States of Jersey
States Assembly

États de Jersey
Assemblée des États

Corporate Services Scrutiny Panel

Starter Home Deposit Loan Scheme

Presented to the States on 4th April 2013

S.R.5/2013

CONTENTS

1. EXECUTIVE SUMMARY

1.1 In November 2012, proposals for a Starter Home Deposit Loan Scheme were announced. The resultant proposition, P.131/2012, was lodged on 4th December 2012. Under the proposals, deposit loans of up to 15% of the property price would be made available to eligible households. Those households would be expected to provide 5% themselves as a deposit and to secure the remaining 80% from a participating mortgage lender. The proposals are due to be debated in April 2013 and, if adopted, would see the implementation of a six-month trial. £3 million would be made available for the trial.

1.2 The proposals are intended to help first-time buyers address the challenges of entering the housing market. It has been estimated that up to 100 households would benefit from the trial. However, work by the Statistics Unit shows that 1,369 households would potentially be eligible. The Ministers for Housing and for Treasury and Resources have therefore decided to limit eligibility to those households amongst the 1,369 which are on the lowest income. This raises the question of whether the scheme would encourage such households to take on debts which they would subsequently struggle to pay off.

1.3 The proposals were broadly welcomed by many people from whom we heard during our review although some concerns were expressed as to whether the scheme was a justifiable use of public money. We found, however, that the scheme would effectively address only one of the obstacles facing prospective first-time buyers. Further measures will therefore be required of the Council of Ministers, particularly in order to increase housing supply.

1.4 Similar schemes exist in other jurisdictions, but the proposed scheme has been developed specifically for Jersey. It is not clear what evaluation of schemes elsewhere was undertaken and we question whether alternatives to the proposed scheme could have been considered. The value of the scheme is potentially limited from the borrower's perspective and, given that there are currently five 90% mortgages and one 100% mortgage available in Jersey, alternative arrangements might well have been feasible.

1.5 Ultimately, the acceptability of the scheme depends upon the details of its structure and operation. In that regard, we have considered the eligibility criteria and the application and assessment process and there remain a number of unanswered questions about how the scheme would work. The States Assembly should not be asked to approve the proposals until those questions have been addressed.

1.6 The eligibility criteria relate to the households which would apply to the scheme and the properties which could be purchased. We recommend that current first-time buyer rules should not be applied to the scheme as this would mean that some households already in possession of a property might stand to benefit. We also question whether the criteria proposed in respect of liquid assets are appropriate. Furthermore, we recommend that the Ministers reconsider whether major new-build developments should be excluded as, on that basis, developments such as the former Jersey College for Girls are likely to be ineligible. Finally, it is not clear that successful applicants would be prevented from letting their property to a third party. These matters need to be addressed in order for the States Assembly to be certain that the scheme would reach those households most genuinely in need of assistance.

1.7 Access to the scheme needs to be fair and fairly controlled. We have found that there is a risk that households could apply to the scheme and enter the assessment process, only to discover that the funding had run out and that their application could not be met, even if eligible. Such a scenario must be avoided.

1.8 The proposed scheme would only be feasible with the willing and active involvement of mortgage lenders. The Ministers intend to establish partnership arrangements with participating lenders and it is imperative that implementation of the scheme would not lead to changes in behaviour by those lenders.

1.9 Under the scheme, the States would take a second charge. We understand that the security of the States' interest can be obtained, including on share transfer properties, but there is significant uncertainty as to whether practical arrangements for this to occur have been confirmed with mortgage lenders. The Minister for Treasury and Resources therefore needs to clarify what practical arrangements have been put in place. He also needs to confirm what would happen in respect of the States' interest in the event that a participating household defaulted on the repayments of their loan in order that the States does not find itself in the position of being an unsecured lender. Finally, there needs to be clarity on what would happen in the event that a participating household sold their property before the 20-year term of the loan had elapsed.

1.10 The likelihood is that the scheme would predominantly apply to one- and two-bedroom flats, of which the majority would be share transfer properties. Given that the new scheme would not apply to major new-build properties, the scheme would likely force new applicants into the market for existing one- and two-bedroom flats and we have found that there would be a risk of distorting that part of the market as a result.

1.11 We were advised that the impact of the proposals would become apparent once the trial was initiated and monitoring of the trial scheme would indeed be vital. Such monitoring should include consideration of the impact on people's behaviour and whether, for instance, the proposed scheme would avoid providing assistance to households who at present could receive parental or other help.

1.12 Work on the proposals began in May 2012 but we were concerned by some elements of the development process. There was, for instance, no formal economic report although we have noted that Ministers were made aware of the potential risks involved in introducing the scheme. Of greater concern, however, was that the Council of Ministers did not discuss the draft proposition, notwithstanding that one Minister had reservations about the proposals. Such an omission was contrary to the principles of the States of Jersey Law 2005 and to the Council's own agreed policy and we recommend that measures are taken to ensure this oversight does not occur again. We anticipate that if the Council had been provided with greater opportunities for discussion, some of the questions and areas of uncertainty we have identified would already have been addressed.

1.13 The proposals are for a six-month trial scheme and, whilst there would be some scope for the scheme to be extended, funding sources would need to be identified. Nevertheless, we were advised that, even if the trial period were extended, it would be unlikely that the scheme would be maintained in the long term. We question whether the charging of interest on repayments would in fact make the scheme more sustainable, in the event that an extension were agreed.

1.14 Ultimately, further information on the proposals need to be provided to the States Assembly in order that the workings and potential impact of the proposed scheme can be clearly understood.

2. CHAIRMAN'S FOREWORD

2.1 One of the main priorities of the Strategic Plan is the housing of the Island community. The Deposit Loan Scheme is intended to encourage home ownership for people in the lowest quartile by income of our community who might otherwise not be able to afford the deposit for their own property.

2.2 This scheme addresses only one of the obstacles facing the first time buyer in this particular quartile. The other obstacles, such as cost, high proportion of income for repayments and availability of suitable properties are not addressed.

2.3 In common with many jurisdictions the cost of property is high for this particular section of the community although, as our advisor pointed out, the market in Jersey has demonstrated more stability than, for example, the United Kingdom.

2.4 It is intended that the market for these loans is in the lowest quartile by income of the first time buyer population. We were concerned that the scheme should not encourage buyers to saddle themselves with overly large amounts of debt and that the announcement would not raise expectations excessively since there is a limited amount of funds available with no immediate prospect of further funds.

2.5 The sales in the particular section of the market are about 140 properties a year. The number of loans is small, around 60. However, in the context of the overall turnover 60 is a significant number and it is possible that this might distort the market. It seems to us that the scheme should be available for all properties within the price limits, including major development projects, particularly when the JCG scheme is starting. The UK has proposed a similar scheme and this has raised significant fears that it will increase property prices.

2.6 The Council of Ministers has a procedure with regard to new policies and it is unfortunate that this particular project was not discussed fully in a round table meeting before it was publicised. If this had been done then the underlying details – such as early sale, share of capital uplift or payment of interest – could have been identified and included in the proposition. This would provide the certainty which is particularly important for first-time buyers venturing into the property market. It is equally important that the States has certainty with regard to the security of its interest. We found no evidence that this has been confirmed.

2.7 The overall conclusion of the Panel is that this proposition fits into the strategic plan and could address one of the obstacles facing first time buyers. However, without the certainty of the details underlying the proposal we cannot support the proposition.

3. KEY FINDINGS AND RECOMMENDATIONS

Key Findings

3.1 The proposed deposit loan scheme would address very high deposit requirements for prospective first-time buyers but would not address all the obstacles which they currently face. Other measures from the Council of Ministers will therefore be required, particularly to increase housing supply. (5.16)

3.2 The principle of the scheme has been broadly welcomed although some concerns have been expressed as to whether it would represent a justified use of public money. Ultimately, the acceptability of the scheme depends on the details of its structure and operation. (5.19)

3.3 The value of the scheme is potentially limited from the borrower's perspective. Borrowers would gain greater initial advantages if, for example, the scheme instead comprised an equity-based loan with no interest payments for five years. (5.30)

3.4 The scheme has been designed for Jersey. It is not clear, however, what evaluation was undertaken of similar schemes in operation elsewhere and whether any alternatives to the proposed criteria (for instance, a guarantee scheme) were considered. (5.33)

3.5 It is not clear what alternatives to an 80% mortgage / 15% loan split, if any, were considered. Given that there are currently five 90% mortgages and one 100% mortgage available on the market, alternative arrangements might be feasible. (5.39)

3.6 A formal report with economic advice was not requested by the Ministers. Advice considered by the Ministers, albeit informally, indicated that there were risks associated with the proposed scheme, including in respect of the market impact; the behaviour of borrowers and mortgage lenders; and whether the proposals would constitute the best use of funds. (5.45)

3.7 The Council of Ministers did not discuss the draft proposition for a Starter Home Deposit Loan Scheme, contrary to the principles of the States of Jersey Law 2005 and the Council's own agreed policy. The Council did not therefore have a full opportunity to discuss the proposals, a matter of concern given that one Minister had reservations regarding the proposals. (5.52)

3.8 The criteria presented in the proposition do not appear to prevent households from subsequently letting their property to a third party. (6.8)

3.9 There remain unanswered questions regarding the operation of the proposed deposit loan scheme which need to be addressed before the States Assembly is asked to approve the proposition. The need to finalise some details was acknowledged during our review. (6.17)

3.10 There is a risk that mortgage lenders would be more relaxed in respect of due diligence of the States' 15% loan than in respect of the 80% mortgage. (6.23)

3.11 It is the Ministers' intention to establish a partnership arrangement with participating mortgage lenders. The proposed scheme would only be feasible with the willing and active involvement of mortgage lenders. It is imperative that implementation of the scheme would not lead to changes in lending behaviour by participating institutions. (6.27)

3.12 Under the proposed criteria, it would be possible for some households to have purchased and owned a property and yet remain eligible for the scheme. The Panel does not believe that current first-time buyer rules should be applied as the scheme would otherwise not be guaranteed to help those in greatest need of assistance. (6.35)

3.13 The proposed criteria for liquid assets stem from similar provisions within Income Support legislation. The Panel does not believe it would be appropriate to allow eligible households to retain the level of liquid assets described in the proposition. (6.40)

3.14 An analysis by the Statistics Unit shows that 1,369 households would potentially be eligible for the proposed deposit loan scheme. A policy decision was taken to limit eligibility to the households amongst those 1,369 on the lowest incomes. The Ministers have estimated that between 60 and 100 households could be assisted during the trial. (6.48)

3.15 The proposed scheme would target those eligible households on the lowest incomes. This raises the question of whether the scheme would encourage such households to take on debts which they would subsequently struggle to pay off. (6.49)

3.16 An analysis has yet to be undertaken to determine how many of the households which would potentially be eligible for the proposed scheme are planning to move. (6.52)

3.17 Announcement of the proposed scheme is likely to have raised expectations which could not be met. (6.57)

3.18 It is unclear how access to the pilot scheme would be controlled fairly, given that up to 100 loans would be available but that there are potentially many more eligible households. Applications to the scheme would be processed through Band 5 of the Affordable Housing Gateway and the Ministers have advised that the scheme would effectively operate on a 'first come, first served' basis. With some 163 households already on Band 5, problems with equitable access to the scheme could arise and the trial period would therefore need to be managed efficiently to ensure that households did not apply and enter the assessment process, only to discover that the funding had run out and that their application could not be met, even if eligible. (6.62)

3.19 The exclusion of major new-build properties from the scheme would mean that houses built on sites such as the former Jersey College for Girls would not be eligible. This raises the question of whether the proposals display 'joined up thinking' with other government measures. (6.67)

3.20 In 2011, 140 flats (and no two-bedroom houses) were sold at or below the lower quartile price. The likelihood is that the scheme would predominantly apply to one- and two-bedroom flats, of which the majority would be share transfer properties. Given that the new scheme would not apply to major new-build properties, the scheme would force new applicants into the market for existing one- and two-bedroom flats and there would be a risk of distorting that part of the market. (6.77)

3.21 The affordability of flats has improved. If more households are able to purchase a flat, the question is raised of whether States assistance in the market is required at this time. (6.78)

3.22 The States would take a second charge on the properties falling under the scheme. The Panel understands that the security of the States' interest can be obtained, including on share transfer properties. However, there is significant uncertainty as to whether practical arrangements for this to occur in respect of share transfer properties have been confirmed with mortgage lenders. (6.85)

3.23 There would be risks to the States' interest in the event that a participating household defaulted on its repayments. That risk has been recognised by the Ministers but it remains unclear as to how the risk would be mitigated. There is the possibility that the States could be left as an unsecured lender. (6.90)

3.24 Further information is required on what would happen if a participating household sold their property before the 20-year term of the loan had elapsed. Such information also needs to be clearly provided to applicants of the scheme at the time of their application. (6.99)

3.25 The Ministers for Housing and for Treasury and Resources have stated that they would not seek to exercise ministerial discretion in the operation of the scheme. (6.104)

3.26 It is unclear what impact, if any, the implementation of the deposit loan scheme would have on the overall housing market. However, the greatest risk is that the impact would be felt most keenly in the market for one- and two-bedroom flats. (7.11)

3.27 There are risks that implementation of the scheme would alter people's behaviour and thereby make it more difficult for the scheme to reach those households most genuinely in need of assistance. For instance, it is unclear how the proposed scheme would avoid providing assistance to households who at present could receive parental help. (7.15)

3.28 The Panel was advised by the Minister for Housing that the impact of the scheme would become apparent once it had been introduced. Monitoring of the deposit loan scheme is vital although not all problems may become apparent during the trial period. Such monitoring should take into account the impact on people's behaviour; whether the scheme assists those who truly would not have been able to buy without assistance; whether any market effects can be distinguished; whether there is oversubscription; and whether an extended scheme should cover purchases in the social housing sector. (7.23)

3.29 Some funds remain within the Dwelling-Houses Loan Fund for a possible, limited extension of the trial scheme. The Minister for Treasury and Resources has indicated that consideration would be given to alternative funding sources although he has also indicated that, even if implemented and additional funds made available, it is unlikely that the deposit scheme would be maintained in the long term. (7.27)

3.30 If households were required to pay a degree of interest on the States' loan, or if the States were able to share in any uplift once the property were sold, funds for a potential extension of the scheme would be replenished. (7.28)

<u>Concluding Key Finding:</u>

3.31 Whilst the proposed deposit loan scheme fits strategic objectives and seeks to address one of the obstacles currently facing prospective first-time buyers, more clarity and detail are required about how the scheme would operate. Until that clarity is obtained and outstanding issues are resolved, the Panel cannot support the proposals.

Recommendations

3.32 The Minister for Treasury and Resources should report to the States Assembly ahead of the debate on P.131/2012 on what alternatives, if any, were considered to the proposed deposit loan scheme. (5.40)

3.33 The Council of Ministers should ensure that, for any future ministerial proposition lodged for debate by the States Assembly, a statement is included in the accompanying report to indicate when the Council noted or discussed the proposition at a formal meeting. (5.53)

3.34 Prior to the debate on P.131/2012, the Minister for Treasury and Resources should clarify whether the proposed scheme would prevent 'buy-to-let' situations arising. (6.9)

3.35 Prior to any implementation of the scheme, the Minister for Treasury and Resources should revise the eligibility criteria to ensure that households already in possession of a property (whether freehold or share transfer) would not be eligible for a deposit loan. (6.36)

3.36 The Minister for Treasury and Resources should re-examine the appropriateness of the eligibility criteria in respect of liquid assets. (6.41)

3.37 Prior to the debate on P.131/2012, the Minister for Treasury and Resources should confirm how access to the scheme would be managed and explain how the situation would be avoided that households enter the scheme only to discover that the funding had run out. (6.63)

3.38 The Minister for Treasury and Resources should amend the eligibility criteria for the scheme to ensure that all new-build properties would be eligible. (6.68)

3.39 Prior to the debate on P.131/2012, the Minister for Treasury and Resources should clarify what practical arrangements have been put in place to ensure that the security of the States interest in respect of share transfer properties has been obtained. (6.86)

3.40 The Minister for Treasury and Resources should confirm what would happen in respect of the States' interest in the event that a participating household defaulted on the repayments of their loan. (6.91)

3.41 The Minister for Treasury and Resources should clarify what would happen in the event that a participating household sold their property before the 20-year term of the loan had relapsed. (6.100)

3.42 The Minister for Treasury and Resources should re-visit whether interest should be charged on the loans provided under the scheme. (7.29)

4. INTRODUCTION

4.1 The Minister for Treasury and Resources publicly announced proposals for a Starter Home Deposit Loan Scheme on 14th November 2012 during a hearing with the Corporate Services Scrutiny Panel. The resultant proposition, *Starter Home Deposit Loan Scheme* (P.131/2012), was lodged on 4th December 2012.

