

# IBC16's Bad Bank Bulletin

## UKAR UK Asset Resolution

### BACKGROUND OF THE COMPANY

During the global financial crisis, Bradford & Bingley plc ("B&B") and Northern Rock [two of the UK's largest mortgage lenders] began to weaken drastically due to the breakdown of the housing and financial market. Both the businesses faced severe funding problems, and to deal with the crisis, the UK government established UK Asset Resolution Limited ("UKAR") in 2010.

The objective of UKAR is to bring together the government-owned businesses of B&B and Northern Rock (Asset Management) plc [known as NRAM plc since 2014], and wind down and maximize the return on the £115.8 billion in closed mortgage books that the government had taken from B&B and NRAM plc.



To manage UKAR's portfolio of mortgage-backed securities and commercial loans, Her Majesty's Treasury ("HM Treasury") and Financial Services Compensation Scheme ("FSCS") provided £48.7 billion in funding to the company. Of this £48.7 billion, £33 billion was borrowed from HM Treasury, and £15.7 billion was borrowed from FSCS.

UKAR is wholly owned by HM Treasury, which is the UK government's economic and finance ministry. The shareholdings of UKAR are managed by UK Government Investments Limited ("UKGI"). The structure of functioning is enumerated in the [framework document](#) agreed between UKAR and UKGI. B&B and NRAM plc are required to adopt and abide by the requirements of the document.

B&B was taken into public ownership in 2008, with funding being primarily provided by the HM Treasury. Along with the HM Treasury, B&B was also funded with a loan of £15.7 billion by FSCS. Northern Rock was nationalized and taken into public ownership in 2008, and it was restructured into two legal entities — Northern Rock plc (which was subsequently sold to Virgin Money) and NARM plc (which retained the majority of pre-existing mortgage book and unsecured loan accounts).

## AIM AND OBJECTIVES OF UKAR

The core mission of UKAR is to *"Maximise Value for the Taxpayer"*, while simultaneously ensuring fair treatment to the customers and delivering high levels of service to the customers facing financial difficulty. The vision of UKAR is *"Achieving Success Together"*. The overarching objective of UKAR (as enumerated in the [framework agreement](#) between UKAR and UKGI), are three-fold:

- Monitor the impact of restructuring transactions on financial stability.
- Maximize sustainable value for the taxpayer.
- Promote healthy competition for the customers' benefit.

## COMPOSITION OF THE BOARD

A common Board of Directors is shared by UKAR, NRAM plc, and B&B, which consists of a Chief Executive, a Chairman, Non-Executive Directors, and a Managing Director Designate.

The following are the key personnel:

- Ian Hares — Chief Executive Officer
- John Tattersall — Non-Executive Chairman
- Sue Langley — Senior Independent Director
- Brendon Mcdonagh — Non-Executive Director
- Keith Morgan — Non-Executive Director
- Brendon Russel — Non-Executive Director
- Holger Vieten — Non-Executive Director
- Mark Wouldhave — Managing Director Designate

## FUNCTIONING, POWERS AND DUTIES OF UKAR

The scope and duties of UKAR are much narrower when compared to other asset management companies. It is merely restricted to being in charge of the portfolios of the two businesses. Since these portfolios were closed, UKAR is not required to write any new loans or issue new mortgages.

Furthermore, UKAR is not authorized to allow the customers to extend the original term of their mortgages. The functions of UKAR can be understood in a two-fold manner:

- Manage and monitor the performance of thousands of mortgages.
- Dispose off and wind down the portfolios without affecting the real estate markets.

About the evaluation, UKAR is subject to audits through its Audit Committee, which publishes the results of the audits in the annual reports. Due to the restricted scope of UKAR and a small number of stakeholders involved, there hasn't been much evaluation of UKAR, apart from the audits.

Though being supervised and managed by UKAR, both the nationalized institutions continued to function as separate legal entities and operate in an individual capacity. UKAR is the sole shareholder of both entities.

## TOTAL ASSETS UNDER MANAGEMENT

At the time of its establishment, UKAR had a balance sheet of £115.8 billion worth of assets combined from B&B and NRAM plc. This consisted of commercial mortgages, residential mortgages, mortgage-backed securities, and unsecured loans. Till [March 2019](#), UKAR managed to reduce this gigantic amount to a mere £11.4 billion through assets sales, natural run-off, and loan redemptions. This was further brought down to £6.4 billion up till [March 2020](#).

