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United Kingdom Asset Resolution Limited (UKAR)

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U.K. Asset Resolution Limited (UKAR)[1]

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Yale Program on Financial Stability Case Study
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Abstract

As the Global Financial Crisis began to unfold, the United Kingdom (UK) saw two of its largest mortgage lenders in Bradford & Bingley (B&B) and Northern Rock begin to weaken dramatically under the pressure that housing and financial markets were facing. Northern Rock and B&B both faced severe funding problems due to a worsening global credit crunch and both would be nationalized in 2008. Despite this effort, the crisis continued to worsen globally, and the UK government created UK Asset Resolution Limited (UKAR) on October 1, 2010. This organization's goal was to wind down and maximize the return on the £115.8 billion in mortgages and other assets that the government still had from B&B and what was now Northern Rock Asset Management. The government transferred those assets to UKAR along with B&B's and NRAM's associated liabilities, including loans from HM Treasury and the Financial Services Compensation Scheme (FSCS) with a principal of £48.7 billion at the end of 2010. UKAR has been able to consistently reduce its balance sheet and turn a profit every year since its inception. As of June 2019, the company made approximately £8.1 billion in profit, as well as paying off the entirety of its government loans. More recently, the company also sold off all of its assets and equity interest, thus ending government ownership of B&B and Northern Rock in February 2021.

Keywords: UK Asset Resolution, UKAR, United Kingdom, Resolution, asset management companies, AMCs, broad-based asset management

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the responses to the global financial crisis that pertain to broad-based asset management programs.
Cases are available from the Journal of Financial Crises at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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UK Asset Resolution Limited (UKAR)

At a Glance

As the Global Financial Crisis began to unfold, the UK saw two of its largest financial institutions in Bradford & Bingley (B&B) and Northern Rock, begin to weaken dramatically under the pressure that housing and financial markets were facing. These firms faced severe funding problems due to a global credit crunch and would subsequently be nationalized in 2008.

Despite this effort, the crisis continued to worsen globally, and, amongst other programs that the UK government instituted, it created UK Asset Resolution Limited (UKAR) on October 1, 2010 (UKAR, n.d.). This organization's goal was to wind down and maximize the return on the £115.8 billion in mortgages and other assets that the government still had from B&B and what was now Northern Rock Asset Management (NRAM) (UKAR 2019b). It also held the UK's stakes in B&B and NRAM.

The government transferred those assets to UKAR along with B&B's and NRAM's associated liabilities, which included loans from HM Treasury and the Financial Services Compensation Scheme (FSCS) totaling £48.7 billion (UKAR 2012). UKAR was not able to write new loans, thus its primary goal was careful and timely management and disposition of the assets on its balance sheet while maximizing taxpayer return (UKAR 2013).

Summary of Key Terms	
Purpose: "To maximize value for the taxpayer and… to reduce costs by combining business infrastructure and sharing best practice in customer service" (UKAR 2012, 4) in winding down the closed mortgage books of B&B and Northern Rock Asset Management.	
Launch Dates	March 24, 2010 (Announced) October 1, 2010 (Operational and First Transfer)
Wind-down Dates	Completed government ownership on February 26, 2021
Size and Type of NPL Problem	5.59% of UKAR's assets in arrears of 3+ months in 2010 Residential mortgages and unsecured loans
Program Size	Not specified at outset
Eligible Institutions	Only B&B and Northern Rock eligible Closed-bank only
Usage	Peak of £115.8 billion in assets
Outcomes	Completed government ownership of B&B and Northern Rock; profit of approx. £8.1 billion
Ownership Structure	Public-owned
Notable Features	Consumer-centered communication strategy; No new or current loans written or extended

UKAR used competitive sales, buy-backs, and loan redemptions to dispose of its assets (UKAR 2018c). To inform its disposition decisions, UKAR engaged in a communication strategy that focused primarily on consumer well-being and ensuring that there would be minimal disruption of service when a sale was completed (UKAR 2019a). The organization also waived Early Repayment Charges (ERCs), opted to reimburse any customers that had been falsely sold Payment Protection Insurance (PPI) by NRAM or B&B, and partnered with organizations in the debt help industry to assist troubled borrowers (UKAR 2012). As a whole, UKAR has managed to turn a profit of approximately £8.1 billion and reduce its balance sheet to £11.4 billion in assets. As of June 2019, the company also repaid all of its government loans (UKAR 2019b). UKAR sold the entirety of its remaining B&B and Northern Rock assets, including its equity stakes, on February 26, 2021, thus ending government ownership of the two institutions (UKAR 2021b).

Summary Evaluation

Some of the company's models and valuation techniques were criticized as being potentially sensitive to changes in the macroeconomic environment. The degree of judgment given to management as to how to structure these models was also challenged (UKAR 2017b). Despite there being minimal academic evaluation of UKAR, numerous independent audits have suggested that, overall, the asset management process has been efficient, with minimal issues (UKAR 2019b).

