STATES OF JERSEY

STARTER HOME DEPOSIT LOAN SCHEME

Lodged au Greffe on 4th December 2012
by the Minister for Treasury and Resources

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to refer to their Act dated 1st May 2012 in which they approved the Draft Strategic Plan, which, *inter alia*, set out a priority to "house our community" and undertook an action to bring forward schemes to support first-time buyers, and –

to approve, in accordance with the provisions of Article 2(1) of the Building Loans (Jersey) Law 1950, the transfer of £3 million from the Dwelling Houses Loans Fund to the Consolidated Fund for the purposes of providing cash balances for the operation of a Starter Home Deposit Loan Scheme for an initial trial period in accordance with the principles and processes outlined in paragraphs 1.6 to 4.2 of the Report of the Minister for Treasury and Resources dated 4th December 2012.

MINISTER FOR TREASURY AND RESOURCES

REPORT

1. Background

1.1 Adequately housing our community is one of the priorities of the Strategic Plan, including schemes to support affordable and first-time buyer home ownership[1].

1.2 The Minister for Treasury and Resources and the Minister for Housing have therefore developed the Starter Homes Deposit Loan Scheme as a means of advancing this objective.

1.3 Jersey is true of many communities where residents have long held onto the belief that owning your home is a symbol of success and security. But the increase in prices in the local housing market over the past decade, followed by difficult economic conditions, has created significant barriers to home ownership.

1.4 The lending market has transformed since 2008, with a tightening of lending criteria. The standard rate of borrowing now is generally considered to be 4 times income, although other multiples are achievable dependent upon individual circumstance. Loans are generally around 80% of LTV (loans-to-value) of the property. Again, variation is possible in individual circumstances. Deposits therefore are in the region of 20% of LTV. This means that very substantial proportions of the Island's population cannot afford to be home-owners because of the size of repayments and the ability to raise sizeable deposits in the first place.

1.5 At today's LTV, for example, a 20% deposit on a three-bedroom house priced at £494,000 is just under £100,000; or around £66,000 for a two-bedroom flat priced at £331,000[2], exclusive of legal fees and stamp duty. These are considerable sums to save, even for the most cautious of spenders, especially if households have other significant outgoings, for example, living costs, rent, childcare costs, etc.

1.6 The challenges of purchasing a home in Jersey are well appreciated and highlighted by the Jersey Housing Affordability Index[3], notably: 79% of householders cannot afford a three-bedroom house and 51% of householders are unable to afford a two-bedroom flat.

1.7 For these reasons, it is proposed that a targeted pilot scheme be established to support Islanders to attain home ownership suitable to their needs and means, where they otherwise cannot afford the full deposit, but can afford to make repayments if a low interest deposit loan is available.

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[1] Affordable housing is defined in the Island Plan 2011 as *"housing that is affordable to specified eligible households who are not served by the working of the housing market in Jersey"*. The affordability indicator used in this report is the Jersey Housing Affordability Index. The JHAI is based on a comparison of residential property prices and net household income. The index attempts to quantify the impact that factors such as mortgage interest rates and deposits have on housing affordability.

[2] Jersey House Price Index Q3 2012 – mean prices for individual property types

[3] Housing Affordability Index 2002 – 2011, States of Jersey Statistics Unit, March 2012

2. Starter Home Deposit Loan Scheme

2.1 Under the proposal, the States would lend up to a maximum of 15% of the purchase price of the unit, repayable at 0% interest over an agreed period, with the subsidy on market rates recoverable if the property is sold at a profit before the term of the mortgage.

2.2 The prospective home-owner must have a minimum deposit of 5% to reward frugal households. The balance of any lending is to be provided by an approved mortgage provider.

2.3 It is acknowledged that, in itself, the lending of a deposit does not improve house price affordability, it is merely an alternative financing source for those who might not otherwise be able to obtain finance because of the lack of a deposit, and only improves affordability *per se* if the interest rates charged by the public sector are lower than private rates, hence the proposed parameters of the scheme.

2.4 As to which Islanders should be assisted by the scheme, by its nature it will assist those Islanders who can afford to make repayments if low-cost deposit financing is available and who have themselves saved part of the deposit.

2.5 The scheme will be targeted to assist households with a maximum (gross) income with reference to a maximum property purchase price:

Property type	**Maximum Purchase Price** (representing the upper limit of the lower quartile range of properties)	**Maximum Household Income** (representing the minimum income needed to purchase a property at the upper limit of the lower quartile range of properties)	**5% Household Deposit** (based on a loan at the maximum property value)	**15% Deposit Loan** (based on a loan at the maximum property value) (figures in brackets equate to monthly repayments over a 20 year term)
one-bedroom flat	£171,000	£32,000	£8,550	£25,650 (£107)
two-bedroom flat	£262,000	£49,000	£13,100	£39,300 (£164)
three-bedroom house	£410,000	£75,000	£20,500	£61,500 (£256

2.6 The purpose of the above is to limit lending to households with income at or below the level required to purchase a property at the upper limit of the lower quartile of property sales, i.e. those who could afford to repay a mortgage and 0% interest deposit on a property in the lower quartile, but who could not generally do so otherwise without this scheme.

