Hypo Real Gets EU50 Billion Government-Led Bailout

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Source

Oct. 6 (Bloomberg) -- The German government and the country's banks and insurers agreed on a 50 billion euro ($68 billion) rescue package for commercial property lender Hypo Real Estate Holding AG after an earlier bailout faltered.

Germany's financial industry agreed to double a credit line for Hypo Real Estate to 30 billion euros, Torsten Albig, a spokesman for Finance Minister Peer Steinbrueck, said late yesterday in an e-mailed statement. The federal government's guarantee for the credit line remains unchanged, Albig said.

The government and the Bundesbank have said that Hypo Real Estate, Germany's second-biggest property lender, is too big to fail. They met with banks and insurers in Berlin all day yesterday to discuss a revamped rescue package after private banks on Saturday withdrew their support for a 35 billion-euro rescue package brokered a week ago.

``The need for an enlargement of the bailout has increased investors' concern that Hypo Real Estate will have to be wound-down eventually,'' said Konrad Becker, a Munich-based analyst at Merck Finck & Co. who recommends selling the shares.

The stock fell as much as 54 percent in Frankfurt electronic trading and traded down 3.6 euros, or 48 percent, at 9:15 a.m. The stock has slumped 89 percent this year, valuing the company at about 832 million euros.

Under the previous rescue plan, the Bundesbank intended to contribute 20 billion euros to a credit line for Hypo Real Estate, while a group of unidentified financial institutions agreed to provide another 15 billion euros. The German government and banks and insurers also planned to provide an additional guarantee for the repayment of the 35 billion-euro loan, of which the government would cover 26.5 billion euros.

Credit Crunch

Hypo Real Estate, run by Chief Executive Officer Georg Funke, 53, since it was spun off from HVB Group in 2003, was forced to seek the lifeline after its Dublin-based Depfa Bank Plc unit, which lends to governments, failed to get short-term funding amid the credit crunch.

Hypo Real Estate said in an e-mailed statement that it welcomes the additional credit line, which ``became necessary as a result of the intensification of the financial crisis in the last week''.

``The solution ensures that Hypo Real Estate is stabilized, will have sufficient access to liquidity even in an ongoing financial crisis, and can continue to operate," Funke said in this morning's statement.

European Governments
Governments from Dublin to Moscow are racing to shore up Europe's faltering financial institutions as the global banking crisis widens. European leaders meeting in Paris this weekend pledged to bail out their own nations' banks, while stopping short of a regional rescue effort.

BNP Paribas SA, France's biggest bank, will take control of Fortis's units in Belgium after a government rescue of the Brussels and Amsterdam-based company failed.

Belgium and France on Sept. 30 threw Dexia SA, the world's largest lender to local governments, a 6.4 billion-euro lifeline. UniCredit SpA, Italy's biggest bank, plans to boost its capital by as much as 6.6 billion euros and the Icelandic government is reportedly trying to arrange a 10 billion-euro injection into its banking system.

The German government yesterday said it will fully guarantee personal savings accounts in a bid to ease concerns about the stability of the nation's banking system. Until now, private savings accounts, including the accounts of small, privately held companies, have been guaranteed by 180 banks in Germany. This covers 90 percent of an account's balance to a maximum of 20,000 euros.

`Unpredictable Consequences'

Failure to provide the rescue package to Hypo Real Estate `may have triggered unpredictable consequences for the German financial and economic system similar to those of the collapse of U.S. financial group Lehman Brothers," the Bundesbank and German financial-services regulator BaFin said in a joint letter dated Sept. 29 and addressed to Finance Minister Steinbrueck.

Hypo reported a surprise 390 million-euro writedown on collateralized debt obligations on Jan. 15. The company said Aug. 13 that second-quarter pretax profit plunged 95 percent because of further markdowns on debt-related investments.

A group led by J.C. Flowers & Co., the buyout firm run by Christopher Flowers, bought a 24 percent stake in Hypo Real Estate for about 1.13 billion euros in June.

Hypo Real Estate's shares have declined 79 percent this year, valuing the Munich-based company at 1.6 billion euros.

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