



BANK OF ENGLAND

News release

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14 September 2007

Liquidity Support Facility for Northern Rock plc

Tripartite Statement by HM Treasury, Bank of England and Financial Services Authority

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.

Notes to Editors

1. The Memorandum of Understanding between HM Treasury, the Bank of England and the Financial Services Authority is available at HM Treasury website.
2. The Governor of the Bank of England, in his letter to the Treasury Committee on 12 September 2007 said:

“Central banks, in their traditional lender of last resort (LOLR) role, can lend “against good collateral at a penalty rate” to an individual bank facing temporary liquidity problems, but that is otherwise regarded as solvent. The rationale would be that the failure of such a bank would lead to serious economic damage, including to the customers of the bank. The moral hazard of an increase in risk-taking resulting from the provision of LOLR lending is reduced by making liquidity available only at a penalty rate. Such operations in

this country are covered by the tripartite arrangements set out in the MOU between the Treasury, Financial Services Authority and the Bank of England. Because they are made to individual institutions, they are flexible with respect to type of collateral and term of the facility. LOLR operations remain in the armoury of all central banks.”