This file photo shows the JPMorgan Chase & Co logo displayed at their headquarters in New York. The nation's largest banks including JPMorgan are rewarding shareholders by spending tens of billions raising their dividends and buying back stock after getting the green light from the Federal Reserve. (AP)

Deutsche Bank to axe investment bankers in up to $5.6 bln revamp

Deutsche Bank is preparing to unveil a sweeping, multi-billion euro overhaul within days that would see the axe fall heaviest on investment bankers, sources familiar with the matter said on Wednesday.

The revamp is expected to cost the bank up to 5 billion euros ($5.6 billion), one of the sources said.

Chief Executive Officer Christian Sewing flagged an extensive restructuring in May when he promised shareholders "tough cutbacks" to the investment bank. The pledge came after Deutsche failed to agree a merger with rival Commerzbank .

The lender, Germany's largest, is planning on cutting between 15,000 and 20,000 jobs, or more than one in five of its 91,500 employees.

The bulk of the job cuts will take place outside Germany, said a person with knowledge of the plans, as they are mostly targeting the investment bank, a unit that has struggled to generate sustainable profits since the 2008 financial crisis.

The overhaul signals that Deutsche is coming to terms with its failure to keep pace with Wall Street's big hitters such as JP Morgan Chase & Co and Goldman Sachs.

"Sewing really wants to move the needle," said another person familiar with the plans.

The price tag for restructuring raises the probability that the lender will report a loss for the full year, the person said, meaning Deutsche will have been in the red for four out of the five last years. But executives and investors hope the overhaul, however costly, will be radical enough to turn around the bank's fortunes after its shares fell to a record low last month. (RTRS)

Smaller players targeting niche markets to survive

In Brexit UK, battling home lenders chase risk and pensioners

In this file photo, Conservative party leadership contender Boris Johnson speaks in Exeter, south west England. Now with Brexit looming, rock-bottom interest rates squeezing margins, and behemoth competitors cratering loan prices, 'The Hanley' has started offering more high risk loans, targeted borrowers in their 70s and 80s and launched an interest-only mortgage aimed at retirees that lasts up to 55 years – the principal is repaid when the borrower dies or moves into a nursing home. (AP)

By Lawrence White and Iain Withers

The framed coat of arms hanging in the headquarters of the Hanley Economic Building Society in Stoke-on-Trent depicts two squirrels in ermine robes above the motto 'Save Safely, Build Surely', which the mortgage lender's customers have duly done for over 150 years.

Now with Brexit looming, rock-bottom interest rates squeezing margins, and behemoth competitors cratering loan prices, 'The Hanley' as it is affectionately known in its central England hometown, is taking some radical steps.

In the past year, the lender has started offering more high risk loans, targeted borrowers in their 70s and 80s and launched an interest-only mortgage aimed at retirees that lasts up to 55 years -- the principal is repaid when the borrower dies or moves into a nursing home.

The Hanley is one of just 43 building societies left from the hundreds that sprung up in Britain in the late 18th century. Community-focused and customer-owned, they are lenders with a traditionally conservative approach and account for around 23 percent of mortgage lending in the UK.

Across Britain, smaller players in the £1.4 trillion ($1.77 trillion) mortgage market – building societies among them – are seeking out niche segments and taking on more risk as they try to compete in a price war with the biggest banks.

A post-financial crisis housing market boom along with record employment levels have so far kept default rates at decade lows.

The fierce competition on price may be good for consumers, but if Britain's exit from the European Union leads to a dramatic slump, analysts and consumer experts warn that debts and loan losses could overwhelm some borrowers and lenders.

"The increase in mortgages available for older borrowers has been a positive development, but some of these products have not been tested in a severe downturn," said Gareth Shaw, personal finance expert at consumer advice firm Which?.

> 'The increase in mortgages available for older borrowers has been a positive development, but some of these products have not been tested in a severe downturn'

Unlike the United States, where banks have pulled back from the mortgage market in the wake of the financial crisis, Britain's largest lenders have maintained a steady grip.

Regulations introduced in January have also had the unintended consequence of strengthening the hands of the big five banks-- Lloyds Banking Group, Santander, Royal Bank of Scotland, Barclays and HSBC.

Along with Nationwide Building Society, the No 2 mortgage provider which has made a push into lending to older customers, those six lenders have held 70 percent of the market since 2009, according to data from UK Finance.

Nationwide said lending to older people had great potential.

"Later life lending is a fast growing sector which, given UK demographic trends, we believe has the potential to grow into a material part of the market," said Henry Jordan, Nationwide's Director of Mortgages.

Forced to separate their retail division operations from their riskier investment banking operations, large banks have been left with little choice but to push deeper into mortgages to earn a return on the pools of customer deposits ringfenced by the split.

The increased competition has cut prices on mortgages, particularly riskier products with a high loan to value ratio (LTV) – the higher the loan to value ratio, the greater the risk of default if house prices fall.

"In competition terms it's predatory pricing. The use of a scale advantage to disadvantage competitors," said Ian Smith, chief financial officer of mid-sized lender Clydesdale Bank (CYBG).

A HSBC spokesman said the bank's strategy to expand in British home loans had been set in 2015, adding its strategy "remains positive for consumers". Santander said it was focussed on "sustainable growth" and had a conservative approach to risk.

Barclays, Lloyds and RBS declined to comment.

Britain's central bank has acknowledged that the regulations separating the big banks' retail and investment banking operations were partly to blame for the price war, but said the effects were 'manageable' for now.