4.2 If approved, P.131/2012 would see the establishment of a six-month trial scheme during which States loans would be available to assist eligible homebuyers with buying a property.

4.3 Broadly speaking, loans would amount to a maximum of 15% of the purchase price and would form part of the homebuyer's deposit for the purchase. The homebuyer would be expected to provide 5% to make up the rest of the deposit and to secure the remaining 80% of the purchase price from a mortgage lender. £3 million would be used from the Dwelling-Houses Loan Fund to support the six-month trial. P.131/2012 estimates that up to approximately 100 households could be helped as a result.

4.4 The deposit loan scheme was designed to assist those facing the greatest difficulties in getting on the housing ladder. A number of eligibility criteria would therefore be used to assess applications to the scheme to ensure that the scheme reached those it was intended to help. The criteria would relate to the applicant's income; their first-time buyer status; the size and price of the property; and the applicant's liquid assets.

4.5 The Panel agreed in January 2013 to review the proposition and are grateful to the Minister for Treasury and Resources for his agreement to defer the debate on P.131/2012 from its original listing in order to allow time for our Scrutiny Review to be undertaken.

4.6 The provision of housing is a significant issue in Jersey and other measures have been mooted or are being proposed to address this issue. For example, we were aware of measures taken to assist housing provision in the Parish of Trinity. We were also aware of the proposed Housing Transformation Programme and the impact it could potentially have in this area.

4.7 As the Programme has been subjected to a separate Scrutiny Review by a Sub-Panel of the Health, Social Security and Housing Scrutiny Panel, the Corporate Services Scrutiny Panel focussed solely on the proposal to introduce a deposit loan scheme. We therefore set out to consider the work which had been undertaken by the Minister for Treasury and Resources in developing the proposition and to examine how the proposed scheme would work, if implemented. We also agreed to examine the potential impact of the proposed scheme, how that impact would be monitored and how the scheme would be funded if it were extended beyond the trial period.

4.8 In undertaking this work, we appointed the Chartered Institute of Housing to review the material we had received and to advise us on the proposals and their implications. A copy of the Institute's report has been appended to our own.

4.9 This report begins with a consideration of the work undertaken in developing the proposition and of the rationale underlying the proposals. It then moves on to examine the details of how the scheme would work; including the eligibility criteria, the application process and the arrangements for repayment of the loans. Finally, it shall consider the potential impact of the scheme and the implications of extending it beyond the six-month trial period.

5. THE DEVELOPMENT OF THE PROPOSALS

5.1 We will begin by exploring the principle of the proposed deposit loan scheme; the rationale underlying the proposals; and the work undertaken in developing those proposals.

The Origin of the Proposals

5.2 There were calls for the introduction of a deposit loan scheme in 2011 through questions put to Ministers in the States Assembly. However, the starting point for work on the proposals was effectively May 2012. It was on the 15th of that month that the Chief Minister advised the Assembly that the Ministers for Housing and for Treasury and Resources intended to announce a "*possible deposit scheme*" in the Medium Term Financial Plan.[1]

5.3 No such proposals were ultimately included in the Medium Term Financial Plan and they were instead formally announced at a public hearing we held on 14th November 2012 with the Minister for Treasury and Resources. At that time, the Minister envisaged that the proposals would be included within the 2013 Budget (through an amendment).[2]

5.4 There was no such amendment to the Budget, however, and a standalone proposition was lodged on 4th December 2012 as *Starter Home Deposit Loan Scheme* (P.131/2012). On the same day, the Minister for Housing announced the proposals to the Assembly.

The Rationale for the Proposals

5.5 In terms of a rationale for the proposals, the proposition itself makes reference to the Strategic Plan as a driver. P.131/2012 therefore asks the States Assembly, in considering the proposition, to refer to the strategic priority to 'house our community'.

5.6 The Minister for Treasury and Resources referred to the Strategic Plan when asked about the provenance of the proposals and indicated that discussions about a possible loan scheme had occurred during the development of the Plan.

5.7 Advice received from the Chief Minister's Department confirmed that there was a desire to address issues relating to housing provision but also suggested that the idea for the scheme reflected developments in other jurisdictions:

"*The lending environment and the Housing Needs Survey illustrated a high desire on the part of Islanders to be home owners, and a difficulty in becoming a home owner, in part due to*

[1] The Official Record, 15th May 2012
[2] Minister for Treasury and Resources, Transcript, 14th November 2012

inability to make repayments, and this being related to the ability to raise a deposit. We also assessed the position in the United Kingdom where a similar solution has been identified to a similar problem."[3]

5.8 The Minister for Housing, meanwhile, advised us to the following effect:

"*Several other countries across the world have done the same and the U.K. have done [it]. It also came about not only in discussion with the Chief Minister, Minister for Treasury and other Ministers, but from questions in the Assembly from a number of different Members who asked were we going to bring back the States Loan Scheme*."[4]

5.9 Three reasons were therefore given as to why proposals for a deposit loan scheme had been developed.

a) There was a need to address the housing challenge facing many people in the Island (and thereby to meet the strategic aims of the States to address that challenge);

b) The experience of other jurisdictions suggested that such a measure would be an appropriate means of dealing with the problem; and

c) There had been political calls for the States to take action.

The Housing Situation in Jersey

5.10 The proposition provides an appendix with statistical information to show the challenges facing many Islanders in respect of housing and to illustrate why a deposit loan scheme is required. Headline figures showed that 79% of householders cannot afford a three-bedroom house and 51% of householders cannot afford a two-bedroom flat.[5] These figures arise from work undertaken by the Statistics Unit.

5.11 During our review, we examined reports published by the Statistics Unit and we heard from the Chief Statistician in order to understand more clearly the current housing situation. There are statistics beyond those presented in P.131/2012 which we believe to be of relevance to the discussion about the Starter Home Deposit Loan Scheme and of particular pertinence to questions regarding housing need and housing affordability amongst first-time buyers. We have appended that additional statistical information to this report.

5.12 Our advisor from the Chartered Institute of Housing considered the Statistics Unit's reports. He advised us that the "*statistical background information available to assist those responsible for the [deposit loan] scheme is very sound*", albeit there are potentially some

[3] Ibid
[4] Minister for Housing, Transcript
[5] *Starter Home Deposit Loan Scheme* (P.131/2012), Lodged on 4th December 2012

limitations. His conclusions from considering the material were that there are four main obstacles to purchasing a property which face first-time buyers in Jersey:

- "*High house prices, not significantly lower since the 2007 credit crunch;*
- *Very high deposit requirements, especially affecting those without parental help;*
- *High proportions of income needed for mortgage repayments, making mortgages unaffordable for many and making the purchaser more vulnerable if circumstances change; and*
- *An apparent lack of sufficient flats or houses at prices which most FTBs [first-time buyers] could afford*."[6]

5.13 Our expert advisor also highlighted that the proposed Starter Home Deposit Loan Scheme would principally address one of those four obstacles: very high deposit requirements. Given that the other obstacles would not be addressed, it must therefore be questioned what impact, if any, the introduction of a deposit loan scheme would have on the ability of first-time buyers to access the housing market.

5.14 The Minister for Treasury and Resources acknowledged that, in themselves, the proposals would not address the overall housing problem:

"*This is not a silver bullet that is going to help everybody that we would like to, benevolently and well intentioned, get into home ownership. It is certainly just going to be a targeted activity to help move transactions that otherwise would not be the case.*"[7]

The Minister for Housing made similar comments when questioned in 2012 by States Members about the proposals.[8] P.131/2012 also acknowledges that the measure would not improve the affordability of housing but would "*merely [provide] an alternative financing source for those who might not otherwise be able to obtain finance because of the lack of a deposit*."[9]

5.15 The Minister for Planning and Environment, whom we were advised was opposed to the proposals, made the following statements about them in his written submission:

"*The principle of truly affordable housing is a matter of great importance, and therefore any mechanism or action which seriously improves the ability for Islanders to own their own home in a truly affordable manner is welcome.*

6 *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*, March 2013
7 Minister for Treasury and Resources, Transcript, 14th November 2012
8 The Official Record, 4th December 2012
9 *Starter Home Deposit Loan Scheme* (P.131/2012)

I would however question whether this loan scheme is the correct vehicle for that aspiration, and I would question whether an outcome of the scheme would be to maintain house prices at the unaffordable level that they are now. There is some argument to be made that such a loan scheme increases debt and encourages the higher levels of borrowing and the related debt problems that we have seen in recent years."[10]

KEY FINDING

5.16 The proposed deposit loan scheme would address very high deposit requirements for prospective first-time buyers but would not address all the obstacles which they currently face. Other measures from the Council of Ministers will therefore be required, particularly to increase housing supply.

5.17 Nevertheless, the majority of the written submissions we received during our review testified to the challenges facing people in accessing the housing market and were supportive of the proposed scheme. Some submissions came from people looking to buy a property for the first time, whilst others came from family members who knew of such people. Many were from households which hoped that they would in due course be able to apply for a loan. We also sought submissions directly from stakeholders such as mortgage lenders, mortgage brokers, conveyancers and estate agents. Notwithstanding the questions and comments they had about the details of the scheme (which we shall explore later in this report), there was generally a welcome response to the principles of the proposed scheme.

5.18 However, we did receive some submissions which were opposed to the proposals. The general thrust of these submissions was that taxpayers' money should not be used for such a scheme. The following comment exemplifies the sentiment which was expressed to us:

"*It is not the States' responsibility to provide taxpayer's money as a deposit to buy accommodation. It is the responsibility of the purchaser to save. In many cases taxpayers themselves have saved for 10 years or more to put down the necessary deposit to purchase a property and have made many financial sacrifices along the way. If a deposit scheme is approved by the States it will be the same person having to pay for their own mortgage whilst subsidising someone else who may not have had the same drive and financial commit to save a deposit*."[11]

[10] Minister for Planning and Environment, Written Submission, 1st March 2013
[11] Mr R Travert, Written Submission, 10th February 2013

KEY FINDING

5.19 The principle of the scheme has been broadly welcomed although some concerns have been expressed as to whether it would represent a justified use of public money. Ultimately, the acceptability of the scheme depends on the details of its structure and operation.

Similar Schemes in Other Jurisdictions

5.20 The second justification for introducing a deposit loan scheme was that similar schemes operated elsewhere. The Chief Minister's Department advised us of some such schemes. For instance, the 'First Step, Next Step' scheme which operates in West Berkshire, where successful applicants can receive a loan of up to £20,000 for a 10% deposit with the loan repayable over 10 years. The scheme applies to both existing and new-build properties. Alternatively, there is the Open Market Equity Loan Scheme in South Oxfordshire where successful applicants can receive a loan of between 15% and 50% of the property value (up to a maximum loan of £50,000). Internationally speaking, we were informed of a similar scheme in operation in New Zealand. Our expert advisor has also highlighted that such schemes exist elsewhere.

5.21 We were particularly conscious of the FirstBuy scheme which was introduced in the United Kingdom in the 2011 Budget as part of a 'plan for growth'.[12] FirstBuy was "*an affordable housing deposit assistance equity loan product from the Homes and Communities Agency, working in partnership with house builders*" in which successful applicants could receive a loan of up to 20% of the purchase price (set at a maximum price of £280,000), split between the Homes and Communities Agency and the house builder (i.e. 10% each). We have noted that FirstBuy applied only to new-build properties, whereas major new-build properties are explicitly excluded from the deposit loan scheme proposed for Jersey[13]

A Justified Variation of the States Loan Scheme?

5.22 The third justification for introducing the proposed scheme was to address questions arising in the States about whether the 'States Loan Scheme' could be revitalised. The States Loan Scheme was established under the *Building Loans (Jersey) Law 1950* and provided Islanders with the opportunity to receive assistance with the purchase of a home through a

12 After we completed gathering evidence, but before the presentation of this report, the UK Government announced as part of the Budget plans to extend the FirstBuy scheme and to introduce mortgage guarantees.

13 *FirstBuy Buyers' Guide* (August 2011), Home and Communities Agency, page 2

loan from the States. The Dwelling-Houses Loan Fund was established within the Law to provide funding for the scheme.[14] The Fund has largely been inactive in recent years as private financing has become more available and the States Loan Scheme has effectively been made redundant. Adoption of P.131/2012 would see the transfer of £3 million from the Dwelling-Houses Loan Fund to the Consolidated Fund.

5.23 The Minister for Housing explained to us that the States Loan Scheme still existed but that it was no longer fit for purpose. In the Minister's view, the proposed Starter Home Deposit Loan Scheme was a "*variation*" of the Scheme:

"*It is using the same fund, it is using the same principles of getting young couples or single people, people that work hard that save their money, 5 per cent they have to save themselves*."[15]

5.24 This was accepted by the correspondent of one written submission we received:

"*Overall, subject to our comments below, the principle of the scheme appears to be an appropriate development of the principles established in the Building Loans (Jersey) Law 1950 taking into account the materially changed economic circumstances existing at the beginning of the 21st Century*."[16]

5.25 The new deposit loan scheme would be administered under different arrangements, however. The States Loan Scheme was administered under the *Building Loans (Jersey) Law 1950* and the corresponding Regulations and Order. The primary and secondary legislation set out a number of terms and conditions which would apply to loans made by the Minister for Housing under the Law. Loans under the deposit loan scheme would not be made under that Law, however. Instead, as P.131/2012 highlights, the deposit loans would be made under Article 23(3) of the *Public Finances (Jersey) Law 2005* and Regulation 13 of the *Public Finances (Transitional Provisions) (No.2) (Jersey) Regulations 2005* and they would therefore be subject to the conditions that apply within.

5.26 Our advisor raised the question of whether the proposed scheme would be the best use of the funding from the Dwelling-Houses Loan Fund and, indeed, he asked what alternatives had been considered for the use of that funding. We have noted that this point was also made to the Ministers during the development of the proposals:

"*We must think of the opportunity costs of the scheme and in particular what else the funds could be used for in policy terms. It is not sufficient just to look at the forgone*

14 *Building Loans (Jersey) Law 1950*
15 Minister for Housing, Transcript
16 Benest and Syvret, Written Submission, 5th February 2013

interest/defaults etc but also to think how the money could have been used to achieve other policy objectives and relatively how effectively."[17]

5.27 Under the proposed scheme, successful applicants would be able to access a loan representing 15% of the purchase price of a property. The applicants themselves would be expected to provide 5% of the purchase price as a deposit and to meet the cost of all fees involved with the purchase. The remaining 80% would be secured as a mortgage on the property from a recognised mortgage lender (i.e. one which had agreed to take part in the scheme). The loan would be interest free and, in accordance with the Regulations, repayable over 20 years.

