

Placing the Run on Northern Rock

by

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Abstract

The collapse of Northern Rock in 2007 was the first major run on a UK retail bank since 1866. The Northern Rock case is exemplary on two fronts. First, described at the time of its collapse as an example of an aggressive business model employed by naïve management, it is now clear that Northern Rock marked the beginning of and provides insights into the credit crunch and wider global banking crisis. Second, Northern Rock provides a distinct context - geographically and institutionally - from which to explore the banking crisis. The paper utilises management interviews, secondary literatures and an investigation of the wider impacts of the restructuring of Northern Rock to produce a reading from the perspective of a peripheral financial region. It contributes to attempts to understand financial geographies that range beyond the major international financial centres that often dominate debates in Economic Geography.

Credit Crunch Geographies of Finance Demutualisation Northern Rock

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1: Introduction

We have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the working of which we do not understand (Keynes, 1930; 1).

[A] good knowledge of what happened in 1929 remains our best safeguard against the recurrence of the more unhappy events of those days (Galbraith 1992; 28).

Despite extensive research since the 1920s, this plea for greater knowledge and understanding of financial crises by two insightful commentators still remains relevant today in the aftermath of the credit crunch in 2007, the ensuing banking crisis and subsequent international recession. This paper aims to improve our understanding of the geography of financial crises through a case study of the run on Northern Rock, a mortgage bank based in North East England. The collapse of Northern Rock, one of the early high profile casualties of the credit crunch (Shin, 2009), was an iconic event: the first significant run on a UK retail bank since 1866, and a “small hinge” on which the economy and political fortunes turned (Cable, 2009; 8). Northern Rock’s problems were not unique, it’s combination of aggressive growth, minimisation of capital and significant funding risks were shared by many other institutions involved in the banking crisis (Onado, 2009). The company had much in common with institutions such as the Countrywide Financial Corporation and IndyMac (Independent Mortgage Corporation) Bank in the US, which like Northern Rock got into trouble by pursuing the popular originate and securitize business model of mortgage lending, and had also recently changed ownership and regulator (Eisenbeis and Kaufman, 2009). Northern Rock has become an “important episode in the history of bank failures”, and a “much analysed case study” of “virtually everything that can go wrong with a bank” (Bruno and Llewellyn, 2009; 11, 7). In this paper, we use Northern Rock as an empirical opportunity to tie down in a particular place the space of flows that characterise global finance - what Clark (2005) refers to as money flowing like mercury - and to recover some of the “lost geographies” (Wainwright, 2010; 780; Lee

et al, 2009) of the global financial crisis, analysing its impact from outside the dense financial concentrations that dominate our largest cities and academic debate.

The paper contributes to the extensive literature on the role of banks in financial crises (see Reinhart and Rogoff, 2009; Johnson and Kwak, 2010). Studies have focused particularly on the Great Depression when banking crises were part of wider shocks to capitalist economies (Glyn, 2005; Gamble, 2009). Here, over-accumulation based on an unsustainable bubble or speculative mania was associated with an expansion of money and credit and a mob-based euphoria reflecting excessive optimism over the rate of growth and corporate profits. This continued until a slowdown in the rate of growth caused more cautious investors to sell, leading to a panic as the bubble burst and the process of growth unwound until confidence was restored (Kindleberger, 1978; Kindleberger and Aliber, 2005). There are strong parallels here with the growing literature on the 2007-10 global financial crisis (Rajan, 2010; Davies, 2010; Soros, 2009; Wolf, 2009). However, such work, drawing broadly on Minsky's analysis (1975), interprets apparent irrational exuberance as the result of the institutional, regulatory and market arrangements developed during periods of stability which become ingrained in the behaviour of market agents and policy-makers and produce instability (Dymski, 2010; Whalen, 2009; Wray, 2007). Thus, a widely accepted account of the proximate causes of the financial crisis suggests:

An extended global credit boom ... Rising savings and global imbalances led to low interest rates and a rise in borrowing inducing a 'search for yield' in financial markets ... apparent reductions in macroeconomic uncertainty and strong competitive pressures to maintain returns encouraged investors and financial firms to take on ever greater risk ... greater dependence upon wholesale and overseas funding and a rapid expansion in banks' balance sheets. Rising sub-prime defaults ended this boom exposing vulnerabilities in the financial system (Bank of England, 2008; 7).

Such narratives though valuable tend to reinforce the global and universal character of explanations for financial crisis, and a geographical perspective has the potential to provide a richer, deeper and more subtle understanding. Responding to Clark's (2005; 108) call to develop a "distinctive approach to global finance", and drawing on earlier

Economic Geography literature (Corbridge et al 1994; Martin, 1999), several inter-linked and geographically-rooted explanations of the financial crisis have developed linking it to over-exploitation in sub-prime housing markets in the US (Wyly et al, 2010; Langley, 2009), and the long standing regulatory competition between major financial centres, especially London and New York, and the insular everyday geographies of finance that underpin them (French, Leyshon and Thrift, 2009). We are also beginning to develop a better understanding of the aftermath of the financial crisis via a more considered appreciation of the uneven consequences of the international recession (Tomaney, Pike and Rodriguez-Pose, 2010; Pike and Pollard, 2010). Initial somewhat breathless descriptions of the credit crunch (Hallworth and Skinner, 2008) have given way to an appreciation of “the linkages between the local and global, between the space of places and the flow of spaces” (Aalbers, 2009; 34). Martin (2010; 5-6) emphasises the complex series of multi-scalar, ‘glocalised’ monetary-spaces in the financial crisis, where relational and functional monetary ties between places are simultaneously both compressed and stretched and “the local and global have become inextricably interwoven”. However, despite such insights, as Martin (2010) also acknowledges, a clearer interpretation is needed of the spatial logics and interconnections in the financial bubbles and crashes underpinning the contemporary financial crisis. Such work, building on the insights of the political economy-informed analysis of over-accumulation and restructuring in the 1980s and 1990s (Massey, 1995; Smith, 1990), can show the ways in which financial instability is reflected in associated rounds of spatial restructuring.

The paper adds to such geographical understandings of the ongoing financial crisis through a strategic-relational analysis (Jessop, 2001) of Northern Rock that integrates both the structural and strategic dimensions of institutional and individual behaviour to provide an analysis of the credit crunch from the perspective of a peripheral region. It makes two key arguments. First, while Northern Rock was initially described in 2007 as a ‘placeless’ extreme example of a hyper-aggressive business model employed by a naive management — we argue instead, developing Minsky’s work, that the Northern Rock case exemplifies how two decades of weakening regulatory boundaries encouraged new regional actors to participate in a City of London-centred form of financial growth driven by securitization and extensive leverage. Given that differences in corporate ownership and governance significantly influence managerial

behaviour (Clark and Wójcik, 2007; Clark and Wojcik, 2003), we show how the demutualisation of Northern Rock, a former mutual building society, intensified the ‘herd instinct’ among financial sector institutions during the banking crisis by increasing the convergence pressures towards plc isomorphism. Second, it is argued that Northern Rock is a profoundly geographical story of a regionally-embedded mutual institution, shaped by local elite interests and histories, being drawn into the wider financial sector and attempting to develop in North East England an extension of the City of London. Far from the local being simply a recipient of ‘global forces’, we argue that regional influences were important in its failure, and that the character of Northern Rock’s growth and decline strongly echoes previous rounds of investment and North East England’s place in wider spatial divisions of labour.

