

## **4. Results of the research**

### *4.1 Thematic Analysis*

#### 4.1.1 Excessive Approval of Loans

During the interview it has been observed that the downfall of Northern Rock was due to the excessive approval of loans as when the respondents of the interview were asked about the reason behind the downfall of the bank. Their responses show that they believe that the bank was continuously approving the loans before the downfall which was the sign of weakening the business process of Northern Rock. As respondent A stated that:

*“In my opinion Subprime Mortgage Crises was the main reason behind the crisis of bank as they started approving loans for housing schemes without checking that people availing these loans have the ability to pay it back or not.”*

On the other hand, when respondent B asked was about the same predicament, he replied as,

*“I think that the directors of Northern Rock were having the opportunity to analyse the market situation and observed the crisis. They had an opportunity to make their strategy to not provide excessive loans specifically to those who were not meeting the banks criteria of obtaining loan approval.”*

Based upon the responses of respondents it has been observed that there was the crisis in all over the market regarding the loans and people who have been getting their loans approved

were not actually meeting the criteria of loan approval. According to the study conducted by (Ekadjaja, 2018), it has been found that there must be minimum amount of income for every individual getting his loan approved and the proof of their income should be authentic. Reason behind this excessive approvals of loans was to make business for long term profit of the bank but the directors of bank were neglected the fact that people who does not have the ability to pay their instalment today would not necessarily be able to pay it tomorrow.

#### 4.1.2 Increase Number of Loan Defaulters

While conducting the interviews from the people who have been employee or manager at Northern Rock, it has been found that the people who have got their loans approved from Northern Rock became defaulter of the loan later. Analysing the responses of the respondents' second theme which has been made is increased number of loan defaulters, as one of the respondents stated that:

*“When the issues of subprime mortgage were rising, the directors of the bank should have analysed the situation and discontinued the process of approving more loans for new property. But instead of focusing their attention towards recovery they keep on approving more loans assuming that this would help them in future and their assets will be increases.”*

Another respondent replied as:

*“Higher management of the Northern Rock was interested to create more assets for the bank as this is the general perception that if there are the larger number of people who have availed the*

*loans for making their assets, they will be paying interest for long term and bank would have an opportunity of recovering their amount whenever they would become a defaulter by capturing their property.”*

From these responses it has been analysed that the Northern Rock was approving more loans for property but after the subprime mortgage when the ability of the people to buy property against cash almost finished. Situation went worst for the bank and they were unable to recover their amount even when they tried to auction the captured property. It has been observed that the increased number of loan defaulter requires the bank to put more effort to recover their investment and this increases the expenditures of the bank as well increases the difficulties for them to find the buyers at their auctions (Tariq et al., 2019).

#### 4.1.3 Negligence of Long-Term Benefits of Shareholders

When the respondents of the study were asked about the shareholder's value from the perspective of the board of directors of Northern Rock, it has been found that they strongly believed that the board of directors of the Northern Rock were neglecting the value of shareholders in terms of their long term benefits. This theme has been defined by analysing the response of one of the respondents who was of the opinion that:

*“I think that the board of directors should be focused towards the interest of the company and the element of conflict of interest should not be present over there. Although the board of directors of Northern Rock tried their best to create more assets for the bank assuming that this*

*would create a value for the shareholders of the bank, but the outcomes of their decision made them loose the situation.”*

Strategy of the board of directors of the Northern Rock was never in the favour of the shareholders, as initially they were trying to help their careers only by investing their cash in the housing schemes believing that this would help the bank to grow and their career would also be benefited. However, after the downfall they introduced bonds for short term solution neglected the long term benefits of the shareholders and eventually they lost their market and became insolvent. By the response of the respondents it has been analysed that the board of directors refused to value the shareholders for their long term benefits and when they introduced the bonds to support their downfall, the problems for the bank increased. As the number of liabilities for the bank increases when they introduce bonds and certificates as they would be required to pay interest for the people who have invested in bonds (Park, Taniguchi, and Tian, 2018). Moreover, there were no more capability among the people to provide business opportunity for the bank and they had to face the insolvency.

#### *4.2 Discussion*

Analysing the responses of both the respondents of the study, it has been observed that the subprime mortgage crises was the main reason behind the downfall of the Northern Rock. Both the respondents said that the bank approved excessive loans against the housing schemes. According to the study that has been conducted by (Gutierrez, 2016), it has been observed that there are different criteria for different kind of loans such as, education, car or property. Moreover, another study conducted by (Kvisgaard, and Vale, 2018), contributed that if the bank

start approving the loans for the people who are not actually meeting the criteria, there are the chances that the bank would have to face the money crisis. Similar situation has been analysed in the case of Northern Rock.

When the respondents of the study were asked about the reason behind the money crisis of the Northern Bank, it has been observed that they believe that increased number of loan defaulter created the problems for the company. It has been observed that when the people become defaulter, banks have the opportunity to recover their amount by taking over the property which has been mortgage against the loan (Diaz-Serrano, 2019). But in the case of Northern Rock, it has been observed that people who were interested to invest in property were not having the ability to purchase it against cash. According to the study conducted by (Jochemsen, and Koole, 2018), it has been observed that when the people in the market does not have the ability to purchase, the demand would be decreased and so the price would also be decreases.

It has been observed that it is the responsibility of the board of directors of any bank to focus the long term benefits of the shareholders (Zhong, Wang, and Yang, 2017). However, the respondents of the study stated that the board of directors of the Northern Rock neglected the long terms benefits of the shareholders due to their conflict of interest. In the light of the study which has been conducted by (Ongklang, 2016), it has been observed that if the long term value of the shareholders of any company is neglected then there are the chances of the downfall for the company. Therefore it is clearly evident that there were the accountability issues in the case of Northern rock which lead them towards the downfall.