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BUSINESS

German government to take control of Hypo Real Estate

The German government has told Hypo Real Estate (HRE), the biggest German casualty of the world financial crash, that it will obtain a 90-percent controlling stake in the bank by way of an equity issue.



HRE shareholders were advised to accept the takeover bid

HRE disclosed the move in a board statement from its head office in Munich on Friday.

Berlin would ask the shareholders at a meeting on June 2 to vote for an increase in equity from just under 700 million euros (\$925 million) at present to 6.3 billion euros, with the German state pumping in all the new funds.

The equity issue would sharply dilute the stakes of the existing shareholders, leaving them with less than a 10th of voting stock.

The new equity would be held by SoFFin, the government agency charged with helping German banks via guarantees and equity infusions.

SoFFin disclosed earlier in Frankfurt that a government takeover offer for HRE of 1.39 euros per share had made little progress.

Merck Finck analyst Konrad Becker told news agency AFP the weak response by investors so far was not surprising, because "people often wait until the very last day before deciding to sell in hopes the purchaser will raise the offer."

Only 1.28 percent of shares had been acquired as of Thursday afternoon, SoFFin said. That brought Berlin's present stake to 9.94 percent.

The move could come at his expense of US investor JC Flowers, who heads a consortium owning almost 24 percent of shares in HRE. So far, he has been dismissive towards the bid.

"Accept bid"

But the HRE supervisory and executive boards advised shareholders Friday to accept the takeover bid for their shares. That offer expires on May 4. HRE stock rose 1.4 percent in stock-market trading Friday to 1.41 euros.

Last month, Germany legislated compulsory purchase powers in case the shareholders did not accept the bid.

Chancellor Angela Merkel's government is concerned that a collapse of HRE could lead to the sort of financial market chaos that followed the failure of US investment bank Lehman Brothers in September last year.

HRE's problems arose at its Depfa Bank unit, which operated from largely deregulated Dublin. Depfa is a principal lender to German local government, raising bond issues for roads and new buildings.

The government has so far given the bank support worth 102 billion euros.



There are real fears HRE could go the way of Lehman Brothers

Germany's banking industry is currently weighed down with significant problems. It has more than 800 billion euros worth of so-called toxic assets on lenders' books.

DW RECOMMENDS

German lawmakers to investigate Hypo Real Estate debacle

German lawmakers are launching a fact-finding commission over the near-bankruptcy of crisis-hit Hypo Real Estate bank. (23.04.2009)

German Stabilization Fund makes offer for HRE shares

The German government's Financial Market Stabilization Fund has announced its offer for all shares in the Hypo Real Estate bank. If shareholders do not sell shares voluntarily, the government can force them to do so. (17.04.2009)

German president clears way for bank nationalization

German President Horst Koehler has signed a controversial bill into law allowing the government to take full control of troubled mortgage lender Hypo Real Estate, if necessary. (07.04.2009)
