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MONEY BOX

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LEWIS: Hello and Money Box this week is live from Newcastle - the city where the bank Northern Rock is based. We're live here this week because it's exactly a year since this dramatic revelation was made on the BBC news channel.

PESTON: We've all obviously been aware of the mayhem in financial markets over the past few weeks and that has now caused really quite significant problems for one of our best-known mortgage lenders, a company called Northern Rock; and it's become so concerned that it's approached the Bank of England to provide some emergency funding. Now to be absolutely clear, this does not mean that Northern Rock is bust. I don't think there's any reason for depositors at Northern Rock to panic.

LEWIS: But it was advice thousands of Northern Rock customers ignored. The next day the queues stretched round the block of most of Northern Rock's 76 branches in all parts of the UK with anxious depositors trying to take their savings out.

REPORTER: So you've just taken out rather a large amount?

MALE 1: I have indeed, yes.

HOWARD: Can you tell me how much?

MALE 1: £150k.

FEMALE: I felt if they had to resort to borrowing from the Bank of England, they obviously had problems.

MALE 2: I'm going to put it in a building society. I'd rather be safe than sorry.

LEWIS: It was the biggest banking crisis for a generation, and you have to go back to the 19th century to find anything really comparable. Of course Northern Rock was just one victim, globally a fairly small one, of the credit crisis which is still reverberating round the world today. This weekend, a major American bank, Lehman Brothers, is struggling to survive; last week, the US government stepped in to rescue the world's biggest mortgage lender; and here in the UK, our biggest building society announced it was quietly taking over two rivals before they revealed large losses. More on this week's events towards the end of the programme. But here in Newcastle thousands of people are still being affected by the near collapse of their local bank. Northern Rock lent them money, helped them buy their homes, looked after their savings and gave them jobs. Many got closer still 11 years ago when Northern Rock converted from a building society to a bank and nearly a million members got 500 shares each. At the start of last year, those shares were priced at more than £12, but those who hadn't sold saw the price tumble to just 90 pence when nationalisation was announced in February and they have to wait for an independent valuer now to set a fair price for them. They could be less than 90 pence. They could get nothing. Local shareholder Sylvia wanted to use her shares to help in her retirement.

SYLVIA: People have been texting into the local radio station to say they've got no sympathy for small shareholders at all; that shares can go down as well as up; what are we carping about when we got them for nothing? But we didn't get them for *nothing*. We got them because we were Northern Rock Building Society. And then it became a bank. I never imagined for one minute, keeping my shares where they were, that anything would happen to that bank, especially a bank in the North East - and a big bank at that. So every day that went by, you think things'll get better, things'll get better because I was asked the question, "Why didn't you cash your shares in?" It

never occurred to me to cash them in. In your heart of hearts, you don't believe that a bank is going to go to the wall.

LEWIS: Well Money Box's Bob Howard is with me. Bob, Sylvia saying not everyone's sympathetic, and I must say I've heard that view reflected on the local radio station this week. You went out in Newcastle. What were people saying to you?

HOWARD: Well, Paul, I spent a couple of hours talking to Northern Rock customers as they came out of a branch in the centre of Newcastle. One told me he'd only started saving with the Rock a few weeks ago because he liked the rate it's offering, but also because with the government's backing he felt his money was safe.

LEWIS: Well yes, of course, the government's guaranteeing the safety of any amount in Northern Rock, isn't it?

HOWARD: And I also talked to two older couples who have been with the Rock and its predecessors for decades. Both couples were saving with it, but also had shares they received when it became a bank. I asked first of all whether they felt hard done by.

MALE: I had three accounts in the Rock and I've got three lots of shares. I got the money for one lot of shares, so I'm nothing out of pocket really.

FEMALE: It's a gamble, isn't it, you know?

MALE: It's a gamble. It's like going in the betting shop and having a bet. If you go for shares, you know they go up and down. We never thought that could happen, but it *can* happen.

HOWARD: Do you think it's got any long-term future?

MALE: Oh yes, I think so. Now it's in government's hands.

HOWARD: Because it's too important to the community to fail, or it's too big a bank to fail?

MALE: Too important to the community. It's a good employer.

HOWARD: Do you think it's easy for somebody outside the North East to understand the relationship between the bank and its customers?

FEMALE: Down South, I don't think it is.

MALE: No.

FEMALE: I don't think they understand you know about the Northern Rock and how many people within it, you know, and how it affected a lot of people's lives when that happened. The panic.

