

To Northern Rock Shareholders

01 August 2008

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Northern Rock Shareholders Action Group – Update No. 40

Meetings Report – Jon Wood Accuses the Government of “Theft”

We held meetings for our supporters in Newcastle and London recently. We were not announcing anything particularly new at these meetings, so they were primarily an opportunity for shareholders to ask questions and hear what we had been doing and why. This was particularly helpful to those who do not get our regular email updates.

Incidentally we received a number of requests for meetings in other parts of the country (eg. Scotland, the West of England, etc). It is beyond our limited resources in time and money to organise local meetings everywhere, but if any enthusiastic supporters wish to arrange such meetings then we would be supportive and would try to provide a speaker.

Jon Wood of SRM Global spoke succinctly at the Newcastle meeting and repeated what he had said to the local press – namely that MPs were guilty of backing the “theft” of the company from shareholders. In his view they had ruined the lives of thousands of honest innocent people as a result. He made these comments after meeting a number of particularly disadvantaged shareholders earlier in the day, whose plight had clearly moved him.

In response, Nick Brown M.P. Minister for the North East said that such remarks were “unacceptable”. He also said *“the bank was brought to the brink of ruin by greed and the use of unacceptable risk taking”*. But this is not the view of our supporters based on a survey taken of shareholders who clearly now blame the Government primarily for the sequence of events.

Subsequently Jon Wood said to the Sunday Telegraph *“Does Nick Brown realise that Northern Rock did not break any rules so that all the risk taking at the bank was approved by his boss Gordon Brown, the tripartite and the Basel II regulations? The bank was suffering from a liquidity crisis, it was not losing money. It’s the same problem that all the banks have run into. And if that was unacceptable risk-taking then why has the Government allowed them to tap into the special loan facility to the tune of £100bn?”* He added *“How much longer do we have to keep being told how the mess created by Gordon Brown is everybody else’s fault?”*

Other speakers at the meeting were Chris Hulme, who gave the views of a mortgage broker, Dennis Grainger, a former Northern Rock employee who organised the meeting, Doreen & Dennis Shannon, Alan Appleby, Brian Peart, Steve Wilkinson and other former shareholders.

Roger Lawson, Chairman of the Action Group, spoke and he backed up what Jon Wood had to say regarding the causes of the crisis at Northern Rock, and the ethics of what the Government had done. The content of his presentation can be seen at:

www.uksa.org.uk/UKSA_Northern_Rock_2.pdf .

One question that came up at the meeting was about the Government's claim that shareholders should not be compensated, because without Government support the company would have had to cease trading. This was countered by the following arguments:

1. The Government lent money to the company on a commercial basis and was also paid for the guarantees provided by the Government to depositors. The company always adhered to the terms of the Government loans and as far as we know paid interest when it became due – indeed they had commenced repaying the loans before nationalization took place. These loans were not exceptional, they were provided under "Lender of Last Resort" facilities from the Bank of England which Northern Rock qualified for as would any other solvent bank.

2. The Government was a minority lender to the company in terms of its total liabilities. An analogy to the Government's claim to be able to acquire the company for nothing is where someone who granted you a mortgage on 25% of the value of your house, suddenly decided, when you had not defaulted in any regard, that this gave them the right to acquire the property and pay you nothing. That is what shareholders are being asked to accept.

In London, the main speaker was Roger Lawson, and similar questions on the whole arose from the audience. One issue that came up though was whether shareholders would like to have the company returned to them after the "*period of temporary public ownership*". On a show of hands, the general view appeared to be "yes", but it was pointed out that shareholders may not want it back because of the damage now being caused to the company by the management now in place. The size and value of the business was going to be much reduced as a result from what it might have been, or what it was at the date of nationalization.

Some photographs taken at the two meetings have been added to this page of our web site: www.uksa.org.uk/NorthernRockPhotos.htm . Our thanks go to Newcastle City Council for providing the venue in Newcastle free of charge.