We develop these arguments in a longitudinal analysis of Northern Rock’s history and evolution. While the value of such longitudinal analysis in Economic Geography is frequently stressed (Engelen and Faulconbridge, 2009), in practice it is rare to have an opportunity to study truly significant events as they unfold. In this case, the authors are able to analyse key events at Northern Rock based on a range of previous and contemporary evidence collected as they developed. In 1996, Northern Rock was interviewed as part of research on the building society industry (Marshall et al 1997) and was included in further research on the demutualisation of building societies in 1998-9, involving interviews with 31 societies and 3 institutions that had converted to plc status (Marshall et al, 2003). An interview with Northern Rock also formed part of a Centre for Urban and Regional Development Studies survey of labour market trends in North East England (CURDS and GHK Consulting, 2004) and, finally, an evaluation of the regional economic impact of redundancies at Northern Rock included confidential interviews with the company in 2008-9 (Regeneris Consulting et al, 2010).

Following this introduction, in part 2 we briefly reprise the main elements of ‘the run’ on Northern Rock, drawing on popular media and the Treasury Committee Report of 2008. In part 3, we start to develop our alternative reading of Northern Rock’s travails by situating it within the history of deregulation and demutualisation in the UK financial sector, before refining the focus in part 4, to consider Northern Rock’s journey from a regional building society to becoming the UK’s 5th largest mortgage

bank. By way of conclusion, we draw out the wider implications of our case study for understanding financial bubbles and for demonstrating why geographies of finance matter.

2: The run on Northern Rock

If you had been asked in the spring of 2007 to nominate one company that summed up Britain's successful transformation from a manufacturing to a service economy, Northern Rock would have been a reasonable choice. Originating as a self-help movement for artisans in the heavy industrial heartland of north-east England, it became an IT-enabled finance house, filling the vacuum left by that region's industrial decline and offering well-paid jobs in modern air-conditioned offices to 6,000 employees. These children and grandchildren of miners and shipyard workers had learned new skills as members of Britain's financial services army, an industry at the cutting edge of the country's new knowledge economy (Augar, 2009; 149).

Leyshon and Thrift (1989) in their work on the 'South goes North? Rise of the British Provincial Financial Centre' speculated on the extent to which Northern Britain would participate in the finance-based growth that followed the 'Big Bang' deregulation of financial services in the UK in the early 1980s. As Augar's quote indicates, with almost 90% of its employment in North East England (predominantly at its headquarters in Gosforth a suburb of Newcastle-upon-Tyne and a computer centre at Doxford Park in Sunderland), Northern Rock became "a symbol of the North East's renaissance" (Elliot and Atkinson, 2008; 49), a post-Thatcherite exemplar of the modernisation of the region and its successful participation in a deregulated finance-dominated economy. In short, it represented an example of the 'South going North (East)'. As a bank, Northern Rock had grown rapidly in the 8 years prior to 2007, roughly trebling its share of the UK mortgage market, and in the first half of 2007 its gross lending of £19.3 billion and net lending of £10.7 billion represented 9.7% and 19.9% of lending in the UK mortgage market (Official Journal of the European Union, 2007). Similarly, the company's net interest income and profits before tax had increased substantially - by 270% and 250% respectively at current prices between

2000 and 2006. Northern Rock's workforce also grew apace, an increase of 3,000 employees in the period 2000-2007; although it went unremarked that this employment growth was largely in routine service work, comprising approximately one third call centre staff such as telesales and data processing, one third retail and commercial banking staff and the remainder in administration, processing, and general management predominantly supporting telebanking (CURDS and GHK Consulting, 2004). By 2007, in terms of employment and profits, Northern Rock was the 5th largest UK mortgage bank, with approximately 6,600 staff and some 77 branches and a balance sheet of £113.5 billion (Official Journal of the European Union, 2007).

Northern Rock's rapid growth and financial success enabled it to become a high profile charitable and corporate sponsor. Good causes were supported through the Northern Rock Foundation which had awarded grants totalling more than £190m by December 2007 (<http://www.nr-foundation.org.uk>). High profile sponsorship deals were also secured with Newcastle United Football Club, the Newcastle Falcons rugby union team, the Newcastle Eagles basketball team and Durham County Cricket Club. Northern Rock, "a symbol of brash Geordie self-confidence," was apparently a profit-machine working in the interests of both its outside investors and the local area; it was "genuinely popular in its own community" (Elliot and Atkinson, 2008; 48) and the regional press, especially the Newcastle Journal and Chronicle, was an enthusiastic supporter:

Analysts wrote reports on it; the press analysed its results; and institutional shareholders developed relationships with the management, nudging them towards making bigger profits and paying higher dividends. Investment bankers made their way up to Newcastle, proposing deals and recommending sophisticated financial products ... Everything was now stacked up for a dash for growth: demanding shareholders, ambitious management and deal-hungry advisors (Augar, 2009; 151-2).

So what went wrong with this example of the finance-based economy of the South spreading to North East England?

The official account of the events at Northern Rock, incisively summarised in the Treasury Committee's (2008) report 'The Run on the Rock', is largely silent on both the geographical specificity and impact of key events. Northern Rock first came to attention when on 14th September 2007 it requested financial support from the Bank of England. Once the facility became public knowledge this led to a depositor run on the bank as retail customers became concerned for the security of their savings. The then Chancellor of the Exchequer Alastair Darling guaranteed all existing deposits in Northern Rock on 17th September 2007 and extended this guarantee several times to include all unsecured retail products and all obligations of the company by 18th December 2007 (Northern Rock, 2008; 4). Following a protracted period of uncertainty during which the government searched for a private sector buyer, on 17th February 2008 the Chancellor took the dramatic step of announcing that Northern Rock would be taken into public ownership. Northern Rock's (2008) Provisional Restructuring Plan agreed in return for c.£27 billion in public funding to establish a smaller, more focused and financially viable mortgage savings bank that could be returned to the private sector. The company was allowed to return to the mortgage market in February 2009, and in October of the same year the bank was re-organised into a savings arm and an asset management organisation containing its mortgages, and the latter merged with the mortgage book of Bradford and Bingley, another failed former mutual building society that had converted to a mortgage bank and was nationalised in September 2008. By June 2010, Northern Rock had approximately 3,750 employees, and a further 650 redundancies were announced apparently to prepare the bank for a sale to the private sector in line with the new coalition government's public deficit reduction plans.

