

cc Mr. Hoskyns

Mr. Wolfson

Mr. James

RM
PRIME MINISTER

The Building Societies Council this morning decided to defer the increase in the mortgage rate until January.

They announced that the rate would be increased from the present $11\frac{3}{4}\%$ to $12\frac{1}{2}\%$ then. This is lower than the $13\frac{1}{4}\%$ which we had expected earlier this week. The rate of interest paid to depositors goes up from 8% to $8\frac{3}{4}\%$ immediately.

This is as good an outcome as we could possibly have expected. It reflects well on the behind-the-scenes efforts which Mr. Heseltine, Mr. Lawson and Sir Douglas Wass have made.

I attach the statement (Flag A) put out by Mr. Heseltine; at Flag B is the BSA statement. Mr. Lawson has said:-

"The sooner the Government's monetary and fiscal measures start to produce results, the sooner interest rates can be reduced, and the greater the likelihood of avoiding an increase in the mortgage rate next year. Meanwhile, the home owner and the home buyer have been given valuable breathing space."

Mr. Leonard Williams, the Chairman of the Council, said on the Radio at One programme that they hope that interest rates will fall by the end of the year so that the mortgage rate increase will not have to be implemented.

12

13 July 1979

A

STATEMENT AT 12.10 BY MR. HESELTINE ON MORTGAGE RATE

"I very much welcome the decision by the BSA Council to defer an increase in the mortgage rate and not to add prematurely to the costs faced by mortgagors.

The increase in the share rate will help to ensure a reasonable supply of funds for house purchase, especially for potential first-time purchasers.

I believe that the building societies have been very ingenious in the solution they have adopted, which they have been able to do partly by the lower rates of taxation in the recent Budget."

DoE have given this to the Lobby.

C. V. ANSON

13 July, 1979

B

~~DRIFT~~ BSA STATEMENT: FRIDAY 13 JULY: 11.30 A.M

as issued

At its meeting today the Council of the Building Societies Association decided to recommend to member societies that as from 1st August 1979 the rate of interest paid to investors should be increased from 8 per cent net to 8.75 per cent net. This represents a gross equivalent yield of 12.5 per cent to investors liable to the basic rate of tax.

The Council has also recommend that the normal rate of interest on new advances to owner-occupiers on the annuity basis should be increased from 11.75% to 12.5 per cent. However, Societies are also recommended not to apply increased mortgage rate to either new or existing borrowers until 1st January 1980.

These recommendations have been made because of the recent rise in the general level of interest rates following the increase in Bank of England MLR to 14 per cent. Without an increase in the rates payable to investors, net receipts would continue at a reduced level which would mean considerably fewer loans for home buyers.

The delay in raising the mortgage rate will cost the societies money. This will be partly met by the anticipated decrease in the composite rate of income tax - the tax which societies bear on the interest paid to their investors - for the fiscal year 1979/80.

The Council will of course be reviewing interest rates as it normally does each month in the light of developments and will make their recommendations as necessary.