



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Mr Andrew Boff AM
Chair of the London Assembly
City Hall
Kamal Chunchie Way
London
E16 1ZE

8 August 2023

Dear Andrew,

Thank you for your letter of 12 July to the Secretary of State for Levelling Up, Housing and Communities, regarding interest rates and the impact of Levelling Up on London. Your letter has been passed to HM Treasury and I am replying as the Minister responsible for this policy area.

In your letter, you raise concerns over the impact of rising interest rates on mortgage holders. It is worth noting that the pricing of loans is a commercial decision for lenders in which the Government does not seek to intervene. It may be helpful, however, if I set out the relationship between monetary policy and the pricing of financial products.

Monetary policy is the responsibility of the independent Monetary Policy Committee (MPC) of the Bank of England. The MPC's primary objective is to maintain price stability, which is defined as an inflation target of 2 per cent. The MPC's macroeconomic policy tools are designed to affect the economy as a whole in order to meet the inflation target over the medium term. One macroeconomic policy tool that the Bank of England can use is Base Rate, which banks and building societies use amongst other factors to calculate interest rates for some of their savings and mortgage products. High inflation harms everyone right across the economy, and the only way we can keep costs and mortgage rates down is to tackle the root causes of inflation. That is why the Government is committed to halving inflation by the end of the year, and then returning it to 2 per cent.

However, we recognise this is a concerning time for mortgage holders, particularly those who are due to come to the end of their existing deal in the immediate future. We have already ensured there are very significant safeguards in place for consumers in the mortgage market – Financial Conduct Authority (FCA) rules require lenders to engage individually with their customers who are struggling or who are worried about their payments in order to provide tailored support. This could include a range of measures, such as a temporary switch to interest only or a term extension, but also a range of other options like a temporary payment deferral or part interest-part repayment. The right option will depend on the customer's circumstances.

Following the commitments agreed to support borrowers in December, the Chancellor met with mortgage lenders, UK Finance and the FCA on 23 June. At this meeting, lenders agreed to a new Mortgage Charter to support borrowers struggling with their mortgage payments. The Charter was published on 26 June and is available at the following link: <https://www.gov.uk/government/publications/mortgage-charter>.

This Charter sets out the standards signatory lenders will adopt when helping their customers, including new flexibilities to help customers manage their mortgage payments over a short period.

These commitments include an agreement permitting customers to switch to an interest only mortgage, or extend their mortgage term, for 6 months, after which they can switch back without a new affordability check or it affecting their credit score. Lenders also agreed borrowers will not have their home repossessed within 12 months from their first missed payment without their consent or unless in exceptional circumstances. Borrowers coming to the end of their deal will be able to lock in a new rate up to six months in advance of their deal coming to an end; they will also be able to manage their new deal and request a better like for like deal with their lender right up until their new term starts, if one is available.

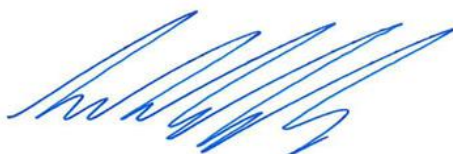
In addition, I should note that Levelling Up does not mean dampening down the success of London. Rather, it is about harnessing the capital's strengths for the benefit of the wider UK and spreading access to opportunity more equally throughout the country.

The Government remains committed to deepening the powers of all Mayors and simplifying the current local devolution landscape. The recently announced trailblazer deals with the West Midlands and Greater Manchester combined authorities provide a blueprint for how devolution might be deepened in other areas. London's unique devolution settlement and governance arrangements require that a bespoke approach is taken in the capital. In many cases the statutory process for devolving further powers in London is different to that for the rest of England. The Levelling Up Advisory Council is currently exploring the strengths and challenges of London's devolution settlement. This provides a timely moment to learn lessons from the last two decades of devolution in London, considering more broadly whether current mayoral powers are sufficient to meet the challenges facing the capital over the coming decades.

Separately, through its English Devolution Accountability Framework, the Government has committed to review how current scrutiny and accountability arrangements in London are operating in practice, exploring the strengths and challenges of the capital's devolution settlement, and how the Greater London Authority works with London's boroughs. This will be aimed at sharing best practice, learning lessons for other mayoral authorities, and considering how current scrutiny arrangements may need to evolve over time. Government Ministers and officials will continue to liaise regularly with their counterparts in London to understand the opportunities and challenges facing the capital

Thank you for taking the time to share with me the thoughts of the London Assembly.

Kind regards,

A handwritten signature in blue ink, appearing to read 'Andrew Griffith', is positioned above the printed name.

ANDREW GRIFFITH MP