HC 552 HM Treasury: The creation and sale of Northern Rock plc

UK Parliament

https://elischolar.library.yale.edu/ypfs-documents2/3901
HC 552 HM Treasury: The creation and sale of Northern Rock plc

Written evidence from UK Financial Investments Ltd

1. On 18 May 2012, the National Audit Office ("NAO") published its report on the creation and sale of Northern Rock based on the information available at the time.

2. Subsequent to the publishing of the report, three further relevant transactions have taken place. Firstly, in accordance with the Northern Rock plc sale and purchase agreement, HM Treasury has received from Virgin Money Holdings (UK) Limited ("Virgin Money"), further cash consideration of £73 million. Secondly, UK Asset Resolution Ltd, ("UKAR") the holding company for Northern Rock (Asset Management) plc, ("NRM"") agreed to sell £465 million of mortgage assets to Virgin Money at par. Finally, UKAR agreed to sell its Gosforth site and two smaller properties to Virgin Money. The cash proceeds from all three transactions were paid to HM Treasury.

3. This note sets out the background and substance of these transactions in more detail.

FURTHER CASH CONSIDERATION PAID BY VIRGIN MONEY FOR THE NORTHERN ROCK PLC SALE

4. The sale and purchase agreement for Northern Rock plc signed by HM Treasury and Virgin Money on 17 November 2011 agreed a consideration comprising:

- Cash of £747 million (paid on 1 January 2012);
- Tier 1 Capital Notes of £150 million;
- Additional cash consideration of £50 million to £80 million receivable upon a future profitable flotation or sale in the next five years; and
- A further amount relating to the final calculation of the net asset value of Northern Rock plc at completion of the sale on 1 January 2012 (to be paid in the summer of 2012).

5. This last amount was originally expected by UKFI to be c.£50 million with the NAO report stating a range of £50 million to £74 million. Subsequent information on the movement of the net asset value of the company up to 31 December 2011 and negotiations between UKFI and Virgin Money led to a recent agreement that £73 million would be paid.

6. As such, a total of £820 million has been paid in cash to date by Virgin Money for its acquisition of Northern Rock plc. In keeping with UKFI’s announcement on the sale of Northern Rock plc on 17 November 2011, the Government has the potential to receive over £1 billion in total.

SALE OF NRAM MORTGAGE ASSETS TO VIRGIN MONEY

7. Separately, and subsequent to the signing of the sale and purchase agreement for Northern Rock plc, Virgin Money opened negotiations with UKAR and reached an agreement to acquire £465 million of NRAM mortgages (covering circa 3,700 customers) at a price of par (£ for £). These mortgages are secured on residential and buy-to-let property assets in the UK.

8. These loans will continue to be serviced by NRAM until transfer to Virgin Money, expected to be before the end of the year. The sale will not affect the terms and conditions of the mortgages in this portfolio and all customers who will be impacted by the sale will be contacted directly by NRAM and Virgin Money at a later date.
9. The sale forms part of UKAR’s on-going process to manage the run-down of the closed mortgage books of both Bradford & Bingley and NRAM whilst maximising value for the taxpayer.

SALE OF UKAR’S GOSFORITH SITE TO VIRGIN MONEY

10. Separately, UKAR agreed to sell its Gosforth site to Virgin Money as part of its phased withdrawal from the site that will complete in 2013. UKAR originally announced its phased withdrawal from Gosforth in December 2011. This reduces and simplifies the number of properties under UKAR management and allows it to focus on its two main sites in Crossflatts in Yorkshire and Doxford in the North East.

11. UKAR received a £38 million payment from Virgin Money in settlement for the purchase of the Gosforth site and two much smaller North East properties known as Camperdown and Doxford 3. In addition, Virgin Money agreed to waive £2.9 million of rental costs that UKAR would have incurred for continuing to use parts of the Gosforth site up until the end of 2013. As such, the purchase consideration totalled £40.9 million.

September 2012

-- END --

©Parliamentary copyright

Prepared 15th November 2012