

## ■ Lufthansa Boards Jet Blue

Germany's Lufthansa airline has announced it will buy a 19 percent stake in the U.S. low-cost carrier Jet Blue for about \$300 million. Lufthansa chose the American company as part of its strategy of getting on board the developing U.S. low-fare airline market. U.S. law stipulates that foreign carriers can own no more than 25 percent of a U.S. airline and imposes limits on their influence. Next year, Lufthansa will have one seat on Jet Blue's board. The move comes in the wake of industry consolidation as bigger players try to buy smaller rivals. The deal still needs U.S. regulatory approval.

## ■ SEC Approves Deutsche Börse's U.S. Buy

The U.S. Securities and Exchange Commission has approved the takeover of the New York Options Market ISE by the Deutsche Börse derivatives arm Eurex. The \$2.5 billion deal creates the world's largest trading platform for derivatives with a volume of more than 2.1 billion contracts, and gives Eurex transatlantic reach.

## ■ Fear of Businesses' Influence

The influence of the business world on politics is globally regarded with worry. The majority of people in the 22 most important industrial and emerging nations regard big corporations in their countries as more powerful than the government, according to a survey conducted by Ipsos, a Canadian marketing research firm. The survey shows that 74 percent of the 22,000 interviewed believe that big corporations have much influence on political decisions and 72 percent believe that governments should regulate corporate activity.

### Share your thoughts

E-mail your comments to [info@atlantic-times.com](mailto:info@atlantic-times.com)

The subprime mortgage crisis and its effects will continue to hound credit markets in 2008. The still-uncertain value of securities based on mortgages to Americans who are less-than-prime credit risks will require banks and investors to reassess portfolios. As long as the real extent of the losses remains unknown, trust among banks will remain shaky, even though immense sums have already been written off.

Just how ingrained the mistrust is can be seen in the rise of money market interest rates and futures rates since the crisis hit fully in July. The collapse of markets for mortgage-backed securities (MBS) and the higher premiums investors demand for unsecured bank bonds have further aggravated the banks' predicament. The threat of the contagion spreading into the wider economy is real and many governments have already lowered their growth forecasts.

German banks have written off these U.S. assets, too, but are not as badly exposed as the big investment banks in the United States and the UK. The securities market has dried up for issuers from Germany as well. Nonetheless, the situation of German real estate financiers differs significantly from that of many of their U.S. and British counterparts. Why?

In Germany, too, the concept of "securitization" has a long tradition – 238 years. On August 29, 1769, King Frederick II of Prussia laid the foundation for the issuing of bonds via a cabinet order. The intention was to give nobles with extensive land holdings access to affordable loans by allowing them to issue residential mortgage loans. The issuing entity guaranteed the bond with all its mortgages and all its other assets.

Today, the Pfandbrief (no English equivalent), a type of German bond that is collateralized by long-term assets, is an internationally popular investment vehicle with a current outstanding volume of around \$1.3 trillion. From their days as an instrument for privileged, money-seeking aristocrats to becoming a blueprint for an independent European covered bond market with a outstanding volume of more than \$2.7 trillion, covered bonds and their legal underpinnings have evolved in a way that always focused on the need for a safe haven for investment.

Investor protection is the guiding theme of the Pfandbriefgesetz (The Pfandbrief Act), the legislative basis of the issuance of the German variety of covered bonds.

# A Safe Haven From The Subprime Crisis

Pfandbriefe have defied difficult times | By Louis Hagen

The Pfandbrief, an integral part of the covered bond segment, is an alternative source of real estate financing. The German Pfandbrief system protects covered bond investors from losses, banks from insolvency and stabilizes the German real estate market. With credit markets in crisis, U.S. banks are waking up to its advantages.



Nightmare of all investors: The Pfandbrief offers no risk.

It only allows banks that fulfill strict licensing requirements to issue them for the refinancing of particularly low-risk loans. The coverage principle requires every Pfandbrief to be backed up by assets (mortgage liens and government loans) of at least equal value.

These covering assets have to be entered into a separate register. In the case of mortgages, only 60 percent of a loan's carefully determined mortgage lending value can be refinanced through the Pfandbrief, which gives it particularly good protection from market fluctuations.

In case the issuer becomes insolvent, the holders' claims are specially protected because these creditors enjoy a preferential claim on the mortgage lien and government loans entered in the cover register.

The legal obligation to publish quarterly reports on the assets makes the composition of the cover pools transparent and comparable over time. The standardization and exchangeability mandated by the Pfandbrief Act makes understanding the product easier and enhances the transparency of this market.

Finally, the special supervision of Germany's financial services supervisor (BaFin) should be mentioned. There, in addition to ongoing supervision based on the Banking Act, a department for these bonds monitors compliance with the stipulations of the legislation.

The law provides a tight-meshed safety net that allows investors to sleep more soundly than those who put their money into mortgage-backed securities.