5.28 In his written submission, the Managing Director of The Mortgage Shop extrapolated the provisions of the scheme into some examples of how it would work in practice. His calculations showed the following:

"*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***"

[18]

5.29 Our expert advisor highlighted that, under these arrangements, the borrower would not necessarily be much better off than if different arrangements had been proposed. In his report, he shows for instance that there would be a relatively small difference between the buyer's costs with a 95% mortgage and the costs of an 80% mortgage with a 15% loan:

"*Take the example given to the Scrutiny Panel of the case of a two-bed flat on which there is an 80% mortgage of £209,600 with an interest rate of 4.49%. Under SHDLS [Starter Home Deposit Loan Scheme], the monthly repayments were given as £1,156 (£992 for the mortgage + £164 for the interest-free loan).*

17 Written Responses from the Chief Minister's Department, 13th February 2013
18 Managing Director – The Mortgage Shop, Written Submission, 11th February 2013

Without SHDLS, the buyer would have a mortgage of (almost) £249,000. Using the same basis for the mortgage repayment gives a monthly cost for a 95% mortgage without the SHDLS of £1,178."

In that instance, there would only be a difference of £22 per month in terms of repayments.

KEY FINDING

5.30 The value of the scheme is potentially limited from the borrower's perspective. Borrowers would gain greater initial advantages if, for example, the scheme instead comprised an equity-based loan with no interest payments for five years.

5.31 Our expert advisor therefore asked why the parameters for the scheme had been proposed as they are and whether there was any detailed evaluation of schemes in operation elsewhere in order to determine whether different parameters would be more appropriate. For example, he asked why consideration had not been given to a 10% deposit loan with no requirement for a minimum deposit from the buyer. His report highlights that there are potential alternatives to be considered. For example, he reports that "*some local authorities in England (notably Manchester) are trialling mortgage guarantees. These typically underwrite up to 20% of the mortgage, so that purchasers who can raise a 5% deposit can then get a mortgage on the remainder on similar terms to a 75% loan*."[19]

5.32 We were advised that no particular scheme from another jurisdiction had served as a model for the proposed scheme for Jersey. Both the Ministers for Housing and for Treasury and Resources were aware of schemes operating elsewhere but, as the Minister for Treasury and Resources advised, the Starter Home Deposit Loan Scheme was bespoke for Jersey. An evaluation of schemes operating elsewhere, if presented to States Members, would assist the Assembly in understanding why the Ministers chose the parameters for the scheme which are contained in P.131/2012.

KEY FINDING

5.33 The scheme has been designed for Jersey. It is not clear, however, what evaluation was undertaken of similar schemes in operation elsewhere and whether any alternatives to the proposed criteria (for instance, a guarantee scheme) were considered.

5.34 Our expert advisor also examined the calculations provided to us by The Mortgage Shop and highlighted that the implementation of other arrangements would potentially be more beneficial for participants in the scheme, in terms of mortgage repayments:

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19 *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*

"*If the SHDLS were to take the form of an equity loan, using the same example as that above, the buyer (with a 5% deposit) would have a conventional mortgage for 80% of the purchase price (£209,600) plus an equity loan for the balance of 15%. Initially this equity loan would be for £39,300, but the amount to be repaid would rise with the value of the house. For a set period, say five years, there would be no interest charged on the equity loan, so the buyer's monthly payment [for a two-bedroom flat] would be only the £992 for the 80% conventional mortgage.*"[20]

Returning to Paragraph 4.31 above, the introduction of such parameters into the scheme would make for a difference of £186 per month in terms of the repayments the household would be expected to make.

5.35 The question therefore arises of why the Ministers proposed the implementation of a 15% loan and whether it was the most appropriate option to have taken. In justifying the provisions of the proposed scheme, P.131/2012 explains that the "*standard rate of borrowing now is generally considered to be 4 times income*." It also states that mortgage loans are generally around 80% of Loans to Value (LTV) of the property although there are some variations, implying that if a 5% deposit were required of the homebuyer, a 15% loan would be required from the States to allow the homebuyer to access a mortgage.

5.36 The Jersey Estate Agents Association commented on the provisions of the scheme in this regard and, in particular, the fact that successful applicants would be able to access an 80% mortgage:

"*That is one thing I did not quite understand where this 20% deposit was coming from. I do not know why it talks about 20% all the time because you can get your normal 90% with a 10% deposit mortgage.*"[21]

5.37 We examined the local mortgage market in order to assess the justification offered by P.131/2012 and to identify whether the proposed deposit loan scheme would indeed 'fill a gap' which would assist people to access a mortgage who might not otherwise be able to. We sought guidance from The Mortgage Shop on the products that are currently available. We understand that there is currently one 100% mortgage available to prospective homebuyers. The 100% mortgage is only available to those people in a position "*where a property or asset-owning Channel Island-based parent will put up 15% of collateral or equity to support the facility*"[22]

20 *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*

21 Joint Presidents – Jersey Estate Agents Association, Transcript

22 Managing Director – The Mortgage Shop, Transcript

5.38 In addition, five mortgage lenders currently offer a 90% mortgage although the underwriting criteria and assessment of affordability differ between individual lenders. In that regard, the Managing Director of The Mortgage Shop advised us:

"*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*."[23]

KEY FINDING

5.39 It is not clear what alternatives to an 80% mortgage / 15% loan split, if any, were considered. Given that there are currently five 90% mortgages and one 100% mortgage available on the market, alternative arrangements might be feasible.

RECOMMENDATION

5.40 The Minister for Treasury and Resources should report to the States Assembly ahead of the debate on P.131/2012 on what alternatives, if any, were considered to the proposed deposit loan scheme.

Development of the Proposals

5.41 In order to understand how the proposals had been formulated, we questioned both the Minister for Housing and the Minister for Treasury and Resources on the work they had undertaken in developing the proposition.

5.42 Both Ministers advised us that the work had been a combined effort, with departmental support provided by the Central Policy Unit of the Chief Minister's Department. Indeed, the Minister for Treasury and Resources suggested that it was a good example of coordinated policy development.

5.43 The schedule of consultation with which we were provided showed that the following parties had been consulted.

a) Department of Housing

b) Jersey Bankers Association

c) Statistics Unit

d) Department of Economic Development

[23] Managing Director – The Mortgage Shop, Written Submission

e) Department of Treasury and Resources

f) Mortgage Lenders

g) Department of the Environment

h) Law Officers' Department [24]

Although work on the proposals was ongoing at the time of our review, the Jersey Estate Agents Association was not consulted.[25] The Minister for Treasury and Resources also advised us that he had not formally consulted the Fiscal Policy Panel although the Minister believed the proposals to be in keeping with the Panel's advice.[26]

5.44 In terms of economic advice, the Minister for Treasury and Resources advised us that he had been "*absolutely insistent with the Minister for Housing that we discuss these proposals from the very start with the Economic Adviser and he has helpfully given of his time*."[27] We sought clarification regarding the input of the Economic Advisor and were informed that he had been engaged informally in discussions on the scheme since May 2012 and had been invited to a formal Ministerial meeting on 21st September 2012. We understand that the Economic Advisor was not asked to provide a formal report; however, he had put his advice in writing via e-mail:

- "*As the policy does not impact on the supply of housing but will increase demand there is risk that it will feed through into higher house prices than would otherwise be the case and that there would be potential winners (those accessing the scheme) and losers (those who cannot buy as a result and/or have to pay higher prices plus the tax payer in terms of any forgone revenue/losses). It is a political question as to whether these impacts were consistent with the political objectives of the scheme. The impact on prices was likely to be less the smaller the scale of the scheme and there was little risk that in the current economic environment with significant spare capacity across the economy that this would lead to wider inflationary concerns.*
- *The existence and knowledge of the scheme could lead individuals to save less for their deposit reducing the effectiveness of the scheme (if it benefited people that in absence of the scheme may have been able to buy anyway).*
- *We need to be careful that where parents/relatives etc may have previously lent/given individuals the deposit that they no longer do so because of the existence of the*

24 Schedule of Principal Meetings in Connexion with the Deposit Loan Scheme, Chief Minister's Department
25 Joint Presidents – Jersey Estate Agents Association, Transcript, 25th February 2013
26 Minister for Treasury and Resources, Transcript, 13th February 2013
27 Ibid

scheme (again reducing the effectiveness of the scheme as it does not benefit the intended recipients).

- *It is important to fully understand how banks might respond and change their behaviour in knowledge of the scheme to ensure that this does not lead to unintended consequences.*
- *We must think of the opportunity costs of the scheme and in particular what else the funds could be used for in policy terms. It is not sufficient just to look at the forgone interest/defaults etc but also to think how the money could have been used to achieve other policy objectives and relatively how effectively*."

KEY FINDING

5.45 A formal report with economic advice was not requested by the Ministers. Advice considered by the Ministers, albeit informally, indicated that there were risks associated with the proposed scheme, including in respect of the market impact; the behaviour of borrowers and mortgage lenders; and whether the proposals would constitute the best use of funds.

5.46 The Statistics Unit was also involved during the fourth quarter of 2012. The Unit was asked to undertake an analysis of the "*potential effect of the States deposit loan scheme on various household types trying to purchase various household property types.*"[28]

5.47 We sought to understand particularly what consideration had been given to the proposals by the Council of Ministers. We asked for access to the relevant minutes but there was only one such minute, dating from 9th January 2013; it recorded the moment when the Minister for Treasury and Resources advised the Council about the Panel's Scrutiny Review and informed the Council that he would be prepared to defer the debate.

5.48 We asked both the Minister for Housing and the Minister for Treasury and Resources about this matter and were advised that the Council had talked about housing generally on a number of occasions but that the proposals for a Starter Home Deposit Loan Scheme had been circulated by e-mail. Ministers had been given two to three days to consider the proposals and although comments were invited, none were received. Nevertheless, we were also advised that the Minister for Planning and Environment was opposed to the proposals. We sought confirmation from the Minister for Planning and Environment and have already referred to his caution regarding the proposals. There is seemingly no formal record within the Council's minutes of the Minister for Planning and Environment's objection or concerns regarding the proposals.

[28] Chief Statistician, Transcript, 18th February 2013

5.49 We were shown the e-mail which was sent to the Council with the proposals. It was circulated at 3:06pm on 30th November 2012. The Minister for Treasury and Resources subsequently signed a Ministerial Decision on 3rd December 2012 and P.131/2012 was lodged on 4th December 2012. We asked the Minister whether it was normal practice for matters to be circulated to the Council by e-mail in this way and he advised us that it was not unusual and that, in this instance, it had been necessary in order to meet the deadline of lodging the proposals in time for the debate on the Draft 2013 Budget Statement. We were also advised that the need for haste was connected to the economic circumstances.[29]

5.50 Under Article 18(2)(b) of the *States of Jersey Law 2005*, one of the functions of the Council of Ministers is "*discussing and agreeing policy which affects 2 or more of them*." We have also noted that, on 24th November 2011, the current Council of Ministers agreed that "*Ministers should table all draft propositions for noting by the Council prior to their being lodged 'au Greffe.'*"[30] There is no Council minute that we have seen in which the draft Starter Home Deposit Loan Scheme was noted prior to it being lodged.

5.51 We asked for a copy of the Council's policy in respect of Ministerial propositions and their consideration by the Council. We were directed to Section 5 of the Code of Conduct for Ministers which covers collective working and which states that "*the Council of Ministers will work together on the basis of consensual and collective decision-making. The Council will therefore be able to discuss matters in confidence, without such discussions being publicly reported until such time that agreement has been reached on the course of action to be taken.*"[31]

KEY FINDING

5.52 The Council of Ministers did not discuss the draft proposition for a Starter Home Deposit Loan Scheme, contrary to the principles of the States of Jersey Law 2005 and the Council's own agreed policy. The Council did not therefore have a full opportunity to discuss the proposals, a matter of concern given that one Minister had reservations regarding the proposals.

RECOMMENDATION

5.53 The Council of Ministers should ensure that, for any future ministerial proposition lodged for debate by the States Assembly, a statement is included in the accompanying report to indicate when the Council noted or discussed the proposition at a formal meeting.

29 Minister for Treasury and Resources, Transcript, 13th February 2013

30 *States of Jersey Law 2005*

31 *Code of Conduct for Ministers* (R.14/2006), 10th February 2006

6. HOW THE PROPOSED SCHEME WOULD WORK

6.1 In this chapter, we shall explore how the proposed deposit loan scheme is intended to work. Notwithstanding the acceptability or otherwise of the general principle underlying the scheme, a true assessment can only come through consideration of the detailed workings of the scheme. In that way, an understanding can be developed of the households that the proposals are intended to assist and the properties to which the scheme would apply.

6.2 In that regard, we shall look at the nature of the loan that is being proposed; the people who would be eligible; the properties to which the scheme would apply; the application and assessment process; and the administration of the loan and its repayments. First, however, we shall set out our understanding of the eligibility criteria which would be applied and the application and assessment process which would be followed.

The Eligibility Criteria

6.3 P.131/2012 describes the eligibility criteria for households wishing to access the Starter Home Deposit Loan Scheme:

a) Households would have to be first-time buyers within the rules established by the Population Office;

b) Eligible applicants would have to have a minimum deposit of 5%;

c) Applicants would have to have liquid assets of no greater than £9,200 in the case of a single person household and £15,200 in the case of a couple; and

d) Households would have to have a level of gross income not above the maximum limits, which in the proposition are set as follows:

Property Type	Maximum Household Income
One-bedroom flat	£32,000
Two-bedroom flat	£49,000
Three-bedroom house	£75,000

6.4 Further information was forthcoming from the Chief Minister's Department on the eligibility criteria, with the Department advising us that applicants would have to be resident in the Island or "*undertaking a recognised educational / professional / training / work experience* *out of the Island*" or be local residents returning to the Island from service in the armed forces. Applicants would also need to be at least 18.[32]

6.5 As well as eligibility criteria for households, there would be eligibility criteria for properties. P.131/2012 explains that the following criteria would apply:

a) Properties would need to match the applicant's needs and properties exceeding those needs would therefore not be eligible. For example, a single person would only be able to purchase up to a two-bedroom unit;

b) Loans would not be made available for "*major new build developments*";

c) There would be a maximum price limit, which would represent the upper limit of the lower quartile of prices of the property type in question. P.131/2012 gives the following examples:

Property Type	**Maximum Purchase Price**
One-bedroom flat	£171,000
Two-bedroom flat	£262,000
Three-bedroom house	£410,000

6.6 The criteria do not appear to prevent households which benefit from the scheme subsequently letting the property for which they have received assistance to a third party. In other words, they do not appear to prevent a 'buy to let' scenario from arising. The Managing Director of The Mortgage Shop highlighted the risks that the scheme could be "*open to abuse*." He added:

"*Not abuse on the part of the States department who would be analysing each case, but on the part of the applicants because many times in the past […] we have seen a seriously unfortunate allocation of property on the parish schemes to individuals who will never ever live in them, people who do not even live in the Island.*"[33]

6.7 Information we received from the Chief Minister's Department during our review suggested that the scheme would only be applied to properties which would be "*the applicant's principal place of residence in Jersey.*" P.131/2012 itself, however, does not clarify the position.

32 Written Responses from the Chief Minister's Department
33 Managing Director – The Mortgage Shop, Transcript

KEY FINDING

6.8 The criteria presented in the proposition do not appear to prevent households from subsequently letting their property to a third party.

RECOMMENDATIONS

6.9 Prior to the debate on P.131/2012, the Minister for Treasury and Resources should clarify whether the proposed scheme would prevent 'buy-to-let' situations arising.

The Application and Assessment Process

6.10 P.131/2012 states that applications would be signed off under the auspices of the Strategic Housing Unit. The Strategic Housing Unit therefore appears to have been established already and yet we have noted that States approval is sought for the creation of the Unit in *The Reform of Social Housing* (P.33/2013). The detailed process and internal controls used in the scheme would mirror those used for other States loans. The Accounting Officer for the Scheme would be the Treasurer of the States.

