



Northern Rock Debacle Comes to a Close.

After dithering about the right course of action to take with Northern Rock for months, the government finally made a decision last week. Alistair Darling, the Chancellor, announced the lender would be brought under the government's control.

In a bid to turn around the fortunes of the bank and return the cash taken from taxpayers to shore up the lender the government hired Ron Sandler to swoop in. Mr. Sandler is a man who was previously tasked with ending the pension crisis and is largely responsible for the less than successful 'stakeholder' pension regime.

Mr. Sandler has refused to contemplate that he could fail in his bid to return tax payers' cash and restore Northern Rock's health, which is just as well as he is picking up a pay packet of £90,000 a month.

Surely there was a point in this debacle where a happier resolution could have been achieved. Yes, there had been a point but only if the government had been willing to annoy a fair few people.

Before queues of people started to line up outside of branches of Northern Rock a possible solution had been laid down on the table. Lloyds TSB was believed to have been willing to offer the troubled lender's shareholders some cash in exchange for a bank that had quickly gained massive market share.

For shareholders who had seen the price as high as £12 last February and could have picked up just 90p when trading was suspended in the middle of February, £5 a share now sounds like a blessing. But back at the end of last summer the thought of telling shareholders what they thought was worth £12 was only worth £5 clearly petrified the Government.

Here we get the crux of the Northern Rock problem: In Tony Blair's Britain bad news just did not get delivered. This would be too hard a pill to swallow for shareholders and voters. Rather than minimise the misery, Gordon Brown's government spread it by allowing Northern Rock to call on the Bank of England's emergency reserves with the hope the capital markets would quickly pick up and the status quo could be resumed.

This proved to be a massive error of judgement, as funding lines remain fairly dry. Nationalisation has clearly been a lesson in how by trying to please everybody you end up making nobody happy. Mr. Darling said public ownership was the only course of action to "safeguard taxpayers' money." Hmm. Prevention is the best cure and the best way the government could have safeguarded the nation's money was not to have to call on them for emergency funding in the first place. Mortgage advisers and lenders pay a hefty premium to be regulated and given that this scrutiny failed to stop cash being pulled out of the public purse, you have to wonder whether the tripartite authorities (FSA, Bank of England and the Treasury) have treated their customers - the industry and the nation's tax payers - fairly.

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