PRESS RELEASE

Short circuit mistake in the bank rules still needs to be urgently interrupted!
Revaluation of loans when transferring from the trade book to the bank book

Munich, January 27, 2009: Everybody is aware the state backed bank protection umbrella protects the savings but does not stop the credit crunch so far.

When resources get tight, this triggers catch-as-catch-can-types of fights, the players believe there is not enough for everybody. This may trigger an unnecessary war if the scarcity is artificial, psychological and not real - almost based on a hysteric group panic. The continued melt down in the credit industry and the huge stress this causes between banks and leveraged companies is fuelled by a combination of rules that lead to accelerated value destruction. Lots of dramatic news of the last weeks including suicides show what is going on.

Everybody in the banking world wants to report in a kind of race “we are the first who have no more toxic assets”, but the buyers for these assets are not there or take advantage of the oversupply. Thereby we are running in a dead end road and causing dangerous chain reactions while the stampede is running there.

What is needed to stop this negative frenzy is a solid and justifiable incentive for lenders to prolong or to roll over. This would stop the panic selling, the foreclosing, the wars between banks and shareholders and the presents to people who can now easily buy under valued assets.

Here is what Europe’s 500 president, Martin Schoeller, suggests to do in order to change this downward spiral: ”When a bank shifts loans or similar securities from their trading books to their bank book (where equity is one of the limiting factors), they should be allowed to revalue those assets according to their intrinsic value and their repayment/recuperation probability at maturity. These probabilities tend to increase over time and thereby this gives an incentive to the banks to do this.

Many assets senior and junior are valued by the markets at 50 percent of par and below, and many of these would have much higher recovery rates, if the borrowers were given the necessary time like 5 - 10 years as long as they can pay the interests. These prolongations are necessary to do as long as new credit markets are more or less dead.

At the same time by revaluing these assets only 10 percent higher (if justified by the repayment probability criteria) the necessary equity ratio in the bank balance would be created in the same instance without asking for equity from the state.

There would be a logical incentive without cost to the society to prolong, to give relief and not to try to solve everything overnight in a recession period which sounds to be an unfeasible goal anyhow.”

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