



## ARMAGEDDON

*The economy crashes, banks close  
and People's faces the same fate.  
Optimism and good decisions save  
the bank and bring it to safe harbor.*

**R**eal estate developer Bob Scinto was losing a cool \$500,000 per month in 1990, and it appeared that he didn't have a prayer of surviving. He was not alone. Small businesses, large companies and financial giants were imploding all around him.

"I was in the hole for \$62 million. I owed \$7 million to vendors. I had 360,000 square feet of empty space. There are only two things that God doesn't know. He doesn't know what Jesuits are thinking and he doesn't know how I got out of that hole."

Lenders wanted their money. Not next year, not next month, not tomorrow...today. "I had a meeting with the banks and they wanted to know about their money," Scinto recounted. "I looked at everyone. What were you all thinking about when you lent me \$62 million? Now you all want it back at one time?"

The recession of the early 1990s did not discriminate. It wiped out small businesses, all the way up to corporate institutions, including longstanding banks. There goes Citytrust Bank ... say goodbye to Mechanics & Farmers ... sayonara to Connecticut Bank

& Trust. New England's economy was in economic freefall and economists estimated that the six-state region lost approximately 250,000 jobs in two years.

What happened?

A combination of issues – federal legislative changes, imprudent lending practices, financial seduction, plus greed, fraud and incompetence – spawned an economic cancer that ate at seemingly rock-solid institutions. Borrowers could not service their debts. Then lenders could not service their obligations. Many lenders failed and those that survived had to be bailed out by deposit insurance agencies, primarily the Federal Deposit Insurance Corporation.

Looking back nearly 20 years, Scinto now has no doubt about the primary cause impacting his own company.

“The government created the problem by changing the tax laws in 1986. You could no longer take depreciation against ordinary income. The government used to say if you lost \$300,000 on a property, you can write \$300,000 against your personal income tax. That law was changed.”

Scinto and just about everyone else was in survival mode, including David Carson. People's Bank, the largest bank in Connecticut, was in trouble. When the economy collapses, customers stop paying. Everyone suffers.

Why in the world would any bank shore up clients like Scinto, when it was also losing money? Every bank had told Scinto to kiss off. As Scinto recalled, Carson was his last hope.

“Basically, I was insolvent. The bank knew the only way they could possibly get their money back was to keep me in business. They knew I was up at 5 a.m. If anyone was going to get through it, I would.

“At the time I still had a line of credit of about \$8 million. I told Carson that I'd probably have to draw down the whole line to stay in business, but there's a way out of this, if I can stay in business. I had the right to draw it down. We had real estate to guarantee the line. He set up a meeting with his people. I was able

to get through that period and I received another million because I had a tax payment to make. So they advanced another million. It took me nine years to pay everyone off. At one time I owed People's \$37.5 million."

Bank regulators kept close watch on Scinto's account. If Scinto was late, there was a chance the bank would fail because he owed them so much money. Scinto had a breakthrough in 1991 when he rented 39,000 square feet to American Skandia. That square footage was a big step in the right direction. Cash flow stabilized. He made his payments.

Bob Scinto also knew how fragile things were at People's. Not everyone understood, and that certainly was due in part to Carson's lack of panic during the crisis. But things were so bad throughout New England that a constant refrain was heard, "How can it get worse?" It could get worse, some in Connecticut answered. People's Bank could close.

So, how did People's survive when others failed? In fact, decisions made by Carson, before the recession, did as much to save the bank as his response to the crisis itself.

For one thing, Carson had hired banking veteran John Flannery as senior executive vice president and chief financial officer. Flannery knew just about every important state and federal regulator in New England and Washington. Carson didn't. Flannery was the former director of the Division of Bank Supervision, the highest non-political position in the FDIC. Later, he became president of State-Dime Savings Bank in Hartford.

