



# building societies



## what are they?

They're mutual institutions offering savings accounts and mortgages, and occasionally current accounts. This is all they provide. They are simple beasts compared to banks, and their mutual nature means that they are owned by their members, and are not listed on stock exchanges and owned by shareholders. They're similar to co-operatives, but, from Wikipedia: 'unlike a true cooperative, members usually do not contribute to the capital of the company by direct investment, but derive their right to profits and votes through their customer relationship.'

**History:** the first building society was formed in 1775, by Richard Ketley, proprietor of the Golden Cross pub in Snow Hill, Birmingham. At the time, publicans encouraged meetings of working men in their pubs in order to sell more beer! Lots of trades unions and friendly societies were formed in pubs. This society was quickly followed by others in Birmingham, then Dudley, Rowley Regis and other places in the Midlands, North and Scotland. Members of early societies like this paid money into a pot, and when there was enough, one member's name was drawn by lot and the money was used to build them a house. This house was used as security for attracting more loans until everyone in the group was housed, after which the society had served its purpose and was disbanded. These early societies were consequently called 'terminating' societies.

By 1825 there were over 250 building societies all over the UK. In the middle of the 19th century, model rules were developed, societies started to accept savings from people not looking to build a home, the first permanent (i.e. not terminating) societies were formed, and by the turn of the century there were almost 2000 UK societies with over 600,000 members.

The industry grew steadily until the 1980s when it was hit by a wave of extremely damaging 'demutualisations'.



Nationwide (the biggest building society in the UK) were invited into Glastonbury by locals after Lloyds closed the last bank branch in town.



*The sign on the Penrith Building Society (the smallest in the UK) says it all: 'Every man his own landlord' (well, all apart from the fact that they left out half the population).*

**Demutualisation:** many building societies were 'demutualised', starting in the 1980s, after deregulation allowed mutual societies to become banks with shareholders, or to merge with existing banks. Members were offered incentives in the form of cash payments or shares. The first mutual society to be demutualised was Abbey National, followed by famous names such as Alliance and Leicester and Northern Rock. They have all since failed. Vince Cable called the demutualisation of building societies 'one of the greatest acts of economic vandalism in modern times'. It resulted in the loss of hundreds of small societies, converted or swallowed by the corporate sector. In 1986, the Building Societies Act allowed building societies to enter areas such as insurance, estate agency and unit trusts. They needed to raise capital quickly to do this. Many demutualised and floated on the stock market to raise capital. This wasn't done lightly - there were huge battles between members. They soon found that the cut-throat banking sector was much more of a struggle than being a mutual in a more patient, stable sector. None of the demutualised societies exists as an independent entity today. Savings & Loan Associations operate in the same way in the US, and are famously championed by James Stewart in *It's a Wonderful Life*. The battles fought in that film are still relevant today. They suffered similar damage due to demutualisations in the late 20th century. Building societies now have 'charitable assignments' - new members agree to assign to charity any windfall due through demutualisation, which is a big disincentive.

Today, the mutual sector is healthy and growing. Around 20 million people have accounts, 3 million have bought homes with building societies, and they currently provide 1 in every 3 mortgages in the UK.



### what are the benefits?

Profits are only distributed to staff and members of the society, they're not creamed off for shareholders. For this reason, they often offer competitive rates for savings and mortgages.

They're democratic institutions – i.e. one member, one vote, rather than one share, one vote, as with PLCs. So your influence in the society does not depend on how much money you have.

They are ethical places to put your money. From Positive Money: 'building societies are prohibited by law from engaging in commodities or foreign exchange trading. So if you give your money to a building society, they won't use it to push up the price of food so that people in developing countries starve. That's a nice thought!'

At least 75% of investments, by law, must go to mortgages on residential property, so none of the toxic investments that cause economic crashes. This isn't an imposition – it's what they want.

Building societies have more local branches, providing more jobs, and greater convenience and customer service for members. This is reflected in fewer complaints and greater satisfaction with building societies compared to banks.

They don't have to serve external shareholders, and they often have community outreach programmes and community funds. Two examples – when Lloyds closed the last bank branch in Glastonbury, the community invited the Nationwide in and they duly obliged. And in the north-east, a local library was about to be closed, but the Newcastle Building Society put a branch in the library to prevent the closure.



1980 saw the birth of the newest building society – the Ecology Building Society, with a unique focus on the environment.

### what can I do?

Switch your savings, mortgage and (with some societies) current account to a building society. Lots of people organise their mortgages through a broker, and if that's the case, you can stipulate that you'd like to use a building society. If they don't understand your ethical reasons for doing so, you'll then have the opportunity to educate them.

Current accounts are expensive for financial institutions to operate, but for current accounts, you have two options – the Nationwide, or if you live in Cumbria, the Cumberland.

If you go to the website of the Building Societies Association, the trade body for building societies, you'll find a list of all the building societies in the UK, with contact details. You'll be able to choose one in or close to your town if you want to support your local society. You could possibly have a Nationwide current account as well as savings / mortgage with your local society.

Just pop into your local branch or call them, and they'll explain what to do to switch. With current accounts, they'll be able to switch all your standing orders and direct debits painlessly too. And if you really want to talk to a real human, you'll be glad you decided to go with a building society.

Once you're a member of a building society, you become a part-owner, and so you have the right to become involved in the running of the society (although of course you don't have to if you don't want to). You'll have the right to nominate and vote for directors, or to stand for election yourself (as long as you get enough support from other members), and to attend the AGM.

### resources

- [lowimpact.org/building-societies](http://lowimpact.org/building-societies) for more info, links & books, including:
- D McKillop, *Building Societies: Structure, Performance & Change*
- Mark Boleat, *the Building Society Industry*
- [bsa.org.uk](http://bsa.org.uk) – Building Societies Association
- [thefreelibrary.com/Brum's+building+society+origins-a0188990857](http://thefreelibrary.com/Brum's+building+society+origins-a0188990857) – Brum's building society origins
- [bsa.org.uk/about-us/members-of-the-bsa](http://bsa.org.uk/about-us/members-of-the-bsa) – listing of building societies in the UK

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