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Dame Meg Hillier MP
Chair, Treasury Select Committee
By email only

19 February 2026

Dear Dame Meg,

Treasury Committee evidence session – follow-up

Thank you for inviting me to give evidence to the Committee on 28 January 2026. I appreciated the opportunity to discuss the contribution that building societies and credit unions make to financial resilience, homeownership, and a diverse and competitive financial services market. As promised during the session, I am writing to follow up your outstanding questions.

I have written separately on ISAs already. Discussions on the implementation of the reforms are continuing with officials. We hope these discussions will result in a positive outcome and ensure that the cut to the Cash ISA limit cannot be circumvented, otherwise this could have unintended consequences such as restricting future lending, including to First Time Buyers, as well as hindering the Government's policy goal of boosting long-term investment in equities.

Legislation the BSA would like to see (Q33)

As I outlined at the session, the Building Societies Act is now over 40 years old, while the Credit Union Act is almost 50 years old. The financial services sector has evolved substantially over that period. We believe that modern, flexible, and permissive legislation is essential for a sector that continues to grow and support millions of savers and borrowers.

Our key priorities include:

1) **Updating the Building Societies Act and the Credit Unions Act to enable growth:**

    a) Modernisation of the Building Societies Act will enable more SME lending and deposits, as well as increase membership. This will support the growth of the sector as well as growth in the wider economy. We are exploring a number of potential changes with our members, including:

        i) **Reducing the lending limit:** A reduction of the lending limit (the proportion of group trading assets which must be represented by residential mortgage loans) from 75% to 60%, for example, would allow for more lending to corporates and SMEs.

        ii) **Adjusting the funding limit:** Adjusting the funding limit could cater for greater levels of SME funding, by removing the restriction whereby any SME deposits above a 10% threshold are classified as wholesale funding in the calculation.

iii) **Modernising the treatment of funds deposited via savings platforms:** Deposits from savings platforms are not classed as individual deposits where they are received by the society as bulk deposits. This is the case even though individual customer protection is provided on such deposits through the FSCS guarantee. The funding limit should be updated to classify individuals saving via deposit platforms as members, thus allowing true growth of membership from this source of funding.

b) Strengthen cooperative values to codify that reserves are *indivisible* i.e. mutual reserves are for the benefit of all members - current and future – in line with the Co-operative principles.[1] As such they should not be available to be readily monetised in the way that common shares are for plc shareholders.

c) Implement the outstanding secondary legislation from the 1986 Act (Amendment) Act 2024, which will implement some overdue updates to the legislation. This includes updating the requirements for the use of seals in line with changes made to the Companies Act 20 years ago and making certain technical changes to the funding limits which will help in a time of stress. We welcome the recent confirmation from the Economic Secretary to the Treasury, at one of your recent sessions, that these are due to be laid before the Summer Recess.

2) **Modernising the Credit Union framework** to modernise the Credit unions Act, which is now nearly 50 years old – including to create a more permissive legislative regime, reform the common bond, enable shared services and collaboration, and ensure alignment with modern regulatory and commercial practice.

3) **Synchronised updates with the Companies Act** to ensure our members are subject to the same general requirements where this is appropriate and create a level playing field for mutuals.

4) **Simplification of audit requirements** for smaller, simpler Public Interest Entities (PIEs) and the removal of most societies from PIE scope. PIE auditing standards and processes are disproportionate to the risks in smaller building societies – it can feel like auditors are motivated more by the need to appease the scrutiny of the FRC – e.g. through excessive sampling sizes and materiality thresholds - than to provide appropriate assurance to the Board of the society. These concerns about the disproportionate impact on smaller mutuals are also shared by the mutual insurance sector, as noted in the joint report we published with the Association of Financial Mutuals, the Quoted Companies Alliance and UK Finance last year[2].

   We estimate that building societies in scope of the PRA's small domestic deposit-taker (SDDT) regime currently overspend around **£6 million per year[3]** due to PIE audit status - equivalent to the capital required to support **approximately £200**

[1] See CoOperative Principle 3 on economic participation [Cooperative identity, values & principles | ICA]
[2] See [BSA-Cross-Sector-Audit-Policy-FINAL.pdf]
[3] Building societies of comparable size and complexity as credit unions out of scope of the PIE regime are paying £130k a year more for their audit as those credit unions, or 3.36 times as much. Modelling across SDDT firms, this would be a gap of £6 million

million in additional mortgage lending[4]**.** In 2024 audit fees rose by **13.6%** across our sector, compared to **just 4%** for the rest of the PIE audit market. Over five years the increase has been **117%.** The **smallest 23 building societies** are on average paying the equivalent of 12% of their profit on their audit fee (compared to 0.51% for one of the largest 6).

Examples of financial education in primary schools (Q52/53)

Building societies already deliver a range of financial education initiatives in local communities, including primary schools. These programmes sit within the wider framework of the Government's **Financial Inclusion Strategy**, which highlights financial education and capability as one of its six strategic goals. Mutuals' strong community roots and extensive branch networks place them in a unique position to deliver practical, locally tailored financial education. Across the UK, around half to two thirds of building societies are involved in some form of financial education outreach – from classroom-based workshops and curriculum-aligned school-based learning materials, to savings schemes that help younger children build positive money habits.[5] Many also use their physical branches as learning spaces, hosting sessions for families and communities on topics such as budgeting, online safety and fraud prevention.