6.11 We endeavoured to determine how the scheme would operate in respect of applications and the assessment of those applications. From the advice and information we received, we have understood the application and assessment process to be as follows:

a) An application would be made to the Strategic Housing Unit to access the scheme. Applications would be processed through Band 5 of the Affordable Housing Gateway.

b) The Strategic Housing Unit Gateway Team would assess the application against the eligibility criteria. Applications would be assessed within four working days. If approved, the applicant would be provided with a Certificate of Eligibility and the Strategic Housing Unit would inform participating lenders of the applicant's status. If not approved, the applicant would be advised accordingly.

c) The successful applicant would subsequently be able to consider properties within the scheme's boundaries and to approach participating lenders. Applicants would be able to find out in advance of finding a property if they were eligible for the scheme.

d) The lender would assess the applicant for affordability, using their normal criteria, taking into account that the applicant would need to repay a mortgage of 80% and the interest-free loan of 15% from the States. The lender would inform the applicant of their mortgage and deposit loan repayment schedule and would notify the Strategic Housing Unit accordingly.

e) The lawyers of both the applicant and lender would be activated and all the relevant paperwork would be passed to the Strategic Housing Unit.

f) Paperwork would be passed to the Policy Principal (within 24 hours of receipt) for authorisation. The paperwork would subsequently be sent to the Treasury and the relevant information despatched to the Conveyancing Section of the Law Officers' Department.

g) The Treasury would prepare a Ministerial Decision (or, if the matter had been delegated, a Treasurer's Decision) for signing and the Law Officers' Department would prepare a loan agreement.

h) The Treasury would notify the Strategic Housing Unit and the Law Officers' Department when the deposit loan was authorised and the lender would be advised accordingly.

i) The mortgage agreements would be competed and the contracts passed.

6.12 It was confirmed that participating mortgage lenders would assess applicants for affordability. To that end, the Chief Minister's Department advised us that the States would enter into agreements with mortgage lenders regarding information-sharing and account-reporting.[34] The Minister for Treasury and Resources confirmed that the States would seek to establish a partnership with participating lenders which would administer the scheme.[35]

6.13 If the scheme were adopted, £3 million would be transferred from the Dwelling-Houses Loan Fund to the Consolidated Fund. £2.97 million of that would be used to fund the deposit loans with the remaining £30,000 utilised to meet administrative costs (for the appointment of an additional 0.5 FTE). One submission expressed caution as to whether the administrative costs could be kept to that level:

"*I would be extremely cautious if the intention is for the States to administer this program. As a commercial lender the current market is challenging and all credit applications have to be extremely well underwritten and administrated cautiously throughout the life of the agreement. Your estimate 1% of the loan value is optimistic and 2% would be more realistic*."[36]

6.14 However, the Treasurer of the States advised that administration of the scheme could be undertaken within current resources with the additional 0.5 FTE envisaged in the proposition.

"*I do not think it will be a problem for us at all. The colleagues who are responsible for [the] housing gateway will have the biggest workload because they will be assessing the eligibility*

34 Written Responses from the Chief Minister's Department
35 Minister for Treasury and Resources, Transcript
36 Future Finance, Written Submission

for the scheme, but that is their job. They are assessing people for their housing eligibility all the time."[37]

Outstanding Questions regarding the Proposals

6.15 At the time of our review, there remained a number of questions regarding the proposed scheme which had not yet been addressed. The Managing Director of The Mortgage Shop made this point in his testimony to us, whilst the Minister for Housing acknowledged that some details had yet to be finalised.

6.16 In his report, our expert advisor highlights that there are indeed a number of questions which, in his view, remain to be answered in respect of the deposit loan scheme. Those questions are as follows:

1. "*Will it enable first-time buyers to surmount all the barriers facing them (given that the scheme only deals with the deposit barrier)?*
2. *In particular, given that it makes little difference to the cost of a mortgage, how will it help people facing the barrier of having an income too low for a mortgage?*
3. *What other options have been considered, that would address these barriers?*
4. *How will effects on the market be assessed, given the difficulty of identifying what causes market changes and what proportion of any change is caused by the scheme?*
5. *Will the requirement for buyers to repay the interest on the loan if they sell within 20 years put people off the scheme?*
6. *Are there sufficient lenders interested, and if not why is this the case?*
7. *How will demand for a limited number of loans be managed, without causing hardship for people who go through the process and then miss out?*
8. *If the scheme continues beyond the pilot stage, how will it be monitored in the long term?*"

We have addressed some of these matters already but others we shall explore below.

KEY FINDING

6.17 There remain unanswered questions regarding the operation of the proposed deposit loan scheme which need to be addressed before the States Assembly is asked to approve the proposition. The need to finalise some details was acknowledged during our review.

[37] Treasurer of the States, Transcript

The Involvement of Mortgage Lenders

6.18 As stated, we were advised that mortgage lenders would assess applicants for affordability and would also be asked to administer the scheme. The Managing Director of The Mortgage Shop advised us that this would not cause mortgage lenders undue administrative problems:

"*The assessments or underwriting of each case by the banks is dead simple because they have a clearly-defined system which they use and that will be handled immaculately*."

"*[There would be] no change to what they do at the present moment, no change at all. I could not see it would be a problem and certainly, subject to the restrictions of data protection, I believe that the States' side of the scheme could share some of the documentation with the mortgage application.*"[38]

6.19 One submission suggested it would indeed be beneficial to involve a third party in the administration of the scheme in this manner:

"Also I would urge you to consider seeking external support in the administrative area of the proposal, there would be numerous advantages in the States using a third party to assist in the core process such as underwriting, collection of the repayments/interest charges and dealing with arrears etc."[39]

6.20 The Jersey Estate Agents Association suggested that there would potentially be problems, however, highlighting that lenders could change their minds and that lending practices could be affected by the introduction of the scheme.[40]

6.21 Our expert advisor touched upon the involvement of mortgage lenders in his report, highlighting that their involvement would minimise staff costs for the States but that there remained some questions to be addressed:

- "*Will lenders have extra costs that they simply pass on to borrowers?*
- *How rigorously will lenders assess the ability to repay above the 80% level that is their direct responsibility? Will their 'due diligence' be the same for both the 80% and the 15%?*
- *If only one or two lenders participate, how will best value be achieved?*
- *On the other hand, if there are several participants, what work will be required to ensure consistent approaches?*"[41]

38 Managing Director – The Mortgage Shop, Transcript
39 Future Finance, Written Submission, 18th February 2013
40 Joint Presidents – Jersey Estate Agents Association, Transcript
41 *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*

In that regard, he highlighted in his report the risk that lenders would be more relaxed about the due diligence undertaken in respect of the States' 15% loan than in respect of the 80% mortgage.

6.22 The Ministers themselves considered this matter when developing the proposals:

"*It is important to fully understand how banks might respond and change their behaviour in knowledge of the scheme to ensure that this does not lead to unintended consequences.*"[42]

KEY FINDING

6.23 There is a risk that mortgage lenders would be more relaxed in respect of due diligence of the States' 15% loan than in respect of the 80% mortgage.

6.24 Mortgage lenders would therefore be asked to play an integral role within the Starter Home Deposit Loan Scheme and the scheme would be unfeasible as proposed without their willing involvement. We highlighted as much in our comments on the Draft 2013 Budget Statement and, indeed, this matter was raised when the proposals were first discussed in the States Chamber. The need for mortgage lenders to be willing participants was also raised in some of the written submissions we received.

6.25 Information we received from the Chief Minister's Department suggested that it was likely the trial scheme would be limited to one or two lending institutions. During our public hearings, the Ministers for Housing and for Treasury and Resources confirmed that one mortgage lender had already signed up to the scheme with a second lender close to signing up. We were subsequently advised that:

"*The material fact for the lenders is not whether they wish to participate in the scheme at zero interest or not, it is the precise administrative arrangements that cause issues and require negotiation. There was a broad acceptance from most lenders that they would participate in the scheme. Where we have narrowed that down to one and possibly two providers is we would like the lender to act as a partner for us, whereby they lend the money on our behalf and they join in with us on the joint due diligence and the collection processes and any arrear collection processes*."[43]

6.26 The Minister for Treasury and Resources advised us:

"*If we find, however, that that is a constraint for them that would narrow the opportunities for people to be able to borrow the 85 per cent at a competitive rate. We may have to think twice about how we administer the 15 per cent*."[44]

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42 Written Responses from the Chief Minister's Department

43 Minister for Housing, Transcript

44 Minister for Treasury and Resources, Transcript

KEY FINDING

6.27 It is the Ministers' intention to establish a partnership arrangement with participating mortgage lenders. The proposed scheme would only be feasible with the willing and active involvement of mortgage lenders. It is imperative that implementation of the scheme would not lead to changes in lending behaviour by participating institutions.

First-Time Buyer Status

6.28 In terms of the requirement for eligible applicants to have first-time buyer status, the following information describes the circumstances in which first time buyer status might be assigned:

- The owner of a Flying Freehold flat, assuming the existing flat is sold to a first-time buyer;
- The owner of a Share Transfer flat, assuming the existing flat is sold, but not necessarily to a first-time buyer;
- Individual cases (treated on their merit) where land not being a home has been previously owned, e.g. such as by inheritance of agricultural land, joint inheritance with siblings of family property, or other general minor land/property ownership;
- Where property was owned by a spouse or partner in a former relationship, the circumstances would have to be considered individually by the Minister.[45]

6.29 Within the first-time buyer rules, it would therefore be possible for someone to have purchased and owned a property but for that person still to be considered as a 'first-time buyer'. This would be the same for the proposed Starter Home Deposit Loan Scheme.

6.30 Views on this point were expressed in the written submissions we received. One submission questioned whether the eligibility criteria should be tightened beyond the first-time buyer status generally used by the Population Office. Another submission, from a conveyancer, suggested that it would, however, be appropriate to base the scheme on the current first-time buyer rules. The Managing Director of The Mortgage Shop offered the following opinion:

"*Well, my personal view is it is probably wrong to be encouraging people to have a second stab at the scheme, but if we approach it from a different angle: look at the benefits of*

[45] www.gov.je

allowing flat owners to move up the scale, it is then making the places that they vacate available to the one- and two-bedroom applicants under this deposit scheme."[46]

6.31 This was a matter we also discussed with the Joint Presidents of the Jersey Estate Agents Association, one of whom stated:

"*For what I think, if you own your own home and you are in your own home, my personal opinion is I do not think you need assistance. You have your home. Where I do think assistance ... when we go back to first-time buyers, I think people that are in a situation where they unfortunately divorce or have parted company and, say for argument's sake, the wife has had to leave home and she has a child, but she has owned a home before, then she might need financial assistance to get back on to the market. I think there are people out there that want to get back on the market and out of the rental market that should be helped*."[47]

6.32 Our expert advisor highlighted that there would need to be clarity on this point.

6.33 We asked the Minister for Housing why some households already in possession of a property would be eligible for the scheme. He advised us:

"*That was something I was keen on in certain criteria, certain circumstances. I was trying to bring some equity in here between someone who has owned a share transfer property who would be a first-time buyer and someone who has struggled to buy a very small unit of accommodation in the back streets of St. Helier that want now or need now, because the family is bigger, to have something bigger. I was trying to bring some equity in there, so if you like, that is why it is called the starter home and not purely first-time buyers*."[48]

6.34 The inclusion within the scheme of some households which already own property raises the question of whether the scheme would target those facing the greatest challenges in accessing the housing market.

KEY FINDING

6.35 Under the proposed criteria, it would be possible for some households to have purchased and owned a property and yet to remain eligible for the scheme. The Panel does not believe that current first-time buyer rules should be applied as the scheme would otherwise not be guaranteed to help those in greatest need of assistance.

[46] Managing Director – The Mortgage Shop, Transcript
[47] Joint Presidents – Jersey Estate Agents Association, Transcript
[48] Minister for Housing, Transcript

RECOMMENDATION

6.36 Prior to any implementation of the scheme, the Minister for Treasury and Resources should revise the eligibility criteria to ensure that households already in possession of a property (whether freehold or share transfer) would not be eligible for a deposit loan.

Liquid Assets

6.37 The Panel was informed that the criteria regarding applicants' liquid assets stem from similar provisions within Income Support (under the *Income Support (General Provisions) (Jersey) Order 2008*). According to P.131/2012, the assessment of liquid assets would not include the payment of the 5% deposit and fees by the household. The Mortgage Shop advised us of the level of fees that households would require (beyond the 5% deposit):

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

[These costs would amount to:]

1 Bedroom flat £3744

Two bedroom flat £3909

Three bedroom house £7152"[49]

All first-time buyer reductions were applied to these figures. In that regard, the Minister for Treasury and Resources informed us that many households would not have to pay stamp duty due to the exemption levels which apply and the likely prices of the properties being purchased.[50]

6.38 At his public hearing with us, the Managing Director of The Mortgage Shop advised us that it was unlikely many households would in fact have liquid assets of the scope described in P.131/2012 and that they would most likely "*have a couple of thousand set aside*."[51]

6.39 Again, the inclusion of such limits within the eligibility criteria within the proposed scheme raises the question of whether the scheme would ultimately help those facing the biggest challenges in accessing the housing market.

49 Managing Director – The Mortgage Shop, Written Submisison
50 Minister for Treasury and Resources, Transcript
51 Managing Director – The Mortgage Shop, Transcript

KEY FINDING

6.40 The proposed criteria for liquid assets stem from similar provisions within Income Support legislation. The Panel does not believe it would be appropriate to allow eligible households to retain the level of liquid assets described in the proposition.

RECOMMENDATION

6.41 The Minister for Treasury and Resources should re-examine the appropriateness of the eligibility criteria in respect of liquid assets.

Income Levels

6.42 In terms of maximum income levels, P.131/2012 explains that the levels chosen represent the "*minimum income needed to purchase a property at the upper limit of the lower quartile range of properties*."[52]

6.43 The Managing Director of The Mortgage Shop advised us that the levels appeared to be appropriate:

"*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*."[53]

6.44 This view was supported in the submission we received from one mortgage lender. Meanwhile, another submission from a legal firm advised:

"*We have also considered the financial eligibility set out in the report attached to the proposition. Whilst that criteria seems restrictive it is appropriate for that to be adopted during the first six month trial period. Proper assessment can then be made as to whether any extension or alteration should be made*."[54]

6.45 It is in respect of the income levels chosen for the scheme, however, that the proposition is at slight variance with the statistical analysis undertaken during development of the proposals. In the development of the proposals, the Statistics Unit was asked to analyse the effect that implementation of the proposed deposit loan scheme might have. We have appended a copy of the Unit's analysis to our report.

6.46 The analysis shows how many households would be eligible for the proposed scheme on the basis of the scheme's parameters. It shows a range of incomes for each household size and

52 *Starter Home Deposit Loan Scheme* (P.131/2012)
53 Ibid
54 Benest and Syvret, Written Submission

property size within which the households that fall would be eligible. Below that income range and households would be unable to afford to purchase a property at the lower quartile price, even with a 15% loan from the States; above the income range, households would be able to purchase that property without a States loan. The Statistics Unit's analysis reveals that some 1,369 households would potentially be able to apply for the scheme, if those income ranges were used.

6.47 However, there was a policy decision not to use that range but to choose the midpoint of each range as the maximum income levels for eligible applicants. As the Chief Statistician advised us:

"What is not the Statistics Unit's figures but is derived from them is the minimum income needed. So what we provided to the Chief Minister's Department, the officers thereof, is the detailed spreadsheet that you all have and the questions that we were answering was what households of certain types, of certain incomes, would be facilitated by this 15 per cent deposit scheme to have access at the lower quartile. So the analysis that we could do basically gave you a range of incomes."[55]

Hence, P.131/2012 states that the maximum eligible income level for purchasing a one-bedroom flat would be £32,000 whereas the Statistics Unit's analysis highlighted that some households with income levels at £34,000 would be unable to afford a one-bedroom flat costing £171,000 without assistance through the deposit loan scheme.

