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Financial Crisis Timeline

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Summary

This Standard Note provides a brief history of the events that took place during the financial crisis. It is (now) largely of historical interest and reflects the language and findings of the time. For example, what is now called the financial crisis, was then commonly called the credit crunch.

The origins of the crisis are widely believed to have their roots in the 'sub-prime' mortgage market in the US, although the extent to which this caused the crisis, or whether it merely triggered it, is disputed.

In the UK, what began as a withdrawal of liquidity from financial markets in August 2007, which initially affected certain banks, such as Northern Rock, turned into a more widespread solvency crisis as banks suffered large losses.

The most intense phase of the credit crisis was in September 2008, when the major US investment bank Lehman Brothers filed for bankruptcy. Governments and central banks significantly escalated their support efforts in response to, as the Chancellor of the Exchequer later described it, "a situation in which the world banking system was on the brink of collapse".

In the US, regulators rescued pillars of the financial sector such as the American Insurance Group and the mortgage giants Fannie Mae and Freddie Mac. In the UK, Halifax/Bank of Scotland and Royal Bank of Scotland received large-scale covert liquidity support from the Bank of England, as well as overt recapitalisation from the Government.

Inevitably, the financial crisis affected the 'real' economy and many countries experienced recession and falling asset markets. This caused further financial troubles in early 2009, prompting additional intervention by the authorities. After March 2009, there was an improvement in sentiment as markets stabilised and banks sought to raise capital and repair their balance sheets.

Although the very worst of the credit crisis is over, and exceptional prudential measures have been put in place to make the world's banks safer, specific banks remain vulnerable and several economies, notably Greece, continue to struggle to escape from their public debt burdens.

1. A brief history of the 'credit crunch'

The credit crunch is generally acknowledged to have had its origins in the US "sub-prime" mortgage market. Essentially, banks lent too much money to people who were unable to repay their debt.

Two particular examples of reported sub-prime lending practices included:

"NINJA loans" i.e. loans to people with No Income, No Job or Assets; and

"exploding ARM mortgages" (where ARM stood for Adjustable Rate Mortgage) — for the first few months, the mortgage rate would be very low (a "teaser rate"), before being "reset" at a sharply increased rate and remaining high, so causing mortgage payments to increase substantially and increasing the risk of default.

As a result, mortgage defaults started to increase rapidly, repossessions rose and house prices fell.

Many banks had significantly underestimated the risk that these defaults would affect them; they thought the "securitisation" (or repackaging and selling of mortgage portfolios) they had undertaken would protect them, by removing most of the risk from their balanced sheets. Many banks left the residual part of that risk, the low-risk debt called "super senior" debt, on their balance sheets.

However, the mortgage losses were much greater than banks anticipated; as a result, even the super senior debt was eroded, so damaging banks' balance sheets.

Further, the process of slicing up and repackaging of mortgages through securitisation also meant that it was very difficult to know where the "bad apples" were. As a result, investors did not discriminate and were instead fearful of all banks. As Mervyn King, Governor of the Bank of England, said:

> Securitised mortgages ... had been marketed during a period of rising house prices and low interest rates which had masked the riskiness of the underlying loans ... But in the light of rising defaults and falling house prices – first in the United States and then elsewhere – investors reassessed the risks inherent in these securities. Perceived as riskier, their values fell and demand for securitisations dwindled ... Banks had purchased significant quantities of securitised and more complex financial instruments from each other. Not only were these assets difficult to value, but the distribution of losses across the financial system was uncertain. Banks' share prices fell. Capital was squeezed.[1]

In addition, the process of securitisation meant that large bundles of US mortgages, some of which may or may not have contained the "toxic"

[1] Bank of England, Speech by Mervyn King, Governor of the Bank of England, to the CBI, Institute of Directors, Leeds Chamber of Commerce and Yorkshire Forward at the Royal Armouries, Leeds, 21 October 2008, p4

sub-prime mortgages were now held by banks across the globe, so helping the crisis to spread.

The extent to which the crisis was caused by the US sub-prime market, or whether it was merely a trigger for the credit crisis was questioned by economists at the US Federal Reserve in an analysis which has attracted widespread attention.

In their discussion paper, they said that they "found scant evidence of a direct channel of contagion spreading the U.S. subprime crisis abroad", which, acknowledging previous thinking, they admitted could be considered "surprising".[2]

They noted that even if there was a "direct channel of contagion", there were five "indirect" channels that caused the credit crisis:

> (1) a generalized run on global financial institutions, given lack of information as to who actually held toxic assets and how much;
>
> (2) the dependence of many financial systems on short-term funding (both in dollars and in other currencies);
>
> (3) a vicious cycle of mark-to-market losses driving fire sales of ABS [asset back securities], which in turn triggered further losses;
>
> (4) the realization that financial firms around the world were pursuing similar (flawed) business models and were subject to similar risks; and
>
> (5) global swings in risk aversion supported by instantaneous worldwide communications and a shared business culture. [3]

In conclusion, they said:

> The U.S. subprime crisis, rather than being a fundamental driver of the global crisis, may have been merely a trigger for a global bank run and for disillusionment with a risky business model that already had spread around the world.[4]

In January 2009, the Chairman of the Federal Reserve, Ben Bernanke, noted:

> The proximate cause of the crisis was the turn of the housing cycle in the United States and the associated rise in delinquencies on subprime mortgages, which imposed substantial losses on many financial institutions and shook investor confidence in credit markets. However, although the subprime debacle triggered the crisis, the developments in the U.S. mortgage market were only one aspect of a much larger and more encompassing credit boom whose impact transcended the mortgage market to affect many other forms of credit. Aspects of this broader credit boom included widespread declines in underwriting standards, breakdowns in lending oversight by investors and rating agencies, increased reliance on complex and opaque credit instruments that

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2 Kamin, Steven B. and DeMarco, Laurie Pounder, How Did a Domestic Housing Slump Turn into a Global Financial Crisis?, Board of Governors of the Federal Reserve System International Finance Discussion Papers Number 994, January 2010, p5

3 Ibid, p6

4 Kamin, Steven B. and DeMarco, Laurie Pounder, How Did a Domestic Housing Slump Turn into a Global Financial Crisis?, Board of Governors of the Federal Reserve System International Finance Discussion Papers Number 994, January 2010, abstract

proved fragile under stress, and unusually low compensation for risk-taking.[5]

[5] Federal Reserve, Speech — Chairman Ben S. Bernanke At the Stamp Lecture, London School of Economics, London, England: The Crisis and the Policy Response, 13 January 2009

2. The Credit Crunch: summary

2.1 Key Stages

The credit crisis is broadly acknowledged as taking hold in August 2007, and it is possible to crudely identify several key stages in the crisis:

Stage 1 — start of the liquidity crisis (August 2007):

severe liquidity issues affect financial markets after fears over the US sub-prime housing market were sharply exacerbated by the decision by BNP Paribas to freeze three funds exposed to the stumbling US subprime mortgage market. As a result of the liquidity squeeze, in September UK bank Northern Rock, which is heavily reliant on funding from short-term debt, experiences liquidity problems and has to resort to asking the Bank of England for support, news of which leaks, in turn leading to a run on the bank by its customers.

Stage 2 — banks face mounting losses (autumn 2007):

following the problems in the US sub-prime mortgage market, banks across the world reported large losses so weakening their capital positions. Further, banks were uncertain of the scale of their losses, with frequent revisions being announced; for example, in October Switzerland's UBS bank said that it had made a $4 billion loss on sub-prime mortgages, but in December had increased this estimate by $10 billion.[6]

Stage 3 — Bear Stearns and mounting problems (spring 2008):

Bear Stearns, a large US investment bank, requires emergency funding from the Federal Reserve before being bought by JP Morgan (for $10/share; Bear Stearn shares had traded as high as $172/share in January 2007), while central banks continue to provide extra liquidity and a number of UK banks undertake rights issues to bolster their capital positions.

Stage 4 — solvency crisis (Lehman Brothers collapses) and near-meltdown (Sept 2008):

Major US investment bank Lehman Brothers filed for bankruptcy, even though the US Government had decided to rescue the two federal mortgage suppliers the previous week, citing their "systemic risk". As a result, before the end of the month there is a frantic round of consolidation in the global banking sector (Halifax/Bank of Scotland acquired by Lloyds, Merrill Lynch taken over by Bank of America, and JP Morgan buying Washington Mutual) as banks at risk of collapse seek shelter from more stable counterparts. Meanwhile, Bradford & Bingley was broken up: its retail side was taken over by Santander and the mortgage and loan books were nationalised. After the collapse of Lehman Brothers, the US Government intervened to prevent American

[6] Financial Times, UBS Writedown, 11 December 2007

Insurance Group (AIG) collapsing. The Chancellor of the Exchequer, Alistair Darling, subsequently described it as "a situation in which the world banking system was on the brink of collapse",[7] adding that intervention "was necessary on a day-to-day basis simply to keep banks open and their cash machines operating".[8]

Stage 5 — emergency support (September 2008 to December 2008).

These measures included:

- Recapitalisation of banks by governments. A $700 billion bailout for the banking industry by the US, with $250 billion being used to buy stakes in banks. The UK Government provided capital injections of £37 billion into Royal Bank of Scotland, and Lloyds TSB and Halifax/Bank of Scotland.
- Additional measures to ensure general financial market liquidity are undertaken by central banks, while the Bank of England also undertook covert measures to support the liquidity of individual institutions, namely Royal Bank of Scotland, and Lloyds TSB and Halifax/Bank of Scotland.
- Governments provide additional guarantees for bank deposits: for example, in the UK, the limit was raised to £50,000 from £35,000, while in Ireland, the government provided an unlimited guarantee for all bank deposits in six large Irish banks.
- Financial regulators banned the short selling of shares of financial companies.
- Monetary policy support, including a coordinated rate cut by central banks including the Bank of England, Federal Reserve and European Central Bank. UK Bank rate fall from 5% in September 2008 to its lowest ever 0.5% by March 2009;
- Fiscal policy support; in the UK, this included help for small and medium sized companies and homeowners, and a cut in the VAT rate from 17.5% to 15%.

Stage 6 — partial relapse (January 2009 to March 2009):

There were renewed concerns about the stability of banks, as macroeconomic conditions worsened (in particular, negative economic growth in many countries including the UK) and stock markets fell. This prompted a second wave of financial support from governments, including, in the UK, a large-scale Government insurance scheme available to banks for losses on their existing loans (which Royal Bank of Scotland and Lloyds Banking Group participated in).

Stage 7 — slow recovery (April 2009 to date):

Confidence begins to return to financial markets, with asset prices rising aided by central bank support through quantitative easing. Banks continue to repair their balance sheets and seek to increase

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7 HC Deb 25 November 2009 c533

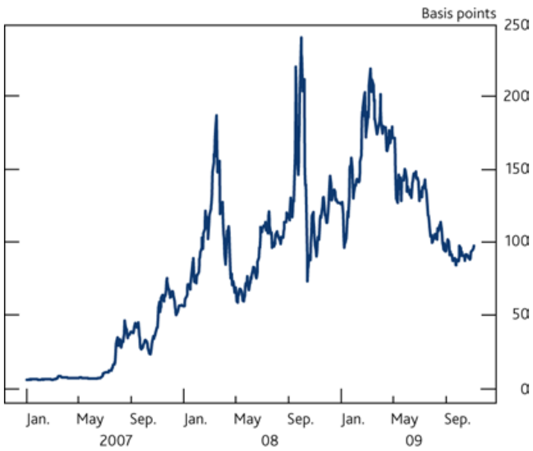
8 HC Deb 25 November 2009 c536-7

their capital, and the recovery in global stock markets assists their profitability. However, many of the supportive measures undertaken by governments and central banks during the depths of the crisis remain in place.

