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## Northern Rock to be nationalised

**Northern Rock is to be nationalised as a temporary measure, Chancellor Alistair Darling has said.**

Neither of the two private proposals to take over the beleaguered bank offered "sufficient value for money to the taxpayer", Mr Darling said.

He said the public would gain if the government held on to Northern Rock until market conditions improved.

Ron Sandler, nominated by the government to run Northern Rock, said savers' deposits would be secure.

### 'Dither and delay'

But shadow chancellor George Osborne told the BBC that the Conservatives would oppose plans to nationalise Northern Rock.

"After months of dither and delay we have ended up with this catastrophic decision," said Mr Osborne.

"We now have the situation where the government will be making decisions on whether or not to foreclose on people's loans in a falling housing market," he added.

A consortium led by the Virgin group was leading bids to run the beleaguered bank, while a management buyout had also been considered.

But ministers have decided that nationalisation - the first such move since the 1970s - was the only option.

Virgin boss Sir Richard Branson criticised the government's decision:

"We believe we had a very strong proposal, an experienced team and one of Britain's best brands.

"We believe nationalisation is not the right answer and that a commercial solution would have been the best way forward."

### Ill-prepared

Explaining the government's decision, Mr Darling said: "It is better for the Government to hold on to Northern Rock for a temporary period and as and when market conditions improve the value of Northern Rock will grow and therefore the taxpayer will gain."

"The long-term ownership of this bank must lie in the private sector".

Northern Rock got itself into financial difficulties last year because its business model left it ill-prepared for the global credit crunch.

It was forced to ask the Bank of England for emergency funding, triggering the first run on a British bank in more than a century.



The Chancellor said the public would gain after the market improved

 Watch Darling statement

The crisis in graphics

**"The Government is totally financially inept and I certainly wouldn't give it the keys to my piggy bank"**

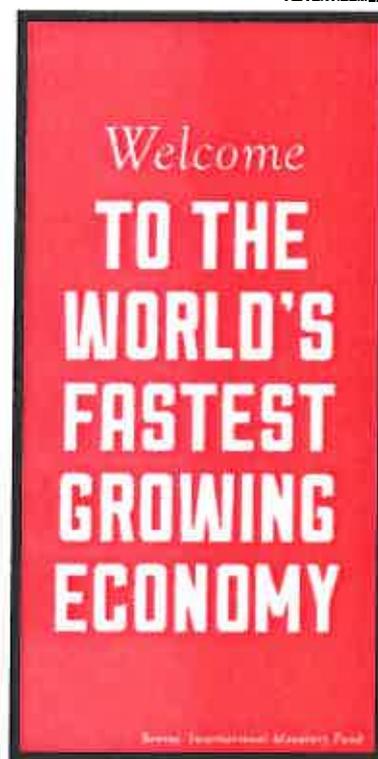
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- Government pulls lending levers
- Between a Rock and a hard place
- Q&A: What next for the Rock?
- FSA's many fallings
- Lessons of nationalisation
- Timeline: Bank in crisis



Nationalisation will be pushed through parliament with emergency legislation on Monday.

Shares in Northern Rock will be suspended on Monday morning.

Under nationalisation rules, shareholders will be offered compensation for their holding, at a level set by a Government-appointed panel.

Investors could begin legal action if they are unhappy with the amount offered, with BBC Business Editor Robert Peston saying that it was "inevitable" that the government would be sued by shareholders who felt they had been "fleeced".

**Job threat**

UK taxpayers are now subsidising the bank in loans and guarantees to other lenders to the tune of about £55bn.

The Treasury now feels that nationalisation offers the most certainty of securing these guarantees, Mr Peston said.

It is thought that the business model it proposes will be similar to those put forward by the Virgin Group and the in-house management consortium.

These were likely to see a downsizing of the bank, with job cuts among its 4,300 employees likely, observers say.

The Treasury had already recruited Mr Sandler, the former boss of the Lloyd's of London insurance market, to lead Northern Rock, in case it were nationalised.

Mr Sandler is widely regarded as having restored confidence in Lloyd's after its years in financial disarray.

He said the changes would have no impact on the guarantees made to lenders, or the government-backed support for savers' deposits.

"It is business as usual," he said.

Mr Sandler is well known to Prime Minister Gordon Brown, and worked for the Treasury in developing the so-called stakeholder pension and investment products that were intended to help those on lower incomes save for retirement.

Chairman of the Commons Treasury Select Committee John McFall said that he welcomed the Government's decision to nationalise.

"They have explored every avenue. At the end of the day the biggest issue is the safeguarding of taxpayers' money. If nationalisation saves that money, that has to be the correct step in the long term."

Liberal Democrat treasury spokesman Vince Cable said that the right decision had been taken, though "belatedly", and that the government should have walked away from the prospect of a private takeover some time ago.

"The important thing now is to do the right thing and the government has got to immediately establish what the problems are with this bank."

**“ The bank will be run at arm's length and on a commercial basis ”**

Alistair Darling

Chancellor's statement in full

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Simon, London

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