Germany’s bankrupt Hypo Real Estate pays out millions in bonuses

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Hypo Real Estate (HRE), the only bank to be nationalised by the German government in the wake of the 2008 financial crisis, announced last week that it had paid out bonus payments to staff amounting to €25 million ($33 million) in 2009.

The announcement came just 10 days after a declaration by the German finance ministry that it was making an extra €40 billion in the form of guarantees available to the bank in order to avert bankruptcy. This means that the German government—and more fundamentally, the German taxpayer—has now made a total of €150 billion in the form of capital and guarantees available to the bank.

Defending the award of bonuses to 1,400 staff members, the board of HRE maintained that the payments together with regular salary payments did not exceed the princely sum of €500,000 per person. The bank also sought to justify its position by pointing out that the half a million payments were far less than the bonuses regularly paid to leading staff prior to the finance crisis and the collapse of the bank.

Following deals made by the German government in recent weeks involving huge concessions to various big business lobbies—in particular the nuclear industry and the pharmaceutical industry—the revelation of huge payments to the staff of the stricken HRE together with extra bail out money has confirmed in the eyes of the public that the government of Angela Merkel is completely at the beck and call of the banks and business lobbies.

Just weeks after announcing an austerity budget of €80 billion and daily sermons by leading politicians on the need for citizens to tighten their belts, the money thrown at HRE and its staff makes clear the class priorities of the German government, whose spokesmen have struggled in public to justify their generosity to the banks, while welfare payments to the poorest members of society are to be slashed.

The HRE was the most prominent German bank failure of the 2008 finance crisis. In 2007, the bank had racked up a profit of nearly half a billion euros on the basis of speculation in property and municipal financing. In the same year, its CEO at the time, Georg Funke, pocketed a salary of €2 million. One year later, the bank, which was heavily involved in highly speculative transactions through its German-Irish subsidiary Depfa, was only saved from bankruptcy by government takeover and the infusion of over €100 billion in the form of state guarantees.

The bailout for the HRE was organized by the CEO of Deutsche Bank, Josef Ackermann, who in September 2008 dictated terms to the government for the rescue of the bank. The rescue deal aimed at preventing a complete melt down of the German banking system was sealed following discussions between Ackermann, other leading German bankers and State Secretary Jörg Asmussen (Social Democratic Party) culminating in a late night phone call by Ackermann with the German chancellor.

Since then the bank has proved to be a bottomless pit for taxpayers’ revenue. HRE is regarded to be highly exposed to potential losses from the purchases of bonds issued by ailing Eurozone countries such as Greece, Ireland, Italy, Portugal and Spain. In July it began creating its own “bad bank” in order to deposit up to €210 billion of risk-loaded credits. In the same month the HRE was the only German bank that filed European “stress tests” for the banking sector. Then, earlier this month, the bank was recently awarded a further €40 billion in state guarantees.

The case of HRE is indicative of the greed pervading the finance industry, as well as the complete subservience of the German government and all of the country's political parties to the banks. Despite bearing responsibility for the loss of billions in investments and driving the bank to the brink of extinction, not a single member of the board of HRE has faced charges for their actions.

In fact, following his removal from the board, former CEO Georg Funke actually went to court in March 2009 to demand that he continue to receive his salary until 2013 plus an annual pension of over half a million euros. The latest bonus payments to leading HRE personnel also came following threats by staff members to take court action if special payments were not made. Following disagreements over the question of remuneration for staff, Axel Wieandt, who had taken the place of Georg Funke as CEO of HRE, left the bank and took up a lucrative post with Germany's biggest bank, Deutsche Bank.

According to newspaper reports, leading HRE employees initially demanded bonus payments totalling up to €35 million. These demands were then whittled down to €25 million in a deal reached by the bank's current chair Manuela Better.

The parliamentary group leader of the opposition SDP, Joachim Poss, was quick to criticise the bonus payments, declaring, "The insensitivity of the HRE board is tough to beat", and the payments are hard for taxpayers to "understand". But the fact remains that the SPD is as complicit in the rescue of the German banking system as all other parliamentary parties.

It was the SPD-Green government between 1998-2005 that lifted a number of key domestic financial regulations enabling German banks to invest in speculative portfolios and hedge funds all over the world. And it was SPD Finance Minister Hans Eichel who in May 2003 set up the lobby group Initiative Finanzstandort Deutschland in conjunction with Germany's leading banks as a permanent forum where the German government could take its orders from the finance community.

In September 2008 it was the SPD German Finance Minister Peer Steinbrück who justified the nationalization of the HRE by declaring that the bank was "systemically relevant" and could not be allowed to fail, because its demise would undermine the entire German economy. This argument was accepted by the entire political spectrum with the caveat that following the bailout of HRE, measures should be taken to rein in the size and power of the major banks.

Now, two years on, the process of the consolidation and growth of the big banks has intensified. This week the CEO of Deutsche Bank announced that his bank had government approval and would go ahead with its plans for a complete takeover of the Postbank—up to now Germany's leading retail bank.

The takeover of Postbank will double DB's customer base in Germany to a total of 24 million, making it the largest German retail banker by far. Deutsche Bank's expansion into retail banking and access to the accounts of nearly half the population of Germany is aimed at compensating for its more speculative international currency and banking operations.

The lame ducks in the banking world, such as HRE, are taken under the wing of the government in order to enable banking giants such as Deutsche Bank, with an estimated two trillion dollars on its balance books, to massively expand their financial empire. Two years since the collapse of Lehman Brothers, this is the balance sheet of the German government.