International Business News

India lowers growth forecast, keeps rates steady

AFP, *Mumbai*

India's central bank reduced its growth forecast for Asia's third-largest economy on Tuesday due to the deepening worldwide recession as it held leading interest rates at historic lows.

The bank cut its growth estimate for this fiscal year to seven percent "with a downward bias" from an earlier projection of 7.5 to 8.0 percent.

. The growth forecast for the year to March was the lowest since 2003.

It came days after figures showed neighbouring China's economy grew by nine percent in 2008, slipping back into single digits for the first time in six years.

"The global crisis will dent India's growth trajectory as investments and exports slow. Clearly, there is a period of painful adjustment ahead of us," Reserve Bank of India governor Duvvuri Subbarao warned.

The bank said it was pausing its series of aggressive interest rate cuts to assess the impact of the reductions.

"The response to the Reserve Bank's policy actions over the last several months is still unfolding," Subbarao said in a statement after the monetary policy committee met in India's financial hub Mumbai.

Since last October, the bank has cut its repo rate -- the leading short-term rate at which it lends to commercial banks -- four times, slashing it by 350 basis points to 5.5 percent.

Fed eyes new tools to ease crisis, instil confidence

AFP, *Washington*

Federal Reserve policymakers open a two-day meeting Tuesday in search of new tools to stimulate lending and revive an economy that has so far failed to respond to its zero-interest rate policy.

The two-day meeting of the Federal Open Market Committee is being held six weeks after the central bank slashed its base lending rate to a range of zero to 0.25 percent and predicted "exceptionally low" rates to persist "for some time."

Sacha Tihanyi, analyst at Scotia Capital, said the market expects some additional help from the Fed.

"With rates going nowhere for some time, the market's focus will be on whether the Fed will be looking to buy government (or corporate) securities in the near future. This is a highly controversial step and some see this as somewhat of a high-risk policy but on the other hand, it is one of the few avenues the Fed has left open to it with regard to further easing monetary conditions."

Despite the zero rate policy, Fed chairman Ben Bernanke and others have repeatedly said the central bank is not out of ammunition to fight the crisis.

AFP

Heavy Caterpillar machinery stands at Quinn Co Caterpillar in City of Industry, California on Monday. Under pressure of a worsening economy, several industry giants announced that they would lay off nearly 50,000 employees. The biggest international manufacturer of construction equipment, Caterpillar, will eliminate 20,000 jobs, about 18 percent of its workforce.

Automakers welcome tighter emission standards

AFP, *Detroit, Michigan*

Cash-strapped US automakers took a U-turn Monday and welcomed a move by President Barack Obama to potentially tighten emissions standards in the hope that it will free up research funds and simplify a patchwork of US regulations.

Obama on Monday ordered the Environmental Protection Agency to reconsider its rejection of an attempt by California to impose new emissions regulations which are significantly more restrictive than federal standards.

Obama also ordered the Transportation Department to produce the guidelines to enforce a 2007 law which requires US cars to reach average fuel efficiency of 35 miles per gallon by 2020.

"Our goal is not to further burden an already struggling industry; it is to help America's automakers prepare for the future," Obama said.

"As we move forward, we will fully take into account the unique challenges facing the American auto industry and the taxpayer dollars that now support it."

GM must present better action plan for Saab: Sweden

AFP, *Stockholm*

US carmaker General Motors must present more credible plans for its Swedish unit Saab if it wants state credit guarantees from the Scandinavian country, a Swedish government official said on Tuesday.

"We have asked for ... a more credible business plan that outlines the development over the next few years based on a scenario where sales continue to decrease and the measures needed to combat that," Joeran Haegglund, state secretary in the ministry of enterprise, told Swedish public radio.

"That's a prerequisite for moving forward in the talks about credit guarantees," he said.

Haegglund said talks were ongoing with both GM and Saab.

The Swedish centre-right government in December presented a 28-billion-kronor (2.65-billion-euro, 3.5-billion-dollar) package to help the country's beleaguered automotive sector, including carmakers Saab and Volvo which is owned by US automaker Ford.

