



HOUSE OF COMMONS
LONDON SW1A 0AA

22nd April, 1977

I was very interested to read the report in your letter of 18th April of the important change in the attitude of the building societies towards any suggestion that the maximum mortgage rate should be managed by adjusting the composite rate of tax which they pay. I can well understand their anxieties.

As I think you know, I have also had substantial reservations about either of the alternative approaches to this problem which are referred to in the last paragraph of the first page of your letter. In my view, while we should not rule out consideration of possibilities of this kind in crisis conditions, I am sure we ought to aim so to manage the money supply and public sector borrowing requirement as to prevent interest rates reaching a level which called for such action.

I have, of course, total sympathy with the idea of raising the £25,000 limit and believe that, if and insofar as resources are available, it will be much more fruitful for us to consider further the various alternative suggestions which we have canvassed for helping the first-time buyer.

The building societies could in fact do still more to help in that kind of case if they were to relax some of the rigid rules whereby they deny mortgages to houses of a given age or in a given location and the news contained in your letter may give us an opportunity of engaging in a bargaining process with them along these lines, to the effect that we would consider abandoning our proposals (in any case very tentative) about the composite rate of tax if they would agree to be more flexible in their general approach.

There is an attractive consistency in this suggested line of approach: we can hardly encourage building societies to become more competitive with each other through increased flexibility if we still intend to use them as a semi-corporate cartel for guaranteeing a given level of mortgage interest; but if the latter suggestions becomes unnecessary, we could then press them much more firmly on the other front.

I am sending a copy of this letter to Margaret Thatcher, Michael Heseltine, Keith Joseph and Adam Ridley.

Hugh Rossi, Esq., M.P.