KEY FINDING

6.48 An analysis by the Statistics Unit shows that 1,369 households would potentially be eligible for the proposed deposit loan scheme. A policy decision was taken to limit eligibility to the households amongst those 1,369 on the lowest incomes. The Ministers have estimated that between 60 and 100 households could be assisted during the trial.

6.49 The proposed scheme would target those eligible households on the lowest incomes. This raises the question of whether the scheme would encourage such households to take on debts which they would subsequently struggle to pay off.

The '101st Applicant'

6.50 Notwithstanding the analysis undertaken by the Statistics Unit, P.131/2012 estimates that up to100 households could be assisted by the proposed scheme. During our public hearings, the Ministers for Housing and for Treasury and Resources advised that it was difficult to be

55 Chief Statistician, Transcript

precise and that the number could be lower than that: reference was made to assisting between 60 and 100 households. The analysis undertaken by the Statistics Unit shows that there is a much larger number of households which would be eligible for the scheme. As the Chief Statistician pointed out, however:

"*These are potential numbers of households who in principle would be assisted by such a scheme. It does not actually tell you how many would actually want to move. This is clearly an in principle upper limit. The question as to how many would actually want to move would require further analysis with respect to what we have in the housing needs survey, where there are sections in there looking at, again, potential first-time buyers.*"[56]

The Panel understands that no further analysis of the type described by the Chief Statistician has been undertaken in order to determine how many potential first-time buyers are planning to move.

6.51 The Unit's analysis would suggest, however, that there might well be more than 100 applications for assistance from the scheme.

KEY FINDING

6.52 An analysis has yet to be undertaken to determine how many of the households which would potentially be eligible for the proposed scheme are planning to move.

6.53 We understand that access to the proposed scheme would be achieved through the Affordable Housing Gateway. The Gateway was established in January 2012 and "*is a single point of access for all social housing in the Island*." It caters for households seeking a variety of different housing options; Band 5 of the Gateway is for those households who are "*presently adequately housed; [have] little or no housing need but simply wish to change home; and [are] able to purchase but only with financial subsidy or assistance*." As of 31st January 2013, there were 163 applicants on Band 5 of the Affordable Housing Gateway. However, it is apparent that not all would likely be eligible for the proposed scheme: for instance, of those 163 households, 5 have incomes greater than £75,000. Meanwhile, 21 households have funds available for deposits greater than £30,000.[57]

6.54 If access to the scheme is to be through the Affordable Housing Gateway, the fact that 163 households are already in Band 5 of the Gateway raises the question of whether those households would stand at an advantage to benefit from the proposed scheme: other households which would be eligible for the scheme might not have applied to the Gateway to date and the Minister for Housing advised us that there had been little publicity to encourage people to apply, as the proposals had yet to be approved by the States Assembly.

[56] Ibid

[57] *Band 5 Applicant Summary – for Affordable Housing Purchase Schemes*

6.55 There are therefore potentially approximately 1,300 households which could benefit from the scheme; and there are currently 163 households already on Band 5 of the Affordable Housing Gateway which would be able to apply to the scheme. The Ministers for Housing and for Treasury and Resources advised us that the deposit loan scheme would be applied on a 'first come, first served' basis, provided that households met the eligibility criteria.

6.56 Two questions therefore arise. First, whilst not every household currently on Band 5 might be eligible for the deposit loan scheme, there are currently 163 households on that Band and the deposit loans made available might be swept up by those households before others have had an opportunity even to apply. This might impact negatively on other households and expectations raised amongst such households by the announcement of the proposals (something we witnessed during the course of our review) might be dashed.

KEY FINDING

6.57 Announcement of the proposed scheme is likely to have raised expectations which could not be met.

6.58 Secondly, given that the scheme would operate on a 'first come, first served' basis, there is the question of what would happen when the '101st household' made its application. The Minister for Housing stated:

"*That will prove that we need to continue the scheme or hopefully we have done other things as well.*"[58]

6.59 However, given that households would be able to apply before finding a property, applications and assessments would need to be monitored closely to ensure that no application was taken forward without the funding being available. Our expert advisor highlighted this point:

"*There does seem to be an issue about how access to the pilot scheme will be fairly controlled, given that only perhaps 100 loans will be available and there are as many as 1,300 potential applicants. If it is set up in such a way that applicants have to incur costs before they know for sure they have access to the loan, this may make it less popular and may result in unfairness if some are rejected even though they appeared to qualify. Certainly, there would appear to be scope for the scheme to receive bad publicity and to produce complaints. This is something to which careful attention will be needed before any launch.*"[59]

[58] Minister for Housing, Transcript

[59] *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*

6.60 The Managing Director of The Mortgage Shop expressed his view on what was likely to occur if an applicant entered the assessment process only to find that the money had effectively run out:

"*There is going to be tears all round, is there not? They will probably go to their local States Member who will then be petitioning everybody to increase the scope of the scheme again; although I would like to think that the States, when they realise that the scheme is going to be very popular - and I hope it will be - they will see how things are going and they will be well in advance of going back to the Chamber with a new proposal.*"[60]

6.61 The Chief Minister's Department advised us that a loan account would be set up within the Treasury to receive repayments from lending institutions and that the £3 million deposit would be continually monitored.

KEY FINDING

6.62 It is unclear how access to the pilot scheme would be controlled fairly, given that up to 100 loans would be available but that there are potentially many more eligible households. Applications to the scheme would be processed through Band 5 of the Affordable Housing Gateway and the Ministers have advised that the scheme would effectively operate on a 'first come, first served' basis. With some 163 households already on Band 5, problems with equitable access to the scheme could arise and the trial period would therefore need to be managed efficiently to ensure that households did not apply and enter the assessment process, only to discover that the funding had run out and that their application could not be met, even if eligible.

RECOMMENDATION

6.63 Prior to the debate on P.131/2012, the Minister for Treasury and Resources should confirm how access to the scheme would be managed and explain how the situation would be avoided that households enter the scheme only to discover that the funding had run out.

New Build Developments

6.64 With regard to the limitation on 'major new build developments', we sought clarification from the Chief Minister's Department and were advised that the scheme would not apply to "*a new build property*." Our advisor suggested that this criterion required further clarification and we have noted that schemes in operation elsewhere do apply to new build properties.

[60] Managing Director – The Mortgage Shop, Transcript

6.65 It is worth noting that, as a result of this policy, our understanding is that sites belonging to the States which are to be developed for housing (such as the former Jersey College for Girls) would not be included in the scheme. This raises the question of whether it is indeed appropriate to exclude explicitly new build properties or whether it would be preferable (and display more joined up thinking on the part of the Council of Ministers) to alter the parameters.

6.66 In one of the written submissions we received, the following comment was made:

"*Ultimately in order to have a significant impact on the affordability of housing in Jersey a wider approach will need to be taken to ensure availability of land for development of affordable homes*."[61]

KEY FINDING

6.67 The exclusion of major new-build properties from the scheme would mean that houses built on sites such as the former Jersey College for Girls would not be eligible. This raises the question of whether the proposals display 'joined up thinking' with other government measures.

RECOMMENDATION

6.68 The Minister for Treasury and Resources should amend the eligibility criteria for the scheme to ensure that all new-build properties would be eligible.

Property Price Levels

6.69 We gave particular consideration to the maximum property price levels which had been set and whether the setting of such levels would mean that there would be sufficient supply for the scheme to be viable.

6.70 Some submissions to our review suggested that the maximum price levels could be too low. For example, it was stated that the maximum property prices might be too low and could be extended, especially given that many properties within the lower quartile might need upgrading, something which in itself would require funding which the homeowners could not deliver. The Jersey Estate Agents Association also said that the maximum limits should be raised to the mean property price in the relevant categories.[62]

6.71 Our expert advisor commented on the restriction of the scheme to properties within the lower quartile and raised the question of whether there would be sufficient supply. He highlighted that "*140 flats and no 2-bed houses were actually sold at or below average lower quartile*

[61] Benest and Syvret, Written Submission
[62] Joint Presidents – Jersey Estate Agents Association, Transcript

price levels in 2011."[63] This indicates that there exists a market for these lower-end properties. Given the price levels proposed, the likelihood is that many of the properties which fall within the purview of this scheme would be flats and, amongst those, share transfer flats. This was confirmed by the Chief Statistician who advised us that 79% of one-bedroom flats purchased in 2012 had been share transfer properties.

6.72 We questioned the Ministers on whether there would be sufficient supply within the lower quartile of property prices to make the scheme viable. We were told that their experience suggested there would indeed be sufficient supply. The Minister for Housing advised us:

"*I would be the first to admit that there are not thousands of them at the lower price range, but they do exist. They are not figments of our imagination, they are actual dwellings that have been sold and are being sold. It is all in there from the Statistics Unit. They exist. But you are quite right, we do need to increase the supply as well*."

6.73 The Minister for Treasury and Resources, meanwhile, stated the following:

"*We have not done a market analysis but it is fair to say that there are hundreds of properties available. I do not think we need to do any analysis of the fact that it is very clear that there are hundreds of properties for sale. There is probably almost an unprecedented amount of supply of properties in all categories of one-bedroom flats, 2-bedroom flats, 3-bedroom houses and 2-bedroom houses*."[64]

6.74 We asked the Managing Director of The Mortgage Shop for his view on the current status of the market and he stated:

"*I have been speaking to all the estate agents in the last week or so and the overall view is that there are, I am told, 1,000 units up to 3,000 units of property - that is houses, flats and everything rolled into one - currently on the market. Being sensible about this, I think it is probably about 1,000 units that are for sale and I understand that probably 65 per cent of those are going to be flats [...]*"[65]

6.75 The Jersey Estate Agents Association stated that there were properties out there but that more affordable ones were required.

6.76 In terms of statistical information about the market, it is apparent that over recent years an average of approximately 1,000 properties have been sold each year. The Chief Statistician advised us to the following effect:

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63 *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*

64 Minister for Treasury and Resources, Transcript

65 Managing Director – The Mortgage Shop, Trascript

"*We are seeing overall the turnover has reduced by about a sixth or so in the last few years relative to where we were before 2008, before the global economic downturn and obviously the effects it had locally. We saw turnover come down initially by almost a third. It has recovered slightly to about a sixth to a fifth below where we were, but we have seen an increased turnover of flats relative to the houses. So the housing turnover has somewhat declined, whereas the flats turnover has somewhat increased. Clearly, what has been the driving factor in there is the greater availability of the share transfer properties and particularly that has had effects and ramifications for affordability.*"[66]

KEY FINDING

6.77 In 2011, 140 flats (and no two-bedroom houses) were sold at or below the lower quartile price. The likelihood is that the scheme would predominantly apply to one- and two-bedroom flats, of which the majority would be share transfer properties. Given that the new scheme would not apply to major new-build properties, the scheme would force new applicants into the market for existing one- and two-bedroom flats and there would be a risk of distorting that part of the market.

6.78 The affordability of flats has improved. If more households are able to purchase a flat, the question is raised of whether States assistance in the market is required at this time.

Security of the States Interest

6.79 We sought to understand the administrative arrangements that would apply in respect of the States' loan and the repayments. We considered the security of the States' interest, in which regard the Minister for Treasury and Resources stated that the mortgage lender would have first security on the mortgaged property. The States would take a second charge.[67] He subsequently stated:

"*We are protecting ourselves against these monies being lent out by requiring the purchaser to find 5% , so we are not moving to the 100% mortgage, we are doing 95% mortgages, effectively, that is the total arrangement and obviously it is on a very restricted lower quartile valuation of the different elements of property, and that is how we are protecting ourselves and that is why we are confident*."[68]

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66 Chief Statistician, Transcript

67 A second charge arises when more than one loan is secured against a property. Under the proposed scheme, the first charge would relate to the loan from the mortgage lender; the second charge would relate to the States' loan.

68 Minister for Treasury and Resources, Transcript

6.80 It was confirmed that the States would seek its own conveyancing advice. However, the details remained to be determined. The Minister for Treasury and Resources subsequently stated:

"*We were briefed yesterday on the fact that the modalities of the legal advice have already been sorted out for that lender. There is one law firm that is going to act for both parties with a Chinese wall, which are quite normal arrangements for these arrangements.*"

"*Indeed the Law Officers could do the second charge but the advantage of a partnership arrangement is that the people who do the conveyancing of the first charge can also do the conveyancing for the second charge*."[69]

6.81 We asked the Managing Director of The Mortgage Shop about lenders' approach to second charges and he advised that "*this type of activity is frowned upon and even discouraged by all lenders […].*" He suggested that lenders would be prepared to accept a second charge in this instance because it would be the States taking out the second charge.[70]

6.82 Some submissions questioned whether the scheme could even be applied to share transfer properties due to the arrangements for second charges. One submission stated:

"*I see that the scheme applies to flats as well as houses and wondered if both Share Transfer and Flying Freehold purchases will be allowed. The reason I ask is that from my understanding, Second Charges cannot be taken against shares which means that any Deposit Loan on a Share Transfer property would in effect be unsecured and therefore potentially a higher risk to the States*."[71]

Another submission, from a mortgage broker, raised a similar point.

6.83 As stated, the likelihood is that many of the properties which fall within the purview of this scheme would be share transfer properties, something with which the Managing Director of The Mortgage Shop agreed. However, he did not appear to see that there would be any difficulty in securing the States' interest in respect of share transfer properties although he stated that it was rare to find second charges on share transfer properties as owners were "*less likely to get themselves into financial difficulty than somebody who has a much larger mortgage on a house*."[72]

6.84 We understand that, under the provisions of the *Security Interests (Jersey) Law 1983*, there would be no difficulty in both the relevant mortgage lender and the States obtaining security to their satisfaction. However, at the time of our review, it remained uncertain whether, from a practical perspective, lenders had agreed to hold the shares as collateral for both parties.

69 Ibid
70 Managing Director – The Mortgage Shop, Transcript
71 Cherry Godfrey, Written Submission, 13th February 2013
72 Managing Director – The Mortgage Shop, Transcript

KEY FINDING

6.85 The States would take a second charge on the properties falling under the scheme. The Panel understands that the security of the States' interest can be obtained, including on share transfer properties. However, there is significant uncertainty as to whether practical arrangements for this to occur in respect of share transfer properties have been confirmed with mortgage lenders.

RECOMMENDATION

6.86 Prior to the debate on P.131/2012, the Minister for Treasury and Resources should clarify what practical arrangements have been put in place to ensure that the security of the States interest in respect of share transfer properties has been obtained.

Default Arrangements

6.87 We sought to understand what would happen if a successful applicant were ultimately unable to make the repayments of the loan. In that regard, the following comment was made to us in one written submission:

"*In our experience commercial lenders are reluctant to agree a second charge as a second charge holder under the peculiar system of Jersey foreclosure (known as dégrèvement) has the opportunity of taking relative control of the property during the foreclosure process*."[73]

6.88 Our expert advisor highlighted the need for clarity in respect of arrangements in the case of default or underpayment of the loan. He advised us that "*it will be important that the lenders' practices are in line with the States' expectations, both in terms of protecting the buyer […] and in terms of protecting the States' 15% as well as the lender's 80% loan*."[74]

6.89 It was confirmed to us that in the event of foreclosure the only means by which the States could secure a return of its money would potentially be to pay off the first charge. The Treasurer highlighted the following:

"*The worst position for the States would be to lose the 15%. So the first ... if the bank or building society forecloses on the loan and the property was to be disposed of at less than value, only sufficient to cover the 80% that is with the bank or the building society. Then we would be at risk on the 15%*."