The price of the average two-year fixed rate 95% LTV mortgage has fallen to 3.25% from over 5% in the last five years, while the number of such products has doubled to 146. With a LTV of 95 percent, the borrower is in the red if house prices fall more than 5 percent and they haven't paid off any of the principal.

Sam Woods, deputy governor at the Bank of England, told an industry meeting in May that the central bank was watching the build-up of risk in the mortgage market "like a hawk", particularly the activities of building societies.

The Bank of England sent a letter to the chief executives of 20 unnamed fast-growing lenders on June 12, warning that some are underestimating potential losses from higher-risk loans. Some of these firms, launched after the 2008 financial crisis, have yet to experience an economic downturn.

Founded in 1854, Hanley Economic has survived shocks to the coal mines, steel works and ceramics factories of Stoke, known locally as the Potteries because the UK pottery industry is based there.

The twin forces of competition and Brexit, however, have impacted the lender. Despite voting by nearly 70 percent in favour of leaving the EU, earning Stoke the nickname Britain's 'Brexit capital', uncertainty over when and how the UK will depart has prompted some locals to delay buying a house.

Rather than engage in a price war with bigger rivals to win more business, Hanley Economic decided to specialise. Its older customer base -- the average age of its borrowers is 51 – seemed a natural focus.

"We have adapted our strategy by looking into more niche areas of lending, we don't want to wind up competing in a race to the bottom on pricing," David Lownds, head of marketing and business development, said in an interview at the lender's headquarters in a business park on the edge of Stoke.

Rivals are making similar moves.

There were 1,074 mortgage products on offer in Britain in June for people whose age when the loan matured was 80-84 years, compared with none in February 2014, when the dataset started, according to price comparison website Moneyfacts.

Home loans with a maximum age at the end of the term of over 85 years have similarly spiked from 33 to 239 products available in the same period.

The retirement interest-only mortgage (RIO) offered by Hanley Economic is aimed at older borrowers struggling to get a standard mortgage or to repay existing interest-only loans. (RTRS)

Becoming yet more political could even jeopardize bank's independence

Lagarde brings listening, diplomacy to ECB table

FRANKFURT, July 4, (RTRS): Christine Lagarde will raise the profile of the European Central Bank, making it a more politically-savvy institution that takes its message directly to the people. However policy innovation, the trademark of her predecessor, may be relegated.

In return, Lagarde may be able to use her considerable diplomatic skills to persuade Germany to help temper a eurozone slow-down by raising its spending levels – a feat outgoing ECB chief Mario Draghi failed to achieve.

Facing a protracted crisis, Draghi and his team of highly-trained monetary policy-makers have essentially devised the world's biggest experiment in unconventional policy over the last five years. Weak growth suggests the stimulus path must be pursued, even as the limits of its existing tools are nearing.

With little training or experience in monetary policy, Lagarde, who takes over from Mario Draghi on Nov 1, will be the arbiter and not the driver of the policy innovation that is now needed, putting a greater burden on Philip Lane, the ECB's new chief economist, and the bank's staff.

> 'Mario Draghi was very close to the markets and listened to them perhaps too much. That is not to be expected with Lagarde. She listens to experts more'

In this file photo, Turkey's President Recep Tayyip Erdogan (center right), talks with International Monetary Fund (IMF) Managing Director Christine Lagarde (center left), on the sidelines of the G-20 summit in Osaka, Japan. (AP)

"The question is whether the monetary policy brain drain with the departures of (former chief economist) Peter Praet, (former vice-president) Vitor Constancio and Mario Draghi will be equally replaced or whether Philip Lane might soon be the last pragmatic monetary economist standing in the ECB's Executive Board," ING economist Carsten Brzeski said.

Draghi, himself a PhD economist who wrote a dissertation at the Massachusetts Institute of Technology (MTI) on economic theory and its application, has in contrast been the head of the ECB's brain trust, surrounding himself with some of the eurozone's best minds while ultimately making the big calls himself.

In his 2012 speech promising to do "whatever it takes" to save the euro – widely credited with holding the bloc together during the darkest days of its debt crisis – Draghi took the initiative himself, forcing an unaware Governing Council to follow and line up behind him.

Indeed, his colleagues say that many of the ECB's big decisions, including increases and extensions of bond purchases, were driven by Draghi, with policy meetings only ironing out details but not setting the direction of travel.

Even last month, when Draghi put policy easing firmly on the table, he caught many of his colleagues unaware and likely tied Lagarde's hands for much of her first year.

But Lagarde, the IMF's Managing Director, may be more of a listener, which could give a greater role to the Governing Council in shaping policy and improve the diversity of views.

"Mario Draghi was very close to the markets and listened to them perhaps too much," one policymaker, who asked not to be named, said. "That is not to be expected with Lagarde. She listens to experts more."

Listening and engaging in politics may be Lagarde's strength.

That is significant since the ECB's policy arsenal is largely exhausted and the biggest lever is now fiscal policy, controlled by the 19 euro zone capitals and not the ECB.

"The hope is that she can contribute, in her own way, to a shift towards a more proactive fiscal policy in Berlin," Frederik Ducrozet, a strategist at Pictet Wealth Management said.

Obsessed with budget surpluses and paying down debt, Germany has been reluctant to spend more and Draghi's biggest failure may prove to have been not convincing German Chancellor Angela Merkel to use record low borrowing costs to invest more.