2.7 (Maximum purchase prices and maximum household incomes for other property types would be set using the same methodology; and the above parameters will updated to reflect the latest House Price Index prior to going live with the scheme).

2.8 Additional eligibility criteria will be imposed, notably –

- Loans cannot be obtained for major new build developments (so as not to discourage developers from offering new purchase discounts).

- Purchasers must be first-time buyers within the rules established by the Population Office (which allow persons who have previously bought a flat and sold to a first-time buyer to remain eligible as "first-time" buyers) and residentially qualified for housing purposes.

- Loans will not be provided for properties whose size exceeds the immediate needs of the household, with reference to single people, can only purchase up to a two-bedroom unit; and couples with or without children and single parents with children can purchase units with more than 2 bedrooms.

- Liquid Assets, after the payment of 5% deposit and fees, should not exceed £9,200 for a single person household or £15,200 for a couple (these limits being consistent with Income Support rules).

2.9 These parameters are outlined with reference to the pilot nature of the scheme, and could be revised subject to the performance of the scheme. They are considered prudent when first approaching a scheme of this nature and are targeted at those least able to afford to purchase property. The Minister for Treasury and Resources will retain some discretion with reference to granting of loans, and will exercise this discretion having consulted with the Minister for Housing, and with a view to securing the objectives of the scheme as outlined in paragraph 1.6 above.

2.10 Using these parameters and within the £3 million funding envelope, it is estimated that up to 100 Islanders could be supported, depending on the types of property for which an application is made.

2.11 It is proposed that the scheme will run as a 6 month pilot starting in 2013, which may be extended subject to its success, impact, market conditions, and identification of a long-term funding source.

3. Financing and Governance

3.1 The Starter Homes Deposit Loan Scheme will be established by way of a transfer of £3 million from the Dwelling Houses Loan to the Consolidated Fund. The Dwelling Houses Loan Fund had a net asset value of £11.7 million as at 31st December 2011, with liquid investments of £5.6 million.

3.2 The Dwelling Houses Loan Fund was established by way of the Building Loans (Jersey) Law 1950, to authorize the lending of money for enabling persons to acquire dwelling-houses. The Dwelling Houses Loan Fund has been largely inactive in recent years – given that private financing has been available and that public lending for the full value of a loan is no longer affordable at today's property prices.

3.3 However, given the Strategic Priority to support affordable home ownership, and reflecting the issues in today's lending market, it is proposed that the monies accrued in the Fund should be transferred to the Consolidated Fund and used to support home ownership, in line with the objectives of the Dwelling Houses Loan Fund, but under the ambit of a new Starter Homes Deposit Scheme that is more targeted and more affordable.

3.4 Any loans granted under the proposed scheme would be made in accordance with Article 23(3) of the Public Finances (Jersey) Law 2005 and Regulation 13 of the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005. This allows the Minister for Treasury and Resources, in any financial year, to lend up to £3 million, providing each individual transaction does not exceed £500,000, and the loans outstanding under this delegation do not exceed £10 million. Any amount lent is repayable within 20 years. Such loans must be made from cash balances (Consolidated Fund).

3.5 Loans would be made following an assessment of the applicant against eligibility criteria, including having the 5% deposit contribution themselves, and alongside confirmation that they were able to obtain a mortgage for the balance of the property price from a mortgage provider as the primary lender. The primary lender would assess the affordability of the loan repayments, after other outgoings, including the deposit loan. As the purpose of this scheme is to provide loans for part of the deposit, there will clearly be another charge on the property, i.e. from the primary lender.

3.6 The Accounting Officer for the Scheme will be the Treasurer of the States, and eligibility for loans in relation to individual applications with reference to the scheme criteria will be signed off under the auspices of the Strategic Housing Unit. Detailed process and internal controls will be applied, mirroring and utilising the processes and controls applied over other States Loans.

3.7 Local mortgage providers have confirmed the viability of the scheme, and their preparedness to lend under the scheme and arrangements will be finalised should States approval be forthcoming.

3.8 The Minister for Treasury and Resources must, at periods of no longer than 6 months, report to the States details of any lending made under this Regulation.

4 Financial and manpower implications

4.1 The scheme would cost £3 million, of which £2.97 million would be lent to qualifying households and £30,000 utilized to meet the costs of administration, being 1% of scheme costs.

4.2 The scheme would require an additional 0.5 FTE for the life of the pilot scheme, and ongoing collection and administration thereon would be undertaken alongside other loan collection activities with negligible financial and manpower implications.

