

**NORTHERN ROCK PLC WAS NUMBER ONE:
WHICH BANK/FINANCIAL-SERVICES COMPANY
WILL BE NEXT IN LINE ?**

Post hoc, ergo propter hoc (after this, therefore because of this).

TARGET () has written this adage so many times before that it has become trite to this medium.

But it still holds true.

And, most likely, it will, always ring true.

For the past fortnight or so, the world watched as the Government of the United Kingdom became the target and focal point for depositors of the troubled bank, Northern Rock plc, one of the largest mortgage lenders in the country.

Hundreds of angry depositors queued up outside this bank's offices, demanding their money be returned.

The Bank of England had been persuaded by Senior Management of Northern Rock plc to supply emergency funding. And it did just that.

On September 14, 2007, Her Majesty's Treasury (HM Treasury), The Bank of England (the Bank) and The Financial Services Authority (FSA) made the following, tripartite announcement:

***'Liquidity Support Facility for
Northern Rock plc***

'The Chancellor of the Exchequer has today authorised the Bank of England to provide a liquidity support facility to Northern Rock against appropriate collateral and at an interest rate premium. This liquidity facility will be available to help Northern Rock to fund its operations during the current period of turbulence in financial markets while Northern Rock works to secure an orderly resolution to its current liquidity problems.

'The decision to authorise was made by the Chancellor on the basis of recommendations by the Governor of the Bank of England and the Chairman of the Financial Services Authority in accordance with the framework set out in the published Memorandum of Understanding between the Bank, FSA and HM Treasury.

'The FSA judges that Northern Rock is solvent, exceeds its regulatory capital requirement and has a good quality loan book. The decision to provide a liquidity support facility to Northern Rock reflects the difficulties that it has had in accessing longer term funding and the mortgage securitisation market, on which Northern Rock is particularly reliant.

'In its role as lender of last resort, the Bank of England stands ready to make available facilities in comparable circumstances, where institutions face short-term liquidity difficulties.'

But the Government of the United Kingdom was criticised for its actions, which were said to have come too little too late.

The rescue by the Government of the United Kingdom of this bank was the largest such action in at least the

previous 3 decades.

Criticism is cheap and it is only too easy to enunciate even when mouthing one's words – and it, always, looks and sounds appropriate when employed by the competition, adroitly.

What the crisis at Northern Rock plc indicated, most importantly, was not the problems at this bank, alone, but the fragility of the world's largest economies.

If it could happen at this bank, which is not particularly well known outside of the United Kingdom, it could happen at any bank, almost anywhere in the world.

Most likely, Northern Rock plc is, now, history as far as many investors and depositors are concerned: It is improbable, ever, to be the same bank, again, or to be held in the esteem that it once commanded, prior to its cash-flow problems when it had to go, cap in hand, to The Bank of England for emergency funding.

It matters little, at this late stage in the game, whether or not the bank was/is viable because it has lost a great deal of its credibility in the eyes of depositors and/or investors, regardless of whether or not it was deserving of its fate.

The near run on the bank frightened not just the financial circles of the United Kingdom, but the entire Government of the country.

And the problems of Northern Rock plc spread like the Ebola Virus from one country to another, from the United Kingdom, to the US, to the Antipodes, and all the way to Tokyo, Japan.

In the United States, questions were being asked: Which financial house will be next?

Is this bank or that finance company safe?

More importantly, as far as many investors were concerned: Where may one put one's money with certainty that it is secure?

Last Tuesday, the Government of the United Kingdom had to put out another announcement, one to the effect that all deposits, held at Northern Rock plc, were guaranteed, in full.

That announcement followed chaotic scenes outside branch offices of Northern Rock plc where long queues of angry depositors were demanding the return of their money, immediately.

Exactly, how much money was withdrawn is still being tallied, but it is known to have been in the tens of billions of pounds.

To state that investor/depositor confidence had been shaken by this bank would be to state the obvious.

Questions, of course, could be asked as to the reason that the Government of the United Kingdom determined to guarantee a bank which is not part of the Government.

The answer, of course: It did not have an option.

The United Kingdom Government was, just about, forced to stand up and to be counted because the alternative was, completely, unacceptable.

Order in the financial sector had to be restored for the benefit of the entire country.

What Led Up To The Crisis

In the past few years, the ease with which prospective home-owners, from Ann Arbor, Michigan, to London, England, to all points West to go to friendly bankers and mortgage lenders in order to fund the purchase of a flat or house caused property prices to hit one high after another.

As prices of homes rose, so did the size of mortgages.