The Treasury Committee (2008) enquiry blamed Northern Rock's failure on "reckless" growth (p.3), based on a "fatally flawed" (p.18) business strategy and an "extreme" (p.22) business model which relied excessively on wholesale markets for its mortgage lending, especially via mortgage-backed securities, covered bonds and medium and short-term unsecured funding, using the off-balance sheet vehicle Granite trust. By 2007, 75% of Northern Rock's total funding, some £80.5 billion, was supplied by non-retail sources. The success of this funding model depended critically on the ability of the company to extract economic rents from the basic arbitrage of paying a lower interest rate on funds in the wholesale market than the

interest rate that it charged its mortgage customers, and raising money in the wholesale money markets to both repay its borrowing and conduct further lending. Furthermore, about half of Northern Rock's borrowing had a maturity of less than one year which meant that it needed continuously to refinance making it particularly vulnerable to a loss of liquidity (Milne and Wood, 2008). Northern Rock's margins came under pressure due to the changed interest rate environment, as the cost of credit increased following the announcement by the French bank BNP Paribas that three of its investment funds, linked to sub-prime residential mortgages in the US, were no longer able to value their financial instruments. This ultimately led to a freezing of the short-term money markets upon which Northern Rock relied, due to a breakdown in trust, and the ensuing 'credit crunch' triggered a liquidity crisis at the bank.

The Treasury Committee (2008) focused on the Board of Directors as "the principal authors" (p.3) of the difficulties the company faced and the latter were pilloried in the public hearings of the Committee and on prime time national television as scapegoats of financial mismanagement. Regulators were taken to task for being "asleep on the job" (p.22), not scrutinising Northern Rock sufficiently closely (Financial Services Authority, 2008) and for confusion between the Financial Services Authority, responsible for the supervision of individual banks, the Bank of England primarily focused on monetary policy and financial stability and the Treasury in overall charge of the tripartite system of regulation. Other initial academic accounts (Llewellyn, 2008; Keasey and Veronesi, 2008; Bruno and Llewellyn, 2009), confirmed and extended the conclusions of the Treasury Committee highlighting: weaknesses in Northern Rock's internal risk management including a lack of focus on liquidity and off-balance-sheet activities; the need for improvements in the stress testing of institutions and capital adequacy controls to address the procyclical character of Northern Rock's lending; the fact that lessons from the earlier Savings and Loans crisis in the US had not been learned which would have resulted in improvements in the bankruptcy regime for troubled banks and enhanced depositor protection, both of which would have assisted in dealing with Northern Rock. The emerging consensus concluded that Northern Rock "expanded far too fast, heedless of the risks to which it was exposed. The inherent fragility of its balance sheet could not withstand the market's shift away from lending to or buying from mortgage lenders after the

revelation of difficulties in the American sub-prime mortgage market” (Chick, 2008; 123).

3: Revisiting the collapse of Northern Rock: Demutualisation and financial-spatial integration

A throwaway line in the Treasury Committee’s ‘Run on the Rock’ report acknowledges that had Northern Rock remained a mutual building society (limited by regulation from drawing more than 50% of their funds from wholesale sources) the run on the bank would have been much less likely (Treasury Committee, 2008; 28). This insight draws attention to the links between the crisis at Northern Rock and the earlier demutualisation of the company, as part of a wider spatial integration of the UK financial sector. We argue these changes prepared the ground for the present financial crisis, and culminated in a regionally-based, demutualised, former building society in North Eastern England being drawn unsuccessfully into global financial circuits articulated through the City of London. We analyse this transformation below in strategic-relational terms (Jessop, 2001; Jessop and Oosterlynck, 2008), showing how changes in regulation and legislation selectively reinforced specific strategies by participants, and their context sensitive actions, in turn, exploited the strategic selectivity inscribed in legislative and regulatory changes (Jessop, 2006). We argue that initial state intervention changing regulation and legislation, created a strategic opportunity for powerful actors in the building society sector to create a new economic imaginary of an innovative and entrepreneurial style of business operation, based on a consensus that the plc form was the most appropriate model for mortgage lending, and the primary objective of management was to maximise shareholder value over a short-term time horizon. The analysis focuses on the importance of corporate strategies and strategists (Schoenberger, 1997), and the key role of managerial elites (Savage and Williams, 2008) in initiating change, following initial state intervention. The circulation of people and financial imaginaries, including securitisation know-how, from the US to the UK, is also important as chronicled in Tett’s (2009) account of the role of a small group of managers linked to JP Morgan in developing the innovative credit derivatives that were implicated in the credit crunch, Leyshon and Pollard’s (2000) earlier account of the way in which banking organisation in the UK

was shaped by developments in the US and Wainwright's (2009) analysis of the spread of US securitization expertise to London. In the context of close connections between business elites, policy-makers and regulators (Auger, 2009), individual actions inspired a change in corporate culture that produced a cycle of incremental regulatory and legislative adjustments to reduce constraints on building society management, which culminated in the larger building societies converting from mutual organisations owned by their customers to shareholder owned banks. A strategic-relational approach draws attention to the spatiotemporal nature of institutions and individual actors involved in this transformation in corporate culture, focusing on what Jessop (2001; 1231) calls "a) the temporalities and spatialities inscribed in (and reproduced through) specific forms and b) the differential temporal and spatial horizons of various actors and their capacities to shift horizons, modify temporalities and spatialities, jump scales, and so forth". Thus, while it provides scope for individual actions to overflow or circumvent structural constraints, and this certainly played a role in the unintended outcomes of deregulation, crucially a strategic-relational approach also recognises how path dependencies develop where spatiotemporal institutional legacies shape current possibilities and options for development. Thus, we show that not only was the demutualisation of Northern Rock part of a wider spatial integration of the financial sector, but in a subsequent section we indicate Northern Rock's location and development in the North East of England shaped its involvement in the more integrated financial world.

