Thank you for your question to the Chancellor of the Exchequer regarding the costs incurred for administrators, lawyers and consultants after the partial transfer of sections of Dunfermline Building Society to Nationwide. I am replying as Minister responsible for this policy area.

As you are aware, the administrator's fees are paid from the receipts generated through the administration of the assets in line with standard procedure in an administration. The remuneration and expenses of the Building Society Special Administrators are paid in accordance with the Banking Act 2009 (and the Building Society Special Administration (Scotland) Rules 2009).

Fees charged by the administrator in connection with the management of the remaining assets of Dunfermline Building Society up to the most recent notification date, 29th September 2009, are £6,102,258.

It is worth noting that the Bank of England and the Treasury may be reimbursed for the costs they have incurred (i) from the FSCS; and (ii) for certain costs incurred in connection with the Bridge Bank from the Dunfermline Resolution Account.
The FSCS

The Financial Services Compensation Scheme may be required to contribute to the costs incurred by the authorities in connection with the resolution, in accordance with section 214B of the Financial Services and Markets Act 2000 and the Financial Services and Markets Act 2000 (Contribution to Costs of the Special Resolution Regime) Regulation 2009 (S.I. 2009/807) up to the net cost that the FSCS would have had to incur in a counterfactual scenario where the institution had instead gone into insolvency as determined by an independent valuer. Such a contribution by FSCS should reduce significantly, and potentially completely, the cost to the public funds of resolving a failing institution.

Dunfermline Resolution Fund Account

As you will be aware, on 31 March 2009, the Bank of England transferred Dunfermline’s social housing loans book (and a small number of related deposits) to a bridge bank (wholly owned and controlled by the Bank of England). This business was later sold and transferred to Nationwide Building Society and the Bridge Bank received a cash payment from Nationwide in consideration for the Bridge Bank’s business.

Following the winding up of the Bridge Bank, under the terms of Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009 (S.I. 2009/1800) (“the Compensation Scheme Order”), the Bank of England must pay any distributions from the liquidation of the Bridge Bank into the Dunfermline Resolution Account.

The Bank of England and the Treasury have the power to recover certain costs incurred in connection with the Bridge Bank from the Dunfermline
Resolution Account. These costs could include the costs incurred by the authorities for professional advice in connection with this aspect of the resolution. Before any costs may be reimbursed from that account, the Treasury must approve those costs and refer them to an independent valuer to be certified as having been properly and reasonably incurred by the respective authority. Following any such deductions, the residual money in the Account will be paid to Dunfermline Building Society (in building society special administration).

For completeness, it is worth noting that professional advisers were engaged directly by the Bridge Bank, and as such, those costs are paid by the company itself. These costs are expected to be in the region of £3 million.

Costs incurred to date, by HM Treasury, for lawyers and consultants after the partial property transfer are £262,711. The Bank of England in their role as the lead resolution authority, have incurred legal costs of approximately £300,000 during that same period.

I hope that you find this response useful, and thank you for making me aware of these concerns.
Yours truly,

Paul Myners
Financial Services Secretary to the Treasury