

International Business News

Congress grills Lehman boss over \$500m wages

AFP, Washington
US lawmakers Monday grilled the head of Lehman Brothers demanding he justify some 500 million dollars he had earned since 2000, as well as huge bonuses sought for top executives even as the bank failed.

Richard Fuld, the chief executive officer of the investment bank which fell prey in September to the credit crunch, was called to account by the House of Representatives oversight committee.

The hearings are the start of a series of probes promised by Congress which on Friday passed an unprecedented 700-billion dollar rescue package to shore up Wall Street, amid the country's worst economic crisis since the Great Depression in the 1930s.

Committee chairman Henry Waxman targeted Fuld, saying over the years he had earned some 500 million dollars in bonuses and wages from Lehman Brothers. Fuld owned a 14 million dollar getaway in Florida, as well as a home in Idaho filled with an art collection, Waxman said.

Iceland nationalises bank amid geyser of financial distress

AFP, Reykjavik
Iceland's government announced it was taking control of the country's second-biggest bank on Tuesday as Russia said it would lend it four billion euros (5.4 billion dollars) to fend off the engulfing financial turmoil.

But all savings deposited by Icelanders were protected, officials reassured.

"The Icelandic Financial Supervisory Authority (IFSA) has, under powers granted by the Icelandic parliament, proceeded to take control of Landsbanki," Iceland's second-biggest bank, the government agency said in a statement.

The IFSA stressed that a complete guarantee for all domestic accounts announced by the government in Reykjavik on Monday would cover Landsbanki's customers.

"Landsbanki's domestic branches, call centres, cash machines and Internet operations will be open for business as usual," it said.

Citi, Wachovia, Wells Fargo declare 2-day cooling off period

AFP, Washington
In the face of an escalating court battle over troubled bank Wachovia, suitors Wells Fargo and Citigroup agreed Monday to a two-day "standstill" on litigation actions.

A joint statement from the three banks came as the fate of Wachovia was in limbo following its deal to be acquired by Wells Fargo and a Citigroup lawsuit seeking 60 billion dollars from the two firms.

The three banks said they had reached a decision "in consultation with the Federal Reserve," to a "standstill of all formal litigation activity effective immediately."

They said they would "cooperate in good faith... with the goal of preserving the status quo during the litigation standstill period."

This standstill agreement will terminate at noon (1600 GMT) on Wednesday unless otherwise extended.

CREDIT CRISIS

Alarm keeps ringing over US economy

AFP, Washington
The credit crunch started as an obscure phenomenon in the financial sector, but as the crisis worsens, the impact on workers and businesses is causing growing alarm in the United States.

With banks unwilling or unable to loan money, and capital markets in turmoil, businesses, consumers and even US state governments such as California are struggling to find the financing they need.

