



Adjusting to the Collapse of a Bank

By Donella Meadows

The systemic problems Donella Meadows describes—shaky loans plaguing bank officers, bailouts draining the FDIC and FSLIC—have changed little since this column first appeared in 1987. But now the outlook is bleaker—206 banks failed in 1989.

About half the people I met in Oklahoma had personally experienced a bank failure over the past year or so. On Thursday, January 8 of the week I was there, another bank went under, Security National Bank of Norman.

The next morning, Security National reopened under new management. The television news showed its customers calmly doing their business.

Not a big deal, or so it appeared. Bank failures are so routine in Oklahoma's depressed oil- and farm-based economy that everyone knows how to behave. But as I checked around and asked questions, I learned that bank failures are not always smooth, and that they have serious ramifications for the community in which they occur and for the entire nation.

Security National was the third Norman bank to go. When the first one failed last year, a radio station broadcast some rumors, and there was a run. FDIC (Federal Deposit Insurance Corporation) officials had to stand at the doors and write checks by the thousands as frightened people closed out accounts.

No one panicked when Security National failed, but everyone felt the blow. The bank was the bedrock of Norman and owned by a prominent local family. Other banks might go under, but not Security National.

But many of Security National's reasonable-looking loans had gone bad. Farms had been folding and so had some of the businesses that served them. Real estate values were dropping faster than mortgages were being paid.

Norman is the home of the University of Oklahoma and of many state institutions whose budgets had been cut with the downturn in the state economy.

Security National's owners and the FDIC had been preparing for the future. The new buyer was ready to step in. It was a consortium of investors from Arkansas—the Oklahoma legislature had permitted interstate banking just one month before. The time between the Thursday night closing and the Friday morning opening must have been frantic as an FDIC team swept in, sealed the books, decided which loans

followed. The town felt strangely adrift, its old certainties swept away.

A single bank failure, even when the deposits are insured and everyone stays calm, means a loss of equity for the owners, a loss of jobs for the management, a loss of credit lines for business, and a loss of confidence in the community. A series of bank failures (in 1986 there were 135 in the United States, the highest number since the Depression), means a problem for the nation.

FDIC and its sister organization FSLIC (Federal Savings and Loan

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were viable, who owned what, which obligations the FDIC would assume.

Apparently one night was not enough to accomplish the changeover. There were many foul-ups in the following weeks. Checks bounced that shouldn't have. Deposits appeared in the wrong accounts. Local merchants had to track down late payments. Confusion spread through the economy.

“We were used to great customer service in that bank, but it went right out the window,” a bank depositor told me. “You go in to straighten out one of these messes and you're met by a steely-eyed stranger who doesn't seem to care at all. It would be more satisfying to talk to the computer. And the policy now is, ‘No Mercy.’”

Automatic coverage of overdrafts was cancelled without notice. People who had missed a mortgage payment, and businesses that had fallen back to paying just the interest and not the principal on loans, were given five days to catch up. Many couldn't react that fast, and a chain of foreclosures

Insurance Corporation) are federally operated insurance companies for banks. They receive premium payments from participating banks and that money is invested against possible future trouble. Drains on FDIC and FSLIC are now greater than payments. FDIC anticipates a \$4 billion deficit this year against assets of \$18 billion. FSLIC ran a \$4 billion deficit last year and has only \$1.9 billion remaining to insure \$800 billion in deposits.

Congress has resolved that “the full faith and credit of the U.S. Treasury” stands behind FSLIC and FDIC. We are about to find out what that means, since FSLIC will be bankrupt this year and FDIC within a few years at the rate things are going. An estimated \$15 billion to \$25 billion is needed immediately to restore FSLIC.

