

## **Irish Bank Fight Investors' Rout**

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Ireland's banks are caught in a bind. The property developers they lent to cannot service their loans as they are unable to sell enough houses. And those customers who want to buy a home are finding the banks' mortgage departments reluctant to lend in the credit crunch.

Bank of Ireland, which issued a trading update yesterday, is only the latest Irish bank to increase the guidance about expected losses on its property lending book.

The problem is not homeowners in arrears on their mortgages, but rather the builders and developers who have been caught out by the housing slowdown.

No one currently foresees that Irish banks will have to go to shareholders for fresh equity to bolster their balance sheets. They have minimal exposure to the collateralised debt obligations and other assets linked to the US mortgage crisis. The Irish economy has been growing so strongly in recent years that banks did not need to search out the higher re-turns promised by such products.

Yet international investors, who now own 70 per cent of Irish equities, have lost confidence in what the banks are telling them.

"I've had hedge fund after hedge fund here asking what is the banks' exposure to property," John Moran, international director at Jones Lang LaSalle surveyors, says.

Irish bank shares have fallen 45 per cent in the year to date, and are trading at about four times current earnings, compared with 12 during the boom years. All are still paying a dividend, although Bank of Ireland announced a surprise halving of its payout yesterday.

In the UK, where there are similar concerns, property and construction accounts for on average 15 per cent of total loans. In Ireland, it represents 20 per cent of Bank of Ireland's loan book. The figure for Allied Irish Bank is 36 per cent, while Anglo Irish bank, a specialist lender, has 95 per cent of its loans in property, although all its lending is secured.

Anglo does not do mortgages, yet all the banks are affected by the housing slowdown that has seen completions fall from 78,000 in 2007, to a projected 45,000 this year and 30,000 next.

The banks are most concerned about developers who borrowed to buy sites at the top of the market, but are now unable to service the debt as no houses are being sold, and the value of the sites has also declined. Some estimates put the unsold overhang at more than a year's supply of houses.

Goldman Sachs last month forecasted the three main banks would write off €5.2bn (\$7.3bn) of property loans during the next two years.

AIB's charge for bad loans increased more than fivefold in the first half. Goldman calculates it will be the worst affected with 17 per cent of its book extended to property developers.

Anglo, it estimates, will fare best. "So far in the down cycle we have been encouraged by Anglo's low loan losses," Goldman says. Anglo says only 7 per cent of its loan book is to residential developers and, according to one Anglo director, the bank has not lent on site deals or hotel conversions for the past two years.

Sebastian Orsi, an analyst with Merrion stockbrokers in Dublin, says the UK property crash in the early 1990s saw UK banks write off as much as 15 per cent of their construction and property portfolios. He says the question is whether current provisioning - the amount put aside to cover future loan losses - is sufficient.

If some of the loans currently being nursed were to turn out to be non-performing, that would mean bigger loan losses.

There is no sign of that happening, but Mr Orsi argues this concern is driving investors to dump Irish bank shares.

## Bank of Ireland halves dividend

Bank of Ireland is cutting its full-year dividend by 50 per cent to strengthen its capital position, after warning yesterday that bad debts would rise in the second half of the financial year and further still in the following year.

The bank said the proposed dividend cut, along with moves to slow the growth of its loan book, were designed to strengthen its capital base as credit quality worsened.

The lender said its funding position was "strong", but investors piled out of the stock, driving it down 14.3 per cent to €3.96.

**Source: The Financial Times**