

EARTHQUAKE - S.C. CO - REBUILDING

Large banks still fleeing quake

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Background:
Big 3 have refused to lend in downtown Santa Cruz.

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More than three years after the Loma Prieta earthquake wrecked 29 buildings in downtown Santa Cruz, California's three largest banks still have not made a single construction loan to struggling property owners attempting to rebuild.

The total cost of all repairs, public and private, in the Pacific Avenue business district has been estimated at \$100 million. About \$45 million has been spent or committed.

But Bank of America, Wells Fargo and First Interstate Bank — responsible for roughly 60 percent of all bank assets in California — have watched from afar as public agencies and smaller local banks have reached for their wallets to help the city get back on its feet.

"My dismay is that these banks are part of our community," Santa Cruz Mayor Neal Coonerty

FUNDING EARTHQUAKE REBUILDING

The largest hurdle to earthquake recovery in downtown Santa Cruz has been the difficulty property owners face in obtaining financing to construct new buildings. Major banks such as Wells Fargo and Bank of America have not loaned any money, for example. A new survey shows where the money came from to fund prominent replacement projects:

Source	Number of Loans
Small Business Administration	6
Private financing	4
Red Cross	3
California Disaster Assistance Program	3
Coast Commercial Bank	3
Pacific Western Bank	2
Sumitomo Bank	2
Federal Emergency Management Agency	2
Security Pacific Bank	1
United Way	1
State Rental Housing Construction Program	1
San Francisco Federal Savings	1
City Housing & Community Development Program	1

Source: Santa Cruz Redevelopment Agency survey and Mercury News reporting

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said. "They have gathered our deposits for years, and yet in the midst of an extraordinary event, they have not participated at

all."

The banks cite the following reasons:

■ Credit crunch. Strict over-

sight from federal bank examiners has limited commercial lending, especially in California. Congress has tightened banking rules during the past three years to avoid another savings and loan-type disaster. As a result, people who might have been eligible for loans are turned away as too risky.

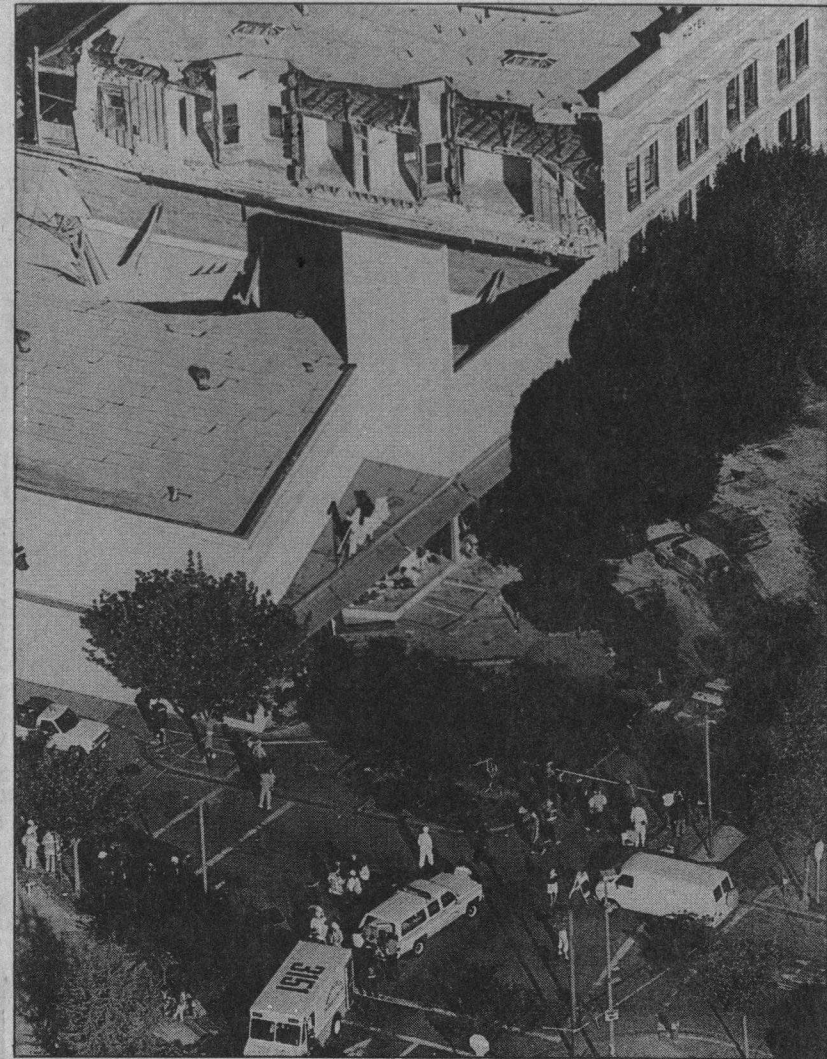
■ The recession. A bad economy means retail stores and office tenants don't expand. Many banks these days require that 70 percent of a building be pre-leased before they will even consider a construction loan.

■ Santa Cruz itself. Though it is rarely mentioned in public, some bankers say a city full of vacant lots is too risky, especially when many property owners still are paying mortgages on buildings that don't exist anymore. Financiers also worry about aggressive panhandlers driving shoppers away.

■ Hangover from the 1980s. Too many shaky commercial loans from the go-go '80s are in default. To compensate, banks are more conservative in commercial lending.

"We used to just pump loans off," said Bob Feaster, who re-

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Ford's department store was destroyed in the 1989 quake.