

cc Mr Wilson
Mr Ingham
Mr Hoskyns



Confirmation of what
I feared. Agree
with conclusion at

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

X ?

PRIME MINISTER

MR.

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26/10

THE MORTGAGE RATE

We have reconsidered the prospect for the mortgage rate, and have reluctantly concluded that there is very little chance of averting the increase planned and announced for 1 January.

2. The building societies could only hold the mortgage rate at 11½ per cent if they could reverse, from 1 January, the increase in their investment rate which they made on 1 August. This would require a decision by the end of November, at the very latest. From August to December, they will have sustained a loss on the margin between investment and mortgage rates, but they could not continue to do so.

3. They could only reverse the increase in their investment rate if competing short term rates were to fall by at least 2 per cent, and to seem likely to stay down. Otherwise, their inflow of funds would drop away at considerable damage to our housing policy. The chances of such a fall occurring are now very slim indeed. A smaller fall would not make much difference. Nor would a reduction in MLR be any consolation to the building societies, except to confirm reductions in market rates.



(As you know, to reduce MLR prematurely ahead of the market would be completely ineffective: MLR would simply forfeit its role as a penalty rate, without any compensating benefit.)

4. We are agreed that we should not lean on the building societies again to act against their own judgement of the market. We are also agreed that any offer of a subsidy would be taken as a U-turn, wholly inconsistent with our market philosophy, and our policies on public expenditure and monetary restraint.

X | 5. We are therefore agreed that we have to be prepared to bite the bullet and accept a $12\frac{1}{2}$ per cent mortgage rate from 1 January.

(G.H.)

(M.H.)

26 OCTOBER, 1979

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CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

29 October 1979

The Prime Minister has read the minute of 26 October from the Chancellor of the Exchequer and the Secretary of State for the Environment about the mortgage rate. She agrees that the Government will have to accept that a 12½ per cent mortgage rate from 1 January is now almost inevitable.

I am sending a copy of this letter to David Edmonds (Department of the Environment).

TELETYPE

A.M.W. Battishill, Esq.,
HM Treasury.

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HOUSING

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