UK Asset Resolution: UK Context	
GDP (SAAR, Nominal GDP in LCU converted to USD)	$2.424 trillion in 2009 $2.482 trillion in 2010
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	$38,713 in 2009 $39,436 in 2010
Sovereign credit rating (5-year senior debt)	Data for 2009: Moody's: Aaa S&P: AAA Fitch: AAA Data for 2010: Moody's: Aaa S&P: AAA Fitch: AAA
Size of banking system	$4.730 trillion in 2009 $4.635 trillion in 2010
Size of banking system as a percentage of GDP	195.15% in 2009 186.72% in 2010
Size of banking system as a percentage of financial system	Data not available for 2009 Data not available for 2010
5-bank concentration of banking system	75% in 2009 76% in 2010
Foreign involvement in banking system	15% in 2009 15% in 2010
Government ownership of banking system	Data not available for 2009 Data not available for 2010
Existence of deposit insurance	100% insurance on deposits up to $4,000; 90% on next $66,000 in 2007 100% insurance on deposits up to $93,000 after October 2008
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.	

I. Overview

Background

Prior to the Global Financial Crisis, Northern Rock was the fifth largest mortgage lender in the UK (House of Commons 2009). It was an institution that was heavily reliant on short-term, wholesale funding and, because of this, acutely vulnerable to the stresses that the global financial system would sustain in 2007 (European Commission 2007). As funding markets dried up, Northern Rock requested emergency assistance from the Bank of England. Upon hearing of this request, a huge run on retail deposits in September of 2007 would occur, with approximately £4.6 billion being withdrawn (House of Commons 2009). Despite receiving emergency support from the UK government, Northern Rock continued to issue "together" loans, containing a secured and unsecured element, which were tied to a single interest rate and monthly payment. These could be written at up to 125% of the property's value (National Audit Office 2009). In addition to writing these risky loans, Northern Rock also consistently understated its number of arrears.[3] At first, a private buyer was sought out, but there were no banks that were both 1) willing to tackle the problematic Northern Rock balance sheet, and 2) able to raise the financing necessary to repay the £51 billion in emergency aid and guarantees that the Bank of England had provided (House of Commons 2009). This left the UK government little choice other than to nationalize the troubled lender on February 22, 2008 (European Commission 2008a). By the end of 2009, a restructuring plan had been approved for Northern Rock, in which the troubled institution would be split in two. The "bad" bank, called Northern Rock Asset Management (NRAM), would contain the bulk of the institution's mortgage book, as well as any government loans and guarantees (UKAR 2010a; BBC News 2009). All other parts of Northern Rock's business were kept as a separate entity with the same name: Northern Rock plc.

Throughout this same period, the bank Bradford & Bingley (B&B) experienced similar funding issues. Creditors such as TPG Capital pulled their investments after the lender experienced a ratings downgrade (Treanor 2008). As a result, the bank found itself not only incapable of raising enough funds to meet its obligations but forced to ask the government for emergency aid as its share price plummeted in September 2008 (European Commission 2008b). Just as in the case of Northern Rock, the government searched for a willing buyer but, due to the continued stresses of the Global Financial Crisis, initially found none. On September 29, 2008 a partial nationalization of the bank was finalized (UKAR 2021a). Due to the state of its mortgage-related assets, lending balances, and non-savings businesses, the UK government opted to sell the bank's deposits and branches to Santander for approximately £600 million (BBC News 2008; CNN 2008).

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[3] Northern Rock was required to curb the level of new lending activity as a requirement to receive aid from the Bank of England. However, over £750 million of additional Together mortgages were written in the period after they had received aid and before they were nationalized. Following their nationalization, Together products were completely removed from the market.

The task of managing both the "bad bank" portions of Northern Rock and Bradford & Bingley were eventually taken over by the newly-created UK Financial Investments Limited (UKFI) in November of 2008 (HM Treasury 2008b). UKFI was a company that operated at arm's length from the government and was established during the financial crisis to manage the UK government's holdings in key institutions. At the time of nationalization, there was no permanent resolution structure for insolvent financial institutions. However, the Banking Act 2009 formalized the Special Resolution Regime, which empowered the Bank of England as a resolution authority. On October 1, 2010, after approval from the Financial Services Authority (FSA), UKFI was phased out as manager in favor of a new holding company and subsidiary of UKFI, called UK Asset Resolution Limited (UKAR). Its purpose was to wind down the closed mortgage books of B&B and NRAM after the acute phase of the Global Financial Crisis had subsided (UKAR 2010b).

Program Description

UKAR was a state-owned holding company created to manage the closed mortgage portfolios of Bradford & Bingley and Northern Rock Asset Management. The two mortgage lenders were separate subsidiaries of the company and had been managed by UKFI subsequent to their respective nationalizations in 2008 (UKAR 2012). UKFI would retain a major role as the parent company of UKAR until April of 2018 (UKAR 2018a).

UKAR's primary objective, aside from an orderly wind-down of its balance sheet, was to maximize the return on this wind-down to the taxpayer. The corporation was funded by HM Treasury and the Financial Services Compensation Scheme (FSCS), which was the UK's deposit insurance institution. HM Treasury contributed £33 billion and the FSCS £15.7 billion (UKAR 2012). At the time of its creation, UKAR held a total of £115.8 billion, consisting of hundreds of thousands of residential and commercial mortgages, and a smaller portion of mortgage-backed securities, derivatives, and unsecured loans (UKAR 2019b). A large amount of the corporation's funding came from wholesale funding sources of B&B and NRAM (UKAR 2012).

