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DEPARTMENT OF HEALTH & SOCIAL SECURITY

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Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

21 May 1985

SOCIAL SECURITY REVIEW: PAYMENT OF MORTGAGE INTEREST

The Building Societies Association had an informal meeting this morning with Tony Newton to discuss recent press reports that the Government were proposing to reduce the amount of help given to owner occupiers under the supplementary benefit scheme. The meeting was arranged at their request and, by mutual agreement, was "off the record".

The Association made it clear that if the Government were to announce a decision in the Green Paper that mortgage interest was no longer to be payable during the first six months of any supplementary benefit claim, they would come out against it very strongly. They will argue that the change would seriously undermine the whole housing market in some areas, especially those of high unemployment.

There is no doubt that the Association could mount an effective campaign on these lines and on the basis of the impact on our policy on owner occupation generally. This will inevitably cause some concern among our supporters.

It was, however, also clear from what the Association said that they would be ready to cooperate with us in examining different ways of tackling the issue, provided we made it plain that we were not announcing a decision but setting out general aims, the detailed achievement of which we were ready to discuss.

I propose to present the issue in this way in the Green Paper. I have in mind a paragraph on the following lines:




"The present guarantee of mortgage interest payments can be seen as giving too favourable treatment to those on supplementary benefit in comparison with the position of other people in society. The Government wish to introduce changes in the system to reduce the discouragement for owner-occupiers to return to work that can apply under the present interest payment commitment. We are aware of arrangements that building societies are already prepared to consider in individual cases to help borrowers with short-term difficulties, and of the introduction of insurance protection against inability to continue mortgage payments, such as may occur through unemployment. Equally, however, the Government recognise the interests of the lending institutions whose policies have been developed within the existing policy rules. The Government intend to discuss with building societies and other interested bodies arrangements whereby less of the burden - particularly for short-term claimants - falls immediately and directly on the social security system."

If we follow this line, I would not expect the Association to come out publicly against what the Green Paper says.

My intention is still to achieve the savings in this area we have discussed. In any event, I accept that I am committed to finding savings of this order. But my objective is to place the onus on the Association to come up with ideas for meeting the target. In fact, the exercise will be unlike traditional social security negotiations and more akin to our approach to the pharmaceutical industry on the selected list.

I am copying this letter to the Prime Minister, Patrick Jenkin, George Younger, Nicholas Edwards, Douglas Hurd and to Sir Robert Armstrong.

*John ...*   
NORMAN FOWLER



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

NBM

28 May 1985

The Rt. Hon. Norman Fowler MP  
Secretary of State for Social Services

Handwritten signature of Norman Fowler in cursive.

**SOCIAL SECURITY REVIEW: PAYMENT OF MORTGAGE INTEREST**

Thank you for our letter of 21 May.

I am content with your suggested line for the Green Paper, on the clear understanding that, as you say, you are committed to finding the savings of £60 million a year which would have been achieved by your original proposal. I think we are all agreed that the present supplementary benefit treatment of mortgage interest is unusually generous - as the BSA have conceded, probably the most generous in the world - and that it is entirely proper to look for substantial savings in this area.

I am copying this letter to the Prime Minister, Patrick Jenkin, George Younger, Nicholas Edwards, Douglas Hurd and to Sir Robert Armstrong.

NIGEL LAWSON

Handwritten signature of Nigel Lawson in cursive.



SOCIAL SERVICES: REVIEW : Pt 2.

28 MAR 1962



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*Oddi wrth y Gweinidog Gwladol*



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*From The Minister of State*

CONFIDENTIAL

31 May 1985

*Dear Nigel,*

SOCIAL SECURITY REVIEW: PAYMENT OF MORTGAGE INTEREST

I have seen Norman Fowler's letter in which he conveys the anxieties of the Building Societies Association about the proposal to disregard mortgage interest during the first 6 months of any supplementary benefit claim. I am writing in Wyn Roberts' absence from the office.

I must confess that we have been unhappy about this proposition from the beginning. Given the Welsh unemployment rates and our high percentage of owner occupiers (65%) any move to undermine confidence in the lower end of the housing market could have disproportionate consequences for us in Wales. I therefore very much support the proposal that we should approach this area with some caution and therefore endorse Norman's proposed wording formula for the Green Paper.

Copies go to Prime Minister, Norman Fowler, Patrick Jenkin, George Younger, Douglas Hurd and to Sir Robert Armstrong.

*Yours ever,*

*John*

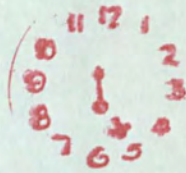
JOHN STRADLING THOMAS

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
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My ref: J/PSO/14078/85

Your ref:

23 May 1985

*Dear Secretary of State*

SOCIAL SECURITY REVIEW

Payment of Mortgage Interest

Thank you for sending me a copy of your letter of 21 May to Nigel Lawson. *att.*

I welcome the approach you now propose on this subject in the Green Paper. It goes a considerable way to meeting the concerns which we discussed on 30 April. In particular, it should enable us to discuss with lenders ways of achieving savings without detracting significantly from our encouragement of home ownership. I should like my officials to be involved in the discussions.

I am content with the terms of the paragraph which you propose to include in the Green Paper, subject to one important addition. I should prefer the penultimate sentence to read:

"Equally, however, the Government wishes to give as many people as possible the opportunity to become home owners, and it recognises the interests of the lending institutions whose policies have been developed within the existing policy rules."

I am copying this letter to the Prime Minister, Nigel Lawson, George Younger, Nicholas Edwards, Douglas Hurd, and to Sir Robert Armstrong.

*Yours sincerely**P. Jenkin*

P. PATRICK JENKIN

*Approved by the Secretary of State and signed in his absence.***SECRET**



23 MAY 1985

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