

To Northern Rock Shareholders

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UK Shareholders Association
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Northern Rock Shareholders Action Group – Update No. 56

Appeal Hearing Date

A date has been set for the hearing of the appeal on the judicial review which is June 10th, somewhat earlier than expected. Supporters of this campaign are encouraged to attend the hearing at the High Court in the Strand so you may want to make a note in your diary of that date. More information will follow, but the date may be subject to change.

Sale of Northern Rock?

Several newspapers have reported that Northern Rock may be sold off by the Government. Apparently Credit Suisse, acting as advisors to the Treasury, have sounded out a number of possible buyers for the company, or for part of it. It could happen as soon as later this year which is well ahead of the expected time scale for a disposal. Most commentators did not think much of the idea based on it being rather premature to sell at this point when the company has only partly recovered and when banks generally are not valued highly – a better price might be obtained later was the general opinion. But one only has to read the comments of financial analysts on the recent budget to realise that the Government may be desperate to raise some cash and the odd few billion raised from such a sale might assist them.

The plan is apparently to split the company into a “good bank” and a “bad bank” with only the former being disposed of. The good part might be the branch network and retail deposits, some older good quality mortgages and new mortgage lending. The bad part would be that part of the mortgage book with a high loan to value ratio, likely to default or in default. Other splits are also possible, but the good part might fetch as much as £2bn. The bad part would be run down and the company eventually wound up, as is being done with Bradford & Bingley.

Richard Branson’s Virgin Group is one of the parties taking part in the discussions (he was clearly disappointed at being thwarted in his previous bid for the company before nationalisation).

Will this proposal have any impact on former shareholders? In essence the answer is probably no. Any cash received from such a sale will almost certainly not be used to compensate former shareholders but will go straight into the Government’s coffers. Although a disposal of part of the company would result in cash being paid into the company, they would probably simply use it repay Government lending more rapidly, or pay it out as a special dividend to the new owners – the Government again.

Will the value obtained have any impact on the independent valuation process? Again the answer is probably no because the company is a very different beast to what it was when nationalisation took place.

However, it might certainly affect the holders of the subordinated bonds in the company (formerly called PIBs). They might be left with poor security on the "rump" of the business with the risk to the credit rating of these bonds accordingly, and possible risk on subsequent wind-up of the business that they would not be fully repaid. How they would be treated is not clear. The treatment of similar bondholders in Bradford & Bingley does not bode well.

The likely buyers of the "good" part of the business would be any major retail bank, so in practice Northern Rock would likely lose its independence and the brand likewise might go. One of the things this campaign has always stood for was maintaining Northern Rock as an independent institution. This protects local jobs in the North East and means it can provide some competition in the financial sector. So of course we would oppose this dismemberment of the company. Incidentally a substantial part of the better quality slice of the mortgage book was already disposed of to LloydsTSB so this proposal might simply be more of the same.

But regrettably this process is one of the unfortunate likely consequences of nationalisation which will result sooner or later in it being disposed of to the highest bidder in the form the bidders want, and with few restrictions on what they do with the company.

Jon Wood Interview

At the same time as reporting the above news, the Daily Telegraph ran an extended interview with Jon Wood of SRM – the largest institutional fund manager in Northern Rock and one of the leaders of the legal fight for fair compensation. See <http://tinyurl.com/djnctb> for the full interview, but some of his comments were as follows.

"If Lehman Brothers had not been put into administration and Gordon Brown and Alistair Darling had not behaved as they did over Northern Rock, we would not have had this crisis". He alleged the recession is "self-induced and politically driven" and that the Government had undermined the fundamental rules of capitalism by attacking share ownership and changing banks' capital requirements. It led to a string of blow-ups, the near collapse of Britain's largest mortgage lender, HBOS, and its rescue by Lloyds. He believes the seizure of controlling stakes by the Government in Lloyds and Royal Bank of Scotland is theft.

The article confirmed that Mr Wood is willing to finance the legal case even through to the European Court of Human Rights in Strasbourg if necessary, although that might take some years.

His views on the Government's actions and their agenda certainly echo what I have said in the past.

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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