

PO-CH/NL/0252
PART B.

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PART B

SECRET

(Circulate under cover and
notify REGISTRY of movement)



PO -CH /NL/0252



PART B

CHANCELLOR'S PAPERS ON
THE BUILDING SOCIETIES

NL/0252

-CH

PO

PART B

Begin: 1/2/88

DD: 25 years

Ends: 22/9/88

27/9/95



FROM: G R WESTHEAD
DATE: / February 1988

APS/CHANCELLOR

cc PS/sir P Middleton
Mr Scholar
Mrs Lomax
Mr R I G Allen
Mr Kroll
Miss Noble
Mr Murphy
Mr Dyer
Mr Gunton

Ch/Content?
OK
mpw 1/2

Mr Bridgeman - BSC
Mr Watson - BSC

BUILDING SOCIETIES ACT : SCHEDULE 8 REVIEW - ANNOUNCEMENT

The Economic Secretary will tomorrow be making by way of planted PQ his announcement to Parliament about his conclusions following the Schedule 8 Review carried out jointly by the Building Societies Commission and the Treasury.

2. The finalised version of the Press Release/PQ, as approved by the Economic Secretary is attached. I would be very grateful for the Chancellor's approval to circulate this as a Treasury Press Release tomorrow. Given that the PQ has gone down today and the Press Release needs to be issued early tomorrow I would be most grateful for the Chancellor's approval to the Press Release overnight.

3. The text to the PQ itself is as follows:

"To ask Mr Chancellor of the Exchequer whether he has completed the review of Schedule 8 of the Building Societies Act 1986 and if he will make a statement".

Guy Westhead

GUY WESTHEAD

Assistant Private Secretary

2 FEBRUARY 1988

REVIEW OF BUILDING SOCIETIES POWERS

The Economic Secretary to the Treasury, Peter Lilley MP, in a written Parliamentary answer today announced the conclusions of the joint Treasury/Building Societies Commission review of building societies' powers. The text of that parliamentary answer is repeated below:

'The review of Schedule 8 to the Building Societies Act 1986 which I announced on 2 October last, had two purposes. The first was to examine whether Schedule 8 could be recast so that it proscribed particular activities within certain broadly specified powers instead of banning everything except narrowly specified powers. We believe that this can be done and I shall be bringing the necessary order before the House in due course.

The review also considered societies' request, through the Building Societies Association, for a substantial extension of their powers. The Government recognises that the gradual step by step extension of powers previously envisaged would not be appropriate. Societies need to know the broad scope of their powers for some years ahead in order to make sensible long term commercial plans. Different societies will want to exercise different powers. And each individual society will probably want to diversify into only a small number of new areas. The Government therefore propose a wide ranging extension of powers, while ensuring through supervision of business plans by the Building Societies Commission within overall limits on non-traditional assets that individual societies exploit their new powers at a prudent pace.

The mainstream business of societies is, and must remain, that of raising funds from the public for lending on house purchase. But we believe that it is right that

societies should be allowed to undertake activities which either complement their mainstream business or which will enable them to compete more effectively by providing the wider range of financial services which customers expect of financial institutions. Societies will, as at present, continue to provide services primarily to the personal sector, rather than to companies. But I have decided that societies should also be allowed to:

- a. take an equity stake in both life and general insurance companies;
- b. undertake fund management including management of unit trusts generally (rather than just for the provision of pensions, as at present);
- c. take an equity stake in stockbrokers;
- d. offer a wider range of banking and housing related services than hitherto.

There will be some limitations on these new powers. It would not be appropriate for societies to become involved as stockbrokers in market making nor would it be desirable for societies to become fully exposed to the risks inherent in general insurance business. The draft orders which I will bring before the House in due course will set out the proposed restrictions to these powers.

Many of these new activities are supervised under either the Insurance Companies Act 1982 or the Financial Services Act 1986. These arrangements will continue and appropriate arrangements to co-ordinate supervision will also be put in place.

I also propose two other changes under the Act.

First, societies have represented that the limit on unsecured lending to individuals, currently £5,000, is too low. This limit covers personal loans for such items as furnishings as well as car loans and credit card limits. The limit will be increased to £10,000. This will give societies greater scope to compete for retail customers. The Building Societies Commission will ensure that societies continue to have adequate credit assessment and exposure monitoring systems.

The second change concerns asset limits. As societies develop into new activities already permitted under the Act plus those opened up following this review, they will wish gradually to increase the proportion of their assets which are not residential mortgages. I propose therefore to bring forward an order shortly which will provide for a progressive increase in the limits on non-traditional assets. This will enable societies to plan for expansion into non-traditional activities at a measured pace. The order will provide for an increase in the Class 2 and 3 limits to 17½% and 7½% respectively in January 1990, to 20% and 10% respectively in January 1991 and a further increase to the maximum extent possible within the primary legislation (ie 25% and 15% respectively), in January 1993.

The orders necessary to implement these changes will take time to prepare, in consultation with the Building Societies Association. I hope to be able to lay the draft orders before the House before Easter. I recognise that some societies are anxious that they should be able to adopt their new powers in their Spring AGMs. We will proceed with all the speed that we can and will provide societies with as much information as possible as drafting proceeds. But early adoption may not be possible. It will be important to ensure that the complex secondary legislation is carefully and correctly drafted.

These proposals are a substantial step forward in building society development. They will give societies the freedom to develop and compete across a wide range of financial services business."

Notes for Editors

Schedule 8 to the Building Societies Act 1986 sets out the new financial and housing related services which societies can undertake. The letter from the Deputy Chairman to the Building Societies Commission announcing the review is attached.

COMMERCIAL-IN-CONFIDENCE



FROM: G R WESTHEAD
DATE: 22 March 1988

PS/CHANCELLOR

cc PS/Financial Secretary
PS/Paymaster General
Mr Scholar
Mrs Lomax
Miss Noble
Mr Dickson

CALL BY CHAIRMAN OF ABBEY NATIONAL BUILDING SOCIETY

The Chairman of the Abbey National Building Society, Sir Campbell Adamson, came to see the Economic Secretary this afternoon, together with his Chief Executive Peter Birch.

2. Sir Campbell Adamson said that the Abbey National would be holding a press conference at 11.00am on Wednesday 23 March on their annual results at which they would announce that their Board had agreed with a recommendation that the Abbey should take steps to convert into a plc.

3. Sir Campbell said that by taking this step the Abbey hoped to preserve its flexibility as a financial institution. Although they welcomed the changes the Economic Secretary had made in the review of Schedule 8 of the Building Societies Act, the society needed even wider freedoms than the Act itself would allow.

4. Mr Birch said that plc status would give the Abbey flexibility over its use of capital; it would also make the raising of capital easier and cheaper. Further, although the Abbey did not consider the £10,000 limit on unsecured lending to be an unreasonable one at the moment, they wanted to avoid being constrained by the limit in future. They also did not want to be constrained in future by the Building Societies Act's limitation that they could only operate in the EEC.

5. Mr Birch said that the Abbey were under no misapprehensions that the road to successful conversion would be a long one. As

A first step it would take at least 6-12 months to secure the approval in principle of their members. As far as the mechanics of conversion were concerned they had yet to decide on which option to take. But they were grateful for the measures the Chancellor had announced in his Budget on conversion.

6. The Economic Secretary thanked Sir Campbell for coming to see him and giving him the news in advance of its public release. He could of course not comment on the commercial decision the Abbey had taken, and noted that the Government's policy had been to remove both the artificial barriers to conversions, and also the artificial incentives.

7. Sir Campbell said that he had already been to see the Building Societies Commission's First Commissioner Michael Bridgeman to alert him to the announcement and then would be going to see the Deputy Governor George Blunden later in the day to put him in the picture.

Guy Westhead.

GUY WESTHEAD

Assistant Private Secretary

MP

FROM: G F DICKSON

DATE: 18 May 1988

APS/ECONOMIC SECRETARY

cc PPS
PS/Sir P Middleton
Mr Scholar
Mr R I G Allan
Miss Noble
Mr Gunton
Parliamentary Clerk

Mr Watson)
Mr Mathews) BSC

SCHEDULE 8 REVIEW: DRAFT PQ

I attach a revised copy of the inspired PQ. It takes into account the Economic Secretary's comment and the correction on stockbrokers.

GRAEME DICKSON

Ch

I have only just discovered that EST is giving press conference on all this tomorrow. It seems very odd to me: day of money numbers, and why do we want to hype this up at all? (It appears that reason for choice of date is Building Societies Conference: see X) But cancelling press conference now would no doubt attract more attention than going ahead.

AA

Handwritten notes in red ink:
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Johns all provide
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of announcements &
hold press conference
& with gov
& n gov led
Pss
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a few) Pss
but Pss
one Pss
go.

