

## Many Smaller Cities Dodge Crunch in Consumer Lending

MARCH 30, 2009 | DAN FITZPATRICK

Consumer-lending activity has increased in numerous midsize cities in the U.S., a sign they are riding out the recession better than big cities and rural towns, an analysis of credit data shows.

As banks pull back on risk taking across the nation, consumer-loan balances in places like Huntsville, Ala., are rising. In Huntsville, a metropolitan area of 376,000 that is home to many government contractors, borrowing increased 13.2% per household in last year's fourth quarter, compared with the year-earlier period, according to data provided to The Wall Street Journal by Moody's Economy.com and Equifax Inc.

Huntsville's increase was the largest among 207 U.S. metropolitan areas tracked by the two data-gathering firms. Similar-size cities such as McAllen and Brownsville, Texas; Yakima, Wash; Provo, Utah, and Lafayette, La., also saw consumer-loan balances rise by more than 8% year-over-year.

During the economic crisis, the banking industry has been criticized for not lending enough, contributing to the slowdown in economic activity. The data show that in some places, banks feel comfortable enough about local economies to lend more to consumers. Across parts of California, Florida and Michigan, on the other hand, consumer-credit balances have been falling, the data indicate.

"The large metro areas are definitely hit by the finance or housing problems," says Steve Cochrane, managing director of Moody's Economy.com. "The smallest are often going nowhere." But, "many midsize metros in the country's midsection should come out of this all right."

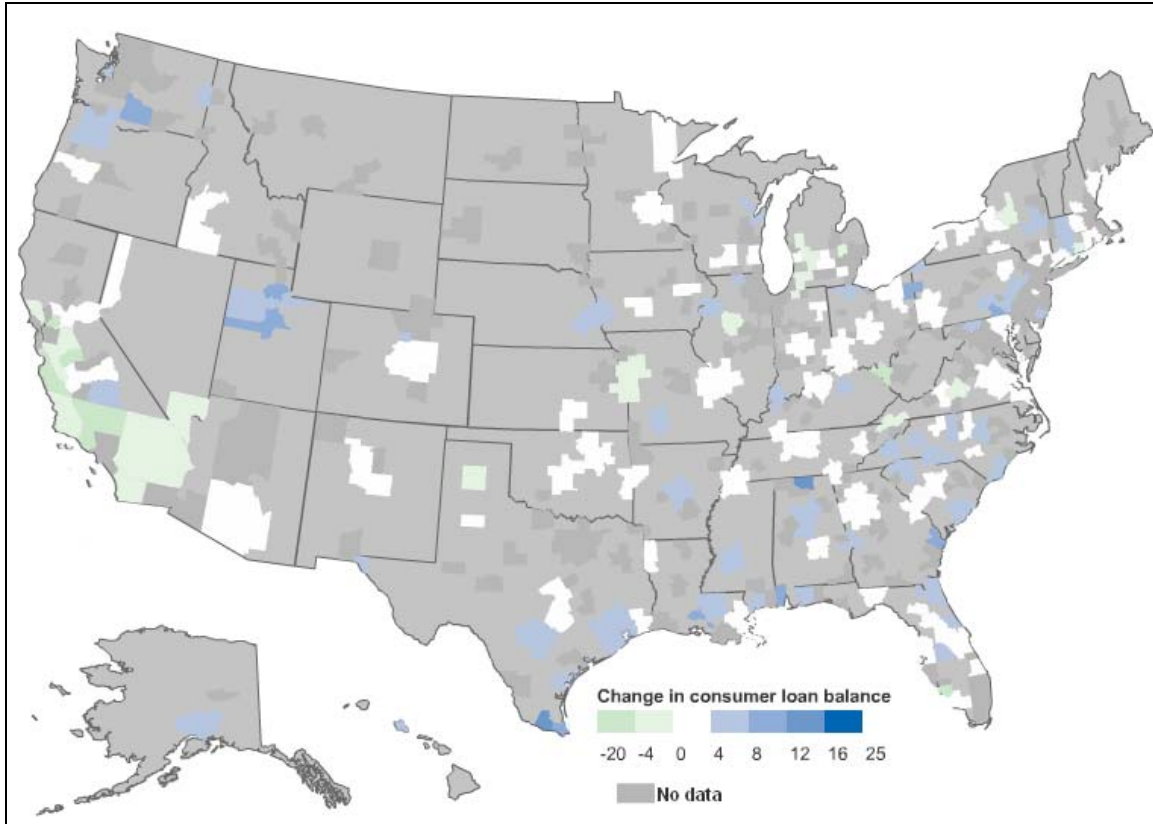
The data from Equifax and Moody's encompass mortgages and home-equity, credit-card, auto and student loans. The numbers aren't a pure reflection of new lending. Balances could grow if consumers draw down existing credit lines. Increases could also reflect the sort of reckless borrowing that contributed to the current crisis, or desperation borrowing as bills become more difficult to pay.

But Equifax Vice President Jim Powers says such scenarios aren't the norm. "Most lending these days is pretty tight," he says. "Anyone that is getting a new loan, the bank deems a pretty low risk."

