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Bankers in Denial

By Sam Vaknin

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Denial is a ubiquitous psychological defense mechanism. It involves the repression of bad news, unpleasant information, and anxiety-inducing experiences. Judging by the German press, the country is in a state of denial regarding the waning health of its economy and the dwindling fortunes of its financial system.

Commerzbank, Germany's fourth largest lender, saw its shares decimated by more than 80 percent to a 19-year low, having increased its loan-loss provisions to cover flood-submerged east German debts. Faced with a precipitous drop in net profit, it reacted reflexively by sacking yet more staff. The shares of many other German banks trade below book value.

Dresdner Bank - Germany's third largest private establishment - already trimmed an unprecedented one fifth of its workforce this year alone. Other leading German banks - such as Deutsche Bank and Hypovereinsbank - resorted to panic selling of equity portfolios, real-estate, non-core activities, and securitized assets to patch up their ailing income statements. Deutsche Bank, for instance, unloaded its US leasing and custody businesses.

On September 19, Moody's changed its outlook for Germany's largest banks from "stable" to "negative". In a scathing remark, it said:

"The rating agency stated several times already that current difficult economic conditions that are hurting the banking business in Germany come on top of the legacy of past strategies that were less focused on strengthening the banks' recurring earning power. Indeed, the German private-sector banks, as a group, remain among the lowest-performing large European banks."

Last week, Fitch Ratings, the international agency, followed suit and downgraded the long-term , short- term, and individual ratings of Dresdner Bank and of Bayerische Hypo- und Vereinsbank (HVB).

These were only the last in a series of negative outlooks pertaining to German insurers and banks. It is ironic that Fitch cited the "bear equity markets (that) have taken their toll not only on trading results but also on sales to private customers, the fund management business and on corporate finance."

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Germans used to be immune to the stock exchange and its lures until they were caught in the frenzied global equities bubble. Moody's observes wryly that "a material and stable retail franchise in its home market, even if more modestly profitable, can and does represent a reliable line of defence against temporary difficulties in financial and wholesale markets."

The technology-laden and scandal-ridden Neuer Markt - Europe's answer to America's NASDAQ - as well as the SMAX exchange for small-caps were shut down last week, the former having lost a staggering 96 percent of its value since March 2000. This compared to Britain's AIM, which lost "only" half its worth. Even Britain's infamous FTSE-TechMARK faded by a "mere" 88 percent.

Only 1 company floated on the Neuer Markt this year - compared to more than 130 two years ago. In an unprecedented show of "no-confidence", more than 40 companies withdrew their listings last year. The Duetsche Boerse promised to create two new classes of shares on the Frankfurt Stock Exchange. It belatedly vowed to introduce more transparency and openness to foreign investors.

Banks have been accused by irate customers of helping to list inappropriate firms and providing fraudulent advisory services. Court cases are pending against the likes of Commerzbank. These proceedings may dash the bank's hopes to move from retail into private banking.

To further compound matters, Germany is in the throes of a tsunami of corporate insolvencies. This long-overdue restructuring, though beneficial in the long run, couldn't have transpired at a worse time, as far as the banks go. Massive provisions and write-downs have voraciously consumed their capital base even as operating profits have plummeted. This double whammy more than eroded the benefits of their painful cost-cutting measures.

German banks - not unlike Japanese ones - maintain incestuous relationships with their clients. When it finally collapsed in April, Philip Holzmann AG owed billions to Deutsche Bank with whom it had a cordial working relationship for more than a century. But the bank also owned 19.6 percent of the ailing construction behemoth and chaired its supervisory board - the relics of previous shambolic rescue packages.

Germany competes with Austria in over-branching, with Japan in souring assets, and with Russia in overhead. According to the German daily, Frankfurter Allgemeine Zeitung, the cost to income ratio of German banks is 90 percent. Mass bankruptcies and consolidation - voluntary or enforced - are unavoidable, especially in the cooperative, mortgage, and savings banks sectors, concludes the paper. The process is a decade-old. More than 1500 banks vanished from the German landscape in this period. Another 2500 remain making Germany still one of the most over-banked countries in the world.

Moody's don't put much stock in the cost-cutting measures of the German banks. Added competition and a "more realistic pricing" of loans and services are far more important to their shriveling bottom line. But "that light is not yet visible at the end of the tunnel ... and challenging market conditions are likely to persist for the time being."

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The woeful state of Germany's financial system reflects not only Germany's economic malaise - "The Economist" called it the "sick man" of Europe - but its failed attempt to imitate and emulate the inimitable financial centers of London and New-York. It is a rebuke to the misguided belief that capitalistic models - and institutions - can be transplanted in their entirety across cultural barriers. It is incontrovertible proof that history - and the core competencies it spawns - still matter.

When German insurers and banks, for instance, branched into faddish businesses - such as the Internet and mobile telephony - they did so in vacuum. Germany has few venture capitalists and American-style entrepreneurs. This misguided strategy resulted in a frightening erosion of the strength and capital base of the intrepid investors.

