

Article by Jeff Prestridge, Personal Finance Editor of the *Financial Mail on Sunday*, published in the 8<sup>th</sup> February 2009 edition of the *Mail on Sunday* newspaper in support of building societies with regard to their disproportionate FSCS liability in comparison to the banking sector.

The highlighted area specifically refers to the Holmesdale Building Society, although this issue affects **all** building societies.



By **Jeff Prestridge**

PERSONAL FINANCE EDITOR

equivalent to 15 per cent of the sector's pre-tax profits. This is despite the fact that not one society has yet to make a call on the FSCS (building societies tend to look after their own so the strong ones rescue the weak ones when the latter hit serious problems).

In effect, building societies – and by implication their customers – are paying for the reckless behaviour of a motley crew of banks (Bradford & Bingley and Icelandic banks among them) whose savers have been bailed out by the FSCS, causing it in turn to come running to building societies for more money.

The impact of the FSCS on Holmesdale, a one-office society in Surrey with 155 years of history, demonstrates its unfairness. It has assets of £150 million, about 6,500 savers and 1,250 borrowers. It is run conservatively so loans are not granted unless borrowers have a healthy 25 per cent deposit.

**A**LSO, all its money comes from savers – it does not use the risky wholesale money markets to obtain funds as the Northern Rocks of this world did. Yet over the next three years it will have to hand over £310,000 to the Financial Services Compensation Scheme.

To put this sum into context, it made pre-tax profits of £816,000 in the year to April 2008. About £190,000 of this FSCS cost will be accounted for this financial year, which will inevitably drag down the society's profits. Naturally, chief executive Kevin Morgan is furious.

Although he has no doubt Holmesdale will weather the storm, he says it is being penalised for being too conservative.

'The FSCS levy is based on the size of our savings balances,' he says. 'So if, instead of persuading the public to save with us, we had been more risky and obtained funds from the wholesale money markets, we would now be faced with a lower FSCS bill. It's crazy.'

Crazy indeed. The Government needs to sort out the FSCS soonest.

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ONE hundred and nineteen MPs are waving the flag for the country's remaining 55 building societies. They have all signed an early day motion tabled by Ann Cryer, Labour MP for Keighley in West Yorkshire (the building society industry's heartland), demanding the Government re-examine the way banks and building societies fund the Financial Services Compensation Scheme.

The early day motion has been triggered by the fact that building societies fear their financial future is being compromised by the huge amounts they are being asked for to fund the FSCS. The annual sum being demanded is £200 million,

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