

## Example 8.2 Northern Rock

Until 2007, Northern Rock was seen by insiders, customers and many in the wider financial community as a successful financial services company offering mortgage products to the UK market and providing a portfolio of savings products. Initially, like other traditional building societies, Northern Rock relied on its savings products to fund much of its lending but, over time, it started to source more and more of its funding through wholesale borrowing on capital markets, bonds and securitized loans. These new sources of funding provided a platform for expansion and the development of a new profitable business model that involved lending higher risk mortgage products (loans of more than 100 per cent of the property value) and making these loans available to a wider customer base, including some customers who, by traditional industry standards, would not have been judged as able to afford the repayments. While property values continued to increase, this business model was very successful and Northern Rock continued to expand. Customers were attracted by the

more than 100 per cent mortgages because they provided surplus funds they could use to furnish their new properties or for some other purpose, such as the purchase of a new car.

Those in Northern Rock who were responsible for managing the agenda for change appeared to focus their attention on opportunities for generating profit and failed to pay much attention to potential threats. Adopting a SWOT approach might have provided a diagnostic framework that would have helped those caught up in the (apparent) runaway success of the business be alert to potential threats alongside the opportunities that appeared to dominate their thinking. Some signs of potential threats were there but they appeared to have little impact on the thinking of those leading the business. These included an increase in consumer debt and the possibility that this was affecting the Northern Rock customer demographic more than that of most other high-street lenders, associated concerns about affordability, and concerns about the future growth of property values.