2.2 Credit Crunch statistics

The chart below shows the CDS (Credit Default Swap) premia for the major UK banks over time. The CDS premia is an indicator of the compensation investors require to bear the default risk associated with the debt of banks; the higher the premia, the greater the perceived risk of default.

I. Chart showing major UK banks' CDS premia



Source: Bank of England, *Inflation Report*, November 2009, p15, chart 1.12

The data show a weighted average of the CDS premia (at five-year maturity) of major UK banks, weighted by each bank's share in total assets.

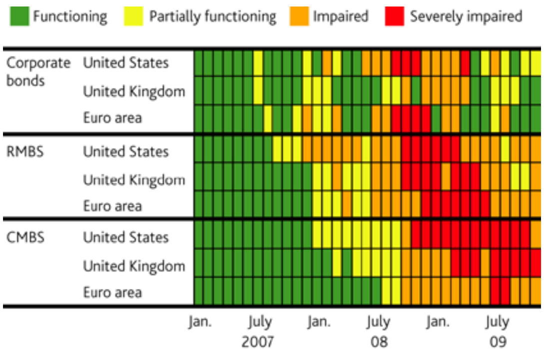
The three spikes in the CDS premia coincide with the greatest times of financial stress during the credit crisis. As can be seen, the CDS premia was very low before rising sharply in the summer of 2007, when the credit crisis began. It continued to rise, and reached its first peak around the time that Bear Stearns was subject to a fire sale to JP Morgan in March 2008.

The next, and highest peak, was in September 2008, when Lehman Brothers filed for bankruptcy. Although the CDS premia subsequently fell back, it began rising again in early 2009 as concerns escalated about the banking system in the face of a worldwide economic slowdown and tumbling financial markets.

Since the package of additional measures announced by governments around March 2009, the CDS premia has trended downwards, although it should be noted that it remains far above its levels before the credit crisis.

The chart below shows the functioning of primary markets for corporate bonds, RMBS (Residential Mortgage Backed Securities) and CMBS (Commercial Mortgage Backed Securities).

II. Chart showing primary market functioning



Source: Bank of England, *Financial Stability Report*, December 2009, p7, chart 5

Shading is based on a score that reflects issuance (relative to GDP) and spreads at issue, both expressed as a number of standard deviations from average. Standard deviations and averages were calculated using available data from January 1998.

As can be seen, primary markets overall have yet to return to their state before the credit crisis.

In its December *Financial Stability Report*, the Bank of England commented that markets for securitisation (i.e. RMBS and CMBS), which had been prevalent before the credit crisis, remained "impaired". However, conditions had recovered in some other primary markets, making it "easier for large, highly rated firms to raise finance and substitute for subdued domestic and foreign bank lending".[9]

2.3 Graphical timeline (NY Federal Reserve)

The Federal Reserve Bank of New York produced very helpful timeline showing the major events of the peak phase of the credit crisis.[10]

9 Bank of England, Financial Stability Report, December 2009, p6
10 Federal Reserve Bank of New York, Timelines of Policy Responses to the Global Financial Crisis, website

As well as providing a summary of the key events, the clustering of events on the timelines help to illustrate when the credit crisis was at its most intense. They produced two timelines:

- US timeline, covers the period between June and November 2007, showing the lead-up to and development of the crisis as well as subsequent government responses; it also includes some key non-US events.
- International timeline, which focuses on G-7 responses to the crisis in the key period September to October 2008.

3. The crisis timeline

2 April 2007: New Century Financial, one of the largest sub-prime lenders in the US, filed for Chapter 11 bankruptcy protection. New Century sought protection from creditors after it was forced by its backers to repurchase billions of dollars' worth of bad loans.[11]

17 May 2007: Federal Reserve Chairman Ben Bernanke said in a speech on the sub-prime mortgage market: "We believe the effect of the troubles in the subprime sector on the broader housing market will likely be limited, and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system".[12]

10 July 2007: The *Financial Times* reported that the Chief Executive of Citigroup, Chuck Prince, had "dismissed fears that the music was about to stop for the cheap credit-fuelled buy-out boom, declaring that Citigroup was 'still dancing'", adding he said that "the party would end at some point but there was so much liquidity at the moment it would not be disrupted by the turmoil in the US subprime mortgage market". Mr Prince said: "When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing".[13]

17 July 2007: Wall Street investment house, Bear Stearns, said that its two troubled hedge funds were virtually worthless following the bursting of the real estate bubble.[14]

19 July 2007: Federal Reserve chairman Ben Bernanke warned that the crisis in the US sub-prime lending market could cost up to $100bn. Giving evidence to the Senate, Mr Bernanke said that credit losses associated with sub-prime mortgage failures were "fairly significant".[15]

9 August 2007: as the financial markets fell back, investors feared that the credit problems that began with the US sub-prime mortgage market were accelerating. French investment bank BNP Paribas froze three funds because of the knock on effects of the sub-prime troubles.[16] Germany's IKB said that it was affected and there were also rumours of serious problems at WestLB, another German bank.

In response to the turmoil, the European Central Bank pumped €95bn into the credit markets to improve liquidity.

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11 Stephen Foley, "US mortgage lender New Century files for bankruptcy", *Independent*, 3 April 2007
12 Federal Reserve, Speech: Chairman Ben S. Bernanke — The Subprime Mortgage Market, 17 May 2007
13 *Financial Times*, Bullish Citigroup is 'still dancing' to the beat of the buy-out boom, 10 July 2007
14 Larry Elliott, "Bernanke warns on US housing market", *Guardian,* 18 July 2007
15 *The Guardian*, "US mortgage crisis could cost lenders $100bn, says Fed chief", 20 July 2007
16 *Financial Times*, BNP Paribas in surprise funds freeze, 10 August 2007

The US Federal Reserve said it was also putting $12bn of temporary reserves into the US banking system.[17]

14 August 2007: it subsequently emerges that on this date the Financial Services Authority (FSA) disclosed concerns about Northern Rock to the Treasury and Bank of England. See Chancellor's statement (HC Deb 11 October 2007 c462).

17 August 2007: the US Federal Reserve cut its primary discount rate (the rate at which it lends money to banks) from 6.25% to 5.75%.[18]

26 August 2007: in Germany, Sachsen, a Saxony-based bank with assets of €68 billion (£46 billion) owned partly by the regional government, announced that it was being taken over by Landesbank Baden-Württemberg (LBBW) after a previously attempted €17.3 billion bailout failed.[19]

3 September 2007: the German lender IKB Industriebank said it expected to lose around £473m as a result of its exposure to sub-prime mortgages in the US.[20]

4 September 2007: the London Interbank Offered Rate (Libor) reached 6.7975% for a loan over a three-month period: suggesting that banks were reluctant to lend money to each other. It also meant Libor was above the Bank of England's emergency lending rate to banks, which is 6.75%.

13 September 2007: the BBC revealed that Northern Rock asked for, and had been granted, emergency financial support from the Bank of England (in its role as lender of last resort). [21]

14 September 2007: Northern Rock issued a statement on market conditions and trading update.[22] Depositors queued to withdraw their savings from branches around the country.[23]

17 September 2007: the Chancellor made a statement on the situation in the financial markets and announced that the Government would guarantee all the existing deposits in Northern Rock.[24]

18 September 2007: the Federal Reserve cut interest rates to 4.75% from 5.25%[25]

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17 The Guardian, "Markets fall back with a vengeance", 9 August 2007
18 The Guardian, "What is the Fed's discount rate?", 17 August 2007
19 The Times, "Barclays' woes grow as crisis in sub-prime forces its client to be rescued", 27 August 2007
20 The Times, "Rescued IKB losses could climb to €700m", 3 September 2007
21 "Northern Rock gets bank bail out", *BBC News*, 13 September 2007
22 Northern Rock, Statement on market conditions and trading update, 14 September 2007
23 Joe Bolger and Marcus Lerous, "Northern Rock savers rush to empty accounts", *Times*, 14 September 2007
24 Statement by the Chancellor of the Exchequer on financial markets, HM Treasury, 17 September 2007
25 "Fed cuts interest rate to 4.75%", *BBC News*, 18 September 2007

19 September 2007: the Bank of England announced an injection of £10bn into the money markets in an attempt to bring three-month inter-bank interest rates down.[26]

20 September 2007: the Treasury announced extended protections for Northern Rock customers.[27]

23 September 2007: the press reported that Northern Rock had borrowed 'about £3 billion' from the Bank of England facility.[28]

25 September 2007: Northern Rock announced that they would not be paying the interim dividend due the following month – this retained £59 million within the bank.[29]

1 October 2007: Swiss bank UBS announced losses of $3.4bn from sub-prime related investments. Citigroup later announced a sub-prime related loss of $3.1bn.[30]

The FSA increased the limit of Financial Service Compensation Scheme (FSCS) cover for deposits to 100% of the first £35,000 of each depositor's claim. The previous compensation limit was a maximum of £31,700 (100% of the first £2,000 and 90% of the next £33,000 of depositors' eligible claims).[31]

9 October 2007: the Treasury confirmed that the guarantee arrangements previously announced to protect existing depositors of Northern Rock would be extended to all new retail deposits made after 19 September.[32]

11 October 2007: the Chancellor announced that the FSA would be setting out proposals for a review of the UK liquidity regime.[33] Chancellor wrote to the Public Accounts Committee setting out the basis for guarantees to Northern Rock.[34]

19 October 2007: Northern Rock Chairman, Dr Matt Ridley, resigned from the Northern Rock Board and was replaced by Brian Sanderson.[35]

30 October 2007: Merrill Lynch's chief resigned after the bank unveiled a $7.9 billion exposure to bad debt.[36]

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26 Dearbail Jordan and Rhys Blakely, "Mervyn King stuns market with £10bn U-turn", *Times*, 19 September 2007
27 "Northern Rock plc deposits", *Treasury press release*, 20 September 2007
28 Robert Winnett and Roger Waite, "Northern Rock still lending 'recklessly'", *Times*, 23 September 2007
29 Northern Rock, Stock exchange announcement, 25 September 2007
30 "Banks reveal US mortgage losses", *BBC News*, 1 October 2007
31 "Compensation Scheme to cover 100% of depositors' claims up to £35,000", *FSA press release*, 1 October 2007
32 "Northern Rock plc deposits", *Treasury press release*, 9 October 2007
33 HC Deb 11 October 2007 c462-4
34 Deposited paper 2007/2120
35 Patrick Hosking, "Matt Ridley resigns as Northern Rock chairman", *Times*, 19 October 2009
36 Andrew Clark, "Merrill Lynch, the firm lost $8bn and the chief executive had to go - with $159m", *Guardian*, 30 October 2007

31 October 2007: US Federal Reserve lowers key Fed Funds interest rate to 4.5% from 4.75%.

4 November 2007: Chuck Prince resigned as Chief Executive of Citigroup, as the bank revealed it was facing an additional $8 billion to $11 billion of losses on mortgage related securities.[37]

16 November 2007: Adam Applegarth, CEO of Northern Rock, resigned.[38] The deadline for offers to acquire Northern Rock expired.

19 November 2007: the Chancellor made a statement on the future of Northern Rock following the bids received for the company.[39]

29 November 2007: the Bank of England revealed that the number of mortgage approvals had fallen to its lowest level for nearly three years.[40]

30 November 2007: the Council of Mortgage Lenders warned that, without more funding available on financial markets, mortgage lenders would not be able to offer as many mortgages.[41]

6 December 2007: President Bush outlined plans to freeze rates on sub-prime mortgages for five years to help people hit by the US housing market crisis.[42]

The Bank of England cut interest rates by a quarter of a percentage point to 5.5%.[43]

11 December 2007: Federal Reserve lowered the Fed Funds rate to 4.25% from 4.5%.[44]

12 December 2007: the US Federal Reserve announces two policy measures:

- Term Auction Facility (TAF), so "allowing the Federal Reserve to inject term funds through a broader range of counterparties and against a broader range of collateral than open market operations"; and

- the establishment of foreign exchange swap lines with the European Central Bank (ECB) and the Swiss National Bank (SNB), providing dollars in amounts of up to $20 billion with the ECB and $4 billion with the SNB.[45]

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37 Financial Times, Prince quits as Citigroup chief, 5 November 2007
38 Christine Seib and Dearbail Jordan, "Adam Applegarth resigns from Northern Rock", *Times*, 16 November 2007
39 HC Deb 19 November 2007 c959-61
40 Angela Balakrishnan, "Mortgage approvals lowest for 3 years", *Guardian*, 29 November 2007
41 "Lenders plead for rate cut help", *BBC News*, 30 November 2007
42 "Bush details housing rescue plan", *BBC News*, 6 December 2007
43 "Bank of England Reduces Bank Rate by 0.25 Percentage Points to 5.5%", *Bank of England press release*, 6 December 2007
44 Federal Reserve, Press release, 11 December 2007
45 "$20bn from Fed to ease credit woe", *BBC News*, 17 December 2007

Liberal Democrat debate in the House of Commons calling for nationalisation of Northern Rock.[46]

13 December 2007: the Federal Reserve, European Central Bank and central banks from the UK, Canada and Switzerland announced that they would provide billions in loans to banks in order to lower interest rates and ease the availability of credit. The move was coordinated by the US Federal Reserve.[47]

14 December 2007: Northern Rock CEO Adam Applegarth replaced by Andy Kuipers.[48]

19 December 2007: the FSA published the consultation document *Review of the liquidity requirements for banks and building societies*.[49]

Ratings agency Standard and Poor's downgraded its investment rating of a number of monoline insurers (which specialise in insuring bonds, guaranteeing to repay the loans if the issuer goes bust). There was concern that insurers would not be able to pay out, forcing banks to announce another big round of losses.[50]

18 January 2008: a rush to withdraw money from its commercial property funds forced Scottish Equitable to introduce withdrawal delays of up to 12 months for its customers. It affected investors in the Scottish Equitable Property fund, Select Reserve fund and Select Distribution fund.[51]

21 January 2008: global stock indexes, including the UK FTSE 100, fell their most since the terrorist attacks of 11 September 2001. The FTSE 100 index tumbled 5.5% to 5,578.2, wiping £77bn ($149bn) off the value of its listed shares. Indexes in Paris and Frankfurt slumped by about 7%, while markets in Asia, India and South America also dropped. [52]

The Chancellor made a statement outlining how the private sector rescue of Northern Rock would proceed and how the competing bids would be assessed.[53]

46 HC Deb 12 December 2007 c371-418
47 Philip Webster et al, "Banks offer billions to fend off recession", *Times*, 13 December 2007
48 Miles Costello, "Adam Applegarth exits Northern Rock six weeks early", *Times*, 13 December 2007
49 "FSA publishes a review of the liquidity requirements for banks and building societies", *FSA press release*, 19 December 2007
50 Angela Balakrishnan, "Developing world to drive global growth", *Guardian*, 9 January 2008
51 "AEGON UK introduces deferment for certain payments from property funds", *AEGON press release*, 18 January 2008
52 The Guardian, "Black Monday: recession fears spark global share crash", 22 January 2008
53 HC Deb 21 January 2008 c1207-10

22 January 2008: the US Federal Reserve slashed interest rates to 3.5% from 4.25%, its biggest cut in 25 years, and noted that “appreciable downside risks to growth remain”.[54]

26 January 2008: the Treasury Select Committee published its report on Northern Rock, *The Run on the Rock*.[55]

29 January 2008: the Government published its regulatory reform proposals, *Financial stability and depositor protection: strengthening the framework*.[56]

31 January 2008: major “monoline” bond insurer, MBIA, posted its biggest ever loss for a three month period, hit by its exposure to the US sub-prime mortgage crisis. MBIA made a net loss of $2.3bn (£1.15bn) in the quarter ending 31 December.[57]

7 February 2008: US Federal Reserve boss Ben Bernanke expressed his concern about monoline insurers, saying he was closely monitoring developments "given the adverse effects that problems of financial guarantors can have on financial markets and the economy".[58]

The Bank of England cut interest rates to 5.25% from 5.5%.[59]

8 February 2008: figures from the Council of Mortgage Lenders revealed that the number of homes repossessed in the UK in 2007 was 27,100, its highest level since 1999.[60]

17 February 2008: the Chancellor announced that Northern Rock would be taken into a period of temporary public ownership.[61] In so doing, the Government rejected the two private sector offers that had been put forward. The draft *Banking (Special Provisions) Bill* was published.

18 February 2008: Northern Rock shares were suspended. The *Banking (Special Provisions) Bill* had its first reading in the Commons and, in a statement to the Commons, the Chancellor stated that “the Government have no intention at present to use the Bill to bring any institution other than Northern Rock into temporary public ownership”.[62]

19 February 2008: the *Banking (Special Provisions) Bill* had its second reading in the Commons.

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54 Federal Reserve, Press Release, 22 January 2008
55 Treasury Select Committee, *The run on the rock*, HC 56-I 2007-08
56 HM Treasury, *Financial stability and depositor protection: strengthening the framework*, Cm 7308
57 Dearbail Jordan and Tom Bawden, “MBIA rating under threat as losses reach $2.3bn”, *Times*, 31 January 2008
58 “Fed concern at sub-prime insurers”, *BBC News*, 7 February 2008
59 “Bank of England Reduces Bank Rate by 0.25 Percentage Points to 5.25%”, *Bank of England press release*, 7 February 2008
60 “10% fewer repossessions in 2007 than expected”, *Council of Mortgage Lenders press release*, 8 February 2008
61 “Northern Rock plc”, *Treasury press release*, 17 February 2008
62 HC Deb 18 February 2008 c21-3

21 February 2008: the *Banking (Special Provisions) Act* received Royal Assent. The Act defined the circumstances in which the Treasury can take a financial institution into public ownership. This can only occur if either of the following two conditions is met:

(a) maintaining the stability of the UK financial system in circumstances where the Treasury consider that there would be a serious threat to its stability if the order were not made

(b) protecting the public interest in circumstances where financial assistance has been provided by the Treasury to the deposit-taker for the purpose of maintaining the stability of the UK financial system.

22 February 2008: Northern Rock moved into a period of "temporary public ownership".[63]

7 March 2008: the US Federal Reserve made $200bn (£99bn) available to major banks, saying it had taken action "to address heightened liquidity pressures" in funding markets.[64]

10 March 2008: Estimates Day debate on 'Northern Rock and banking reform'.[65]

11 March 2008: Federal Reserve announces Term Securities Lending Facility (TSLF) to lend up to $200 billion of Treasury securities to primary dealers secured for a term of 28 days against a range of collateral. Swap lines with the ECB and SNB (previously announced on 12 December 2007) increased by $10 billion and $2 billion respectively.[66]

The *Northern Rock plc Compensation Order 2008* was debated in the Third Delegated Legislation Committee. The order determined the framework for compensation levels for existing shareholders.

14 March 2008: Bear Sterns investment bank receives emergency lending from the Federal Reserve (via JP Morgan).[67]

17 March 2008: Wall Street's fifth-largest bank, Bear Stearns, was acquired by larger rival JP Morgan Chase for $240m (or $2 per share) in a deal backed by $30bn of central bank loans[68] (the offer was subsequently increased to $10 per share a week later).[69]

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63 "Temporary Public Ownership", *Northern Rock press release*, 22 February 2008
64 Siobhan Kennedy, "US Fed releases $200bn as credit crisis hits new depths", *Times*, 8 March 2008
65 HC Deb 10 March 2008 cc21-85
66 Federal Reserve, Press Release, 11 March 2008
67 Federal Reserve, Press Release, 14 March 2008
68 Suzy Jagger and Siobhan Kennedy, "Bear Stearns sold to JPMorgan Chase under Federal Bank pressure", *Times*, 17 March 2008
69 Financial Times, JP Morgan lifts offer for Bear Stearns fivefold, 25 March 2008

18 March 2008: Federal Reserve lowers Fed Funds rate to 2.25% from 3.00%.[70]

26 March 2008: the FSA published the summary of a review conducted by their internal audit division into the supervision of Northern Rock.[71]

28 March 2008: Nationwide predicted that UK house prices would fall by the end of the year.[72]

31 March 2008: *Northern Rock plc Transfer Order 2008* was debated in the House of Commons.[73]

2 April 2008: Moneyfacts reported that 20% of mortgage products had been withdrawn from the UK market in the previous seven days.[74]

7 April 2008: the Abbey bank announced it was withdrawing the last 100% mortgage deals available to UK borrowers. The offers ended on Wednesday 9 April.[75]

8 April 2008: the International Monetary Fund warned that potential losses from the credit crunch could reach at least $1 trillion and said that the effects were spreading from sub-prime mortgage assets to other sectors, such as commercial property, consumer credit, and company debt. [76]

10 April 2008: the Bank of England cut interest rates by a quarter of one percent to 5%.[77]

11 April 2008: the Council of Mortgage Lenders' warned that mortgage funding could be cut by half in 2008.[78]

15 April 2008: the Royal Institution of Chartered Surveyors' (RICS) said that 78.5% more surveyors reported a fall rather than rise in house prices in March. This was the gloomiest reading since the RICS survey began in 1978. The government's house price figures confirmed a fall in prices in February by 1.6%.[79]

21 April 2008: the Bank of England launched a scheme allowing banks to temporarily swap their high quality mortgage-backed and other securities for UK Treasury Bills. Under the scheme, banks could swap

70 Federal Reserve, Press Notice, 18 March 2008
71 "FSA moves to enhance supervision in wake of Northern Rock", *FSA press notice*, 26 March 2008
72 "No bounce in house prices this Easter", *Nationwide press release*, 28 March 2008
73 HC Deb 31 March 2008 cc575-599. The deferred division took place the following week, see HC Deb 2 April 2008 c814
74 "More mortgage deals are withdrawn", *BBC News*, 2 April 2008
75 Grainne Gilmore, "Abbey shuts door on 100 per cent mortgages", *Times*, 7 April 2008
76 Gary Duncan, "IMF warns global crunch losses to hit $1 trillion", *Times*, 8 April 2008
77 "Bank of England Reduces Bank Rate by 0.25 Percentage Points to 5.0%", *Bank of England press release*, 10 April 2008
78 Hilary Osborne, "Mortgage lending 'could fall by half this year'", *Guardian*, 11 April 2008
79 RICS housing market survey (March 2008), 15 April 2008

illiquid assets of sufficiently high quality for Treasury Bills. However, responsibility for losses on their loans would remain with the banks. [80]

22 April 2008: the Royal Bank of Scotland announced a plan to raise money from its shareholders with a £12bn rights issue - the biggest in UK corporate history.[81]

25 April 2008: Persimmon became the first UK house builder to announce major cutbacks, citing the lack of affordable mortgages and a fall in consumer confidence. [82]

29 April 2008: figures from the Bank of England showed that new mortgages approved for house purchases in March fell to a low of 64,000, down from 72,000 the previous month. This was the lowest level since current records began in April 1993, and was down 44% on the figure for the same month in 2007.[83]