HOWARD: So, Paul, although there's still a lot of anger, others seem to have reluctantly accepted what's happened. Most people I spoke to really want the Rock to continue as a major bank for the North East and they want its associated activities like the Northern Rock Foundation to continue as well.

LEWIS: Thanks, Bob. Well with us in the Newcastle studio today is Keith Burge, the Managing Director of ERS, a local consultancy on economic development and regeneration; and Bill Corcoran, an independent financial adviser from financial management company HRC. Both of them know the area, the people and their money very well indeed. Keith Burge, I'll talk to you about jobs a bit later, but one important thing Northern Rock did - and Bob just mentioned it there - was give 5% of its profits to this charity, the Northern Rock Foundation. How important was that locally?

BURGE: Well it was extremely important for the bank to be able to be seen to be recognised as an organisation which was putting something back into local communities. It was also a useful device to discourage predators of course who would

have retained that obligation. But within the North East and Cumbria where that money is being spent, millions and millions of pounds have gone into a very wide variety of local projects and that money has been vital for those organisations to keep on going.

LEWIS: What kind of things?

BURGE: We've been looking at employment projects at a very local level, we've been looking at health projects and mental health projects, right up to the very high profile investment that Northern Rock Foundation made in the Sage Gateshead.

LEWIS: In that big art centre, yes. And Bill Corcoran, you're an independent financial adviser. How has the near collapse and nationalisation of Northern Rock affected people's attitudes to finance here?

CORCORAN: I think people feel extremely abused. People are always slightly concerned about money, and I think this has just made the whole thing a lot worse in their eyes. I think the greatest problem we have as financial advisers talking to our clients is the fact that they don't really understand the products and the things that they have properly. We do our best, and you know this has made it a lot worse.

LEWIS: More from Bill and Keith later.

Well earlier this week, I went to Northern Rock's headquarters to interview the man now in charge of the bank: executive chairman Ron Sandler. He was appointed by the government in February when it said it would nationalise Northern Rock. I asked Ron Sandler when he expected the bank to be *de-nationalised*.

SANDLER: It looks as if - and we've always said this - that we will have the debt repaid before the end of 2010. I would expect the guarantees to be released some time thereafter - hopefully within a year, possibly two - and that I think sets the stage for the return to private ownership. But we must stress that the markets we are facing are

highly uncertain, so I think it would be unwise at this stage to make any more precise predictions about timetable for events which are likely to be some many years away.

LEWIS: Isn't one of the problems though that you want to get rid of a lot of the mortgage debt, so you can pay off that government loan, but the customers you get rid of - particularly now - most easily are the good customers. The ones that you're left with are the ones who find it hard to meet their payments.

SANDLER: It is certainly a fact that those customers who represent the best credit risks will be the ones who will find it easiest to mortgage away and inevitably the book with which we are left will be a book which has a lesser quality than when we started. But that was always built into our projections; we've always understood that.

LEWIS: It has been suggested, hasn't it, that you're being rather ruthless in pursuing the people who had very large mortgages - the Together mortgage, 95% secured, 30% unsecured? They're in great difficulties, many of them, and yet now you are busy evicting a lot of them, pursuing those debts, some say, ruthlessly.

SANDLER: Well some might say that, but we take the view - and always have done - that possession is an action of last resort. We try extremely hard to establish contact with our customers as early in the process that we can and to work with them as any responsible lender would do. Now there are occasions inevitably where that leads to a possession - sometimes initiated by us, sometimes initiated by the borrower - but I would reject very strongly the insinuation that we are somehow excessively ruthless or uncaring.

LEWIS: But don't you have a special obligation to them? They should never really have been sold those mortgages in the first place, should they? They've been called mad at the time and they seem even madder now.

SANDLER: Well I wasn't around at the time that many of these loans were taken out.

LEWIS: No, but you're here now and you're responsible for pursuing them.

SANDLER: Well certainly I'm responsible for a number of things. I'm responsible for treating my customers fairly and I'm also responsible for paying back some very large loans to the government, and there is clearly a balance to be struck in terms of how we go about managing conflicting objectives.

LEWIS: Do you feel, having come into this business after the problems arose, do you feel any responsibility towards shareholders? Thousands of people, particularly local people, had shares and they now feel they've been let down, they've been betrayed.

SANDLER: To the extent that shareholders come to feel that they have lost money as a consequence of their holding, that'll obviously generate a degree of passion. That comes as absolutely no surprise to me. But a valuer has been appointed. I am not privy to the detail of any of that and I'm sure that ultimately a fair solution will be found.