DRAFT INSPIRED PQ/PRESS RELEASE:

To ask Mr Chancellor of the Exchequer what progress has been made on the review of Schedule 8 to the Building Societies Act 1986; and if he will make a statement.

REPLY: I have laid two draft orders before the House today. If these orders receive parliamentary approval and are made, the Building Societies Commission, with the consent of the Treasury, intends to make two further orders to complete the package. Copies of provisional drafts of these orders together with a summary note of the intended provisions of all four orders have been placed in the library of the House.

behind X The orders will implement the main conclusions of the review of Schedule 8 of the Building Societies' Act 1986 which I outlined in my statement on 2 February (OR Vol 126 WA 537). The orders will do two things. They will recast Schedule 8 so that it proscribes particular activities within certain broadly specified powers instead of banning everything except narrowly specified powers. And they will implement a wide ranging extension of societies' powers to provide financial services, and effectively give societies the full scope permissible within the primary legislation.

The mainstream business of societies is, and must remain, that of raising funds from the public for lending on house purchase. But we believe that societies should be free to undertake activities which

complement their mainstream business and to provide the wider range of finance services which customers now expect. Societies will, as at present, continue to provide services primarily to the personal sector, rather than to companies. The proposed measures will enable them to compete more effectively in their primary markets.

Societies will therefore, subject to certain limited restrictions, be allowed to:-

- a. offer a wider range of banking and housing related services than hitherto.
- b. to own or take an equity stake in a life insurance company, and to take an equity stake in a general insurance company;
- c. to own or take an equity stake in stockbrokers;
- d. undertake fund management including management of unit trusts generally (rather than just for the provision of pensions, as at present);

The draft Commercial Assets and Services Order which was laid today will replace Schedule 8 to the Act with a completely new Schedule 8 which will provide six broad service powers as follows:-

1. Banking services
2. Investment services
3. Insurance services
4. Trusteeship
5. Executorship
6. Land services.

A society will then be able to provide any service within those general areas unless it is specifically precluded or restricted by other parts of the schedule.

Societies may need to hold new forms of asset to undertake a wider range of business. This order therefore contains provision for societies to hold leasable chattels (to undertake leasing and hire purchase), residual mortgage debts (to enable them to repurchase the residue of a securitised pool of their mortgages), mortgage finance rights (mortgage backed securities, and similar instruments) and bridging debts (to enable societies more readily to provide temporary bridging finance for house purchase).

The Building Societies Commission is prepared to examine the possibility of making an order to allow societies to acquire mortgages from other lenders. This will be the subject of further consultation with the Building Societies

Association in due course. There are also a number of matters which are consequential to this review. For example, the Commission will be consulting interested parties on the proposed scope of an order to extend the required coverage of the Building Societies Ombudsman scheme to reflect the wider scope of societies' activities as a result of these orders.

To provide societies with the necessary scope to offer the wider range of services, it is proposed to increase the commercial asset Limits in the draft limits on Commercial Assets order which I also laid today. This proposes an increase in the Class 2 and 3 limits to 17½ per cent and 7½ per cent respectively in January 1990, to 20 per cent and 10 per cent respectively in January 1991 and a further increase to the maximum extent possible within the primary legislation (ie 25 per cent and 15 per cent respectively), in January 1993.

Subject to parliamentary approval of these orders the Building Societies Commission will make a Designation of Qualifying Bodies Order to allow societies to invest in or support new subsidiaries to provide the Schedule 8 services. They will also make a Limits on Lending Order to increase the unsecured lending limit to individuals to £10,000. I do not expect any substantial changes to these orders from the provisional drafts placed in the library.

These proposals are a substantial step forward in building society development. They will give societies the freedom

to develop and compete across a wide range of financial services business.

The Right Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
HM Treasury,
Parliament Street,
London,
SW1 6BY

23 May 1988
CJB/LB

CH/EXCHEQUER	
REC.	23 MAY 1988
ACTION	EST
COPIES TO	

BF 27/5
BF 4/6
23/5
1 out like
from the dept.
up to us

Dear Chancellor,

Transfer Regulations - Conversion to PLC Status

It is our intention to float the Society on the Stock Exchange on 2nd November and be the first building society to take advantage of the conversion powers provided by Parliament in the 1986 Act.

The Government's full commitment to this process has been demonstrated by the action taken by you in the Budget, for which we are most grateful, and by the very helpful interest taken in our plans by Mr. Peter Lilley.

We are confident that our internal preparations, including consulting with our members, will be completed in time to meet our target date and, in market terms, our advisors believe that an Autumn flotation will be a success. The Society is in close touch with the Bank of England about the necessary supervisory approvals and we see no reason why these should not be forthcoming in time.

Our main worry, which is the reason I am writing to you direct, is that the Transfer Regulations will not become effective in time for us to proceed this year. It is necessary for the Regulations to have been laid, and to have become effective, before the House rises for the Summer Recess, if conversion is to take place before 1989.

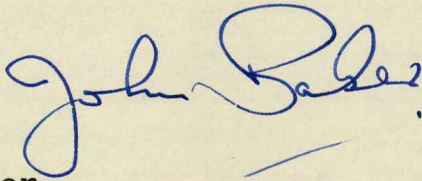
pre chase
Est have chased
Gill Noble
2 hope for a submission soon
→ Sarah
Thanks P/BF
18/6
BF 18/6

The Economic Secretary has very helpfully noted our concerns about this and I know that the Building Societies Commission is doing what it can to move matters forward. I am concerned, nonetheless, that, despite everyone's best endeavours, the resources available may not be sufficient to ensure that the Regulations are laid before Parliament early enough to allow the necessary Parliamentary time to be found in this Session, should the Regulations be prayed against.

I would like to offer any assistance from the Society's resources, and the resources of our professional advisors at our expense, if this would help the Building Societies Commission to complete this task on schedule.

It would be a tremendous disappointment to us if our plans had to be postponed and any help that you could give us in bringing them to fruition would be much appreciated.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "John Baker", with a horizontal line underneath.

C J Baker
Chairman

COMMERCIAL-IN-CONFIDENCE

BF 6/6
~~PPS~~ ptFROM: G R WESTHEAD
DATE: 27 May 1988

MR BRIDGEMAN - BSC (BY FAX)

cc PS/Chancellor
Mrs Lomax
Mr Dyer
Miss Noble
Mr DicksonMr Watson - BSC
Mr Matthews - BSC

BUILDING SOCIETIES COMMISSION CONVERSION REGULATIONS

As you know the Chief General Manager of the Alliance and Leicester Building Society Mr Durward, wrote to the Economic Secretary on 15 April to stress the importance, for his society, of the conversion regulations being finalised before the Summer Recess, if his society is to keep to its planned flotation date in November. Since then, the Economic Secretary was pressed on the matter at his lunch with the Alliance and Leicester on 11 May and the Society's Chairman, Mr Baker, has now written to the Chancellor to stress the point still further.

2. The Economic Secretary will be replying to Mr Durward's letter today, along the lines set out in Miss Noble's submission of 26 May.

3. The Economic Secretary has commented that it is imperative that the Commission make sure that the final conversion regulations are laid before the House before the Summer Recess. He thinks it is most unsatisfactory that delays on the Regulations may have already jeopardised the Alliance and Leicester's planned flotation date in November. He also feels that the timetable should have been more closely controlled and that he should have been kept more fully informed of the risks of slippage. The Commission must now give the conversion regulations top priority so that if at all possible there can be a debate before the Recess.

COMMERCIAL-IN-CONFIDENCE

4. The Economic Secretary wonders, incidentally, why Counsel and the Commission both need two weeks to consider the regulations (according to the timetable in Miss Noble's submission) when the Economic Secretary is typically given no more than 24 to 48 hours to consider detailed policy submissions. He thinks the whole timetable should be compressed.

Guy Westhead.

GUY WESTHEAD

Assistant Private Secretary

FROM: B O DYER
DATE: 6 June 1988

BF10/6

PS/ECONOMIC SECRETARY

cc PS/Chancellor
Mrs R Lomax - FIM
Miss G Noble - FIM
Mr G Dickson - FIM

BF15/6

Mr Bridgeman - 1st
Commissioner BSC
Mr Watson - BSC
Mr T Mathews - BSC

BUILDING SOCIETIES COMMISSION CONVERSION REGULATIONS

I can appreciate why the BSC is uneasy at authorising the conversion of a Building Society to a Plc (a very substantial capitalisation) whilst there is the slightest possibility - albeit technical - of the regulations being rescinded by a negative resolution of either House of Parliament. The degree of caution to be exercised in this context is, of course, entirely a matter for resolution between the policy officials and the Economic Secretary. However, I feel I should draw attention to the relevant sections in the manual of Statutory Instrument Practice that deal with the consequences of a negative resolution; these are reproduced below:-

4.61 Under the provisions described in paragraph 4.50, if either House within the prescribed 40 days resolves that an address be presented to Her Majesty praying that an instrument be annulled, then:

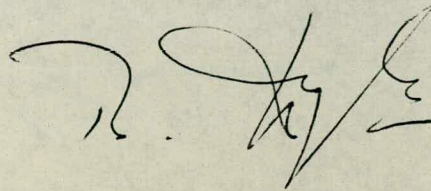
- (a) No further proceedings may be taken under the instrument after the date of the resolution, and
- (b) Her Majesty may by Order in Council revoke the instrument.

