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copied to The Governor

NOTE FOR RECORD

- 1 Mr. Brins *✓* *micane*
- 2 Mr. Goodhart
- 3 Mr. *Antony*
- 4 Mr. *Wass*
- 5 Mr. *Atkins*

LADM 11/7

Mr. Ffords

Mr. Dow

The Chief Cashier

Mr. Walker

Lee

Building Society Rates

The Governor called on Friday evening on the Chancellor, who was supported by the Financial Secretary to the Treasury and a sizeable Treasury team, mainly to discuss the building society position. Wass said that private exchanges between Williams and the Chief Registrar had showed Williams to be much concerned about the possible break-up of the cartel (of which he regarded himself as the custodian). Williams said that the investment rate would have to move up promptly but wondered whether it might be possible to hold the move in the mortgage rate for several months. He had some doubts on whether he could sell such a deal and Wass, believing this to be the best that could be secured, suggested that efforts should be concentrated on this formula. Lawson wondered about a possible fall-back position and whether there were any sweeteners that could be offered. In particular, he asked whether the Bank could suggest to the clearing banks that they should lower their deposit rate by $\frac{1}{2}\%$. The Governor said he did not think this would run but, in the face of Lawson's belief that we were very close to a decision by the Prime Minister on a subsidy, promised to consider the question further.

All recognised that a delay of a few months might simply leave the problem to be faced again, probably with a narrower range of options; but the Chancellor would not agree with Lawson's view that the Prime Minister might be persuaded to accept an early rise in the mortgage rate provided it did not exceed $12\frac{1}{2}\%$.

I telephoned Wass today to say (in confirmation of a conversation between the Chief Cashier and Bridgeman yesterday) that, after further thought, we still believed that the lower bank deposit

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rate idea was not a starter. Wass told me that he had been in touch with Williams on Friday night and found that Williams had been canvassing during the day a proposition that the investment rate should be moved up to 9% with effect from the 1st August but the mortgage rate be held until the 1st January, when it would move to 13%. Of those consulted, only one society had raised vigorous objection while a dozen or so had either been ready to agree or had been non-committal. After consulting with the Chancellor, who in turn spoke to the Prime Minister, Wass told Williams that a solution on these lines would be welcome. It was therefore tabled at this morning's meeting with Heseltine, from which Williams was sent off to try to get the necessary two-thirds Council support. The outcome should be clear by Wednesday, though the Council meeting is not till Friday. Meanwhile, all concerned have been asked to observe silence on the whole matter and it is understood that, if the scheme runs, the Government will not claim to have originated it.

Williams was optimistic on Friday on his chances of carrying the Council.

Wass said he had made the Chancellor fully aware that a substantial fall in MLR and other rates by January was not at all to be counted on.

See.

9th July 1979.