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## BNP suspends funds amid credit-market turmoil

Absence of liquidity makes valuing funds impossible, BNP argues

By [Simon Kennedy](#), MarketWatch

**LONDON (MarketWatch) --** BNP Paribas, one of the largest banks in France, said Thursday that it will stop valuing three of its funds and is suspending investor withdrawals after U.S. subprime-mortgage woes led to the "complete evaporation of liquidity," the latest sign of housing market troubles in the world's biggest economy rippling across the globe.

The move helped reignite credit market worries. Several other European firms have frozen funds in recent days. Dutch investment bank NIBC Holding, owned by buyout firm J.C. Flowers & Co, has also taken a big hit from its subprime investments.

Fears of a broader credit squeeze prompted the European Central Bank and the U.S. Federal Reserve to pump roughly \$150 billion into capital markets to boost liquidity. [See full story.](#)

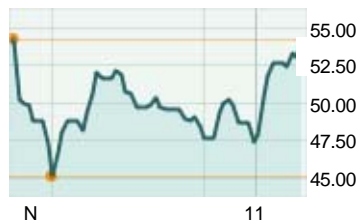
BNP's (EURONEXT:FR:BNP) BNP Paribas Investment Partners unit said the decision was taken "to protect the interests and ensure the equal treatment of our investors during these exceptional times."

"The complete evaporation of liquidity in certain market segments of the U.S. securitization market has made it impossible to value certain assets fairly regardless of their quality or credit rating," the bank added in a brief statement.

A spokesman said the total value of the three funds had fallen roughly 20% to just under 1.6 billion euros in less than two weeks. He added the funds had a total subprime exposure of around 700 million euros on July 27, though he didn't have any data on how much it had fallen since then.

BNP 53.89, 0.00, 0.00%

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BNP said it will resume valuations as soon as liquidity returns to the market and it is able to reliably value the funds again.

The three BNP funds affected are Parvest Dynamic ABS, BNP Paribas ABS Euribor and BNP Paribas ABS Eonia. They invest in U.S. asset-backed securities, which are pools of debt that include mortgages.

Shares in BNP slipped 3.9% in midday Paris trading, dragging on the wider banking sector. Societe Generale (EURONEXT:FR:GLE) lost 2.5% and Credit Agricole (EURONEXT:FR:ACA) slipped 3.5%.

Subprime mortgages are offered to less creditworthy borrowers. After the loans are originated, they are often packaged up and sold as mortgage-backed securities to institutional investors such as banks, insurers and hedge funds.

These securities can also be sliced up again in Collateralized Debt Obligations, which are a bit like mutual funds that buy different types of asset-backed securities. CDOs bought some of the riskier parts of subprime mortgage-backed

securities in recent years, helping to fuel the U.S. housing boom.

But this system of slicing and dicing has begun to unravel in recent months as delinquencies on subprime mortgages and other less risky home loans have increased while house prices fall.

Two hedge funds run by investment bank Bear Stearns (CONSOLIDATED:BSC) were almost completely wiped out earlier this year after losing more than \$1 billion, partly from leveraged subprime mortgage bets that went awry.

Several other funds have been hit hard by the ensuing contagion in credit markets.

BNP's decision follows a similar move on Friday by German fund manager Union Investment, which suspended redemptions in one of its funds that has exposure to the U.S. subprime market through ABS investments.

Union Investment argued that it didn't want to be forced to sell assets in a market that would command steep discounts. [See archived story.](#)

U.S.-German joint venture WestLB Mellon Asset Management also cited liquidity when it suspended redemptions on an ABS fund on Tuesday. And on Monday Frankfurt Trust put a stop to withdrawals from its 160 million euro ABS fund.

Also sparking subprime worries in Europe Thursday Dutch bank NIBC said it took a one-off loss of 137 million euros on its U.S. ABS investments in the first half of the year, with further losses still to come.

The continuing credit worries also sparked action from Germany's Bundesbank and the European Central Bank.

The Bundesbank called a meeting to weigh a rescue package for troubled lender IKB (FRANKFURT:DE:IKB), while the ECB said it stands ready to act to preserve liquidity in money markets. [See Europe Markets.](#)

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