"The Man Who Ran the Country?"

Senior NBE Joe Hooks Made His Reputation Taking a Hard Look at Troubled Banks

Some people said his down-home Oklahoma manner had a lot to do with his reputation. They said that big-city bankers would drop their guard and tell him things they wouldn't tell anyone else, because he was so easy to talk to – and easy to underestimate.

No question, Joe Hooks is an amiable fellow with a big heart. He and his wife have long been active in their church. When I met him recently he had just returned from a trip to Mexico, as part of a mission to build houses in an impoverished native community.

But the better assessment is that Joe was one of the OCC's go-to guys for some of the biggest banking crises during the 1980s and early 1990s because no one was better at sniffing out problems and getting bankers to recognize and correct them. That's what Hooks did as he traveled around the country from 1982 to 1994, supported by a crack team of crisis-hardened examiners, troubleshooting problems at a critical time for the national banking system.

It was a role that carried a lot of clout. Joe examined big banks from New England to California. He was responsible for billions of dollars in bad loans being charged off. Some of the bankers who made those loans would never work in the industry again.

Joe butted heads with the best of them. In 1988, Hugh McColl was in the process of transforming the once sleepy North Carolina National Bank – NCNB – into a bank with a national reach, soon to be called NationsBank. He had just acquired the failed First Republic of Dallas from the FDIC, and had even bigger ambitions. But Joe had recently done an exam of NCNB, and found poor underwriting and documentation in the bank's real estate portfolio, raising questions about its future expansion plans.

McColl was infuriated – and determined to get even. Meeting with President George H.W. Bush and his staff at the White House, McColl dropped this little provocation, as recounted in his authorized biography:

"The problem you all have [McColl said] is that you think you are running this country, and you are not. There is only one man running this country and he is not in this room.

"A murmur of surprise ran around the table before [Treasury Secretary] Nicholas Brady asked McColl to state his meaning. He looked Brady in the eye and said: 'Well, he works for you. He's the chief national bank examiner on real estate [sic], and he is destroying the banks all over America by forcing marked-to-market accounting . . . . He's the man who decides who gets credit in this country. And he works for you.'"

"Chief of Staff John Sununu, sitting to the president's right, leaned over to make eye contact with McColl and said, 'What's his name? What's his name?'"

"'Hell, he's famous,' [McColl] said, deciding not to blurt out the name of the chief bank examiner, Joseph Hooks. "He's the grim reaper. He comes into banks. He marches into banks' real estate divisions and shuts them down.'"

Fortunately, the president declined McColl's suggested solution: "promoting" Joe to Alaska. Because while Joe clearly unnerved the bankers whose bad loans he exposed, no one ever accused him of misreading a loan or using his authority improperly and made that charge stick.

Although he spent little time there during that last, eventful decade-plus of his OCC career, Joe has always been an Oklahoman to the core. He grew up in a small Oklahoma town and graduated from what is today the University of Central Oklahoma, in Edmond. A year after joining the OCC in 1966, he was back in the state, eventually becoming the field manager in Tulsa, where he settled down and raised his family. After retiring from the agency, he moved back to Tulsa, where he still lives today.

Ironically, events in Oklahoma propelled Joe to prominence and took him away for a very long time from the home he loved. In the late 1970s, energy prices soared, and the oil and gas producing regions of the country enjoyed a period of phenomenal economic growth. Crude oil jumped from $13 a barrel in 1978 to $37 just three years later. One local bank, Penn Square Bank N.A. of Oklahoma City, was especially active in stoking the speculative fires, lending to oil and gas operators on little more than a promise and selling shares in these loans to out-of-state banks, the biggest of which was Continental Illinois National Bank of Chicago, then the nation's seventh largest.

Joe remembers well that scene from 25 years ago. "It was boomtown, and Penn Square looked like a circus. They had people coming in from all over the country in limousines. There were senators, congressmen, and movie stars driving up in their Rolls-Royces, and every restaurant in town was packed. Western Oklahoma had no hotel space available. These wildcatters would take the whole hotel, so you had to drive 50 or 75 miles to find a room. People were camping under bridges and in tents. So you got to believing. Banks started buying into it. Plenty of downstream banks in Oklahoma bought those loans. And when you got a bank with the reputation of Continental as your partner, it led everybody to say, 'this is real.'"

But it wasn't real, and it didn't last. Oil prices started collapsing, and Penn Square, which was a virtual model of imprudent banking, went down fast. The OCC had placed the bank on the problem list and demanded that it increase capital and improve management. But no sooner were examiners out the door than the bank was up to its old tricks. It sold the loans the OCC had objected to, but took on new ones that were just as bad, and then used the proceeds from paying loans to keep non-performing ones afloat.

Joe was managing in Tulsa, so Penn Square was not one of the banks in his portfolio. But he had participated in the bank's 1981 exam, and in May 1982, he was asked to return to Oklahoma City to help out again, in the exam that ultimately failed it. He told his wife that he would be back in two weeks.