LEWIS: Just let me talk to you about the Northern Rock Foundation briefly. You were parachuted in, as they said, from London. The Northern Rock Foundation has done a lot of very good work, a lot of different things - theatre projects, rape crisis centres, youth work. That's a very important force for good. What's your personal commitment to that?

SANDLER: I'm doing everything I possibly can to ensure that that heritage is maintained. I am criticised occasionally because some might argue that it is an inappropriate way of spending the taxpayers' money, but I think that long-term it will assist in restoring Northern Rock to the sort of health that ultimately it needs to have if it is to return to the private sector and deliver to the taxpayer the full benefit of having been in public ownership for some temporary period.

LEWIS: Northern Rock Executive Chairman Ron Sandler. And you can hear a longer version of that interview a bit later this afternoon on our website:
bbc.co.uk/moneybox.

Well as we heard Ron Sandler say, Northern Rock is getting rid of existing mortgage customers as part of its programme of repaying the original £27bn debt to the Treasury. Nearly £10bn has already been repaid as customers and their mortgage debts have been shed. And as existing fixed rate and tracker deals come to an end, all customers are told they have a choice: pay Northern Rock's standard variable rate of 7.49%, one of the highest in the business, or move their mortgage to another lender. But leaving has costs of its own. Yesterday I went to see Denise in her smart house in Wallsend and asked her first what had happened to the mortgage she and her husband took out three years ago.

DENISE: My mortgage comes to an end the 1st October, my fixed rate. They're not offering any existing customers any new deals - fixed deals or trackers - but these are available for new customers. So what I'm offered is the variable rate at 7.49%, so it means my payment now goes up by £230 a month.

LEWIS: That's a lot of money to pay, isn't it?

DENISE: It is, yeah. So I currently work four days a week, so I'm now having to go back to work full-time and that means I also have to pay another day's childcare as well.

LEWIS: Northern Rock's mortgage is dearer, but could you move to another lender?

DENISE: I maybe could, but the fees that I would have to pay on top of my mortgage, it's not worth us to move because it's all the money I've just paid off for the last three years. They're just going to add that back on.

LEWIS: So you'd have to pay extra to leave?

DENISE: Yes I would, yes.

LEWIS: How much would that be?

DENISE: About £4,000. And the mortgage that they offered is from Lloyds TSB. The first payment was probably treble what I pay now because they add the interest on at the beginning.

LEWIS: So really you're trapped with Northern Rock, but you're trapped in a mortgage that is going to be very hard to afford?

DENISE: That's true, yes. I'm really concerned that you know if the interest rates go up again and I can't afford to pay it, then I may lose my house.

LEWIS: Denise was a first-time buyer who borrowed 90% of the value of her home. She's working hard to keep it. Some people, especially those who borrowed more, haven't managed to keep up their payments. Ron Sandler said the bank was treating them "fairly", but not everyone agrees, as I found out yesterday in Newcastle's main shopping street.

I'm outside a busy Northern Rock branch in Ridley Place, Newcastle - the bank clearly very much in business, as it always has been. I've arranged to meet Chris Jary, Director of a local debt advice company called Action for Debt. He's very critical of how Northern Rock pursues mortgage arrears.

JARY: Northern Rock a couple of years ago were taking five to six months before they would start taking action. Since the government's taken over and this policy of having to repay the money back to the Bank of England, I would say they're the most ferocious, shall we say, in starting action at a very early stage - two months, three months at the most. If you compare that to the sub-prime lenders, they were the nasty ones. Two to three months, they were having you in court for a court order. Those have now started to take a more easier view. Northern Rock aren't doing that. We have begged them. We have tried everything under the sun to come to some sort of arrangement for clients and they are refusing.

LEWIS: But lenders have an obligation to get the money back, don't they? They can't just write it off.

JARY: Of course they do, but we've also got to look at lenders in another respect. Northern Rock were giving seven and eight times income. They also gave more money on Together mortgages.

LEWIS: Those were the mortgages that were 95% plus another 30. There have been allegations about Northern Rock being harsh in its dealings with people and I did speak to Ron Sandler, the Executive Chairman, yesterday and I put those to him. And I have to say he rejected them. He actually said, "I reject very strongly the idea that Northern Rock is excessively ruthless or uncaring."

JARY: I have approximately five to seven cases a day coming to me about Northern Rock - not just in the North of England, throughout the whole country - and they're just so difficult to talk to and I can't understand what they're doing. You know we're there to help Northern Rock as well. They're a government run company and something's got to change.