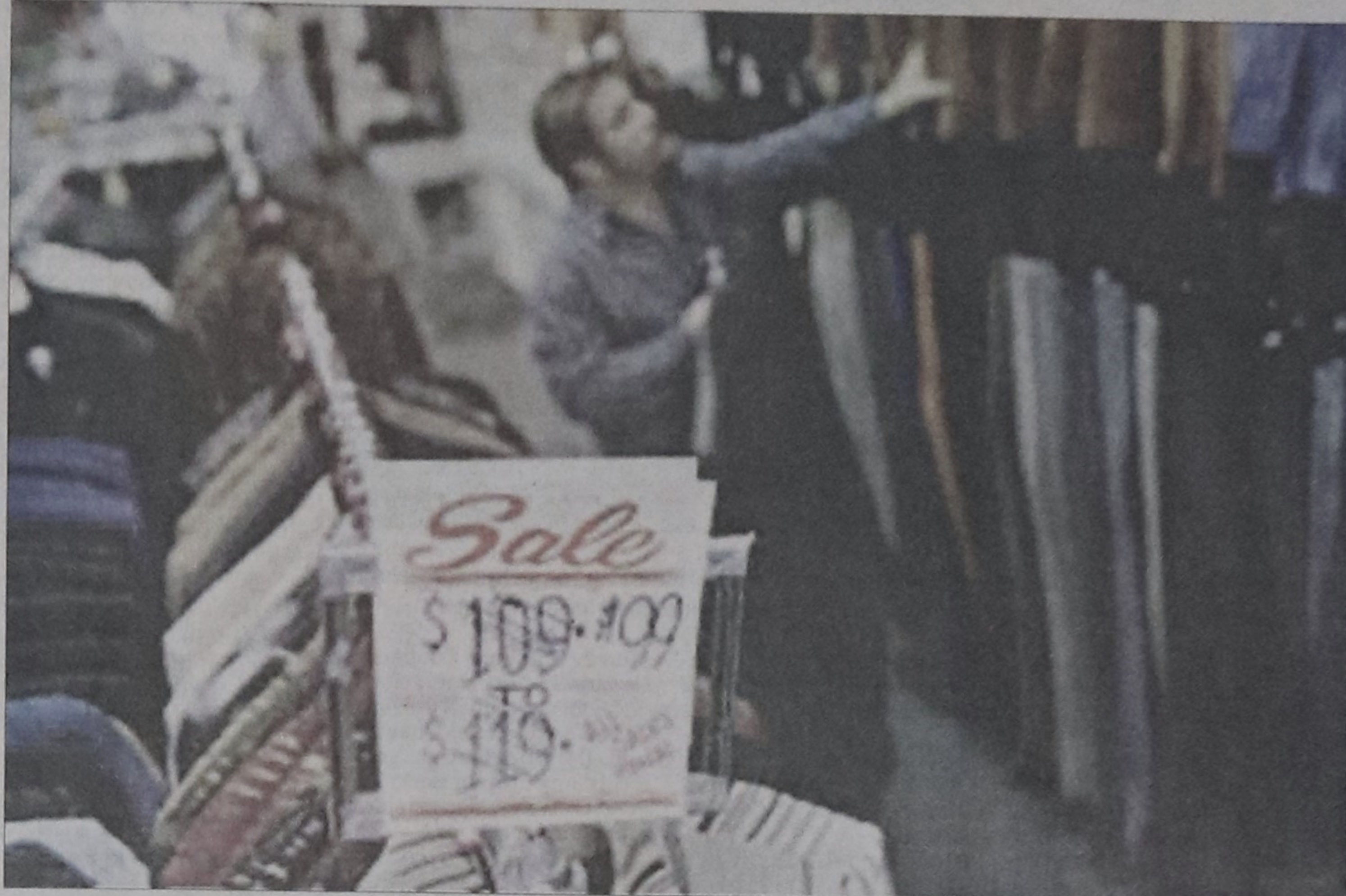
The woes of the banks have so far grabbed attention, but with a 700-billion-dollar plan now in place to help the financial sector, attention is turning to the impact on the rest of the economy.

On Monday, President George W. Bush visited a group of small business owners in Texas, saying he understood the difficulties being faced by the car dealer, auto shop repair owner and restaurateurs he had just met.

"It's clear they're dealing with the effects of a credit crunch," he said. "They're having trouble getting money to be able to continue to expand their business or money to help their consumers be able to buy their products."

Credit is the lubricant that keeps the wheels of the economy turning. Companies and consumers need it to invest in the long-term and to cover short-term requirements for cash.

A survey by accountancy group Grant Thornton published Monday found that of 688 senior corporate finance chiefs interviewed, 55 percent said borrowing was more expensive and 64 percent were finding it more difficult to access credit.



Small businesses are struggling as banks in the United States are unwilling or unable to loan money.

To raise money on credit, companies can turn to banks for loans or issue bonds, a sort of IOU contract sold to investors that promises regular interest payments.

These options are proving extremely difficult, with banks hoarding cash and investors showing little appetite for anything other than the most safe bonds issued by the US Treasury.

