How did the financial crisis threaten Main Street?

- **Credit crunch**

  The shock of massive losses in mortgage-related investments made financial institutions and investors much more wary of lending to households and businesses. Bad loans also eroded bank capital, the financial cushion these institutions maintain to cover losses. Moreover, banks were unable to sell most types of loans to investors because the markets that packaged these loans as securities had stopped working. As a result, banks and investors clamped down on many types of loans by tightening standards and demanding higher interest rates—a classic credit crunch.

  References:
  Four Questions about the Financial Crisis, speech by Ben S. Bernanke, Chairman, Federal Reserve Board of Governors, at Morehouse College, Atlanta, GA, April 14, 2009.
  How Will a Credit Crunch Affect Small Business Finance?, by Gregory F. Udell, Professor, Indiana University, and Visiting Scholar, Federal Reserve Bank of San Francisco, FRBSF Economic Letter 2009-09, March 6, 2009.

- **Plummeting wealth**

  The financial crisis wiped out over 25% of Americans' net worth. Plummeting house prices and the resulting loss in home equity reduced the wealth of American households by over $7 trillion. In addition, stock prices around the world crashed following the panic of late 2008 and the intensifying global recession. In the United States, nearly half of stock market wealth was lost, a percentage decline that exceeded the 2000-2002 stock market crash. Foreign households didn't fare any better, as stock markets around the world crashed.

  References:

- **Global recession**

  The credit crunch and loss of wealth were a one-two punch that sent the United States and many other economies into deep recession. Tight credit weakened spending on big-ticket items financed by borrowing: houses, cars, and business investment. The hit to household wealth caused people to cut back on spending as they struggled to rebuild depleted savings. With demand weakening, businesses canceled expansion plans and laid off workers. Beginning in December 2007, economic activity in the United States and many other countries began to shrink. When financial panic intensified in the fall of 2008, the recession intensified and job losses soared.

  References: