



# Treasury Committee

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Dr Mark Carney  
Governor, Bank of England  
Threadneedle Street  
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8 November 2013

Dear Mark,

At the time of the Budget, and in our Report on the Spending Review, the Treasury Committee requested greater clarity about the role of the Bank with respect to the Help to Buy scheme than has, so far, been provided. This letter addresses the mortgage guarantee element of that scheme.

Further information is required about the FPC's role in the scheme, the degree of its detailed engagement while the scheme is in operation and about work that the Bank may have done on the housing market and its link to financial stability.

The previous Governor provided this summary of the FPC's role:

I am sure that the FPC at the time will take any decision solely on the basis of its statutory objectives: protecting and enhancing the resilience of the financial system and, subject to that, supporting the economic policy of Her Majesty's Government, including its objectives for growth and employment. I am also sure that the FPC's judgement will be formed independently and transparently, allowing it to be scrutinised by Parliament and public.<sup>1</sup>

Can you confirm that this remains a full and accurate summary of the criteria on the basis of which the FPC will engage in work on Help to Buy?

On the role the FPC will play, both the Chancellor's Written Ministerial Statement<sup>2</sup> and the following extract from a speech by Martin Taylor suggest that the FPC's role will be advisory only:

More recently, the Chancellor (without whom, by the way, the FPC would not exist) has said that he will once a year take recommendations from the FPC—beginning in September 2014—on changes to the details of his Help to Buy scheme.<sup>3</sup>

<sup>1</sup> <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmtreasy/1063/1063.pdf>

<sup>2</sup> <http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm131008/wmstext/131008m0001.htm>

<sup>3</sup> <http://www.bankofengland.co.uk/publications/Documents/speeches/2013/speech688.pdf>



The Statement raises several questions:

- i. Can you confirm that, contrary to remarks of several ministers<sup>4</sup>, the FPC does not have a veto on any decision to maintain the scheme during its planned three year life or later, were it to be extended?
- ii. With respect to the authority to assess the impact of the scheme on financial stability and make recommendations, has the Chancellor's statement extended in any way what the FPC already considered its statutory role to be?
- iii. What specific advice has the FPC, or the PRA, already offered with respect to the design of the scheme?
- iv. The Chancellor's Statement "proposed that the FPC advise him on whether the key parameters of the scheme—the house price cap and the fee charged to lenders—remain appropriate". Has this taken the FPC beyond what it, prior to the statement, considered its statutory role to be? Does it, in your view, take it beyond the role described by Mervyn King? Does the Bank of England now consider itself a co-designer of the Help to Buy scheme?
- v. Can you confirm that the advice of both the FPC and PRA on the Help to Buy scheme will relate specifically to its likely effects on financial stability, and not to its likely effects on home ownership? In the Bank's view does the responsibility for the scheme's effects on home ownership remain solely with H.M. Treasury?
- vi. In providing advice on the design of the scheme has the PRA, or the FPC, taken careful consideration of any risks that may, as a consequence, be added to the balance sheets of banks which participate?
- vii. Has the Financial Policy Committee considered whether a Memorandum of Understanding clarifying the scope and limits of the Bank's responsibilities with respect to Help to Buy would be appropriate?

Has the Chairman of Court, or the Court collectively, examined any of these questions? If so when and what did they conclude?

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<sup>4</sup> The Telegraph, Nick Clegg warns plug could be pulled on Help to Buy, 8 October 2013:

Mr Clegg said: "[...]But – a big but – of course we need to be vigilant, of course we need to moderate it, even turn [Help to Buy] off if we think that it is not appropriate and is providing inappropriate stimulation to the housing market.

"That is precisely why we have transferred the right to do that to the Bank of England so that they can keep an eye on it – not politicians, not George Osborne, not the Treasury – they can look at, if they don't think it's working, or it's inappropriate, they can change it or even recommend that it's stopped altogether."

BBC Breakfast news, 29 September 2013, Rt Hon Grant Shapps MP said:

"Really conscious we don't want to get back in to that situation where we end up with a housing bubble. We put the Bank of England solidly in charge of this scheme. We've said to them: 'You look at this every year, and if you're not happy with this Help to Buy Scheme, then you'll be [able] to cancel it.' And in any case it only runs for three years."



I would be grateful for your confirmation that, were you to conclude that the Help to Buy scheme carries risk for financial stability, you would make your concerns known to the Treasury Committee.

Given the close historical relationship between housing finance and the UK business cycle the Treasury Committee will want to see as much as practicable of the supporting work already prepared for the FPC on the links between the housing market, the economic cycle, and financial stability, as well as supporting work prepared during the Scheme's life.

I would be grateful if you would circulate this letter to the FPC prior to their meeting on 20 November 2013.

I will be placing this letter, and your reply, in the public domain.

Yours ever,

Andrew

**ANDREW TYRIE MP  
CHAIRMAN OF THE TREASURY COMMITTEE**