The Role of Lender of Last Resort

An interesting light on the role of the Bank of England in the crisis of Northern Rock was given by a lengthy article in "FT Weekend" on the 19th July. This was a report on a lecture by Richard Lambert, Director General of the CBI, at Templeton College, Oxford. It included this comment:

"The role of lender of last resort was classically defined by Walter Bagehot. His great book Lombard Street was published in 1873, and set out what has become the guiding mantra for central banks in times of crisis ever since: lend freely at high rates against good collateral. Lend freely, in his words 'to stay the panic'. At high rates, so that ' no one may borrow out of idle precaution without paying well for it". And lend on all good banking securities to an unlimited extent – because the 'way to cause alarm is to refuse someone who has good security to offer'".

Of course the Bank of England did exactly what is countenanced against in the last sentence when first faced with a request for support from Northern Rock. One wonders if Mervyn King, the Governor, had ever read this tome.

Tax Position

Shareholders have been wondering as to whether the nationalization of Northern Rock qualifies as a disposal of the shares and if so, at what value. HM Revenue and Customs have recently published a note that spells out the position – see the following web page: www.hmrc.gov.uk/briefs/vat/brief3208.htm . In essence they have accepted that the shares will be of nil value at the date of nationalization, which rather supports our argument that this is the only answer any independent valuer can come up with if they follow the Government's terms of reference in the Act and the Compensation Order. So shareholders can recognize a full loss on the shares for capital gains tax purposes. Those shareholders who obtained the shares for nothing in the original demutualization will likewise have no profit to declare.

New CEO at Northern Rock

Northern Rock have announced the appointment of a new Chief Executive. His name is Gary Hoffman who comes from Barclays. Andy Kuipers, the last of the original board still present, will be leaving and Ron Sandler will change his role to that of "non-executive" Chairman.

Why Has the Government Not Informed Shareholders of Nationalisation?

Many shareholders have asked if they have missed out on any communications from the company or the Government about the confiscation of their shares, and what is happening re the independent valuation process. No you have not. Surprisingly nobody, other than UKSA, has told shareholders, even those on the share register, that their shares have been confiscated. Although this is something the independent valuer is lined up to do, it is clearly going to be many months before anything is sent to shareholders. Why the lack of communication? Is the Government simply unwilling to publicise what it has done?

The Source of the Leak that Caused the Run on the Bank

Mervyn King, Governor of the Bank of England, was tackled by Jim Cousins M.P. at the 22nd July meeting of the Treasury Select Committee on the subject of the source of the leak of funding to Northern Rock that was dramatically promoted by the BBC and instigated the run on the bank. Cousins suggested that an inquiry into the leak would be a good idea. Mr King responded that he did not think any leak inquiry has ever produced a very productive results, and "*I think it is pretty clear where leaks tend to come from*". He went on to give an assurance that no leak came from the Bank of England, and that he could not carry out an investigation into a leak from any other authorities. The conclusion one might draw from this banter is that the leak came from the Treasury or associated politicians. We suggest that an inquiry into this critical matter would be a good thing to have however.

The Parallels in the Equitable Life Case

Equitable Life has been in the news recently following the publication of a damning report by the Parliamentary Ombudsman into the crisis at the company some years ago. The business almost collapsed and over a million policyholders lost a substantial proportion of their investment. The Ombudsman, Ann Abraham, attributes much of the blame to faulty regulation of the business by the Government authorities and recommends that the Government establishes a fund to compensate those affected.

The Government has persistently avoided any public inquiry into this affair, and has been trying to pin the blame solely on the former directors. The parallels with Northern Rock are very clear as the FSA has already admitted gross defects in their regulation of the latter company. Any agreement to compensate Equitable Life policyholders would surely set yet another precedent that would point out the moral iniquity of the Government depriving Northern Rock shareholders of their interest in the company without fair compensation.

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Note that all previous "Update" notes on Northern Rock that we have issued are present on the following web site page: www.uksa.org.uk/NorthernRock.htm