Bank of England made secret £62 billion loans to bankrupt banks

Jean Shaoul
30 November 2009

Bank of England governor Mervyn King has revealed for the first time that in October 2008 the Bank had lent Halifax Bank of Scotland (HBOS) and the Royal Bank of Scotland (RBS) £62 billion. These loans, issued at the height of the international banking crisis, were to prevent the collapse of not only the two banks but the entire banking sector.

King told the House of Commons Treasury Select Committee that the Bank had acted in its capacity as the lender of last resort in order "to prevent a loss of confidence spreading through the financial system as a whole." Deputy Bank governor Paul Tucker told the MPs that the additional funds in the form of Emergency Liquidity Assistance for RBS and HBOS were necessary to buy time. "This was a dire emergency," he said. A spokesman for the prime minister said that it was "a powerful reminder" of how the banking system had nearly collapsed.

The Bank of England, the Treasury, the government and the banks themselves have kept these loans secret for nearly a year. To do so they took advantage of new legislative powers passed in February 2008. RBS had received emergency cash that peaked at £36.6 billion and HBOS had drawn on £25.4 billion of government funds—the largest ever support provided to British corporations. In return for the £62 billion loans, they had provided the Bank of England with collateral of £100 billion. This alone indicates how little faith the Bank had in their balance sheets. But as well as residential and commercial mortgages, a significant portion of the collateral was in the form of the government's own debt.

It was also revealed that Chancellor Alistair Darling had agreed to underwrite the Bank's loans in the event of HBOS and RBS defaulting on their repayments. Darling defended the secret loans, saying in an emergency statement to parliament that any disclosure or leak of the operations would have seriously jeopardised the financial stability of the system as a whole.

Following the collapse of Lehman Brothers on September 12 last year, the global financial markets were in meltdown. The US government had stepped in to rescue the giant AIG insurance company and announce a $700 billion rescue package for the banks. By the end of the month, banks and mortgage lenders were failing in Britain, Iceland, Denmark, Germany and Belgium. So great was the crisis in Ireland that the Irish government guaranteed all deposits in its domestic banks, including the subsidiaries of overseas banks. This intensified the crisis for British banks, which faced a flight of depositors to Ireland.

Prime Minister Gordon Brown had already waved through a takeover by Lloyds TSB of the beleaguered mortgage lender HBOS on September 18, in breach of competition rules on concentration in the sector. Two weeks later on October 5, the British government conceded that HBOS and RBS were bust when it announced that it would part nationalise them at a cost of £37 billion. The rescue was in addition to other measures of financial support made available to the entire banking sector under the £200 billion Asset Purchase Scheme and £250 billion Credit Guarantee Scheme.

Now it has been revealed that days later, the Bank of England made an additional £62 billion line of credit available to the two banks because, despite the emergency measures, interbank lending had all but dried up, the financial institutions were calling in their loans to HBOS and RBS, and the London Stock Exchange was in turmoil, threatening financial meltdown. Without the aid, the banking system would

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have had to close the following Monday, fomenting even greater panic.

The revelation of the secret £62 billion loans follows longer-term bailout deals agreed to by the two banks a few weeks ago that made the rescue of RBS the world's largest corporate bailout. The secret loan to HBOS was a sweetener to ensure that Lloyds took over the bankrupt mortgage lender. On the back of all these government subventions, Lloyds is to launch the largest global rights issue to raise £13.5 billion and a complex and unprecedented £9 billion scheme to convert debt into equity should losses eat into its capital ratios. In effect, Lloyds bondholders will be paid interest on the strength of the government bailout measures.

To put this in perspective, the £62 billion loan to the two banks is more than all the money spent on schools and nearly as much as the entire budget for the armed forces, police, courts and prison services.

When challenged as to why the Bank had not announced the loans earlier, King said he had "carefully considered the public interest case for disclosure," but had decided that the assistance should only be revealed, "Once the Bank considers that the need for secrecy has ceased."

Maintaining that the revelations were delayed until the economic crisis had been averted is mere spin. All the international institutions have warned that the banks have declared less than half their likely losses on their speculative trading. The IMF has stated that British banks are expected to write down a further £1,500 billion by the end of 2010, more than the entire UK GDP.

In reality, according to the *Scotsman*, a Whitehall official said that the Bank was bounced into making the announcement in order to pre-empt its "outing" in a highly critical report by the National Audit Office, the parliamentary watchdog, into the government's rescue of the banks, due to be published next week.

The revelation of the secret loans demonstrates how completely government functions as a servant of the financial oligarchy. Britain's much vaunted financial sector was in meltdown and the Labour government was ready to do whatever it took to save it. To this end it gave over historically unprecedented sums of money clawed from working people in the form of taxes and mortgaged their future for years to come.

None of this was ever put to the vote. Now it has been disclosed that tens of billions was handed over in a deal stitched up behind closed doors between the government and the bank bosses and invisible to all in the Bank's accounts. When questioned, Lord Myners, the City minister, denied that the "books were cooked," saying the Bank of England's accounts were audited and showed the impact of the support. Significantly he added that the European Central Bank and the Federal Reserve had carried out similar covert operations.

All the main political parties and press commentators have supported the Bank's secrecy. The *Financial Times*' leader opined that "Such good deeds can only been done in the dark". Indeed, the only concern expressed by the FT is not over the defrauding of the taxpayer but that Lloyds shareholders were misled when they bought up HBOS. "In finance, the authorities must sometimes act under cover," it declared, "but they must then make conscious efforts to protect investors."

In similar vein Jim Cousins, a Labour MP on the Treasury Select Committee, expressed his concern that "Shareholders have been mugged."

It is rather the case that the working class has been mugged in order to guarantee the unearned wealth of the major "shareholders." For the last 12 years, the Labour government has taken its instructions from the City and done everything it could to foster the growth of London as the centre for the most speculative forms of finance. The massive banks bailouts have provided a vast new source of wealth for the banks, while the government has given the green light for them to resume business as usual. This will only prepare the way for another and bigger financial crash.

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