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Germany rescues subprime lender

By Our International Staff

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US mortgage turmoil hit investor confidence on the other side of the Atlantic on Wednesday as details emerged of a German government rescue of a domestic lender that suffered heavy losses on subprime investments.

The rescue of IKB, a specialist lender based in Düsseldorf, began on Sunday when Peer Steinbrück, German finance minister, called top banking executives to discuss a bail-out. According to people who took part in the conference call, Jochen Sanio, head of Germany's financial regulator, is said to have warned of the worst banking crisis since 1931.

IKB surprised investors this week with a profits warning after a multi-billion euro fund it managed was hit by problems stemming from its US subprime exposure. The news sent its shares plunging and prompted KfW, the state-owned development bank, to step in with a pledge to guarantee obligations of more than €8bn (\$10.9bn) – more than five times IKB's stock-market value.

The further government intervention suggested that the problems at IKB were much worse than thought. Mr Steinbrück phoned several banking executives – including Josef Ackermann, chief executive of Deutsche Bank – on Sunday to bring them on board.

Deutsche Bank, Commerzbank and other German lenders are taking a 30 per cent stake in a rescue fund worth €3.5bn, FT Deutschland, the Financial Times's sister paper has learnt, with the rest shouldered by KfW.

The report on the German intervention came as more bad news from hedge funds and the housing sector roiled markets.

Among the highest profile hedge funds hit by recent market turmoil was Paul Tudor Jones' \$9bn Raptor fund, which is managed by James Pallotta and invests mostly in stocks rather than bonds. The fund fell 9 per cent last month. Caxton Associates, founded by Bruce Kovner, the secretive billionaire, saw its flagship \$11bn hedge fund fall 3 per cent last month, although it remains up for the year, according to investors.

Among hedge funds capitalising on the volatile markets was Pequot Capital's core global offshore fund, which rose 9 per cent in July bringing its year-to-date return to 21 per cent, net of fees, an investor said.

UK and European stock markets fell, with the FTSE 100 down 1.7 per cent to 6,250.6 and the FTSE Eurofirst 300 ending 1.5 per cent lower at 1,526.26. The Dow Jones Industrial Average rose 1.1 per cent to 13,362.37 in volatile trading. The S&P was up 0.7 per cent at 1,465.87.

Interest rate futures markets are pricing in as a certainty that the Federal Reserve will make at least one rate cut by January.

Reporting by Tim Bartz and Elisabeth Atzler in Frankfurt, Anuj Gangahar and Deborah Brewster in New York and Joanna Chung, Paul J Davies and Stacy-Marie Ishmael in London

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