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As house values fall, some banks are freezing home equity credit lines

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With home values falling in many parts of the country, several of the nation's biggest lenders have responded by suspending their customers' access to home equity lines of credit.

While it does not appear any local banks have frozen home equity lines of credit in Western Pennsylvania, at least one -- National City Bank -- has indicated that it might exercise that option.

"In situations where there has been a material change in financial circumstances or a significant decline in the mortgaged property's value, we may suspend further access to a homeowner's line of credit," said Bill Eiler, a company spokesman.

"We are facing an unprecedented time in the housing industry, and we believe it's prudent to assess and address risks that arise due to significant changes that have occurred since the original line of credit was extended."

Mr. Eiler did not want to identify any markets that might be affected; the bank covers nine states. But if National City does decide to freeze any home equity lines of credit, the homeowners will be notified and the bank will work with them to find another solution to their credit needs, he said.

Major mortgage lenders such as Countrywide, USAA, Bank of America, Chase Manhattan and Citibank have announced that many of the home equity lines of credit they approved in areas hardest hit by the housing meltdown have either been downgraded or frozen.

"In keeping with its sound risk-management and responsible lending practices, Countrywide is reviewing and analyzing the home equity lines of credit in its servicing portfolio," the

company said in a written statement. "Among the objectives of the analysis is a determination of the impact of lower property values on existing accounts.

"This analysis may result in the company suspending borrowers' future access to existing lines of credit."

Countrywide and other major banks have been notifying customers across the country that they no longer can write checks on their credit lines because sinking home prices have left them with little or no equity.

But in Western Pennsylvania, housing prices have remained relatively stable despite the general downturn nationwide, a reality that local banks are inclined to recognize and appreciate.

"We have very low delinquencies in our home equity portfolio," said Todd Brice, chief executive officer of S&T Bank, based in Indiana, Pa. "We haven't see a noticeable decline in the Western Pennsylvania markets."

PNC Financial Services also confirmed that it has not suspended any home equity lines of credit based on any change in the value of homes, and that such a move is not on the bank's agenda.

"PNC has always managed its home equity lines of credit based upon a borrower's ability to pay and we continue to think this is the most relevant predictor of repayment," said Brian Goerke, a PNC spokesman.

Carrie Coghill-Kuntz, president of DB Root & Co., a Downtown investment manager, said she believes banks are making a smart move in scaling back on credit where equity has been lost.

"It goes back to the whole reason we're in this mess," she said. "People are borrowing too much."

Although it does not appear many homeowners in this region have been affected so far, Mrs. Coghill-Kuntz said it should be a wakeup call for Pittsburgh residents. "If this can happen nationally, there's the potential that we could see lenders in Pittsburgh start to implement it," she said.

Pittsburgh and most of western Pennsylvania did not benefit from the wild upside ride of soaring real estate values and because of that local communities have had a much softer landing following the crash that began early last year.

"People who live here are most prone to avoid debt," said Paul Brahim, executive vice president of BPU Investment Management, Downtown. "They might take out a 30-year mortgage, but they want it paid in 13 years.

"I have a sense that Pittsburghers in general are not as prone to getting upside down as people in other parts of the country. We are pretty conservative in our financial values."

John Ulzheimer, president of consumer education at Credit.com in Atlanta, said many customers have contacted the company with complaints and questions about what to do now that their home equity lines of credit have been suspended.

"They were either notified in writing or they wrote checks against the home equity lines of

credit that bounced because the line was closed," Mr. Ulzheimer said.

"If someone writes a check that bounces, the merchant wants to be paid. People use home equity lines of credit for big-ticket purchases," he said. "Most people don't have that kind of money around [to cover the bounced check]. They have to get the money by digging into their savings or get cash advances on their credit cards, which could damage their credit scores."

He said the banks that have taken this drastic action are not disclosing the number of loans affected, but he estimated it is several hundreds of thousands if not millions based on the size of the banks involved.

The most responsible borrowers could potentially be hurt worse.

They may have sacrificed the opportunity to use the home equity lines of credit except as a financial cushion for emergencies. The suspension of their credit line will force them to completely rethink their financial planning.

P.J. DiNuzzo, president of DiNuzzo Investment Advisors Inc. in Beaver, said he hasn't had any clients report that their home equity line of credit has been suspended, but he understands why some banks would feel it is necessary to do so.

"Banks tend to over exaggerate," Mr. DiNuzzo said. "Their lending pendulum tends to swing from excessive ease of credit back to excessive difficulty in attaining credit. They go from one extreme to the other."

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