UKAR was only in charge of the portfolios of two failed lenders and, because these portfolios were closed, did not issue any new mortgages or write any new loans (UKAR 2013). UKAR's function, then, was two-fold. It was required to not only manage and monitor the performance of thousands of mortgages, but also to gradually dispose of and wind down the portfolios without adversely affecting real-estate markets (UKAR 2010c; European Commission 2004). It was not allowed to write any new mortgages or to allow any of their customers to extend their mortgages past their original terms (UKAR 2013). Contracted employees that were hired and paid for by B&B staffed the organization (UKAR 2011a). NRAM and UKAR had no direct employees.

Figure 1: UKAR Balance Sheet breakdown (as of December 31, 2010)

	Amount (£ millions)
Cash and Balances at Central Banks	7,291.8
Loans and Advances to Banks	5,615.6
Investment Securities[4]	3,924.6
Loans and Advances to Customers	83,544.6
Derivative Financial Instruments	9,471.6
Fair value adjustments on portfolio hedging	762.8
Other Assets[5]	263.4
Total	110,874.4

Source: UKAR 2012.

Most of these assets, as explained above, consisted of residential, commercial, or unsecured loans that had been made prior to the nationalization process. There were residual amounts of mortgage-related securities and derivative instruments, as well (UKAR 2019b). However, the bulk of UKAR's assets were residential and commercial mortgages, thus, much of its time was spent servicing these loans and ensuring borrowers were able to meet their payments (UKAR 2014a).

As of June 30, 2011, the total number of customers UKAR was servicing was approximately 771,000. As such, the corporation partnered with certain participants in the debt-help industry, waived early redemption charges, reimbursed customers for Payment Protection Insurance (PPI), and brokered several sales to outside institutions in efforts to better assist its customer base (UKAR 2012; n.d.). These strategies were all part of a broader communications effort by UKAR to make consumers who might be under financial stress aware of the number of options available to them.

By the end of December 2010, approximately 38,515 loans were in arrears or in the process of repossession. This fact prompted the UKAR to establish relationships with Payplan, the Consumer Credit Counselling Service, Citizens Advice Bureau, the National Debt Line, and Money Advice Service, which were providers of free debt solutions (UKAR 2012). UKAR was extremely active in referring any customers with substantial debt to these nonprofit, charity-based companies, such as PayPlan, who would then create a Debt Management Plan with the goal of reducing monthly payment stresses on the borrower (UKAR 2013). "Buy-to-let" loans were those specifically made to landlords, who would then rent out, or "let," the property

[4] Investment securities also includes unsecured investment loans.

[5] "Other Assets" includes the following items: Other Assets, Current Tax Assets, Deferred Tax Assets, Retirement Benefit Assets, Investment Property, Property, Plant and Equipment, and Intangible Assets.

obtained by the loan to tenants (Money Advice Service, n.d.). If a buy-to-let loan was in arrears, UKAR had a system in place that would allow it to directly collect rent from the tenants so they would not have to leave in the event of repossession (UKAR 2014a). Though it did not happen frequently, UKAR was sometimes forced to engage in repossession efforts if a borrower was still unable to repay their loan, though this was only after all other options had been exhausted (UKAR 2013).

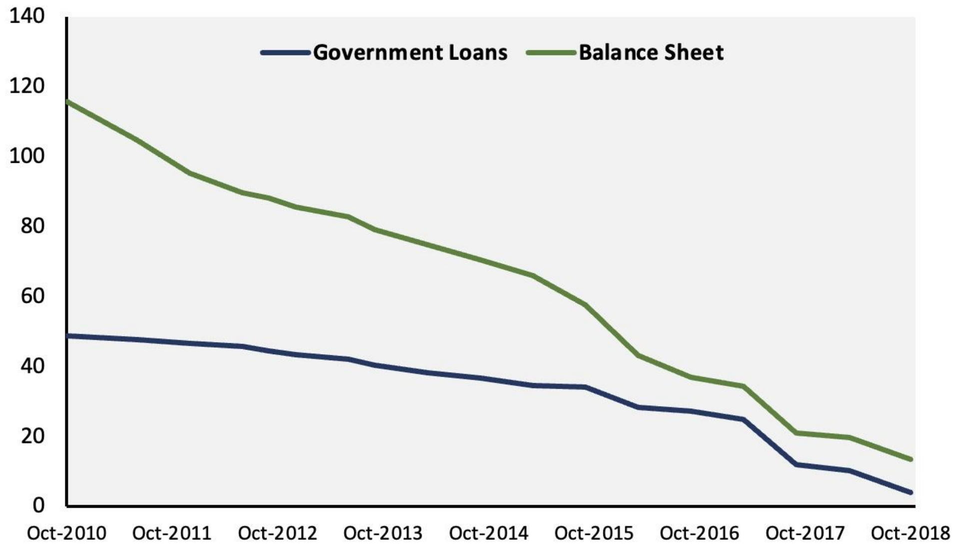
Initially, early redemption charges (ERCs) were enforced at both B&B and NRAM (Bradford & Bingley 2010; UKAR 2011b). ERCs were added to loans so lenders could protect themselves against early refinancing or to recoup potential profits if interest rates fell. However, UKAR quickly realized that, in order to more rapidly wind down its balance sheet, it would be more beneficial to simply waive these charges. Additionally, many of UKAR's customers were inappropriately sold PPI by their previous lenders. Rather than issue a blanket statement to honor all PPI obligations, false or otherwise, UKAR informed their customers that it would address any complaints and compensate customers if they felt they had been mis-sold PPI (UKAR 2012).

