

Oral Evidence 26 March 2013

Q423Chair (Mr Tyrie): Can we just be clear about your view of this scheme? First of all, do you agree with the analysis, for example, of the OBR in evidence to us this morning, which supported by many others, that the primary initial effect will be to raise house prices?

Mr Osborne: Of course, the OBR can come to their own judgment. The objective of the scheme is to, as I say, increase the affordability of mortgages, and with the supply side changes to planning we have seen an increase in planning applications.

Q424Chair: We are talking here about the early effect. I am trying to narrow down this question to, "What will be the early effect of this scheme?" The early effect of this scheme is to provide, isn't it, a form of subsidy, a shadow subsidy, for housing that will, therefore, enable mortgage companies to offer people finer terms? Hopefully this will be passed on to customers, so customers will be able to borrow more than they would otherwise be able to borrow. Therefore, demand will be increased in the housing market and demand-

Mr Osborne: But if supply is also increased-

Chair: Supply will not increase immediately, will it? The supply will increase later, if at all. The OBR also told us this morning that in the medium term it may stimulate new build a little but much less than the demand effect. I am just trying to clarify whether you agree with the majority of outside analysts that the primary early effect of the scheme will be to raise house prices?

Mr Osborne: I agree with those who build homes. The Chair of Barclay Homes says, "The biggest problem has always been the mortgages. We will be able to build extra homes because of this". The Director of Persimmon Homes says, "The Budget will result in increased building levels by Persimmon. It allows us to build more homes." I do not see mortgage finance as just a demand issue. I see it also as helping on supply.

Q425Chair: I know. You have already said that. Let us have another go at this question. Do you think-

Mr Osborne: They are home builders.

Chair: Do you think that the primary early effect will be to increase supply?

Mr Osborne: One of the intentions of the scheme is to increase the Help to Buy scheme.

Q426Chair: I am not asking you what you are intending to do. You have spoken a good deal about your intentions this afternoon. I am asking you for your judgment about the early effects of the scheme; the year one effects and the year two effects of this scheme.

Mr Osborne: Our expectation is that the first component of Help to Buy, which will come into effect in the first week-you talk about the early effects-will be to increase the supply of newly built homes, and that is the forecast we made. The positive reaction from the builders



suggests that that will happen. The effect of the mortgage scheme, which comes in later, will be already starting to affect the decisions of our home-builders. That, of course, is-

Q427Chair: You are not concerned that we are not just ploughing money back into the boom bust property cycle?

Mr Osborne: As I say, I do not detect that we are in the middle of a housing boom. I think we are in a very unusual situation after the financial crisis where the mortgage market is impaired, where very high deposits are being demanded of people and families are priced out of the housing market, and that is neither economically right nor socially fair.

Q428Chair: When you were taking this decision, did you take into account the fact that people spent decades trying to get the Government out of subsidies to property?

Mr Osborne: As I say, it is a time-limited intervention. It is a three-year intervention.

Q429Chair: I think that is an important point, Chancellor, and I would just like to clarify what in fact you mean by a time-limited scheme. You have said that the FPC will have a lock on it. Does this scheme cease to operate unless the FPC comes to you and say, "We want to continue"?

Mr Osborne: Yes.

Q430Chair: Are you making clear now, when you say it is time-limited, that you are not going to go to the FPC and say, "We want to carry on this scheme"?

Mr Osborne: Of course we will ask them for their opinion, but if the people we have on the committee think it is not sensible, they will make that pretty clear; and if they think it is sensible to continue the scheme, they will make that clear as well.

Q431Chair: From your perspective, you don't know whether it is time-limited but from their perspective you are expecting them to say that it is?

Mr Osborne: No. What I am saying is, I don't envisage this scheme continuing for more than three years. I have said that very clearly, and I said that if the Government, or indeed any Government, wants to extend it beyond that, the FPC will be in a position to say that is not sensible and have, therefore, a lock on the scheme.

Q432Chair: Did you consult the FPC before passing the buck?

Mr Osborne: I spoke to the Governor of the Bank, who is the chair of the FPC.

Q433Chair: Did he consult the FPC?

Mr Osborne: I think you would have to ask him.

Q434Chair: Did you ask him to consult the FPC? The FPC is a consensual institution.

Mr Osborne: The FPC was in a state of change in the last week, so we are going from a temporary FPC to a new FPC.



Q435Chair: Even with the removals we still had a sizable number of members.

Mr Osborne: I consulted the Chair of the FPC about whether it was appropriate to give the FPC this decision in three years' time. This is not a decision for them today. This is a decision for them in three years' time, and, indeed, the interim FPC had previously not sought additional powers on mortgages as one of their initial powers. This is something for three years' time, and I think it is appropriate that I consult the Governor of the Bank, which is what I did.

Q436Chair: In taking account of the risk to the Exchequer, did you bear in mind what is widely considered to be the disguised impairment on the balance sheet of many banks of loans to SMEs often collateralised against property, both commercial and residential; in other words, the risk being that the housing market may well have another leg down in it when that stock of property ends up having to be realised, when those accrued impaired activities are forced to be realised?

Mr Osborne: We have an independent body to make assessments of the state of the housing market and the future path of house prices, and the OBR have done that. As I say, we are going to charge a fee for this. I want to make sure that the fee is not so high that it would make the scheme unworkable or lead to the consequence that it becomes more expensive to get a mortgage. We obviously do not want to have the reverse effect, so we have to get the calculation of the fee right, but the expectation is that it will cover the losses.