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Energy loan impairment likely to deliver challenges for BOK


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BOK Financial Corp. warned Wednesday that it will face higher-than-expected credit losses after an energy company failed to meet its obligations under a loan.

The Tulsa-based parent company of Bank of Oklahoma said it expects provisions for credit losses in the fourth quarter to reach $22.5 million, up from its earlier forecast of $3.5 million to $8.5 million.

“A single borrower reported steeper-than-expected production declines and higher lease operating expenses, leading to an impairment on the loan," Stacy Kymes, BOK's executive vice president of corporate banking, said in a statement Wednesday.

Some of the bank's loans look worse now than when they were issued because credit ratings agencies have downgraded many energy companies as oil prices have tumbled over the past 18 months.

The collective credit rating changes are known as credit migration, and the problem could become worse over the next few months, Kymes said.

"As we noted at the start of the commodities downturn in late 2014, we expected credit migration in the energy portfolio throughout the cycle and an increased risk of loss if commodity prices did not recover to a normalized level within one year," she said. "As we are now into the second year of the downturn, during the fourth quarter we continued to see credit grade migration and increased impairment in our energy portfolio. The combination of factors necessitated a higher level of provision expense."

BOK also said Wednesday that it likely will report weaker-than-expected fourth quarter results because of lower fee income and higher expenses. The company said it now expects a fourth quarter profit of $58 million to $61 million, or 87 cents to 91 cents a share.

Other local banks and financial institutions likely will face similar challenges if oil prices continue to wallow into 2016, Tulsa money manager Fred Russell said.

"It's extraordinarily difficult to predict the ups and downs of any sector, especially the energy sector, which is so capital intensive and so subject to global politics and economics," said Russell, CEO of Fredric E. Russel Investment Management Co. "It was just a few years ago that Goldman Sachs was saying $200 oil was in the cards. Now people are saying it will be $10 or $20.

"Not only are prices falling, but the mode has turned from excessive optimism to excessive pessimism."

Credit defaults likely will intensify the challenges oil and natural gas companies already are facing from low commodity prices, Russell said.

"The energy cycle is more vicious than any other industry," he said.

"What industry can suffer the huge declines we've seen in the past two years? It's amazing the industry has survived given its volatility."