



Building Societies Act 1986

1986 CHAPTER 53

PART II

CONSTITUTION OF BUILDING SOCIETIES

^{F1}[Making loans]

6 ^{F1}[The lending limit.]

- (1) A building society shall secure that the difference between—
- (a) the value of X on any quarter day; and
 - (b) the value of Y on that day or the value of Y on the immediately preceding quarter day, whichever is the greater,
- does not exceed 25 per cent of that value of X.

- (2) For the purposes of subsection (1) above—

X = the difference between the total assets of the society and any subsidiary undertakings of the society as shown in the society's accounts and the aggregate of—

- (a) the liquid assets of the society and any such undertakings as shown in those accounts ^{F2}...;
- (b) the fixed assets of the society and any such undertakings as so shown; and
- (c) where any such undertakings are [^{F3}effecting or carrying out contracts of insurance], such of their assets as shown in those accounts as represent long term insurance funds; and

Y = the principal of, and interest accrued on, loans which are owed to the society or any subsidiary undertaking of the society and are fully secured on residential property;

and for the purposes of this subsection the total assets of a society and any subsidiary undertakings of the society shall be taken to be increased by the amount of any provision made for bad or doubtful debts of the society or any such undertaking.

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- (3) Any loans owed to the society or any subsidiary undertaking of the society shall be disregarded for the purposes of the definition of “Y” in subsection (2) above to the extent that they are not included in the total assets of the society and any such undertakings as shown in the society’s accounts.
- (4) Any reference in subsection (2) or (3) above to anything being shown in a society’s accounts shall be construed—
- (a) in relation to a quarter day on which a financial year of the society ends, as a reference to its being shown in the accounts prepared by the society for that year;
 - (b) in relation to any other quarter day, as a reference to its being shown in the accounts which would have been prepared by the society for the year ending on that day if that year were a financial year of the society.
- (5) If a building society fails to comply with the requirement imposed by subsection (1) above—
- (a) the powers conferred on the [^{F4}appropriate authority] by section 36 shall become exercisable in relation to the society; but
 - (b) the failure shall not affect the validity of any transaction or other act.
- (6) The Treasury may by order substitute for the percentage specified in subsection (1) above such greater percentage (not greater than 40 per cent) as appears to them to be appropriate; and an order under this subsection may make such supplementary, transitional and saving provision as appears to the Treasury to be necessary or expedient.
- (7) The [^{F5}Treasury may], by order—
- (a) modify subsections (2) and (3) above in their application to assets of subsidiary undertakings;
 - (b) apply those subsections to corresponding assets of associated undertakings; or
 - (c) modify those subsections in their application to such assets.
- (8) An order under subsection (7) above may make—
- (a) different provision for different circumstances;
 - (b) provision for particular assets of undertakings to be disregarded; and
 - (c) such supplementary, transitional and saving provision as appears to the [^{F6}Treasury] to be necessary or expedient.
- (9) The power to make an order under subsection (6) or (7) above is exercisable by statutory instrument.
- (10) No order shall be made under subsection (6) above unless a draft of the order has been laid before and approved by a resolution of each House of Parliament.
- (11) A statutory instrument containing an order under subsection (7) above shall be subject to annulment in pursuance of a resolution of either House of Parliament.
- [^{F7}(12) In this section “long term insurance funds”, in relation to an undertaking effecting or carrying out contracts of insurance, means funds maintained by it—
- [^{F8}(a) in respect of its business in effecting or carrying out contracts of long term insurance in accordance with rules made by—
 - (i) the FCA under section 137A of the Financial Services and Markets Act 2000, or

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- (ii) the PRA under section 137G of that Act,
which require an authorised person who has permission to effect or carry out contracts of insurance to identify assets which belong to that person and which are maintained in respect of a particular aspect of that person’s business; or]
- (b) where it is incorporated in a country or territory outside the United Kingdom, under the corresponding provisions of the law of that country or territory.]
- ^{F9}[(12A) The definition of X in subsection (2) and subsection (12) must be read with—
- (a) section 22 of the Financial Services and Markets Act 2000;
- (b) any relevant order under that section; and
- (c) Schedule 2 to that Act.]
- (13) Where a loan is owed to a lending syndicate of which a building society or connected undertaking of a building society is a member, so much of the loan as is referable to the society’s or undertaking’s participation in the syndicate shall be treated for the purposes of this section and sections 6A and 6B as a loan owed to the society or undertaking.
- (14) In this section and section 7—
- “accounts”—
- (a) in relation to a building society without subsidiary undertakings, means individual accounts ^{F10} ...;
- (b) in relation to such a society with such undertakings, means group accounts ^{F10} ...;
- “quarter day”, in relation to a building society, means a day on which a financial year of the society ends, or a day which is three months, six months or nine months after such a day;
- and references to any value on a quarter day are references to that value at the close of business on that day.
- (15) If an agreement between the [^{F11}appropriate authority] and a building society so provides, the definition of “quarter day” in subsection (14) above shall have effect in relation to the society as if for any reference to a number of months there were substituted a reference to a number of days specified in the agreement.
- ^{F12}(16) In this section, in the case of societies which produce IAS individual accounts or IAS group accounts;
- “fixed assets” means—
- (a) land and buildings;
- (b) plant and machinery;
- (c) equipment, fixtures, fittings and vehicles;
- (d) payments on account and assets in the course of construction; and
- (e) intangible fixed assets.
- “liquid assets” means—
- (a) cash and cash equivalents;
- (b) treasury bills and similar securities;
- (c) loans and advances to credit institutions; and
- (d) debt securities and other fixed income securities.]