30 April 2008: the first annual fall in house prices for 12 years was recorded by Nationwide. Prices were 1% lower in April compared to a year earlier.[84]

Federal Reserve lowered the Fed Funds rate to 2% from 2.25%.[85]

2 May 2008: Insolvency Service figures revealed an increase in company insolvencies.[86]

Federal Reserve's Term Auction Facility (TAF) increased to $75 billion from $50 billion; increases its swap lines with the ECB and SNB by $20 billion and $6 billion respectively, and; broadens the range of collateral that can be used in the Term Securities Lending Facility (TSLF).[87]

22 May 2008: Swiss bank UBS, one of the worst affected by the credit crunch, launched a $16bn rights issue to cover some of the $37bn it lost on assets linked to US mortgage debt.[88]

5 June 2008: Moodys and Standards and Poors (S&P) rating agencies downgrade the two largest monoline insurers from AAA to AA, although market reaction was observed as "calm".[89]

19 June 2008: the FBI arrested 406 people, including brokers and housing developers, as part of a crackdown on alleged mortgage frauds worth $1bn. [90]

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80 "Special liquidity scheme", *Bank of England press release*, 21 April 2008
81 Jonathan Sibun and Angela Monaghan, "Royal Bank of Scotland to raise £12bn as credit crunch bites", *Daily Telegraph*, 23 April 2008
82 Danny Fortson, "Persimmon suspends new projects amid fears of falling prices", *Independent*, 25 April 2008
83 Hilary Osborne, "Number of homebuyers hits record low", *Guardian*, 29 April 2008
84 "Housing market weakness stretches into April", *Nationwide press release*, 30 April 2008
85 Federal Reserve, Press Release, 30 April 2008
86 "Insolvencies in the first quarter 2008", *Insolvency Service press release*, 2 May 2008
87 Federal Reserve, Press Release, 2 May 2008
88 Jill Treanor, "UBS launches £7bn cash call at big discount", *Guardian*, 23 May 2008
89 Financial Times, Bond insurers' woes priced in, 6 June 2008
90 "FBI holds 406 for mortgage fraud", *BBC News*, 19 June 2008

Separately, two former Bear Stearns workers faced criminal charges related to the collapse of two hedge funds linked to sub-prime mortgages. It is alleged they knew of the funds' problems but did not disclose them to investors, who lost a total of $1.4bn.[91]

25 June 2008: Barclays said it was planning to raise £4.5bn ($8.8bn) in a share issue to bolster its balance sheet: shares would be sold to new investors, such as the Qatar Investment Authority, and existing shareholders including China Development Bank.[92]

8 July 2008: the British Chambers of Commerce's quarterly report found the credit crunch and rising costs had dented the most important sectors of the economy and that there were serious risks of recession in the UK.[93]

The FTSE 100 stock index briefly dipped into a "bear market", in which the market suffers a 20% fall from its recent highs.[94]

13 July 2008: US mortgage lender IndyMac collapsed.[95]

14 July 2008: the US government announced measures to shore up the nation's two largest mortgage finance companies, Freddie Mac and Fannie Mae. The plan called on Congress to expand the companies' access to credit and allow the Treasury to buy shares in the companies if needed. The two firms own or guarantee almost half of all US home loans - more than $5 trillion (£2.5 trillion) of debt.[96]

21 July 2008: just 8% of HBOS investors agreed to take up the new shares offered in its £4 billion rights issue, because they are priced higher than existing shares are trading on the stock market.[97]

30 July 2008: the Federal Reserve announced that a new 84-day Term Auction Facility (TAF) loans as a complement to 28-day TAF loans, and added a further $5 billion to its swap line with the ECB.[98]

31 July 2008: UK house prices showed their biggest annual fall since the Nationwide began its housing survey in 1991, a decline of 8.1%.[99]

[91] "Bear Stearns ex-managers charged", *BBC News*, 19 June 2008
"Barclays announces share issue to raise approximately £4.5 billion", *Barclays press release*, 25 June 2008
[93] Kathryn Hopkins and David Gow, "Britain teeters on brink of recession as companies cut back", *Guardian*, 8 July 2008
[94] Nick Fletcher and Daniel Nasaw "London shares slump into bear territory amid growing fears of recession", *Guardian,* 9 July 2008
[95] Guy Adams and Margareta Pagano, "World's largest mortgage providers teeter on the brink of collapse", 13 July 2008
[96] James Daley, "US Treasury credit deal to shore up Freddie and Fannie", *Independent*, 14 July 2008
[97] Jill Treanor, "City nurses heavy losses after just 8% of investors support HBOS cash call", *Guardian*, 22 July 2008
[98] Federal Reserve, Press release, 30 July 2008
[99] Sean O'Grady, "Property market falling at fastest rate for 18 years", *Independent,* 1 August 2008

HBOS revealed that profits for the first half of the year sank 72% to £848m, while bad debts rose 36% to £1.31billion as customers failed to repay loans. [100]

4 August 2008: HSBC warned that conditions in financial markets were at their toughest "for several decades" after suffering a 28% fall in half-year profits. [101]

22 August 2008: revised figures from the ONS revealed that the UK economy was at a standstill in the second quarter of the year.[102]

28 August 2008: Nationwide revealed that UK house prices had fallen by 10.5% in a year.[103] A day later Bradford and Bingley posted losses of £26.7 million for the first half of 2008, blaming surging mortgage arrears for a rise in impairment. It warned that it expected arrears to remain at high levels for the rest of the year.[104]

29 August 2008: Chancellor Alistair Darling warned that the economy was facing its worst crisis for 60 years in an interview with the Guardian newspaper, saying that the downturn would be more "profound and long-lasting" than most had feared.[105]

1 September 2008: official figures from the Bank of England showed a slump in approved mortgages for July.[106] The pound fell to record lows of 81.21 pence against the euro and two-year lows of $1.80.[107]

2 September 2008: in an effort to kick-start the UK housing market the Treasury announced a one year rise in stamp duty exemption, from £125,000 to £175,000.[108]

The OECD forecast that the UK would be in recession by the end of the next two quarters. A day later the ECB cut the Eurozone growth forecast 2009 to 1.2% from 1.5%.[109]

4 September 2008: the Bank of England left rates on hold at 5% while figures from the Halifax showed that house prices in England and Wales were continuing to fall.[110]

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100 Jill Treanor, "HBOS suffers 70% profit fall and sees hard times ahead", *Guardian*, 1 August 2008
101 Jill Treanor, "Struggling US operations take 28% chunk out of HSBC's first half profits", *Guardian*, 5 August 2008
102 Larry Elliott, "Recession fear as economic growth hits zero", *Guardian*, 23 August 2008
103 "Price of homes falls for 10th month", *Financial Times*, 29 August 2008
104 Patrick Hosking and Miles Costello, "Bradford & Bingley boss warns of tough two years ahead as lender reports loss", *Times*, 30 August 2008
105 Decca Aitkenhead, "Storm warning", *Guardian,* 29 August 2008
106 Kathryn Hopkins, "Mortgage approvals drop to lowest since records began", *Guardian*, 2 September 2008
107 "Pound left reeling by grim economic outlook", *Financial Times*, 2 September 2008
108 Esther Addley, "Lukewarm welcome for Darling's £600m housing gamble", *Guardian*, 3 September 2008
109 "OECD sees UK recession loom", *Financial Times*, 3 September 2008
110 Francis Elliott and Gráinne Gilmore, "Fall in house prices accelerates but Bank leaves rates on hold", *Times*, 5 September 2008

5 September 2008: a raft of negative news from around the world saw the FTSE notch up its steepest weekly decline since July 2002.[111]

US labour market figures showed the unemployment rate rising to 6.1%.[112]

6 September 2008: the Halifax warned that the impact of the credit crunch would be felt well into 2010. Chief executive Andy Hornby explained that British banks would continue to suffer major problems in offering loans until they could raise significant sums on wholesale markets, something that would not be possible until US house prices recovered.[113]

7 September 2008: mortgage lenders Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) were rescued by the US government in one of the largest bailouts in US history. Treasury Secretary Henry Paulson said the two firms' debt levels posed a "systemic risk" to financial stability and that, without action, the situation would get worse.[114]

In the UK, the Nationwide announced that it would merge with two smaller rivals, the Derbyshire and Cheshire Building Societies.[115]

9 September 2008: the ONS revealed manufacturing output fell by 0.2% between June and July, raising a real fear of recession. [116]

The British Retail Consortium reported that UK retail sales values fell by 1.0% on a like-for-like basis from August 2007.[117]

The Royal Institute of Chartered Surveyors published figures showing house sales were at their lowest level for 30 years[118] while the CML reported that the number of first-time buyers had hit its lowest level since its survey began in January 2002.[119]

10 September 2008: Wall Street bank Lehman Brothers posted a loss of $3.9billion (£2.2billion) for the three months to August.[120] The announcement came against a background of further dire economic

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[111] Edmund Conway, "FTSE has its worst week for six years", *Daily Telegraph*, 6 September 2008
[112] Larry Elliott, "UK markets feel fallout from leap in US jobless", *Guardian*, 6 September 2008
[113] "Credit misery will last another 18 months, says bank boss", *Sunday Telegraph*, 7 September 2008
[114] Krishna Guha et al, "US takes control of Fannie and Freddie", *Financial Times*, 8 September 2008
[115] "Nationwide considers merger with two rivals", *Financial Times*, 8 September 2008
[116] Ian McConnell, "Manufacturing data fuels fears of UK recession", *Herald*, 10 September 2008
[117] "August downpours dampen retail sales", *Daily Telegraph,* 9 September 2008
[118] "House sales have hit new low, say surveyors", *Financial Times*, 9 September 2008
[119] "First-time buyers need biggest deposits since 1980s", *Daily Telegraph*, 10 September 2008
[120] "Lehman loss and sale of UK assets new blow for banks", *Scotsman*, 11 September 2008

warnings from the European Commission, which warned that the UK, Germany and Spain would go into recession by the end of the year.[121]

15 September 2008: Lehman Brothers filed for Chapter 11 bankruptcy protection, becoming the first major bank to collapse since the start of the credit crisis.[122]

Former Federal Reserve chief Alan Greenspan dubbed the failure as "probably a once in a century type of event" and warned that other major firms will also go bust.[123]

US bank Merrill Lynch agreed to be taken over by Bank of America for $50 billion.[124]

Eleven of the world's biggest banks[125] have agreed to pool $70bn in a liquidity fund to help counter disruption in short-term funding markets. The *Financial Times* said the fund was "intended to act as a kind of self-insurance scheme".[126]

16 September 2008: Federal Reserve leaves Fed Funds rate unchanged at 2%.[127]

17 September 2008: the Bank of England announced the extension of the final date of the drawdown period for its Special Liquidity Scheme from 21 October 2008 to 30 January 2009.[128]

Lloyds TSB bank agrees to buy HBOS.[129]

American International Group (AIG), one of the world's biggest insurers, was saved from the brink of collapse after the US Federal Reserve, agreed an $85 billion (£47 billion) bailout of the company. The deal gave the US Government a 79.9 per cent stake in the insurer. [130]

18 September 2008: rumours circulated of a Federal Reserve plan to buy out banks' toxic assets.

Federal Reserve doubles the size of its swap line to ECB, increasing it to $110 billion, and raising the swap line with the SNB to $27 billion from $15 billion. In addition, new swap lines are created with the Bank

