

The Rt. Hon. Alistair Darling
Chancellor of the Exchequer
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Dear Chancellor

I have worked in the legal sector and the housing market for 31 years. I know! - surprising, since I look twenty years younger than my namesake – but who wouldn't!

When the Government announced measures earlier this month intended to help the housing market, it led me to wonder who with experience in the housing market they had canvassed for input into their proposals.

When I started "Conveyancing" in 1977 there were constraints upon the availability of mortgages for the ordinary man similar to those that apply today, except that current constraints are market-led, by fear, whereas then they were the artificial product of government policy. Then, we couldn't be trusted to borrow; now the banks don't trust us to lend to us. Then, it took about six months for a willing borrower to rise to the top of the queue for a mortgage; now funds are not available to many, no matter how long they would wait. And then (I believe) the legislation governing Building Societies did not allow them to lend more than 90 per cent of the value of the security.

First-time buyers were no more flush with deposits in those days than they are now, so many first-time buyers were helped onto the first rung of the property ladder by Insurance Companies, who used the market for top-up loans secured by second mortgages as a hook to sell an endowment policy. This enabled the young to borrow enough to buy, and usually, by the time the first-timer came to be second-timer, three to five years later, the equity they had built up in their first property was enough to fund their next property with a single loan from a Building Society of less than 90 per cent of the price.

However, local authorities also had a part to play, since a portion of their annual housing budget was allocated to people buying within their boundaries in the shape of secured loans. Mostly, to eke out their limited budget, the local authority would top-up for a buyer the 90 per cent loan they were able to get from a Building Society. Until the mid 1980s I completed many purchases for first-time buyers with a top-up loan from a local authority, secured by a mortgage second in priority to the first charge to a Building Society.

The loan from the local authority, being second in priority was riskier than the Building Society's security, but the availability of that money took many people out of the public tenanted housing waiting lists into home ownership, an aspiration considerably raised by the Housing Act of 1981 which brought home ownership within the reach of hundreds of thousands of council tenants.

So if the current problem with the housing market is the unavailability of funds for willing buyers (which everyone agrees IS the case); if this arises from the nervousness of lenders lending at high LTVs in a falling market (witness the better mortgage deals available at low LTVs); if there is an appreciation that the wider UK economy (not least the Exchequer) depends significantly on an active housing market; if there is a political will to use taxpayers funds to help a re-generation in the housing market – then isn't it a better use of taxpayers funds to come up with a scheme that would give or support the giving by others of top-up loans secured by second mortgages?

The first 85-90 per cent of the required total borrowing would come from Banks and Building Societies. The SRA as regulator would lay down strict guidelines limiting the amount to be borrowed, to reasonable multipliers of borrowers' salaries according to the rate of interest being charged.

The additional top-up loan would come from central government, either direct or through local authorities. The taxpayer now effectively owns an organisation that until last year was handling more loan applications than any other – Northern Rock. Its administrative capabilities could be used to handle top-up loan applications. I don't suppose that European legislation would allow the top-up loans themselves to be channelled through Northern Rock?

The top-up loans would be secured by second mortgage. As this is the riskier security of the two mortgages, this could be reflected in a slightly higher rate of interest. The loan could be on the basis of a five-year term, the borrower being expected to remortgage after five years to repay the loan to the taxpayer. A fixed-rate loan for the five-year term would give certainty to the borrower, especially if linked to a fixed rate from the principal lender. The scheme could be proposed to be available for one year, in the hope that the conditions for a normal housing market without government intervention would have returned by then. The time-limited offer would encourage buyers back into the market sooner rather than later; an early intervention of this type leading to increased activity would slow the rate of house-price depreciation and accelerate the point when prices will stop falling. From that point, active regulation by the SRA of the terms for future lending would ensure that the unwise lending of 2004-2007 would not have the effect of driving house prices so far above the graph, as unreasonable availability of funding has the tendency to do.

As to the cost to the Exchequer/taxpayer – the risk of only partial recovery in case of borrower default would diminish as increased activity in the market halted the decline in values. There would be increased revenue in Stamp Duty, the levels of which must currently be miniscule compared to the revenue accounted for by the Government in its current Budget. The Stamp Duty holiday may as well remain – in itself it is not much use, but when tagged on to a scheme such as I have outlined, it does help first-time buyers (although I guess it is helping investors more than homebuyers at the moment!).

Should a responsible government be encouraging taxpayers into first-time home ownership in a falling market? Well, the measures would fairly soon do away with the falling market and re-establish the normal house-price growth curve- by which time the current "correction" would have got us down to the graph anyway.

You have better minds than mine to consider this – what do you think?

Yours Sincerely

GORDON BROWN