

## **2008: BANKING, FINANCE SECTORS HANG ON FOR A SLOW RIDE**

As you shake the tinsel and glitter from your sleeves, and stuff the last box of decorations into the attic, it's time to contemplate the condition of the economy during 2008.

No need to panic about using a credit card to get junior an iPod for Christmas. The general consensus is that the economy will muddle through — there will not be a recession. However, bankers, financial advisers and economists are more confident with that prediction about the local economy rather than the national economy.

The Federal Reserve seems to be able to fend off recession by acting quickly to lower interest rates. The last two recessions were during 1991 and 2001, said Larry Luchini, an affiliate faculty member with Regis University.

“Consumers have been squeezed by rising costs of gasoline, health care and food,” he said. “But never count out the consumer. As long as consumers have jobs — they seem to spend.”

However, one demon still looms on the horizon.

## **SUBPRIME DEBACLE NOT OVER**

The national economy is hinging on as-yet-to-be-revealed subprime mortgage write-offs — those not yet identified.

“The subprime mortgage situation was stable in December — but if it turns worse — then all bets are off,” Luchini said. “We could have a recession starting this month.”

Fred Crowley, senior economist and associate research professor at the University of Colorado at Colorado Springs, said that delinquent loans have a cascading effect of direct and indirect jobs being lost.

“We will see a significant increase in commercial bank write-offs in the fourth quarter (of 2007),” he said. “And if unemployment rises, many more people will be unable to pay their mortgages.”

Residential foreclosures for El Paso County totaled 3,556 during 2007 — up a thousand from 2006. Although local foreclosures increased significantly year-over-year — 20 per 1,000 households for 2007 vs. 13 per 1,000 for 2006 — it was still much lower than the 32 per 1,000 during the 1988 recession, Crowley said.

## **BANKING INDUSTRY DURING '08**

Convenience is the banking buzzword for 2008.

Despite technology and online banking, customers want brick and mortar branches. Increasingly, banks are opening branches in retail shopping centers and grocery stores.

“With the advent of technology and our mobile society, Internet and cell phone banking will continue to rise,” said Tom Naughton, regional president of U.S. Bank.

Pre-loaded debit cards are popular with students and their parents. And the government sector also is trending toward pre-loaded debit cards to disburse money to recipients of child support, unemployment, insurance, etc.

“Virtually every state allows companies to distribute payroll via payroll cards,” Naughton said.

Increasingly, small business owners are taking advantage of remote deposit via a computer terminal at their businesses.

“It saves them time and they don’t have to drive to the bank,” Naughton said. “If a business has multiple locations, all the banking can be done online.”

Bank vs. credit union competition will continue, as will competition between banks.

“When banks compete, the consumer and small businesses win,” Naughton said.

There also will be an increase in banks doing non-customer check cashing, and banks will become more involved with new market tax credits.

“When developers and financial institutions work together, it is beneficial for all parties involved,” Naughton said.

## **SMALL BUSINESS OWNERS**

Because of the closings of Intel Corp. in the Springs and Sanmina-SCI in Fountain, and the influx of a new brigade to Fort Carson, El Paso County will see an increase in entrepreneurs and small businesses during 2008, said Matt Barrett, director of the Small Business Development Center at UCCS.

However, the flat real estate market makes it more difficult for potential small-business owners to acquire cash. Traditional bank loans require 20 percent down. Because lending criteria has become more stringent, applicants must have good credit and have equity in their homes to qualify for a second mortgage.

During a tight economy, entrepreneurs are trending toward opening franchises instead of new businesses. The failure rate of a franchise is 10 percent to 20 percent vs. 50 percent for a new business, Barrett said.

Government entities are trying to make the Small Business Administration Express application process easier, Naughton said, and to encourage banks to be more pro-active with lending policies.

## **LOCAL ECONOMY — HOLD TIGHT**

Bill Berenz, regional president of American National Bank, believes the local economy will be relatively flat, but probably stable.

“Certainly we’ve taken our lumps in the building industry,” he said. “Building permits were down significantly in ’07, but we should stabilize in 2008, as inventories are absorbed. If the EDC (Economic Development Corp.) can continue to create net jobs, we may see a correction or an increasing trend in 2009.”

The good news, Crowley said, is that Base Realignment and Closure 2005, though a temporary cure, aided local troop

build up. And the newly formed brigade of 4,877 soldiers coming to Fort Carson (announced during December) should soften national recession influence and stimulate a rather strong growth period locally.

## **PERCEPTION IS HALF THE BATTLE**

“The stock market is mercurial — full of surprises,” said Troy Carlson, adjunct associate professor at Colorado Technical University. “The uncertainty of an election year makes the market nervous. But since 1929, the average return on investments has been 11.1 percent. We have moved to an economy driven more by Federal Reserve monetary and fiscal policies — so recessions, when they occur, are not as long and bad as they used to be.”

Investors should buy into the market when it’s down, said Carlson, take advantage of 401(k) employer-matching funds, and not worry about the volatility of short-term investments.

Consumers and investors should remember that the glass is half full, Naughton said. Colorado Springs has a great base to build on, and a great future. But fear of a recession can produce a recession.

“Things tend to get blown out of proportion,” he said. “Chicken Little — ‘the sky is falling’ — can become a self-fulfilling prophecy. If consumers stop spending, we will have trouble.”

Consumers have much more power than they realize — consumer spending drives about two-thirds of the economy.

Wells Fargo’s Regional President Steve Helbing said avoiding a recession hinges on consumer confidence.

“It’s like FDR said, ‘We have nothing to fear but fear itself.’”

In light of that, perhaps taking advantage of post-holiday sales and splurging on a leather coat or a new PDA could be construed as one’s civic duty.