

THE GOVERNOR

Copy to Mr Fforde

Mr 8/10

Papers re Bank of England  
quarterly Bulletin discussed  
at meeting 9.10.81 - TIS  
(EC/12)

THE GOVERNOR'S MEETING WITH THE CHANCELLOR ON 9 OCTOBER

I attach a Note for Record by Erskine which sets out in its first two paragraphs the facts as we know them relating to the DoE approach to the clearing banks concerning the possibility of the clearing banks providing mortgages to purchasers of council houses. We have had no mention of this from the clearing banks. 'see filed in 2141/5

Monck has apologised for not discussing the DoE approach to the clearers with us in advance. I explained to him the difficulty we would have (and indeed already have) in seeking to deter the banks from too aggressive a posture on housing finance if another part of Whitehall is actively encouraging them to go in that direction, even if the amounts involved are likely to be modest.

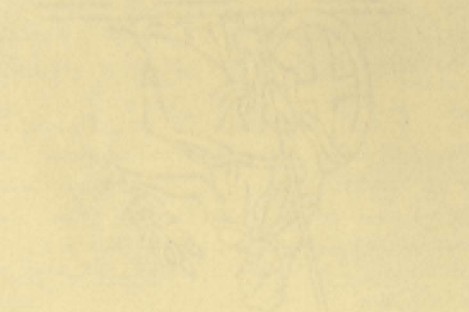
The related point was that HMT have for some time been planning to arrange regular meetings with the clearing banks, certainly with Ministerial encouragement although I am not clear whether it is at Ministers' instigation. Monck had expected that the Chancellor would discuss this with you in Washington.

*A.*  
8 October 1981

EAJG

1857

UNIVERSITY OF CALIFORNIA



1868

NOTE FOR RECORD

Copies to: Mr Plenderleith  
Mr Gill  
Mr Hewitt

LOCAL AUTHORITY BORROWING: COUNCIL HOUSES

Richard Seebohm (HMT) telephoned on 1 October.

Ministers are becoming impatient at the lack of progress being made in selling council houses and DoE is hatching a scheme to legislate away the bureaucratic impediments placed in the way of such sales by recalcitrant authorities. As I understand it, the essence of the scheme is as follows:

- (a) HMG would take powers to sell the council houses over the heads of the authorities without compensation;
- (b) Mortgages would be provided by HMG;
- (c) Repayments would be held in a trust fund. The mortgages would be assigned to the local authorities as and when they came to their senses together with any payments of principal or interest which had accrued in the trust fund.

HMG not being equipped to administer mortgages, DoE hope that the clearing banks might be induced to take on this task together with the administration of the trust funds. To avoid unwelcome monetary consequences, the clearing banks would be required to invest the mortgage receipts in public sector debt. DoE originally hoped to persuade the building societies to take on the task but preliminary soundings have revealed that they do not have powers to administer trust funds. DoE have also had some contact with the clearing banks about this scheme.

If this scheme gets anywhere, HMT and DoE will want advice from the Bank in the course of their negotiations with the clearing banks. I agreed that Seebohm should in the first instance send any papers to me but on reflection feel that Money Markets Division may be a more natural point of contact.

For my own part I regard this scheme as wildly impractical. From the banks' point of view it is very high profile and from an administrative stand point, ensuring that all mortgage repayments are invested in public sector debt will be complex and therefore costly. These problems would be partially but not wholly alleviated if the banks granted purchasers conventional mortgages passing the sale proceeds over to HMG to hold in its trust fund. Rejigged in this way, there would be more hope of getting the building societies to participate in the scheme which might have presentational and monetary attractions.

17BC

Gilt-Edged Division HO-G  
2 October 1981

I M B Erskine (4419)

The Governor

Thank you  $US \$ \frac{8}{10}$

You see the charter at 9.30 (Fri 9 Oct) at No 11. No one else, apart from John Kerr, expected to be present.\*

likely subjects are:

i. To continue your Washington Conversations, incl. the question of consultation with MMT on the CB (TRD; note of 9 Sept attached).

ii. Morrison Move speeded. ✓

iii. Re suggested regular lunches. As I mentioned earlier, John Kerr had in mind a fortnightly lunch - alternating between here and the Charalla's ground - with very few others present. Also a meeting in weeks when there is no lunch.

Continued:

\* As I mentioned, John Kerr subsequently said that Sir D. Wass will be there too, for all or part of the time.

iv. There are also the 3 matters mentioned at Books today:

a. The Miss (or Mrs) Morris within NMT who is treading rather heavily on merchant bank advice over Cable & Wireless

b. The NMT idea of holding regular meetings with the Clearing Banks. Treasury officials had apparently hoped that the Chancellor would raise this with you in Washington.

c. D+E pressure on the Clearing Banks to lead to Commit tenants wishing to purchase their houses. (D+E's note of 8/10 att)

v. Labor - see B's note of 1/10 attached.

I also attach:  
Re Financial Report  
Papers on EMS  
Papers on Lending to Parsons.  
D+E's letter to March re Purdy  
D+E's letter to Wars re 47B

R 8/10

NY -19057 (+1c)

on 2.20

4.19

Demand for £ - 1.2M initially high conversion



1.9130

Dem v. Dem

4.17 3/4

2.18 70 (\$ cover)

+82

30 : NY.

1.9090

2.1942

4.18 7/8

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over

90.0

(after sq's)

Yes - not many?

\$ weakness = £ strength

very good time time

Middle East demand  
easy

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our legs up  
& move into  
£ vs a. vs \$