In a sense, Germany - and definitely its eastern Lander - is a country in transition. Risk-aversion is giving way to risk-seeking in the forms of investments in equities and derivatives and venture capital. Family ownership is gradually supplanted by stock exchange listings, imported management, and mergers, acquisitions, and takeovers - both friendly and hostile. The social contracts regarding employment, pensions, the role of the trade unions, the balance between human and pecuniary capital, and the carving up of monopoly market niches - are being re-written.

Global integration means that, as sovereignty is transferred to supranational entities, the cozy relationship between the banks and the German government on all levels is over. Last October, Hans Eichel, the German finance minister, announced OECD-inspired anti-money laundering measures that are likely to compromise bank secrecy and client anonymity and, thus, hurt the German - sometimes murky - banking business. Erstwhile rampant government intervention is now mitigated or outright prohibited by the European Union.

Thus, German Laender are forced, by the European Commission, to partly abolish, three years hence, their guarantees to the Landesbanken (regional development banks) and Sparkassen (thrifts). German diversification to Austria and central and east Europe will provide only temporary respite. As the EU enlarges and digests, at the very least, the Czech Republic, Hungary, and Poland in 2004-5 - German franchises there will come under the uncompromising remit of the Commission once more.

In general, Germans fared worse than Austrians in their extraterritorial banking ventures. Less cosmopolitan, with less exposure to the parts of the former Habsburg Empire, and struggling with a stagnant domestic economy - German banks found it difficult to turn central European banks around as successfully as the likes of the Austrian Erste Bank did. They did make inroads into niche structured financing markets in north Europe and the USA - but these seem to be random excursions rather a studied shift of business emphasis.

On the bright side, Moody's - though it maintains a negative outlook on German banking - noted, in November 2001, the banks' "intrinsic financial strength and diversified operating base". Tax reform and the hesitant introduction of private pensions are also cause for restrained optimism.

Pursuant to the purchase of Drsedner Bank by Allianz, Moody's welcome the

emergence of bancassurance and Allfinanz models - financial services one stop shops. German banks are also positioned to reap the benefits of their considerable investments in e-commerce, technology, and the restructuring of their branch networks.

The Depression on 1929-1936 may have started with the meltdown of capital markets, especially that of Wall Street - but it was exacerbated by the collapse of the concatenated international banking system. The world today is even more integrated. The collapse of one or more major German banks can result in dire consequences and not only in the euro zone. The IMF says as much in its "World Economic Outlook" published on September 25.

The Germans deny this prognosis - and the diagnosis - vehemently. Bundesbank President Ernst Welteke - a board member of the European Central Bank - spent the better part of last week implausibly denying any crisis in German banking. These are mere "structural problems in the weak phase", he told a press conference. Nothing consolidation can't solve.

It is this consistent refusal to confront reality that is the most worrisome. In the short to medium term, German banks are likely to outlive the storm. In the process, they will lose their iron grip on the domestic market as customer loyalty dissipates and foreign competition increases. If they do not confront their plight with honesty and open-mindedness, they may well be reduced to glorified back-office extensions of the global giants.

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Where Can I Get a Home Loan? Here Are The Top 5 Mortgage Lending Institutions
by: **Syd Johnson**

There are hundreds of sources for home loans online and right in your neighborhood. Banks, Credit Unions, Mortgage Bankers, Government Agencies and Private Sellers all offer different sources of financing for anyone shopping for a mortgage.

Neighborhood Banks

One of the best resources for getting a home loan is your neighborhood bank. Depending on the length of your relationship with the bank and the amount you have in you checking or savings account, you might be sent out letters and emails inviting you to apply for a loan. If you are generally satisfied with the quality of the service that you receive form your bank and they are offering a great interest rate, don't walk away.

Even if the offer is not quite what you're looking for, walk into the nearest branch, and ask to speak to a loan manager. Once you are there, make your case in person for why you would like a certain loan or feel that you deserve a better interest rate. Most banks, especially the ones in larger cities, are part of a larger conglomerate or depend on a large conglomerate to finance items such as a home loan. Go through the process with the loan officer, but don't be surprised if you don't get an answer on the spot. It might take a day or two.

Credit Unions

Some of the lowest rates on any type of loan product such as student loans, mortgages and personal loans can be found through a credit union. If you are eligible to join a credit union, sign up and set up a savings account with small monthly deposits. This way, you can use the resources of the credit union when needed.

Mortgage Bankers

These firms deal exclusively with home loans and give you the widest possible selection of home loan products. You can find local and national Mortgage Bankers by doing a quick search on Google or Yahoo. Go to the website of several different firms, fill out an online application and you can be approved in a few hours.

Government Agencies

The agencies that lend mortgage money include the Federal Housing Authority (FHA), Veteran's Administration (VA) and the Farmers Home Administration (FmHA). Contact each agency directly to see if you meet their requirements.

Private Sellers

An often overlooked financing alternative is to see if you can lease a property from a homeowner with an option to buy later on. If the homeowner has the resources, they can also finance your move in with a low interest loan.

Check out these resources individually or discuss your options with a loan officer.

Syd Johnson is the Executive Editor of RapidLingo.com, Financial Solutions Website. You can see more articles at http://www.rapidlingo.com.

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