5. Conclusion

5.1 The States is asked to lend its support to this proposal which, although modest in its scope, will allow members of our community, especially the younger generation of first-time buyers, the opportunity to take their first steps onto the property ladder with the purchase of their starter home.

APPENDIX

Affordability Assessment

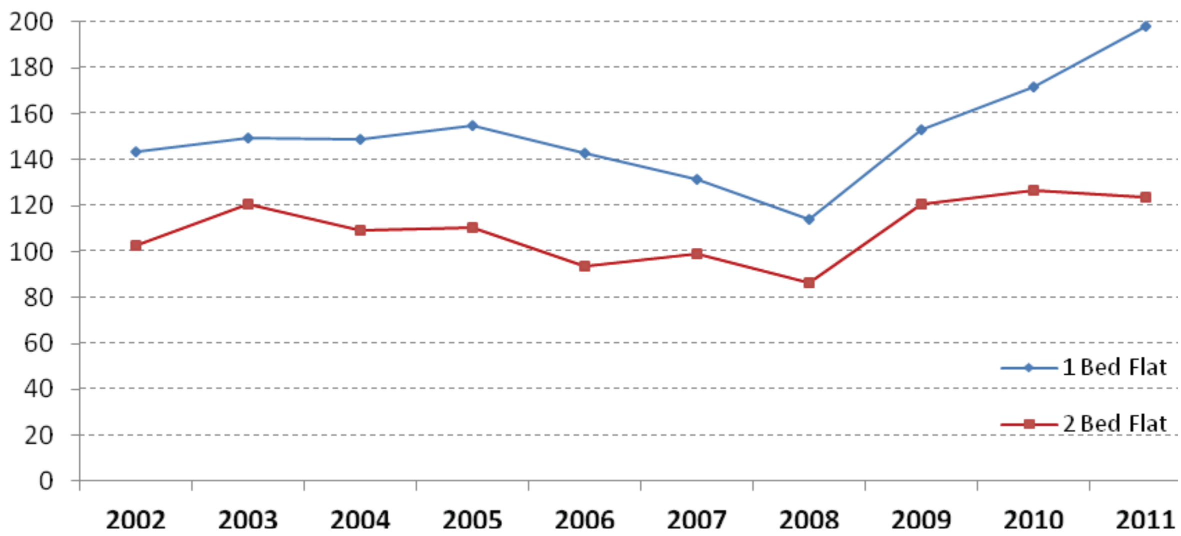
House Prices -v- Earnings – Disparity

In 2011, the States of Jersey's Statistics Unit produced a report entitled "Housing Affordability in Jersey 2002 – 2011". *The* principal aim of the report was to provide an analysis of the ability of working households (defined as having at least one adult in employment) in Jersey to purchase accommodation affordably.

Year	Mean Household income Gross	Net	Median dwelling price	Mean mortgage interest rate	Qualifying income Gross	Net
2010 (all dwellings)	£63,600	£50,800	£405,000	3.96	£76,000	£57,000
2011 (all dwellings)	£64,900	£51,700	£380,000	4.04	£71,800	£53,900
2011 (three-bedroom house only)	£64,900	£51,700	£465,000	4.04	£87,915	£65,936

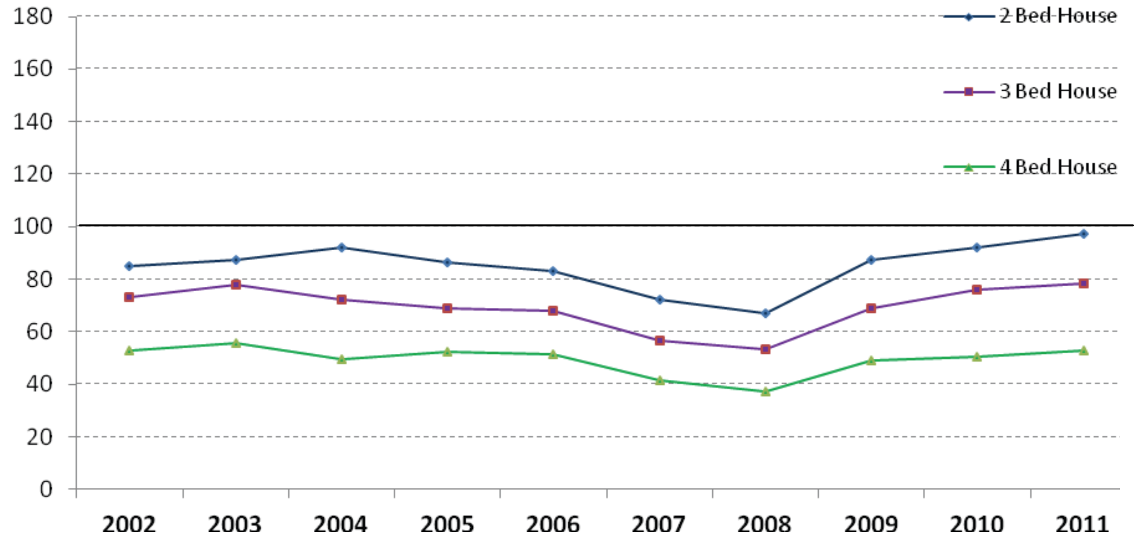
It is evident by comparing mean household incomes and qualifying incomes that in both years, median priced properties were unaffordable[4]. In Tables 1 and 2 (below), affordability indices are shown separately for flats and houses, based on net household income –