It is one of the few times in recent economic history when so many midsize cities are outperforming their larger counterparts, says Ross DeVol, director of regional economics at the Milken Institute, a Santa Monica, Calif.-based think tank. The new lending patterns, he says, reflect more disciplined economic-development strategies in

those cities, more diverse employment and lower costs. Many of the higher-lending areas appeared on the institute's list of "best-performing" cities for 2008, measured by job, wage and salary increases. Provo, Huntsville and McAllen were all in the top 10.

### The Geography of Risk



### 'Blocking and Tackling'

"The medium-size metros that have done the blocking and tackling are better positioned during the downturn," he says.

Banks based in some cities with rising consumer-loan balances hold relatively low levels of nonperforming commercial and consumer loans, according to FIG Partners of Atlanta, a bank consulting firm. Problem commercial and consumer loans at Huntsville-based financial institutions, for example, represented 2.2% of total loans in the fourth quarter, compared with the national median of 4.92%.

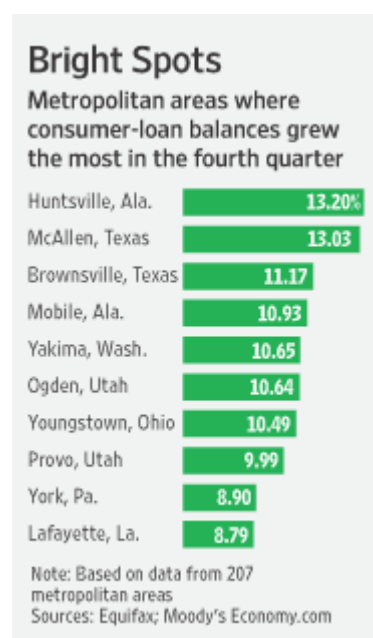
Some of the better-performing cities didn't experience speculative real-estate bubbles, leaving them with more solid household-credit conditions, which are conducive to lending. Others are benefiting from major government spending, such as massive infrastructure projects and military bases. Many have unemployment rates below the national average and rank among the nation's best job creators.

At the opposite end of the spectrum lie metropolitan areas such as Merced, Calif., where consumer-loan balances dropped 8.5% year over year. According to FIG Partners, problem commercial and consumer loans there shot up to 11.4% of the total. The unemployment rate in Merced in January was 19%. One of every 74 Merced households faced a foreclosure filing in February, according to RealtyTrac, compared with one in every 2,319 households in Huntsville.

Cape Coral, Fla., where consumer-loan balances dropped 6.8%, lost more than 9% of its jobs last year, according to data from the U.S. Bureau of Labor Statistics. One in 65 households received a foreclosure notice last month. Another city near the bottom was Vallejo, Calif., a city forced to declare bankruptcy in the spring of 2008. Its consumer-loan balances dropped 4.5%, while its unemployment rate rose to 10.1% in January.

Some regions where loan balances have grown are creating jobs in the midst of the national recession. McAllen, which is near the U.S.-Mexico border, increased employment by 0.6% in the 12 months through this January. Over the past five years, employment there grew 21.1%.

Lafayette, which picked up population displaced by Hurricane Katrina, increased employment by 0.2% in the year ending January 2009, and 15.2% over the past five years.



Employment in Mobile, Ala., a southern port metropolitan area of 404,000, is down just 0.6% for the year ending in January, after rising 8.4% over a five-year period. Government-sponsored spending could explain why consumer-loan balances are on the rise there, as work continues on a \$4.5 billion ThyssenKrupp AG steel plant.

## Industry's Impact

Many of the cities where consumer lending has risen "have longstanding specializations in industries that have not been as affected by the downturn," notes Alan Berube, senior fellow and research director with the Brookings Institution, a Washington think tank.

Huntsville, located about 100 miles north of Birmingham, Ala., has long been strong in aerospace and technology due to a military base and an influx of engineers and scientists. Its unemployment rate was 6% in January, well below the national rate of 8.5%.

### **'Very Blessed'**

Huntsville is the National Aeronautics and Space Administration's center of planning for a return trip to the moon. It also serves as headquarters for the U.S. Army Aviation and Missile Command. The [Boeing Co.](#), which employs more than 3,000 locally, is one of many government contractors with a major presence.

"We are very blessed," says Joe Newberry, president and chief executive officer of Huntsville's Redstone Federal Credit Union.

When Larry Anderson needed \$420,000 last fall to purchase a new building for Alatec Inc., his military-weapons analysis company in Huntsville, he was expecting trouble because of the national credit crunch. Instead, local ServisFirst Bank approved the loan, and kept a \$2 million line of credit open to fund expansion of the 80-employee company. Mr. Anderson has been adding workers over the past six months.

Andy Kattos, president of ServisFirst Bank Huntsville, says federal spending and contracting work was a big reason for a 69.4% increase in the bank's total loan balances during 2008.

Redstone Federal Credit Union made \$17 million in auto loans in January, the fifth-highest monthly total in its 57-year history. In February, Redstone originated \$43 million in mortgage loans, a one-month record.

Among the recent Redstone borrowers is 28-year-old James Clutts, who took out a \$2,000 loan in November to pay some outstanding bills. A crisis may be weighing on other cities, he says, but "I don't think we are seeing it here."

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