Finally, the corporation engaged in multiple sales of various portfolios of mortgages and mortgage-related assets to private entities (UKAR, n.d.). These portfolios of assets were put up for large, multinational financial institutions such as Barclays and Citigroup to bid on (UKAR 2018c; 2019a). UKAR ultimately had the final say in who would become the owner of these assets, and in every case specified that, "…there [would] be no changes to the terms and conditions of the loans as a result of the transaction." Additionally, the company strongly advocated for "continuity of service" by selecting a winning bidder who would keep the same mortgage servicer (UKAR 2018b). This could not always be done, but in the majority of sales, the same servicer was able to be kept (UKAR 2014b). Equity-release mortgages, which involve the home being returned to the lender when the borrower dies or is put into long-term care, were a small, but difficult-to-dispose of part of UKAR's portfolio (UKAR 2018c; The Guardian 2013). No Negative Equity Guarantees (NNEGs) had been placed on them, which made them hard to sell (UKAR 2018c).[6]

[6] NNEGs were standard guarantees placed on equity-release mortgages that capped the amount of a mortgage redemption at the lesser of the amount that the property sold for or the loan amount. If a property with an equity-release mortgage was sold at less than the face value of the loan and it had a NNEG, then the lender, or buyer of these mortgages, would only receive the amount the property sold for rather than the higher face value of the loan.

Outcomes

Figure 2: UKAR Government Loan Balance and Balance Sheet Assets (£ billions)



Sources: UKAR Annual Reports 2011-18.

UKAR's disposition and management efforts were ongoing until February 2021 with substantial progress being made since its inception. UKFI, due to its function as a crisis-era organization, shut down on March 31, 2018, and had its management and administrative responsibilities transferred to UK Government Investments (UKGI). UKGI, which was created on April 1, 2016, was another government-owned company designed to be "The UK Government's centre of excellence in corporate finance and corporate governance," and to bring together the functions of a multitude of financial market-related institutions under the same umbrella. UKFI was made a subsidiary of UKGI shortly after its creation, but management duties of UKAR would remain with UKFI until its shutdown in March of 2018 (UK Government Investments 2018).

As of June 2019, the corporation's balance sheet had been reduced to just £11.4 billion from its original size of £115.8 billion. These reduction efforts were largely due to loan redemptions, asset sales, and natural run-off (UKAR 2019b).

Despite turbulent housing and financial markets during its early years, UKAR managed to turn a profit every year after 2010. Statutory profit peaked at £1.5 billion in the reporting period from December 2010 to December 2011, and reached its lowest point as of March 31, 2019, at £0.3 billion. In total, the company has made approximately £8.1 billion as of June 2019. Key metrics, such as loans in arrears, number of repossessions, and overdue payments, continued to fall as well. The number of arrears peaked in 2010, with 39,532 loans (UKAR 2019b). Repossessions would follow a similar trend, peaking in 2011, at 8,848 (UKAR 2013). However, these would steadily decline as UKAR's balance sheet shrank and it became more familiar with servicing these loans (UKAR 2019b).

As the company's balance sheet wound down and the number of customers lessened, it began contracting out some key functions, such as mortgage servicing, to third-party firms. On May 4, 2016, UKAR announced a seven-year contract with mortgage servicer Computershare (UKAR 2016a). The contract, for about £30 billion in assets, officially began on June 6, and saw approximately 1,700 UKAR employees transfer to the organization to aid in the mortgage servicing process (UKAR 2016b).

With its asset sale on April 2, 2019, UKAR announced its intent and ability to repay the remainder of the £30 billion government loan made by HM Treasury (UKAR 2019a). The £15.7 billion loan made by the FSCS was repaid about a year earlier, on April 26, 2018 (UKAR 2018b). However, HM Treasury stated that, if UKAR required additional funding, it was willing to step in and provide it until the beginning of 2021. As of March 2019, UKAR still had about £11.4 billion in assets remaining on its balance sheet (UKAR 2019b).

On February 26, 2021, UKAR announced the sale of its final assets from B&B and Northern Rock at a price of £5 billion to a consortium comprised of Citibank and Davidson Kempner Capital Management LP. This transaction consisted of two steps: UKAR sold the remaining loan portfolio to Citibank, and Davidson acquired the government's equity in B&B and NRAM (UKAR 2021b). This concluded the government's ownership of both institutions. UKAR will have no staff going forward but remains a government-owned entity, with PricewaterhouseCoopers handling any activities that arise.

