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Additionally, I have announced today the details of the Government guarantee scheme for new lending between banks, an essential part of banks' resuming lending to people and businesses. The guarantee under the scheme will be provided by Her Majesty's Treasury directly. It will be temporary, covering new lending issued during a six-month period, but that period is renewable. It will be priced on commercial terms, which can be varied at the Treasury's discretion but will initially be set at a premium of 50 basis points

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above the recent average cost of default insurance for each of the participating banks. In other words, it is risk based.

The guarantee scheme will be available only to those banks and institutions that participate in the Government's recapitalisation scheme, as I made clear last week. The banks taking part in the scheme are given the option of raising capital in the open market, in the usual way, or through the Government's bank reconstruction scheme. When raising capital through the reconstruction fund, the participating banks receive an investment from the Government in return for shares.

Let me outline, in turn, the position of each of the eight major UK banks and building societies that agreed to the recapitalisation proposals last week. Santander has agreed to transfer £1 billion of capital to its UK operations. Barclays will raise more than £10 billion by next spring through a combination of preference and ordinary shares raised from private sources and other measures. HSBC announced last Friday that it will raise £750 million of new capital for its UK operation in the open market. Standard Chartered has announced that it has already met its agreed capital requirements, and Nationwide building society has announced that it will increase its capital base by £500 million.

Let me now outline how HBOS, Lloyds TSB and RBS will be recapitalised through the bank reconstruction fund. Subject to take-up by existing shareholders, the Government will take significant shareholdings in these banks—in one case, a majority stake—and in line with normal commercial practices, the Government, on behalf of taxpayers, will have appropriate representation on their boards. These shareholdings will be managed on a fully commercial basis by an arm's length body with a precisely defined remit to act in the interests of taxpayers. Government support in respect of these three banks is tied to conditions covering executive pay and dividend policies, and conditions have also been agreed with them on the level of lending to small businesses and home buyers. We are making it clear that there will need to be a strong focus at these recapitalised banks on making available lending for small businesses and home buyers. These conditions are set out in the individual agreements with the banks, copies of which will be placed in the Library.

In the case of Lloyds TSB and HBOS, the Government will purchase both ordinary and preference shares once the merger is complete. HBOS will receive up to an £8.5 billion investment in newly issued ordinary shares on completion of the merger. The Government will also invest up to £4.5 billion in newly issued ordinary shares of Lloyds TSB at completion. At the same time, we will invest up to an additional £4 billion in preference shares in the merged institution, with £3 billion of which being invested in HBOS and £1 billion in Lloyds TSB. In return for this investment, which potentially represents around 44 per cent. of the proposed merged bank, the Government will appoint two independent board members. No cash bonuses will be paid to any board member this year. Directors in HBOS will be asked to relinquish their rights to bonuses, and directors in Lloyds TSB will receive restricted stock instead of cash for any 2008 bonus entitlements. The availability of lending to home owners and small businesses will be maintained at at least 2007 levels, and greater support

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will be given to people experiencing difficulties with their mortgage payments to help them stay in their homes.

For RBS, the Government will take up to £15 billion of ordinary shares and £5 billion of preference shares. This potentially represents a 63 per cent. interest in the bank, in return for which the Government will appoint three independent board members. Again, no bonus will be awarded to any board member this year, and any bonus paid next year will be in stock and linked to long-term growth in the bank. Mortgage and small and medium-sized business lending availability will be maintained at 2007 levels for the benefit of people up and down the country. These steps will help to put RBS on a stronger footing and allow it to build on its core retail banking operation.

These announcements represent a total recapitalisation of just under £50 billion for the eight major banks, in line with my announcement last Wednesday, and, as I said then, more capital is available to smaller institutions should they need it. The Government do not want to run Britain's banks—we want to rebuild them. The long-term future of UK banks lies in the private sector, and we will aim to sell the public share in the participating banks as soon as is feasibly possible, but our objective today is to stabilise and rebuild, and we will maintain our stake for as long as it takes to do that.

