenses to collections is expected to increase significantly as the liquidation progresses and the quality of the remaining assets declines. Expenses of the receivership were as follows:

Salaries	$1,987,692	Equipment	$ 93,990
Employee Benefits	114,956	Supplies, Computer & Court Costs	104,570
Outside Services	186,357	Interest Expense	301,679
Travel	13,858	Owned Asset Operating Expense	10,286
Building and Lease Costs	221,839		

Interest income of the liquidation from inception of the receivership to October 31, 1982, totalled approximately $12.8 million, as follows:

Loans	$8.8 million
Securities	1.6 million
Mortgages	2.4 million

Collected receivership funds are invested in U.S. Treasury securities and earn market rates of interest.

The FDIC operates in two separate capacities in the liquidation of Penn Square: in its corporate capacity, as insurer of deposits, and in its capacity as receiver. Payments to all insured depositors, as well as all costs incurred in connection with the payment of insured deposits, are borne by the FDIC's insurance fund. In its capacity as receiver of Penn Square, the FDIC operates as a fiduciary on behalf of all creditors of the bank, which includes the FDIC to the extent of the insured deposits paid. The FDIC's claim against the receivership excludes its administrative expenses incurred in paying deposit claims. The FDIC does not have a preference for its claim but shares pro rata with all other creditors with proved claims in the distribution of the failed bank's assets.

The FDIC bears a substantial part of the costs incurred in the liquidation of assets. For example, lodging, meal, and travel costs (except those travel costs incurred in connection with specific receivership functions) for FDIC liquidators and examiners assigned to the closed bank are paid as an insurance expense and are not recovered from the receivership estate of the bank. The same is true for the salaries of Washington Office supervisory and support personnel who work on Penn Square matters. However, all other FDIC expenses incurred in the liquidation of assets are charged to the receivership estate of Penn Square and are recovered first as administrative expenses from the receiver's collections.

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 283, including 77 permanent FDIC employees and 206 former Penn Square and other locally-hired employees. An additional 2 FDIC employees and 14 former Penn Square and other locally-hired employees are employed by the DINB. 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 250 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 43 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 DINB, while the excess became a claim against the Penn Square receivership. Each such depositor is being 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 will 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 FDIC is hopeful that a first dividend can be paid to creditors with proved claims during the first quarter of 1983.

The receivership has issued 1,792 receiver's certificates in the total amount of $157.8 million as of November 30, 1982.

It is too early to make any reliable estimate of the total recoveries likely on Penn Square's assets. First estimates of possible recoveries will probably be completed in early 1983 and, once made, will undoubtedly be subject to significant change as the liquidation progresses.

Status of the DINB's Operations

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

On July 5, 1982, the DINB assumed 24,538 insured deposit accounts totaling $207.5 million. As of November 30, 1982, the DINB had 1,525 insured deposit accounts totaling $4.9 million which consisted of $4.4 million in demand deposits and $500,000 in time deposits. The FDI Act authorizes the operation of a DINB for up to two years. Before the end of that period, the FDIC may transfer the bank's business to another insured bank in the same community or it may conclude the bank's business and cease its operations.