



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

16 June 2011

Southsea Mortgage and Investment Company Limited

Following a decision by the Financial Services Authority (FSA) to initiate the special resolution regime (SRR), and a subsequent application to court by the Bank of England, Southsea Mortgage and Investment Company Limited (Southsea) has been placed into the Bank Insolvency Procedure and BDO LLP (BDO) has been appointed bank liquidator. As of today, Southsea has therefore ceased trading.

The failure of Southsea, a small bank with just over 250 depositors, follows a deterioration in its financial position as a result of management decisions and the firm's specific business model. At failure, the firm had retail deposits of £7.4 million.

The Financial Services Compensation Scheme (FSCS) is in place to protect eligible deposits up to the insured limit of £85,000. As a result of Southsea entering the SRR, the FSCS will pay compensation to each eligible depositor up to the limit of £85,000. In order to minimise disruption and to provide access to funds, the FSCS intends to make its payout as quickly as possible. Retail depositors do not need to contact the FSCS to receive a payout as the FSCS will be contacting them. Further details about the payout, including information about whether deposits are eligible, can be found at www.fscs.org.uk or by calling the FSCS on 0800 678 1100 or 020 7741 4100. Eligible depositors with amounts in excess of the insured limit of £85,000 may be entitled to receive a share of their savings above this limit, as part of the insolvency process.

Depositors who are not covered by the FSCS will, like other creditors of Southsea, be able to claim in the insolvency. Such creditors should contact the bank liquidator, BDO, to register their claim on 020 7486 5888.

Anyone with mortgages or loans from Southsea should continue to make repayments and service their debts in the normal way. If they have any queries, they should contact BDO using the telephone number above.

In making this decision, the FSA have determined that the conditions for initiating the SRR under the Banking Act 2009 were met: ie that Southsea no longer satisfied the FSA's threshold conditions for operating as a deposit-taker, and that it was not reasonably likely (ignoring any action which could be taken under the Banking Act) that action would be taken by, or in respect of, Southsea that would enable it once again to satisfy the threshold conditions. In applying to the court, the Bank of England has acted under the

powers conferred on it by the Banking Act 2009, having regard to the Code of Practice issued by HM Treasury. The decision followed discussion with the FSA and HM Treasury and an evaluation of the possible resolution options against the SRR's objectives laid down in the Banking Act.

Notes to Editors

1. Objectives of the special resolution regime

The Banking Act 2009 created a special resolution regime (SRR) which gives the Authorities – HM Treasury, Bank of England and Financial Services Authority (FSA) – a permanent framework providing tools for dealing with distressed UK banks and building societies. When selecting and exercising these tools, the relevant authority must have regard to the following special resolution objectives set out in the Act:

- to protect and enhance the stability of the financial systems of the United Kingdom;
- to protect and enhance public confidence in the stability of the banking systems of the United Kingdom;
- to protect depositors;
- to protect public funds;
- to avoid interfering with property rights in contravention of a Convention right (within the meaning of the Human Rights Act 1998).

These objectives are not ranked in the Banking Act – they are to be balanced as appropriate in each case.

2. Special resolution regime tools

The special resolution regime (SRR) tools under the Act comprise:

- Placing the whole of the bank or building society into the Bank Insolvency Procedure (or Building Society Insolvency Procedure), which facilitates a rapid payout by the Financial Services Compensation Scheme (FSCS) to eligible depositors, or the transfer of their deposits.
- Transferring all or part of the business of a bank or building society to a private sector purchaser or a bridge bank owned by the Bank of England. Where only part of the business is transferred, the remainder of the bank or building society may be placed into a Bank Administration Procedure.
- Transferring the bank or building society to temporary public ownership of HM Treasury.

3. Southsea entry into the SRR

The Bank of England's action follows the FSA's determination (after the required consultation with HM Treasury and the Bank of England) that the general conditions of the special resolution regime were satisfied, including that:

(i) Southsea failed to satisfy the threshold conditions for operating as a deposit taker under the Financial Services and Markets Act 2000; and

(ii) it was not reasonably likely (ignoring any action which could be taken under the Banking Act) that action would be taken by, or in respect of, Southsea that would enable it to satisfy the threshold conditions.

On the Bank of England's application, the Court was satisfied that Southsea was unable, or likely to become unable to pay its debts, in accordance with Section 96 of the Banking Act 2009.

4. Further information about the **Special Resolution Regime** is available on the Bank of England's website.

5. The FSCS is the UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS is independent of the government, the Bank of England and the financial industry, and was set up under the Financial Services and Markets Act 2000.

6. Contact details for media enquiries:

FSCS

Website:

<http://www.fscs.org.uk/news/2011/june/fscs-protecting-southsea-mortga-87hqei2e/>

Press Office telephone number: 020 7892 7370

BDO

Website: www.bdo.co.uk/southseamortgageandinvestmentcompanyltd

Press Office telephone number 020 7397 7370 or 07796 894 879

HMT

Website: www.hm-treasury.gov.uk/

Press Office telephone number: 020 7270 5238

FSA

Website: <http://www.fsa.gov.uk/pages/consumerinformation/firmnews/2011/southsea.shtml>

Press Office telephone number: 020 7066 3232