

Pittsburgh Post-Gazette

Credit cards may feel pinch of bank crunch

By Tim Grant,

August 31, 2007--As the subprime mortgage meltdown spreads, fear and uncertainty have emerged regarding the impact on other forms of consumer credit, especially credit cards.

"Credit card companies will tighten down to limit any losses from higher risk," said Dave Kowalek, chief credit officer for Fox Chase Bank in Hatboro, Montgomery County.

The worst thing any cardholder can do in this environment is make a late payment, said Tom O'Brien, a financial talk show host in Clearwater, Fla., and chief executive officer of Tiger Financial News Network.

"If you are late, banks will close any further credit," Mr. O'Brien said. "This is a very unusual situation that has happened here. We're in a contraction of credit instead of an expansion. Contraction is a bank's worst nightmare."

Mr. O'Brien said people with sterling credit would still be able to get credit, but that the amount they're approved for might be less than they've requested.

Mr. Kowalek agrees.

"There's no doubt that people with a poor credit history will face some challenges all around," Mr. Kowalek said. "But that segment with good credit and stable jobs can typically obtain credit."

Even people with good credit may have to come up with more cash for a car down payment, and many credit card holders should not be surprised to see their credit limits reduced, their interest rates increased and fewer solicitations for new credit cards.

Banks that loan money for houses, cars, boats, furniture, computers and credit card purchases have far less money to lend now that investors are re-evaluating the risk of holding debt-related securities.

According to Bankrate.com, average interest rates on home equity loans edged slightly higher since last week from 7.89 percent to 7.91 percent for a \$75,000 home equity loan. Average rates on variable rate credit cards also rose from 13.9 percent to 14.57 percent since last week.

As lenders react to the subprime turmoil by clamping down on credit, federal lawmakers are considering its deeper impact on the nation's financial health. Congress announced

last week that a House panel would hold a hearing on Sept. 5 to examine the implications of the mortgage mess for consumers and the economy.

"The net effect could be a general economic slowdown or even a recession," said Paul J. Brahim, executive vice president of BPU Investment Management Downtown. "If legitimate borrowers either can't access credit or must pay punitive rates, they will most likely opt not to borrow. Businesses won't expand and consumers won't buy. Home improvements come to a screeching halt, auto sales slow to a trickle and consumer electronic purchases disappear."

Todd Cook, president of Debt.com, a Nevada-based company that offers people free referrals to financial services, said too many people were in positions where they need credit to supplement their incomes. Without that credit, many Americans don't have enough resources to pay all the bills.

"I don't think we've seen the bottom of it yet," Mr. Cook said of the mortgage fiasco. "I don't see a nice end to it. A lot of people will end up in the poorhouse."

The most important thing to have, he said, is three months of savings for all household expenses to cover any changes in income. People should create a budget and eliminate debt, said Mr. Cook.

Some of the credit fallout seems to already be trickling down to consumers.

According to Moody's.com, credit card companies wrote off 4.58 percent of payments between January and May, which is a 30 percent increase from the same period a year ago.

"We've created a society where people cannot live without credit. You are now seeing a re-evaluation of risk from people who loan money," said Michael J. Sichenzia, chief operating officer of Dynamic Consulting Enterprises in Deerfield Beach, Fla.. His firm specializes in renegotiating consumer debt, particularly mortgage debt.

"If there's no home equity and no refinancing ability, there's no way to buy," Mr. Sichenzia said. "You'll see auto sales suffer. The furniture industry will suffer, and so will the vacation industry."

For the most part, Pittsburgh has avoided the worst of the housing woes, according to data compiled by West Penn Multi-List. The average price for homes sold in Allegheny County in July was \$169,383, up a respectable 6.3 percent from last July's \$159,364.

Nationally, housing news is considerably worse.

Nearly 7 percent of the 32 million U.S. households studied in December owed more on their mortgages than their homes were worth, according to a study done by Christopher

Cagan, a researcher for First American CoreLogic, a housing and mortgage data supplier in Santa Ana, Calif.

First published on August 31, 2007 at 12:00 am

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