

## Credit crisis takes heavy toll

By Joyce Hanson

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The credit crunch that is 2007's biggest financial story cleaved the year neatly in two. The first half of 2007 was brilliant, as bankers negotiated ever-bigger leveraged buyouts and hedge fund managers rode high on credit derivatives. The Dow Jones industrial average closed above 14,000 for the first time on July 19, and the Street seemed headed for its best year ever.

Then, in the dog days of summer, the credit crunch hit, sweeping through the New York City economy and affecting everyone from the city's top executives to homeowners on Staten Island. More damage is expected next year.

### Quick beginning

The crisis came on suddenly, as people across the country began defaulting on their variable-rate mortgages. The value of the mortgage-backed securities that had driven the housing boom was suddenly in doubt. Investors fled, deals fell apart, and in the space of a few weeks, the mood from Wall Street to all five boroughs turned from big spending to belt-tightening.

Wall Street's 10 largest investment firms had reported approximately \$40 billion in write-downs, as of November. Fourth-quarter results are expected to include more write-offs. Citigroup and Merrill Lynch posted the biggest numbers: \$13 billion in bad loans at the former; \$8.4 billion at the latter.

Not surprisingly, executive heads rolled. A half-dozen of Wall Street's top executives are out after the crunch, including Citi's Charles Prince and Merrill Lynch's Stanley O'Neal.

The job cuts have gone down the line and are continuing. Between August and October, close to 12,000 Wall Street employees lost their jobs, according to Gustavo Dolfino, president of recruiter WhiteRock Group.

After the credit crunch began, Bank of America cut 3,000 jobs, Lehman Brothers cut 2,000, and J.P. Morgan Chase cut 2,500. In addition, Morgan Stanley laid off hundreds of employees, as have Credit Suisse and Bear Stearns. Merrill Lynch has layoff plans, and Citigroup plans a new round of massive layoffs.

The damage from the credit crunch is spreading beyond the Street. New York City foreclosures rose dramatically in 2007, to an expected 14,000 compared with last year's 9,000, according to the Neighborhood Economic Development Advocacy Project. The epidemic of lost homes is worse in Brooklyn and on Staten Island.

### **Smaller bonuses**

The true extent of the damage to the New York City economy, however, isn't yet known. Wall Street's fat bonuses help drive the economy. The crunch may reduce them in 2007 by 10% to 20%, estimates city Deputy Comptroller Marcia Van Wagner, but they are still expected to top \$100,000 on average, based on profits earned during the first half of the year.

Next year may be another story.

"We're definitely in one of those turning points in the economy," Ms. Van Wagner says.

#### **CASUALTIES OF THE CRISIS**

**CHARLES PRINCE** was out after Citi posted \$13 billion in bad loans.  
**STANLEY O'NEAL** of Merrill Lynch was another executive axed.

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