BANKING

Student loan, not so

SAJJADUR RAHMAN

A Dhaka University student, who intends to go abroad for higher studies, expresses anguish after visiting a few private commercial and foreign banks for loans. It depresses him to see banks making a special offer, called 'student loan', but the service is actually tailored to the income capacities of their parents.

Students flock to banks at regular intervals to inquire about the student or study loans. Parents also accompany the interested students, trying to find options for their children.

"The student's guardian needs to have either a security deposit or a fixed income of at least Tk 25,000 a month to obtain a credit service named the student loan," said Mahmudul Haq, who wants to enroll her daughter in a private university in Dhaka.

He says banks want security from the parents, after examining a student's eligibility.

"The amount that a student can receive depends on the parent's income," Haq says.

People believe education or student loans will be issued to a student on the understanding that it will be repaid upon completion of the student's studies. The merit of the student should be considered a factor for eligibility.

But the reality is bitter.

"Student loans being offered by banks are nothing but personal or consumer loan products," a BRAC Bank official says. "Students are offered loans against their parents' income, not based on their merit or their future prospects," he admits.

BRAC Bank is one of the 30 local private banks operating in Bangladesh, but not everyone offers student loans. About five banks offer this loan. Eastern Bank Limited (EBL) and BRAC Bank come on top. Among the nine foreign banks in the country, Standard Chartered Bank and HSBC have this product, according to bank officials.

"Education loan is like a car loan or any other personal loan product. It needs collateral or a fixed monthly income," an IFIC Bank official says. IFIC Bank offers education loans named 'Parua'.

The education loan is a new product in Bangladesh. It has become a profit-making product with the mushrooming of expensive private universities and limited scope in public universities.

A total of 4,66,570 out of 6,20,008 students passed the Higher Secondary Certificate Examinations in 2008. Public universities cannot accommodate even half of them. Some 20,000 students, who achieved GPA 5, will not be able to get admitted into medical, engineering and good public universities.

To make use of such opportunities, private universities have flourished rapidly. The number of these universities would not be less than 60, at the moment. Even still, hundreds of students are flying to the US, EU, Asian countries and many African countries for higher studies.

Every parent wants his or her children to study in a reputed institution, be it a local or foreign university.

But attending private universities requires financial commitments that many Bangladeshi students, especially those coming from the middle and lower middle class, cannot bear. So many students fund their education by borrowing from relatives and family friends, while some even discontinue studies, failing to meet the obligations.

Is there a way out? It seems, not.

Banks, whose business is to make money by lending to potential customers, have come up with loan packages for the students. Banks say they offer both secured and unsecured loan products for the students. The number of loan recipients is rising rapidly.

Eastern Bank is one of the few private commercial banks that offer loans for students under different names.

"Compared to the previous year, our student clients doubled in 2008," the EBL official says. The bank introduced education loans in 2007.

"We are getting a good response from students who want to enroll in foreign universities," the EBL official says.

The EBL Education Finance package comprises mainly of two products loan without a security deposit and loan with a security deposit.

The maximum amount for a loan without a security deposit is Tk 10 lakh or 10 times the gross monthly income of the parent. Interest rate for this loan is 18 percent and the repayment period is 12 to 60 months.

There are no basic differences between the unsecured student loans and other personal loans, according to bank officials.

The loan amount can be up to 80 percent of a summation of the admission fee, tuition fee, semester fee, and other fees stated by the educational institutions, such as living/lodging expenses and travelling expenses and the bank gives it. But the applicant must submit an estimation of the total expenses, with supporting documents. The processing fee for this type of a loan is 1.5 percent of the loan amount.

Under the education loan with security deposits, 95 percent of the deposit is given at the fixed deposit rate, plus an interest rate of three percent. But the processing fee is one percent of the loan amount, or Tk 10,000, whichever is higher.