LEWIS: Chris Jary. Well those were serious allegations and I talked again to Northern Rock about them last night. A spokesman denied the bank had changed its policy and stressed reposessions were on the increase generally. I must say too at this point, we've mentioned on Money Box many times if you have problems paying your mortgage you can get free advice from charities: National Debtline, Consumer Credit Counselling Service or Citizens Advice. Details of those on our website and with the helpline. Bill Corcoran, as an IFA have you come across Northern Rock being aggressive in its debt recovery?

CORCORAN: Personally no more than other companies. I do know though they've expanded their credit control department, their debt management department, to 500 people from 185 employees.

LEWIS: Yes. Of course they say they have to do that because that's where the emphasis is now. But on these infamous Together mortgages, totalling 125% of property value, did you sell them?

CORCORAN: Me personally, not that many and a while ago.

LEWIS: But the answer's yes then?

CORCORAN: The answer was yes, yes, and at the time - 1991, 1992 - they worked very well.

LEWIS: But that's because property prices were ris...

CORCORAN: Property prices went from approximately... They trebled...

LEWIS: In 2001.

CORCORAN: ... so they allowed people to actually buy a house for no more than they were actually paying on all debts and credits cards and consolidating, and it worked.

LEWIS: Now we heard from Denise. She didn't have a Together mortgage. She had a 90% mortgage, as we understand it. Now she has problems enough. Are there a lot of people in her position - people who borrowed what seemed a reasonable amount at the time, 90%? They've got to pay a lot of money to stay, a lot of money to go.

CORCORAN: Absolutely. We looked at this in HRC Group's mortgage analysis table and basically the best rate we could find for somebody on a 95% loan to value deal with you know a reasonable kind of average North East income of about £30,000 £35,000 for the household, you're looking at 7.29% with a £1,000 fee. It's just not worth moving. You have to just bite the bullet and tighten your belt.

LEWIS: Well if you can, or do an extra day's work.

CORCORAN: If you can, or do an extra day's work... yeah.

LEWIS: And Keith Burge, how important is Northern Rock to the *economy* of the North East? We've heard these personal problems, but how does it keep the economy going?

BURGE: Well it's been very important because the North East has very few plc's which are based in the region, where those decisions are made in the region and where those supply chains build up in the region, and Northern Rock was one of those. It was one of the very few sort of standard bearers for the new North East economy. So there's a psychological blow there. But I think in terms of the impact of these job losses, because the North East...

LEWIS: It's 2,000 people. Or eventually. 1,500 so far; another 500 coming.

BURGE: Absolutely, and at the individual level of course they are a tragedy. But in terms of the North East economy, it's much better placed now to absorb those job losses than ever it was.

LEWIS: Yes, I mean it has struck me since I've been here - it's many years since I was here before - it is a vibrant, developing place. There's buildings going up, there are people out every night enjoying themselves - new bars, new cafes, new restaurants. It seems a lively place.

BURGE: It *is* a lively place. It's no longer dependent on such a narrow range of industries. And the kinds of jobs that we're talking about here, unlike jobs in the North East history, are jobs which have very transferable skills and so the opportunities for those people are much better than you know might have been thought.

LEWIS: And of course some of them are transferring to Newcastle Building Society, which is itself now expanding to fill a bit of the vacuum that Northern Rock left.

BURGE: Yeah, creating another 500 jobs by 2011, 2012, and so there are some

directly transferable jobs. And indeed Newcastle is directly targeting Northern Rock employees because from their point of view they've got all the skills that they want.

LEWIS: Okay, well stay with us, gentlemen, but we're going to move onto national issues now because the nationalisation of Northern Rock was just one very small event in the credit crisis that has swept the world. And a year on, this very weekend a major American bank - Lehman Brothers - is desperately trying to put together a rescue package. Its shares tumbled disastrously when it revealed more than £2bn of further losses, taking this year's total to over £3.5bn. Last weekend, of course, we had the world's biggest financial bailout when the American mortgage lending firms known as Fannie Mae and Freddie Mac were taken over by the US government; and this week, back in the UK, our biggest building society had to step in to rescue two of its smaller rivals just before they reported losses of £27m between them. Live now to London to talk to Sir George Cox, a former director general of the Institute of Directors, and until last year a director of the bank Bradford & Bingley. Sir George Cox, Fannie Mae and Freddie Mac first, they support 80% of all mortgages in the USA, once more owned by the government. Will that help get the money flowing from lenders there and then get confidence back that will spread to the UK?