As he likes to tell it, two weeks turned into 12 years. In the aftermath of Penn Square, it was logical that Joe would now be asked to go to Chicago, where Continental Illinois held a billion dollars worth of energy loans originated in Oklahoma City. Presumably, these loans had been properly documented and underwritten. After all, Continental was the nation's leading energy lender. But as it soon became clear, that was a façade. None of the Penn Square loans was on Continental's classified list. "Not one dollar of that billion dollars in bad loans – represented nearly a quarter of their capital – had been recognized as a problem," Joe recalled. "They were all substandard, doubtful, or loss – huge exposures." If the bank had formal loan policies, they were ignored. "It might have been a $20 million loan to buy some leases and there wasn't even a list of the leases, or if there was a list it was outdated. When they told me they had no policies, that none of the loans were even on the watch list, I was in shock."

News of Continental's losses eventually got out, and the financial world was shocked, too. By 1984, it, too, was in desperate straits, and in need of what became the biggest bailout in U.S. banking history. But it was all supposed to be a secret.

Joe was in the midst of an exam in at a bank in downtown Dallas, when the call came: he was to drop what he was doing, head straight for the airport, and board a flight for New York. There was no time for an explanation, or even to pack a bag. When he got into New York, his instructions sounded like something out of a Cold War spy novel: take a taxi to a midtown address and go to the fourth floor. He did. The elevator door opened and there stood Comptroller Todd Conover, Senior Deputy Comptroller Joe Selby, FDIC Chairman William Isaac, and Federal Reserve Board Chairman Paul Volcker, who escorted him into a big conference room. Seated around the table were representatives of some 25 major banks who, it was hoped, would participate in the Continental bailout. "Here, Joe," said Conover, "you take my seat, and tell these people everything you know about Continental." Without notes or preparation, Hooks talked for several hours. "When I was done, I went to a hotel, where they asked me for my luggage. I told them I didn't have any. I went to the airport the next morning and was back discussing energy loans [in Dallas] in the afternoon."

Energy loans were the lead topic in many of the exams Joe was doing in the mid-1980s, by now as member of Multinational Banking – the precursor to today's Large Banks. The big Texas institutions – First National of Dallas, Republic Bank, MCorp, Texas Commerce – had tried to deal with the downturn in energy by diversifying into real estate, but that strategy also failed. By the late '80s, all of these proud institutions had either failed or been merged out of existence.

Some people outside the region took a pretty unsympathetic view of Texas's troubles. They thought back to the height of the oil boom, when the shoe was on the other foot and Texans seemed indifferent to the impact of rising energy prices on consumers in the rest of the country.

In Joe's and many other people's view, the Texas banks were hurt by factors beyond their control. It wasn't just the unexpected decline in oil prices. Changes in the law, which introduced new competition from savings and loan institutions and reduced certain tax benefits, made real estate lending riskier and less profitable.

Competition led to an erosion of underwriting standards. "They stopped having pre-lease requirements," Joe recalled. "They stopped taking guarantees; they stopped take-out commitments – all those things went away because of the competition. There was no upfront equity, so the bank owned the project. Some banks quit getting appraisals for fear of what those appraisals would show."

Yet it was tough to pull the plug – for bankers and examiners. "Once these loans are booked," Joe noted, "they're hard to stop. Once they're booked, and you've dug the hole and the buildings are going up, you can't stop them. And the Texas banks had many of them in that process. They don't show up as a problem until they're completed, and the borrower says, 'this one is different, and we'll be able to lease it up.' Nothing is past due, so you can't say, "this is wrong, we know you won't be able to lease it, so we'll classify it today." We'd have been run out of Texas if we tried to do that."

So the buildings went up and there they sat vacant, monuments to the former glory of independent Texas banking. It made for a depressing scene. Joe remembers the drive east on I-30 from Dallas. "You could see all these condos and apartments, for miles and miles. The slabs had been poured but they were half-finished and all boarded-up."

It wasn't long before real estate woes spread beyond the southwest. By the early 1990s the northeast, and especially New England, were feeling the effects of over-optimism and poor risk management. When Joe went into Bank of Boston in June 1989 to review its real estate portfolio, he found senior management willing to listen, to restructure, and to risk-rate its credits and reserve appropriately. "And it paid off in spades for them. They gained the respect of the markets, and it made a huge difference for them in returning to profitability."

At the Bank of New England, the region's second largest, however, things were different. There it was a constant struggle with management that ended with the bank's failure – and losses to the FDIC of nearly $900 million.

Bank of New England was the last in the long series of crises with which Joe was involved. When it was over, he joined the exam team at Chase in New York, and then spent the last years of his career at Wells Fargo in San Francisco. He retired in 1997.

He’s been back from time to time doing loan reviews for the OCC as a private contractor. If you run into him on an exam, ask him about his experiences. If I know Joe, he’ll be glad to share them with you.

[This article is based in part on an oral history interview with Joe Hooks. The transcript of that interview is on deposit in the OCC library.]