The EBL has another product named 'EduLine', which refers to a credit facility against a security deposit. An interesting feature of the product is that interests will be incurred only against utilisation. The processing fee amounts to one percent of the loan amount, or Tk 2,000, whichever is higher. The interest rate is the fixed deposit rate plus three percent.

"All these products are called secured overdrafts, in banking terms, not study or student loans," the BRAC Bank official remarks.

BRAC Bank, considered the fastest growing consumer bank in the country, has also introduced some student loan products.

The bank lends to the parents or financial guarantors of the students pursuing higher education, locally or abroad. The monthly income of the parent must be at least Tk 25,000 and the bank will lend an amount that is 15 times of the parent's gross monthly income. The loan is repayable in small monthly installments.

Standard Chartered Bank introduces "Graduate Account", a specialised banking solution for students, officials say. It is a customised savings account for the ongoing graduate and post-graduate students, who are at least 18 years old. The account offers a competitive interest rate.

The bank also has an interest bearing savings account that gives students regular returns. Interest is accrued on a daily basis and credited to the account on a half-yearly basis, officials say.

It is a must for a student to open a file with a bank, prior to going abroad for education. A student must pay his/her initial admission fee and semester/tuition fees directly to the institution, via a 'Pay Order'.

These banks have student file service facilities. Most private and foreign banks provide this services to students in exchange of a service charge.

"These are more or less risk-free products. Default rate is almost nil," the EBL official says.

"My father died five years ago. My elder brother works in a private company and his income doesn't support me in obtaining a bank loan," says a graduate from Dhaka University, who intends to go abroad for higher education.

He says banks should now consider issuing loans directly to the students, against their merit alone.

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FINANCIAL CRISIS

US bets on bank execs to fix this mess

AP, *Washington*

They've been bailed out, but not kicked out. At banks that are receiving federal bailout money nearly nine out of every 10 of the most senior executives from 2006 are still on the job, according to an Associated Press analysis of regulatory and company documents.

The AP's review reveals one of the ironies of the bank bailout: The same executives who were at the controls as the banking system nearly collapsed are the ones the government is counting on to help save it.

Even top executives whose banks made such risky loans they imperilled the economy have been largely spared any threat to their jobs, as Washington pumped billions in taxpayer money into the companies. Less fortunate are more than 100,000 bank employees laid off during a two-year stretch when industry unemployment nearly tripled, bank stocks plummeted and credit dried up.

"The same people at the top are still there, the same people who made the decisions causing a lot of our financial crisis," said Rebecca Trevino of Louisville, Ky., a mother of three who was laid off from her job as a Bank of America training coordinator in October. "But that's what tends to happen in leadership. The people at the top, there's always some other place to lay blame."

That workers and managers experience a recession differently is hardly a surprise. What's new is that taxpayers are now shareholders in the nation's bailed-out banks, yet they lack the usual shareholder power to question management decisions or demand house-cleaning in the executive suites.

Wells Fargo & Co., for example, once was among the top lenders of subprime mortgages, or loans to buyers with low credit scores. The company received $25 billion in bailout money and plans layoffs in the coming months. But long-time CEO Richard Kovacevich remains the company's chairman, and the board recently waived its mandatory retirement age for him. John Stumpf, the president since 2005, became chief executive in 2007.

"Our senior leadership team of our CEO and his direct reports have an average tenure of almost a quarter-century with our company," Wells Fargo spokeswoman Julia Tunis Bernard said in a prepared statement. "Our unchanging vision, values and time-tested business model will continue to guide our leaders and our team into the future, and are now more than ever a competitive advantage as our industry evolves."

Under the government's no-strings-attached bailout plan, taxpayers must take it on faith that bank executives will make better decisions this time around, said Jamie Court, president of the California-based group Consumer Watchdog.

"When you deal with the same dogs, you're going to end up with the same fleas," Court said.

The bailout list includes banks of all sizes -- from Wall Street giants to small community banks. Some led the rush into subprime mortgages. Others followed.