Both the resolution and the revocation are without prejudice to the validity of anything previously done under the instrument or to the making of a new statutory instrument.

4.62 Thus the resolution does not itself revoke the instrument, but precludes further 'proceedings' being taken under it. The resulting state of the law, between the passing of the resolution and the revocation and replacement (if any) of the instrument, may need to be assessed with care, particularly if the instrument revoked

or amended an earlier instrument. Such questions of construction are outside the scope of this manual.

It should be borne in mind that these paragraphs cover the worst scenario that could possibly happen and which, given the Government's very substantial majority in the Commons and its proven ability to mobilise its supporters in the Lords, has to be regarded as very remote indeed. The usual course of bringing the regulations into force 21 days after they are made and acting upon them whilst the remaining 'praying' days run their course, surely remains a viable option?

A handwritten signature in black ink, appearing to read 'B. O. Dyer', with a stylized flourish at the end.

B O DYER

Parliamentary Clerk

UNCLASSIFIED

Ch: We hope by the end of next week -
but may be early in the following one.

~~CHG Mins~~

Sarah
for your files?

FROM: P D P BARNES
DATE: 7 June 1988

MS HINDS

cc PS/Chancellor
PS/Financial Secretary
Mr Scholar
Mrs Lomax
Mr Ilett
Miss Noble
Mr Hall
Mr Neilson

Mr Spence - IR
Mr Hazel - IR

~~Part of the~~
Reflects push forward
2. When some new plan
to publish X?

ECONOMIC SECRETARY'S LUNCH WITH LEGAL AND GENERAL - MONDAY 6 MAY

The Economic Secretary was grateful for your briefing for his lunch with Legal and General yesterday. His hosts were Joe Palmer, Group Chief Executive, John Elbourne, Managing Director, John Skae, General Manager, and David Prosser, General Manager. Legal and General made a number of points of interest.

2. 1992. Legal and General said that they thought 1992 would not greatly affect the pensions and life assurance industries. This was partly because the barriers to expansion by acquisition in other member states were primarily not legal but structural and administrative, and hence would be not much affected by the various directives under discussion. For example, expansion in Germany was inhibited primarily by cross-shareholdings between companies, and by regulatory delay on the part of authorities of a kind which was almost impossible to prove.

3. The other reason why Legal and General thought that 1992 would not significantly affect them was that, at least until the UK joined the ERM, and until some degree of fiscal harmonisation was achieved, exchange rate fluctuations and the varying tax treatment of savings would make it difficult to benefit from economies of scale by marketing a single financial product throughout the community. Legal and General thought that certain other financial services

firms might benefit from 1992, for example German insurance firms establishing a retail presence in the UK by acquiring a building society, but that they were unlikely to benefit from it themselves.

4. They said that the attitude of life assurance companies in the UK towards Europe varied: some, for example Abbey Life, had substantial European interests; other had virtually none; and Legal and General themselves had followed out a middle course by establishing a limited presence in a number of member states which did not, however, amount to a significant proportion of their business.

5. Wider share ownership. Legal and General were somewhat scornful of the PEPs scheme. They thought that the size in the annual limit from £2,400 to £3,000 was unlikely to increase the popularity of the scheme or make it appeal more to first-time investors, since the small amounts of money that it was possible to invest involved high costs for investors and small margins for the operators. They thought that tax relief would need to be given on money paid into a PEP to regenerate the scheme.

6. Legal and General also thought that the limit on the save-as-you-earn share scheme should be raised from the present £100 a month, so as to encourage employees to take a greater stake in their own companies.

7. More generally, they wondered, but without arguing forcefully for it, whether tax relief should be given on loans taken out to buy shares, or greater capital gains tax exemptions given for equity investment, in order to reduce the fiscal distortions in favour of house purchase and encourage greater direct ownership of shares by individuals.

XI 8. Consultative document. Legal and General also said that they hoped to see soon the consultative document on life assurance taxation, the lack of which was inhibiting much constructive forward planning.

RB

P D P BARNES

Private Secretary

COMMERCIAL IN CONFIDENCE

FROM: MISS G M NOBLE

DATE: 14 June 1988

ECONOMIC SECRETARY

c c PPS
 PS/Sir P Middleton
 Mr Scholar
 Mrs Lomax
 Mr Dickson

Ch/ EST is content

Mr Bridgeman)
 Mr Watson)
 Mr Mathews) BSC
 Mr Ashcroft)
 Mr Davis)
 Mr Stephens)

*hpm
 / 11/6*

CONVERSION REGULATIONS : TIMETABLE AND DRAFT REPLY TO LETTER FROM MR BAKER, CHAIRMAN OF THE ALLIANCE & LEICESTER

Mr Watson held a meeting at the Building Societies Commission this morning, which I attended, to settle a timetable for the conversion regulations.

2. As you know, the Commission had a conference with Treasury Counsel last Thursday on a number of outstanding legal issues. With one or two minor glosses, Counsel endorsed the Commission's own provisional conclusions and there is therefore comparatively little redrafting to be done to the regulations. Roughly speaking the key conclusions were:-

- i. The Commission cannot close the "black hole" through regulations, but the other solutions they have identified for dealing with it are legal and should work.
- ii. It is legal for societies to give free shares to their members if they want to (ie the Abbey scheme is legal).

iii. We are definitely stuck with the priority liquidation account, troublesome though that now looks; but various devices which the Commission have identified for mitigating the consequences of it are intra vires.

3. Mr Mathews will be putting up a more detailed submission explaining these points, and in particular the last of them, later in the week. But the timetable the Commission are now working on is as follows:-

- i. Revised draft of the regulations to be complete this Friday, the 17th. This will be sent to those societies with an active interest and their advisers, for consultation, on Friday night, inviting final comments, in writing, by 5 o'clock on Tuesday 21st.
- ii. That version of the regulations to be given to you, with an explanatory submission for your weekend box.
- iii. A further draft, hopefully the last, to be completed on Wednesday 22nd for a detailed scrutiny in the Commission's Statutory Instruments Group on Thursday 23rd.
- iv. The regulations is to be made immediately after that meeting, or at a specially convened meeting of the Commission on Tuesday 28th, depending on how many outstanding problems there are.
- v. Orders to be laid on or before 1 July (subject to getting them signed by the necessary two Treasury Commissioners).

4. This is all on condition that no new substantial problems arise from the final round of consultation. But even allowing for that, there is enough leeway in the timetable for you to be able to say quite confidently tonight, if asked, that you expect the regulations to be made and laid before the House before the summer recess.

Implementation Date


5. Following this morning's meeting, Mr Watson and I are agreed that we should recommend that the regulations take effect after 21 days, in the normal way, rather than in the autumn, after the 40 days. Unless the Commission hit major new snags, the 21 days should expire before the summer recess. In principle, the regulations would be subject to prayer for the balance of the 40 days after that, almost certainly running into the rump of the present session after the summer recess, but there is no solution to that. But giving only the usual 21 days for implementation is likely to ensure that any prayer will be well before the summer recess, if there is going to be one.

Announcement; PQ and Press Notice?

6. Because the regulations are of some interest and there has been some criticism about the delay in producing them, it may be worth noting that they have been laid with a very short PQ and issuing that, plus a copy of the regulations as either a Treasury or Building Society Commission press notice. That can be decided nearer the time, however.

Draft reply to Mr Barber, Alliance & Leicester

7. Finally, I attach a draft reply to Mr Baker's letter to the Chancellor. It reflects the above, and has been cleared with the Commission.


