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Housing
JW 15 A

10 DOWNING STREET

From the Private Secretary

B/P 13-6-79

6 June 1979

Building Societies

The Conservative Manifesto stressed the need to help more people become home owners. The Prime Minister would be grateful if your Secretary of State would arrange for your department to consider, in consultation with officials in the Treasury, the Scottish and Welsh Offices and the CPRS, ways in which the present structure and management of the building societies could be improved so as to help promote over the next decade a substantial increase in home ownership. The Prime Minister hopes that this review might inter alia cover the respective contribution the building societies, the banks and the life offices might make to the achievement of our housing objectives over this period; ways of making building societies in reality more accountable to their borrowers and lenders; and ways in which the building societies can adapt themselves to provide more help for lower income borrowers wishing to purchase older and lower grade housing.

The Prime Minister would hope that the study could cover the future of the 150 or so building societies with assets of less than £2 million, which account for less than ½ per cent of the total assets of the societies. Many of these are dormant and few offer real competition to the larger societies. The Prime Minister 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 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?

On the larger societies, the Prime Minister would be grateful for advice on whether there is room for encouraging greater competition between them. Rather than the Building Societies Association 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?

/ The Prime Minister

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The Prime Minister is concerned that knowledge that this study is being undertaken may come as something of a shock to the building societies. If they are likely to become aware of it, she has suggested that they should be told about it in advance. This could presumably be done at one of your Secretary of State's regular meetings with the Building Societies Association, if he thought it appropriate.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, and to Sir John Hunt and Sir Kenneth Berrill.

T. P. LANKESTER

David Edmonds, Esq.,
Department of the Environment.

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10 DOWNING STREET

From the Private Secretary

18 June 1979

BUILDING SOCIETIES

The Prime Minister has considered your letters of 12 and 16 June on the above subject, and also Martin Hall's letter of 7 June. She has asked me to say that she remains of the view that the Department of the Environment should take the lead in co-ordinating the studies which I commissioned in my letter of 6 June. But this is on the basis that the work will be done in very close consultation with the Treasury.

I am sending copies of this letter to Tony Battishill (HM Treasury), Kenneth MacKenzie (Scottish Office), George Craig (Welsh Office), Martin Vile and Sir Kenneth Berrill (Cabinet Office).

T. P. LANKESTER

D.A. Edmonds, Esq.,
Department of the Environment.

cc HMT JS
SO
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CO
CPRS

Housing

PRIME MINISTER

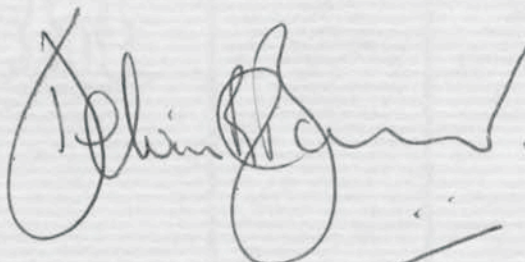
Building Societies

6.6.79
We wrote (Flag A) to the Department of the Environment asking Mr. Heseltine to set in hand a review of the Building Societies - to be conducted in consultation with the Treasury.

I am afraid this has generated a minor dispute as to which Department should be in the lead. The Treasury (Flag B) welcome the idea of a review, but argue that most of the issues are of primary concern to the Treasury; and it is indeed the case that they have had the main responsibility for Building Societies in the past. On the other hand, DOE in their two letters at Flags C and D welcome the chance to take the lead in this work. 12.6 15.6

The Cabinet Office strongly advise that it should be the Treasury which takes the lead, and on reflection I think this would be better. The Treasury have suggested that some of the work could be split off for DOE to take the lead on, and this should help to appease them.

Shall we opt for the Treasury as the lead Department?


Dony clerk
16/6.
P.P. LANKESTER.

1645 June 1979

I really think we should
stick to DOE. - the purpose of
Building Societies is to finance housing.
The Treasury role is so small-minded.
MT.



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D

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

16 June 1979

Don Tim

BUILDING SOCIETIES

My Secretary of State has now seen the letter of 7 June from the Private Secretary to the Chancellor of the Exchequer to you, which only reached us yesterday afternoon.

My Secretary of State notes the Chancellor's view that Treasury should co-ordinate the study, and that the Financial Secretary should supervise the work of officials in association with him. But he remains ready - as suggested by the Prime Minister - to take the lead in the review; even though the subject matter will spill over into matters which are the responsibility of Treasury Ministers. He believes that this would be right because the review, as your letter on behalf of the Prime Minister makes clear, is essentially about the centrepiece of the Government's housing policy - the promotion of a substantial increase in home ownership in the 1980s.