Leyshon and Thrift (1997; 335-336) regard London as one of the "chief points of surveillance and scripting" for the global financial services industry, making sense of a mass of information about the financial sector, and a meeting place for "social interaction on an expanded scale", providing the everyday human interaction and 'buzz' that makes the financial sector tick. "[M]oney cultures", "made up of people who position themselves in relation to the circulation of money and are also positioned by it" (Allen and Pryke, 1999; 65), form an important part of such financial centres and these are institutionalised behind the regulatory firewalls established between individual markets. Prior to the 1980s, the building society sector was a distinctive, relatively separate financial sub-market with its own money culture where regulatory and legislative boundaries, characterised as "restrictive practices, anti-competitive mechanisms, and self-imposed constraints ... performing the same role as

regulation in limiting risk by constraining competition” (Llewellyn, 1990; 16-17), were reinforced by spatial separation because societies were overwhelmingly based outside the City of London (69% of building assets controlled from head offices outside London in 1989 - Marshall et al 1997). Building societies had roots in the self-help and co-operative movement that developed in the industrial regions of the UK during the 1800s, and as mutual organisations were owned by their customers who were also members of the society with a vote in its operation. As originally conceived in the 19th century and reinforced in the 1962 Building Society Act, societies “were creatures of statute” and could only operate in the manner envisaged by legislation (Building Societies Association, 1983; 5). They performed a particularly strict form of ‘originate and hold’ mortgage lending and were solely established for the purpose of raising funds from their members to provide mortgage advances to other members to purchase property. Since individual members only had one vote irrespective of the size of their financial stake, their influence on the organisation declined when societies expanded during the 20th century, and management increasingly acted as the representatives of, or fiduciaries for, their members. This layer of professional managers also assumed control of the industry through their trade body, the Building Societies Association (BSA), which ‘recommended’ interest rates and levels of reserves and helped manage the industry as a collective (Talbot, 2010). With a BSA-based cartel controlling interest rates and taking much of the responsibility for decision-making in the sector, a money culture developed among building society management characterised as an “accounting or legal mentality” (Marshall et al, 1997; 274), and Birchall (2001; 6) recalls an old joke that, at that time, the stability in the industry was such managers followed “‘the rule of three’: they borrowed at 1%, lent at 2% and were ‘on the golf course by three’”.

The legislative and institutional framework underpinning this distinctive money culture was transformed in the ‘Big Bang’ when, “[S]tate power was used to override those business interests hostile to radical reform” (Moran, 1991; 1), as part of a wider international neoliberal state strategy (Peck and Tickell, 2003; Tickell, 2000) to use market liberalisation to strengthen London’s role as an international financial centre (Gentle et al, 1994). Similar regulatory changes occurred in the United States at roughly the same time when thrifts, organisations with an ownership structure and history similar to the UK building societies, and restricted in the same way by the

compartmentalisation of the US financial sector to the provision of residential mortgages, were provided with an opportunity to diversify away from mortgage lending and to access new sources of funding in the wholesale money markets. The thrift's traditional mortgage-based business model regulated the interest rates thrift's could offer to attract funds and their yields on long term mortgages were locked in at low, fixed rates. Their business model was undermined by inflation, rapidly rising interest rates and competition, and rather than close failing thrift's, the government allowed them greater operating freedom, and improved depositor protection. Thrifts used government insured deposits to engage in speculative diversification into higher yield (and higher risk) assets such as land, real estate and construction in a narrow range of locations. The recession of the early 1980s and the ensuing write-down of real estate and other assets led to the collapse of 1043 institutions with \$500 billion in assets between 1986 and 1995, costing taxpayers \$124 billion in financial support (Curry and Shibut, 2000). Extensive analysis has been conducted of this Savings and Loans crisis (White, 1991; Seidman, 1993), which according to Barth et al (2004) shows how deregulation can destabilise a sector, supervisors can struggle to adapt to changing circumstances and management with little previous appropriate business experience can make a mess of diversification into new areas. There are clear parallels between these events and demutualisation in the UK; however, given the focus of the paper on Northern Rock, we concentrate on regulatory and legislative changes in the latter country, and compare the outcomes with the Savings and Loans crisis in the US.

UK deregulation cumulatively brought about the integration of the relatively self-contained retail savings and mortgage markets and connected them to international capital markets (Table 1). Restrictions on banks entering the mortgage market were lifted between 1979 and 1981. The Wilson Committee (1980) had also concluded that the BSA's prudential practices, by limiting interest rate competition, were anti-competitive and discriminated against home buyers. The exemption of the sector from the Restrictive Trade Practices Act 1976 was, therefore, replaced by market competition. The 1986 Building Societies Act created the independent Building Societies Commission (incorporated into the Financial Services Authority in 2000) to replace the BSA as the regulator for the sector, and initiated a gradually loosening of the statutory framework under which the building societies operated. While mortgage advances remained the principle purpose of the societies, a list of additional activities,

including a wide range of retail banking, investment and estate agency services were permitted which enabled them to compete more directly with banks in retail financial markets. Crucially, the 1986 Act regularised the ability of building societies to borrow on wholesale markets up to 20% of their total deposits and this was extended to 50% in 1997.

The reduction of these barriers to competition in the 1980s and 1990s destabilised the ‘mutual’ money culture of societies — including Northern Rock — as they were gradually drawn into a City of London-based culture of “heightened” and “fast” risk” (Allen and Pryke, 1999; 65; also see Thrift, 2001; Clark et al 2004; Pryke and Allen, 2000; Pryke and Lee, 1995). During the 1980s and 1990s larger societies recruited managers and board members with experience from outside the mutual sector, and the number of board members with expertise related solely to the house purchase, such as surveyors and solicitors declined. The introduction of personnel from plc backgrounds contributed to a wider cultural change in management, and mutual building societies began to behave in a similar manner to banks, growing more rapidly, building up surpluses and increasing managerial pay (Barnes and Ward, 1999; Llewellyn, 1997a; 1997b; 1999; Drake, 1998). A Senior Manager in 1998 recalled the change as follows:

When the Building Societies Act came in 1986, as of 1987 the word profitability existed for the first time ... as opposed to surplus of income over expenditure, stick it in the reserves. So people said ‘ooh profitability’, and that took them down the appropriate commercial road. ‘Well if we’re a business and now it is expected to make profits and maintain capital ratios we’ve got to have people from plc worlds that are used to doing that type of thing.’ Because it was a cartel, don’t forget, which finished in I think 1983. So then, ‘ooh crumbs, we are competing with these, we are not just cosy lunch clubs anymore’ ... That doesn’t happen anymore, life is tough, we are one wolf pack against another wolf pack (Convertor Building Society, Authors’ Interview, 1998).

Barnes and Ward (1999) compared the outcome of this deregulation favourably with the similar regulatory changes in the United States which helped produce the Savings and Loans crisis, arguing UK deregulation was more successful because while

building societies were provided with more managerial leeway, regulation continued to limit the activities they could undertake and their freedom to get into financial trouble or ‘loot’ the organisation. However, Barnes and Ward did not fully foresee the way in which demutualisation in the UK could be exploited to achieve regulatory arbitrage, avoiding the constraints imposed by building society legislation.

Nigel Lawson, a primary architect of financial de-regulation, first as Financial Secretary to the Treasury and then Chancellor of the Exchequer, acknowledged, “Any radical reform ... is likely to bring about unforeseen side effects” (Lawson, 1992; quoted in Gentle et al, 1994; 185), and so, with hindsight, it is evident that the most crucial change in the 1986 Act was allowing demutualisation where management deemed it commercially beneficial. Initially designed to give a “handful” of societies greater freedom to diversify and provide further competition for banks (Boleat, 1987; 34), poorly drafted conversion provisions in the 1986 Act were exploited in the courts by management from the larger building societies to permit them to demutualise following a special resolution passed by 75% of share account holders (depositors) on a minimum turnout of 20% (later increased to 50%) and a simple majority of borrowers (Oxford Centre for Mutual and Employee-owned Business, 2009: 34).

Between 1989 and 2000, 11 of the 15 largest building societies demutualised involving approximately two-thirds of the total assets of the sector (Table 2). Given that they had been granted greater operational freedom, why did the larger societies demutualise? Stephens (2001) suggests management motivation was pivotal, and Perks (1991) indicates at Abbey National senior managers controlled the demutualisation debate and commanded the resources to determine the outcome. For management, it was a very short step from operating more commercially as outlined above to conversion, as a Senior Manager in a convertor indicated in 1998,

Both the Halifax and the Leeds had run themselves on fairly tight profitability grounds before. Kind of pseudo-plc habits because of credit ratings. The better you run the business and the better the credit rating you get, therefore the cheaper your wholesale funds. But why was that the case, why would you want cheaper retail funds? Well in order to improve profits. Why do we want more profits as a building society? Ah, that’s when you start to get on the

bridge between mutuals and plc and that's where objectives take over ... It's that the management team in place at the time fancies being a plc ... What management wants to do gets done (Authors' Interview).

Access to external capital, to grow the company by diversifying into new lines of business under the lighter touch and more responsive banking regulation were most frequently cited in public as the reasons for demutualisation (Marshall et al, 2003). Another view was that mutual building societies were an outdated form that had been superseded by the more modern joint stock company (Birchall, 2001), and demutualisation was part of a political project seeking to create a share-owning democracy (Perks, 1991). Maintaining control of the business was a defensive reason for demutualisation because after conversion companies had two year protection from hostile takeover (Marshall et al, 1997). However, convertor management typically sought the opportunity to lead the organisation on the wider stage of the mainstream financial sector in a situation where pay was closely linked to business performance and conversion allowed them significantly to boost their status and earnings (Marshall et al, 2003; Howcroft, 1999). Describing the conversion process at the end of the 1990s, a Senior Manager in a former building society commented,

Greed is an enormous driver. I'm not particularly greedy and money is not one of my gods but there are people who think, 'plc, share options, millionaire, ooh'. These things have an effect; they are never spoken about openly and they are never written down (Authors' Interview, 1998).

There were numerous examples where share options and cash bonuses were awarded to management as part of the conversion process (Cook et al, 2001). Following conversion management salaries in convertors grew more like the banks and substantially faster than the remaining mutual building societies, so pay increases associated with the move to a plc appeared to influence conversion (Shiwakoti et al, 2005). In sum, then, we conclude that though a number of factors were involved in individual demutualisation decisions, strong financial incentives for management to convert were a dominant consideration and, furthermore, by offering payments to building society members from historically accumulated reserves, management also convinced them to vote for conversion. Towards the end of the round of

demutualisation speculative individual investors began proactively to press for conversion and a subsequent financial windfall. Nevertheless, management still remained the key to change, and in the Nationwide, Britannia, Chelsea, Skipton and Portman Building Societies, successfully resisted attempts to force them to demutualise. Even in the case of Bradford and Bingley where speculative investors overturned a Board decision to remain mutual, the vote did not reach the required minimum to force conversion, so again management made the final decision to convert. Figure 1 shows the extent to which the geographical outcome of this process of demutualisation was regionally biased, with 74% of the employment and 70% of the assets of the convertors based at head offices outside London and the South East and only Abbey National and Alliance and Leicester, two of the early convertors, headquartered in London. Thus, the deregulation and demutualisation process, and the changes in managerial money culture associated with it, connected formerly separate regionally-based mutual financial circuit of capital more firmly into the business culture of the City of London.

4: Northern Rock: From mutual roots to a regionally inscribed high growth business model

In this section, we refine the focus by using interview and secondary source material to provide a geographically-informed account of Northern Rock's evolution from demutualisation in 1997 to collapse in 2007. A strategic-relational analysis highlights the path shaping role of Northern Rock's location and previous development in the North East of England which explains the precise way in which the national regulatory changes outlined in the previous section drew Northern Rock, a regionally-embedded institution, shaped by local elite interests and histories, into wider international financial markets and, in so doing, extended the City of London to part of North East England. It is important to stress, though, that we do not argue for the geographical uniqueness of Northern Rock, or provide a locational explanation for the crisis in the company. As previously suggested, Northern Rock's business model had much in common with other banks, reflecting its participation in the wider transformation in corporate cultures outlined in the previous section. Rather, by indicating the geographical influences on Northern Rock's corporate strategies and business model, we show why the company's business model assumed such an

extreme form of high growth and excessive wholesale funding. We also show that the company's growth and decline was shaped by the North East region's previous role in spatial divisions of labour and thus perpetuates established forms of uneven development. Through these insights we develop a fuller analysis of Northern Rock's participation in the credit crunch than contained in placeless accounts of a reckless bank.

A geographically sensitive analysis indicates the regionally-embedded character of Northern Rock contributed to its demise. Northern Rock was a long-established and leading regional institution in the North East of England. At the turn of the 20th century the Northern Counties Building Society (one of the precursors to Northern Rock) was:

[U]nquestionably one of Newcastle's established institutions. When the society held its 50th anniversary Jubilee Dinner The guest list was a roll call of the North East's civic establishment. Amongst those invited were: the Mayor and Sheriff of Newcastle, the Mayor of Gateshead, the Under-Sheriff of Newcastle, the MPs for Newcastle, Gateshead and Tyneside, the Recorder of Newcastle, the Bishop of Newcastle, the chairmen and secretaries of the Newcastle, Grainger and Universal Building Societies, the presidents of the Law Society and Northern Architects Union, the chairman of the Tyne Commissioners, and the editors of the Newcastle Journal, the Chronicle, the Leader and the Morning Mail" (Aris, 2000; 60).

In a tradition that goes back to Northern Rock's foundation, which the company history describes as a merger between the "cavaliers" or local aristocracy and the "roundheads" or local bourgeoisie (Aris, 2000; 89), the chairmanship of the board was assumed by the local aristocracy and other well-heeled families on Tyneside, principally the Ridley family dynasty (Brummer, 2008; 8). Northern Rock's corporate evolution is replete with examples of senior executives playing a prominent role in the region. Osborn, the first Chief Executive, is described as a "major figure in the affairs of the North East a man who wanted to exercise his power and found a provincial area in which he could exercise it across a very wide range" (Aris, 2000; 102-103). By 2000, other senior executives at Northern Rock were established building society

men, with a long history in the company and little experience of the wider financial sector, mixed with non-executive City of London-types close to the new originate and securitize business. This regionally embedded character resulted in “an ‘amateur’ element” (Brummer, 2008; 7) engrained in the way in which the company was run which was subsequently exposed by the Treasury Committee.

In 1996, Northern Rock was one of the more commercially-minded institutions, and senior management regarded themselves as “the most efficient society of them all,” but they also believed the mortgage market had undergone a significant transformation, “the market is oversupplied;” branch banking was “doomed to failure;” “a lot of people [will] fail;” and to be successful Northern Rock had to grow rapidly and “drive cost out of the system” (Senior Manager, Authors’ Interview, 1998). However, as a mutual the growth of the organisation was limited by lack of access to external capital because growing fast on narrow margins in highly competitive markets would “quickly burn into regulatory capital” (Senior Manager, Authors’ Interview, 1998). In the resulting demutualisation the historical roots of the company in North East England had an important influence and acknowledging them enabled management to push conversion through. The company history records that when Northern Rock was making the decision to convert to plc status, “[T]he balance of power in the boardroom was tipped in favour of management. ‘By that time management was quite powerful.’ ... [But] ... It was the idea of a Northern Rock Charitable Foundation that swung the board round” (Aris, 2000; 135). By establishing a Foundation with a deed to allocate 5% of annual pre-tax profit to good causes in North East England, management cemented relations with the regional community and by appealing to Northern Rock’s tradition of local community involvement convinced both the board and members of the society to approve conversion.

In its ‘Proposals and Rationale for Conversion’ Northern Rock (1997; 26) promised a “policy of high growth.” Geography was intimately implicated in the development of this ultimately flawed high growth business model. The location of the company in North East England, a low cost location for mortgage production, was perceived by management to be central to its competitive advantage, and was reflected in its publicity:

Northern Rock is the lowest cost producer in the banking industry in Europe. A key advantage over rivals is that its head office and key operational units are located in the North East of England where wages are, on average, lower than in the rest of the UK. The cost of living is much lower in this area, so people are able to enjoy a high standard of living even though income may be lower. Northern Rock is then able to pass this advantage of low costs to its customers (<http://companyinfo.northernrock.co.uk/downloads/results/NorthernRockFinalV2.pdf>)

Though Northern Rock continued after demutualisation as a mortgage bank, like thrifts in the US after significant regulatory relaxation it diversified its sources of funding. New forms of funding were in management's view needed to overcome the perceived *disadvantage* of their regional location: "In essence the problem was how could a society as aggressive as Northern Rock continue to develop its mortgage business when the main focus of its activities was in the North and most of the action was in the South" (Aris, 2000; 130). The answer was to replace its traditional business model, where deposits and mortgages were predominantly raised locally with a new model providing mortgages remotely via post, telephone and computer to the more buoyant housing markets further south (by 2007 approximately half of Northern Rock's lending was placed in markets in the South of England; Milne and Wood, 2008), and drawing finance for expansion from the international wholesale money markets.

The switch toward wholesale funding was portrayed as transformational for the company:

From our point of view, as a mortgage bank, although currently 50% of our funding is via the savings market it doesn't have to be. We can go totally wholesale; we can operate on the international bond markets and needn't be a bank at all. We could become a securitizer, and so we merely turn loans into securitised notes, sell them on the international bond markets and we wouldn't need savings at all If you have not got it as an asset on your balance sheet you don't need the capital to back it. You don't need to be a bank, that's what I'm saying (Senior Manager, Northern Rock, Authors' Interview, 1998).

At the Merrill Lynch European Banking and Insurance Conference in 2003, Adam Applegarth (2003; 14), Chief Executive of Northern Rock, confirmed this earlier vision of a mortgage bank funded via securitisation had been consolidated into a “unique and successful business model” as a “low cost mortgage bank” focused on delivering high returns for investors via “a virtuous circle” of cost control, competitive products and high quality asset growth based on a “well-balanced funding platform” of wholesale, securitised notes and retail funds “to succeed on narrow margins”. Northern Rock’s approach was similar to that of specialist lenders such as GMAC-RCF (General Motors Acceptance Corporation) which the then Executive Chairman Stephen Knight, described as a “creator and trader of mortgage assets” providing “mortgages for everyone delivered in a fast, automated process” (Knight, 2006; 14). Northern Rock, like such institutions, broadened the mortgage market through simplification of the mortgage selling process via self-certification, offering low interest rate mortgages and purchasing near sub-prime mortgages from intermediaries such as Lehman Brothers.

Thus, Northern Rock was drawn by the wider forces of spatial integration in the financial sector and over-confidence reflecting its amateur management into a classic speculative bubble similar to accounts of the stock market crash in 1929 where a pervasive sense of confidence and optimism, resulted in a boom and then a crash when the economy and stock market turned (Galbraith, 1992; 187). In the current context, Northern Rock and other commercial banks believed they were like “medieval alchemists ... converting base metals into gold” (Stiglitz, 2008; 4), and, as in 1929 where leverage and easy credit was “heralded as the financial innovation of the age” (Galbraith, 1992; 10), they naively thought they could use it to develop a money-making machine (Haldane, 2009). Northern Rock was advised by JP Morgan — which features prominently in Tett’s (2009) account of the origins of the financial innovations that led to the credit crunch — on how they could maintain their regional roots while becoming “part of a much more interesting world” (Aris, 2000; 134). The culture of conservatism that had dominated while Northern Rock was a building society, reflecting its origins in a regional backwater of the financial sector in North East England, was replaced by a more entrepreneurial and risky approach to the mortgage business. Senior Management at Northern Rock became one of the primary

exponents of the entrepreneurial, securitization-based, plc model and argued for its superiority over the more regulated mutual form that characterised the remaining building societies. In evidence to the All-Party Parliamentary Group for Building Societies and Financial Mutuals (2006; 8-9):

The company [Northern Rock] told the Inquiry that its subsequent high growth and continually falling cost ratios had enabled it to price its products more competitively. The most important metric, it said, was its net interest margin – the difference between the average rate paid by savers and the average rate charged to borrowers. This, Northern Rock said, had been cut from 1.86% to 0.8% during 1997-2004. It insisted that its success over the past eight years would not have been possible under the old mutual model. By being able to access external capital (75% of which is now raised abroad) it could grow quickly and therefore keep unit costs down. Northern Rock said its cost income ratio was now 30.4% compared to an average of over 53% for building societies and argued that this proved it was ‘clear that mutual status does not encourage efficiency. We gained our cost efficiency by rapid growth and ensuring our costs increased below the rate of income growth and half the rate of asset growth’ it told the Inquiry.’

In their 2007 evidence to the Treasury Committee (2008: 16), the Northern Rock board argued that the possibility that all wholesale markets would be closed was regarded as “unforeseeable” and as a consequence they had not taken out appropriate liquidity risk insurance, in contrast to other institutions such as the Countrywide Financial Corporation in the US. They were surprised that there was “no flight to quality in that process [of tightening in credit markets]”. The amateurish character of their management resulted in Northern Rock confusing the improbable with the impossible and they exposed themselves to a low probability-high impact risk (Treasury Committee, 2008). Lauded by the City, propelled by the wider financial spatial integration to undertake cavalier risk taking for higher rewards, the amateur elite management at Northern Rock management did not fully understand the risks they were taking, the complex implications of the securitisation of mortgages, and the potential links between different parts of the mortgage business. In this lethal cocktail there are interesting parallels between Northern Rock and other established

regionally-owned manufacturing companies in North East of England, many of which failed in the post-war period (Robinson, 1988). Northern Rock management viewed the company as a “manufacturer of mortgages” and production was described in “factory terms” – the North East seen as a low cost location for labour intensive, low skill mortgage production (Senior Manager, Authors’ Interview, 1998). The final irony is that Northern Rock got into trouble through neglecting the wider context for their business, precisely the mistake that many traditional manufacturers also made, which raises interesting questions about the long run reproduction of uneven development and the impact of the regional embedding of managerial elites on this process.

5: From boom to bust and bail-out at Northern Rock: Implications for a geographical understanding of the financial crisis

What contribution does a geographical perspective make to the numerous studies of the Northern Rock crisis? Or, to put it another way, why and to what extent does the geography of finance matter in the financial bubbles and crashes of the global financial crisis? The paper has re-visited the crisis at Northern Rock and argued that the company was not simply an example of a hyper-aggressive business model employed by naïve management; instead, we interpret Northern Rock’s travails as a product of two decades of weakening regulation that transformed the money culture of building society management. Demutualisation liberated cautious former building societies such as Northern Rock, based in the regions, mutually-owned and with a different way of operating, and afforded them financial incentives and wholesale money to grow. We argue Northern Rock’s location shaped its participation in these wider processes of deregulation and spatial integration. The company was particularly susceptible to participation in the originate and securitize speculative bubble because financial innovation appeared to provide a means of overcoming a significant geographical problem — namely its peripheral position in relation to the main action in the housing market, and to maximising its perceived potential competitive advantage of being based in a low cost location for mortgage production. By appealing to its longstanding regional roots and through contributing to regional good causes and corporate sponsorship, the company established a consensus that

facilitated demutualisation. Through an alignment of regional elite and plc financial interests associated with originate and securitize forms of organisation, Northern Rock became an extension — albeit fragile and ultimately temporary — of a form of City of London-based growth. The dependence of the company on regionally-embedded, amateur business elite that did not fully understand the business it was operating and the risks it was taking was central to the ultimately flawed corporate strategy with a high risk, extreme dependence on external funding that ultimately brought the company down. In sum, through analysis of the experience of Northern Rock we have been able to tie down the abstract space of flows that characterise the financial sector and demonstrate that — far from a placeless managerial failure as it was presented at the time (Treasury Committee, 2008) — the explanation of the crisis at Northern Rock is an inherently geographical story. Through engaging the particularity of place, we are able to explain the specific ways in which regulatory change, institutional evolution and social agency shaped the nature and terms of engagement of Northern Rock with the international financial system and the City of London. This place-sensitive account is unlikely to be unique to Northern Rock, the strong local roots of the other demutualised institutions in the UK, and the small size and spatial concentration of their branch networks (with the exception of the Halifax), which limited access to retail deposits and encouraged involvement in wholesale financial markets and novel forms of lending, suggests that exploring financial geographies will facilitate a deeper understanding of the recent banking crisis.

More widely, this analysis of Northern Rock highlights the way in which the spatial integration of financial markets during the last thirty years has reduced the diversity of the geographical ecologies of finance and intensified the impact of the credit crunch and banking crisis (Leyshon et al, 2006). Haldane (2009) argues that a collective pursuit of high returns through similar business models both increased the homogeneity of and convergence in the financial sector and made an important contribution to the recent financial crisis. In 2003, Marshall et al (p.754) argued,

Mutual institutions offer an important element of diversity in the personal financial services sector. Based outside London, with strong community ties and a commitment to social responsibility mutual building societies are likely to be more sensitive than other institutions to the needs of their local

communities ... Their reliance on internally generated income for expansion also means they are not subject to the same extent to the 'herd instinct' that at times characterises other financial institutions.

This insight endures and is supported by a report from the Oxford Centre for Mutual and Employee-owned Business (Michie et al, 2009) that argues lack of access to significant external sources of capital, combined with the knowledge that capital cannot easily be replaced, insulates mutual building societies from the short-term pressures of the capital market and encourages them to adopt a lower-risk and more sustainable approach to the business.

The account of Northern Rock's demutualisation, rapid growth, collapse and nationalisation, in common with the demise of other convertor building societies, has parallels with previous financial crises. A speculative bubble was driven by a pervasive sense that financial innovation had transformed the rules of the game, that financial leverage facilitated new and easy ways of making money, and opened up opportunities for significant personal financial rewards. All 11 societies that demutualised have subsequently lost their independent status. A number have been absorbed into remaining institutions (eg Woolwich became part of Barclays; Abbey National acquired National and Provincial and Alliance and Leicester before itself becoming part of Banco Santander; Halifax absorbed Birmingham Midshires and Leeds Permanent before ultimately becoming part of the Lloyds Banking Group), and the state has taken a significant stake in or nationalised other institutions. Bradford and Bingley's mortgage book was nationalised in 2008, and its retail savings transferred to Abbey National. Lloyds Banking Group, which previously acquired the Cheltenham and Gloucester building society, is currently part state owned, while Bristol and West was acquired by the Bank of Ireland and is now no more than a trading name with its retail savings transferred to the Britannia Building Society. The latter has joined the Co-operative Banking Group, in a move potentially strengthening alternatives to the plc banking model. Reviewing the evidence on Northern Rock's collapse in the light of the broader experience of other institutions in the sector draws attention to the role of diversification away from core business into areas where institutions had little experience, like the thrifts in the Savings and Loans crisis in the US. While a number of convertors failed because they diversified into new areas of

risky business such as commercial property and sub-prime lending, Northern Rock's mistake was to diversify into new sources of risky funding.