"The shutdown of financing for the corporate system is particularly scary," said economist Nouriel Roubini from New York University, a former advisor to US president Bill Clinton.

"If the financing of the corporate sectors shuts down and remains shut down the risk of an economic collapse similar to the Great Depression becomes highly likely."

The restrictions on credit bode badly for workers in the already weak jobs market. The US economy has shed 760,000 jobs this year and many analysts believe it is already in recession.

Steve Bloom, a former chairman of small business group SCORE in Atlanta, Georgia, highlights the connections in the economy and the ways in which the effect of tighter credit

ripples through.

"If I go out to buy a car and get turned down for credit, the auto dealer is selling less cars, which means the auto makers are selling less cars which affects the auto parts makers," says Bloom, the owner of a property business.

Total auto sales fell 26.6 percent in September, with the credit crunch cited as one of the reasons, according to industry data.

Even though small business owners are used to struggling to obtain credit -- as Bloom points out, banks are always tough negotiators -- conditions are

particularly difficult nowadays.

"If you don't have cash downpayments or high credit scores, the financing market is no longer available to you," he says, adding that some companies had "hit a roadblock."

Chris Varvares, president elect for the National Association of Business Economics, said Monday in a statement that "if financial conditions fail to improve quickly, near-term economic prospects could deteriorate markedly."

A survey of 52 forecasters by his organization showed that two out of three now believed

that a US recession had already begun or would begin before 2008 was over.

The problems obtaining credit are also set to hit US states and local governments, which also rely on short-term loans for cashflow and long-term loans to finance infrastructure.

California has warned the US government it may seek a seven billion dollar emergency loan to help the state pay its bills as the financial crisis bites.

Governor Arnold Schwarzenegger said the crisis meant California, the most populous and wealthiest US state, was unable to access routine financing used to make payments to schools, local government and law enforcement.

The state needs to borrow money to help bridge a gap between the outflow of funds to pay for services and the inflow of money from tax receipts.

"The question is really how long the states can hold out without access to the capital markets in the way we've become accustomed to," said Edith Behr, a public finance expert at the Moody's ratings agency.

For consumers, the impact of their dwindling stock market investments and mounting job cuts is expected to lead to weak spending in the months ahead, cutting off a key engine of the US economy.

"While the housing recession began more than two years ago, and the capex recession actually began six months ago, the real consumer recession is just starting now," Merrill Lynch economist David Rosenberg said.

Capex refers to capital expenditure -- the money spent by companies on fixed assets such as machinery.

ANALYSIS

Fear drives savings guarantee in Europe

AFP, Paris
European governments are guaranteeing savings to stop panicky depositors from pulling out their money and provoking a run on the already stricken banking system, analysts say.

They repeat reassurances to savers that their money is safe and the banks are solid, but each move by one government to insure deposits from risk raises pressure on others to do likewise.

Germany and Ireland have provided total protection, France has given a broad assurance that "no saver will suffer", and British ministers are reportedly considering strengthening already increased guarantees.

The domino moves in Europe should be copied in the United States "to prevent the mother of all bank runs," the RGE news letter published by New York University economics professor Nouriel Roubini suggested.

"There is a need for a temporary blanket guarantee on all US deposits," he said, arguing for a filtering of solvent banks from insolvent ones that should be closed.

"Depositors are scared," he said. "A silent run on the commercial banks is underway."

A run on a bank, meaning a rush by depositors to withdraw their money, is one of the most catastrophic events any bank can face -- the equivalent of sudden bleeding from the

main artery. Ireland acted "to protect the stability of the domestic financial system," central bank governor John Hurley said.

The decision angered Britain, because it incited people to move savings to Irish banks. German Chancellor Angela Merkel also objected, saying on Saturday that EU countries should not harm each other, only to change stance abruptly on Sunday.

Merkel declared: "We tell all savings accounts holders that your deposits are safe." The finance ministry put the value of insured accounts at 568 billion euros (767 billion dollars).

