Bloomberg

BNP Paribas Freezes Funds as Loan Losses Roil Markets (Update5)

By Sebastian Boyd - Aug 09, 2007

Aug. 9 (Bloomberg) -- BNP Paribas SA, France's biggest bank, halted withdrawals from three investment funds because it couldn't ``fairly'' value their holdings after U.S. subprime mortgage losses roiled credit markets.

The funds had about 1.6 billion euros ($2.2 billion) of assets on Aug. 7, after declining 20 percent in less than two weeks, spokesman Jonathan Mullen said today. The bank will stop calculating a net asset value for the funds, which have about a third of their money in subprime securities rated AA or higher.

BNP's announcement sent its shares down 3.4 percent, pulled the benchmark European stock index lower by 1.9 percent, and helped U.S. Treasuries rally for the first time in four days. Investors are shunning bonds backed by home loans after late mortgage payments by borrowers with poor credit histories rose to the highest since 2002.

``There are securities which simply can't be priced because there is no trading in them,'' Timothy Ghriskey, chief investment officer at Solaris Asset Management LLC in Bedford Hills, New York, said in an interview today. ``There are no bids for them. Asset-backed securities, mortgage loans, especially subprime loans, don't have any buyers.''

The French bank joins Bear Stearns Cos. and Union Investment Management GmbH in stopping fund redemptions. Dutch investment bank NIBC Holding NV said today that it lost at least 137 million euros on U.S. subprime investments this year.

BNP Paribas shares fell as much as 6.4 percent, and closed 2.88 euros lower at 82.57 euros in Paris, valuing the bank at 77.3 billion euros. The stock is little changed this year.

Losing Value

``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,'' BNP Paribas said in a statement.

The European Central Bank today pumped 95 billion euros into the overnight lending market in an unprecedented response to a sudden demand for cash from banks roiled by the subprime collapse.

BNP Paribas's Chief Executive Officer Baudouin Prot said the bank's exposure to U.S. subprime was ``absolutely negligible'' when the company reported a 20 percent increase in second-quarter net income last week. BNP Paribas Investment Partners oversees about 356 billion euros.

``On BNP's scale this isn't too significant,'' said Benoit de Broissia, an analyst at Richelieu Finance in Paris. ``It will impact clients. It's more of an image problem.''

The three funds are Parvest Dynamic ABS, BNP Paribas ABS Euribor and BNP Paribas ABS Eonia.

`No Prices'

The Hague-based NIBC, which is owned by a group including J.C. Flowers & Co., said ``severe instability'' in U.S. credit markets reduced the value of its U.S. asset-backed securities. The company expects ``further mark-to-market losses.''

Union Investment, Germany's No. 3 mutual fund manager, stopped withdrawals from one of its funds on Aug. 3 after investors pulled about 10 percent of the assets. Frankfurt Trust, the mutual fund manager of Germany's BHF-Bank, halted redemptions from a fund after clients removed 20 percent of their money since the end of July.

Two hedge funds run by New York-based Bear Stearns filed for bankruptcy protection in the Cayman Islands on July 31 following subprime losses. The New York-based securities firm then blocked investors from withdrawing money from a third fund.

``For some of the securities there are just no prices,'' Alain Papiasse, head of BNP Paribas's asset management and services division, said in an interview. ``As there are no prices, we can't calculate the value of the funds.''

Blocking Withdrawals

The 10 largest holdings of the BNP Paribas ABS Euribor fund on March 29 included bonds backed by U.S. mortgages to good- credit borrowers who could pay some interest by increasing their balances, and securities backed by U.S. subprime mortgages and risky U.K. home loans. Other holdings included debt backed by commercial properties in Singapore and U.K. credit-card receivables, according to information compiled by Bloomberg.

Traders are reluctant to bid on securities backed by risky mortgages because they are difficult to sell on, making it hard for asset managers to value assets held in some funds. With no valuation, investors can't buy or sell units of the funds because they don't know what they're worth.

Blocking investors from withdrawals ``was a very good decision because it avoids huge redemptions,'' said Jean-Edouard Reymond, who helps manage $63 billion at Union Bancaire Gestion Institutionelle SA in Paris. ``If they had had redemptions they would have been obliged to sell the securities they might have in their portfolio at very cheap market prices.''

Reymond doesn't hold any BNP Paribas stock, he said.

The funds had assets valued at about 2 billion euros on July 27, with 700 million euros in subprime -related investments.

To contact the reporter on this story: Sebastian Boyd in London at sboyd9@bloomberg.net

To contact the editor responsible for this story: Adrian Cox at acox2@bloomberg.net