Table 1 – Affordability indices based on net household income – <u>flats</u>



[4] States of Jersey Statistics Unit – Housing Affordability in Jersey 2002 – 2011

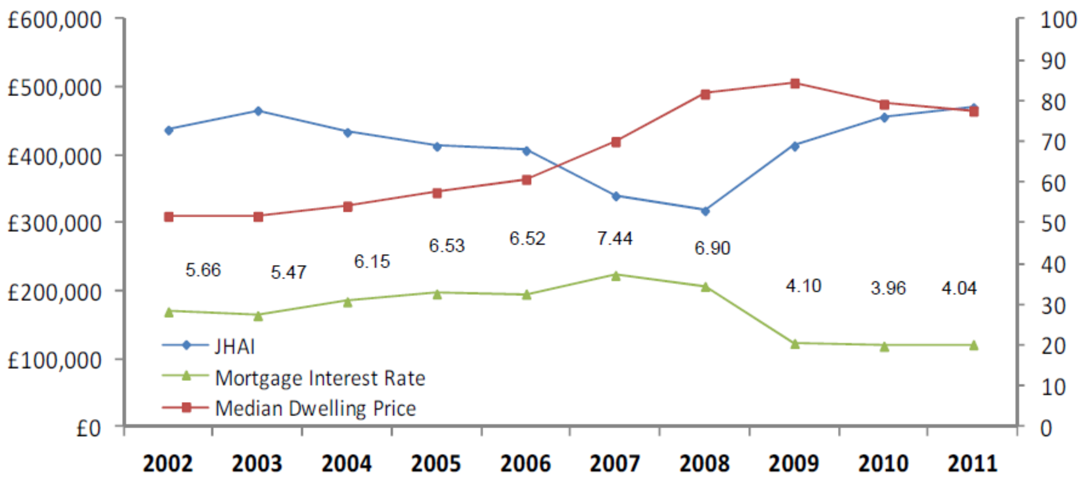
Table 2 – Affordability indices based on net household income – <u>houses</u>



However, the effects of household income on affordability need to be also considered in relation to the effect of interest rates and property prices during the same period.

Table 3 reflects the effect on affordability of three-bedroom houses of changes in mortgage interest rates and property prices. The improvement in the affordability index between 2008 and 2011 was marked by lower interest rates (notable between 2008 and 2009 – the height of the global financial crisis) coupled with the relative stability of local property prices.

Table 3 – The JHAI, median dwelling price (three-bedroom houses) and mean mortgage interest rates



Property prices

When assessing the median priced property (based on one- and two-bedroom flats and two-, three- and four-bedroom houses) in the Island and based on a ratio analysis (4 x gross household income) a household would need to earn **£85,500** in gross household income and have a 10% deposit to afford to purchase a median priced property. More than three-quarters **(78%)** of working households, representing **21,000** households, do not earn the requisite gross income of **£85,500** needed to purchase a median priced property. Using the JHAI, a household would need to earn **£72,000** in gross income and have a 10% deposit to afford a median priced property. More than **two-thirds** of working households, representing around 18,000 households, do not earn the requisite £72,000 needed to purchase a median priced property.

Household earnings

When considering working households that have gross earnings between the 25th and 75th percentile (the middle 50%) and based on a ratio analysis, essentially no household in the middle 50% can afford to purchase a median priced property (£380,000), even with a 10% deposit. Using the JHAI model, **about 1 in 7** (14%, corresponding to 1,800) working households that have gross income in the middle 50% can afford to purchase a median priced property. For a median priced property to be affordable to every working household in the "middle 50%", it would need to be discounted by around **£200,000** (depending on the model used: £195,00 using ratio analysis and £240,000 using the JHAI)[5].

[5] Assumptions: Data includes working households only; all households have at least one adult in employment. Households are assumed to have a 10% deposit towards the cost of purchasing a property. Criteria of Affordability: Ratio analysis = Dwelling purchase price should not exceed 4 x annual gross household income. JHAI = mortgage payments (principal and interest) should consume no more than 30% of gross household income.
Source – States of Jersey Statistics Unit.