COX: No, I don't think that's why the move was made. And if we found Northern Rock a shock year ago, if you'd have said to me a year ago what do I think of the United States government nationalising virtually a whole sector of a market, I'd have said that was unthinkable. And that's what's happened and it really shows that when free markets don't operate perfectly and when they come under stress and they fail in an area of national significance, governments of any political persuasion will and should step in. And that's what they've done. They *had* to step in. They *had* to do it, just the same as we *had* to step in with Northern Rock to stop a run on the banks.

LEWIS: But of course some people say free markets are the problem. They've just got out of hand and there should be more permanent controls to stop that happening again.

COX: Well I think they *did* get out of hand, and whether it's permanent controls or

it's people learning the lessons is a different matter.

LEWIS: Are we going to see something here though like Fannie Mae and Freddie Mac? There have been suggestions that the government should underwrite mortgage lenders, help get the money moving here. If you say that's not going to work from the States, do we have to do that here?

COX: Well I think what the government *can* do - and it can't completely solve the crisis, you can't have a local solution to a global problem - they've had this special liquidity scheme running and I'd like to see it extended, and that provides a certain level of support. But what we're going to see in the market here - and I think this is the significance of the building societies taken over last week and of the Alliance and Leicester being bought - we are seeing the whole mortgage market I think coalesce into fewer bigger players and that's going to be a permanent feature of what's happened this last year.

LEWIS: Now when Northern Rock collapsed or nearly collapsed a year ago, there was a sense the government, the Bank of England, the Financial Services Authority were a little bit paralysed; they didn't quite know what to do. You mentioned the takeover. I mentioned earlier Nationwide saying it would take over Cheshire and Derbyshire building societies - very quietly, just before they reported their losses. Does this indicate that the authorities now can manage things better; they've learned from Northern Rock?

COX: Well whether the authorities put pressure on those building societies or not, I don't know, but I'm sure they were very pleased to see it happen.

LEWIS: It's widely speculated that they did, isn't it?

COX: It is widely speculated that they did.

LEWIS: But is it a sign perhaps that another Northern Rock won't be allowed to

happen again?

COX: I think so. And I think you must, looking back, although the FSA and the Bank of England, the Treasury, there was a bit of juggling of the ball when it happened, they did absolutely the right thing and it did stop runs on other banks.

LEWIS: You're saying this - you have to intervene; the US government had to intervene; the governments here have to intervene with the banks. Of course this weekend, this week, Britain's third biggest tour operator collapsed: XL. Hundreds of thousands of passengers affected. People have lost thousands of pounds. No bail out for XL, no government help for that. Why should banks get help that other companies don't?

COX: I think it's where something is of real significance to the economy or to the wellbeing of the nation. That's when the government has to step in.

LEWIS: So banks are a special case?

COX: The banking *system*. Remember when you talk about bailing out Northern Rock, as we've heard already on this programme, the people they've been looking after are the people who have mortgages with Northern Rock and the people who've got savings; not the shareholders.

LEWIS: Indeed. And debts are being repaid. Sir George Cox, thank you very much.

Well Keith Burge and Bill Corcoran are still with me here in Newcastle. Very, very briefly, gentlemen - I'm going to ask you both the same question - can Northern Rock ever be the force in the community it once was? Keith first.

BURGE: I don't think it'll ever reach the dizzy heights again, but that may be no bad thing. If it returns to the good, solid, dependable bank that North Easterners came to love, then that would be a success.

LEWIS: Bill Corcoran?

CORCORAN: Speaking as a North East patriot, I hope it does; and I think with the Bank of England's backing, maybe with the public's lack of appetite for private business the way things are going - maybe, just maybe.

LEWIS: Bill Corcoran of HRC and Keith Burge of ERS, thanks very much.

Well that's it, live from Newcastle. Find out more from the BBC Action Line - 0800 044 044 - and our website, bbc.co.uk/moneybox. Lots of stuff to do there, including have your say on Northern Rock and all those ramifications we've talked about. Banks, building societies, banking - topics for Money Box Live, Monday afternoon with Vincent Duggleby. And later on Monday, at eight o'clock, there's a live debate on Radio 4 from the City of London. Top business people, economists and commentators discuss The Credit Crunch Mess: What Next? with Evan Davies and Robert Peston. And you can email your ideas about what next to our website. In Newcastle, Bob Howard and Martin Bedford with me. The editor of Money Box: Stephen Chilcott. I'm Paul Lewis.