PROPOSED STARTER HOME DEPOSIT SCHEME

The new Starter Home Deposit Loan Scheme proposed by the Treasury and Resources and Housing ministers is due for discussion in the States Assembly in the near future with approval being sought to run a pilot scheme to make available deposits to one hundred first time buyers. This will enable purchasers who would otherwise have been deprived of home ownership the opportunity of acquiring medium value property in the range from one bedroom flats through to three bedroom houses, so giving an equal opportunity to single people, couples and families of achieving the independence and security that is a by product of our culture.

STATISTICS

Statistics show that 79% of householders cannot afford a three-bedroom house and that 51% of householders are unable to afford a two-bedroom flat. By assisting with the deposit, but by also ensuring that applicants provide 5% of that deposit as well as covering the cost of the associated legal fees etc., the scheme will exclude people who are unable to show that they can manage their financial resources.

15% DEPOSIT

The proposal links the scheme to maximum income brackets so that purchasers with higher salaries, and capable of finding their own deposits are excluded. A maximum deposit of 15%, charged at 0% interest is proposed and this will be funded from the Dwelling Houses Loan fund otherwise known as the now defunct States Loan scheme.

These are the guidelines that are proposed:

Property Type	Maximum Purchase Price	Maximum Household Income	5% Household Deposit	15% Deposit Loan
One Bedroom Flat	£171,000	£32,000	£8,550	£25,650
Two Bedroom Flat	£262,000	£49,000	£13,100	£39,300
Three Bedroom house	£410,000	£75,000	£20,500	£61,500

It must be remembered that the proposal has to be discussed by the full States Assembly and could be subject to modification. It is also aimed at only one hundred applicants, although if successful, there will be a strong case for it to be extended subject to a satisfactory source of additional funding being found by the States.

The fundamental concept of the proposal is that first time buyers will link a mortgage from a bank or building society to a second loan from the States of Jersey. This will have to be secured against the property and will take the form of a charge ranking behind the main mortgage. In reality, this will then result in there being a total borrowing against the property of 95%.

All lenders employ an affordability calculation to a mortgage application when underwriting the case and this roughly equates to a joint gross income multiple that ranges between 4.5 times and in excess of 6 times salary (excluding significant costs such as; childcare, loans, debts etc.) The higher the loan to value ratio [LTV] the more critical the affordability calculation becomes.

The additional cost of servicing the States Loan will therefore mean that borrowers will be able to access less of a principal mortgage as lenders will have to take this monthly cost into account.

There are six banks and building societies that offer residential mortgages to Jersey residents

Barclays
HSBC
Jersey Home Loans
Lloyds TSB
NatWest/RBSI
Skipton International

All of these lenders have widely differing attitudes to risk and therefore underwriting, and, whilst several would prefer to wait for a formal decision of the States, it would appear that all will consider participating once they receive further details of how the scheme will work.

Terms of up to 35 years will be available and currently interest rates are in the range from 3.39% up to 4.49% with some of these being tracker rates whilst others are fixed for three or five years.

Due to the provisions of the scheme, borrowers will be best advised to carry Life Assurance up to the full 95% value of their purchase.

Having carried out a number of test calculations, the proposed maximum salaries are sufficient for the level of borrowing proposed, although potential candidates whose total income falls below the maximum limits will find it more difficult to obtain a mortgage based upon lenders' affordability criteria.

An illustration of the monthly cost of a typical mortgage for each of the three property types, using maximum and minimum interest rates shows the total cost of the mortgage plus the States' loan:

TYPE	MORTGAGE	INTEREST RATE	MORTGAGE+ DEP LOAN
One bedroom flat	136800	3.39%	557 + 107 = **664**
	136800	4.49%	647 + 107 = **754**
Two bedroom flat	209600	3.39%	854 +164 = **1018**
	209600	4.49%	992 + 164 = **1156**
Three bedroom house	328000	3.39%	1336 + 256 = **1592**
	328000	4.49%	1552 + 256 = **1808**

In addition to the 5% deposit that must be provided by the borrowers, they will also addition have to make provision for legal fees, valuation, stamps and disbursements.

1 Bedroom flat £3744
Two bedroom flat £3909
Three bedroom house £7152

These figures take into account the significant reductions that are available to FTB in respect of stamp duty/share transfer property tax, a 40% discount on legal fees and various other reductions. They should be used as a guide only as they do not take into account any extra costs.

In summary, the proposed loan scheme appears feasible subject to the support of local lenders. The impact on the local housing market is difficult to quantify as house prices across the board are still falling at present and the scheme in its infancy is unlikely to have any influence in correcting this fall. When the economy improves however, it is likely that the scheme will need to be modified to keep pace with rising house prices, and this in turn would mean that fewer applicants would be able to access the three bedroom houses unless the maximum salary ceiling were to be increased.

The Panel should also consider how the scheme could in future be funded as it would appear that the Dwelling House Loan Fund does not have sufficient liquid investments to offer a second tranche of finance.

Finally, the Panel should address the question as to whether tax payers' funds should be put to this type of use, especially if house owners eventually sell at a profit.

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