

British banks: Feeding frenzy at taxpayers' expense

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Two former Scottish banking executives, Sir Peter Burt and Sir George Mathewson, have announced a bid to take control of the failed bank HBOS to stop the government-brokered takeover by Lloyds TSB and keep it “independent”. This independence is to be paid for with billions in government cash taken out of the pockets of working people.

The move provides a revealing insight into how the financial elite see the government's £500 billion bailout of Britain's banks as an opportunity to enrich themselves, the shareholders and the legions of financial advisers. It is only one of many such examples that have come to light in the past week.

When Britain's largest mortgage lender HBOS faced financial collapse last September, amid plummeting bank shares globally, Prime Minister Gordon Brown stepped into the breach and brokered a rescue. He offered Lloyds TSB the chance to take over HBOS and gave it a dowry, overruling any objections from the monopoly watchdog that the combined bank would significantly reduce competition. Lloyds TSB/HBOS would have 30 percent of personal accounts and mortgages and 40 to 50 percent of small business services in Scotland, under conditions where retail banking is already highly concentrated.

Within days of this rescue, however, the entire banking system was on the brink of collapse and the government was forced to rush in with the £500 billion rescue package. It would provide hundreds of billions in loan guarantees and credit facilities, and buy preference shares worth £5.5 billion in Lloyds TSB, £11.5 billion for HBOS (equal to 54 percent of its equity base), £20 billion for the Royal Bank of Scotland (RBS), and any other banks in need.

This changed everything, as far as the two banking knights, Burt and Mathewson, were concerned. With taxpayers' money on the table, HBOS could now go it alone and spurn the Lloyds rescue. Burt and Mathewson wrote to HBOS's chairman, demanding that the two should replace HBOS's new chairman and chief executive. They said, “It is Lloyds not HBOS that is being bailed out by the takeover”. This is because the government has said that without the takeover, Lloyds TSB would need a £7 billion handout from the government, equivalent to 63 percent of its equity base, proportionately

more than HBOS.

Burt and Mathewson are trying to argue that HBOS, with government money, is now a viable proposition on its own and as a result Lloyds TSB is paying far too little for HBOS, which is nearly twice the size of Lloyds. They are wrapping the Scottish flag around their bid. Keeping HBOS “independent”, they say, will preserve Scottish jobs and keep Edinburgh as a major financial sector.

Scottish National Party leader Alex Salmond has jumped on the bandwagon, heaping praise on Burt and Mathewson, calling them, “The two outstanding figures in the Scottish financial sector over the last generation, and therefore their views command respect”.

All claims of independence and saving jobs are false as the bank in any form will be dependent upon British and Scottish taxpayers' cash. Jobs will be slashed throughout the country, whichever management team is in control. Moreover, while HBOS and RBS may have Scottish names, most of their jobs are located outside Scotland.

Burt and Mathewson have started a campaign to gain support of 10 percent of shareholders for an emergency meeting to oppose the takeover. But they will need a 75 percent majority to replace the current management team.

The two have little to say about how much extra cash HBOS would need if it were to go it alone. This will be very much more than the £11.5 billion already pencilled in, pushing the government's share up to 80 percent. To expose just how unviable an independent HBOS would be, Lloyds has let it be known that it has already loaned HBOS £10 billion to cover write-offs of asset-backed securities. This is on top of the government's £17 billion handout thus far.

It is not just HBOS's shareholders who are trying to cut a better deal for themselves, Lloyds' shareholders also feel they are getting a raw deal. They argue that Lloyds is paying far too much for HBOS as HBOS's loan book is secured against the property sector that has turned sour, and the bank has investments in construction companies that are in restructuring talks.

The chief executives of Lloyds TSB and RBS have, in addition, made clear how little is being asked of them in return for government cash. Lloyds' chief executive Eric Daniels said

that he did not expect the government to “have an impact on our lending policies or conduct of business”. Both banks intend to redeem the government’s preference shares early in order to pay dividends to their ordinary shareholders. If they do so within six months, they will be able to do so at 101 percent of face value, far more generous terms than would normally be demanded by any private investor.