Britain has raised a guarantee from 90 percent of 35,000 pounds to all of 50,000 pounds (38,500 euros, 88,000 dollars), Sweden has doubled a guarantee to 51,000 euros "to ensure savers continue to have confidence", and Greece has said that bank deposits are "completely guaranteed."

Denmark and Spain also moved to increase deposit guarantees on Monday.

Dr. Mark Duckenfield at the London School of Economics said: "I think you can see that there is worry at the level of movement (of savings). They (governments) wouldn't be behaving as they are unless something were happening."

Another LSE economics professor, Charles Goodheart, said: "There is a great deal of fear, approaching panic in some cases, with people fear-

ing for the safety of their money in banks."

Goodheart gave the example of a "formerly fairly well-known footballer" who told him he had taken his money out of a building society "and was carrying it around in a bag."

The Financial Times Deutschland said: "The growing fear must be confronted. The European states should issue a Europe-wide guarantee for their citizens' savings."

German press comment recalled the collapse of the financial system and ruin of many Germans in the 1930s that helped usher the way for Nazism.

Berlin's daily Tagesspiegel said action by the government was "in the interest of its citizens, the millions of German insurance clients, pensioners and small savings account holders" because "a loss of trust is the end of everything."

The Swiss newspaper SonntagsBlick has reported that people with accounts at top Swiss bank UBS, hard hit by the crisis, withdrew a net amount of 43.9 billion Swiss francs (28.4 billion euros) in the second quarter.

The financial system is already being strangled at the top because lending between banks had almost dried up despite massive infusions of cash from central banks. Savings deposits in various forms are the other vital source of cash for banks.

One perverse effect of deposit guarantees was that it

undermined any joint European cooperation, Goodheart said. "What you're finding is a resurgence of nationalism with each country putting the interests of its own banks and depositors first."

Another implication was that the taxpayer would have to pay for any losses and that logically governments would therefore want much more control, for example through shares. Some banks might welcome this because they needed recapitalisation.

Duckenfield said: "They're trying to make it so that people don't create a run themselves just by fear. If you know you're savings are safe, you leave them in."

Such bank guarantees would work if they covered deposits of 40,000-50,000 euros, pounds or dollars, because few people had more than this.

In the United States, most bank deposits were federally guaranteed up to 100,000 dollars, a practice since the Great Depression of the 1930s.

But even this practice may not have prevented depositors withdrawing huge sums from top US savings bank Washington Mutual, contributing to its near-collapse two weeks ago.

If widespread claims were made, the government would end up borrowing or paying through taxation, he said.

Duckenfield and Goodheart said that one "perverse" effect of guarantees was an incentive



Photo taken on Monday shows the Fortis headquarters in Luxembourg. The governments across Europe are guaranteeing savings to stop panicky depositors from pulling out their money and provoking a run on the already stricken banking system.

to move money from non-guaranteed places.

Duckenfield, a lecturer in the politics of the world economy, said that this could add to instability in an already distressed system.

A central factor from the

start of the crisis was that policymakers had difficulty working out the transmission of such pressures through the system.

"We don't fully understand what our policy instruments are doing," he said.



Porters collect garbage piled up along the tracks of the railway in Jakarta on Monday. Indonesia's inflation rate rose a faster-than-expected 12.14 percent in September against a year ago.

Bank of America to spend up to \$8.4b on Countrywide

AFP, Washington
Bank of America said Monday it was ready to spend up to 8.4 billion dollars to restructure the troubled mortgage loan portfolio of the recently-acquired mortgage lender Countrywide.

The bank said in a statement the program was designed to help borrowers who financed their homes with high-risk subprime loans serviced by Countrywide.

Bank of America acquired Countrywide last July. "We are confident that... we have developed a comprehensive program that provides more solutions than ever before to assist troubled borrowers and put them back on the path to sustained home ownership," Barbara Desoer, president of Bank of America's mortgage, home equity and insurance services, said in the statement.

Bank of America serves more than 59 million consumers and small businesses in the United States and has more than 6,100 retail banking offices in the country.