Many executives on the list are small-town executives who don't earn anything close to Wall Street salaries and who suffered alongside their communities when the economy turned sour. The trouble with the bailout is that nobody in government ever stopped to figure out who

AP

In this April 3, 2008, file photo, JP Morgan Chairman and Chief Executive Officer Jamie Dimon testifies on Capitol Hill in Washington, before the Senate Banking Committee.

caused the avalanche and who simply got buried, said University of Maryland business professor Peter Morici.

"If they got involved in questionable loans and contributed to the speculative bubble, they should be out," Morici said. "These people should be removed and banned from banking, unless we wanted to make them all janitors. But the question then is, 'Can they be trusted wandering around the offices at night?'"

Barack Obama as president-elect and some in Congress have suggested auto company executives should lose their jobs as part of the bailout of that industry. But there has been no such suggestion about banks. Congress twice authorized $350 billion in bank bailout money. Both times, lawmakers set few conditions on the money.

The president of the American Bankers Association, Ed Yingling, said he understands taxpayers are frustrated. But most banks had nothing to do with the subprime crisis, he said. As for whether taxpayers should demand management changes, he said that was never a condition of the bailout plan the government crafted.

"Are we going to have the American people saying, 'We're invested in you, so now we should look at your margins, look at every loan you make, look at your lending policies?' No. That was never discussed," Yingling said. "You can't micromanage banks."

In some cases the market held executives accountable for the mortgage crisis. When banks such as Washington Mutual, Merrill Lynch and Lehman Brothers were bought up, many executives lost their jobs. When the government took over mortgage giants Fannie Mae and Freddie Mac, directors and executives were fired.

But the financial bailout has resulted in no such consequences. AP's review of the more than 200 publicly traded banks that received federal bailout money found that about 87 percent of the top three executives in 2006 - typically the chief executive, operating and financial officers - still remain on the job.

And that number is deceptively low, since those few executives who left their jobs often did so because they retired - or died. Several stayed on as directors or in consulting positions.

Even banks that were involved in risky lending saw little turnover:

-JPMorgan Chase & Co., which invested billions in subprime mortgages, has the same leadership team, led by CEO James Dimon. Dimon made about $28 million in 2007. The company is shedding about 10 percent of its investment bank staff.

-Cleveland-based KeyCorp, which ran subprime lending subsidiary Champion Mortgage until late 2006, received $2.5 billion in bailout money. Its chairman and CEO, Henry Meyer, has been in charge since 2001. Jeffrey Weeden, the company's chief financial officer, and Thomas Stevens, the administrative officer who oversaw the risk review group, have been on the job for years.

KeyCorp has been cutting jobs over the past two years, including 200 announced this month at a Tacoma, Wash., call center. A company spokesman said the bank was too busy preparing its earnings report to answer questions about whether taxpayers should have confidence in the company's management.

"The on-the-record comment I would make is that we declined to comment even though we'd like to, because we don't have time," spokesman Bill Murschel said.

-Capital One Financial Corp., one of the nation's biggest credit-card providers, dove into the risky mortgage business when it bought GreenPoint Mortgage in 2006. GreenPoint made exotic loans to borrowers without verifying income or credit scores, then sold those loans to investors.

A year later, Capital One shuttered GreenPoint, cutting 1,900 jobs. CEO Richard Fairbank and his top executives were not among them. The company received about $3.5 billion in bailout money.

In Louisville, Trevino and her family are living mostly off credit cards and savings while she interviews for jobs. Her husband is in commercial real estate, which has slowed significantly. After what she described as a bare-bones Christmas, she said she looked over her household finances and realized they might lose their home.

"That's when I was just, 'Lord, I know you have a plan. Can you just show me? I'd really like to know,'" she said.

Trevino said she isn't upset that her old boss, Bank of America CEO Ken Lewis, is still on the job. There are others in the industry with greater responsibility for the crisis, she said.

Trevino agreed the federal government needed to rescue the banks but said there should have been some oversight.

"It is surprising that leadership can make decisions that lead to financial ruin for so many," she said, "and then get bailed out for it."