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Area caught in credit squeeze

Businesses, homebuyers feel pinch of national crisis

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Published 12:00 am PDT Sunday, September 28, 2008

Bertram Chatham, owner of a Citrus Heights Halloween store, says he's just as good a businessman today as he was a year ago.

So when Wells Fargo & Co. slashed his available line of credit this summer from \$26,000 to \$10,000, he knew he'd gotten snared by the nation's credit crunch. The reduced financing prodded him to scale back his operation this fall, at a cost to the economy of about 30 jobs.

No wonder Chatham believes in the \$700 billion financial rescue plan that's gripped Wall Street, Washington and the presidential campaign.

"What they're trying to do is ... unfreeze the credit," said Chatham, owner of Halloween Express of Northern California. "This is necessary."

Chatham's experience demonstrates how Wall Street and Main Street are married to each other, for better or worse. Banks, investment banks and other financial titans, choking on bad real estate debts, are squeamish about making new loans. Even solidly profitable institutions are increasingly conservative.

There's more: Without a federal bailout, the argument goes, the current clampdown on credit could turn into a widespread financial panic that takes down strong lenders along with the weak and does catastrophic harm to the economy. Under that theory, the bailout – under which the government would buy up Wall Street's swollen portfolio of troubled mortgage-backed securities – is an expensive but necessary step to prevent doomsday.

"No matter how you feel about Wall Street and the high-finance executives on Wall Street, you have to understand that no matter what, this would eventually land on Main Street's door," said Joe Anfuso, president of Central Valley homebuilder Florsheim Homes. "It's going to end up on everybody's front door in terms of credit cards being revoked, no more home equity lines, small business lines of credit, payroll lines of credit."

The anxiety only worsened late Thursday when Washington Mutual Inc. was seized by federal regulators and purchased by JPMorgan Chase & Co. Although WaMu was hurt by a huge supply of bad loans, what ultimately tipped it over was an old-fashioned run on the bank: depositors withdrew \$16.7 billion in 10 days, according to the U.S. Office of Thrift Supervision (No depositors will lose any money, the agency added).

House Speaker Nancy Pelosi announced a \$700 billion accord just after midnight Saturday but said it still has to be put on paper. Some private economists were questioning the wisdom of the bailout.

Chris Thornberg, head of Los Angeles consulting firm Beacon Economics, said there's no doubt the economy is in trouble. But he noted that the Federal Reserve had already been pumping hundreds of billions of dollars into the system via loans at its so-called discount window, and there's no reason that couldn't continue.

But others argued that the problem had reached a point where a more sweeping approach was needed.

"The Fed has been using all the arrows in their quiver. ... They've been running out of options," Anfuso said.

He and others said lending standards have been tightened so much that worthy homebuyers have been locked out of the market.

"Before, you'd have lenders lending on everything," said Scott Crowle, who brokers retail space at the Roseville office of the Marcus & Millichap real estate firm. "Lenders (now) are much more selective about deals."

Even banks that have skirted trouble are taking a tougher attitude on loans. Rocklin-based Five Star Bank, which specializes in small business and commercial real estate lending, is charging higher interest and demanding better credit and bigger down payments, said President James Beckwith. A key reason: It's harder in a down market to judge the value of a borrower's collateral.

"There's a degree of uncertainty," he said.

This conservatism creates problems for small-business owners like Eleanor Cody, who runs a Sacramento courier service called EGBOK (for "Everything is going to be OK").

Cody, who depends heavily on state government for business, lost half her revenue during the just-settled budget impasse. Because of cutbacks at certain agencies, EGBOK might not get back on track until next summer.

Cody cut her staff in half and applied for a \$150,000 line of credit. The answer was no. While she acknowledges her company has risks, she said, "I'm not shutting my doors" and believes she would have gotten a loan in earlier times.

"The banks are way more conservative than they used to be," she said. "Everybody that I've talked to is having trouble getting credit, where before they didn't."

Just about everyone agrees that credit standards needed to be tightened after the disastrous results of no-money-down loans and other products of the subprime mortgage mania. But those in the lending business argue that the pendulum has probably swung too far.

Michael McGee, owner of Winchester McGee Real Estate & Loans in Rancho Cordova, said he's having severe problems obtaining financing for homebuyers who can't make down payments of at least 10 percent.

Loan guarantee programs such as the Federal Housing Administration's are helpful but only go so far, he said. He's troubled that down payment assistance programs, like the one pioneered by Sacramento's Nehemiah Corp. of America, are set to expire Wednesday by federal law.

For the past six years, Chatham has owned the Sacramento-area franchise of Halloween Express, a national chain. The stores are open only about six weeks a year, but running the business is practically a year-round job, he said.

Last year, he ran two stores and this year planned to run three. In late spring he asked Wells Fargo to nearly double his line of credit, to \$50,000. The early indication was he'd get approved.

"If this had been three or four years ago, it would have been a snap of the finger," he said. "We've got good credit, our business is a good going concern."

But then he was told that higher-ups had nixed the increase. And a month later came even more startling news: The \$26,000 line had been cut to \$10,000.

"We didn't understand it, (but) we understand it now," Chatham said. "They simply don't have the money to loan." Despite his disappointment, he said he holds Wells Fargo in high regard.

The bank said it wouldn't comment on individual borrowers but said "our lending continues to be based on a customer's personal and business creditworthiness. We do take into account the economic environment and its effect on particular industries or businesses."

With a smaller credit line, Chatham decided to open just one store, at the Marketplace at Birdcage center in Citrus Heights.

He probably could have stretched financially and opened a second location, but the bank's decision felt like a warning of sorts: If banks are tightening their belts, consumers are, too.

"Credit is drying up," Chatham said. "Not just for the big banks but the guys on the street."

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