

To Northern Rock Shareholders

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Northern Rock Shareholders Action Group – Update No. 43

Valuer Appointed

The Treasury has announced the appointment of Andrew Caldwell, a partner in BDO Stoy Hayward, as the valuer for your shares in Northern Rock. However, if you are expecting “fair compensation” as promised by the Chancellor when announcing the nationalisation of the company, think again. The terms of reference of the valuation which are set in the Nationalisation Act and associated Compensation Order will almost certainly mean little or no value is attributed to your shares.

The only way you are going to get fair compensation is if the legal action that is being pursued by private shareholders, and by the two largest institutional shareholders, is successful.

No doubt the valuer will need to go through the normal processes though which could take some months, and he will collect a fee of £4.5 million for his work. Members of your committee did a number of TV interviews on the subject of the appointment of the valuer and the status of Northern Rock one year after the “run on the bank”. We were also quoted at length in several national and local newspapers.

Status of Legal Action

For those who have only recently joined this campaign (and we have had a lot of new supporters of late), the position is that the three groups mentioned above have all filed for a judicial review of the terms of the nationalization which should get into court on January 13th next year. We are asking for the Act and the Compensation Order to be set aside on the basis that it breaches the European Convention on Human Rights. In essence our claim is that the compensation terms have been set totally artificially by the Government to ensure that no or very little compensation is paid.

Alistair Darling’s Background

One of the most outrageous aspects of the Northern Rock affair has been the consistent failure to recognize shareholders as having an interest in the company and to accept that they were “stakeholders” alongside depositors, lenders to the company (such as the Government) and employees. Statements issued by the Treasury made it clear that shareholders interests were to be ignored, and comments in Parliament by MPs portrayed shareholders as simple speculators who deserved to lose everything.

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An interesting slant on why Mr Darling might not be sympathetic to shareholders rights was given recently in Private Eye. It commented on an interview he gave to the Guardian on his early life and suggested that it was somewhat distorted. Old Edinburgh comrades were reported as remembering Darling as a keen supporter of the International Marxist Group, British section of the Trotskyist Fourth International. It also claims he was a typical local-government leftie on Lothian regional council, and even denounced George Galloway as a "reformist" after the latter pointed out that Darling's opposition to the rate-capping laws would be disastrous and might land him in jail.

Fannie & Freddie

It is worth noting that the US rescues of Fannie Mae and Freddie Mac that were announced recently were conducted in a far more shareholder-friendly manner than the Northern Rock nationalisation.

One of our committee members identified the following differences between these two takeovers:

	US treatment of Fannie/Freddie	UK treatment of Northern Rock
1.	Conservatorship (i.e., shareholders retain rights to residual profits as per normal, however, management control temporarily passed to the government authorities)	Nationalisation with strenuous attempts made to pay shareholders close to nothing in compensation with complete deprivation of shareholders' basic rights to corporate profits made in the interim.
2.	Dividends forcibly suspended in order to conserve capital as part of conservatorship plan.	Confiscation of shares after dividends were voluntarily suspended.
3.	Intended 10% p.a., wind-down in Mortgage backed security book through natural attrition with the aim of emerging as a more robust business in several years' time.	Intended complete payback of government lending within three years to the exclusion of all else. Competitors permitted to "cherry-pick" best quality assets at low prices in order to achieve this goal more quickly at the expense of long-term stability.
4.	Co-operation and co-ordination between Federal Treasury and FHFA.	Very little co-ordination between the Tripartite authorities.
5.	Government support payments recognised as "senior preferred stock" with warrants issued to provide taxpayer protection. Government authorities recognise that this entails that the returns to the taxpayer will be strongly linked to the health of the business.	Government payments recognised as debt facilities. Government authorities fail to recognise this fact and are presently attempting to gain both equity-holders' upside gains and debt-holders downside protection simultaneously.
6.	Outgoing management recognised as being in no way responsible for the credit conditions that have precipitated these problems.	Outgoing management used as scapegoats.

Please Vote in the Journal's Poll

The Newcastle Journal is conducting a poll on what caused the problems at Northern Rock and who people think were to blame. Please click on the link from this web page: www.nebusiness.co.uk to vote. My answers were as follows: Question 1: The Government, Question 2: Yes, Question 3: No, Question 4: Very poor, Question 5, No, Question 6: Yes, Question 7: no comment: Question 8: Yes, Question 9: still in operation on a smaller scale. The poll will close today apparently so please vote as soon as possible (the results will be available on Monday).

It's A Wonderful Life

It's a Wonderful Life – that may not be the view of many Northern Rock shareholders recently, but it is the title of a well known film (Star: James Stewart, Director Frank Capra). It's worth mentioning because at a seminar this week on Northern Rock, hosted by Andrew Neil, the panel were asked "*would they have saved Bailey's Savings & Loan*" and most of them seemed stumped by the question.

The film is the story of a bank that experiences a run of depositors after some dodgy accounting. The bank is about to crash into insolvency, Stewart is in despair and gives up hope. But an angel shows him what life would be like in the town without the mortgage and other lending by the bank – homeless and jobless people in essence. So he is encouraged to save it with a happy ending resulting. Certainly a film worth seeing by every banking regulator and those who think that solvent banks should be left to go bust due to temporary cash flow difficulties. It's readily available on DVD.

Other Points to Note

Several shareholders have contacted me concerning telephone calls from an organization named AMG. They seem to be contacting shareholders simply because your name is on the share register of the company (anyone can obtain a copy of this, as we did, and please note that we have not passed your personal details onto anyone). We are not aware of any official role granted to this company and calling anyone out of the blue for the purposes of promoting financial services to someone is not permitted in the UK. Such calls by anyone should be treated with deep suspicion.

Several people have pointed out that there are possible solutions to the problem reported in our last newsletter of an inheritance tax liability on Northern Rock shares arising on the former death of a shareholder. You should consult a lawyer or tax accountant for further advice if you have experienced this problem.

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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