

LOCAL AUTHORITY MORTGAGE INTEREST RATES: AMENDMENT TO CLAUSE 105
OF THE HOUSING BILL

1. H Committee agreed on 18 September and 27 November (H(79)10th and H(79)17th) to a regime for local authority interest rates which will require local authorities to charge, when they grant mortgages, the higher of either their "pool" rate or the building societies' rate. Its decision has been incorporated into Clause 105 of the Housing Bill.
2. We are concerned that the provisions of the Bill incorporating this decision may be too rigid to deal with circumstances which we may face in the future. We cannot at the moment foresee precisely what these circumstances might be. But one particular instance (the GLC's homesteading scheme) illustrates how the interest rate regime might create considerable difficulty, and why we are asking the Committee to agree the introduction into both the Housing Bill and the Tenants Right etc (Scotland) Bill of a general order-making power to permit relaxations of the Clause 105 regime.
3. The GLC's homesteading scheme is designed to enable a person who is willing to put time and money into improving a run down property to be able to do so even though he is just on the threshold of home ownership. The essence of the GLC's scheme is that a house in poor condition (needing a minimum of £2,000 spent on repairs) and empty for at least 2 months is bought by a purchaser who undertakes to put

it into good repair and decorative order during a period of 1, 2 or 3 years during which payments of interest on the associated GLC mortgage are waived and repayments of capital deferred. Improvement grants are usually obtained from the relevant London Borough and, subject to income provisions, loans for the repair and improvement works can be obtained from the GLC. Repayments on such loans start immediately.

4. The GLC have completed about 660 sales under these arrangements in the 3 years in which the scheme has been operating; their current target is 1,000 by the end of 1980. In the GLC's view homesteading would collapse if they are prevented from granting a waiver of interest for up to 3 years which would be the case under the Bills as now drafted. The Bills as now drafted only permit deferring interest, but the effect of deferring interest for 3 years on a typical £15,000, 25 year annuity mortgage, assuming a mortgage interest rate of 12½%, is to increase the mortgage debt by over £6,000 (to £21,360). The mortgagor's gross monthly payments in the fourth and subsequent years would be £241 where interest is deferred as against £169 where interest is waived. This shows there must be a very serious risk that if waiver of interest is not permitted then the homesteading scheme will suffer substantially. I do not think that we can accept this risk for a scheme to which our political colleagues on the GLC are highly committed and with which a number of senior Ministerial colleagues, including the Prime Minister, have been publicly associated.

5. We therefore ask our colleagues to agree that an amendment should be made to the Housing Bill and to the Tenants Rights etc (Scotland) Bill which would allow the Secretaries of State, after consultation with the Treasury, to make an Order varying the local authority

mortgage interest rate regime in Clause 105. The detailed way in which this power would be used would obviously be a matter for discussion and agreement later between colleagues. The important requirement now is to give ourselves sufficient statutory room for manoeuvre in both Bills so that very desirable schemes such as homesteading can continue.

1-5 JUN 1980



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