1. Introduction

1.1 Background of the Company

Northern Rock previously known as ‘Northern Rock Building Society’ converted into the Northern Rock Bank in 1997. Northern Rock Bank issued its shares for general public trading in the London stock exchange market; the company had an influential position in providing home finance in the UK and it's also a part of British’s reputable Financial Times Stock Exchange (FTSE) 100 segment (O'Connell, 2017). The organisation eventually nurtured and became a source of income for many. In the early 2000s the company borrowed a substantial amount of money for the purpose of funding mortgages. In the early 2000s Northern Rock was promoted to Financial Times Stock Exchange (FTSE) 100 Index, but was demoted from its position soon due to its poor financial performance. The global banking crisis that started in 2007-08 meant they were unable to produce sufficient income from their loans. Unable to sustain its position, it was nationalised due to poor accountability issues and ill strategic planning (O'Connell, 2017).

1.2 Review of the problem

Northern Rock was nationalised in 2008 by the British government as it was unable to pay for the borrowed loans. The downfall of the company began when it started giving more loans than what they had deposited. They adopted ‘originate to distribute’ theory where they did not hold loans until maturity and starting providing services to their investors. Northern Rock continued with their lending policy without acknowledging its consequences and increased its liquidity by 2.3 Euros at half year stage (Reurink, 2016). As observed by Reurink (2016) demise of sub-prime mortgage market in US triggered the turmoil in global financial market. The securitisation market collapsed and Northern Rock could not roll over the current contracts. The mortgage crisis in the US made people in UK cautious and they started withdrawing their money which further increased the problems for Northern Rock. In February 2008 the bank became a part of the public sector after not receiving sufficient value for money from private bidders. The major reasons for its failure were poor accountability skills, hazardous business plan which was not revised by the supervisory authority regularly (Arnold, 2017).

The management has completely lost touch with the current situation and had no clue on what was happening. It was concluded that The Northern Rock failed not because of mortgage lending or credit squeeze, As a matter of fact, it caused credit squeeze which created negative wealth effect. The bank relied on Bank of England for liquidity support; it could not cope with the pressure when the capital market froze. According to Khan and Hashim (2014) Financial Service Authority (FSA) did not supervise the financial condition of Northern Rock Bank properly although the defects in the business model were clearly noticeable. The Bank of UK did not show legal interest in the matter until it was too late to take action upon the situation.