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121 Gráinne Gilmore, "Britain will go into recession this year, Brussels says", *Times*, 11 September 2008
122 Henny Sender, "Broken brothers; How brinkmanship was not enough to save Lehman", *Financial Times*, 16 September 2008
123 "The meltdown that turned the world of finance on its head", *Daily Telegraph*, 20 September 2008
124 "BofA tie-up with Merrill makes sense to analysts", *Financial Times,* 15 September 2008
125 The 11 were: Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JPMorgan Chase, Merrill Lynch, Morgan Stanley, RBS & UBS.
126 Financial Times, Global institutions agree to back $70bn liquidity pool, 16 September 2008
127 Federal Reserve, Press Notice, 16 September 2008
128 "Special Liquidity Scheme", *Bank of England press release*, 17 September 2008
129 "Lloyds TSB seals £12bn HBOS rescue", *Financial Times*, 18 September 2008
130 Christine Seib, "AIG rescued by US Federal Reserve with $85bn bailout", *Times*, 17 September 2008

of Japan ($60 billion), the Bank of England ($40 billion) and the Bank of Canada ($10 billion).[131]

The FSA announced a ban on short selling of financial stocks and an obligation to disclose significant ‘short’ positions, a move also adopted by the Irish financial regulator.[132]

19 September 2008: US Treasury Department announced the establishment of a temporary guaranty programme for the US money market mutual fund industry. The programme will means that the US Treasury will insure the holdings of any publicly offered eligible money market mutual fund – both retail and institutional – that pays a fee to participate in the program.[133]

Federal Reserve announces an Asset-Backed Commercial Paper (ABCP) Money Market Mutual Fund Liquidity Facility (AMLF) to help money market funds.[134] It explained that it was intended to help restore liquidity to the ABCP markets and thereby to help money funds meet demands for redemption.[135]

The FTSE 100 recorded its largest ever one-day rise after US government plans for a banking sector bail-out and new restrictions on short-selling sparked a rally that pushed the benchmark index up by 9 per cent.[136]

Financial regulators in the US, France[137] and Canada[138] ban short selling of financial stocks. In the US, the Securities and Exchange Commission (SEC) said that its action was in concert with the FSA’s.[139]

24 September 2008: Warren Buffett’s investment company, Berkshire Hathaway, reported as taking a $5 billion stake in Goldman Sachs through a private placement in preferred stock.[140]

26 September 2008: JP Morgan bought American mortgage lending institution Washington Mutual.[141]

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131 Federal Reserve, Press Notice, 18 September 2008

132 “US 'bad bank' to staunch toxic debt losses: Short-selling is banned in London to prevent run on the banks”, *Daily Telegraph,* 19 September 2008

133 US Department of the Treasury, Treasury Announces Guaranty Program for Money Market Funds, 18 September 2008

134 Federal Reserve, Press Release, 19 September 2008

135 Federal Reserve, Asset Backed Commercial Paper (ABCP) Money Market Mutual Fund (MMMF) Liquidity Facility (AMLF or "the Facility") — Frequently Asked Questions and Answers, website

136 Nikhil Kumar, “Banks lead the charge in FTSE 100's record day”, *Independent*, 20 September 2008

137 Autorite des Marches Financiers, Short-selling: Ban on unsecured transactions and transparency of short positions in financial sector securities, 19 September 2008

138 Ontario Securities Commission, OSC Issues Temporary Order Prohibiting Short Selling of Certain Financial Sector Issuers, 19 September 2008

139 Securities and Exchange Commission, SEC Halts Short Selling of Financial Stocks to Protect Investors and Markets, 19 September 2008

140 Financial Times, Buffett to take $5bn stake in Goldman, 24 September 2008

141 “Washington Mutual: Crisis claims biggest victim and more could fall”, *Daily Telegraph*, 27 September 2008

29 September 2008: US Congress rejected a plan involving $700 billion of government purchases of 'toxic debt'. The US stock market registered its steepest ever fall.

Federal Reserve adds a further $330 billion to its swap lines with overseas central banks, bringing the total to $620 billion. In addition, the size of the 84-day Term Auction Facility (TAF) was trebled to $75 billion, and two forward TAF auctions totalling $150 billion were announced for November.[142]

Citigroup bought parts of Wachovia, the Federal Deposit Insurance Corporation agreed to take responsibility for losses over a set level.[143]

In the UK, Bradford & Bingley was broken up. Its retail side was taken over by Santander and the mortgage and loan books were nationalised.[144]

In Iceland, the government took a 75% share in Glitner bank.[145]

The Fortis Group was nationalised by a coalition of the Belgian, Luxembourg and Dutch governments.[146]

30 September 2008: the Irish government guaranteed all deposits (as well as certain bonds and debts) in six Irish banks for two years.

Belgian bank Dexia was rescued by Belgian, French and Dutch government money.[147]

1 October 2008: the Bank of England began providing covert liquidity to Halifax/Bank of Scotland; this support peaked at £25.4 billion on 13 November. Information about this covert help was disclosed to the House by the Chancellor over a year later (25 November 2009).[148]

Italy bans short selling of financial stocks.[149]

3 October 2008: the Bush administration's $700bn emergency bail-out for the banking industry became law. The House of Representatives backed the rescue plan by a margin of 263 to 171, overturning the vote of 29 September when it was opposed by 228 to 205.

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142 Federal Reserve, Press Release, 29 September 2008
143 "Wall Street suffers its worst day since 1987", *Financial Times,* 30 September 2008
144 "Bradford & Bingley plc", *Treasury press release*, 29 September 2008
"Government Guarantee Arrangements : Bradford & Bingley plc", *Treasury press release*, 29 September 2008
145 "Iceland's Government forced to step in to prevent imminent collapse of country's third-largest bank", *Times,* 30 September 2008
146 Nick Clark, "Fortis gets €11bn lifeline from three governments", *Independent,* 30 September 2008
147 Henry Mcdonald and David Gow, "Ireland puts up €400bn to protect six big lenders", *Guardian,* 1 October 2008
148 HC Deb 25 November 2009 c534
149 Commissione Nazionale per le Società e le Borse, Short Sale: Consob Adopts Additional Restrictions, 1 October 2008

The bill, which allowed the US treasury to clean up banks' balance sheets by purchasing distressed mortgage-backed securities, was signed by President Bush within hours of congressional approval.[150]

In the UK, the FSA increased the compensation limit for bank deposits from £35,000 up to a total of £50,000 for each customer's claim.[151]

5 October 2008: in Germany a €50bn (£39bn) package to rescue Germany's second-biggest property lender, Hypo Real Estate (HRE) was agreed. In addition, the German government guarantees all private bank accounts.

In Belgium, an agreement was reached to secure the future of Fortis, the country's second-biggest bank, by selling 75% of its Belgian operations to BNP Paribas. France's biggest bank would also take over two-thirds of Fortis's Luxembourg business.

In Iceland, the government continued talks with Nordic central bankers on a €10bn capital injection into the island's commercial banks, including leader Kaupthing.

In Italy Unicredit, the country's second-biggest bank, negotiated a fresh capital injection of up to a reported €6bn.[152]

6 October 2008: the Chancellor made a statement to the Commons on developments in the financial markets.[153]

Federal Reserve increases the size of the TAF programme to $600 billion.[154]

Sweden increases its deposit guarantee to SEK 500,000 from SEK 250,000.

7 October 2008: the Bank of England began providing covert liquidity to Royal Bank of Scotland; this support peaked at £36.6 billion on 17 October. Information about this covert help was disclosed to the House by the Chancellor over a year later (25 November 2009).[155]

The Icelandic government took control of Landsbanki, the second-largest bank in the country, and sought to secure a €4bn loan from Russia as it worked to avert a financial meltdown.[156]

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150 Andrew Clark, "Bush signs $700bn economic bail-out plan approved by Congress", *Guardian*, 3 October 2008
151 "Compensation scheme to cover savers' claims up to £50,000", *FSA press release*, 3 October 2008
152 David Gow, "Two European governments agree packages for ailing banks", *Guardian*, 6 October 2008
153 HC Deb 6 October 2008 c21-3
154 Federal Reserve, Press Release, 6 October 2008
155 HC Deb 25 November 2009 c534
156 David Teather, "Iceland government seizes control of Landsbanki", *Guardian*, 7 October 2008

8 October 2008: the Treasury announced a number of measures including the Credit Guarantee Scheme and Bank Recapitalisation Fund that were intended to

- Provide sufficient liquidity in the short term
- Make available new capital to UK banks and building societies to strengthen their resources permitting them to restructure their finances, while maintaining their support for the real economy; and
- Ensure that the banking system had the funds necessary to maintain lending in the medium term.[157] Statement in the Commons.[158]

HM Treasury also reports that eight major banks[159] and building societies have committed to the Government that they will increase their total Tier 1 capital by £25bn.[160]

The Bank of England reduced interest rates by half a percentage point to 4.5%,[161] as part of a coordinated move with the Bank of Canada, ECB, Federal Reserve, Swedish Riksbank and the Swiss National Bank.[162] The Federal Reserve cut its Fed Funds rate to 1.5% from 2%.

The Treasury issued press releases on Landsbanki, Icesave and Heritable[163] and on Kaupthing Singer & Friedlander.[164]

9 October 2008: Italian government pledges to provide funds to any of the country's banks if needed.[165]

11 October 2008: The G7 presented a five-point "Plan of Action" to deal with increasing financial turmoil. This included a promise to "ensure that our banks…can raise capital from public and well as private sources, in sufficient amounts to re-establish confidence and permit them to continue lending to households and businesses." [166]

13 October 2008: the Chancellor made a statement to the Commons on the recapitalisation of HBOS, Lloyds TSB and RBS, with the Government taking significant shareholdings in the three banks and its capital investment totalling £37 billion.[167] The Chancellor also issued a

157 HM Treasury, Financial support to the banking industry, 8 October 2008
158 HC Deb 8 October 2008 c277-80
159 The eight were: Abbey (Santander), Barclays, HBOS, HSBC Bank plc, Lloyds TSB, Nationwide Building Society, Royal Bank of Scotland and Standard Chartered
160 HM Treasury, Financial support to the banking industry, 8 October 2008
161 Bank of England, Bank of England Reduces Bank Rate by 0.5 Percentage Points to 4.5%, 8 October 2008
162 Federal Reserve, Press Release, 8 October 2008
163 "Landsbanki, Icesave and Heritable", *Treasury press release*, 8 October 2008
164 "Kaupthing Singer & Friedlander", *Treasury press release*, 8 October 2008
165 Bloomberg, Italy Offers Capital to Banks; Financial Shares Gain (Update3), 9 October 2008
166 Edmund Conway, "IMF warns of world financial system 'meltdown'", *Daily Telegraph*, 12 October 2008
167 HC Deb 13 October 2008 c539-42

written statement on the Contingencies Fund and the action taken on the Icelandic banks, Kaupthing and Landsbanki.[168]

France announces a €320 billion fund to provide loan guarantees to banks and other financial institutions, plus €40 billion to buy stakes in French banks in need of capital.[169]

The German government pledged €400 billion in loan guarantees, and €80 billion to recapitalise banks in distress.[170]

Federal Reserve removes limits on the size of its swap lines with the ECB, SNB, and Bank of England, saying "Counterparties in these operations will be able to borrow any amount they wish against the appropriate collateral in each jurisdiction".[171] The Bank of Japan introduced a similar measure the following day.

14 October 2008: the US government unveiled a $250bn plan to take stakes in nine leading banks. Of the $250bn (which came from the $700bn bailout approved by Congress), half was to be injected into nine big banks, including Citigroup, Bank of America, Wells Fargo, Goldman Sachs and JPMorgan Chase, officials told the New York Times. The other half would go to smaller banks and thrifts.[172]

The Treasury issued a written statement on the Debt Management Office's 2008-09 financing remit to raise £37 billion to facilitate bank recapitalisation.[173]

Debate on the impact of the Icelandic banking crisis on the Third Sector.[174]

15 October 2008: the Dow Jones fell 733 points, or 7.9 per cent, to 8,578, and the wider S&P500 fell 9 per cent. Both performances were the worst since the 1987 stock market crash.[175]

16 October 2008: Swiss government invests CHF 6 billion into UBS, and relieves UBS of problematic assets of up to US$60 billion which are sold to the Swiss National Bank (central bank of Switzerland).