II. Key Design Decisions

1. **Part of a Package: UKAR was established in connection with the nationalizations of B&B and Northern Rock in order to manage their remaining "bad" assets.**

In the years leading up to the crisis, the composition of Northern Rock's liabilities shifted away from retail deposits to wholesale funding, with over two-thirds of its funding coming from wholesale sources. This made the lender much more vulnerable to tightening credit conditions. Bradford and Bingley found itself unable to find affordable financing in the wake of several credit rating downgrades (European Commission 2008b). Both Northern Rock and B&B were unable to recoup the losses they sustained as a result of these continued pressures and were nationalized on February 22, 2008, and September 29, 2008, respectively (Northern Rock Asset Mangement 2021; UKAR 2021a). Authority for the nationalizations came from the Banking (Special Provisions) Act 2008 (UK Parliament 2008).

NRAM was split from Northern Rock plc on January 1, 2010, as part of a governmental restructuring effort (National Audit Office 2012). It contained the corporation's mortgage book and all of its unsecured loan accounts. As of July 2011, B&B and NRAM held approximately 771,000 mortgage loans (UKAR 2011a).[7]

2. **Legal Authority: The creation of UKAR received approval from the Financial Services Authority but did not require the same European Commission approval that the initial aid to Northern Rock and B&B did.**

Because NRAM and B&B had already been nationalized and given state aid, the creation of UKAR itself did not require approval from the European Commission, but the initial aid offered to Northern Rock and B&B did. The establishment of UKAR, however, required approval from the Financial Services Authority (FSA), which was the two firms' primary regulator. The organization would be operated in accordance with state aid rules per EC guidelines, which are expanded upon below.[8]

Ordinarily, state aid is considered "incompatible" with the common market per Article 87 of the Treaty of the European Commission. However, ad-hoc measures that constitute state aid are allowed under Article 87, section 3(b) if they are to "remedy a serious disturbance in the economy of a member state…", so long as such aid does not adversely affect trading conditions or the competitive environment of the common market (European Commission, n.d.).

The European Commission ruled that the initial aid offered to Northern Rock and B&B was permissible per Article 87(3)(b), despite the government of the UK not notifying the Commission prior to initiating it (European Commission 2007; 2008b). In its decision, the European Commission also cited its Community Guidelines on State Aid for Rescuing and

[7] B&B services approximately 231,000, and NRAM approximately 540,000.
[8] See section 25 of the European Commission's *Community guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty* for more information.

Restructuring Firms in Difficulty as a primary tool to determine eligible state aid (European Commission 2007; 2008b).

3. **Special Powers: UKAR did not contain any notable special powers to pursue its mandate.**

UKAR did not possess any notable special powers to pursue its mandate.

4. **Mandate: UKAR was required to maximize value from asset disposition for the taxpayer, keep track of the effects of these disposition efforts, and promote healthy competition.**

In its framework agreement, UKAR's overarching objective for disposing of its investments had three provisions:

- maximizing sustainable value for the taxpayer while keeping risk in mind
- monitoring the impact of disposal and restructuring transactions on financial stability
- promoting healthy competition that "operates to the benefit of consumers and respects the commercial decisions of the financial institutions" (UKAR 2018a)

5. **Communication: UKAR released two financial statements a year with updated progress on its Key Performance Indicators and emphasized the importance of consumer-friendly policies in its communications about how it would manage and dispose of assets.**

UKAR released two financial statements a year, until transitioning to a single annual report in 2019. These financial statements included Key Performance Indicators which measured UKAR's progress on its "Strategic priorities," which were "financial performance, run down the Balance Sheet, minimise impairment, [and] restructure and realign the business" (UKAR 2011a).

UKAR took strong consideration of the customers that would be affected by the sale of assets. In all of its press releases that referenced a specific sale, the company stated that the "continued fair treatment of customers" was a key consideration in selecting a buyer for their assets (UKAR 2019a; n.d.). UKAR required its bidders to accept certain non-negotiable customer protections as a part of the process. MP John Glen explained that, "For past sales, these protections required that: the servicer of the mortgages is regulated by the Financial Conduct Authority (FCA); the terms and conditions of the mortgages are not changed; and purchasers abide by restrictions on how the Standard Variable Rate (SVR) can be set" (House of Commons 2019).

UKAR also referred struggling borrowers to a number of free debt advice providers, avenues that customers could contact if they were struggling to pay their mortgages (UKAR 2014a). UKAR referred customers to third-party free debt advice companies such as Payplan, the Consumer Credit Counselling Service, Citizens Advice Bureau, National Debt Line, and the

Money Advice Service (UKAR 2012). These companies would then work to create a Debt Management Plan with the goal of reducing monthly payment stresses on the borrower (UKAR 2013).

Other, more minor initiatives, such as reimbursing customers for inappropriately sold Payment Protection Insurance (PPI) and waiving Early Redemption Charges (ERCs), were additional ways in which UKAR advocated for consumers (UKAR 2012). Payment Protection Insurance was something that a borrower could sign up for that would cover repayments if a borrower was unable to make them (FCA, n.d.). However, customers often bought PPI under false pretenses or were billed for it despite not knowing about it (Financial Ombudsman Service 2021). ERCs, which were commonplace at both NRAM and B&B prior to the crisis, were waived in the interest of encouraging borrowers to repay their loans without penalty (UKAR, n.d.).

