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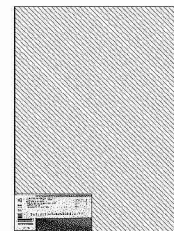
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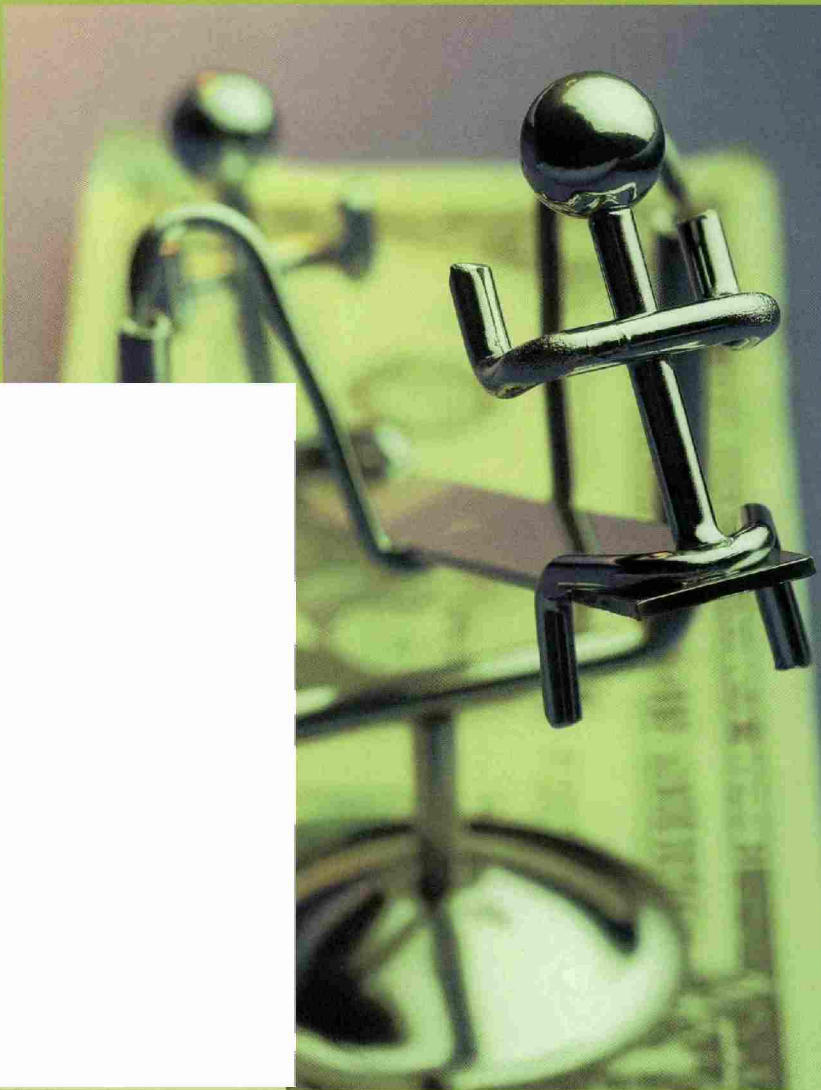
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Standing

# Firm

Locally owned banks hold their own in a soft economy

By DON HARRIS



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**D**espite the subprime meltdown and a stagnant residential real estate market, Arizona's locally owned banks are doing reasonably well. "None of them that I'm aware of are dealing with subprime mortgages," says Tom Wood, banking division manager at the Arizona Department of Financial Institutions, who adds that the overall financial health of locally owned and community banks is good.

What's more, Wood says the banks' involvement in real estate is "small stuff," working with specialty builders who put up one house at a time. "They're not in mega projects," he says.

Even so, local banks are feeling some of the pain. While these smaller, locally owned community banks have managed to avoid the direct pitfalls of the subprime collapse, that doesn't mean they are unaffected; profits are down.

"That's true nationwide in general, and the reason is what's going on in the credit market and the mortgage issues," says Tanya Wheelless, president and CEO of the Arizona Bankers Association. "Most local banks were not involved in subprime mortgages, so they're not feeling the hit from that."

Wheelless says commercial real estate "is humming along, and that's generally the bread and butter for our community banks, but they're not insulated from what's going on in the greater market."

"People are not buying and renovating homes, and they're not doing all those things that go along with it," Wheelless says.

Locally owned Goldwater Bank, which opened last April 2, is too new to have offered subprime mortgages, but is still feeling its effects.

"Subprime hurt us because we have to keep all of our capital in federal funds, short-term instruments," says Kelly Dunn, president of Goldwater Bank.

As basis points dropped, so did profitability.

At the end of 2007, Goldwater Bank was "right where we should be — but not in the black yet," Dunn says. The target for turning a profit is next July or August.

Locally owned West Valley National Bank in Avondale ended its first year in December having seen slower-than-anticipated loan growth, says President Candace Hunter Wiest. Like others, she blames the general tenor of the market. But she disputes those who say it was a bad time to open a bank.

In fact, there seems to be no shortage of new banks opening in Arizona. Wood says the reason three new Arizona banks opened in 2007 was that they wanted "to be here in a growing economy."

Felecia Rotellini, superintendent of the Financial Institutions Department, agrees.

"Any time someone opens a new bank it's a long-term investment," she says. "A new bank is starting at ground zero. To make money it takes a couple of years, but it's a sign that the business community believes the economy still has a strong enough base for new community banks."

In the past three years, at least 10 new community banks have opened in Arizona, and 10 more are proposed or in formation stages, says Wheelless of the Arizona Bankers Association. She explains that Arizona is second only to California in the fewest number of bank branches per capita, adding, "This is an attrac-

tive market."

Wiest adds that the timing was also perfect for West Valley National Bank.

"A year earlier and we might have gotten caught up in subprimes," she says. "We might have booked things at the peak of the market. Or, a year later and because of regulators' concerns about the economy, it's tougher to get a new charter."

Although losses exceeded projections by 15 percent in the first year, Wiest says, a good first six months of 2008 will put West Valley National Bank on track to break even by December.

RepublicBankAz President Robert Regan, who has been in and out of the Arizona banking scene since the 1970s, says his bank opened last April with 280 shareholders, principally from the Phoenix area.

Asked about profits, Regan says: "We are slower out of the gate than we anticipated."

Regan, too, says declining interest rates affected the bank's profitability picture.

"We're impacted from the standpoint that we have been less aggressive investors than we might have been in other market conditions," he says. "We aren't convinced the other shoe hasn't dropped yet." **AB**

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the other shoe hasn't  
dropped yet."*

— Robert Regan, president,  
RepublicBankAz