A devout Catholic, Flannery grew up in Boston, joining the Navy in 1944 after high school graduation. He attended Boston College under the GI Bill of Rights, graduating in 1950. He then worked for the FDIC in New England and Washington, for 20 years, before joining State-Dime Savings. The bank merged with People's in 1983. Carson initially placed him in charge of the bank's newly created Hartford area, because of Flannery's relationships there. He soon realized that Flannery's greatest

asset – knowledge of industry regulators – was best suited for the headquarters office.

Flannery's Hartford position was filled by John Klein who had served as corporate counsel, previously supervising regulatory changes on behalf of the bank.

In his early years at People's, Carson realized he could not attend industry functions, such as regulatory and trade association meetings, until he got his arms around running the bank. He sent the highly respected Flannery to attend functions on his behalf, even though almost everyone else was a chief executive. This bought Carson a lot of time. By 1990, when the economy crashed and banks were in trouble, People's Bank had someone who knew every examiner and all the senior people in the FDIC. Carson and Flannery would go together to meetings in Washington — and Flannery was greeted like an old friend.

How did the banking crisis happen? The first major storm warning, for Carson, came in 1990 when the Bank of New England announced a \$1 billion loss for the final quarter of 1989. Forced into insolvency by dubious real estate loans, the bank was taken over by the FDIC in January 1991.

"I think the regulators probably were disappointed at the difficulties we encountered at People's, because it meant the overall banking problem was greater than they believed," Flannery recalled. "The Federal Reserve had less experience with mutual savings banks, generally, and People's Bank, specifically, and I think they may have had more questions.

"I don't recall that I ever was concerned that the bank would fail. It was well-capitalized to start with (due to its 1988 conversion and recapitalization), and operated in an economically desirable area. While it had some of the problems other banks had," Flannery added, "it did not expose itself to excessive risk, and it had capable, hard-working management. I always felt that although the future structure might be different, that People's would be a survivor."

Not everyone was as optimistic as Flannery, however, and Carson certainly was not taking any chances, especially after Flannery, following a long career, retired. Carson promoted George Morriss, a senior vice president, who had helped steer the bank through its first public stock offering in 1988, to the position of executive vice president and CFO.

“Dave did not talk about putting lifeboats in the ocean,” Morriss explained. Carson did realize, however, that the water was rising quickly. Enter Lou Ulizio, a seasoned financial services professional, who had lived through banking debacles in 1969, 1976 and 1982. Ulizio was brought in as executive vice president, Commercial Banking, to help save the bank and specifically to oversee construction loans.

A former executive at Colonial Bank, Bank of Boston and Citytrust, Ulizio’s core lending values were so good that commercial lenders throughout the region respected him — and he could make a deal. He knew every contractor in the state. He understood how to attack bad loans.

“At a time when everybody was down on everybody,” Scinto recalled, “Lou Ulizio was optimistic: We’re going to get through this.”

People’s, according to Ulizio, had \$500 million in non-accruing loans and assets, mostly construction loans for shopping centers and office buildings. The feeling was, according to Ulizio, “Armageddon is coming to New England.”

The genesis of the crash, he said, echoing Scinto’s opinion, was the Tax Reform Act of 1986 that did away with passive depreciation on commercial deals. No longer could a builder deduct 100 percent of the cost of a building unless actively involved in the building process. In the old days, a developer could put up a building without any cash in. The feds eliminated this speculative bubble.

So, what was the key to survival? According to Ulizio, “You don’t walk away in a firefight. A half-finished building isn’t good for anyone except bottom-feeders.”

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Ulizio also brought in some additional help at People's Bank – Brian Dreyer – another commercial banking expert who had worked with him previously.

While many banks cast customers adrift, People's refinanced properties owned by troubled builders. One of the keys, according to Ulizio, was buying time. Bill Kosturko, the corporate counsel who helped Carson work through issues with regulators, recalled when the financial crisis hit bottom. The feds, Kosturko said, demanded that the bank increase capital by \$200 million within three years. People's Bank was placed on the FDIC watch list.

“We got caught in the tsunami. We were close to closing,” Kosturko recollected. “We're a bank and people still needed to borrow money. We didn't shut down the lending functions. Carson was adamant that we not go into a shell.”