In UKAR's early years, there were talks to bring in additional "bad banks" from other financial institutions such as the Royal Bank of Scotland under the purview of UKAR. However, it could not be materialized and UKAR was only responsible for the initially prescribed assets. There was no specific constraint on the kinds of assets UKAR could manage, but it primarily dealt with residential and commercial mortgages, mortgage-backed securities, unsecured loans, and related derivative products.

Moreover, while managing the assets, UKAR has also been able to effectively make a profit every year through several competitive sales, buy-backs, and loan redemptions. Till [March 2019](#), the company was able to turn a profit of approximately £8.1 billion.

## THE SUCCESSFUL RUN OF UKAR

In [February 2021](#), UKAR closed a decade-long chapter of state ownership with the sale of its final mortgage of the portfolio. Throughout the course of 11 years, it successfully discharged the asset portfolios of both the nationalized entities into the private sector. The following are the significant deals entered into by UKAR to achieve its overarching objective:

- In [November 2015](#), UKAR agreed to sell £13 billion worth of asset portfolios (residential mortgages and unsecured loans) to affiliates of Cerberus Capital Management LP (Cerberus). This sale brought the UKAR balance sheet down to £73.5 billion (63%) from the inception amount, thereby accelerating the repayment of the government loans.
- UKAR announced the sale of £12 billion worth of mortgages (in 2017) and £5 billion worth of mortgages (in 2018) from the books of B&B. These sales, together, enabled the full repayment of the £15 billion loans borrowed from FSCS in the early years.
- During [April 2019](#), UKAR agreed to effectuate the sale of £4.9 billion worth of portfolios (owner-occupied mortgages and unsecured loans) of NRAM plc to Citi (an investment bank), through an open and competitive sales process. The sale proceeds enabled the full repayment of the loans provided by HM Treasury to NRAM plc and B&B.
- Most importantly, during [February 2021](#), UKAR agreed to sell the issued share capital and remaining mortgages of NRAM plc and B&B to a consortium comprising Citibank and Davidson Kempner Capital Management LP. The significance of this sale could be understood from the fact that it brought to a close the government's ownership of NRAM plc and B&B, with the loan fully repaid and the regulatory responsibility for the companies transferred to the private sector.

UKAR would remain under government ownership and would be responsible for discharging the contractual obligations and other liabilities to the buyers. It is pertinent to note that UKAR will no longer have employees and the discharging of obligations would be undertaken on an outsourced basis by PricewaterhouseCoopers LLP.

Through proper planning and effective implementation of the strategies, UKAR completed its objective in a very short span of time (much earlier than predicted), setting a perfect example for other Bad Banks.

### **UNIQUE FEATURES OF UKAR AND LESSONS FOR NATIONAL ASSET RECONSTRUCTION COMPANY LIMITED (“NARCL”)**

An important element of all the transactions entered by UKAR was the fair treatment to all the customers. The protection of customers was the utmost priority of the company. All the bidders had to agree to a non-negotiable package of customer protections for their bid to be considered. There was no change in the terms and conditions of the mortgages, and the customers were duly contacted to intimate the change of ownership. In all the [Press Releases](#), UKAR stated, “Fair treatment to the customers” to be the most significant consideration while determining the bids.

NARCL must also ensure that its functions and transactions are directed towards the protection of the customers. Following the footsteps of UKAR, similar non-negotiable agreements of customer protections could be drafted and implemented by NARCL.

Furthermore, UKAR, along with discharging its functions, partnered with several participants in the debt-help industry, by outsourcing and brokering numerous sales to third-party institutions to better assist its customer base. Such partnerships and strategies helped to widen the options available to the customers under financial stress. One such example would be the partnership between UKAR and Payplan, wherein Payplan would create a Debt Management Plan to reduce the monthly payment stress on the customer. Further, they would reimburse the customers for any of the inappropriate selling of the Payment Protection Insurance (PPI).

Similarly, NARCL could partner with third-party debt advice companies, who could efficiently (and in a more personal manner) guide the customers to pay their debts and mortgages. Such partnerships could be more successful in a country like India with a vast population and customers spread across the country. Third-party institutions would be able to effectively reach the desired customers and guide them in their way out of the debt.

Another unique strategy adopted by UKAR was the establishment of its subsidiary company UKAR Corporate Services Limited to buy Mortgage Guarantee Schemes on behalf of the HM Treasury. Later, the government transferred the administration of such schemes to the National Savings and Investments (a state-owned savings bank in the UK). NARCL could also follow the footsteps of UKAR if the circumstances demand so in India. Delegating the powers and operations to subsidiaries and other institutions would help smoothen the functioning and effective implementation of the strategies.