Along with the important specific matters which the Prime Minister wishes to be included, my Secretary of State believes that the following should also be covered:

- ending or substantially modifying the building society interest rate cartel in order to encourage competition and innovation;
- encouraging building societies to raise long term funds from other financial institutions directly or through the creation of a secondary mortgage market;
- encouraging the creation by the financial institutions of a market in equity mortgages;
- securing more direct lending for house purchase by institutions other than building societies, such as the Trustees Savings Banks and the National Savings Bank;
- encouraging societies to use the whole-sale money market to iron out short-term fluctuations in the supply of mortgage funds when this is possible;
- promoting new forms of savings/mortgage facilities for first-time buyers, such as saving at nil or a low interest rate in return for a mortgage at below the market rate; and
- establishing if necessary a financial intermediary to act as a catalyst for innovatory ideas of the kind set out above.

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On reflection, and if the Prime Minister agrees, the Secretary of State would like to start the ball rolling by convening a meeting with other Ministers concerned for an initial discussion of the ideas set out above, so that officials can be given a clear steer before they draw up a working programme and timetable.

I need hardly add that my Secretary of State accepts of course that the decision on the appropriate Minister to lead the review is entirely one for the Prime Minister.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales; Sir John Hunt and Sir Kenneth Berrill.

Yours sincerely
D A Edmonds

D A EDMONDS
Private Secretary

Tim Lankester Esq
10 Downing Street

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CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

12 June 1979

Dear Tim

BUILDING SOCIETIES

Thank you for your letter of 6 June about building societies.

My Secretary of State had already commissioned the Department to produce papers on ways and means of ensuring an adequate flow of house purchase finance to support the Government's objective of securing a big increase in owner occupation in the years ahead. He therefore welcomes the Prime Minister's proposal for an interdepartmental review on house purchase finance; and, as the Prime Minister suggests, he will take the lead in progressing this as quickly as possible, consulting other Departments concerned, including of course, the Treasury.

My Secretary of State has asked his officials to draw up as quickly as possible a working programme and timetable, in consultation with other Departments. He then proposes to arrange a first meeting with Ministerial colleagues within the next week or so.

As regards confidentiality, my Secretary of State considers it very important to keep the review entirely confidential, especially at this stage. If the BSA get to know of it, they will naturally be apprehensive about its possible outcome. This might make it more difficult to secure their cooperation at the present time over the finance of council house sales.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, Secretaries of State for Scotland and Wales, and to Sir John Hunt and Sir Kenneth Berrill.

Yours sincerely
D A Edmunds

D A EDMONDS
Private Secretary

Tim Lankester Esq
10 Downing Street

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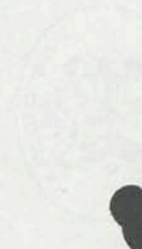
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2 JUN 1979



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B

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7th June 1979

Dear Tim,

BUILDING SOCIETIES

The Chancellor of the Exchequer has seen your letter of 5th June to David Edmonds. He entirely agrees with the Prime Minister that a study should be made of the wide range of issues mentioned in your letter. Work is already in hand on several of them. For example, the Registry and Treasury are in discussion with the Building Societies Association on depositor protection and on the preparations for building society legislation which will probably be needed in the 1980/81 session to deal with the Grays and other matters.

Some of the issues mentioned are clearly of very direct interest to the Department of the Environment, notably the future sources of finance for housing and the provision of finance to low income groups. But the majority are of primary concern to the Treasury and the Registry of Friendly Societies. The latter has statutory responsibility for the supervision of the societies, is the Government agency in day to day contact with individual societies and is responsible to Treasury Ministers. Moreover, the building societies are now such a large element in the financial system - exceeding in size the clearing banks - that proposals for them have to be viewed in the context of the financial system as a whole. Similarly, the needs of the housing market for funds have to be set alongside other priority needs, notably those of industry and the public sector, even though we will be reducing the latter progressively.

The Chancellor would accordingly suggest that, if it is agreeable to the Prime Minister and Mr. Heseltine, the co-ordination of the study should be done by the Treasury. It should be possible to break down at least some of the work into manageable blocks, such as providing more help for lower income borrowers, where the Department of the Environment would take the lead. The Chancellor would also wish the Bank to be associated with much of the work.

/The Chancellor

T.P. Lankester, Esq.



The Chancellor would propose to ask officials to draw up first a programme for work with suggestions as to which aspects should have priority: some of the issues are of considerable complexity with ramifications far outside the building society field. He would then discuss it with Mr. Heseltine, so that they could report back to the Prime Minister on what they had agreed. The question of whether, and if so how, the building societies should be told might be left to that stage. The Chancellor has it in mind to ask the Financial Secretary, as the Treasury Minister concerned with the financial institutions, to supervise the subsequent work of officials: this could be in association with Mr. Stanley, if Mr. Heseltine wished.

I am sending copies of this letter to the recipients of yours.

Yours ever,

M.A.

(M.A. HALL)

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CONDENSATOR

111 JUN 1979

