

~~cc Mr Wilson~~

Prime Minister

CONFIDENTIAL

Qa 04109

To: MR STOWE

From: SIR KENNETH BERRILL

Does it, this come under environment? Could it be called dynamic? them? no.

These seem good points. Agree that I should write to the Treasury as at Flag A?

Building Societies

R 22/5

Flag A

1. I attach a draft minute which, if the Prime Minister agrees, you might wish to send to the Chancellor's Private Secretary. It deals with two issues: (i) encouraging competition among building societies in the interest rates at which they borrow and lend, and (ii) encouraging amalgamation of the very small societies with larger ones.

2. As the Prime Minister is no doubt aware, the larger building societies operate a cartel in the shape of the Building Society Association which regularly lays down the rates which member societies should apply to lenders and borrowers. Over the past year, a good deal of thought has been given to the case for and against encouraging greater competition amongst the larger societies on rates. The Treasury have tended to argue that the present system results in lower lending and borrowing rates than would otherwise be the case. Others (including the Bank of England and ourselves) doubt whether the effect on rates has been appreciable over time and believe that greater competition would help to avoid the periodic mortgage famines which have been a common feature since the war. This could make a contribution to the Government's longer term objectives of encouraging wider home ownership. The Prime Minister might wish to ask the Chancellor for his assessment of the position.

3. A second point is prompted by the recent Report on the Grays Building Society. A surprisingly large number of small localised societies still exist, many of them largely inactive. I attach a table illustrating the point.

Flag B

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We suspect that their Boards are often not dissimilar in age and temperament from that of the Grays Society and it is not inconceivable that there are further skeletons in their cupboards. They generally provide no effective competition to the larger societies. When he has grounds for doubting their management or financial status, the Chief Registrar encourages them to merge with larger societies. But to protect small investors (as they are protected in the case of Unit Trusts) there may well be a case for pursuing this policy more vigorously.

4. I am sending a copy of this minute and attachments to Sir John Hunt.

K2

22 May 1979

Atts

I don't like the
Carter - but am
jealous of increasing
competition with the
present structure -
management of the
holding societies.
I really think that needs
looking at. Just as

2
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A

Draft Minute from: Mr Stowe

to: the Private Secretary to the
Chancellor of the Exchequer

Building Societies

The Prime Minister would be grateful for a note from the Chancellor, in consultation with the Secretary of State for the Environment, on two issues relating to Building Societies:-

- (1) She would be grateful for advice on whether there is room for encouraging greater competition amongst the larger Societies. Rather than the BSA maintaining their present system of recommended lending and borrowing rates, could they not be encouraged to permit at least a range of rates as a first step in the direction of greater competition? Would this help to avoid periodic mortgage fund shortages which stand in the way of encouraging wider home ownership?
 - (2) The Prime Minister understands that there are some 150 small Building Societies with assets of less than £2m which account for less than $\frac{1}{2}\%$ of total assets of the Societies. Many of these are dormant and few offer real competition to the larger Societies. She understands that, where the competence of the management is thought to be in question, the Chief Registrar encourages these small Societies to merge with larger ones. She would be grateful for the Chancellor's advice as to whether enough is being done in this direction. In the light of the Grays affair, can it be said that small investors have adequate protection?
2. I am sending copies of this minute to the Private Secretaries to the Secretaries of State for the Environment, Scotland and Wales, and to Sir John Hunt.

B

Specification	No. of Societies in group	Total Assets	
		£ million	Percentage of total
Assets over £1,485m	5	15,144	53.7
Assets over £500m	6	4,768	16.9
Assets over £100m	18	4,683	16.6
Assets over £25m	47	2,405	8.5
Assets over £2m	138	1,120	4.0
Assets under £2m	150	81	0.3
	364	28,202	100

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cc co

H8

Housing

10 DOWNING STREET

From the Private Secretary

Sir Kenneth Berrill
Central Policy Review Staff

Building Societies

The Prime Minister has considered your minute of 22 May on the above subject. She has commented:

"I don't like the cartel, but am fearful of encouraging competition with the present structure and management of the Building Societies. I really think that needs looking at first."

The Prime Minister is keen that we should commission some work on the Building Societies. I would be grateful if you would consider how the point which she has made could be incorporated in the draft letter which you submitted.

The Prime Minister has also suggested that this work should be commissioned from Environment rather than the Treasury. I take it that there would be no objection to asking Mr. Heseltine for advice - in consultation with Treasury Ministers?

I am sending a copy of this minute to Sir John Hunt.

J. P. LANKESTER

23 May 1979

KRR

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Original in
Es/Rooms

Housing

10 DOWNING STREET

THE PRIME MINISTER

29 May 1979

Dear Mr. Williams,

Thank you for your letter of 17 May with its kind message of congratulations on my appointment as Prime Minister. May I in turn extend my good wishes to you in your new position as Chairman of the Building Societies Association, and I am sure that Geoffrey Howe and Michael Heseltine will be in close touch with you during your period of office.

Kind regards,

Yours sincerely,

(signed) M.T.

Leonard Williams, Esq.

TMW