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## German Government Leads Hypo Real Estate Rescue Talks (Update2)

*By Hellmuth Tromm and Oliver Suess - October 5, 2008 14:41 EDT*



A branch office of Hypo Real Estate Holding AG

Oct. 5 (Bloomberg) -- The German government led talks to salvage a 35 billion-euro (\$49 billion) bailout plan for [Hypo Real Estate Holding AG](#) after the ailing property lender said commercial banks withdrew their support late yesterday.

"I'm pretty shocked that this bank's management has revealed another liquidity gap of an unforeseen size," German Finance Minister [Peer Steinbrueck](#) said in Berlin today in comments broadcast by ARD television. "We will have to start over again from last weekend's meetings. Hypo Real Estate has to be stabilized otherwise the damage would be unpredictable."

The government and the Bundesbank have repeatedly said that Hypo Real Estate, the nation's second-biggest property lender, is too big to fail. The negotiations to save it occur as the Belgian government is attempting to rescue [Fortis](#), that nation's largest financial-services company, after a previous bailout also went awry amid the intensifying global credit crunch.

Steinbrueck's comments "indicate that in the end it will boil down to a bailout," said [Kerstin Vitvar](#), a Munich-based analyst at UniCredit SpA who has a "sell" rating on the shares. "Shareholders will end up almost empty-handed."

The government won't raise the size of its pledged guarantee, newswire Deutsche Presse-Agentur reported, citing [Volker Kauder](#), parliamentary chairman of Chancellor Angela Merkel's Christian Democrats. Private banks promised to contribute their share to a rescue today, he added, without elaborating, DPA said.

### Government Guarantee

The German government offered today to fully guarantee personal savings accounts in a bid to ease concerns about the stability of the nation's banking system amid the global credit crunch. 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.

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

Hypo Real Estate's financing needs exceeded the bailout plan guarantee, German newspaper Die Welt reported yesterday, citing unidentified people in the finance industry. It will need 20 billion euros by the end of next week and 50 billion euros by the end of the year, according to the newspaper. As much as 100 billion euros may be needed to shore up the bank's finances by the end of 2009, Die Welt said.

### 'Absurd' Report?

"A financing need of 100 billion euros as reported by Die Welt is absurd from today's perspective," Hypo Real Estate spokesman [Hans Obermeier](#) said in a telephone interview today.

[Heiner Herkenhoff](#), a spokesman for the German BDB banking association, declined to comment on the figures. Bundesbank spokesman [Christian Burckhardt](#) said Bundesbank President [Axel Weber](#) is participating as an adviser to the government in the discussions.

"The financing situation has further deteriorated over the past week because of the speculation about a possible wind-down of the company," Obermeier said.

In the failed rescue plan, the Bundesbank planned to help contribute 20 billion euros to a credit line for Hypo Real Estate, while a group of unidentified banks agreed to provide another 15 billion euros. The plan called for Hypo Real Estate to use 42 billion euros in assets, mostly debt owed by government borrowers, as collateral.

#### Funding Squeeze

The lender sought the lifeline after its Dublin-based Depfa Bank Plc unit, which specializes in government lending and depends on now-closed money markets for funding, failed to get short-term funding amid the credit crunch.

Failure to provide the rescue package "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 BaFin said in a joint letter dated Sept. 29 and addressed to Finance Minister Steinbrueck.

"If we had not acted, the bank's crisis wouldn't have just hurt the financial sector, but its network of business would have hurt the real economy, in Germany and beyond," Steinbrueck said the same day.

Hypo Real Estate, run by Chief Executive Officer [Georg Funke](#), 53, since it was spun off from HVB Group in 2003, 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.

#### J.C. Flowers

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.

The global financial crisis that prompted Lehman Brothers Holding Inc.'s Sept. 15 bankruptcy filing is weighing on Europe. Belgium and France on Sept. 30 threw Dexia SA a 6.4 billion-euro lifeline. UniCredit SpA is raising its capital, and the Icelandic government is reportedly trying to arrange a 10 billion-euro injection into its banking system.

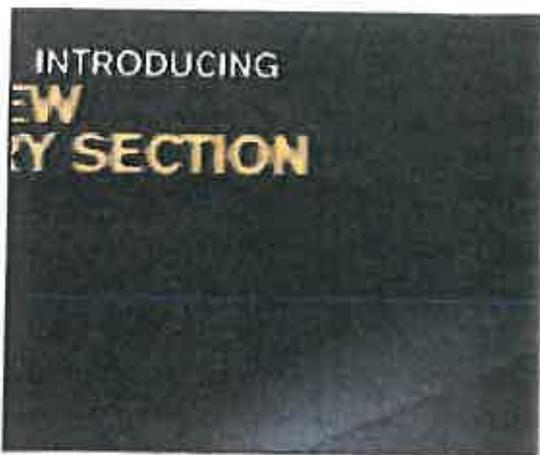
European leaders yesterday pledged to bail out their own nations' banks while stopping short of a regional rescue effort to deal with the global credit crisis.

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