MISS G M NOBLE

DRAFT REPLY FROM CHANCELLOR TO:

Mr C J Baker
Alliance & Leicester Building Society
49 Park Lane
LONDON W1V 3EQ

TRANSFER REGULATIONS - CONVERSION TO PLC STATUS

Thank you for your letter of 23 May

The Building Societies Commission have I know already been in touch with you about the timetable for these regulations and met Mr Durward last week to discuss the matter further. You are aware of the various legal issues which needed to be resolved and on which the Commission were consulting Treasury Counsel. I gather the Commission had a successful conference with Counsel on Thursday, and in the light of that - and if no further problems arise - they now aim to make the regulations and lay them in Parliament at the end of this month. They should come into force 21 days after they are laid but as I think you know, they are subject to Parliament procedure, and can be prayed against for 40 days after they are laid. I am most grateful for your helpful offer of legal resources, but there is comparatively little drafting left to do on the orders now and the Commission feel they can manage.

NIGEL LAWSON



Miss Noble

Mr Briogeman - BSC

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

17 June 1988

Mr C J Baker
Alliance & Leicester Building Society
49 Park Lane
LONDON W1V 3EQ

Mr C J Baker

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Nigel Lawson

NIGEL LAWSON

COMMERCIAL IN CONFIDENCE



FROM: P D P BARNES
DATE: 17 June 1988

PPS

cc Miss Noble

Mr Bridgeman - BSC

CONVERSION REGULATIONS

Miss Noble copied to you her submission to the Economic Secretary of 14 June.

2. The Economic Secretary is content with the draft letter attached to Miss Noble's submission for the Chancellor to send to Mr Baker of the Alliance and Leicester (further copy of the draft letter attached for ease of reference).

PB

P D P BARNES
Private Secretary

pl ignore final

DRAFT REPLY FROM CHANCELLOR TO:

Mr C J Baker
Alliance & Leicester Building Society
49 Park Lane
LONDON W1V 3EQ

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NIGEL LAWSON

Inland Revenue

Policy Division
Somerset House

FROM: J H REED

DATE: 21 JUNE 1988



ECONOMIC SECRETARY

CONVERSION OF BUILDING SOCIETIES TO PLCs

*Agree with X.
To which will 1989
delay B.S.
Conclusion
unacceptable*

My note of 19 May reported on the progress in our discussions with the solicitor acting for the Abbey National and my note of 25 May gave more details about the points at issue. These discussions have continued and we have also been in correspondence, and had a meeting, with the Halifax. We have also received letters about possible conversion from the Alliance and Leicester and a society which wishes to remain anonymous.

2. It seems clear that none of the societies has found it easy to decide precisely what they want to do, or even to decide on a limited range of precise options. But none is thinking of following the straightforward route of a transfer of assets to the successor company and an immediate issue of shares by it. This has made it difficult to establish the tax consequences and therefore whether there is a case for amending the Finance Bill and, if so, how to do this. It also explains why we could not send you this note earlier. However

cc PPS
Financial Secretary
Mr Scholar
Mrs Lomax
Mr Culpin
Miss Noble
Mr Stevens - BSC
Mr Jenkins (OPC)

Mr Painter
Mr Isaac
Mr Beighton
Mr Cleave
Mr McGivern
Mr Pitts
Mr Corlett
Mr Johns
Mr J F Hall
Mr Campbell
Mr Creed
Mr Willis
Mr Cayley
Mr Reed
Mr Michael
Mr Gray
Mr Huffer
PS/IR

*Mr Elliott
Mr Bolton*

ALLIANCE  LEICESTER

BF 417

The Right Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
HM Treasury,
Parliament Street,
London,
SW1 6BY

28 June 1988
CJB/LB

CH/EXCHEQUER	
REC.	28 JUN 1988 ✓ 28/6
ACTION	EST
COPIES TO	

Dear Chancellor,

Transfer Regulations - Conversion to PLC Status

Thank you for your letter dated 17th June 1988. I am most grateful for your help in this matter.

As you may have heard, we have now decided, having consulted the Commission and the Bank of England, to defer our conversion until February 1989 in order that all the preparations can be successfully completed. We still hope to be the first Society to convert and therefore the urgency which attached to the November date is only very slightly diminished. It seems that the lengthy procedures required by the Building Societies Act for conversion will fully occupy the time available.

It would be most helpful if the Business Managers could accommodate an early prayer so that we know where we stand before the House rises. The possibility of a last-minute prayer could all too easily jeopardise even the new timetable.

Yours sincerely
C J Baker

C J Baker
Chairman

FROM: G F DICKSON

DATE: 29 June 1988

1. ~~MISS NOBLE~~ C Noble
2. ECONOMIC SECRETARY

cc: PS/Chancellor
Mr Scholar
Mrs Lomax
Mr Gunton
Parliamentary Clerk

Mr Watson BSC
Mr Mathews BSC
Mr Stevens BSC

BUILDING SOCIETY CONVERSION : TRANSFER REGULATIONS

This submission seeks your agreement on the timing and handling of the Building Society Commission Order containing the transfer regulations. This advice has been agreed with Commission officials.

Timing

2. A number of substantial comments were received during the last round of consultation on the regulations. Where appropriate, the comments were incorporated and a revised draft is attached (top copy only)[†]. A meeting of the Building Societies Commission has been called for Monday 4 July to formally make the Order. This will enable us to lay the Order on 5 July with it coming into force on 28 July. Although there may be some minor drafting changes during the week we do not expect the Order which is made by the Commission to be substantially different from the copy attached. We will show you a final copy as soon as it is available.

3. The major point of interest to most people on the Order will be the Schedule which sets out the prescribed matters for transfer statements. You may wish to look at this again in the light of last night's debate, before the Order is finally made.

Announcement

4. Since these are important regulations we assume you wish to announce them with a written PQ. A draft of a possible question and answer are attached at Annex A. The answer is fairly low key and sets out the factual points in the Order. It does not

[†]The revision is currently the subject of a final round of consultation.

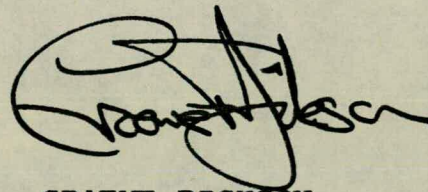
mention the Government's policy of neutrality since you have put your views on record on several recent occasions. However, the long list of points to be included in the transfer statement should ensure that the message comes through.

5. We suggest you also issue the PQ as a press notice with the regulations attached. You might like to consider adding a statement of Government policy on conversion to the press notice on something like the following lines:

Commenting on the regulations Mr Lilley said, "As I have made clear on a number of occasions the Government are neither for nor against conversion. We are concerned that members should receive sufficient and balanced information in order to take an informed decision. But in the end conversion is a decision to be taken by the members; it is their society".

6. Parliamentary Section confirm that if the Commission make the Order on Monday 4 they would be able to lay it on Tuesday 5. The arranged PQ would be tabled on Monday for answer at 3.30pm on Tuesday. The Press Office tell me that there are no planned, conflicting announcements on that day.

7. Are you content to proceed on this basis? Do you wish to add a policy statement to the PQ or simply deal with it in the press notice?

A handwritten signature in black ink, appearing to read 'Graeme Dickson', written in a cursive style.

GRAEME DICKSON

DRAFT OF AN ARRANGED PQ

"To ask Mr Chancellor of the Exchequer when regulations will be made to allow building societies to convert to public limited companies and will he make a statement."

DRAFT ANSWER

The Building Societies Commission made the Building Societies (Transfer of Business) Regulations 1988 Order on [4 July] and it was laid before Parliament today.

The regulations complete the legislative framework under which building societies and their members can consider conversion of the society to a PLC. The general provisions of conversion are contained in the 1986 Act; the regulations fill out the details on a number of points.

They provide firstly for the continuity of agreements, documents, rights and liabilities from the society to its successor company. This will ensure, for example, that mortgage contracts are unaffected by the conversion.

They also deal in some detail with the priority liquidation right of former members of societies which convert. The calculation of this right and the means of securing it are set out in the regulations.

Finally, the regulations set out the information which a society must include in a transfer statement which it is obliged to send to members when they are invited to vote for conversion. The Schedule lists numerous particulars which are to be included in the statement. These include, among others information on:-

The consequences of the transfer for investing and borrowing members.

The financial position of the society.

The prospective financial position of the successor company.

The future financial prospects of the successor company.

The interest of the Directors of the society in the transfer and any compensation to be paid to them.

The effect of the transfer on benefits to officers of the society.

Any distribution of funds to be made to members of the society.

The amount of the society's reserves.

The terms on which the investments in the society will be held as deposits in the successor company.

Any difference in the statutory protection scheme that will apply.

Any share rights to be conferred on members, officers or employees of the society.

The Directors and auditors of the successor company.

Confirmation that the Bank of England has indicated that it would be prepared to authorise this successor company under the Banking Act 1987.

In the case of a proposed transfer to an existing company, information has to be given on the activities and structure of the successor company, together with details of any significant shareholders. The Schedule also requires particulars to be given if shares or rights in relation to shares are to be offered in connection with the transfer.

