

No lights, no sirens. With the property downturn intensifying and some developers facing financial difficulties, banks have been busy putting out fires. Lenders with exposure to overextended developers have been dispatching fire engines across the country to stop their money going up in smoke. But they are doing so on the quiet—they don't want to create panic.

It is not clear how the recent collapse of one of the country's largest civil engineering companies, South Midland Construction, relates to the housing slump. But it should come as no surprise that there are going to be casualties. What is surprising is that more developers have not gone belly up by now. Newly constructed homes are not selling. The loans that financed these developments are overdue. Yet banks are evidently not putting troubled developers into receivership.

A reasonable conclusion is that banks are restructuring property loans, giving developers more time to pay the debts by rolling over the loans. But if developers are not bringing in cash, how can they even service these loans? The answer is probably "roll-up" loans, where no interest payments are made until the loan is due. The loan principal is then repaid along with the accumulated interest.

Rolling over loans and rolling up interest buys some time. The hope is that if home sales recover in 2008, a housing fire sale can be avoided. But banks may merely be postponing problems associated with overbuilding, not solving them. In doing so, they are taking on greater risks. That probably goes a long way to explaining why share prices for Irish banks have crashed by more than bank stocks in other countries. A fire engine is still a fire engine, even if its lights and sirens are off.