This was identified as a risk within the development work on the proposals. The Minister for Treasury and Resources highlighted, however, that the banks would not want to risk

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[73] Benest and Syvret, Written Submission

[74] *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*

foreclosure and that lenders with a 'cavalier attitude' would not be chosen to participate. In that regard, he referred to a report published several years previously by Oxera which highlighted the reputable nature of mortgage lenders in Jersey. We were also advised that experience with the States-managed Dwelling-Houses Loan Fund was that foreclosures were rare.[75]

KEY FINDING

6.90 There would be risks to the States' interest in the event that a participating household defaulted on its repayments. That risk has been recognised by the Ministers but it remains unclear as to how the risk would be mitigated. There is the possibility that the States could be left as an unsecured lender.

RECOMMENDATION

6.91 The Minister for Treasury and Resources should confirm what would happen in respect of the States' interest in the event that a participating household defaulted on the repayments of their loan.

Re-sale Arrangements

6.92 Finally, we looked at what would happen if a successful applicant decided to sell the property before the 20-year term of the loan had elapsed. This was a matter we discussed at some length during our public hearings.

6.93 P.131/2012 states that "*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*." It was not clear to us, however, what this meant would happen in the event of a re-sale before 20 years had elapsed.

6.94 Concerns regarding this matter were expressed in one written submission about whether the details had been established for how repayment of the outstanding loan would be arranged upon the point of re-sale. In the words of the correspondent, "*it [is] critical to ensure that in formulating the detailed rules of the scheme there is a real focus on ensuring that the trigger for payment of backdated commercial interest is workable*."[76]

6.95 Concerns were expressed in another written submission as to whether States funding should be provided to allow people who might then make a profit from selling the property on. The

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75 Minister for Treasury and Resources, Transcript
76 Appleby, Written Submission, 26th February 2013

Managing Director of The Mortgage Shop stated that "*I think there should be something built in […] that an element of profit on resale of the property is paid back.*"[77]

6.96 This was a subject we discussed with both the Minister for Housing and the Minister for Treasury and Resources and the public hearings left us in doubt as to what the position would be. Following the public hearings, we therefore requested clarification regarding what would happen if a property was sold and were advised to the following effect:

"*The loan will be interest free and the repayment of the capital will be monthly over 20 years. If a property is sold before the end of the term of the loan (20 yrs), as well as capital repayment, a formula will be applied to recover the interest subsidy received by the household based on the application of an interest rate against the reducing balance from the granting of the loan to its end. The formula will use either the bank base rate (plus a pre-agreed percentage) or use the primary lender's mortgage rate to calculate the forgone interest for the period of the loan prior to sale with the basis being agreed within the terms of the scheme and reflected in contracts. The borrower will be recharged accordingly (upon sale of the property – includes all legal fees etc). The Minister will retain discretion to ensure that hardship cases will be treated with equanimity with regard to claiming all or part of the foregone interest repayment, for example, in the event of bereavement or relationship breakdown and the reclaimed amount will in any event not exceed the level of profit made by the householder.*

Those who stay with the property for 20 years or more will not be required to repay the interest subsidy. The Public will have no claim on the property as the mortgage has expired."[78]

6.97 Further to the above, at one of our public hearings it was stated that:

"*Should the property be sold during the period of the loan, the States would recover interest on the loan across the life of the loan at a rate of 4%, being the current prevailing market interest rate. Periodic reviews of this recovery rate could be undertaken during the life of the loan (exact criteria to be established in consult with the Treasury & Law Officers)*."[79]

6.98 Our expert advisor highlighted the need for clarity in this position and, in particular, that "*it will need to be very clear to buyers that the penalty for selling, especially towards the end of the loan period, will be considerable*."[80] He suggested that some households in receipt of a loan might choose to stay within the property purchased rather than look to move on before 20 years had elapsed.

77 Managing Director – The Mortgage Shop, Transcript
78 Written Responses from the Chief Minister's Department, 27th February 2013
79 Director – Corporate Policy, Transcript, 13th February 2013
80 *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*

KEY FINDING

6.99 Further information is required on what would happen if a participating household sold their property before the 20-year term of the loan had elapsed. Such information also needs to be clearly provided to applicants of the scheme at the time of their application.

RECOMMENDATION

6.100 The Minister for Treasury and Resources should clarify what would happen in the event that a participating household sold their property before the 20-year term of the loan had relapsed.

Ministerial Discretion

6.101 Within the application and assessment process, we understand that a degree of discretion has been built in. P.131/2012 states that 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 [of the report]*."

6.102 However, both Ministers to whom we spoke played down the prospect that they would seek to exercise any discretion within the administration of the scheme. The Minister for Housing, for instance, made the following statement:

"*As Minister, I prefer to keep out of this as much as possible. Certainly I will have no say in eligibility. They are either eligible or they are not.*"

He also said he would not get involved between the lender and the borrower.[81]

6.103 The Minister for Treasury and Resources stated that he would not exercise discretion to ensure that a range of tenures would be secured and that it would be wrong for him to exercise his discretion.[82]

KEY FINDING

6.104 The Ministers for Housing and for Treasury and Resources have stated that they would not seek to exercise ministerial discretion in the operation of the scheme.

[81] Minister for Housing, Transcript
[82] Minister for Treasury and Resources, Transcript

7. THE IMPACT OF THE PROPOSALS

7.1 In this chapter, we will consider the impact that the introduction of the Starter Home Deposit Loan Scheme would potentially have on the property market and on those who would be most directly affected by its introduction. We shall subsequently consider the Executive's intentions with regard to extending the scheme. Both were primary lines of enquiry during our review.

Impact on the Property Market

7.2 In our comments on the Draft 2013 Budget Statement, we highlighted the risk that the deposit loan scheme could initiate or support a bubble in the housing market. The Minister for Treasury and Resources acknowledged that risk when he first informed us of the proposals:

"*I am absolutely united with you on the fact that unintended but well intentioned Government policies can support bubbles or avoid markets normalising and I think that is a very real risk. The history of Jersey politics intervention in the housing market, and indeed other well intentioned politicians, is littered with examples of causing greater problems. So we are very, very cautious about this which is why at every stage that we have developed the Minister's proposals for a loan scheme we have been taking economic advice and we have also been talking to surveyors, et cetera*."[83]

7.3 In terms of that economic advice, the Ministers took the following matters into consideration during development of the proposals:

"*As the policy does not impact on the supply of housing but will increase demand there is risk that it will feed through into higher house prices than would otherwise be the case and that there would be potential winners (those accessing the scheme) and losers (those who cannot buy as a result and/or have to pay higher prices plus the tax payer in terms of any forgone revenue/losses). It is a political question as to whether these impacts were consistent with the political objectives of the scheme. The impact on prices was likely to be less the smaller the scale of the scheme and there was little risk that in the current economic environment with significant spare capacity across the economy that this would lead to wider inflationary concerns.*[84]

7.4 We received submissions in which concerns were expressed about the impact that such a scheme would have on the market. They highlighted the possibility that the scheme could

83 Minister for Treasury and Resources, Transcript, 14th November 2012
84 Written Responses from the Chief Minister's Department

lead to inflated house prices. The Jersey Estate Agents Association also indicated that this was a risk.

7.5 However, another submission, from a mortgage broker, made the following comment on the potential impact of the proposals:

"*It would have an impact in a positive way on the whole market, as it would assist home movers further up the chain by allowing the people in the flats, small houses etc, to move on up the ladder to their next home, and has a roll on effect.*"[85]

In that regard, we noted the comments of our advisor that the provisions for what would occur in the event of an early resale might prompt beneficiaries of the scheme not to move, thereby counteracting the positive effect described by this correspondent.

7.6 The Managing Director of The Mortgage Shop stated that "*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.*"[86]

7.7 One conveyancer estimated that the impact on the housing market would be small, given the size of the scheme.[87]

7.8 The Minister for Housing commented as follows:

"*I do not believe it is [inflationary], but we will only know that when we have done the scheme and evaluated it. I believe it could tighten the market at the lower end downwards*."[88]

7.9 The Minister for Treasury and Resources explained the work which had been undertaken in mitigating the potential impact on the housing market, highlighting that the scheme would be limited in scale; that only a 15% deposit would be loaned; and that maximum prices for properties had been established. When asked about the potential impact on the market, the Minister for Treasury and Resources advised:

"*Will it have any impact in relation to the value that ultimately goes through court? I doubt it. The scheme is too small. It may well deflate people's aspirations on asking price, which is a completely different thing from value*."[89]

7.10 The likelihood is that most properties for which loans will be granted will be one- or two-bedroom properties and it is in that area of the market that any impact would be felt most particularly. As the Managing Director of The Mortgage Shop stated:

85 Acorn Mortgages, Written Submission
86 Managing Director – The Mortgage Shop, Written Submission
87 Benest and Syvret, Written Submission
88 Minister for Housing, Transcript
89 Ibid

"*I think the demand is more likely to come from people wishing to purchase one and 2-bedroom flats*."[90]

KEY FINDING

7.11 It is unclear what impact, if any, the implementation of the deposit loan scheme would have on the overall housing market. However, the greatest risk is that the impact would be felt most keenly in the market for one- and two-bedroom flats.

7.12 In terms of the potential impact, there is the question of behaviour and whether the introduction of a deposit loan scheme would alter people's behaviour. In that regard, the Panel was told that Ministers took into account the following matters during the development of the proposals:

- "*The existence and knowledge of the scheme could lead individuals to save less for their deposit reducing the effectiveness of the scheme (if it benefited people that in absence of the scheme may have been able to buy anyway).*
- *We need to be careful that where parents/relatives etc may have previously lent/given individuals the deposit that they no longer do so because of the existence of the scheme (again reducing the effectiveness of the scheme as it does not benefit the intended recipients).*"[91]

7.13 One of these points was also picked up by our advisor:

"*How will the scheme simply avoid replacing the 'bank of mum and dad'? Ideally, it would help potential FTBs who have no access to other help, who (as we saw earlier) appear to have suffered most in the period since the credit crunch. What consideration has been given to this aspect? Can anything further be done to target SHDLS at those most in need who otherwise cannot find a deposit?*"[92]

7.14 Furthermore, there is a risk that implementation of the scheme would lead to a degree of resentment amongst some homebuyers. One correspondent advised us:

"*I had to save long and hard for my deposit and we purchased the home that was affordable for us and we waited until we could achieve this at the age of 32 years old*."

90 Managing Director – The Mortgage Shop, Transcript
91 Written Responses from the Chief Minister's Department
92 *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*

KEY FINDING

7.15 There are risks that implementation of the scheme would alter people's behaviour and thereby make it more difficult for the scheme to reach those households most genuinely in need of assistance. For instance, it is unclear how the proposed scheme would avoid providing assistance to households who at present could receive parental help.

Monitoring of the Proposals

7.16 Another of our principal lines of enquiry was to consider how implementation of the trial scheme would be monitored. Indeed, the Minister for Housing advised us that the impact of the proposed scheme on the housing market would only become apparent once it had been introduced and there was an opportunity to monitor what had occurred.

7.17 In that regard, we were advised to the following effect:

"*The scheme will be monitored on its close, in particular, with reference to the individuals assisted and property types acquired. Obviously, one factor for us to consider is market impact, and it is challenging to quantify the impact of this scheme as distinct from other market determinates, and our assessment will therefore likely be substantially qualitative, while relying on quantitative sources in so far as they exist, most notably, statistical releases.*"

The Chief Minister's Department also informed us that a report would be prepared for Ministers on the success or otherwise of the scheme.[93]

7.18 One submission highlighted the need for the scheme to be monitored in order to "*ensure that the scheme really does benefit those who need the help to get on the property ladder and that it is not abused by those who may be eligible but don't actually require the assistance*."[94]

7.19 We asked for the success criteria for the scheme and were advised that success would be adjudged on the following bases:

- "*that the scheme is able to assist up to 100 families (best estimate based on £3 Million initial funding) onto the property ladder thereby giving them security and a symbol of success within our community (numbers assisted will be dependent upon the size of deposits and the type of property purchased e.g. the deposit for a one bed unit is much smaller than that for a three bedroom units for example);*
- *that the all transactions are made in accordance with agreed criteria;*

93 Written Responses from the Chief Minister's Department
94 Cherry Godfrey, Written Submission

- *that families are capable of making the repayments over the period of the loan;*
- *that the impact upon the housing prices is negligible, i.e. non-inflationary in cause and effect;*
- *that the scheme is welcomed by Islanders (in general) and stakeholders (in particular) – much like the popularity of the States Loan and other such schemes;*
- *that good quality information is gained to assist in the development of affordable housing products as part of the housing strategy;*
- *that some benefits in terms of utilisation of housing stock arise, for example, vacant units bought and occupied, some increase in market turnover.*
- *that any feedback received and lessons learnt is acted upon by ministers and officials accordingly.*
- *that the proposed partnership arrangements with the private sector to deliver the scheme work effectively for all parties*
- *that ongoing administration involves limited overheads and that processes are well developed, co-ordinated, efficient and delivered on a timely basis.*
- *that financial controls around the use of States funds are robust and well managed and that budgetary control around the allocation of the £3 million is well managed;*
- *that the contractual arrangements made protect the States position adequately; and*
- *that the risks to the States are fully understood and accepted e.g. around the issue of the 2nd charge*."[95]

7.20 The Minister for Housing stated that he was "*very confident that this will do what it says on the tin, that it will help people access housing to buy that could not necessarily have accessed it before.*"[96]

7.21 Our expert advisor highlighted that one of the key questions relating to the proposals was indeed how they would be monitored upon implementation. He suggested that there were other criteria (beyond the success criteria listed above) to which consideration would need to be given:

- "*the scheme's effect on lender behaviour (good or bad)*
- *the extent to which it helps people who otherwise would not have been able to purchase*

95 Written Responses from the Chief Minister's Department
96 Minister for Housing, Transcript

- *whether any house price effects can be distinguished from other market movements*
- *whether the scheme is oversubscribed or not*
- *whether an extended scheme should cover purchases in the social housing sector*
- *what the overall effect is on numbers of transactions of dwellings at lower quartile prices.*"

7.22 Our expert advisor also stated that it would potentially be difficult for the effects of the scheme on the housing market to be monitored as "*in practice it is difficult to see how price changes due to the scheme (if any) could be separated out from other movements in the housing market, except perhaps anecdotally through discussions with lenders and agents*." He has also highlighted that potential problems with the scheme might not become apparent during the relatively short period of six months during which the trial scheme would operate.[97]

KEY FINDING

7.23 The Panel was advised by the Minister for Housing that the impact of the scheme would become apparent once it had been introduced. Monitoring of the deposit loan scheme is vital although not all problems may become apparent during the trial period. Such monitoring should take into account the impact on people's behaviour; whether the scheme assists those who truly would not have been able to buy without assistance; whether any market effects can be distinguished; whether there is oversubscription; and whether an extended scheme should cover purchases in the social housing sector.

Extension of the Deposit Loan Scheme beyond a Trial Period

7.24 We asked what funding source would be used if the scheme were to be extended beyond the six-month trial period. The Minister for Housing was asked about a long-term funding source when he announced the proposals to the States Assembly in December 2012. At that time, he stated that he would need to consult the Minister for Treasury and Resources about identifying such a source.[98]

7.25 The Minister for Treasury and Resources advised that there would be some limited additional scope within the Dwelling-Houses Loan Fund to extend the scheme. However, he

[97] *States of Jersey Starter Home Deposit Loan Scheme – Evaluation by the Chartered Institute of Housing*

[98] The Official Record, 4th December 2012

was currently looking at overall capital requirements of the States and how they could be funded.