6. Ownership Structure: UKAR was a state-owned holding company.

UKAR was a state-owned holding company created to manage the closed mortgage portfolios of Bradford & Bingley and Northern Rock Asset Management. The two mortgage lenders were separate subsidiaries of the company and had been managed by UK Financial Investments (UKFI) subsequent to their respective nationalizations in 2008 (UKAR 2012). UKFI would retain a major role as the parent company and primary supervisor of UKAR until April of 2018 (UKAR 2018a).

7. Governance/Administration: Initially, HM Treasury and UKFI oversaw the Corporation and shared a board of governors with NRAM and B&B, while the Financial Services Authority regulated NRAM and B&B as mortgage administration companies.

Prior to March 31, 2018, UKFI, a crisis-era government corporation, was the primary manager and representative of HM Treasury's 100% stake in UKAR. UKFI had a mandate to "develop and execute an orderly and active disposal of HM Treasury's investments in financial institutions (including the UKAR subsidiaries) (UKAR 2017a). According to UKFI's framework document, any Investee Company that was wholly owned, such as UKAR, acted "in a manner similar to that in which a financial sponsor would engage with a wholly-owned portfolio company" (UK Financial Investments Ltd 2009). UKFI acted on behalf of HM Treasury, and met with some of its members quarterly to discuss the implementation of UKFI's investment strategies.

Under the governance agreement, UKFI would conduct the following activities:

- It appointed the Chairman of the Board of Directors and had the option to appoint additional Non-Executive directors.
- It approved or disapproved the appointment of other members of the Board, and had to be consulted on any appointments.

- It analyzed the performance of and enforced the objectives of the business plan that UKAR created.

- It evaluated and approved or declined any potential transactions that met certain criteria (UKAR 2018a).

Additionally, UKAR was required to regularly engage with UKFI (later UKGI) in monthly reviews about its performance, and to provide UKFI (later UKGI) with monthly "financial and business performance monitoring to assist this process." Per its governance agreement, the company also was required to publish annual reports that would be given to the members of Parliament, who could request the Chairman and CEO of UKAR to attend any relevant meetings.

UKAR, NRAM, and B&B all shared the same Board of Directors. The Board was made up of a variety of ex-Board members from NRAM and B&B, as well as other individuals that had spent a great deal of time in the financial services industry or in government (UKAR 2012). Staffing levels peaked at 2,424 as of December 31, 2012, then declined over time (UKAR 2014a). However, all the employees that were providing support for the two banks were contracted and paid for by B&B (UKAR 2011a). NRAM and UKAR had no direct employees. NRAM, per the Northern Rock Transfer Order 2009, had all its employees transferred to Northern Rock plc, thus ensuring that the B&B-contracted employees would work for one of the two nationalized lenders (UKAR 2012).

Subsequent to March 31, 2018, UK Government Investments (UKGI) became UKAR's manager after UKFI shut down (UKAR 2018a). No major changes to the governance framework occurred because of this switch.

The Financial Services Authority (FSA) regulated both NRAM and B&B from a prudential standpoint, since they were considered mortgage administration companies. Initially, B&B functioned as a regulated bank, but applied in 2010 to change its status to a mortgage administration company, which the FSA approved in August 2010 (UKAR 2011a). After the FSA split up into the Financial Conduct Authority (FCA) and the Prudential Regulation Authority, the FCA assumed the role of regulating mortgage administration companies (UKAR 2018c).

8. Size: UKAR did not have a maximum size cap, but did manage £115.8 billion in assets at its peak.

At the time of the corporation's inception, B&B and Northern Rock Asset Management had a combined £115.8 billion in assets that were transferred over to UKAR (UKAR 2018c).

9. Funding Source: UKAR took over existing loans from HM Treasury and the Financial Services Compensation Scheme (FSCS) owed by B&B and NRAM, totaling £48.7 billion as of December 31, 2010.

When UKAR took over B&B and NRAM, it acquired their liabilities as well as their assets. Those liabilities included £48.7 billion in debt to the UK government. As of June 2019, this amount has been repaid in full (UKAR 2019b).

UKAR acquired a £21.7 billion loan, repayable on demand, from HM Treasury, originally made to NRAM. The interest on this loan was the Bank of England Base Rate plus 25 basis points. HM Treasury committed to continue funding NRAM until at least October 1, 2013, as well as convert £1.6 billion of its loan to NRAM to meet regulatory capital requirements if needed (UKAR 2012).

UKAR took on £18.4 billion in interest-free statutory debt held by B&B, with £15.7 billion owed to the Financial Services Compensation Scheme and the remainder owed to HM Treasury. This statutory debt replaced B&B's savings-related assets and liabilities, which were transferred to Banco Santander Group on September 29, 2009 (UKAR 2012).

B&B additionally had an interest-bearing Working Capital Facility (WCF) provided by HM Treasury. Since August 1, 2011, the WCF charged a rate equal to the Bank Rate plus 500 basis points, an increase from the previous Bank Rate plus 150 basis points. B&B drew £8.4 billion in 2011 and £8.6 billion in 2012 from the WCF (UKAR 2012).

UKAR stated that these loans would be paid off using the cash flows generated by NRAM and B&B during their wind-down. However, the timing of such repayments was not estimated in the 2011 Annual Report due to the uncertainty of the redemption profiles of loans to customers (UKAR 2012).

