



# Analysts Fear A Prolonged Drop In Oil Prices Will Hurt Oklahoma's Banks

FEBRUARY 24, 2015 3:50 AM ET

RENEE MONTAGNE, HOST:

And one part of Venezuela's problem is the falling price of oil. Oklahoma has the same problem. Oil from that state now sells for less than it costs to produce. Here's Frank Morris of member station KCUR.

FRANK MORRIS, BYLINE: In the freshly remodeled offices, the Oklahoma City Chamber of Commerce Chamber President Roy Williams looks out over what has lately seemed almost a charmed city.

ROY WILLIAMS: Over the last five years, the stars really aligned. The community's investment in itself just blossomed. The energy industry blossomed.

MORRIS: The midsized oil companies based here hit big in the domestic fracking boom. They uncorked a torrent of oil, flooding Oklahoma City with money and attracting new residents. Williams says low oil prices haven't changed that yet.

WILLIAMS: There's going to be a lot of people who work on drilling rigs that are going to get laid off. That doesn't happen in downtown Oklahoma City, though. There's no drilling rigs in downtown Oklahoma City.

MORRIS: I'm standing right now next to a row of oil drilling rigs. These are big trucks that look a little bit like ladder trucks from a fire department parked in a row, idle because the companies laid off all the people who used to run them.

DANNY MORGAN: When you see a rig like that sitting in the yard, that just means that there's no longer demand to keep it in the field, and there's just not enough work out there for you.

MORRIS: Danny Morgan, who runs Morgan Well Services in Prague, Okla., says these rigs had been running 24/7, with 40 or 50 people working on each one. But all that new oil helped create a glut. Now Oklahoma wells cost more to put in than they're worth, and companies are cutting deep.

MORGAN: But when they do that, it kicks a domino over that then continues to knock dominoes down for an extended area.

MORRIS: Some of those dominoes are hitting the Downtown Cafe in Prague. Christy Perry, the owner here, is still filling coffee cups, but she says business has dropped by half.

CHRISTY PERRY: You know, they're scared, scared to spend any money because they're, you know, in fear of losing their jobs or - it's just, everybody's getting laid off.

STEVE AGEE: Unemployment rates in Oklahoma will undoubtedly go up as a result of this.

MORRIS: Steve Agee is the dean of the business school, Oklahoma City University, and former oil company executive. He says he's seen this kind of thing before.

AGEE: I started in the business on July 6, 1982, one day after the Penn Square Bank failed here in Oklahoma City.

MORRIS: Talk about kicking over a string of dominoes. Penn Square was the first of hundreds of oil-related bank failures in the 1980s, when an oil glut caused a sharp drop in prices.

AGEE: The severity of the drop in prices reminds me of the '80s, but the situation is completely different.

FRED RUSSELL: We're not cowboys, Indians and oil barons anymore.

MORRIS: Fred Russell, financial adviser in Tulsa, says Oklahoma found new ways to make money - biotech, aviation, business services.

RUSSELL: The pain of the last busts has led to an involuntary diversification of our economy.

MORRIS: Banks have evolved, too. Dan Ellinor, chief operating officer of Bank of Oklahoma, says regulations are stricter, lending practices tighter. Energy companies do hold 20 percent of the money his bank has out on loan. That's a high percentage, and those companies are losing money fast, but Ellinor says he's not fretting yet.

DAN ELLINOR: No. We've been here before, so not nervous right now - not at all.

MORRIS: Bankers say they have prepared for low oil prices.

PETER RICCHIUTI: Well, I - you know, we'd hope that would be true. I hope there was something learned in the mid to late '80s. But I don't know if it is or not.

MORRIS: Peter Ricchiuti, an economist at Tulane University, says most energy industry banks are not prepared for oil staying cheap for more than a year, and he predicts it will. A bust that long would mean serious trouble for some American oil companies, the banks that finance them and a lot of nice people here in Oklahoma. For NPR News, I'm Frank Morris.

*Copyright © 2015 NPR. All rights reserved.*