7.26 In terms of how likely it was that the scheme would be extended, the Minister for Treasury and Resources made the following comment:

"*I do not think that we will be in a position in 5 years' time to continue with such a scheme. I think this is a particular bespoke scheme for a bespoke period of difficult economic conditions, a tightening of credit requirements for banks and responding to, we believe, the legitimate aspiration of Islanders to achieve the dream of homeownership.*"

He also stated that a number of mortgage lenders would need to be involved for the scheme to be extended beyond the trial period.[99]

KEY FINDING

7.27 Some funds remain within the Dwelling-Houses Loan Fund for a possible, limited extension of the trial scheme. The Minister for Treasury and Resources has indicated that consideration would be given to alternative funding sources although he has also indicated that, even if implemented and additional funds made available, it is unlikely that the deposit scheme would be maintained in the long term.

7.28 If households were required to pay a degree of interest on the States' loan, or if the States were able to share in any uplift once the property were sold, funds for a potential extension of the scheme would be replenished.

RECOMMENDATION

7.29 The Minister for Treasury and Resources should re-visit whether interest should be charged on the loans provided under the scheme.

[99] Minister for Treasury and Resources, Transcript

8. CONCLUSION

8.1 Many submissions we received testified to the challenges facing people trying to take a first step on to the housing ladder. However, whilst many people broadly welcomed the proposals, our review has shown that there are a number of questions that remain to be resolved.

8.2 It is unclear whether the six-month trial period, if implemented, would target those households facing the greatest challenges in entering the housing market. As proposed by the Ministers for Housing and for Treasury and Resources, the scheme would be accessible by some households which already own property and by households with a degree of savings. It is also possible that those households already on Band 5 of the Affordable Housing Gateway would stand at an advantage to gain from the scheme and that access would not be equitable (albeit perhaps inadvertently). We have questioned these matters, and others, and have recommended that they be re-visited and reconsidered.

8.3 There also remains a lack of clarity regarding what would happen if a successful applicant defaulted on the mortgage or if that applicant decided to sell the property before the end of the 20-year term of the States loan. Furthermore, it is not apparent that the Ministers considered alternatives to a scheme where 15% loans would be made available for households to access 80% mortgages. Given the advice we received about the mortgage products currently available in Jersey and the nature of similar schemes which operate elsewhere, such consideration of alternatives could have been beneficial.

8.4 Given the questions and areas of uncertainty that remain, it is unfortunate that the Council of Ministers was not given the opportunity to consider the proposals at a formal meeting. We were advised that there was a need to bring forward these proposals in haste due to the economic circumstances. However, such haste should not have meant a lack of due consideration. If there had been less haste and more consideration, we anticipate that the matters we have raised would have been addressed before our review had even begun.

8.5 Nevertheless, the rationale underlying the proposed scheme appears sound: other jurisdictions have introduced similar schemes and it appears to be in keeping with strategic aims. More clarity and certainty is required about the implications of the proposed scheme and how it would work before we believe the States Assembly can be assured that it is a viable scheme to pursue.

9. APPENDIX 1: ADVISOR'S REPORT

Evaluation by the Chartered Institute of Housing

States of Jersey Starter Home Deposit Loan Scheme

March 2013

Introduction

The States of Jersey's Minister for Housing and Minister for Treasury and Resources propose to introduce a Starter Home Deposit Loan Scheme aimed at first-time buyers who have difficulty accessing a mortgage. The six-month trial scheme makes nearly £3 million available for loans to assist eligible homebuyers with their deposit. The scheme is designed to assist those facing the greatest difficulties in getting on the housing ladder and the eligibility criteria will relate to income, first-time buyer status, the type of property and liquid assets held by the applicant.

The Corporate Services Scrutiny Panel is reviewing the Minister's proposals. Its remit is:

1. To review *Starter Home Deposit Loan Scheme* and the key issues arising from that proposition, with particular attention to the following:
   a) The consultation and work undertaken by the Minister for Treasury and Resources in the development of the proposals; and
   b) The manner in which the proposed trial scheme is intended to operate;
2. To consider the potential economic effect of the proposals;
3. To consider the manner in which the proposed trial scheme will, if implemented, be monitored and evaluated;
4. To consider how the scheme, if extended beyond a trial period, would be funded; and
5. To report to the States Assembly on the work undertaken.

The Chartered Institute of Housing has been asked by the States of Jersey Scrutiny Office to provide an independent and impartial professional analysis of the evidence received by the Panel in the course of its review and to assist in directing the Panel's ongoing research on matters falling within its terms of reference. CIH has also been asked to give guidance on whether there are any outstanding issues which, from the documentation, it appears have yet to be resolved within the proposals for the scheme.

Specific responsibilities include:

- to study documentation provided by the Scrutiny Office and any written submissions from stakeholders and members of the public and to provide a written critical independent analysis of the same;
- to assist the Panel in drawing conclusions from the evidence received;
- to provide in a timely manner a written critical independent analysis of the same;
- to brief the Panel in advance of public hearing sessions with the Minister and with local stakeholders on key issues arising from the evidence submitted;

- to assist, as required by the Panel, with the preparation of a question plan for the public hearing sessions;
- to attend public hearing sessions and thereafter to discuss with the Panel, as appropriate, on the oral evidence received; and
- to advise on the preparation of the Panel's report and any recommendations arising from the review.

The Chartered Institute of Housing (CIH) is the professional body in the UK for everyone involved in housing and communities. It has 22,000 members and regularly comments on government proposals, including those aimed at assisting first-time buyers by promoting access to mortgages.

This is the CIH's report in response to the remit from the Scrutiny Office. It is in three parts:

1. Background evidence – the context for the scheme
2. The scheme itself.
3. Brief conclusions.

CIH does of course remain available to comment on further on this report or undertake any follow up work required.

Abigail Davies and John Perry
Chartered Institute of Housing
March, 2013

1 Background evidence – the context for the scheme

The statistical background information available to assist those responsible for the scheme is very sound. Given that it is crucial that such a scheme is evidence-based, in this first section we review the evidence, pointing out some factors that are critical to the design of a scheme to assist first-time buyers (FTBs) and also some limitations in the evidence and comparisons with the UK that might be taken into account.

The evidence considered in this section is:

- the Jersey House Price Index
- the Jersey Affordability Index
- other measures of affordability
- measures of access to the mortgage market.

The Jersey House Price Index

The house price index comprehensively covers house sales and has done so for a decade. The data are broken down by property types so that trends can be seen in relation to each property type (e.g. 3-bedroom properties). A common problem with such indexes is that they fail to identify changes in the mix of properties being sold, so that for example in the UK since the credit crunch the mix of properties being sold has changed, with sales of larger properties being sustained while sales of smaller ones have fallen. A simple average of UK house prices over (say) 2007-2010 shows an increase of over 12%, whereas an index which takes account of the shift towards larger properties shows more accurately that they fell by about two per cent. The Jersey index is 'mix-adjusted', which means that it takes account of such changes, allowing trends to be tracked more accurately.

It is interesting to compare house price trends on this mix-adjusted basis with figures for the four UK administrations covered by the CIH *UK Housing Review 2013.* In Jersey, prices peaked at the end of 2010 and have fluctuated around this peak or have fallen slightly; at their peak, prices were a little more than 50% higher than in 2002 (on a mix-adjusted basis). The contrasting figures for the UK are given below. (For each of the five administrations, price levels in 2002 are given a value of 100, so for example Jersey's figure for 2012 is 144 which means prices are 44% higher than in 2002, but at their peak they were 54% higher than in 2002.)

Administration	Peak price and year (2002=100)	Price at end of 2012 (2002=100)
Jersey	154 (2010)	144
England	180 (2008)	174
Wales	222 (2008)	202
Scotland	230 (2008)	212
Northern Ireland	281 (2007)	137

It can be seen that, compared with the UK, Jersey has enjoyed more stable market conditions: prices have not risen as high in the last decade, reached their peak later and have only declined slightly since. In this sense, therefore, Jersey's housing market might be regarded as healthy from the viewpoints of both producers and consumers, having avoided some of the excesses of the last decade (which, in contrast, are much apparent in Northern Ireland and indeed the Irish republic).

Nevertheless, while stable, Jersey prices remain high compared with UK prices. Taking the examples given Jersey House Price Index for properties designated for first-time buyers, in 2012 flats sold at £270,000 and houses at £430,000. The *UK Housing Review 2013* still reports 2010 first-time buyer prices, but Jersey has significantly higher prices than London, which of course is the highest-priced part of the UK.

The Jersey Affordability Index

However, house price stability is only one indicator of a healthy market. The other is the ability of new buyers to access the market, given prevailing incomes, and here Jersey's story is rather different. Again, fortunately the States of Jersey counts with excellent affordability statistics. In particular, the Jersey Housing Affordability Index (JHAI) combines the house price data noted above with income data, to assess affordability based on the relationship between the two. Measuring affordability just on house prices is insufficient because it takes no account of mortgage costs, which of course fluctuate with interest rates. The JHAI takes account of this, and the index reflects the current relatively low interest rates which have aided affordability.

The JHAI applies to all purchasers (not just FTBs), and the value of the index is set at 100 if a given house type is affordable to those on average ('mean') incomes, based on the JHAI's assumptions (see below). The key finding is that a working household with a mean net income is currently slightly short of being able to service a mortgage on an average house, although the difference (an index score of 96 compared with 100) is not great.

Going into more detail, the same household can readily afford a mortgage on a one-bed flat where the affordability score is now about 200 and has been well above 100 for the last decade. For most of the time since 2002 the household could afford a two-bed flat. But median price *houses* are out of reach: except for two-bed houses (a score of just below 100) the scores are 80 or less.

While this is important evidence, the JHAI does have some limitations:

- It builds in assumptions about affordability, i.e. that a buyer can afford to pay up to 40% of their net income in mortgage costs. It is notable that, in the UK, mortgage costs for first-time buyers (FTBs) have only breached this level (40%) once in recent years (in 1989/90); at the peak of the recent house-price boom (2007) they were still below it (36%) and have now fallen to 23%. The 40% level in the JHAI therefore represents a very stringent test of affordability, and assumes that households will be

able to dedicate proportions of their income that (in the UK) have only rarely – and temporarily – been required.
- An obvious danger given that interest rates are historically low (around four per cent over the last couple of years according to the JHAI, slightly higher than in the UK) is that a household that can buy a flat 'affordably' now will find the cost unaffordable if interest rates increase significantly. The 40% assumption provides little or no 'safety margin'.
- The JHAI also assumes that a buyer has a 10% deposit available and can access a 90% mortgage: the JHAI's assumption of such a deposit is another stringent test, and we return to this point in discussing access to homeownership below.

Other measures of affordability

The excellent publication *Housing Affordability in Jersey* does contain other measures of affordability which address some of the limitations noted above:

Overall price-to-income ratios
Ratios for different types of property reflect the JHAI findings noted above and confirm the extent of the affordability problem: while the ratios are reasonable for flats, the prices of houses are between six and eleven times average income, depending on size. By comparison, in the UK prices of all properties have only rarely been in excess of five times income and the typical borrowing rate is more like four times income.

Lower quartile house-price-to-income ratios
Lower quartile house prices (house prices in the bottom 25% of sales) are compared with lower quartile earnings (the earnings of the 25% lowest paid). Concentrating on lower quartile incomes is important as in the UK context up to two-fifths of FTBs are in the lower earnings quartile in a typical year. In Jersey, the proportion of FTBs in the lower earnings quartile is not clear, but given that the house-price-to-income ratio for the lower quartile is about the same as that for FTB houses (see below), the overlap of FTBs in Jersey with lower quartile earners is probably even higher than in the UK: this makes the figures particularly important in the context of the planned deposit loan scheme.

The figures give a ratio of about 7 for Jersey in 2011, i.e. prices in this lower bracket are about seven times earnings. This is not dissimilar to England, where the average is about the same and in an area like the South-West region is slightly higher (8). In London it is higher again (on average, 9) and inner London does of course have much higher ratios than that.

On this measure therefore, Jersey appears to have a similar 'affordability problem' to England's and one that is not so severe as some of England's highest pressure areas. It is worth noting however, in comparing Jersey with London, that almost half of London's lower quartile income households live in social housing.

Ratios for first-time buyers
The ratios for FTBs emphasise their problems in buying houses in Jersey as opposed to flats: to buy a house, FTBs typically pay seven times their income whereas for a flat they pay a little more than four times. The equivalent UK figure for all FTB purchases is currently (2011) just under five (updating the analysis in the report *Housing Affordability in Jersey,* which on this issue compares Jersey with the UK in 2005). This emphasises the affordability problem in Jersey for FTBs needing larger accommodation.

Measures of access to the mortgage market

Whereas the measures discussed above are about the *affordability* of a mortgage once a buyer has obtained one, *access* to the mortgage market is now an increasingly critical barrier. This is especially the case in Jersey because (as we have seen) *affordability* of flats, at least, has recently improved. The limiting factor for FTBs is therefore often now whether they can *access a mortgage*, rather than *whether they can afford it*.

Access depends critically on three factors: whether the FTB has sufficient earnings to qualify for a mortgage, whether they are able to make a deposit of the required size, and whether properties are available at the right price.

Qualifying earnings levels
Almost half of Jersey's working households could not sustain a mortgage on a lower-price property, according to *Housing Affordability in Jersey.* Even those that do are assumed to be able to provide a 10% deposit and to service a loan which is as much as five times their gross income.

Qualifying deposit levels
The benchmark assumed in *Housing Affordability in Jersey* for the size of required deposit is 10%, or that purchasers will have saved £25,000 towards the cost of a typical lower-price property. This is quite a severe test.

In the UK context, up until the credit crunch (2007), about 60% of FTB mortgages were for *over* 90% of the value of the house (i.e. the buyer had less than a 10% deposit). Such high loan-to-value ratio mortgages have now fallen back to just 15% of FTB mortgages, a very dramatic change. Clearly, the majority are now finding 10% (or bigger) deposits. But how can this be the case?

- First, the market has contracted dramatically, as many of those now required to find large deposits cannot do so.
- Second, of those that do, by far the majority get parental help (the 'bank of mum and dad'). Roughly 100,000 households each year that don't have such help are frozen out of the market.
- A third factor is that, compared with Jersey, house prices are lower – the current average FTB purchase price in the UK is £155,000, compared with Jersey prices of £270,000 for a FTB flat and £430,000 for a FTB house.

In the UK a '10% deposit' is a much less significant obstacle than in Jersey.

Availability of suitable FTB property
Also critical is whether, in the given market where the FTB wants to buy, properties are actually available at the price levels for which the FTB can command a mortgage. *Housing Affordability in Jersey* shows that only 140 flats were sold at or below average lower quartile price levels in 2011.

Summary

Based on the background material, we can conclude that the obstacles facing first-time buyers in Jersey are:

- High house prices, not significantly lower since the 2007 credit crunch.
- Very high deposit requirements, especially affecting those without parental help.
- High proportions of income needed for mortgage repayments, making mortgages unaffordable for many and making the purchaser more vulnerable if circumstances change.
- An apparent lack of sufficient flats or houses at prices which most FTBs could afford.

Given that the deposit scheme principally addresses one of these obstacles, albeit an important one, the main issue is whether *in itself* it will be sufficient to allow access to the market for significant numbers of first-time buyers, who face all four obstacles.

2 The Starter Home Deposit Loan Scheme

Having reviewed the background context for the scheme, we now review the scheme itself and the reasons for it being designed in the way it is. Having established that that there is plentiful evidence of a problem of access to homeownership for potential first-time buyers, is the Starter Home Deposit Loan Scheme (SHDLS) the best way to help people onto the homeownership 'ladder'?

In undertaking this part of the review, we have considered a range of documentation about the scheme, together with the evidence given to the scrutiny panel by ministers and others.