17 October 2008: the Bank of England's covert liquidity support to Halifax/Bank of Scotland and Royal Bank of Scotland peaked at £61.6 billion jointly, at which point the two banks were providing collateral in excess of £100 billion. Information about this covert help was disclosed

168 HC Deb 13 October 2008 c23-5WS
169 Bloomberg, Sarkozy Pledges EU360 Billion to Help Banks, Lending (Update2), 13 October 2008
170 Bloomberg, Germany Pledges EU500 Billion in Bank Rescue Plan (Update4), 13 October 2008
171 Federal Reserve, Press release, 13 October 2008
172 James Quinn, "US to unveil $250bn UK-style banking bail-out", *Daily Telegraph*, 14 October 2008
173 HC Deb 14 October 2008 c33-4WS
174 HC Deb 14 October 2008 c41WS
175 Stephen Foley, "US shares plunge 8% as recession fears take hold", *Independent*, 16 October 2008

to the House by the Chancellor over a year later (25 November 2009).[176]

French savings bank Caisse d'Epargne announced a loss of €600m in a 'trading incident'.[177]

19 October 2008: South Korea announced a $130bn financial rescue package to stabilise its markets by offering a state guarantee on banks' foreign debts and promising to inject capital into struggling financial firms if necessary.[178]

The Dutch savings bank ING received a €10bn capital injection from the Dutch government.[179]

20 October 2008: the Swedish government pledged more than 1.5 trillion Swedish kronor (£117bn) to support its financial firms.[180]

The French government says it will invest €10.5 billion in the country's six biggest banks by year-end, on the condition that they increase lending to companies and households.[181]

The Reserve Bank of India reduced its overnight lending rate from 9pc to 8pc with immediate effect.[182]

21 October 2008: the Department for Business, Enterprise and Regulatory Reform issued details of further measures to help small and medium sized businesses. These focused on cash flow, access to finance and training for staff.[183]

22 October 2008: the Government announced new rules to help protect homeowners facing the threat of repossession. New court protocols would help to make repossessions a last resort, and the Government proposed that companies engaged in sale and rent back schemes should be brought under FSA regulation.[184]

The Economic Secretary to the Treasury made a statement to the Commons on the latest Government measures to help small businesses.[185]

23 October 2008: Canadian government announced the creation of the "Canadian Lenders Assurance Facility" to provide insurance on the

176 HC Deb 25 November 2009 c534
177 Henry Samuel, "French bank Caisse d'Epargne lost close to £500m in derivatives trading incident", *Daily Telegraph*, 17 October 2008
178 "UK economy 'already in recession'", *BBC News*, 20 October 2008
179 Julia Finch and Ashley Seager, "ING bank accepts €10bn Dutch cash injection", *Guardian*, 19 October 2008
180 Jamie Dunkley, "Sweden launches financial rescue package", *Daily Telegraph*, 20 October 2008
181 Bloomberg, France Will Invest 10.5 Billion Euros in Major Banks (Update2), 20 October 2008
182 "India cuts key interest rate", *Daily Telegraph*, 20 October 2008
183 "Helping small and medium sized businesses through the economic slow down", *BERR press release*, 21 October 2008
184 "Securing a fair framework for homeowners", *Treasury press release*, 22 October 2008
185 HC Deb 22 October 2008 c305-7

wholesale term borrowing of federally regulated deposit-taking institutions. It explains that it will “help to secure access to longer-term funds so that Canadian financial institutions can continue lending to consumers, homebuyers and businesses in Canada”.[186]

24 October 2008: UK gross domestic product fell by 0.5%, the first contraction since the second quarter of 1992 when the British economy was at the end of its last recession, and the biggest drop since the fourth quarter of 1990.[187]

27 October 2008: Japanese FSA bans naked short selling until 31 March 2009.[188]

29 October 2008: Federal Reserve cuts the Fed Funds rate to 1% from 1.5%,[189] and new swap lines are established with Brazil, Mexico, Singapore and Korea, each of $30 billion each.[190]

30 October 2008: The US economy shrank at an annual rate of 0.3% in the three months to September.[191]

31 October 2008: Secretary of State for Business gives Lloyds TSB plc’s acquisition of HBOS plc regulatory clearance, saying that “on balance”, ensuring the stability of the UK financial system justifies the anti-competitive outcome that the Office of Fair Trading identified and that “the public interest is best served by clearing the merger”.[192]

6 November 2008: the Bank of England reduced interest rates by 1.5 percentage points to 3%.[193]

The ECB cut interest rates from 3.75% to 3.25%[194]

The Chancellor issued a written statement to the Commons on the Icelandic bank, Landsbanki.[195]

9 November 2008: China announced a £373bn economic stimulus package to boost its economy.[196]

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186 Department of Finance Canada, Government of Canada Strengthens Canadian Advantage in Credit Markets, 23 October 2008

187 Angela Monaghan, “Sterling plunges as official figures show UK recession is on its way”, *Daily Telegraph*, 24 October 2008

188 Financial Services Agency, FSA strengthens restrictions on short selling, 27 October 2008

189 Federal Reserve, Press Release, 29 October 2008

190 Federal Reserve, Press Release, 29 October 2008

191 Larry Elliott, “US economy shrinks as anxious consumers slash spending”, *Guardian*, 30 October 2008

192 Department for Business, Enterprise & Regulatory Reform, Decision by Lord Mandelson, the Secretary of State for Business, not to refer to the Competition Commission the merger between Lloyds TSB Group plc and HBOS plc under Section 45 of the Enterprise Act 2002, 31 October 2008, p9, para 28

193 “Bank of England Reduces Bank Rate by 1.5 Percentage Points to 3%”, *Bank of England press release*, 6 November 2008

194 European Central Bank, Monetary policy decisions, 6 November 2008

195 HC Deb 6 November 2008 c26WS

196 Roland Gribben, “China provides massive boost for ailing economy”, *Daily Telegraph*, 10 November 2008

11 November 2008: the Business Secretary Peter Mandelson announced the creation of a new panel to monitor how banks were lending to small businesses.[197]

12 November 2008: the US treasury abandoned its plan to spend billions of dollars buying up illiquid mortgage assets, and would instead concentrate on improving the flow of credit for the US consumer. The plan to help US banks by taking toxic mortgage assets off their hands had been a cornerstone of the $700bn troubled assets relief programme.[198]

14 November 2008: gross domestic product in the Eurozone fell by 0.2pc for a second consecutive quarter in the third quarter, satisfying the technical definition for a recession.[199]

18 November 2008: the Chancellor issued a further written statement on the Bank Recapitalisation Scheme.[200]

19 November 2008: the International Monetary Fund approved a £1.4bn loan for Iceland. The British, Dutch and German governments later confirmed that they would give Iceland a combined $6.3bn in loans to cover the cost of compensating Icesave account holders.[201]

24 November 2008: in his pre-budget report, the Chancellor announced a £20 billion fiscal stimulus, including a reduction of VAT from 17.5% to 15% and the bringing forward of £3 billion of capital spending to support the economy, increasing capital budgets for 2008-09 and 2009-10.[202]

The US government announced a rescue plan for Citigroup.[203]

25 November 2008: the International Monetary Fund approved a $7.6bn standby loan for Pakistan to help the country avoid defaulting on its debt.[204] The US government injected a further $800bn (£528bn) into the financial system in another attempt to kick-start the mortgage and consumer lending markets.[205]

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197 "Panel launched to monitor Banks' small business lending", *BERR press release*, 11 November 2008

198 Graeme Wearden and Julia Kollewe, "US treasury abandons plan to buy up toxic mortgages", *Guardian*, 12 November 2008

199 Angela Monaghan, "Eurozone enters its first recession", *Daily Telegraph*, 14 November 20078

200 HC Deb 18 November 2008 c7-8WS

201 Rowena Mason, "UK Treasury lends Iceland £2.2bn to compensate Icesave customers", *Daily Telegraph*, 24 November 2008

202 HC Deb 24 November 2008 c489-503

203 Dan Milmo, "US puts up record $300bn in Citigroup rescue", *Guardian*, 25 November 2008

204 Demetri Sevastopulo, "IMF agrees $7.6bn Pakistan loan", *Financial Times*, 25 November 2008

205 James Quinn, "US injects further $800bn to kick-start lending", *Daily Telegraph*, 25 November 2008

26 November 2008: the European Commission announced plans for a £160bn economic recovery package.[206]

1 December 2008: the US recession was officially confirmed by the National Bureau of Economic Research.[207]

3 December 2008: the Government announced details of a new Homeowner Mortgage Support Scheme.[208]

4 December 2008: the Bank of England reduced interest rates by 1 percentage point to 2%.[209]

The ECB reduced interest rates to 2.5% from 3.25%.[210]

The French government announced a 26bn-euro plan to help the French economy, including a 1bn-euro loan for carmakers and 5bn-euros of new public sector investments.[211]

10 December 2008: the Treasury announced further details of the Homeowner Mortgage Support Scheme.[212]

11 December 2008: Bank of America announced that it was cutting up to 35,000 jobs following its merger with Merrill Lynch.[213]

14 December 2008: Irish government announces a recapitalisation programme for credit institutions in Ireland of up to €10 billion.[214]

15 December 2008: HM Treasury extends Credit Guarantee Scheme (first announced on 8 October 2008) from three years to five years.[215]

16 December 2008: the US Federal Reserve cut interest rates to a range of zero to 0.25% from 1%.[216][217]

19 December 2008: Japan cuts it main discount rate to 0.1%.[218]

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206 Geoff Meade, "Barroso unveils £160bn EU recovery plan", *Independent*, 26 November 2008
207 Dan Milmo, "Shares sink as US recession confirmed", *Guardian*, 2 December 2008
208 "New scheme to help people at risk of repossession", *Treasury press release*, 3 December 2008
209 "Bank of England Reduces Bank Rate by 1.0 Percentage Points to 2.0%", *Bank of England press release*, 4 December 2008
210 European Central Bank, Monetary policy decisions, 4 December 2008
211 "France unveils huge stimulus plan", *BBC News*, 4 December 2008
212 "The Homeowner Mortgage Support Scheme", *Treasury press release*, 10 December 2008
213 Dan Milmo, "Bank of America to cut 35,000 jobs", *Guardian*, 11 December 2008
214 Irish Department of Finance, Statement by the Government on the Recapitalisation of Credit Institutions, 14 December 2008
215 HM Treasury, Changes to Credit Guarantee Scheme, 15 December 2008
216 Federal Reserve, Press Release, 16 December 2008
217 James Quinn, "US interest rates slashed as low as zero", *Daily Telegraph*, 16 December 2008
218 Justin McCurry, "Japan slashes interest rates to 0.1%", *Guardian*, 19 December 2008

President Bush announced $17.4bn (£11.6bn) in short-term loans to General Motors and Chrysler, with the money coming from the Troubled Asset Relief Programme.[219]

21 December 2008: Irish government announces €2 billion recapitalisation investment each in Allied Irish Bank and Bank of Ireland, and €1.5 billion in Anglo Irish Bank.

