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Prime Minister (2)

23 December 1982

Ms 23/12

Housing



PRIME MINISTER

LOW-START MORTGAGES

In the original Family Policy Group paper, I suggested to you that one way of pushing on with the sale of council houses was to introduce rent-based mortgages, on the lines of Christopher Monckton's paper.

Since then we have made considerable progress. The Department of the Environment can now see no objection of principle to the scheme.

Geoffrey Howe shares the general objective of the proposals, although he wonders whether the building societies have refrained from introducing such schemes hitherto for fear of the implications for their cash flow and margins. He has asked the Treasury to pursue the scheme and to hold a meeting of all interested parties in the New Year.

In fact, the building societies are mostly very interested by the idea and appear to have few worries about its financial viability.

The principal obstacle seems to be legal. It is not entirely clear whether the issuing of index-linked loans is definitely within the power of building societies. The Nationwide Building Society is now seeking a declaratory judgment for its own somewhat similar scheme.

But a more general declaration - and perhaps a small change in the law - may be necessary if low-start mortgages are to become widely available.

You will have seen the leak in The Times, which we much regret although it was none of our doing (our suspicions hover in the direction of the DoE, although we have no evidence). But the upshot was a spurt of favourable publicity for the sale of council houses. I detected a feeling that "swap your rent-book for a mortgage" might be a very useful slogan.

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This is only a progress report. At a later stage, we may need to plead for your help in overcoming three unresolved but minor and soluble issues if the scheme is to become really popular.

1. The legal obstacles, if any.
2. The tax position on that part of the mortgage interest which relates to the increase in money debt outstanding in the early years of a low-start mortgage.
3. Repayments during periods of sickness and unemployment (the Exchequer pays the council rents of tenants on supplementary benefit, so why should it not pay the full mortgage repayment, since this would be slightly lower than the rent?).

The Treasury's initial reaction on points 2 and 3 was unfavourable, but the cost is so small that they may be won round.

I do feel that it is urgent that we push on with this, in order to show people - well before the Election - that it is entirely possible for even very badly-off council tenants to become home-owners at little or no extra cost.

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FERDINAND MOUNT

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