Banks, such as Northern Rock plc, were only too happy to accommodate its customers, those with

established lines of credit as well as those new customers, right off the street.

Come one, come all!

As the prices of homes rose, the wealth effect kicked in.

It was Christmas in March ... in June ... in October!

Those investors with equity in bricks and mortar could refinance, with ease, at even lower interest rates than previously and use the surplus funds from the new refinancing arrangements for the purchases of goods and services in the High Street.

A new motor car; another television set for the kiddies; a holiday in Majorca; and, so on.

Good times were here again.

Mortgage rates were comparatively low so that prospective home-owners were able to budget the purchase of a new this or that in addition to paying monthly mortgages on the flat or house.

The mortgage '*pasture*' looked greener and more and more lush.

But, when the winter winds started to blow, the grass on the mortgage pasture started to wither: Banks and mortgage lenders tried to start to call in their markers from customers.

For many of these finance houses, there was no money available from customers.

Many home-owners found themselves (to be trite) between a (Northern) rock and a hard place.

The inevitable happened.

It had to happen.

One need not to have been an economist to see the likely prospects of the maturing situation because it is well known that, eventually, all bubbles must burst.

With the governments of the West, benignly, continuing to fan the flames of consumer spending on homes and goods and services in the High Street in spite of the many warning signs on the financial horizons, one could state that the governments of many, if not most, of these economies had been remiss in their duties of fidelity to their respective citizens.

The situation was akin to a child who, for the first time, tastes some cherries and eats and eats too many of them, causing the child to have a tummy-ache.

Does one blame the child or the parent for such a situation?

This medium, along with many tens of economists around the world, had written, time after time, that a financial Armageddon was in full view for anybody but those, suffering from myopia.

But, when the sap is rising in a young, virile man or girl, nature takes its course: There is no stopping nature.

Anyway, it was not in the interests of certain banks and finance houses to sound the alarm bells

Too few people paid much attention to the warning signs and, when the gurus of Wall Street pooh-poohed the warning signs, investors preferred rather to pay heed to the Wall Street '*experts*' than to think for themselves or even to claim to hear the alarm bells, ringing loudly.

Further, greed took over.

How much higher could this share price go, or the prices of houses rise?

As the Chinese proverb states: If you give a beggar a horse, he rides it to death.

And death nearly came to Northern Rock plc, without question, and, had not the Government of the United Kingdom come to the rescue of this bank, it was an odds-on favourite that Northern Rock plc would have closed its doors by now.

It would appear that situations, such as those of Northern Rock plc, are far from being relegated to history because it stands to reason that other banks and financial-services companies must, also, be vulnerable with their coffers, having been depleted of a great deal of money.

One cannot, in all honesty, pity the managements of many of these corporate entities because, if anything, they brought down their houses by themselves by their own acts – or the lack of appropriate actions – of the past few years.

Further, as property prices continue to drop, today, home-owners, especially in the US, will be unable to refinance and will have to steal from peter in order to pay paul.

The situation in certain parts of the US is not that it is a buyer's market – because there is no market: There are no buyers; only sellers.

In the US, the labour situation is, simply put, terrible.

It has been that way for some months, with the creation of new jobs, being unable to keep up with the number of new people, entering the job market.

But it was not convenient for many people to see the situation in that light so that one read that the US unemployment rate had '*steadied*', '*improved*', was '*better than expected*', '*surprised Wall Street analysts*' ... or some other idiotic adjective of description that, in reality, made little sense, actually.

The following is lifted from the statistics of the US Government's Bureau of Labour Statistics and says it all:

The 2007 Employment Situation, Seasonally Adjusted								
	August	July	June	May	April	March	February	January
Payroll Gains, in Thousands	-4	68	69	188	122	175	90	162
Unemployment Rate, in Percentages	4.6	4.6	4.5	4.5	4.5	4.4	4.5	4.6
Average Hourly Earnings, Percentage Change, Monthly	0.3	0.3	0.5	0.4	0.2	0.3	0.4	0.2
Monthly Average Weekly Hours, Percentage Change,	0.0	-0.3	0.3	0.0	-0.3	0.6	-0.3	-0.3
Manufacturing Employment Gains, in Thousands	-46.0	-1.0	-19.0	-3.0	-18.0	-23.0	-17.0	-1.0

Anybody with any sense, on scanning the above table, knows the situation in The Land of The Free and The Home of The Brave.

The chaos at Northern Rock plc appears to be over, at least for the time being, but, under every rock in every garden, the chances are there is a worm.

Now, what else needs to be said?

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