Due to the excellent credit rating and spotless track record

of these bonds – not a single one has ever been known to have defaulted – banks can acquire liquidity at favorable conditions even in difficult times. This is not the case with mortgage-backed securities. These bonds are also helped by the fact that they are well-established and have a long tradition among bond investors at insurance companies, banks and pension funds.

Pfandbrief banks usually offer loans, refinancing and loan administration all from the same source. Because they enter into a long-term partnership with their customers, covered bond banks have a particular incentive to get to know their loan customers well and – in the interest of both sides – to apply conservative standards in determining their creditworthiness.

Real estate financing in Germany is significantly shaped by the Pfandbrief system. Apart from an extensive credit check, it is customary for the loan applicant to provide at least a 20 percent equity down payment.

The Pfandbrief Act also requires the appraisal of cover

mortgages to be based on sustainably achievable returns. The mortgage lending value is furthermore determined by independent appraisers.

The fixed interest rate mortgage is another cornerstone of the traditional, longer-term German approach that the Pfandbrief helped shape. The fixed interest rate mortgage allows the lenders to plan in terms of the interest and amortization burden. Customers with a fixed interest rate are thereby protected from the unpleasant surprises that interest rate hikes might otherwise cause.

The fixed interest rate system prevents rising prime rates from overburdening debtors and thus prevents mortgages from having to be liquidated in falling markets, a possibility that currently looms in the United States. It has a buffering effect on price fluctuations in the real estate market because interest-triggered income effects don't reinforce trends in housing costs.

Germany is demonstrating the alternative to conventional U.S. real estate financing. The Pfandbrief system

protects investors from losses and banks from illiquidity while stabilizing the German real estate market.

Recently, two U.S. institutions have seen the advantages of the Pfandbrief system as well: Less than a year ago, this type of bond made its debut

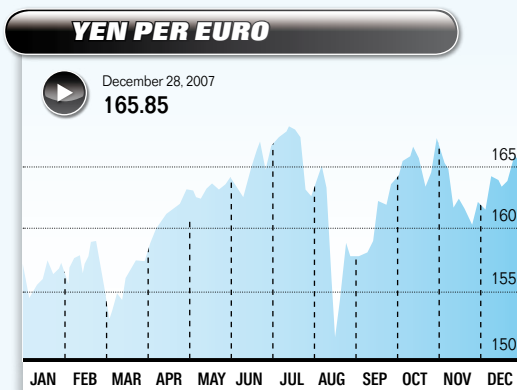
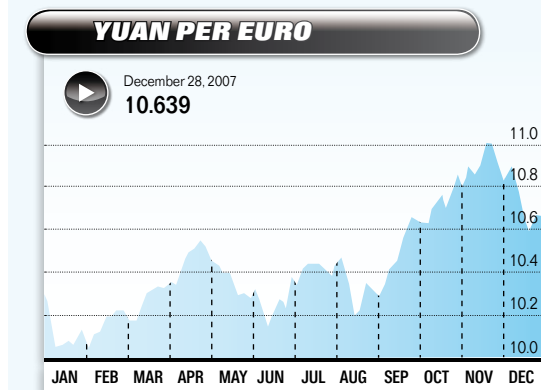
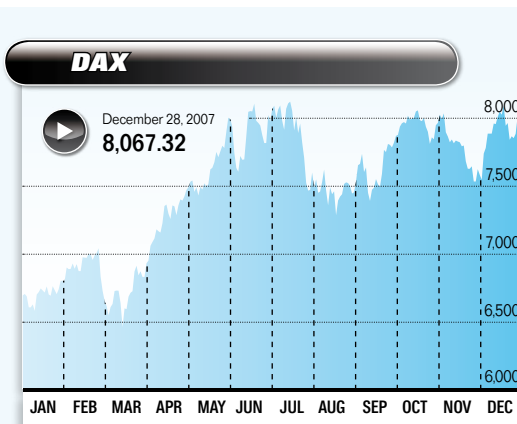
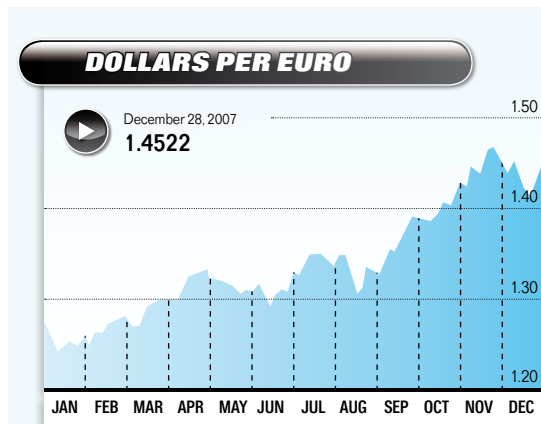
in the United States. In the spring, another U.S. bank issued the first Pfandbrief-style bond in U.S. dollars. Due to a lack of an independent legal framework, a contractual legal basis was created for each of these emissions.

