Japan Forced Restructuring of 2 Big Banks

David Holley
TOKYO — Japan moved for the second time in two days to shore up its troubled banking system, orchestrating shake-ups Tuesday at two of the country’s most troubled big banks and forcing them to retreat from overseas markets.

In addition to strengthening the banking system, the moves are a signal to foreigners that weak Japanese banks will not be allowed to operate internationally, Sei Nakai, deputy director-general of the Finance Ministry’s banking bureau, told a news conference.

“This is our real message,” Nakai said. “Japanese authorities will lead weak Japanese banks to withdraw from the international market quietly without giving any damage to foreign creditors. People in the international market will consider the remaining Japanese banks safe and sound.”

The steps are aimed at Hokkaido Takushoku Bank and
Nippon Credit Bank, which analysts in Tokyo have long viewed as the two institutions among Japan’s 20 top banks that are most severely burdened with nonperforming loans.

The moves “will contribute to restoring confidence both at home and abroad in the Japanese financial system,” Finance Minister Hiroshi Mitsuzuka said.

On Monday, the government released a plan to address the severe bad-loan problems of Japan’s banks by boosting the moribund property market, a step that analysts described as inadequate.

Tuesday’s moves call for Hokkaido Takushoku Bank--one of Japan’s 10 nationwide commercial banks, headquartered on the northern island of Hokkaido--to merge with its key home-base rival, Hokkaido Bank. The merged bank will cut its work force by 25% from a current combined total of 8,500, with a goal of reducing costs by 30% and nearly doubling profits, bank executives said.

“We are facing mega-competition in this era of economic globalization, and we’re under pressure to carry out drastic reform,” Hokkaido Takushoku Bank Vice President Chuji Ono said.

Hokkaido Takushoku will close its overseas operations, a step already taken earlier this year by Hokkaido Bank. Hokkaido Takushoku has assets of about $82 billion, and Hokkaido Bank’s assets are about $27 billion.
Separately, Nippon Credit Bank Ltd., one of Japan’s three long-term credit banks, announced a restructuring focused on a pullout from overseas operations, a 20% staff reduction from its current 2,900 employees, 50% pay cuts for executives, heavy write-offs of bad loans and the sale of real estate assets, including its headquarters, to help finance those write-offs.

The plan for Nippon Credit Bank also calls for fresh investments from major banks and insurance firms that already are its stockholders or creditors, as well as an infusion of funds from this country’s central bank, the Bank of Japan. Nippon Credit has about $135 billion in assets.

While the needed new investment in Nippon Credit appears likely to be forthcoming under pressure from the Finance Ministry, that element of the plan was criticized by analysts who say strong financial institutions should not be pressured to bail out weaker ones.

“It’s better than nothing, but it’s extremely slow,” said Ronald Bevacqua, analyst at Merrill Lynch Japan Inc. “It’s not the way foreign governments or foreign investors want, but it’s very much the Japanese . . . way of dealing with these things.”

Most foreign observers, Bevacqua said, would prefer that the Ministry of Finance “allow the market to decide which institutions survive and which don’t.”

Some analysts said the retrenchment at Nippon Credit Bank,
which specializes in small business loans and mortgages, appeared to be aimed at getting it into solid enough financial condition to be merged with a stronger Japanese bank or sold to a foreign institution.

“I have no objections to someday having a blue-eyed chief executive,” Nippon Credit Bank President Hiroshi Kubota told reporters.

In other action Tuesday related to the Nippon Credit Bank restructuring, three of that bank’s financial affiliates--Crown Leasing Corp., Nippon Total Finance Inc. and Nippon Assurance Finance Service Co.--all filed for bankruptcy.