

# Arizona Daily Star®

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## Tucson can expect to see credit get even tighter

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As the \$700 billion bank-bailout plan went up in smoke Monday, Tucson business leaders and bankers said one thing is all but certain: credit is tightening up.

In what one local banking chief dubbed a "crisis of liquidity," the new financial landscape of U.S. bank failures and bad debt could translate to fewer lending options for consumers, including for local banks in Southern Arizona.

"I'm really pushing that there's no spillover effects to community banks like us," said the executive, Bank of Tucson CEO Mike Hannley.

"We are Main Street; we are the heart and soul of the business community in Tucson, and we're fragile," he said. "We have a thousand cracks in the ice."

Hannley and others said the implication of the crisis for consumers and small businesses is simple: There are smaller credit pipelines that ultimately translate to fewer loans.

The problems start with the national and international credit markets as lending rates increased.

"Once the credit market freezes up like that, this crisis that's enveloping the financial sector has the potential to leach out into other areas of the market — into companies that themselves are solvent but need cash to fund their daily operations," said Jack A. Ablin, chief investment officer at Harris Private Bank.

The credit market in Southern Arizona has tightened as lenders are requiring borrowers have higher credit scores than they did in the past, said Stephen Hart, the Small Business Administration's senior area manager for Southern Arizona. Borrowers' credit scores indicate their ability to pay off debt.

At the same time, he said, the value of their collateral has dipped with decreasing property values. Taken together, that means businesses are finding it more difficult to get loans than they have in the past, and it can be tied directly to the meltdown in the mortgage industry, Hart said.

Businesses still can get loans; it's just that lenders are reconsidering what kind of risk they're willing to take on, he said.

Tighter credit called a plus

Charlie O'Dowd the Arizona Small Business Association's senior vice president for Southern Arizona, said part of the problem is that it was too easy to get a loan in the past.

"There is money," he said. "It's just that — thank goodness — the credit underwriting is going back to where it should have been all along."

The businesses most likely to be affected by the turmoil on Wall Street are those that rely on credit to maintain their inventory, such as car, furniture and appliance retailers.

Doug Betts, the owner of Christie's Appliance Co., which has three locations in Tucson, said his company hasn't been affected by the crisis on Wall Street.

"Fortunately, prior to all of this happening, we had all of our ducks in a row," he said.

Betts said that when the market was good, he established a high enough credit limit to maintain the

inventory at his appliance stores. So as he moves merchandise out of his stores, he's able to pay off his debt and restock the inventory. His credit limit is high enough that he won't have to take out an additional loan, he said.

A problem could emerge only if his credit limit was lowered, but he said he's had no indication that's going to happen.

#### Non-prime loans blamed

Non-prime mortgages — including subprime loans or loans made with no proof of income — are among the root causes of the U.S. financial system's current mess. That's why some banks here, such as Chase, have been tightening lending standards.

"That all changed a year ago," said Steve Fell, the regional president of Chase Bank. "We quit doing the low-documentation loans, the subprime loans, and concentrated on going back to basics."

University of Arizona economist Marshall Vest said: "Up to this point, money was available. Banks are in a tough situation here as these securities lose money" and banks have to write them off or down. That means banks "don't have any money available for lending."

The belt-tightening also affects what type of loans can be made. Vantage West Credit Union CEO Robert Ramirez said loans for sport utility vehicles are unlikely to be OK'd because SUVs now have lower resale values when they are repossessed.

But the larger problem, Ramirez said, is consumer confidence. He said it's critical for customers to have faith that their banks and credit unions are working — really, that their deposits are safe — and not to go out and "stuff cash in mattresses."

"In my opinion, there's a lot of debate about who to punish" for Wall Street's problems, said Ramirez, who supports the bailout plan. "If we don't act quickly, consumer confidence will drop, and it affects everyone."

As Congress and the Bush administration go back to the drawing board for the bailout package, Hannley, the Bank of Tucson CEO, said Americans will all feel the effects of the crisis, even if they didn't have a hand in it.

"I shouldn't have to be doing this because I wasn't part of it, and the taxpayer wasn't part of it," he said. "We got the short end of the stick."

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