31 December 2008: the FTSE closed down 31.3% since the beginning of the year, the biggest annual fall since the index began.[220]

8 January 2009: the Bank of England reduced interest rates by half a percentage point to 1.5%.[221]

12 January 2009: the Government announced extra help for people unemployed for over six months. This included "Employers' Golden Hellos"; new training places; work-focused volunteering options; and help to set up a business.[222]

14 January 2009: the Business Secretary Peter Mandelson announced new measures designed to address the cash flow, credit and investment needs of small and medium businesses.[223] An urgent question was asked in the Commons on the new measures.[224]

15 January 2009: the European Central Bank cut interest rates to 2% from 2.5%, bringing eurozone borrowing costs to a three-year low after four cuts in a row totalling 225 basis points (2.25 percentage points).[225]

Irish Government nationalises Anglo Irish Bank, stating that "the funding position of the bank has weakened and unacceptable practices that took place within it have caused serious reputational damage to the bank".[226]

16 January 2009: Bank of America was given a new injection of $20bn (£13.5bn) by the US government and a guarantee of $118bn on potential losses on toxic assets. The move came as Merrill Lynch, which had been taken over by BoA, reported a $15.3bn loss for the fourth quarter. BoA lost $1.79bn in the quarter. Citigroup posted a loss of $8.29bn and said it would split in two.[227]

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219 Dan Milmo, "George Bush hands car manufacturers $17.4bn lifeline", *Guardian*, 19 December 2008

220 "FTSE 100 index has its worst year", *BBC News*, 31 January 2008

221 "Bank of England Reduces Bank Rate by 0.5 Percentage Points to 1.5%", *Bank of England press release*, 8 January 2008

222 "Guaranteed extra help for people unemployed for six months", *DWP press release*, 12 January 2009

223 "Real help for business", *BERR press release*, 14 January 2009

224 HC Deb 14 January 2009 c217-29

225 David Gow, "ECB cuts eurozone interest rate to 2%", *Guardian*, 15 January 2009

226 Department of Finance, Ministers Statement, 15 January 2009

227 Phillip Inman and Julia Kollewe, "Financial crisis: Bank of America given $138bn rescue package", *Guardian*, 16 January 2009

UK ban on short selling expires but the disclosure requirements regarding short positions continues till 30 June 2009.[228]

19 January 2009: the Government announced new measures "to reinforce the stability of the financial system, to increase confidence and capacity to lend, and in turn to support the recovery of the economy". These included:

- extending the drawdown window for new debt under the Government's Credit Guarantee Scheme (CGS) which is designed to reduce the risks on lending between banks
- establishing a new facility for asset backed securities
- extending the maturity date for the Bank of England's Discount Window Facility which provides liquidity to the banking sector by allowing them to swap less liquid assets
- establishing a new Bank of England facility for purchasing high quality assets
- offering capital and Asset Protection Scheme for banks, with proposals for this to be co-ordinated internationally
- clarifying the regulatory approach to capital requirements, through an announcement by the Financial Services Authority.[229]

The Treasury issued a statement on the Asset Protection Scheme.[230]

A statement was also issued on the Government's decision to convert the Treasury's preference share investment in RBS Group plc to ordinary shares in order to:

- make available additional core tier 1 capital to the bank to strengthen its resources, enable it to absorb expected losses and permit it to restructure its finances
- give the bank the opportunity to build its capital further so that it is able to maintain and increase its support for the real economy by facilitating £6bn more lending to industry and homeowners, over and above existing commitments.[231]

The FSA made a statement on the development of the bank capital regulatory framework.[232]

The Chancellor made a statement to the Commons on the new measures to support the banking system.[233]

228 *Temporary Short Selling Measures*, FSA Feedback document
229 "Statement on financial intervention to support lending in the economy", *Treasury press release*, 19 January 2009
230 HM Treasury, Statement on the Government's Asset Protection Scheme, 19 January 2009
231 "Treasury statement on restructuring its investment in RBS to deliver further bank lending to industry and homeowners", *Treasury press release*, 19 January 2009
232 *FSA statement on regulatory approach to bank capital*, FSA, 19 January 2009
233 HC Deb 19 January 2009 c483-6

21 January 2009: French government announces further €10.5 billion to recapitalise French banks.[234]

28 January 2009: Federal Reserve keeps its target range for the Fed Funds rate at 0% to 0.25%, but adds that it is "prepared to purchase longer-term Treasury securities if evolving circumstances indicate that such transactions would be particularly effective in improving conditions in private credit markets".[235]

3 February 2009: Swedish government announces recapitalisation scheme of up to SEK 50 billion for solvent banks and certain other credit institutions incorporated in Sweden.[236]

Federal Reserve extends the expiry of existing liquidity programmes from 30 April to 30 October 2009.[237]

5 February 2009: The Bank of England reduces the Bank rate from 1.5% to 1.0%.[238]

9 February 2009: Barclays Bank has reported profits before tax of £6.1bn for the full year of 2008, down 14% on its profits taken in 2007.[239]

11 February 2009: Irish government agrees to invest €3.5 billion each in Allied Irish Bank and Bank of Ireland.[240]

23 February 2009: the Government announces a renegotiated business plan for the state owned Northern Rock bank. The main elements of the new agreement were an increase in the Government's contribution to the bank's capital base of £3 billion and an end to the policy under which the bank would not seek to wind down its mortgage lending as existing mortgages came up for renewal. The "new business strategy has been agreed that will see around £5 billion of new mortgage lending for 2009 and between £3 and £9 billion from 2010 onwards, subject to market demand".[241]

25 February 2009: Italy's Finance Ministry approves a €12 billion recapitalization plan for Italian banks.[242]

26 February 2009: details announced of the terms of the Government's Asset Protection Scheme. Under the scheme eligible institutions will be able to insure 90% of losses on existing loans subject

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234 Bloomberg, French Banks to Get EU10.5 Billion, Scrap Bonuses (Update1), 21 January 2010
235 Federal Reserve, Press Release, 28 January 2009
236 Ministry of Finance (Sweden), Government proposes measures to strengthen banks´ capital base in order to increase lending, 3 February 2009
237 Federal Reserve, Press Release, 3 February 2009
238 Bank of England, News Release: Bank of England Reduces Bank Rate by 0.5 Percentage Points to 1.0%, 5 February 2009
239 Annual Report 2008, Barclays
240 Department of Finance (Ireland), Recapitalisation of Allied Irish Bank and Bank of Ireland, 11 February 2009
241 Northern Rock, *Treasury press release* 26 February 2009
242 Bloomberg, Italy to Approve EU12 Billion Bank Recapitalization Plan Today, 25 February 2009

to an excess or 'first loss'. The terms of the fee and the extent of the 'first loss' will be decided on a case by case basis.[243] The scheme will last for at least five years. Participation in the scheme will also include guarantees of sustained lending to individuals and businesses and the adoption of approved remuneration policies.

RBS was the first participant under the scheme. It intends to insure £325 billion of loans for a fee of 2 per cent of the value of the assets insured (£6.5 billion). The first loss in this case is £19.5 billion and the 2009 lending commitments are £9 billion of additional mortgage lending and £16 billion of additional business lending.[244]

The Government also announced a further capital injection of £13 billion into RBS and commit to subscribe for an additional £6 billion at RBS's option.[245]

RBS reveals annual losses of £24bn.

27 February 2009: Lloyds TSB announces profits before tax for 2008 of £807 million. These profits *exclude* losses by the HBOS group of £10.8 billion.

2 March 2009: HSBC announce pre-tax profits of £6.5 billion and a rights issue of £12.5 billion.

American Insurance Group (AIG) announces a $61.7 billion loss in the fourth quarter of 2008, the largest in US corporate history.[246] The US Treasury Department and the Federal Reserve announced a restructuring of the government's assistance to AIG in order to stabilize the company and enhance its capital and liquidity.[247]

5 March 2009: Bank of England announced that it would undertake a policy of "quantitative easing". The Bank will purchase £75 billion of assets using money which it will create. The aim is to boost the economy and prevent inflation undershooting its 2% target.[248] This is accompanied by a further interest rate to 0.5% (from 1.0%). Although the 0.5% rate is the floor for UK interest rates in the crisis, the level of quantitative easing is increased during the subsequent months.

The ECB cuts interest rates to 1.5% from 2%.[249]

7 March 2009: Lloyds Banking Group announces participation in Asset Protection Scheme and to swap £4 billion preference shares held by government for new ordinary equity shares. Lloyds intends to insure

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243 Asset Protection Scheme
244 Asset Protection Scheme and increased lending, 26 February 2009
245 HM Treasury, Asset Protection Scheme and increased lending, Press release 19/09, 26 February 2009
246 Reuters, AIG has $61.7 billion loss, new U.S. aid may not be last, 2 March 2009
247 Federal Reserve, U.S. Treasury and Federal Reserve Board Announce Participation in AIG Restructuring Plan, 2 March 2009
248 Bank of England reduces Bank Rate by 0.5 percentage points to 0.5% and announces £75 billion asset purchase programme, Bank of England News Release, 5 March 2009
249 European Central Bank, Monetary policy decisions, 5 March 2009

£260 billion of loans for a fee of £15.6 billion to be paid for in the issuance of further ‘B’ shares. Under the agreement the Government will not take up voting shares such that its holding exceeds 75%.[250] The first loss in this case is £25 billion, and the lending commitments are £3 billion of additional mortgage lending and £11 billion of additional business lending over the next 12 months.[251]

9 March 2009: FTSE-100 hits six year low of 3,460.

12 March 2009: FSA Chief Executive Hector Sants delivers his “People should be very frightened of the FSA” speech.[252]

18 March 2009: publication of the Turner Review.[253]

18 March 2009: the Fed steps up its policy of “credit easing” similar to the quantitative easing employed by the Bank of England: “to help improve conditions in private credit markets, the Committee decided to purchase up to $300 billion of longer-term Treasury securities over the next six months.” This is in addition to the $1.25bn of mortgage-backed securities and $200bn of agency debt that has been, and will be, purchased in 2009.[254]

23 March 2009: the US Treasury announces details of the public-private bank purchase of toxic loans and securities. Using $75-100bn of TARP funds, the Treasury will invest in the purchase of toxic assets that remain difficult to sell on the market. Reducing risk to encourage private investment, the Fed will make available low-interest loans for purchasing securities while the FDIC will offer guarantees against losses on loans. The Treasury hopes the bank will initially make $500bn of purchases, potentially rising to $1tr; profits will be shared equally by the Treasury and private sector. [255]

26 March 2009: US Treasury unveils plans for a new regulatory framework. The framework details four components of regulatory reform: addressing systemic risk, protecting consumers and investors, eliminating gaps in the regulatory system and fostering international coordination.[256]

30 March 2009: The Dunfermline Building Society – which announced £26m in losses, principally arising from its residential and commercial mortgage assets – is taken over by the Nationwide Building Society.

[250] Lloyds Banking Group, Asset protection scheme and replacement of preference shares, 7 March 2009
[251] HM Treasury, Asset Protection Scheme - agreement with Lloyds, press release 23/09, 7 March 2009
[252] Delivering intensive supervision and credible deterrence, FSA 12 March 2009
[253] The Turner Review a regulatory response to the global banking crisis
[254] Press Release, Federal Reserve, 18 March 2009
[255] Treasury Department Releases Details on Public Private Partnership Investment Program, US Treasury Press Release, 23 March 2009
[256] Treasury Outlines Framework For Regulatory Reform, US Treasury Press Release, 26 March 2009

The Treasury will take on approximately £1.5bn in residual bad assets.[257]

2 April 2009: Having jointly pledged to repair the financial system, restore lending and rebuild trust, the G20 meeting also saw the "Enhancing Sound Regulation and Strengthening Transparency" (WG1) and "Reinforcing International Cooperation and Promoting Integrity in financial Markets" (WG2) working groups report back. While WG2 mainly focused on the creation of a "college of supervisors", WG1 offered 25 specific recommendations including broadening regulations to cover all systemically important institutions, the use of pro-cyclical capital and liquidity buffers, pan-national regulatory harmonisation and improved regulatory provisions in key areas such as credit rating agencies and derivative trading.