10. Eligible Institutions: UKAR took over the books of B&B and Northern Rock, and did not intervene into other institutions.

During the early days of its lifespan, there was talk of potentially bringing parts of other financial institutions, such as the Royal Bank of Scotland (RBS), onto UKAR's balance sheet (Thompson and Jenkins 2013). However, this did not happen, and the balance sheet never increased beyond what was initially brought on board from the initial acquisition of B&B and NRAM (UKAR 2019b).

11. Eligible Assets: There were no eligibility constraints on the types of assets that UKAR managed.

Residential property loans accounted for 95 percent of UKAR's loans and advances as of December 30, 2010, shortly after UKAR took over the government's stake in the companies (UKAR 2012). No new loans were made by UKAR since they took these two institutions over (UKAR 2013). Roughly 75% of the assets that the company took were loans and advances. Other assets included mortgage-backed securities and related derivative products, which were primarily used for hedging purposes (UKAR 2019b).

Certain classes of assets, such as equity-release mortgages, were more difficult to sell due in no small part to the standard No Negative Equity Guarantees (NNEGs). These guarantees, which were important for protecting borrowers, negatively affected the sale price of equity-release portfolios (UKAR 2018d). Additionally, tens of thousands of loans that UKAR acquired were in arrears or impaired in some way (UKAR 2012).

12. Acquisition – Mechanics: NRAM and B&B became subsidiaries of UKAR on October 1, 2010.

B&B and NRAM were nationalized by HM Treasury on September 29, 2008, and February 22, 2008, respectively (Northern Rock Asset Mangement 2021; UKAR 2021a). Both the companies, as well as all of their remaining assets, were transferred under UKAR on October 1, 2010 (UKAR 2010b). The one-time acquisition of the two nationalized institutions kept them as separate legal entities and allowed them to continue to operate individually despite being managed by UKAR (UKAR 2019b). The company was the sole shareholder of the two lenders, which were managed under a singular management structure and Board.

13. Acquisition – Pricing: Since the UK government nationalized B&B and Northern Rock, there was no pricing of assets involved.

The UK government nationalized B&B and Northern Rock rather than purchasing assets or conducting a recapitalization; therefore, there was no required pricing of assets in the operation. UKAR's balance sheet reflected the book value of loans and advances, including any provisions for loan losses the closed companies had made prior to the transfer.

14. Disposal: UKAR disposed of its assets through a variety of sales and redemptions.

Asset sales followed a general process:

- UKAR would analyze market conditions and determine whether it was appropriate to sell a selection of assets.

- The company would then ensure that the potential sale would encourage enough competition amongst potential buyers that it would be reasonably compensated.

- "Reasonable compensation" was determined through a market-oriented valuation framework that included macroeconomic aggregates and potential cash flows to determine what a fair price would be (UKAR 2019b).

There were no restrictions on who was allowed to bid on the assets, although, in recent sales, UKAR would actively solicit bids from top "active" lenders, or institutions who were already engaged in lending. This was done because customers could, in theory, restructure or refinance with the new owner of the loan, if the owner was an active lender (UKAR 2019b).

Transactions that met the following criteria required approval from the supervising institution (initially UKFI, later UKGI):

- transactions with proceeds of 250 million pounds or more
- transactions with a net profit of 25 million pounds or more for UKAR or any of its subsidiaries
- transactions which involved assets being sold at a discount or premium that is "not in line" with those in the market for similar assets or liabilities (UKAR 2018a)

Borrowers repaying (redeeming) their loans also contributed to the gradual reduction in UKAR's balance sheet (UKAR 2018c). Redemption rates varied depending on the level of house prices and mortgage refinancing.

As of March 2019, its £115.8 billion balance sheet has been reduced by £104.4 billion. Despite the types of assets UKAR had to manage, it managed to turn a profit every year since its inception. By June of 2019, UKAR had also paid off the entirety of the £48.7 billion in government loans, leaving approximately £11.4 billion on its balance sheet for disposal (UKAR 2019b).

These significant advances allowed UKAR to position itself to sell off what remains of B&B and NRAM in their entirety within the next year. In its 2019 annual report, the company stated that "We are now working with advisors in order to complete our objective of returning the UK taxpayers' investment in NRAM and B&B to the private sector in full through the sale of the B&B and NRAM legal entities." The company said that they believed they could broker a sale sometime during 2020, as they had already invited several potential bidders to tender as of April 2019 (UKAR 2019b).

UKAR completed its disposition of B&B and Northern Rock assets on February 26, 2021, when it sold its remaining assets for £5 billion to a consortium comprised of Citibank and Davidson Kempner Capital Management LP (UKAR 2021b).

15. Timeframe: UKAR never had a set sunset date, but finally sold its last assets in early 2021.

Throughout its lifespan, the company avoided giving too many details on its wind-down procedures, but later communications indicated that its operations could cease as soon as 2020. UKAR ended its ownership of B&B and Northern Rock on February 26, 2021, with the sale of its remaining assets. While UKAR will continue to exist as a government-owned entity, it will have no employees, and any required activities will be performed by PricewaterhouseCoopers (UKAR 2021b).