In light of the subprime crisis, the success of the concept, especially in the U.S., should be hard to stop. To help this still-tender shoot grow strongly, the United States will have to establish a legal framework for issuing these bonds.

“No Pfandbrief has ever been known to have defaulted.”

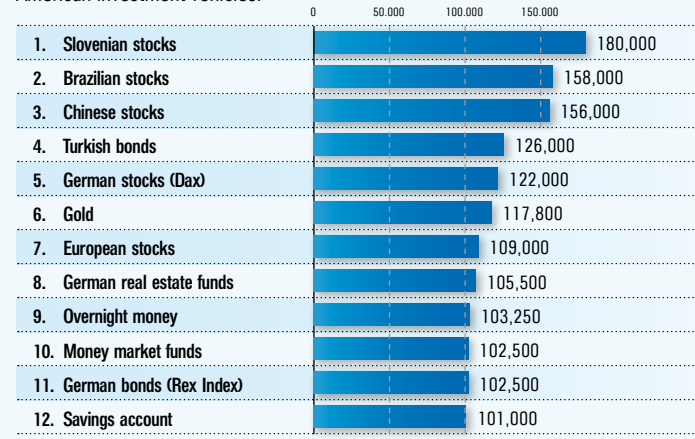
Louis Hagen is the executive director of the Verband deutscher Pfandbriefbanken (Association of German Pfandbrief Banks).

## FACTS AT A GLANCE: ECONOMICS & STATISTICS



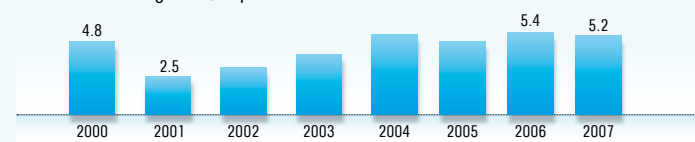
### 2007 INVESTMENTS: RETURNS ON €100,000

Germany's DAX index was one of the world's more profitable places to park one's money last year. We show the blue-chip index's performance compared to other European and American investment vehicles.



### THE GLOBAL ECONOMY, TODAY AND TOMORROW

Global economic growth, in percent

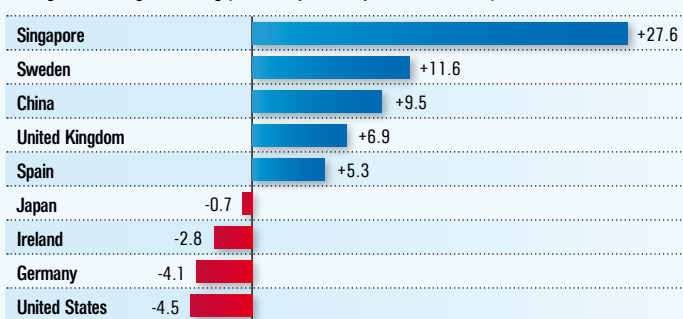


Country	GDP Growth Forecast			Unemployment 2007 in percent	Inflation 2007 in percent
	2007	2008	2009		
United States	2.2	2.0	2.2	4.6	2.8
Japan	1.9	1.6	1.8	3.8	0.0
Eurozone	2.6	1.9	2.0	6.8	2.1
Germany	2.6	1.8	1.6	6.4	2.2
France	1.9	1.8	2.0	8.0	1.5
Italy	1.8	1.3	1.3	5.9	2.0
United Kingdom	3.1	2.0	2.4	5.5	2.3
Brazil	4.8	4.5	4.5	9.4	3.9
China	11.4	10.7	10.1	4.1	4.4
India	8.8	8.6	8.4	3.1	5.4
Russia	7.3	6.5	6.0	6.0	11.0

Source: IMF, OECD

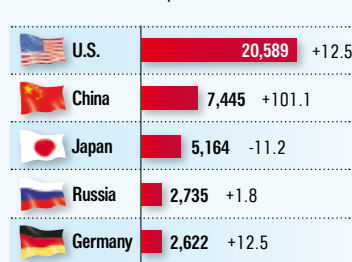
### 2007 REAL ESTATE: WHERE IT'S HOT

Change in average housing prices, by country from 2006, in percent



### OIL GUZZLERS

Daily 2006 consumption by the five biggest consumers, compared to 1996, in 1,000 barrels, in percent



### Figures of the month

5

percent of German men are still working in a job subject to social insurance contributions at the age of 64. Only 3 percent of women in western Germany are working up to retirement age, only 1 percent in eastern Germany.

7.6

percent was the rise of the Thai baht against the euro in 2007; the Brazilian real gained 8.6 percent. While the Canadian dollar also rose (+5.7 percent), other currencies fell such as the Swiss franc (-2.7), the Chinese yuan (-3.1), the Japanese yen (-3.6), the British pound (-8.3), the U.S. dollar (-9.5) and the South Korean won (-10.1).

9

percent fewer cars, a total of 3.1 million, were bought by Germans in 2007. Yet exports by German car makers rose by 11 percent to 4.3 million.