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Textual Amendments

- F1** S. 6 and cross-heading substituted for s. 6 (1.12.1997 in specified cases and for specified purposes and otherwise in accordance with art. 2(2)(3)(5) of S.I. 1997/2668) by 1997 c. 32, **ss. 4, 47(3)**; S.I. 1997/2668, **art. 2, Sch. Pt. II(d)**
- F2** Words in s. 6(2) omitted (22.12.2004) (with effect in accordance with art. 1(2) of the amending S.I.) by virtue of [The Building Societies Act 1986 \(International Accounting Standards and Other Accounting Amendments\) Order 2004 \(S.I. 2004/3380\)](#), art. 1, **Sch. para. 2(2)**
- F3** S. 6(2): Words in para. (c) of the definition of “X” substituted (1.12.2001) by S.I. 2001/3649, **arts. 1, 194(2)**
- F4** Words in s. 6(5)(a) substituted (1.4.2013) by [The Financial Services Act 2012 \(Mutual Societies\) Order 2013 \(S.I. 2013/496\)](#), art. 1(1), **Sch. 8 para. 5(2)** (with Sch. 12)
- F5** Words in s. 6(7) substituted (17.8.2001 for certain purposes and otherwise 1.12.2001) by S.I. 2001/2617, **arts. 2, 8, 13(1), Sch. 3 Pt. II para. 134(b)** (with art. 13(3), Sch. 5); S.I. 2001/3538, **art. 2(a)**
- F6** Word in s. 6(8)(c) substituted (17.8.2001 for specified purposes and otherwise 1.12.2001) by S.I. 2001/2617, **arts. 2, 8, 13(1), Sch. 3 Pt. II para 134(c)** (with art. 13(3), Sch. 5); S.I. 2001/3538, **art. 2(a)**
- F7** S. 6(12) substituted (1.12.2001) by S.I. 2001/3649, **arts. 1, 194(3)**
- F8** S. 6(12)(a) substituted (1.4.2013) by [The Financial Services Act 2012 \(Mutual Societies\) Order 2013 \(S.I. 2013/496\)](#), art. 1(1), **Sch. 8 para. 5(3)** (with Sch. 12)
- F9** S. 6(12A) inserted (1.12.2001) by S.I. 2001/3649, **arts. 1, 194(4)**
- F10** Words in s. 6(14) omitted (22.12.2004) (with effect in accordance with art. 1(2) of the amending S.I.) by virtue of [The Building Societies Act 1986 \(International Accounting Standards and Other Accounting Amendments\) Order 2004 \(S.I. 2004/3380\)](#), art. 1, **Sch. para. 2(3)**
- F11** Word in s. 6(15) substituted (1.4.2013) by [The Financial Services Act 2012 \(Mutual Societies\) Order 2013 \(S.I. 2013/496\)](#), art. 1(1), **Sch. 8 para. 5(4)** (with Sch. 12)
- F12** S. 6(16) inserted (22.12.2004) (with effect in accordance with art. 1(2) of the amending S.I.) by [The Building Societies Act 1986 \(International Accounting Standards and Other Accounting Amendments\) Order 2004 \(S.I. 2004/3380\)](#), art. 1, **Sch. para. 2(4)**

Modifications etc. (not altering text)

- C1** S. 6(1) excluded (7.4.2010) by [The Building Societies \(Financial Assistance\) Order 2010 \(S.I. 2010/1188\)](#), **arts. 1(2), 4**
- C2** S. 6(2) modified (1.1.2005) by [The Building Societies Act 1986 \(Modification of the Lending Limit and Funding Limit Calculations\) Order 2004 \(S.I. 2004/3200\)](#), **arts. 1(2), 3**
- C3** S. 6(7)(8): Functions of Building Societies Commission transferred (1.12.2001) to the Treasury by S.I. 2001/2617, **arts. 2(b), 4(1), Sch. 1 Pt. III**; S.I. 2001/3538, **art. 2(a)**

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Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 5(11)-(14) inserted by [2007 c. 26 s. 1\(2\)](#)
- s. 5(13)(a) substituted by [S.I. 2013/496 Sch. 8 para. 4\(4\)](#)
- s. 7(6A)-(6C) inserted by [2007 c. 26 s. 1\(1\)\(a\)](#)
- s. 7(8A) inserted by [2007 c. 26 s. 1\(1\)\(c\)](#)
- s. 176ZB excluded by [S.I. 2017/400 reg. 14](#)
- s. 246ZA-246ZC excluded by [S.I. 2017/400 reg. 15](#)
- s. 246ZD excluded by [S.I. 2017/400 reg. 16](#)