I want to say a few words about the Icelandic banks. I met the Icelandic Finance Minister in Washington at the weekend, and I made it very clear that it is imperative that we work together to resolve the position of creditors in this country. Our authorities have set up an arrangement, agreed in principle, for an accelerated pay-out to depositors, and we are also working with the Icelandic authorities to facilitate claims by UK charities and local authorities on their deposits held at these Icelandic banks. In addition, the Bank of England is today providing a short-term secured loan of up to £100 million to Landsbanki, to help maximise returns to UK creditors.

All the operations of the bank reconstruction fund will give the Government a capital stake—an investment—so that money we borrow is exchanged for valuable assets, and because some of these shares are purchased on preferential terms the Government are better protected and get a better return. The Government guarantee to support new lending between banks will be charged on full commercial terms, ensuring that the taxpayer is appropriately rewarded. The injections of liquidity through the special liquidity scheme and other operations simply allow banks to swap securities with the Bank of England, so that the risk remains with the banks and not the taxpayer—in other words, we get the money back. So, any additional borrowing and debt incurred by the Government as a result of these proposals will be in return for assets, charged at commercial rates or in the form of a temporary loan to the banks. Therefore, as with the temporary nationalisation of Northern Rock, the most appropriate measures of Government borrowing and debt to judge the position of the public finances will be those that exclude the Government's stake in the banking sector.

The principles that I announced last week are now being adopted across the major world economies, and it is essential that Governments work together, decisively

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and quickly, to stabilise the system today and to take action to prevent these problems from happening again in future. That is why we must work together to improve international supervision. Tomorrow, the House will debate the Second Reading of the Banking Bill, which is a further step towards making our system more robust.

Today's announcement is necessary, and it is a significant step towards restoring confidence in the banking system and making it resilient in future. These proposals fully respect the rights of existing shareholders, and, despite current market conditions, the UK banking sector can have confidence in its future. These are very turbulent times in financial markets, but I believe that these measures are essential to stabilise the financial system and help the UK economy. We are committed to doing whatever it takes to stabilise the banking system, protect savers and taxpayers and support the wider economy, and I commend this statement to the House.

Mr. George Osborne (Tatton) (Con): Once again, I thank the Chancellor for his statement. Given that the banking system has been on the verge of collapse, rescuing the banks and stepping in is the only option available to the country. We said that recapitalisation might be necessary, and we continue to offer to work constructively with the Government on solving this financial crisis and on the Banking Bill tomorrow.

But, of course, the scale of what the taxpayer is on the hook for is only just starting to dawn on the British people: this is the biggest bail out in the world so far, paid for by the biggest increase in debt by any peacetime Government and funded by the £11,000 of extra borrowing that will now be heaped on every family in the country. The British people are therefore in no mood to celebrate. They want to know how their taxpayer money will be protected, how quickly they can get it back and how on earth they ended up footing the bill for this painful end to the age of irresponsibility.

On the details of the deal, why, over the past week, does the Chancellor seem to have gone from favouring taking preference stock to deciding also to take huge ordinary share stakes in some banks? I know that last week he told us that he was "prepared to consider" underwriting share issues, but why has that now become the main option? What is his realistic assessment of how much of that shareholder offering will be taken up by existing shareholders and other private investors, rather than by the Government? Will he confirm that the preference shares he talks about do not come with warrants to give taxpayers more of the upside? Will he explain that?

The Chancellor also seems to have rethought his position on taking seats on the boards of the banks we now part-own. Last week, at the Dispatch Box, he said:

> "In relation to Government nominees sitting in boardrooms, I never thought that a particularly useful course of action to follow".—[*Official Report*, 8 October 2008; Vol. 480, c. 286.]

