

Bank braced for more withdrawals

page 2/2

News Story

However it cannot be certain whether much more will be withdrawn in the coming days, especially from holders of Northern Rock's postal accounts - which contain about £10bn.

The City watchdog, the Financial Services Authority (FSA), has backed comments from the Treasury, saying it is confident Northern Rock is solvent and savers could continue to deposit and withdraw funds.

The BBC has learned that two banks were very interested in acquiring the beleaguered firm. However, they were concerned about doing such a big deal amid turmoil in money markets and when it was difficult and expensive to raise money from other banks and financial institutions.

Chancellor Alistair Darling said the emergency lending facility offered to Northern Rock would be transferred to any new owner.

However once the facility expires - and the Bank will not make the expiry date public - there is no guarantee it would be extended for the new owner.

"Most bidding banks will remain nervous about taking on a balance sheet of Northern Rock's size with the risk hanging over it of needing to refinance a large chunk of loans from the Bank of England at short notice in markets which may remain frozen," Robert Peston said.

Summer markets

Northern Rock's realisation that selling the bank had become impossible in current market conditions, persuaded the board to approach the Bank of England and ask for access to emergency loans, he added.

"Plainly, a takeover would have been a less humiliating option. But it just couldn't be done."

Northern Rock has struggled to raise money to finance its lending ever since money markets seized up over the summer.

Unlike most banks, which get their money from customers making deposits into savings accounts, Northern Rock is built around its mortgage business.

It raises most of the money which it provides for mortgages by borrowing from banks and other financial institutions.