The regulations also require that if a written takeover proposal has been made to the society

during the previous year, the fact is disclosed
to members together with non-confidential details
of the proposal.



FROM: G R WESTHEAD
DATE: 1 July 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Scholar
Mrs Lomax
Miss Noble
Mr Gieve
Mr Dyer
Mr Dickson
Mr Gunton

Ch/OK?

OK -

mpw .

BUILDING SOCIETY CONVERSION : TRANSFER REGULATIONS - DRAFT PRESS NOTICE

The Building Societies Commission will be making the Building Society Conversion regulations provided for under the Building Societies Act on Monday 4 July. These should be made before Parliament on Tuesday. To announce this, the Economic Secretary will be answering an arranged PQ on Tuesday 5 July and he thinks it would be desirable to issue the text of the PQ as a Press Notice. The press release also includes a paragraph on the Government's views about conversion. This is not included in the PQ, as the Economic Secretary has made the point in Parliament several times recently.

... 2. Accordingly, I attach a draft press notice for the Chancellor's approval.

Guy Westhead

GUY WESTHEAD
Assistant Private Secretary

DRAFT PRESS NOTICE (FOR RELEASE TUESDAY 5 JULY)

**BUILDING SOCIETIES : CONVERSION INTO PLCs : TRANSFER
REGULATIONS LAID TODAY**

The legislative framework under which building societies and their members can consider conversion of the society to a plc was completed today (5 July). The Regulations will come into force on 26 July.

In reply to a written PQ today, the Economic Secretary to the Treasury, Mr Peter Lilley said:-

"The Building Societies Commission made the Building Societies (Transfer of Business) Regulations 1988 Order on [4 July] and it was laid before Parliament today.

The regulations complete the legislative framework under which building societies and their members can consider conversion of the society to a PLC. The general provisions of conversion are contained in the 1986 Act; the regulations fill out the details on a number of points.

They provide firstly for the continuity of agreements, documents, rights and liabilities from the society to its successor company. This will ensure, for example, that mortgage contracts are unaffected by the conversion.

They also deal in some detail with the priority liquidation right of former members of societies which convert. The

calculation of this right and the means of securing it are set out in the regulations.

Finally, the regulations set out the information which a society must include in a transfer statement which it is obliged to send to members when they are invited to vote for conversion. This information includes:-

The consequences of the transfer for investing and borrowing members.

The financial position of the society.

A forecast of the future financial prospects of the successor company.

The interest of the Directors of the society in the transfer and any compensation to be paid to them.

The effect of the transfer on benefits to officers of the society.

Any distribution of funds to be made to members of the society.

The amount of the society's reserves.

The terms on which the investments in the society will be held as deposits in the successor company.

Any difference in the statutory protection scheme that will apply.

Any share rights to be conferred on members, officers or employees of the society.

The Directors and auditors of the successor company.

Confirmation that the Bank of England has indicated that it would be prepared to authorise this successor company under the Banking Act 1987.

In the case of a proposed transfer to an existing company, information has to be given on the activities and structure of the successor company, together with details of any significant shareholders. The Schedule also requires particulars to be given if shares or rights in relation to shares are to be offered in connection with the transfer.

The regulations also require that if a written takeover proposal has been made to the society during the previous year, the fact is disclosed to members together with non-confidential details of the proposal."

Commenting on the Regulations, Mr Lilley said,

"As I have made clear on a number of occasions, the Government are neither for nor against conversion. We are concerned that members should receive sufficient and balanced

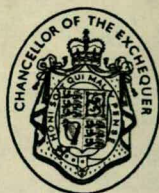
information in order to take an informed decision. But in the end, conversion is a decision to be taken by members; it is their society."

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1
01-270 5283

00/88

NOTES TO EDITORS

1. The Building Societies Act 1986 included provision for societies to convert into PLCs, by transferring the business of the society to a successor company.
2. The Transfer Regulations make the necessary provisions to cover a number of matters not included in the Act.
3. These include details of the content of the statement to be sent to members, the calculation and security of priority liquidation rights, and the continuity of rights, liabilities and agreements made by the society.



Handwritten initials 'MP' in a cursive style.

FROM: MISS M P WALLACE

DATE: 4 July 1988

APS/ECONOMIC SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Scholar
Mrs Lomax
Miss Noble
Mr Gieve
Mr Dyer
Mr Dickson
Mr Gunton

BUILDING SOCIETY CONVERSION: TRANSFER REGULATIONS - DRAFT PRESS NOTICE

The Chancellor has seen your minute of 1 July, and is content with the draft press notice you attached.

Handwritten signature of Moira Wallace.

MOIRA WALLACE

1. Mowra 2 pup



FROM: G R WESTHEAD
DATE: 7 July 1988

(I inadvertently ignored this)

APS/CHANCELLOR

BUILDING SOCIETIES CONVERSION

... I attach a revised line-to-take and background note on Conversion for Prime Minister's Questions later today. Mr Dickson provided the original draft and this has been revised by the Economic Secretary.

No.10 have not asked for this briefing, but we thought it sensible to provide it given that the Building Societies Commission's regulations were laid before Parliament on Tuesday this week.

Guy Westhead

GUY WESTHEAD
Assistant Private Secretary

BUILDING SOCIETIES CONVERSION

LINE TO TAKE

The Government is neither for nor against conversion. The ultimate decision whether or not to convert is up to the members of any society.

The Building Societies Act and the Transfer Regulations provide that members shall receive full and fair information on the consequences of conversion.

Background Note

The Building Societies Act 1986 allows a society to convert from mutual ownership into a public limited company which must then become an authorised institution under the Banking Act 1987.

2. The Building Societies Commission made Regulations 1988 on 4 July on the details of the conversion process. These were laid before Parliament on 5 July. The regulations provide for:

- (i) all the societies' contracts with investors, borrowers, employees etc to carry forward to its successor,
- (ii) the former members' right to a priority distribution in the event of liquidation, and
- (iii) the information which the society must give its members when they are asked to vote on conversion. This includes; the consequences for investing and borrowing members and employees, the financial position of the society, a forecast of the financial prospects of the successor, benefits to directors or officers and details of share rights.

3. A group (Abbey Members Against Flotation) has been set up to oppose the Abbey National's plans to convert and the Press have given good coverage to their view that societies are undemocratic and authoritarian. They have prompted the Opposition to argue that societies should be forced to circulate the views of groups opposed to conversion at the society's expense. But, the Building Societies Commission have no powers to prescribe this in regulations. Furthermore, it would mean that a society would be obliged to circulate the views of a potentially unlimited number of minority groups all at the expense of members. The Act and Transfer Regulations require the society to make known all material information including the consequences of conversion. Also the Act sets out tough voting requirements on conversion.

4. The Economic Secretary has stated that the Government is neutral on conversion. He has also pointed out the Government have removed artificial inducements to conversion through the Schedule 8 review and artificial impediments to conversion through the changes in the Finance Bill.



MF

Ch / The "big societies"
is the Abbey. (Y was
the Alliance + Leicester)

A propos, Rachel thought
you might be interested
to know that apparently
the Norwich + Peterborough
have now expressed
an interest in conversion

Thank -
in p.m.

COMMERCIAL IN CONFIDENCE

1. MRS LOMAX
2. ECONOMIC SECRETARY

From: P C Diggle
Date: 12 July 1988

cc: PS/Chancellor)
Mr Scholar)
Mrs Brown) HMT
Mr Dickson)
Miss Noble - O/R)

Mr Bridgeman)
Mr Watson) BSC
Mr Fleet)

*What is the
point of this
report?*

BUILDING SOCIETIES: GIROBANK

You may like to know of building societies interest in the current offer for sale of Girobank PLC.

2. At least four building societies have indicated to Schroders (acting for the Post Office) that they may want to make offers. Two of these are medium to small societies acting as part of consortia. As such it is unlikely that they would be able to meet the prudential requirements of the Bank as Girobank's supervisor, particularly as to management and control. The other two societies are significantly larger than Girobank. Both are planning conversion within the next year or so.

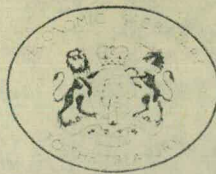
3. It would not be possible for a building society to purchase or invest in a deposit-taker without a designation order under section 18(3) of the Building Societies Act 1986. The Commission has therefore considered whether such an order would be consistent with the framework of the Act as redefined by the new Schedule 8 orders. It decided against because Girobank's viability clearly depends on commercial business: accounting for more than half its profit, gross revenue and lending, and almost half customers' balances. This range of business falls alongway outside the area defined by the Act in section 5(1) ie investment and mortgage lending services to members as individuals.

