

cc Mr Lawson
Mr Hockings
Mr James



CONFIDENTIAL

Prime Minister

This seems as good an outcome as we could have hoped for. But assuming it sticks, it will be important to get a good press statement from the building societies - eg. the mortgage ^{rate} will go up in January if interest rates continue at their present levels.

PRIME MINISTER

BUILDING SOCIETY MORTGAGE RATES

Together with Nigel Lawson and John Stanley I saw Leonard Williams and some of his senior colleagues this morning to discuss the latest developments within the building society movement on interest rates.

Mr Williams confirmed that over the weekend he had discussed with a dozen or so building society chief executives the possibility of taking decisions on Thursday and Friday of this week which would mean the share rate being increased to a competitive level - perhaps 8.75% or 9% - but with the mortgage rate being held until, say 1 January 1980. An announcement would, however, be made that on 1 January the rate would move up to X% - it was clear from the discussion that X would be 12.75% or 13%. It was made clear to the building societies that postponement of any rise until 1 January 1980 was far more important than the precise rate to be effective as from that date - particularly since a final decision on 1980 mortgage rates will in practice be taken in the light of interest rate conditions and prospects later this year. In the extreme case the BSA will not need to take a final decision until their December meeting.

The BSA have agreed to discuss the terms of the statement with DOE and the Treasury. Content? Yes not. JL 9/7

Mr Williams cannot, of course, guarantee to achieve this result. A recommendation on these lines from the BSA Council would require a two thirds majority of the 36 members. He calculates that it could result in a reduction of one third or one half the forecasts made before the Budget by the societies of their operating surpluses for 1979/80. Even if the Council will make a recommendation there is a possibility of some smaller societies going their own way. It is clear that the BSA leadership is anxious to avoid a conflict with the Government at this stage.

Mr Williams and his colleagues made it clear that any short term loans scheme or interest rate subsidy would almost certainly be rejected by the movement.

The BSA leadership is trying to avoid an increase now in the mortgage rate and they have been heavily influenced by the arguments deployed by the Government side during the last week. It is my judgement, and this is shared by Nigel Lawson and John Stanley, that the offer now being made is a fair one. I told the BSA leadership that the Government would in present circumstances be content with a recommendation on the lines they have proposed. I have made arrangements to be told if it seems possible that the Council on Friday will reject this course. It

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may then be necessary to have a further Ministerial meeting. Certainly I will have the chance for a further discussion on Thursday evening, between their Policy Committee meeting and the Council meeting on Friday morning. A successful outcome would be presented as a BSA initiative.

4 The BSA were extremely upset last week by what they interpreted as Government-inspired pressure in the media. They felt that this had been counter-productive. I explained exactly how false this impression was. It was therefore agreed that if either side is asked about today's meeting the response should be in terms of there having been a frank and friendly discussion but that no further comment should be made. It is essential that we do all we can to prevent any news of the BSA plan becoming known before their meetings at the end of the week. We also agreed that officials would liaise on the terms of press announcements of the new rates.

I am copying this to the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Financial Secretary, the Minister for Housing and Construction and to Sir John Hunt.

with
MH

9 July 1979

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-9 JUL 1979



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10 DOWNING STREET

From the Private Secretary

10 July 1979

BUILDING SOCIETY MORTGAGE RATES

The Prime Minister was grateful for your Secretary of State's minute of 9 July reporting on yesterday's meeting with the building society chiefs.

The Prime Minister agrees that the proposal to postpone an increase in the mortgage rate until January 1980, assuming it is accepted by the building societies at the BSA meeting later this week, is as good as the Government could have hoped for. However, she is most anxious that the building societies' press statement should put as good a gloss on this as possible - for example, it would be helpful if it would say that the mortgage rate will go up in January if interest rates continue at their present levels. The Prime Minister understands that the building societies have agreed to discuss the terms of their statement with officials before it goes out.

I am sending copies of this letter to Tony Battishill (HM Treasury), Kenneth MacKenzie (Scottish Office), George Craig (Welsh Office), Paula Diggle (Financial Secretary's Office), David Teasdale (Office of the Minister for Housing and Construction) and Martin Vile (Cabinet Office).

T. P. LANKESTER

D.A. Edmonds, Esq.,
Department of the Environment.

LCM



CONFIDENTIAL

*at the Wilson
in Housing*

Prime Minister Seen

Housing

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LONDON SW1P 3EB

*This reports - disappointingly -
on today's meeting of the
JAC. Mr Heseltine and
Mr Lawson will now
have to ^{ask} the building
society leaders in DOE
are producing a contingency
loan scheme for immediate
implementation if necessary. TL*

My ref:
Your ref:
5 July 1979

Dear Tim

BUILDING SOCIETY MORTGAGE RATES

At today's meeting of the JAC the building society representatives made it clear that while they have no wish to embarrass the Government they object to their movement alone being asked to hold down prices and to continue in a severely uncompetitive position.

They said that there would be intense pressure in the Council of the BSA on 13 July for an increase in the share rate and an increase in the mortgage rate, even though they would be ready to limit the mortgage rate increase as much as possible, and to defer its impact on most monthly repayments of existing mortgagors until 1 January 1980.

The pressure for an increase in rates is due to the threat of an increasing loss of their larger deposits to competitors; a moral obligation by societies to the generality of their investors to give them a fair deal; and the development of severe mortgage rationing. The building society representatives said that if the Council made no recommendation to increase its share rate if not its mortgage rate on 13 July, then a significant number of societies might serve 28 days notice of intention to raise their interest rates unilaterally.

an odd way of putting it.

Officials as instructed said Government did not believe any special Government measures were necessary to avoid an increase in building society rates at the present time.

It will obviously be necessary for Ministers to see BSA leaders before 13 July. My Secretary of State will want to consider the timing of such a meeting in the light of today's meeting.

I am copying this to the Private Secretaries to the Chancellor of the Exchequer, the Financial Secretary and to Sir John Hunt.

*Yours sincerely
David [Signature]*

D A EDMONDS
Private Secretary

Tim Lankester Esq
10 Downing St

CONDINGTON

-5 JUL 1979

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