But the Treasury is already using its “full faith and credit” to finance the government's \$200 billion deficit. Congress, caught in its self-imposed

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Calendar

- September 10. **The Art and Practice of Learning Organizations—A Conversation with Peter Senge**, San Francisco, CA. Co-hosted by Innovation Associates and Doubleday, publisher of Peter's new book *The Fifth Discipline: The Art and Practice of Learning Organizations*. Informal dialogue will revolve around the issues raised in the book and their applications within organizations. Copies of the book will be available. Contact: Sheryl Erickson, *Innovation Associates*—(508) 879-8301.

- September 13. **The Art and Practice of Learning Organizations—A Conversation with Peter Senge**, Minneapolis, MN.

- September 14. **The Art and Practice of Learning Organizations—A Conversation with Peter Senge**, Chicago, IL.

- September 17. **The Art and Practice of Learning Organizations—A Conversation with Peter Senge**, Boston, MA.

- September 19-21. **Leadership and Mastery**, Boston, MA. This three-day workshop offers executives, senior managers and middle managers insights into how people and organizations can be led and structured for inspired performance. Contact: Stephanie Ryan, *Innovation Associates*—(508) 879-8301.

- September 23-26. **Leadership and Mastery**, Boston, MA. Co-sponsored by The Healthcare Forum and Innovation Associates. Contact: Laura Woodburn, *The Healthcare Forum*—(415) 421-8810.

- October 8-12. **Introduction to Systems Thinking**, Cambridge, MA. This course will introduce managers to the basic principles of systems thinking. Managers will also gain hands-on

experience in system dynamics modeling using STELLA and other modeling languages. Contact: *Gould-Kreutzer Associates*—(617) 497-2926.

- October 9-12. **Visionary Leadership: Building the 21st Century Healthcare Organization**, Tarpon Springs, FL. The third annual conference, co-sponsored by 3M, is The Healthcare Forum's first systems thinking-related event held outside the West. Peter Senge and Leland Kaiser will be the lead faculty. Contact: *The Healthcare Forum Foundation Leadership Center*—(415) 421-8810.

- October 10-12. **Leadership and Mastery**, Boston, MA.

- October 17-19. **Business Thinking: A Systems Perspective**, Framingham, MA. This two-and-a-half day working session teaches managers how to apply systems thinking to their own work issues. No prior understanding of systems thinking is required. Contact: Stephanie Ryan, *Innovation Associates*—(508) 879-8301.

- October 23. **The Art and Practice of Learning Organizations—A Conversation with Peter Senge**, Cincinnati, OH.

- November 7-9. **Leadership and Mastery**, Toronto, Ontario.

- November 12-16. **Advanced Systems Thinking**. A follow-up course for managers who have already been introduced to systems thinking. Course participants will build their own simulation models with professional guidance. Contact: *Gould-Kreutzer Associates*—(617) 497-2926.

- December 4-7. **Leadership and Mastery**, Santa Monica, CA. Co-sponsored by The Healthcare Forum and Innovation Associates.

The Global Citizen



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trap of Gramm-Rudman, high military budget, and refusal to raise taxes, doesn't see where to get \$25 billion. It is considering floating "FSLIC recapitalization bonds," high-interest junk bonds with no real assets behind them.

In other words, Congress is willing to stand behind the bank deposits of the citizens of the United States with further government debt. Another story will be added to the teetering Tinkertoy tower of national fiscal irresponsibility. If that happens, it won't take much of a tremor to spread to the whole nation the vulnerability felt now by Norman residents, the feeling that one's economic foundations have disappeared. ↻

Learning Organizations

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learn." The same can be said about the process of creating a learning organization. "When the five component technologies converged to create the DC-3 the commercial airline industry began. But the DC-3 was not the end of the process. Rather, it was the precursor of a new industry. Similarly, as the five component learning disciplines converge they will not create *the* learning organization but rather a new wave of experimentation and advancement." ↻

The Fifth Discipline is published by *Doubleday*, 384 pages, \$19.95 hardcover. *Innovation Associates* offers a substantial discount for orders of 10 or more. Contact: *Innovation Associates*, P.O. Box 2008, Framingham, MA 01701. Phone (508) 879-8301.