4. This does not rule out any building society bid for Girobank. But completion would have to take place after conversion, perhaps by arranging for Girobank to be held by a third party until after conversion. We believe that there would be no vires difficulty about building societies doing preparatory work on such a bid now, since it could be viewed as part of the preparation for conversion and thus authorised by the conversion orders.

5. I have now told the four societies concerned of the decision against making a designation order, so preventing purchase of Girobank by a building society. Two societies had already cooled. One of the others ^Y thought it unlikely that it would decide to proceed. The remaining, which plans to convert very soon one remains very interested, primarily because acquiring Girobank would speed expansion of its non-personal business after conversion. This society accepts that any bid it may make next on the strength of the prospectus would have to be for purchase after conversion. It also appreciates that the transfer documentation it will give to its members when seeking agreement to conversion will need to spell out its intentions about Girobank should its offer be favourably received.

C. Peter
for P C DIGGLE

COMMERCIAL-IN-CONFIDENCE



FROM: G R WESTHEAD
 DATE: 18 JULY 1988

MRS DIGGLE - BSC

cc: PS/Chancellor
 Mr Scholar
 Mrs Brown
 Mr Noble or
 Mr Dickson

Mr Bridgeman BSC
 Mr Watson BSC
 Mr Fleet BSC

BUILDING SOCIETIES: GIROBANK

The Economic Secretary has seen and was grateful for your minute of 12 July about Building Societies' interest in the current offer for sale of Girobank plc.

2. The Economic Secretary notes the suggestion in your paragraph 4, that a Building Society could bid for Girobank, but that the completion would not take place until after conversion. He notes that it might be possible for a society to perhaps arrange for Girobank to be held by a third party until after conversion. He wonders whether this would be a feasible option for the societies who intend to convert?

3. The Economic Secretary is surprised by your reference, in paragraph 3, to Girobank's viability depending on "commercial business". He wonders what you mean by this? It implies Girobank do not have personal customers.

hs

pp

GUY WESTHEAD
 Assistant Private Secretary

4507

FROM: ALLEN RITCHIE
DATE: 16 September 1988

- 1. MR PERETZ
- 2. CHANCELLOR

- cc Economic Secretary
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr Scholar
- Mrs Lomax
- Mr Grice
- Miss Noble
- Miss O'Mara
- Mr Brooks
- Mr Wheatley

The last 2 weeks were about 40% below the April - July figures (see table below) I mentioned this, yesterday.

Recd 16/9

John Perry for publication

BUILDING SOCIETIES NEW MORTGAGE COMMITMENTS

We receive weekly figures from the Building Societies Association (BSA) on new mortgage lending commitments by the 14 largest building societies. This information is not published, and therefore should not be used in public.

X 2. The figures for August showed a 25 per cent fall in new lending commitments on July. We now have figures for the weeks ending 3 and 10 September, which show a further substantial fall from the average August levels - about 15 per cent, if allowance is made for the Bank Holiday which fell in the week ending 3 September.

3. These figures point to a sharp fall in building societies' mortgage lending in the near future. The average lag between new commitments and advances is, according to the BSA, between two and three months, but for a proportion of new commitments the lag will be shorter. We might therefore expect to see some fall in mortgage lending in September, with further falls in October and November. (Net new mortgage lending in August was at a record monthly high of £2.8 billion - which compares with monthly figures in the range £1.2 for £1.4 billion in the second half of 1987.)

Re X, per sec if clearance can be shown to justify after a year or two (eg we only have small figures) ...

When will this be published?

Allen Ritchie
ALLEN RITCHIE
FIM2

← AR
to get back to me.
M.

COMMERCIAL IN CONFIDENCE

BUILDING SOCIETY NET RECEIPTS - 17 largest societies
(as from 9 January 1982)

	£m (weekly figures or weekly averages)				
	Gross Intake	Withdrawals	Net Intake	Net Wholesale Funds	Gross ^{new} commitments
<u>3rd qtr</u>					
high	1910	1777	416	158	726
low	1300	1262	-392	-126	456
ave	1476	1402	77	40	645
<u>4th qtr</u>					
high	1737	1447	404	337	773
low	1251	847	-20	-228	439
ave	1478	1297	180	65	658
<u>1988</u>					
<u>1st qtr</u>					
high	1754	1418	378	185	1138
low	910	812	83	-72	409
ave	1462	1284	177	28	778
<u>2nd qtr</u>					
high	2006	1551	470	443	1222
low	1526	1203	157	-111	690
ave	1730	1450	280	157	1065
w/e 2 April	1526	1203	323	15	1062
w/e 9 April	1803	1432	371	-21	690
w/e 16 April	1681	1503	178	124	1078
w/e 23 April	1797	1460	337	328	1128
w/e 30 April	2006	1536	470	430	1162
w/e 7 May	1698	1385	313	265	864
w/e 14 May	1653	1470	183	213	1191
w/e 28 May	1901	1551	350	-92	1222
w/e 4 June	1730	1389	341	305	858
w/e 11 June	1699	1467	232	121	1015
w/e 18 June	1645	1488	157	23	1200
w/e 25 June	1699	1510	189	443	1157
w/e 2 July	2107	1740	367	430	1044
w/e 9 July	1985	1613	372	-120	1043
w/e 16 July	1738	1576	162	94	1059
w/e 23 July	1745	1558	187	173	1098
w/e 30 July	2029	1769	260	90	1085
w/e 6 August	2135	1829	306	179	797
w/e 13 August	1893	1706	187	373	694
w/e 20 August	1841	1626	215	-121	789
w/e 27 August	1947	1665	282	83	815
w/e 3 September	1776	1590	186	128	561
w/e 10 September	1657	1576	081	322	624

FROM: ALLEN RITCHIE
DATE: 19 September 1988

PS/ECONOMIC SECRETARY

cc

PPS

Sir P Middleton
Sir T Burns
Mr Scholar
Mrs Lomax
Mr Peretz
Mr Grice
Miss Noble

Spoke LS AR
Write note LS come
M

FIGURES ON BUILDING SOCIETIES NEW MORTGAGE COMMITMENTS

The Economic Secretary asked about the figures we see on a regular basis on new mortgage commitments.

2. The Building Societies Association (BSA) compile a weekly series for new lending commitments from returns from the largest 14 building societies (who together account for 85 per cent of building society mortgage lending). We receive these figures on the Wednesday following the week to which they relate (eg we saw the figures for the week ending 10 September on Wednesday 14 September). A copy of the information we receive from the BSA was attached to my note to the Chancellor of 16 September on Building Societies new mortgage commitments. The figures are not published,* and should not be used in public.

3. We receive the same weekly figures through the Bank of England, who also provide a few sentences of comment on the latest figures. A copy of the Bank's weekly note is attached.

4. The only available published figures are a monthly series in the BSA Bulletin. This is a quarterly publication (January, April, July, October); as a consequence, the latest published monthly figure is sometimes a couple of months out-of-date. At present, the latest published figure is for May (see table from July BSA Bulletin, attached). Figures up to August will be published in the October BSA Bulletin.

5. One point of clarification on terminology. Although the weekly figures for new commitments are described as 'gross' in the

(* See comment at end)

weekly notes circulated by us and the Bank, they are in fact net of cancellations. (They are gross in the sense that they are an advance indicator of gross new mortgage lending, ie they do not take into account redemptions of existing mortgages.) The weekly figures are in fact conceptually identical to the published monthly figures, which are confusingly described in the BSA Bulletin as net new commitments.

Allen Ritchie

ALLEN RITCHIE

FIM2

X
You asked why the BSA do not publish the weekly figures. The BSA have in the past taken the view that the weekly figures can be volatile, and that releasing them would be seeming to give them a status they do not merit. But there is also the point that for the BSA to publish such up-to-the-minute information on key indicators of building societies' business, when their main competitors in the mortgage market - the banks and the new specialist mortgage lenders - do not release anything similar, may be putting the societies at a disadvantage,

ARR 19/9

②

MR GEORGE	MS GRAY, GROUP 7/2	MR SHEPPARD	MS KOSMIN (HMT)
MR COLEBY	MS HEALEY, GROUP 2/3	MR THORP	MR GRICE (HMT)
MR P A BULL	MR HEATH, GROUP 2/3	MR TOWNEND	MR PERETZ (HMT)
MR PLENDERLEITH	MR JONES	MR WILCOX, GROUP 7/2	MR RITCHIE (HMT)
MR ALLEN	MR MANN	GROUP 2/2, FSD	
MR BRIAULT	MR MIDGLEY	GROUP 2/3, FSD	
MR CLEWS	MR MORTIMER-LEE	ROOM 2, HO-3	
MR EGGINTON, GROUP 8/5	MR PETTIGREW		

LARGEST BUILDING SOCIETIES: WEEKLY FIGURES

The figures below cover the top 14 societies, which have recently accounted for some 85% of total net receipts. Previously the figures covered the top 15 societies but the Woolwich and the Gateway have merged. The final figures for each month are grossed up appropriately. The seasonal adjustment factor is added to the unadjusted figure to obtain the seasonally adjusted figure.