ECB cuts its main refinancing rate to 1.25% from 1.5%.[258]

4 April 2009: Treasury Select Committee releases the report Banking Crisis: The impact of the failure of the Icelandic banks.

22 April 2009: The Treasury publishes Budget 2009.

1 May 2009: Treasury Select Committee releases the report Banking Crisis: dealing with the failure of the UK banks.

7 May 2009: Barclays announces a pre-tax profit of £1,372m for the first quarter of 2009 – 15% more than the first quarter of 2008.[259]

Lloyds Banking Group announces a £826m profit for the first quarter of 2009. However, it also issued a profit warning suggesting that it was expecting to make a loss for 2009.

The Bank of England votes to continue its policy of quantitative easing, and increases the size of its asset purchase fund by £50bn to £125bn.[260]

The European Central Bank announces that it would lower its main refinancing rate to 1% and continue to provide unlimited short-term and longer-term liquidity to the market for at least a further 12 months.[261] The ECB also announced its intention to purchase €60bn of euro-denominated covered bonds (a particularly safe form of asset-backed

257 Nationwide takes over Dunfermline, BBC, 30 March 2009
258 European Central Bank, Monetary policy decisions, 2 April 2009
259 Interim Management Statement, Q1 2009, Barclays, 7 May 2009
260 Bank of England Maintains Bank Rate at 0.5% and Increases Size of Asset Purchase Programme by £50 Billion to £125 Billion, Bank of England News Release, 7 May 2009
261 Reuters, ECB to buy covered bonds, 7 May 2009

security[262]) from primary and secondary markets.[263] The operational details of the programme, which permits that ECB to purchase a wide variety of covered bonds, were published on 4 June.[264]

US Treasury and Federal Reserve release the results of their "stress tests" under the Supervisory Capital Assessment Program.[265] Treasury states that: "The assessment announced today will help strengthen the lending capacity of banks, with greater transparency and actions to reinforce the amount of capital banks hold against the risk of future losses." Of the 19 financial institutions facing the test, the Treasury concluded that 10 would require further capital: Bank of America, $33.9bn; Citigroup, $5.5bn; Fifth Third Bancorp, $1.1bn; GMAC, $11.5bn; KeyCorp, $1.6bn; Morgan Stanley, $1.8bn; PNC Financial Services Group, $0.6bn; Regions Financial Corporation, $2.5bn; Sun Trust Banks, $2.2bn; Wells Fargo, $13.7bn.[266]

8 May 2009: RBS announces a pre-tax loss of £44m for the first quarter of 2009. Losses rise to £857m after tax and shareholder payouts.[267]

11 May 2009: HSBC announces that it had made a "resilient" start to 2009 with profits exceeding those made in the first quarter of 2008.[268]

15 May 2009: Treasury Select Committee releases the report Banking Crisis: reforming corporate governance and pay in the City.

4 June 2009: The Bank of England maintains its headline interest rate at 0.5%, and votes to continue with its asset purchase facility.[269]

4 June 2009: Federal Reserve Bank of New York President William Dudley warns that the revival of the Commercial Mortgage-Backed Security (CMBS) market is "essential to stabilising the commercial real estate market" adding if it does not revive, a "vicious circle" will be created that will "likely further constrain credit availability".

262 An asset-backed security is a financial asset that pools together a large number of assets to create a security backed by a large number of interest-yielding assets as collateral. ABSs are often divided into homogeneous or heterogeneous portions (or tranches) for sale to a number of investors. The asset, or one of its tranches, may be bought and sold on the market, or purchased to pay periodic interest in exchange for a fee. The cost of purchasing an ABS reflects its risk profile. In theory, by pooling assets the security becomes more attractive because of the fall in the risk of a substantial default. However, the expected return to the asset will remain unchanged.
263 Reuters, ECB to buy covered bonds, 7 May 2009
264 ECB Press Release, Purchase programme for covered bonds, 4 June 2009
265 Statement from Treasury Secretary Tim Geithner regarding the Treasury Capital Assistance Program and the Supervisory Capital Assessment Program, US Treasury Press Release, 7 May 2009
266 The Supervisory Capital Assessment Program: Overview of Results, US Treasury, 7 May 2009
267 Interim Management Statement, Q1 2009, RBS, 8 May 2009
268 Interim Management Statement, HSBC, 8 May 2009
269 Bank of England, Bank of England Maintains Bank Rate at 0.5% and continues with £125 Billion Asset Purchase Programme, Press Release, 4 June 2009

9 June 2009: Ten US banks in receipt of government support are set to repay the US Treasury $68bn. The banks include American Express, Goldman Sachs, JPMorgan Chase and Morgan Stanley.[270]

12 June 2009: Barclays agrees to the sale of its Global Investors fund management firm to money market firm Blackrock for £8.2bn.

25 June 2009: Bank of England's six monthly *Financial Stability Report* noted that "market sentiment has improved in recent months ... Perceptions of banks' resilience have improved ... Market contacts report somewhat better conditions in funding markets, with signs that creditors are willing to provide finance without government guarantees, though term funding in unsecured money markets remains constrained. Notwithstanding these positive developments, balance sheets of banks internationally remain weak ... As long as these balance sheet vulnerabilities persist, there is a risk to the banking system from further adverse economic or financial sector developments, which could in turn affect lending and economic recovery".[271]

2 July 2009: The Swedish central bank (Riksbank) announces that it will cut its deposit rate to -0.25%,[272] described by the Financial Times as "unchartered territory".[273]

6 August 2009: The Bank of England increases its quantitative easing by a further £50 billion to £175 billion, while maintaining interest rates at 0.5%.

5 November 2009: The Bank of England increases its quantitative easing by a further £25 billion to £200 billion, while maintaining interest rates at 0.5%.

25 November 2009: The Chancellor tells the House that the Bank of England provided liquidity to Halifax Bank of Scotland and Royal Bank of Scotland from October 2008. The support provided peaked at £36.6 billion for RBS (17 October 2008) and £25.4 billion for HBOS (13 November 2008), and in return the banks deposited collateral at the Bank of England and were charged fees.[274] The *Financial Times* reported that "although Lloyds shareholders were told [during the acquisition process] HBOS would have to 'substantially rely for the foresee-able future' on Bank of England liquidity support, they found out only the extent of the stricken bank's problems" when the Chancellor made his statement to the House.[275] The Chancellor said "there has been no cost to the taxpayer", and added that the Treasury

[270] Treasury Announces $68 Billion in Expected CPP Repayments, US Treasury Press Release, 9 June 2009
[271] Bank of England, Financial Stability Report, June 2009, pp6–7
[272] Sveriges Riksbank, Repo rate cut to 0.25 per cent, press release, 2 July 2009
[273] Financial Times, Central banks keep close eye on Swedish negative rates move, 28 August 2009
[274] HC Deb 25 November 2009 c533
[275] Financial Times, Lloyds investors 'mugged' over HBOS, 26 November 2009

had provided an indemnity to the Bank in respect of its liquidity operations.[276]

Dubai's Department of Finance asked for a standstill (until May 30) on all financing to the heavily indebted Dubai World and its troubled property unit Nakheel.[277] As a result, the next day the FTSE-100 fell by 3.2% with financial shares badly hit (Barclays shares were down 8%).[278]

4 December 2009: National Audit Office publishes a report *Maintaining financial stability across the United Kingdom's banking system*.[279]

9 December 2009: in the Pre-Budget Report, the Government announced a temporary bank payroll tax of 50 per cent will apply to discretionary bonuses above £25,000 awarded in the period from Pre-Budget Report to 5 April 2010 for each individual employee.[280]

18 December 2009: In its six-monthly *Financial Stability Report*, the Bank of England reported that "The financial system has been significantly more stable over the past six months, underpinned by the authorities' sustained support for the banking system and monetary policy measures". It said that "Activity in many capital markets has resumed, reducing financing risks for some borrowers. The market rally has boosted bank profits and lowered concerns about potential future losses, and banks have raised further external capital". It added that "overstretched balance sheets will take time to adjust fully. Around the world, a number of borrowers, including in the commercial property sector, have large refinancing needs in the coming years ... Banks need to reduce leverage further, extend the maturity of their funding and refinance substantial sums as official sector support is withdrawn".[281]

1 January 2010: Northern Rock is restructured by the Government into two parts:[282] "Northern Rock plc", described as the "good bank", would hold all savings accounts (currently amounting to £19 billion), carry out new lending and hold £10 billion of existing mortgages. It will also hold certain wholesale deposits, and; Northern Rock (Asset Management) plc, the "bad bank" would hold the majority of the mortgage book — about £50bn — and repay outstanding government loans.[283]

24 February 2010: UK Government announced that it would withdraw the 100% guarantee to all savers with Northern Rock bank on 24 May

276 HC Deb 25 November 2009 c533
277 Financial Times, Dubai stuns debt markets, 26 November 2009
278 Financial Times, Dubai sends markets into turmoil, 27 November 2009
279 National Audit Office, Maintaining financial stability across the United Kingdom's banking system, 2009-10 HC 91, 4 December 2010
280 HM Treasury, Pre-Budget Report 2010, Cm 7747, December 2009, p41
281 Bank of England, Financial Stability Report, December 2009, p5
282 HM Treasury, Treasury confirms 1 January restructuring of Northern Rock, press release 116/09, 8 December 2009
283 BBC News, Northern Rock split date is set, 8 December 2009

2010, meaning they would revert to the £50,000 limit applying to all other savers with FSA registered savings institutions..[284]

25 February 2010: Royal Bank of Scotland announces a loss of £3.6 billion for 2009, but said it would pay £1.3 billion in bonuses to staff.

9 March 2010: FTSE-100 at 57% above the low point reached a year earlier.

24 March 2010: in his Budget Statement, the Chancellor sounded a note of caution, saying: "There are still uncertainties. Financial markets are febrile. Oil prices have increased by over 50 per cent. Bank credit, while improved, still remains weak in many parts of the world. Confidence has not fully returned to either businesses or consumers".[285]

The Government also announced its intention to integrate its holdings in Northern Rock Asset Management, and Bradford and Bingley,[286] which is viewed as a step towards their sale.[287]

8 April 2010: the difference (or "spread") between yields of Greek government bonds over their German equivalent (Bunds) hit the highest point since Greece joined the European single currency. The spread was 456 basis points, indicating that investors are demanding a premium of 4.56% to hold Greek government bonds compared to Bunds, even though both are denominated in Euros.

12 April 2010: Euro area member states state that they have agreed upon the terms of the financial support that will be given to Greece, if it asks for it, including up to €30 billion for financing needs.[288] Reuters reported that "together with at least 10 billion euros expected from the International Monetary Fund in the first year, it could add up to the biggest multilateral financial rescue ever attempted".[289]

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284 BBC News, Northern Rock to lose 100% savings guarantee, 24 February 2010
285 HC Deb 24 March 2010 c250
286 HM Treasury, Budget 2010, March 2010, 2009-10 HC 451, p45, para 3.63
287 Daily Telegraph, Northern Rock and Bradford & Bingley to merge, 25 March 2010
288 Daily Telegraph, Eurozone countries' statement on Greece's financial package: the text in full, 12 April 2010
289 Reuters, Euro zone readies Greece rescue package, 12 April 2010

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