III. Evaluation

UKAR has been subject to audits through its Audit Committee since its inception and has published the results of these in the appropriate annual reports. Aside from these audits, there hasn't been much evaluation of the program due to the small number of lenders involved and the relatively contained nature of the program. Several major accounting firms, such as Deloitte and PwC, as well as the National Audit Office (NAO), were involved in the auditing process (UKAR 2019b; 2017b).

Loan-loss impairment. One of the most continually examined parts of the program had to do with the calculation of loan-loss impairments. The independent auditors took great care to zero in on these because, as mentioned in one of the reports, "…the Directors make complex and subjective judgments over both the timing of the recognition of impairments and the estimation of the extent of the impairment.. The construction of impairment models, then, often involved making assumptions that include the probability of default and changes in future home prices, among others (UKAR 2014a). Some of these assumptions were not directly data-driven, either, such as one that adjusted for potential valuation fraud. Auditors would also compare the data produced by the UKAR's models to those created by major industry players. While the models that were audited were seen as sufficient, one audit did mention that they were "…sensitive to the micro and macro-economic environment in the UK…" (UKAR 2017b).

Customer Redress. UKAR had allocated a not inconsequential portion of its balance sheet to addressing redress claims (UKAR 2012). These were particularly noteworthy because many of their customers had been mis-sold PPI by B&B or NRAM and, as a result, were eligible to be reimbursed by the company. Just as in the case of loan-loss impairments, the judgment required of UKAR's management in estimating future redress payments was at the forefront of the independent auditing procedures (UKAR 2014a).

Hedge Accounting. Initially, UKAR inherited a broad subset of derivative instruments from B&B and NRAM, adding some inherent volatility to its income statements. While these were almost exclusively used for hedging interest rate and foreign currency risk, the auditors took their time to carefully evaluate the models used to value these derivatives (UKAR 2015).

There were other, minor concerns that the independent auditing teams identified, but none, including the three outlined above, suggested any significant risk. The audits were largely centered around challenging the degrees of independence that some of the management staff had when making estimations and valuations for models that had an impact on UKAR's financial statements (UKAR 2015).

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V. Key Program Documents

Program Summary

UK Asset Resolution Limited and UK Government Investments Limited: Relationship Framework Document (UK Asset Resolution 2018)
Detailed overview of the governance arrangement between UKAR and UKGI, its new parent company. https://ypfs.som.yale.edu/library/uk-asset-resolution-limited-and-uk-government-investments-limited-relationship-framework.

UKAR Internal Audit Terms of Reference (ToR) (UK Asset Resolution)
Document laying out the specifics of the Terms of Reference to be used by the internal audit team of the UKAR. https://ypfs.som.yale.edu/library/ukar-internal-audit-terms-reference-tor.

Media Stories

Bradford and Bingley rights issue: banks could be left with large stakes (The Guardian 2008)
Article that discusses the disappointing rights issue that B&B issued prior to their nationalization. https://ypfs.som.yale.edu/library/bradford-bingley-rights-issue-banks-could-be-left-large-stakes.

Spanish bank giant to acquire B&B (BBC News 2009)
Article detailing the acquisition of B&B by the Spanish bank Santander.
https://ypfs.som.yale.edu/library/spanish-bank-giant-acquire-bb.

Press Releases/Announcements

UKAR Media Center: Press Releases (UK Asset Resolution)
All relevant press releases here, dating back to before UKAR began.
https://ypfs.som.yale.edu/library/press-releases.

New Company to manage Government's shareholding in banks (HM Treasury 2008)
Press release detailing the unveiling of UKFI and its role in managing government investments in NRAM and B&B. https://ypfs.som.yale.edu/library/new-company-manage-governments-shareholding-banks.

Ensuring financial stability for Bradford & Bingley plc (HM Treasury)
Press release detailing the nationalization of Bradford & Bingley.
https://ypfs.som.yale.edu/library/ensuring-financial-stability-bradford-bingley-plc.

Reports/Assessments

The Nationalization of Northern Rock (House of Commons Public Accounts Committee 2009)
House of Commons report on the chronology of the nationalization of Northern Rock.
https://ypfs.som.yale.edu/library/nationalization-northern-rock.

Trapped Borrowers and UK Asset Resolution (House of Commons 2018)
Report that described the phenomenon of "Trapped borrowers," or borrowers who are unable to move their mortgages to another lender, as well as analysis on the UKAR's performance. https://ypfs.som.yale.edu/library/trapped-borrowers-and-uk-asset-resolution.

Purchase of Distressed Assets by Cerberus (House of Commons 2017)
Analysis of UKAR's largest asset sale to Cerberus Capital Management. https://ypfs.som.yale.edu/library/purchase-distressedassets-cerberus.

Rescue Aid to Northern Rock (European Commission 2007)
European Commission Case and decision on the UK government's decision to provide Rescue Aid to Northern Rock. https://ypfs.som.yale.edu/library/rescue-aid-northern-rock.

Rescue Aid to Bradford & Bingley (European Commission 2008)
European Commission Case and decision on the UK government's decision to provide Rescue Aid to B&B. https://ypfs.som.yale.edu/library/rescue-aid-bradford-bingley.