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Money Game

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How to Rescue A Broke Bank

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THE BIGGEST bank failure in history has just occurred in California but thanks to prodigious efforts of planning and timing it went virtually unfelt by the banking public yesterday.

The $1.2 billion U.S. National Bank of San Diego, formerly headed by President Nixon's personal friend C. Arnholt Smith, was declared insolvent late Thursday by the Comptroller of the Currency.

But all 63 of its offices opened for business right on schedule yesterday morning — as part of Crocker Bank. And none of its 340,000 depositors, excepting Smith, will lose any money.

"The depositors are absolutely secure," Emmett G. Solomon, head of Crocker Bank, which took over U.S. National Bank operations, reassured. "We are assuming all deposit liabilities except some savings of C. Arnhold Smith and collateral companies."

Behind this seeming banking "miracle" is the story of a masterful job of cooperative effort. It involves the Comptroller of Currency, who had the bank under close supervision since early this year, the Federal Deposit Insurance Corporation, the Federal Reserve Bank, the Justice Department, and most of California's major banking institutions.

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EXAMINATION of U.S. National early this year revealed what the Comptroller terms "a significant volume" of unsound loans, including some by Smith. Subsequently Smith resigned as chairman of the bank in May but remained its principal stockholder.

A credit evaluation, completed in August, "convinced us that we must undertake intensive contingency planning in the unhappy event that it became necessary to declare this bank insolvent," the Comptroller said.

The planning was very involved, and included the following major steps:

- It called for a takeover buyer acceptable to the Department of Justice. Three banks were in the final bidding — Wells Fargo and Union in addition to winner Crocker.
- Naturally it required getting the best price. Crocker paid $89.5 million. Crocker chief Solomon said the assets Crocker acquired would run about $1 billion and the liabilities would be slightly more than that, with the difference to be paid by the FDIC in cash. (Estimates put that difference at $25 or $30 million.) In the process it put Crocker firmly into a new (for it) market area.
- It involved readying financial arrangements for a smooth takeover that would insure innocent depositors against alarm. (FDIC advanced Crocker $160 million and bought a $50 million Crocker note.)
- **And it involved special security (secrecy) to prevent possible public panic. But apparently the secrecy wasn't sufficient, for banking officials in Washington said yesterday that the takeover had to be rescheduled from Friday to Thursday evening because two news organizations (CBS and Wall Street Journal) had said they intended to break the story.**

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WHILE THE numbers aren't all in as yet, the FDIC has indicated it sees scant hope that the 4600 shareholders of U.S. National Bank will receive anything in the liquiration. Earlier this week U.S. National shares were quoted at $17, so that can mean a loss of $35 million on the 2,050,000 outstanding shares.

C. Arnholt Smith owns about one-third of the total shares.

That's not Smith's only trouble.

The Securities and Exchange Commission acted against him earlier in the year on the basis of an inquiry into ties between the bank and Westgate-California Corp. Suit was brought charging Smith with fraud and misappropriation of assets of the two firms he had headed. (Westgate is a holding company in food, mining, hotels, insurance, transportation and shopping centers.

Smith has denied any wrongdoing and trial is pending.

Additionally, the Internal Revenue Service filed a $23 million lien against Smith for alleged back taxes, one of the largest ever filed against an individual.