But this paper is not a eulogy for mutuality because not only was mutualism undermined by management and membership greed and indifference, but the financial crisis has also created a number of serious challenges for the remaining building societies. Low interest rates have put pressure on society's interest rate margins, especially where loans are tied to the Bank rate. The cost of attracting wholesale funding has increased, and competition to attract retail funding has intensified. Societies have also been affected by losses associated with the deterioration of the commercial property and buy-to-let markets, and the collapse of the Icelandic Banks (HM Treasury, 2010). This increased financial stress has pressured societies to improve their capital base, and several, mostly smaller building societies, including the Barnsley, Catholic, Chelsea, Chesham, Cheshire, Derbyshire, Portman, Scarborough and Stroud and Swindon have been absorbed by larger societies, while the West Bromwich and Dunfermline have had to be rescued. Most striking was the Dunfermline Building Society which got into serious difficulty and was expected to make losses in the region of £24 million in 2008 associated primarily with diversification into risky commercial property, and self-certified mortgages purchased through Lehman Brothers and GMAC-RCF, which resulted in it being broken up with the Nationwide taking over the retail and wholesale deposits, head office, branches and the viable part of its mortgage business, while its commercial loans and acquired residential mortgages were placed in administration (Scottish Affairs Committee, 2009). Marshall, et al. (2003) argued that the response of the remaining mutual organisations to the conversion of the larger building societies included the development of a more commercial approach to their business. For many this involved a rejuvenation of their mutual roots, providing a mutual dividend to their members, but some displayed behaviour similar to the institutions that had converted to plc banks, diversifying into new areas with higher risk profiles that were beyond the capacity of the organisation to support (Treasury Committee, 2009). However, as Barnes and Ward (1999) argued, the constraint imposed by the 50% reliance on retail savings required by building society legislation ultimately limited the damage. Nevertheless, the much reduced building society sector is now heavily dependent on the future of the Nationwide, which accounts for 57% of the assets, and which in June

2010 announced 565 job losses associated with the integration of the Derbyshire, Dunfermline and Cheshire societies into the company.

Finally, we would like to return to the dominant geographical theme of the paper. Mutually owned building societies were important, established regional employers. Their conversion to plcs and then rapid growth has had a significant impact on regional financial sectors during the last two decades, and demutualisation, the credit crunch and banking crisis are now resulting in a round of redundancies and consolidation, arguably tightening their connections to the City of London. We have examined one of these institutions in some detail, and we conclude that there are interesting parallels between the new risky and illusory finance-based growth at Northern Rock, and previous rounds of economic development in the North East. Northern Rock grafted on to its existing head office and IT centre a financial call and administrative centre and echoed the historical role of the region in the division of labour where it has relied on call and administrative centres in the public and private sector to replace traditional heavy industrial and manufacturing branch plant decline. A common theme of these rounds of investment has been the reliance of the region on routine and relatively low cost labour of various types that is vulnerable at times of crisis. Thus, an important conclusion of the study is continuity in geographical patterns of uneven development. The paper highlights the role of corporate strategists and strategies in reproducing uneven development in the search for profit, and this reinforces our earlier insight that other geographically-inscribed accounts of the financial crisis are waiting to be explored.

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Table 1: Major Changes in Legislation and Regulation affecting Building Societies

1962	Building Societies Act - delimited the activities of building societies to mortgage lending using retail funding.
1979	Ending of exchange controls.
1980	'Report of the Committee on the Functioning of Financial Institutions' argued collective 'cartel' arrangements gave building societies an artificial competitive advantage and had negative impacts on the mortgage markets.
1980	Ending of the 'corset' (Supplementary Special Deposit Scheme) introduced to curb bank lending.
1981	Scrapping of building society exemption from Competition and Credit Control legislation
1981	Abolition of reserve asset requirement requiring banks to lodge at least 12.5% of their deposits in a specified range of liquid assets.
1982	Ending of hire purchase restrictions.
1983	Collapse of the building society cartel.
1983	Building societies given access to wholesale money markets.
1983	Building Societies Association report 'Future Powers of Building Societies' argued they should be allowed to undertake a wider range of activities, and conceded that building societies should no longer operate as a cartel.
1984	Green Paper 'Building Societies: A New Framework' closely followed the earlier BSA report.
1986	Building Societies Act - societies allowed to diversify into new markets and participate in wholesale money markets up to 25% of their total deposits and demutualise. Established a Building Societies Commission responsible for regulation.
1986	Withdrawal of mortgage lending guidelines.
1987	Schedule 8 clarifies Building Societies Act. Societies able to buy life assurance companies, own up to 15% of a general insurance company, offer full fund management services and a wider range of banking services.
1991	Composition tax on building societies deposits abolished. Deposits charged at basic rate of tax.
1994	Stage one of a review of the 1986 Act announced that new powers to be granted to building societies. Societies can increase their wholesale funding limit from 40% to 50% of funds, establish subsidiaries to make unsecured lending and the power to own life insurance companies.
1995	Stage two of the review of the 1986 Act confirmed that building societies to be allowed to pursue any activities allowed in their memorandum of powers, so long as they raise at least 50% of their funds from members and at least 75% of their lending is secured on residential property.
1996	Government announces it will enact legislation to reduce restrictions on building society activities and confirms the 50% and 70% limits on fund raising and lending. The new rules allow building societies to put 25% of their lending into any asset, as long as it is able to convince the Building Societies Commission that it has sufficient financial and managerial resources to take on the activity. Societies wishing to merge while remaining mutuals were to be protected from hostile take-over.
1997	A new Building Societies Act amended the 1986 Act. This was less restrictive concerning the principal purpose of a building society (which under the 1986 Act restricted societies to the making of loans which were secured on residential property and funded by members). The new emphasis followed more closely the legal frameworks set out under the Companies Act and the Banking Act.
1999	A change to the rules regarding the voting threshold required to force a society to convert. For a conversion vote to be put by the Board to be passed it must have

- support from 75% of savers, and a majority of borrowers on a 50% turnout.
- 1999 Changes to secondary legislation increase the number of members required to propose a Member's Resolution from 50 to a maximum of 500; to call a Special General Meeting from 100 to 500; to nominate a Board candidate up to 250 members in a large society.
- 2000 Financial Services and Markets Act consolidates previous building society legislation and incorporates societies under the regulatory umbrella of the Financial Services Authority.

Table 2: Demutualisation in the Building Society Industry, 1989-2000

1989	Abbey National converts to a plc.
1995	Lloyds Bank take-over of Cheltenham & Gloucester building society.
1996	The take-over of the National & Provincial Building Society by the Abbey National.
1997	Alliance & Leicester converts to a plc.
1997	Halifax and Leeds Permanent merge and convert to a plc.
1997	Woolwich converts to a plc.
1997	Northern Rock converts to a plc.
1997	Bristol & West take-over by the Bank of Ireland.
1999	Birmingham Midshires taken-over by the Halifax.
2000	Bradford and Bingley converts to a plc.

Source: Building Societies Association web site

Figure 1



