



*Government Whips Office
House of Lords*

Telephone: 020 - 7219 1475

**The Baroness Noakes DBE
House of Lords**

9 February 2010

Dear Sheila

HOUSE OF LORDS DEBATE ON NORTHERN ROCK: 27 JANUARY 2010

During the House of Lords debate on the restructuring of Northern Rock on 27 January 2010 I promised to write on the key questions that I was unable to cover. I would also like to reiterate and clarify a few points that I made during the debate.

The restructuring of Northern Rock was necessary in order to maximise Northern Rock's capacity for new lending and to protect taxpayers. It is part of the wider Government policy to encourage and support a well functioning mortgage market, where lenders lend responsibly, and creditworthy borrowers have access to a wide range of mortgages that they can afford to repay.

Details of the Government's financial support, in particular the size of the loan increase to Northern Rock (Asset Management) plc, were not confirmed until late December. We considered it was appropriate to inform Parliament only when actual amounts of support were finalised as opposed to giving an estimate before then that may have turned out to be inaccurate.

I would like to clarify my response to your question about the position of creditors in Northern Rock (Asset Management) plc. When I referred to "*all creditors would be paid in full*" I refer to individuals and organisations that are covered by the Government's wholesale guarantee arrangements in respect of Northern Rock (Asset Management) plc that were restated on 8 December 2009. Such persons are all:

- unsecured and un-subordinated borrowings of Northern Rock (Asset Management);
- amounts owing by Northern Rock Covered Bond LLP; and,
- unsecured wholesale depositors

The guarantees arrangements are subject to various exclusions from scope, including exclusions for securities issued pursuant to Northern Rock (Asset Management) plc's "Granite" securitisation programme. The guarantee arrangements in respect of covered bonds are currently under review. Otherwise, the guarantee arrangements will continue until the wind down of Northern Rock (Asset Management) plc is completed. The Government has provided a working capital loan facility to Northern Rock (Asset Management) plc, currently up to £2.5 billion, to ensure the orderly wind-down of the Company and that it meets its contractual liabilities. I enclose a copy of the full terms of the guarantee arrangements.

I can however confirm that the Government's present intention is that Northern Rock (Asset Management) plc will be sufficiently capitalised to meet its FSA regulatory capital requirements. To this end, the Government has provided a commitment to the FSA that up to £1.6 billion in additional capital support will be provided to Northern Rock (Asset Management) plc should the need arise. Beyond that, its position will be kept under review in the light of its financial performance.

You asked about the position of the Northern Rock pensions fund and you correctly noted that the pension fund remains in Northern Rock (Asset Management) plc. As mentioned above, Northern Rock (Asset Management) plc is being wind-down in an orderly fashion and has been provided with a working capital facility to help ensure that, in addition to the receipts generated from the wind-down of its assets, it is able to meet its contractual liabilities, including pension scheme liabilities, as they fall due.

The management of Northern Rock consulted the pension trustees on the treatment of pension liabilities as part of the restructuring and the trustees were content that the interests of pension holders were adequately protected and that the strength of the company's covenant remains adequate.

On the question about whether the scheme may enter into the Pension Protection Fund (PPF), an assessment for entry into that scheme would only take place in the event there was an "insolvency event" for the purposes of Chapter 3 of the Pensions Act 2004 (pension protection) or where the trustees had become aware that the company was unable to continue as a going concern and had notified the PPF. Only if the PPF, having assessed the assets of the scheme, took the view that they were worth less than the protected liabilities of the scheme, would the PPF assume responsibility for the scheme.

As the Government's intention is to ensure the orderly wind-down of Northern Rock (Asset Management) plc, we do not envisage that the PPF would assume responsibility for the scheme.

I am copying this letter to Lord Newby and Lord Bates and placing a copy of this letter in the libraries of both Houses.



BRYAN DAVIES