Mortgage rules, lending capacity, and the impact of European directives (Q79/80/81/83)

The original and fundamental purpose of building societies is to help people to own their own homes. The extent to which they are able to do this is ultimately controlled by the availability of and restrictions on capital (which is needed to provide lending) and the savings deposits which are raised to support this (especially Cash ISAs). When capital regulation is too onerous it limits the amount of lending which societies could otherwise provide.

Building societies have welcomed the recent regulatory flexibility that allows more mortgage lending above **4.5× income. Four building societies have already taken advantage of this which has resulted in** mortgages to an additional **17,500–20,000 first-time- buyers** this year. The easing has taken place within existing risk appetites and does not represent a material shift up the risk curve. This flexibility only extends to summer 2026 and we are working with the Financial Policy Committee on successor arrangements.

To scale lending further, societies would benefit from:

- **More proportionate prudential regulation**, to remove the unlevel playing field towards loss-risk mutuals. Several components of the framework, such as the IRB-floor and the UK-specific leverage ratio buffer, are disproportionately restrictive for -low-risk mutual lenders. These requirements were designed and calibrated for internationally-active banks, with elements of gold-plating in the UK, then applied without adjustment for UK building societies. The UK's capital framework does not adequately recognise the mutual model's limited access to external equity

[4] 8% minimum capital required for lending for properties at Loan to Value of less than 80% risk weighted at 35%
[5] Summarised here: https://www.bsa.org.uk/getmedia/8c1c71e2-fbab-43ba-8fde-75b7b8f358e1/Financial-Education-from-building-societies-and-cr.pdf

markets, making the cumulative capital burden particularly restrictive for building societies. Two examples of the impact of the current requirements include:

- Nationwide estimating that if the UK leverage ratio was aligned to international standards and not gold-plated with an additional leverage rate buffer, a further £30bn would be available for lending.
- Coventry Building Society since the year 2000 has experienced c. £100m of impairment losses (average of £4m per year) and has never posted an accounting loss. As of financial year-end 2024 the Society had £3.3bn of total capital resources and £2.6bn CET1 capital, this represents 863 and 680 years of credit loss coverage, respectively.

- **Access to more flexible growth capital**, including reforms to facilitate deeper and more liquid markets for mutual capital instruments, such as CCDS. This should include measures to remove barriers and encourage retail investments in mutual instruments where appropriate as part of a balanced approach to risk-taking.
- Continued implementation of the **Strong & Simple** regime, ensuring supervisory practices are genuinely proportionate and aligned with the policy intent.

The European Mortgage Credit Directive was incorporated into the UK's regulatory rulebook in 2016. The requirements adopted by the FCA at that time will be subject to review as part of its wider work on regulatory simplification and support for growth, including its current review of the mortgage rulebook.

Financial inclusion

We would like to highlight two key areas in relation to your Inquiry into the Financial Inclusion Strategy:

1) Banking and digital inclusion

Building societies are increasingly filling the gap left by traditional banks who have quit high streets up and down the UK. Building societies are committed to investing in their branches. A number are actively opening new ones, including by partnering with local authorities to co-locate with public services, like libraries. Our members now account for 35% of all branches. Research from branch data consultancy ILBA24 found that there are now 207 towns where the building society is the last branch in town.

To address gaps in cash access, building societies have begun trialling multi-bank kiosks, which the FCA estimates could cost just one-third of a traditional Banking Hub. Four societies - Market Harborough, Newcastle, Newbury and Principality - have already deployed these kiosks, currently funded entirely by the societies themselves. These facilities are important for customers, including small businesses, irrespective of who they bank with, to enable them to withdraw and deposit cash. With a dedicated funding model these cost-effective services can continue and expand to support to local communities.

2) Savings and financial resilience

A strong savings culture is essential for household resilience, homeownership and participation in the economy. In 2024, building societies paid £2.3bn more in savings interest compared to the average rates offered by the largest banks, helping 760,000 people to become first-time savers. They now hold £205bn in

Cash ISA balances - 46% of the Cash ISA market - highlighting their central role in Britain's retail savings ecosystem. (BSA Data 2024).

We welcome the Government's endorsement of UK Savings Week (launched by the BSA in 2022) in the Financial Inclusion Strategy. UK Savings Week aims to create 2 million new regular savers by 2030 and shift £50 billion out of 0% interest accounts by working across sectors. Building societies and credit unions offer simple, transparent savings products that encourage regular savings habits. Credit unions, in particular, support payroll/workplace savings schemes and small-balance savings, helping lower income households build resilience over time.

When the Financial Inclusion Committee was established, we were initially disappointed that it did not include any mutual representatives. Nevertheless, we contributed actively through some of its sub-committees and engaged directly with Treasury officials throughout the process and now continue to engage as the Strategy moves into implementation.

I hope these responses are helpful. I would be very happy to provide the Committee with any further information, including additional written evidence or supplementary detail on ISAs, mortgage regulation, or legislative reform. I would also encourage the Committee to engage broadly with the co-operative and mutual sector, and its trade bodies, noting that HM Treasury is responsible for the wider mutual legislation (incl. employee ownership) and the FCA is responsible for the Mutuals Public Register.

Thank you again for the opportunity to contribute to the Committee's work.

Yours sincerely,

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