He has just told us that he is appointing five members to two different bank boards. Why does he now believe that that is a useful course of action? I happen to agree that it is, but I want to know why *—[Interruption.]*

Mr. Speaker: Order. Hon. Members must allow the shadow Chancellor to be heard.

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Mr. Osborne: I want to know why the Chancellor did not agree with himself a week ago.

I welcome the statement that senior bank executives will not get cash bonuses. Last week, the Prime Minister dismissed that suggestion when it was made by the Leader of the Opposition, and he now appears to agree with it.

May I press the Chancellor on the bonuses paid in stock that he talked about? I suspect that that will be an important matter of debate in the coming year. Given that two thirds of the bonuses paid to the RBS chief executive last year were in shares, not in cash, will that arrangement still be possible under the terms that the Chancellor has set out?

As we said last week, the purpose of rescuing the banks is rescuing the economy. That means extending small business loans and getting families the remortgages they need, but it must not mean a return to irresponsible lending. The Chancellor did not say much in his statement about the lending conditions, but he said this morning that the banks have agreed to keep the availability of loans to homeowners and small businesses at 2007 levels. What exactly does he mean by "availability" in that context, given that the Royal Bank of Scotland issued a statement today saying that it was going to accelerate the de-leveraging? The Council of Mortgage Lenders has also said today that a return to 2007 levels would be neither "prudent or desirable".

Finally, has the Chancellor had time to reflect on how a decade of Government economic policies has led us into this massive bail-out? The Prime Minister said today that, in future,

> "you have got to lay aside more for the possibility that there will be contraction."

Is that another way of saying that he should have fixed the roof when the sun was shining? Is the Chancellor being straight with people about the potential risks to the public purse? He says that in effect he wants to suspend the borrowing rules and fiddle the figures so that these huge additional debts are not counted on the balance sheet. What sort of example does that set the rest of the economy? Will the Office for National Statistics agree with his decision not to count that as national debt?

The chairman of the Financial Services Authority, Adair Turner, gave us his candid views on the lunchtime news today, saying that

> "many lessons have to be learned over what has gone on in the last ten years...we probably allowed a boom to go on for too long."

Britain knows exactly who is to blame for that. We will support today's actions because, faced with the collapse of the banking system, the Government had no other option. However, this is no moment of triumph for the Government, because the British people have now been landed with the bill for the boom that turned to bust.

Mr. Darling: I notice that the shadow Chancellor is finding it increasingly difficult to maintain his stance of bipartisanship. In the course of the last year, I have noticed that he finds it impossible to avoid quickly getting into a situation where he seems more concerned with scoring points than with addressing what I think is quite a serious matter.

The hon. Gentleman asked a number of questions, which I would like to answer. His first point was about the cost, and he appeared to be critical of the fact that
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we are making available substantial funds, although he accepts that that is necessary. A person either supports such a scheme or does not, and should do it properly, not in half measures. Indeed, if people have learned anything over the past year, it is that action should be taken decisively and quickly to ensure that the banks are properly capitalised.

The hon. Gentleman also asked about the accounting. I said that accounting is a matter for the ONS—Northern Rock is classified with the public sector and the ONS will make its judgment in relation to RBS, HBOS and Lloyds TSB. It would be ludicrous, in reaching a judgment about the Government's fiscal position, to say that having to take such action with banks would distort decisions made about the economy in general. I would have thought that most people accept that as a sensible thing.

The hon. Gentleman asked a couple of technical questions about preference and ordinary shares, and I would have thought that he is aware of this. I said last week that we wanted to take preference shares to secure the Government's interest and I also said that we would be prepared to take ordinary shares. Given the scale of what is necessary—particularly in relation to RBS, HBOS and Lloyds TSB—the balance has to be struck in a way that is workable. The advantage of preference shares is that we are repaid first, but if too many preference shares were put into an organisation it would impede its ability to get through this period and recover, so, acting on proper advice, we have sought the right balance between preference shares and ordinary shares.