The government has also pulled back on having representatives on the boards of the nationalised banks. It now appears that the Treasury will be able to do little more than veto boardroom appointments. The newly ennobled Peter Mandelson, who resigned from his post as European Union commissioner for trade to become business secretary, said that the government would manage its bank shareholdings at “arm’s length”.

Stephen Hester, currently deputy chairman of Northern Rock, nationalised in February, and soon to take over as CEO at RBS, indicated that government interference at Northern Rock has been minimal.

RBS, forced by the government to sack its top executives as a condition of the bailout, has hired Hester on a salary of £1.2 million, a 50 percent increase on his previous salary at British Land, and an award of RBS shares, worth £6.7 million, to enable him to buy out his British Land shares bought at the top of the property cycle. Hester has made it clear that thousands of jobs will go in a bid to cut costs, as a result of the Bank’s past follies. Write-downs and losses would have been even greater had RBS not taken advantage of new accounting rules designed to help banks through the crisis.

RBS is not the only bank to offer its new chief a huge salary. The HBOS chief, Andy Hornby, sidelined in the Lloyds takeover, is to be offered a £60,000 a month “consultancy fee” to “assist with integration-related matters”. Up to 40,000 jobs out of the total 140,000 could go to find an anticipated £1.5 billion cost savings.

The government’s hands-off approach to the banks has led shareholders and the City to criticise Barclays’ high-cost £7.3 billion recapitalisation deal with the Qatari and Abu Dhabi Sovereign Wealth Funds in a bid to escape “Treasury control”. Just one adviser, Amanda Staveley, collected £40 million for brokering the deal.

Far from being chastened by the banking collapse, access to the Treasury’s coffers has only served to increase the banks’ rapaciousness. Whereas all lenders used to follow the Bank of England’s base rate, they have opposed government demands to cut the cost of borrowing and make loans available to homeowners and small businesses desperately short of working capital. This is despite falling interest rates and hundreds of billions of pounds in loan guarantees and other government-backed credit facilities.

Twenty banks and building societies have withdrawn their tracker mortgages, which automatically move up and down in line with the base rate. The rest are expected to do so soon, or

else increase the size of the “collar” so that they do not have to pass on rate cuts when the Bank rate falls below that level. Halifax, part of HBOS, already has a 3 percent collar clause in its contracts, affecting 500,000 home owners. Withholding a cut of just 0.25 percent could increase their income by £140 million at the expense of homeowners. Halifax has already been criticised for charging increasingly high margins on loans. According to Moneyfacts, its mark up has risen by 1.03 percentage points over the last two years.

By Thursday evening, after the Bank of England had cut the minimum lending rate by 1.5 percentage points to 3 percent, only Lloyds TSB and Abbey had passed on the interest rate cut in full to their customers. But even this was a mirage: earlier in the week Abbey had increased the margin on its tracker mortgages and then tried to take the credit for “passing on the full rate cut”.

Just to get some idea of the scale of this avarice, the 1.5 percentage cut is worth more than £4 billion to the 2.5 million borrowers with tracker mortgages, or £166 a month on a typical £200,000 loan.

It was only after Chancellor Alastair Darling called in the banks to a meeting at the Treasury to demand they pass on lower interest rates to their customers, and threatened to take “prescriptive” measures to force them to do so, that most of them reluctantly agreed. Barclays and HSBC held out, feeling no obligation to heed either banking practice or the government’s demands, as they had not been recapitalised by the government.

The banks nevertheless made clear that this was as far as they were going. They told Darling that they would not pass on any future interest rate cuts, saying, “We are not charities”.

The latest cuts were a “line in the sand”. “Base rates are now so low that our margins are desperately small,” said one bank executive. “This point was made quite clear to the Chancellor by several of the executives—we are not charities.”



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