Financials

Nationwide sued over sale of loans

EMMA DUNKLEY

Nationwide is being sued for millions of pounds by a UK property company over a loan sale to private equity firm Cerberus, in a legal process that has already cost the building society hundreds of thousands of pounds.

Frogmore is claiming for damages of at least £57.6m over allegations that Nationwide breached a contract relating to the sale of commercial property loans in 2014.

The real estate fund manager, whose clients include pension funds in the UK, purchased three shopping centres with loans obtained from Nationwide totalling about £115m in 2006.

However, plummeting property prices during the financial crisis meant the outstanding loan balance exceeded the value of the shopping centres. Nationwide subsequently restructured the loans, and struck an agreement with Frogmore allowing it to buy back the loans at market value in the event that the building society wanted to sell them.

In 2014, Nationwide decided to sell the loans within a broader portfolio worth £1bn to Cerberus for £683m, dubbed Project Carlisle.

Before the deal with Cerberus was struck, Nationwide offered to sell Frogmore's loans — which were not in default and were fully performing — back to the real estate manager for £70.1m.

Frogmore rejected the offer in the view that the price was significantly higher than the value of the properties. The real estate manager believes the properties were worth £50.8m based on a valuation undertaken by Jones Lang LaSalle on behalf of Nationwide a few months before the deal.

Frogmore contends that the pricing of the loans represented an attempt to defeat its right to buy them back. It claims that, taking into account the outstanding balance of the loans now held by Cerberus and the value at which it should have been able to buy them at the time, it should be given more than £57.6m in damages.

Andrew Olins, a partner at IBB law who is representing Frogmore, said: "Frogmore's claims raise serious questions for Nationwide to answer, and the answers received so far lack credibility.

"It is understandable that Frogmore feels aggrieved. If Nationwide behaved as Frogmore says it ought to have behaved, Frogmore would now own its three shopping centres with £57 million less debt."

Paul White, chairman of Frogmore, said: "Nationwide in my view have behaved badly and we will do the right thing, as always, by our investors to ensure that Nationwide are brought to account. One assumes this will ultimately be looked at by the FCA before the current chief executive leaves."

Nationwide, which disputes the claim, declined to comment amid the continuing legal proceedings.