Week ending:	Shares and deposits: receipts	Shares and deposits: withdrawals	Shares and deposits: net inflows	Wholesale funds: net inflow	New lending commitments (gross)
Final figures for all societies in May					
Unadjusted	8,542	7,232	1,311	413	5,541
Seasonally adjusted	n/a	n/a	1,397	n/a	5,181
Final figures for all societies in June					
Unadjusted	8,942	7,707	1,235	1,311	5,555
Seasonally adjusted	n/a	n/a	1,598	n/a	5,132
9 July	1,985	1,613	372	-120	1,043
16 July	1,738	1,576	162	94	1,059
23 July	1,745	1,558	187	173	1,098
30 July	2,029	1,769	260	90	1,085
Final figures for all societies in July					
Unadjusted	9,646	8,348	1,298	380	5,287
Seasonally adjusted	n/a	n/a	1,204	n/a	5,138
6 August	2,135	1,829	306	179	797
13 August	1,893	1,706	187	373	694
20 August	1,841	1,626	215	-121	789
27 August	1,947	1,665	282	83	815
Final figures for all societies in August					
Unadjusted	10,031	8,779	1,252	715	3,971
Seasonally adjusted	n/a	n/a	1,765	n/a	4,031
3 September	1,776	1,590	186	188	561
10 September	1,657	1,576	81	322	624
Seasonal factor for Sep	n/a	n/a	-86	n/a	-22

AV 774
701 } AV
662
(-15%)

The level of new commitments has declined for the second week in succession. The commitments figure for the first week in September was affected by the bank holiday; allowing for this gives a weekly figure of around 700. Thus the first two weeks in September indicate that commitments are sharply down on the levels seen during August which suggests that higher mortgage interest rates are beginning to have a significant effect on demand.

Economics Division
Monetary Policy Group (HO-4)
14 September 1988

D J Mackie (5685)

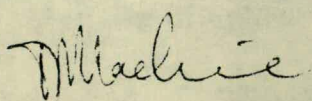


TABLE 10 BUILDING SOCIETIES: ADVANCES

Period	Amount					Number			Average Advance			
	1 New Dwellings £m	2 Other Dwellings £m	3 All Dwellings £m	4 Other £m	5 Total £m	6 New Dwellings 000's	7 Other Dwellings 000's	8 All Dwellings 000's	9 New Dwellings £	10 Other Dwellings £	11 All Dwellings £	12 % of Average House Price
1973	903	2,601	3,504		3,540	142	403	545				
1974	700	2,220	2,920		2,950	102	331	433				
1975	946	4,003	4,949		4,965	121	529	651	7,764	7,414	7,479	62.6
1976	1,125	4,972	6,097		6,117	129	586	715	8,827	8,301	8,394	65.8
1977	1,175	5,698	6,873		6,889	122	615	737	9,499	8,813	8,924	65.1
1978	1,504	7,204	8,708		8,734	134	668	802	11,146	10,093	10,271	65.5
1979	1,519	7,567	9,081		9,103	117	598	715	12,762	11,626	11,812	58.6
1980	1,406	8,183	9,589		9,614	94	584	675	14,696	13,118	13,340	56.7
1981	1,456	9,406	10,862		11,991	87	649	736	17,000	14,917	15,165	61.9
1982	1,716	11,831	13,547	1,792	15,339	94	766	861	18,890	16,402	16,685	67.9
1983	2,330	14,867	17,197	2,066	19,263	111	839	950	20,666	18,023	18,350	67.5
1984	2,900	18,637	21,537	2,497	24,034	130	954	1,086	22,404	20,052	20,345	60.6
1985	2,900	20,375	23,275	3,216	26,491	119	954	1,073	24,205	21,778	22,058	69.2
1986	3,516	28,163	31,679	5,257	36,937	122	1,110	1,231	27,945	25,361	25,629	69.5
1987	3,483	26,934	30,417	4,867	35,284	104	942	1,046	31,607	28,233	28,593	67.2
1987 Q.1	664	5,244	5,908	1,104	7,012	21	194	215	30,000	26,397	26,770	68.9
Q.2	881	6,715	7,596	1,240	8,836	27	243	270	31,213	27,377	27,784	68.3
Q.3	936	7,421	8,357	1,250	9,607	28	254	282	31,607	28,558	28,877	65.8
Q.4	1,022	7,554	8,556	1,273	9,829	28	251	282	33,904	30,123	30,453	66.5
1988 Q.1	926	7,676	8,602	1,464	10,066	25	242	267	35,274	32,045	32,373	67.7
1987 Jul	333	2,601	2,934	452	3,386	10	91	101	31,348	28,161	28,497	66.3
Aug	291	2,412	2,703	390	3,093	9	82	91	31,546	28,552	28,853	65.3
Sep	321	2,408	2,720	408	3,128	9	82	91	31,945	29,007	29,324	65.8
Oct	332	2,555	2,887	407	3,294	9	86	96	33,336	29,390	29,807	66.5
Nov	316	2,562	2,878	434	3,312	9	86	96	33,003	30,149	30,447	66.3
Dec	354	2,437	2,791	432	3,223	10	79	90	32,953	30,897	31,151	66.7
1988 Jan	215	2,113	2,328	434	2,762	6	69	75	32,630	30,993	31,143	66.9
Feb	300	2,366	2,666	416	3,082	8	75	83	35,194	31,826	32,176	68.1
Mar	411	3,197	3,608	614	4,222	11	98	109	36,879	32,939	33,361	68.0
Apr	361	2,906	3,267	594	3,861	9	88	97	37,757	33,584	34,011	67.3
May	407	3,409	3,816	574	4,390	10	102	112	38,137	33,780	34,210	67.1

Sources: The Building Societies Association, Department of the Environment (*Housing and Construction Statistics*, Table 1.9) and Central Statistical Office (*Financial Statistics*, Table 7.8).

- Notes:
- Between 1975 and 1980 the figures are based on a return covering over 90 per cent. of all building society lending. Earlier figures are less reliable. From January 1981 the figures are taken from a new return covering 80-85 per cent. of all building society lending.
 - The figures for number of loans are in respect of the number of houses purchased by building society borrowers and exclude further advances etc. However until December 1980 figures for amounts include further loans to borrowers and the second and subsequent advances of instalment mortgages. From January 1981 further advances etc are included in column 4.
 - The figures in column 12 show the average advance as a percentage of the average house price for all houses at the mortgage completion stage.

TABLE 11 BUILDING SOCIETIES: NET NEW COMMITMENTS

Period	Amount					Number			Average Advance			
	1 New Dwellings £m	2 Other Dwellings £m	3 All Dwellings £m	4 Other £m	5 Total £m	6 New Dwellings 000's	7 Other Dwellings 000's	8 All Dwellings 000's	9 New Dwellings £	10 Other Dwellings £	11 All Dwellings £	12 % of Average House Price
1973	816				3,254	127						
1974	704				3,115	101						
1975	994	4,292	5,286		5,302	124	557	682	7,943	7,511	7,588	62.6
1976	1,119	4,949	6,069		6,089	125	579	704	8,979	8,349	8,460	65.1
1977	1,260	6,249	7,509		7,524	125	661	786	9,815	8,927	9,067	65.1
1978	1,523	7,166	8,689		8,710	131	652	782	11,487	10,219	10,426	64.0
1979	1,498	7,605	9,103		9,119	111	593	705	13,127	11,713	11,975	56.9
1980	1,443	8,764	10,208		10,228	94	600	693	15,238	13,483	13,718	56.4
1981	1,427	9,280	10,707	1,241	11,948	84	639	722	17,247	15,134	15,387	62.0
1982	1,931	12,925	14,856	2,043	16,899	100	809	909	19,412	17,039	17,313	67.8
1983	2,419	14,886	17,305	2,049	19,354	113	815	929	20,981	18,682	18,973	66.4
1984	2,980	19,067	22,047	2,584	24,631	133	960	1,093	22,871	20,686	20,954	68.0
1985	2,963	21,230	24,193	3,570	27,763	118	960	1,078	24,924	22,501	22,770	68.6
1986	3,624	28,705	32,329	5,521	37,850	121	1,084	1,204	29,025	26,187	26,474	69.4
1987	3,709	28,592	32,301	4,381	36,682	109	967	1,076	33,001	29,318	29,690	67.1
1987 Q.1	808	5,838	6,646	987	7,633	25	205	229	31,200	27,571	27,955	68.7
Q.2	973	7,458	8,431	1,223	9,654	30	261	291	31,732	28,229	28,584	66.4
Q.3	946	7,689	8,635	1,104	9,739	27	260	287	33,329	29,634	29,990	66.3
Q.4	982	7,607	8,589	1,067	9,656	27	241	269	35,700	31,692	32,097	67.5
1988 Q.1	1,274	9,847	11,121	1,991	13,112	32	286	317	38,599	33,915	34,385	68.2
1987 Jul	330	2,694	3,024	408	3,432	9	92	101	32,592	29,116	29,443	65.7
Aug	296	2,360	2,656	380	3,036	8	81	90	33,616	29,811	30,185	66.4
Sep	320	2,635	2,955	316	3,271	4	87	96	33,810	30,011	30,377	66.9
Oct	344	2,760	3,104	334	3,438	10	89	99	34,614	30,827	31,199	66.7
Nov	336	2,622	2,958	359	3,317	9	83	93	35,773	31,821	32,217	67.5
Dec	302	2,225	2,527	374	2,901	8	69	77	36,907	32,650	33,101	68.4
1988 Jan	295	2,194	2,489	388	2,877	8	66	73	37,146	32,782	33,235	69.4
Feb	440	3,321	3,761	589	4,350	11	98	109	38,396	33,711	34,193	69.1
Mar	539	4,332	4,871	1,014	5,885	13	122	135	39,666	34,716	35,191	67.0
Apr	464	3,696	4,160	613	4,773	11	104	115	39,030	35,423	35,779	66.9
May	502	4,304	4,806	480	5,286	12	123	135	40,199	36,432	36,785	67.1

