

Press Note

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Northern Rock small shareholders' response to today's bail out of the banks

In response to the press release issued on 21 April 2008 by the Bank of England that launched the liquidity scheme for the banks, Roger Lawson of the UK Shareholders Association said:

"This is an astonishing U-turn by Gordon Brown. Not content with rigging the compensation payable to Northern Rock shareholders, the Government now rubs salt in our wounds by offering every other UK bank and building society a state sponsored solution to their credit crunch woes. This is fundamentally unfair and raises the question whether nationalisation of Northern Rock was really necessary."

Northern Rock asked the Government to swap its assets for Treasury paper in September 2007 but the request was declined. Had the Government and the Bank of England consented Northern Rock could have staved off the crisis that resulted in nationalisation and the huge damage to the UK's reputation as a financial centre.

Northern Rock's business model was approved by the FSA and is a bank with a high quality loan book and relatively low level of defaults. Had Northern Rock been able to take advantage of a "loans for mortgages" scheme last year, the risk to the UK taxpayer would have been low compared with the scheme now being offered to other UK banks.

Mr Lawson went on to say: "Last year the Governor of The Bank of England was obsessed with lecturing anyone who would listen on the moral hazard of providing any form of public funds to Britain's banks and building societies. Yet today's announcement of the loans for mortgages scheme is strangely silent as to moral hazard.

“We have two pressing questions that the Treasury Select Committee is best placed to ask of the Government and the Bank of England at the earliest possible opportunity:

“Has the Government finally realised that the credit crunch is a global phenomenon and that employees and shareholders exposed to the UK financial sector should not be punished for problems not of their making? And will the Government please explain why they failed to identify a loan for asset swap as an alternative to nationalisation of Northern Rock?”

For further information, please contact:

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