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## Wall Street's turmoil hurts Sacramento, too

By Dale Kasler, Jim Wasserman and Jon Ortiz - [dkasler@sacbee.com](mailto:dkasler@sacbee.com)

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Wall Street's meltdown is fast becoming Sacramento's problem, too.

The three-headed monster gripping the financial markets Monday will put more economic pressure on the Sacramento area. Credit markets will tighten, which could hurt the fragile recovery in the housing market. Businesses will find it harder to expand. Pension plans might suffer. A lot of people will feel poorer and more afraid.

All of which is bad news in a region where unemployment – at 7.3 percent – is the highest in 12 years.

Lehman Brothers' bankruptcy, plus the rescue of Merrill Lynch and the iffy fate of insurer American International Group, sent the Dow Jones tumbling 504 points Monday. It was one of Wall Street's worst days ever, and made for a bad day on Main Street, too.

The demise of the nation's fourth-largest brokerage firm did little to boost confidence in the economy. The fall of the Dow, following weeks of market instability, took another chunk out of practically everyone's nest egg.

"When people get their retirement statement at the end of September, they're going to be shocked," said Esmael Adibi, a Chapman University economist who oversees a survey of Californians' consumer confidence. The quarterly index stands 30 percent lower compared with a year ago – and that's before the Lehman bankruptcy.

Adibi said Monday's wipeout will surely hurt Californians' sense of well-being.

It's not just a psychological problem. The housing market crash has erased billions of dollars in wealth throughout Sacramento and the state. The latest problems on Wall Street – with the Lehman debacle coming a week after the bailout of mortgage giants Freddie Mac and Fannie Mae – are making things worse.

"A couple of years ago everybody thought they were rich," said Chris Thornberg, head of Beacon Economics consulting firm in Los Angeles.

That's an increasingly distant memory, and conservatism is the order of the day. Michael Herring, a support engineer at Rancho Cordova biomedical firm Volcano Corp., said he was selling his 200 shares in the company because he's nervous about the market. The stock had done very well in recent months but fell 7 percent Monday, "and I'm going to take it while I can and run with it," he said. He's also selling his shares in Apple Inc.

Ray and Maxine Green, two state workers who live in Sheldon, south of Sacramento, recently converted their stock portfolio to short-term investments. The yields are low but that's better than before.

"It stopped the bleeding," said Ray Green, 58.

The no-frills approach extends to everyday living. Though the Greens are doing well, he said they have cut back on expenses, including the amount he spends restoring old cars. They've also postponed purchasing a new car for Maxine.

Ray Green said he understands the problems that causes for the economy. "You have to spend the money to make the world go around," he said.

The stock market's troubles, which have cost the Dow about 6 percent of its value in the past month, are hurting California's big public pension funds. The California Public Employees' Retirement System has lost about \$12 billion since June 30, a 5 percent drop. Its Lehman holdings, worth \$65 million in March, have been largely wiped out.

But pension benefits are safe, and CalPERS issued a statement saying Monday's developments "will help the markets recover quickly. Equities markets are down today, but as large and as much of a long-term player as we are, we can weather jolts – even of this magnitude."

Joe Milam, a Roseville money manager, said the shakeout is a painful but necessary step toward fixing the system.

"It does make the system, and capitalism as practiced in the United States, more healthy," said Milam, head of Legacy Capital Management Inc.

Monday's sharp market decline likely will make the nation's credit markets even tighter than they already are.

"It might have a ripple effect on the rest of the banks," said Pat McHone, chief credit officer at Sacramento's River City Bank.

That's the last thing Paul Petrovich wants to hear.

"Lenders have been tightening their belts for over a year," said Petrovich, a Sacramento developer.

Although he's still able to secure financing for his shopping centers, lenders are making things tough. He was recently forced to make a \$2 million debt payment earlier than expected because of a wrinkle in his loan agreement; he suspects the bank needed the money to deal with a problem on someone else's loan.

"When there's a lack of liquidity, there's a lack of growth," said developer David Bugatto of Alleghany Properties in Sacramento.

Instability on Wall Street could also make it harder for the state to undertake its usual borrowing. "We need to borrow money and that involves Wall Street," said chief economist Howard Roth of the state Department of Finance. "We need somebody there."

Ironically, the stock market drop generated an immediate silver lining. Investors poured their money into the bond market, driving 30-year fixed-rate loans to as low as 5.625 percent.

But Michael McGee, president of Winchester McGee Real Estate & Loans in Rancho Cordova, and others said they could feel credit markets tighten as underwriters become increasingly stingy.

"It's getting harder and harder by the day to qualify (for a loan)," McGee said.

That's particularly troubling now that the Sacramento housing market is showing signs of a comeback. Although Sacramento County prices have fallen 33 percent in the past year, sales volume has jumped as buyers snap up bank-owned properties.

Victoria Benbow, an agent with Coldwell Banker in Sacramento, said one of her clients has a healthy credit score and employment history but is getting bombarded with requests for documentation from a nervous lender.

"If there's anything so slightly off-kilter, it requires at least one and two supervisors approving it," she said. "You can get approval and think you're approved, and then you have to wait 10 days to get approval up the line."

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