

To Northern Rock Shareholders

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Northern Rock Shareholders Action Group – Update No. 42

Will the Government Profit or Not from the Nationalisation of Northern Rock?

On the 24th August the Sunday Times published an article headlined "*Taxpayers face £1bn Northern Rock loss*". This was based on the evidence that the Government has submitted to the judicial review, and specifically the evidence of Treasury official John Kingman on the advice given by Goldman Sachs to the Government before they decided on nationalisation.

His evidence does indeed suggest that the Government received advice that all the options (nationalization and the private sector solutions) would involve a "subsidy" from the Government, and that nationalization might require less subsidy than the private sector solutions. The Telegraph put it another way – they said "*Rock sale to Virgin risked £2bn loss*".

This surprised many people because did not Gordon Brown suggest in his press conference on the 18th February that it was entirely possible that the Government might make a profit on the deal when Northern Rock was subsequently sold?

Either Gordon Brown was being economical with the truth, or there is more to this than is apparent. What was the basis for this claim of "subsidy"? Unfortunately the details of the Goldman Sachs advice have not been disclosed. We will not know the truth unless full disclosure of the Goldman Sachs advice is made which the Government has been avoiding so far.

MP Criticises £23m Charged to Northern Rock

Jim Cousins, M.P. for Newcastle Central, has criticised the Tripartite Authorities for imposing demands of £23m on Northern Rock – see the mention of this in our comments in our last newsletter on the interim results. He said "*I am writing to the Chancellor about these fees because I want these fees cancelled and the money handed back to Northern Rock*". In our view it is totally unreasonable to charge the company for the advice that was obtained by the FSA and other parts of the Government because this was advice that they required and it was not advice to the company. The company had no control over that expenditure and there is no indication that they agreed to pay those fees at the time.

New Donation System Implemented

The UKSA web site previously enabled you to make credit card donations to the Northern Rock Campaign Fund via Paypal. However we found them somewhat difficult to deal with and many people also had problems using the system, so we have now implemented a solution based on the Worldpay service (part of the Royal Bank of Scotland). You can access this system from the Appeal page of our web site – see www.uksa.org.uk/Appeal.htm (use the link in the right hand side margin). We have retained the Paypal service as an option for those people who already have Paypal accounts, but we certainly recommend the Worldpay system as a preference. Any comments on the new service would be welcomed, particularly if you have any difficulties – we have tried to make it as easy as possible to use.

The Quality of the Northern Rock Loan Book

Comments from a number of sources continue to blame the problems of Northern Rock on its reckless mortgage lending policies. For example, Vince Cable MP repeated this recently on BBC radio. But nothing could be further from the truth. One of our committee members, Chris Hulme, had a lengthy letter published on this subject recently in the Daily Telegraph, and a copy can be read at www.uksa.org.uk/Hulme_Article.pdf on our web site. If you are unclear on this issue, please read it.

Another Sad Story

As Chairman of the Northern Rock Shareholders Action Group, I have heard many sad stories. Of people relying on their investment in Northern Rock under the impression that it was a sound company, well regulated by the Government. But one case recently brought to my attention was that of someone whose mother owned shares but died in a car crash. At the time of her death, the share price was at its peak of £12. So her estate paid inheritance tax at 40%, resulting in a tax bill of £2,400. Probate was not obtained until much later so the shares could not be sold to recoup that bill. So tax was paid to the Government on the shares but they have now confiscated them and are likely to pay nothing in recompense.

Northern Rock Woes Take Toll on City's Reputation

The above headline was the title of an article in the Financial Times on the 27th August. It compared the City of London to New York and other major financial centres and included the following quotation from Tim Linacre of Panmure Gordon: "*The brand of London has taken a hammering because of Northern Rock*". Undoubtedly the handling of the crisis at Northern Rock has raised international concerns about the regulation of the London market, the regulation of financial institutions and the attitude of the Government to shareholder rights which may take some years to die down.

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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