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## The ball of the zombie banks

Written on June 9, 2017 by [Simone Wapler](#) | [Debt](#), [Simone Wapler](#) 

*Lease-in, bailout*, Bank resolution system, banking resolution directive, preventive recapitalization of banks, junior or senior creditors ...

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A bank without depositors can go bankrupt, the good deal!

The problem of depositors is that they vote too, the buggers. And a plucked depositor has more memory than a taxpayer bled. In other words, making the bankruptcy of a bank by taxpayers is easier than making it payable by depositors. Unfortunately, all the European regulatory stops put in place now forbid bank rescue by their states (ie taxpayers).

So you have to run a few contortions to give the feeling of sliding elegantly on the ballroom floor of the zombie banks.

A bogus takeover in Spain

Let's start with Spain and Banco Popular. Banco Popular had few depositors ... and the few who remained were on the run.

On the other hand, Banco Popular has € 37bn in real estate loans that borrowers can not repay. This portfolio of bad debts led to € 3.5 billion in net losses in 2016.

Banco Popular is finally bought for 1 € symbolic by Banco Santander the biggest Spanish bank - and consequently too big to go bankrupt. Honor and regulations are safe: the Spanish state has not intervened.

- The remaining few depositors and holders of senior debt (the safest bonds) are saved;
- The holders of Banco Popular bonds lose almost everything;
- Shareholders lose everything;
- The insolvent borrowers who have contracted real estate loans will always have Banco Santander and the ushers at their heels.

An uncertain future for an even bigger bank

Obviously, Banco Santander will have to do with the ball Banco Popular. A bank too big to go bankrupt has become even bigger. Banco Santander has to raise € 7 billion to recapitalize itself.

Will she find valiant shareholders? Is it enough to cover the 2017 losses of the rotten real estate portfolio? If I had deposits with Banco Santander and if I was a Spanish taxpayer, I would ask myself these questions ...

Now we go to Italy and to the bank Monte Dei Paschi di Siena. The problem is that the bank had many more depositors than the small Banco Popular.

In addition, 42,000 of these depositors had become creditors in spite of themselves. Zealous "financial advisors" had them underwrite high-yield junior bonds through risk-free savings products.

So the pretty little pile of Brussels regulations has been set aside.

#### Illegal nationalization in Italy

The Italian State will *a priori* Authorized to inject € 6.6 billion as part of a capital increase of € 8.8 billion. He will then hold 70% of the bank's capital.

A compensation of savers is foreseen to the tune of € 2 billion.

It is therefore a clean nationalization, as in the good old days.

- The remaining depositors and savers are ... saved;
- Taxpayers pay.

But there are other Italian zombie banks in the ballroom: Banca Popolare di Vicenza and Veneto Banca whose rescue should also be organized. The idea to avoid bankruptcy is to call the other banks to the rescue of their unhappy sister. We must find € 6.4 billion, but the European Commission wants the Italian banks to inject € 1.2 billion in advance in proportion to the size of the deposits of each zombie.

#### Solidarity or compulsory charity

The other banks are not hot-boiling for this operation since they already put € 3.4 billion in the pot through the Atlante Fund. So the Italian government puts the gun on the temple of the two biggest banks, Intesa Sanpaolo and UniCredit, so that they each dance with one of the needy riders and apply the model of perfect pair Banco Santander - Banco Popular ...

What to remember from this ball of zombie banks?

- That as soon as the depositors are sufficiently numerous, it is necessary to circumvent the texts and to find the means to make pay the case to the taxpayers. Like the good old times...
- So for your bank holding a current account, prefer a big network bank that has many depositors. Obviously do not allow more than 100,000 euros and even the minimum.
- Flee, like the plague or cholera, from paid and super book accounts.
- Remember that if Spanish and Italian banks are infested by bad debts, French and German banks are vulnerable to derivatives and losses in their own trading activity. So if rates go up or markets go down, you will have to be more vigilant.

And the famous "systemic risk", you say? Precisely, it is through losses of trading on own account that it can materialize.[Editor's note: Does your own bank have enough depositors? Would it be in danger in the event of a new crisis? [The answers are here.](#)]

After 4,000 billion euros of monetary creation and nine years of low rates, zombie banks still need taxpayers to make believe they can continue to live.