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Regional Economy



Article published Tuesday, September 16, 2008
DOW PLUNGES 504 POINTS

Wall Street turmoil may extend to pensions Many 401(k) plans rooted in troubled banks

By **GARY T. PAKULSKI**
BLADE BUSINESS WRITER

The 401(k) fund you've been dumping pretax earnings into for retirement may have shed a little heft.

When the monthly update arrives from your brokerage, mutual fund holdings may seem like they have been on the South Beach diet.

And the pension fund maintained by your employer could end up lighter as well.

Those are ways in which the collapse of investment bank Lehman Brothers Holdings Inc. and related turmoil on Wall Street yesterday could affect average investors, experts said.

Stock and bonds issued by Lehman, Merrill Lynch & Co., and troubled insurer American International Group are widely held by mutual funds, pension funds, and individual investors.

"This is an extreme sort of event, and it will take days and months to figure out the precise consequences," said Amiyatosh Purnanandam, assistant professor of finance at the University of Michigan.

But it will have an impact, he said.

Problems in the banking sector will spill into the broader economy. If you want a business loan, a car loan, a home loan, a student loan, or virtually any other kind of loan, the banks are hesitant to lend, and that in turn could hurt car and home sales.

People with 401(k) retirement savings accounts may be unaware of their exposure to problems at Lehman and other firms swept up in the turmoil, especially if they are unfamiliar with the holdings of stock and bond funds in which the retirement stash is invested, Mr. Purnanandam said.

For example, the Fidelity and Vanguard family of mutual funds, as of June 30, were two of the largest owners of Lehman stock, holding 6 percent and 3 percent, respectively. Wall Street experts expected the stock value to drop to zero in the bankruptcy case filed by Lehman yesterday in New York. The firm's bonds, which are held by mutual funds and even small-scale individual investors, will likely have some value but how much is unclear, experts said.

Many pension funds also hold the stock.

A \$77 billion fund covering public employees in Ohio holds \$4 million in Lehman stock and \$113 million



Treasury Secretary Henry Paulson.

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WHAT HAS HAPPENED

• Lehman Brothers, a 158-year-old investment bank, filed bankruptcy, felled by \$60 billion in soured real estate deals and debts of more than \$600 billion.

• Merrill Lynch & Co., a brokerage and investment firm, solved its problems by getting Bank of America Corp. to buy it for \$50 billion.

• American International Group Inc., a well-known insurance company, battled to survive by getting permission to borrow \$20 billion from its subsidiaries.

• Stung by the troubles of the big three firms, a key U.S. stock indicator, the Dow Jones industrial average, sunk by 504 points, the most since the September, 2001 terrorist attacks. AIG was one of the 30 stocks that make up the Dow.

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of its bonds. That represents less than 1 percent of total holdings, a spokesman for the Ohio Public Employees Retirement System said.

Investments in AIG total \$144 million and \$145 million in Merrill Lynch. "Our fund is strong enough to weather these challenges in the financial market," fund officials said in a statement.

A component of the Dow Jones industrial average, AIG is widely held by individuals and mutual funds. As the nation's largest insurer scrambled to find new capital yesterday, its stock lost half its value in trading on the New York Stock Exchange to close at \$5.16 a share.

Holders of shares in Merrill Lynch, another Wall Street financial powerhouse scheduled to disappear in the current turmoil, will fare better. Each of the firm's shares will be exchanged for 0.8595 shares of Bank of America, which is taking over Merrill. Merrill shares gained 1 cent to close at \$17.06, but Bank of America shares fell \$7.19 to \$26.55 yesterday.

Officials at Merrill Lynch's brokerage office in Toledo declined comment, referring questions to the headquarters in New York.

But experts do not expect an interruption in the firm's brokerage services.

In situations where brokerages go bankrupt, the government's Securities Investor Protection Corp. covers losses up to \$500,000 in most instances.

In situations where mutual funds hold stocks that go bad, the impact on individual investors is usually not large, said Sean Shinaberry, a senior vice president at Modern Portfolio Management in Maumee.

Typically, mutual funds allocate no more than 3 percent of their portfolios to any single stock, he said.

Gibran Nicholas, a financial industry executive in Ann Arbor, sees a potential upside to the recent turmoil.

Lenders likely will become more willing to renegotiate mortgage terms for homeowners who have defaulted or missed payments, he said.

That is because the crisis is forcing them to re-evaluate the likelihood mortgages will be paid in full, said Mr. Nicholas, chairman of the CMPS Institute for mortgage professionals. Lehman has said it expects to receive just 39 cents on the dollar for many loans.

Merrill Lynch has sold most of its mortgage portfolio for 22 cents on the dollar, Mr. Nicholas said.

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