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Oklahoma City Penn Square Lessons Give It 5.6% Jobless Rate

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By Vivien Lou Chen



April 15 (Bloomberg) -- Oklahoma City has plenty of experience with banking crises. That's helping it avoid most of the fallout from this one.

The 1982 failure of Penn Square Bank, based in an Oklahoma City shopping center, triggered a national crisis and a decade of economic misery for the area. So many banks went down that locals dubbed Oklahoma City "Home of the FDIC," the federal agency that seizes insolvent institutions.

In the aftermath, the city rebuilt its economy on the basis of careful lending practices, diversified industries and debt-free public projects -- the kind of approach disdained in many other parts of the country, local leaders say. Now, Oklahoma City's unemployment rate, 5.6 percent, is the second-lowest of any U.S. metropolitan area; median home prices have increased every year since 2004, even as other Sunbelt cities are posting year-over-year declines of 30 percent or more.

"We're growing at a nice clip; it's very slow, very steady and very solid," said Mayor Mick Cornett. "I will admit that when I saw what was going on in Phoenix and Las Vegas years ago, I was envious. But I call that crazy growth."

The metro area of 1.3 million people -- along with states such as Wyoming, the Dakotas, Nebraska and Iowa -- offers a road map for building a stronger economy without the excesses that lead to booms and busts, said Martin Holdrich, senior economist at Woods & Poole Economics Inc. in Washington, which analyzes data and makes forecasts for every county in the country.

Resisting Temptation

"It's not so much that they show the way out of a recession as how to avoid the way in," said Holdrich. "Having been burned in the 1980s, Oklahoma City resisted the temptation to overbuild and may have benefited from that because it has less height from which to fall."

From 1982 to 1992, Oklahoma lost 122 of its 500 commercial banks and Oklahoma City, the state's capital and largest city, had a downtown vacancy rate among the highest in the U.S.

The oil bust of the 1980s "hit our economy very hard and helped to shape our future lending practices by bankers," said Eric Long, manager of research and information services in the economic development division of the Greater Oklahoma City Chamber. "We didn't get into the creative loans you see on the East and West Coasts."

Deals on Napkins

Amid rising oil prices in the 1970s, Penn Square Bank had sold top U.S. banks shares in more than \$2 billion of loans used to finance exploration and drilling. Millions of dollars in lending agreements got

scrawled on cocktail napkins, and bank money was spent on private jets, hookers and alcohol, according to Phillip Zweig's 1985 book "Belly Up: The Collapse of the Penn Square Bank."

Domestic oil prices peaked at almost \$37 a barrel in 1981, then dropped, pushing Penn Square and hundreds of other institutions to the brink of failure. Continental Illinois National Bank and Trust Co., which held almost \$1 billion in shares of the loans, became the first U.S. bank to be taken over and operated as a government-owned enterprise.

"A lot of people have taken to heart the excesses of the 1980s," said Chad Wilkerson, head of the Federal Reserve Bank of Kansas City's Oklahoma City branch. "The steep regional recession we had still burns in people's minds."

Oklahoma City and New Orleans, still rebuilding after 2005's Hurricane Katrina, were the only major metropolitan areas with jobless rates below 6 percent in February, the most recent month available. That compares with Detroit's 13.6 percent and a national rate in March of 8.5 percent. Unlike the U.S. as a whole, which lost 3.08 million payroll jobs in 2008, the Oklahoma City area added 7,500 jobs last year -- with gains in most industries.

Delinquent Loans

Statewide, delinquent loans accounted for 2 percent of commercial banks' assets last year, compared with 5 percent for Florida and 3.3 percent in Nevada, Federal Deposit Insurance Corp. figures show.

About 4 percent of mortgages statewide were late by 60 days or more last year, compared with 6.3 percent nationally, according to the Mortgage Bankers Association.

As the U.S. economic contraction deepened last year, Oklahoma City's First Liberty Bank Chief Executive Officer Joey Root and other top managers went knocking on the doors of as many as 400 nearby homes, carrying tote bags that read "Hello, Neighbor!" and trying to reassure customers.

Officers at Bok Financial Corp.'s Bank of Oklahoma pay regular visits to business clients, who are on a first-name basis by the time a loan is made, said Mark Funke, president of the bank's Oklahoma City market.

Of the 254 banks that remain in the state, not one has failed since the start of the recession in 2007, according to the Oklahoma Bankers Association.

1995 Bombing

While the Penn Square bust taught Oklahoma City to avoid the excesses of the past, it was the 1995 bombing of the Alfred P. Murrah Federal Building that galvanized the city's businesses behind a plan to invest for the future, said Mayor Cornett, a Republican who was first elected to the office in 2004 at the age of 45, becoming Oklahoma City's youngest mayor since 1959.

Two years before the attack, which killed 168 people, voters had approved a 1-cent sales-tax increase that raised \$309 million for a new library, sports arena and seven other projects, without incurring debt. Private investors began pouring their own money in around 2002, Cornett said.

"We had a terrible time seeing our way out, and couldn't seem to make something happen," said Cornett, a former news anchor who attracted headlines in 2008 for coaxing the city's residents to lose 1 million pounds. "We kept waiting for some large job-creation opportunity to emerge. Not until we invested in ourselves did job creation start to occur organically."

Tourism, Medical Research

Now, industries including tourism and medical research are generating employment opportunities, and city officials are weighing plans to fund a new convention center and central park through a continuation of the penny tax. They're also pursuing European companies about building wind-energy production facilities and manufacturing power generation components in the state.

New lofts, stores and restaurants fill Oklahoma City's Automobile Alley, a 10-block stretch of downtown that once housed Cadillac, Buick and Studebaker dealerships. Groundbreaking is scheduled for this year

on a 54-story Devon Energy Corp. skyscraper.

The Oklahoma City Thunder pro basketball team, formerly the Seattle SuperSonics, draws crowds as large as the NBA champion Boston Celtics, filling the Bricktown entertainment district before and after games.

Oil, Gas Prices

One thing that still could drag down the Oklahoma City economy: a continuing fall in oil and gas prices, which the chamber says is already forcing companies to curtail hiring. While the oil and gas industries account for just 4 percent of the region's employment, they represented 10 percent of total compensation as of 2008, according to Long.

Currently, per-capita personal income is projected to increase 3.6 percent to \$40,200 in 2009, after growing 6.4 percent last year, according to the chamber's economic forecast. Retail sales are projected to climb as much 7 percent through December, and home prices are forecast to rise by more than 5 percent.

"We're enjoying this bust a whole lot more than the last one," said local commercial real-estate developer Judy Hatfield, 60, who married into the American clan that famously feuded with the McCoys. "We didn't go crazy this time."

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