In relation to ordinary shares, we will get a dividend when dividends are payable, and when we sell our shares the money will come back to the taxpayer. We have put in place a perfectly sensible way of restructuring the banks because our objective is to help them get through this difficult period and in due course to sell on the shares.

In relation to bonuses, yes, some board members and, indeed, other members of staff are paid in shares. I would have thought that the shadow Chancellor welcomes that because anything that ties the interests of senior management to the long-term health of a company must be a good thing. Indeed, we are trying to stop irresponsible remuneration, whereby people are encouraged to do something that damages the banks and, therefore, the rest of the financial system. What we are suggesting means that in future the rewards will be tied to the long-term interests of the bank.

The hon. Gentleman asked about lending. I said today, and I said in the statement, that we want the availability of lending to be the same as it was in 2007, but of course that applies only to two particular institutions—RBS and Lloyds TSB-HBOS—because they are the only two using the bank reconstruction fund. That is where the conditionality attaches. We said that availability levels need to be the same, but it will of course be up to those banks to judge each application for a loan on its merits. We do not want to return to the irresponsible problems and difficulties we have had in the past.

The Council of Mortgage Lenders put out a statement earlier today in which it had clearly misunderstood the position, but I understand that it is now correcting what it said in the light of what is actually the case rather than what it imagined was the case. The hon. Gentleman
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might like to follow that course of action on occasion, as well. However, I, too, am anxious to maintain the bipartisan approach that has worked with at least some success over the past few weeks. I think that the House and the wider country will recognise that, although it is difficult at times for people fully to understand what is going on, they understand that we had to take action, and that we had to do so decisively and in sufficient measure to make it work. There is more turbulence along the way, I am sure, but I believe that the measure is significant; it is a necessary measure and it will be seen not just in this country but across the world as entirely the right thing to do.

Dr. Vincent Cable (Twickenham) (LD): Last week, from the Liberal Democrat Benches, I indicated our support for the broad outlines of the Government's approach. I particularly welcome what the Chancellor said about small business lending, stemming repossessions and bonuses.

I share some of the concerns of the Conservative spokesman, which the Chancellor has partly answered, about the commitment to 2007 lending, even if it applies only to those three banks. It was the case that 2007 was the very peak of irresponsible lending, when mortgage lending was fuelling the unsustainable boom in house prices, and it clearly cannot continue.

I welcome the Chancellor's modesty about the Government's ability to manage banks, but bankers were not very good at managing banks either, so now that Stalin in No. 10 has rediscovered his confidence I wonder whether this might be the time for a Beria in No. 11 to launch a purge of irresponsible bankers. The Chancellor might want to draft in some of the experienced, mutually governed building societies, which have not been seduced by the bright lights and profits of the City, to run some of those banking institutions.

I welcome the return of sanity and co-operation among the developed countries after the chaos of last week and the beggar-my-neighbour policies they were starting to pursue. Now that the Government have demonstrated their influence with eurozone Finance Ministers, how will that influence be sustained, as the Chancellor is not a regular member of that group?

In relation to the Group of Seven, why are the Chinese not involved, given that they are absolutely central to the issue, both as lenders of last resort to the United States and as a main source of growth? Were they not invited, or did they decline the invitation?

Finally, I hope and suspect that we are in the darkest hour before the dawn, as regards this crisis, but I hope that the Government will not be carried along, as they have been before, by hubris and excessive self-confidence, and that they will recognise that we are entering a period of recession. There must be as much sensitivity to the needs of the large numbers of people who will be hurt by it as has been shown to the banks in recent days.

Mr. Darling: I am grateful to the hon. Gentleman. He is right that we need to proceed with caution. I said that I thought that the step that we are taking is essential, because stabilising the banking system is a precondition of helping the very people whom he talks about. After all, we are helping people and businesses in this country and, through them, the whole economy. That is why we are taking this step.

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