Sources and Notes 1 & 2 as Table 10 above.

3. The figures in column 12 show the average advance as a percentage of the average house price for all houses at the mortgage approval stage.
4. Net new commitments are equal to gross commitments entered into less commitments cancelled. Figures for advances reflect net new commitments 2-3 months earlier.

*Mr Gieve has this
will draw attention
quite to the
of bank
customers*

FROM: ALLEN RITCHIE
DATE: 21 September 1988

MS WALLACE

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mrs Lomax
Mr Peretz
Mr Gieve
Miss Noble
Mr Dickson
Mrs Ryding

*[Ch] better than we thought
mms]*

PUBLICATION OF FIGURES ON BUILDING SOCIETY LENDING

You asked when monthly figures for building society mortgage lending were normally published.

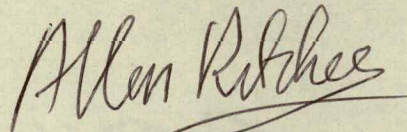
2. Figures for building society lending for the previous month are first available internally at the same time as the provisional money figures. This includes a breakdown between mortgage lending and other lending, though the amount of non-mortgage lending by societies is still very small. No figures are published at this stage, however. The nearest an outsider could get to an estimate of building society lending from the published provisional money figures would be the difference between M4 and M3 - though this could prove to be a rather inaccurate estimate.

3. The official figures for building society lending become publicly available when the final money figures are published later in the month.

4. However, in advance of the release of the final money figures, the BSA issue a press release continuing their own monthly figures, including figures on lending and on new mortgage commitments. A copy of the main table from last month's press release is attached. There are some discrepancies between the official estimates of building society lending and those of the BSA, but these are generally not very large. (My note of 19 September to PS/Economic Secretary on new mortgage commitments said that publication of the monthly figures had to await the

appearance of the quarterly BSA Bulletin. This was wrong; these figures do in fact appear in the BSA's monthly press release).

X | 5. The BSA press release, which is thus the first publicly available source of figures on building society lending each month, usually appears on a Friday, around the 20th of the month. This month's press release, which will have figures up to August, is due for this Friday, 23 September. It can be expected to show a substantial drop in new commitments in August, but continuing high lending. The press release containing the September figures is expected for Friday 21 October, but this is subject to confirmation.



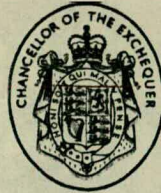
ALLEN RITCHIE

FIM2

Table 1 Building Society Statistics

Period	Retail Shares and Deposits					Lending						
	1	2	3=1-2	4	5=3+4	6	7	8=6-7	9	10	11	
	Receipts	Withdrawals	Net Receipts	Interest Credited	Increase In Savings	Gross Mortgage Advances	Repayments of Principal	Net Advances of Principal	Net New Commitments	Commitments Outstanding	Liquidity Ratio	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	
1982	32,080	25,614	6,466	4,049	10,515	15,339	7,192	8,147	16,899	3,931	20.5 (19.8)	
1983	38,549	31,710	6,839	3,725	10,564	19,263	8,335	10,928	19,354	4,040	19.9 (19.1)	
1984	49,149	40,577	8,572	4,645	13,217	24,034	9,462	14,572	24,631	4,637	18.8 (18.0)	
1985	58,049	50,587	7,462	5,966	13,428	26,491	11,780	14,711	27,763	5,909	18.9 (18.1)	
1986	70,449	63,857	6,592	6,092	12,684	36,937	17,396	19,541	37,850	6,822	16.4 (16.1)	
1987	85,288	77,801	7,487	6,930	14,417	35,284	20,704	14,580	36,682	8,166	17.0 (16.6)	
1987 Q1	18,823	17,358	1,465	1,764	(1,856)	3,229	7,012	3,720	3,292	7,633	7,446	15.9 (15.9)
Q2	21,248	19,444	1,804	1,356	(1,667)	3,160	8,836	5,016	3,820	9,654	8,262	16.5 (16.7)
Q3	22,582	21,371	1,211	1,514	(1,718)	2,725	9,607	5,884	3,723	9,739	8,363	16.2 (16.4)
Q4	22,635	19,628	3,007	2,296	(1,689)	5,303	9,829	6,084	3,745	9,656	8,166	17.0 (16.6)
1988 Q1	22,934	19,883	3,051	1,881	(1,410)	4,932	10,066	5,269	4,797	13,112	11,217	16.4 (16.4)
Q2	25,944	26,276	4,173	1,226	(1,345)	5,399	13,175	6,696	6,479	15,727	13,722	17.2 (17.4)
1987 Jul	8,224	7,877	347	790	(567)	1,137	3,386	2,011	1,375	3,432	8,277	16.4 (16.5)
Aug	7,151	6,484	667	107	(573)	774	3,093	1,864	1,229	3,036	8,220	16.5 (16.6)
Sep	7,207	7,010	197	617	(578)	814	3,128	2,009	1,119	3,271	8,363	16.2 (16.4)
Oct	7,734	6,922	812	317	(584)	1,129	3,294	1,938	1,306	3,438	8,552	16.4 (16.3)
Nov	7,610	6,484	1,126	115	(589)	1,241	3,312	1,914	1,398	3,317	8,557	16.7 (16.6)
Dec	7,291	6,222	1,069	1,864	(516)	2,933	3,223	2,132	1,041	2,901	8,166	17.0 (16.6)
1988 Jan	7,172	6,282	890	1,356	(465)	2,246	2,762	1,378	1,384	2,877	8,286	16.5 (16.7)
Feb	7,371	6,269	1,102	110	(470)	1,212	3,082	1,808	1,274	4,350	9,554	16.6 (16.8)
Mar	8,391	7,332	1,059	415	(475)	1,474	4,222	2,083	2,139	5,885	11,217	16.4 (16.4)
Apr	8,443	6,867	1,576	213	(480)	1,789	3,861	1,967	1,894	4,773	12,082	16.9 (16.8)
May	8,524	7,166	1,358	231	(430)	1,589	4,390	2,252	2,138	5,286	12,977	16.9 (16.7)
Jun	8,977	7,738	1,239	782	(435)	2,021	4,924	2,477	2,447	5,668	13,722	17.2 (17.4)
Jul	9,453	8,091	1,362	723	(440)	2,085	5,431	2,625	2,806	5,360	13,651	16.8 (16.9)

Note: Figures in brackets in column 4 and column 11 are seasonally adjusted and are a better indication of trends than the crude figures.



MP

FROM: MISS M P WALLACE

DATE: 22 September 1988

MR RITCHIE

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mrs Lomax
Mr Peretz
Mr Gieve
Miss Noble
Mr Dickson
Mrs Ryding
Mr H Bush*

*(with Mr Ritchie's
minute)*

PUBLICATION OF FIGURES ON BUILDING SOCIETY LENDING

The Chancellor was grateful for your minute of 21 September. He has noted that IDT may wish to draw this gently to the attention of some of their customers.

mpw.

MOIRA WALLACE