The key issues about the scheme

Based on our review, we consider there are ten aspects of the scheme that need to be evaluated:

1. Basis of the scheme: an interest-free loan to cover a 15% deposit.
2. Loan repayment arrangements.
3. Requiring buyers to pay interest on the loan if there is an early sale.
4. Limiting the scheme to certain properties and to certain income levels.
5. Other restrictions on the scheme.
6. Financing of the scheme through the Dwelling Houses Loan Fund.
7. Dependence on the co-operation of lenders.
8. Use of lenders to recover loan repayments.
9. Administrative procedure for loans.
10. The pilot nature of the scheme and the evaluation criteria to be used.

We deal with each of these in turn.

Basis of the scheme: an interest-free loan to cover a 15% deposit

SHDLS provides an interest-free loan to cover a 15% deposit, requiring the buyer to still find a 5% deposit as well as a mortgage covering the bulk of the house purchase (80%). Is this the best use of the available funds?

First, it is not clear that there has been much consideration of alternative configurations of a deposit scheme, with different components. For example, why not provide (say) a 10% deposit loan with no requirement for a minimum deposit from the buyer, but an expectation that they will get a 90% mortgage, given that several lenders claim to be offering mortgages greater than 80%? This would help people whose income will support a loan but who for various reasons do not have the necessary savings for a deposit. Given that (from the evidence from the Mortgage Shop) the minimum 5% deposit for a flat, plus typical legal fees, will be £12,000 (and for a house more like £27,000) there will still be a substantial savings barrier to those benefitting from the scheme. It will still favour those who get help from the 'bank of mum and dad' and disadvantage those who do not or have other commitments (e.g. higher education costs) that have prevented them from saving the amount required for a deposit.

Second, although there is reference to having considered similar types of scheme, there is no detail of any evaluation of other options (although it may be that one has been undertaken and could be made available). A wider use of the under-utilised Dwelling Houses Loan Fund is suggested below (based on an example from Manchester). Other options might have involved consideration of some current UK schemes, for example:

- *FirstBuy* - provides an 'equity loan' of up to 20 per cent, with first-time buyers having to cover the 80 per cent with their own mortgage and deposit. An equity loan is one in which the loan is based on a percentage of the value of the house, so the amount to be repaid goes up (or down) as the value of the house changes. In FirstBuy, the equity loan is interest free for the first five years, and then has to be paid off either when the first-time buyer sells or over 25 years.
- *NewBuy* – lenders provide loans of up to a maximum 95 per cent of the purchase price, supported by a seven-year government guarantee to the lender to protect against default.
- *Homebuy* in Wales - an equity loan scheme in which the owner buys 70% of the property with a conventional mortgage and funds the remaining 30% through an interest-free equity loan from the scheme.

It is clear that SHDLS aims to bring more first-time buyers within the scope of an 80% mortgage. However, it is not clear why this particular arrangement was chosen and what assessment of alternatives was undertaken.

Loan repayment arrangements

Requiring the loan to be repaid in monthly instalments from the point at which it is taken up (i.e. with no grace period, and no offer of an equity loan rather than a repayment loan) seems to limit the value of the scheme, although it does of course mean that the money can be recycled more quickly. How will its costs compare with a 95% conventional loan?

Take the example given to the Scrutiny Panel of the case of a two-bed flat on which there is an 80% mortgage of £209,600 with an interest rate of 4.49%. Under SHDLS, the monthly repayments were given as £1,156 (£992 for the mortgage + £164 for the interest-free loan).

Without SHDLS, the buyer would have a mortgage of (almost) £249,000. Using the same basis for the mortgage repayment gives a monthly cost for a 95% mortgage without the SHDLS of £1,178.

Is the difference of £22 in the example a big enough incentive to make the scheme attractive? Since it will make little difference to the buyer's outgoings, the key will be whether it enables someone to get a mortgage who otherwise would not.

To refer to one of the alternative options mentioned above, if the loan were equity based, with no interest payments for five years, the initial advantage to the buyer would be much bigger – see example below.

> If the SHDLS were to take the form of an equity loan, using the same example as that above, the buyer (with a 5% deposit) would have a conventional mortgage for 80% of the purchase price (£209,600) plus an equity loan for the balance of 15%. Initially this equity loan would be for £39,300, but the amount to be repaid would rise with the value of the house. For a set period, say five years, there would be no interest charged on the equity loan, so the buyer's monthly payment would be only the £992 for the 80% conventional mortgage.
>
> This means that the buyer's savings compared with a conventional 95% mortgage would be greater: £164 + 22 = £186 per month.

Requiring buyers to pay interest on the loan if there is an early sale

Requiring buyers to pay interest on the loan 'if the property is sold at a profit before the term of the mortgage' appears an onerous condition to apply for the full 20 years of the loan. It will need to be very clear to buyers that the penalty for selling, especially towards the end of the loan period, will be considerable. Inevitably they will want a firm indication of the amounts involved. Will estimates be provided and how binding will these be? (In contrast, with an equity-based loan, it is always clear that the householder will give up a fixed percentage of the price realised when they eventually sell, which is much easier to understand/explain.)

This repayment requirement raises again the question: why not have a more limited interest-free period of say five years with the loan being repayable only during the interest-free period, and interest being charged after that at a rate set in advance? This creates much more certainty for the buyer, as they are able to look ahead with some confidence for five years, but who can look ahead for up to 20?

In addition, if the scheme were applied more widely, it has to be asked whether the loan conditions might cause a shortage of properties available to future FTBs, given that the early buyers will have to stay put for 20 years or face interest charges.

At the same time as this condition applies, there is however a rule that the loan can be transferred (rule 1.2.9). Does this mean that paying interest can be avoided (or at least deferred) by buying another, qualifying property? And would the second purchase have to fall within the same criteria as the first?

Limiting the scheme to certain properties and to certain income levels

SHDLS is restricted to properties in the lower quartile price ranges and to certain income levels for each property type/size. This raises the question of whether there will be enough properties available, especially for, say, a family with two children. While the Minister for Treasury and Resources says 'there are hundreds of properties available', the evidence seems to be conflicting, given that (for example) only 140 flats and *no* 2-bed houses were actually sold at or below average lower quartile price levels in 2011 (*Housing Affordability in Jersey,* page 16). Is this because the flats and houses are there but not being sold, and if so will the SHDLS make sufficient difference to people's ability to buy that it will encourage sales that otherwise would not have taken place simply because of the lack of buyers who have access to mortgages?

Other restrictions on the scheme

While under SHDLS loans are not to be made available for dwellings in 'major new developments', the rules actually say that they are not available for new build at all (rule 1.2.4). The position needs to be clarified.

In addition, the rules state that the buyer must be a FTB (rule 1.1.3) yet the Minister for Housing wants to extend the scheme to 'someone who has struggled to buy a very small unit of accommodation in the back streets of St. Helier that wants now …to have something bigger'. Again, the rules need to be clear.

Financing of the scheme through the Dwellings Houses Loans Fund

The scheme is to be financed using a significant part of the little utilised Dwelling Houses Loan Fund. What alternatives have been considered for this fund, which still has available capital of £5 million? Here are some questions about the 'best use' of this fund.

First, some local authorities in England (notably Manchester) are trialling mortgage guarantees. These typically underwrite up to 20% of the mortgage, so that purchasers who can raise a 5% deposit can then get a mortgage on the remainder on similar terms to a 75% loan.[100] Has such an option been considered, as it would have limited direct cost? The loan fund would act as the reserve against which guarantees would be made, only needing to be drawn from in the limited number of cases where the guarantee has to be invoked.

Second, is the SHDLS the best available scheme from the point of view of not provoking house price increases? If so, how will this be kept under review? Although it is said that its effects will be monitored, in practice it is difficult to see how price changes due to the scheme (if any) could be separated out from other movements in the housing market, except perhaps anecdotally through discussions with lenders and agents.

[100] See 'The Manchester Mortgage: how one city is solving the housing crisis. *The Guardian,* 5 April 2012 (available at http://www.guardian.co.uk/housing-network/2012/apr/05/manchester-mortgage-first-time-buyers-housing-crisis).

Third, how will the scheme simply avoid replacing the 'bank of mum and dad'? Ideally, it would help potential FTBs who have no access to other help, who (as we saw earlier) appear to have suffered most in the period since the credit crunch. What consideration has been given to this aspect? Can anything further be done to target SHDLS at those most in need who otherwise cannot find a deposit?

Dependence on the co-operation of lenders

Dependence of the scheme on the co-operation of lenders is an element which, while minimising staff costs for the States, does appear to create other risk elements. For example:

- Will lenders have extra costs that they simply pass on to borrowers?
- How rigorously will lenders assess the ability to repay above the 80% level that is their direct responsibility? Will their 'due diligence' be the same for both the 80% and the 15%?
- If only one or two lenders participate, how will best value be achieved?
- On the other hand, if there are several participants, what work will be required to ensure consistent approaches?

On the face of the evidence from the available documents, there seems to be one enthusiastic lender – Skipton International – and several others who at present are either lukewarm or reluctant. This naturally raises questions as to why it is so attractive to only one lender, and not to several. It certainly suggests that it will be vital to get wider participation if the scheme continues beyond the pilot stage.

It should be noted that lenders are notoriously conservative about adopting new schemes promoted by government bodies, as demonstrated in England with shared ownership (for example). This means that the more straightforward a scheme is, the better, hence some of the advantages of equity loans.

The Treasurer indicated that the administration of the 15% loan would be kept under review, implying that it might if necessary be brought 'in-house' if outsourcing it to lenders does not work. However, the disadvantages may not be apparent after a short time, they may only reveal themselves later (e.g. through cases where buyers default).

Use of lenders to recover loan repayments

The arrangements in case of default/underpayment of the loan will need to be carefully agreed if the lenders are accepting responsibility for initiating any action on the States' behalf. It is a well-known tendency for lenders both to avoid foreclosure and then – if it goes ahead – to want to sell quickly to reduce the administrative costs of maintaining the property on their books, not having great regard for the purchase price achieved. It will be important that the lenders' practices are in line with the States' expectations, both in terms of protecting the buyer (exercising sufficient 'forbearance' before taking action to repossess) and in terms of protecting the States' 15% as well as the lender's 80% loan.

Administrative procedure for loans

On the face of it, it appears very cumbersome to have an arrangement where the minister personally signs off each loan. If this appears necessary for the pilot scheme, it should perhaps be questioned as part of the review of procedures if the scheme becomes longer-standing or permanent.

The pilot nature of the scheme and the evaluation criteria to be used

There does seem to be an issue about how access to the pilot scheme will be fairly controlled, given that only perhaps 100 loans will be available and there are as many as 1,300 potential applicants. If it is set up in such a way that applicants have to incur costs before they know for sure they have access to the loan, this may make it less popular and may result in unfairness if some are rejected even though they appeared to qualify. Certainly, there would appear to be scope for the scheme to receive bad publicity and to produce complaints. This is something to which careful attention will be needed before any launch.

As to whether the scheme is extended (perhaps in modified form) beyond the pilot, a number of questions appear to arise in addition to those mentioned by the Minister for Housing and the published 'success criteria'. For example:

- the scheme's effect on lender behaviour (good or bad)
- the extent to which it helps people who otherwise would not have been able to purchase
- whether any house price effects can be distinguished from other market movements
- whether the scheme is oversubscribed or not
- whether an extended scheme should cover purchases in the social housing sector
- what the overall effect is on numbers of transactions of dwellings at lower quartile prices.

An overriding difficulty is of course that potential problems with the scheme may not emerge in six months or in the relatively small number of expected cases. A permanent scheme will therefore need a longer-term review mechanism.

3 Conclusions

While this report is bound to appear critical of the scheme, since this is its purpose, it should not be taken as indicating that the scheme is fundamentally flawed or badly designed. The aim has been to provide on ‘outside view’ of SHDLS, the problems it is intended to meet, why such a scheme has been designed and the details of how it is expected to work. Despite critical comments, the scheme does indeed appear to have many strengths and – as a pilot – to be well worth implementing, assuming that other alternatives have been fully considered.

However, some of the questions included in this report should be considered, if possible, before it goes ahead even in pilot form; they all should be considered in monitoring the outcome of the pilot and in considering whether and how it should be made permanent.

The most important questions are these:

1. Will it enable first-time buyers to surmount all the barriers facing them (given that the scheme only deals with the deposit barrier)?

2. In particular, given that it makes little difference to the cost of a mortgage, how will it help people facing the barrier of having an income too low for a mortgage?

3. What other options have been considered, that would address these barriers?

4. How will effects on the market be assessed, given the difficulty of identifying what causes market changes and what proportion of any change is caused by the scheme?

5. Will the requirement for buyers to repay the interest on the loan if they sell within 20 years put people off the scheme?

6. Are there sufficient lenders interested, and if not why is this the case?

7. How will demand for a limited number of loans be managed, without causing hardship for people who go through the process and then miss out?

8. If the scheme continues beyond the pilot stage, how will it be monitored in the long term?

10. APPENDIX 2: STATISTICAL TABLES

10.1 During our review, we examined the reports published by the Unit and we heard from the Chief Statistician so that we could understand more clearly the current housing situation. There are statistics beyond those presented in P.131/2012 which we believe to be of pertinence to the subject of the proposed Starter Home Deposit Loan Scheme. We paid particular attention to the following reports:

a) House Price Index – Published on a quarterly basis, the House Price Index is effectively a census of property transactions and a determination of the average cost of dwellings in Jersey. The index measures the combined weighted average price of one- and two-bedroom flats and two-, three- and four-bedroom houses. The most recent reports we could consider during our review were for Quarters 3 and 4 of 2012.

b) Housing Affordability 2002 – 2011 – Published in 2012 (and due to be published annually), this report presents indicators of housing affordability in Jersey. Three measures of affordability are used: Ratio Analysis, which uses the ratio of property prices compared to income; Access Analysis, which focuses on the ability of first-time buyers and individual key workers (e.g. teachers) to get on the property ladder; and the Jersey Housing Affordability Index (JHAI), which is the headline indicator of whether a working household with mean income can purchase a median priced property affordably. The JHAI takes into account households' ability to make mortgage repayments and the figures to which we have referred in Paragraph 5.9 above are derived from use of the JHAI.

c) Jersey's Housing Assessment 2013 – 2015 – Formerly known as the Housing Needs Survey, this report provides estimates of Jersey's potential housing needs for the period 2013 to 2015.

10.2 From our consideration of these reports, and from the testimony of the Chief Statistician, we believe the following information to be of relevance.

10.3 The first table shows the type of properties demanded by first-time buyers over the period 2013 to 2015 (broken down into existing households and concealed households). It reveals that two-thirds of total demand amongst first-time buyers is for houses, particularly two- and three-bedroom houses. One third of the demand from first-time buyers is for flats.

Table 12 - Demand by property type from first time buyer households; *three-year totals*

Property required		Concealed		Existing		All First-Time Buyer households	
		Number	*Percentage*	Number	*Percentage*	Number	Percentage
Flats	1 bed	140	*25%*	100	*7%*	240	*13%*
	2 bed	200	*35%*	180	*13%*	380	*20%*
	3+ bed	-	*0%*	30	*2%*	30	*2%*
All	**flats**	**340**	***60%***	**310**	***23%***	**650**	***34%***
Houses	1 bed	20	*3%*	20	*1%*	40	*2%*
	2 bed	80	*14%*	430	*32%*	510	*26%*
	3 bed	120	*20%*	480	*36%*	600	*31%*
	4+ bed	10	*3%*	120	*9%*	130	*7%*
All	**houses**	**230**	***40%***	**1,050**	***77%***	**1,270**	***66%***
	Total	**570**		**1,350**		**1,920**	

10.4 The following graphs, taken from the same report, show the income distribution for potential first-time buyers the amount they could afford for a deposit.

Figure 11 - Gross annual household income of potential first-time buyers

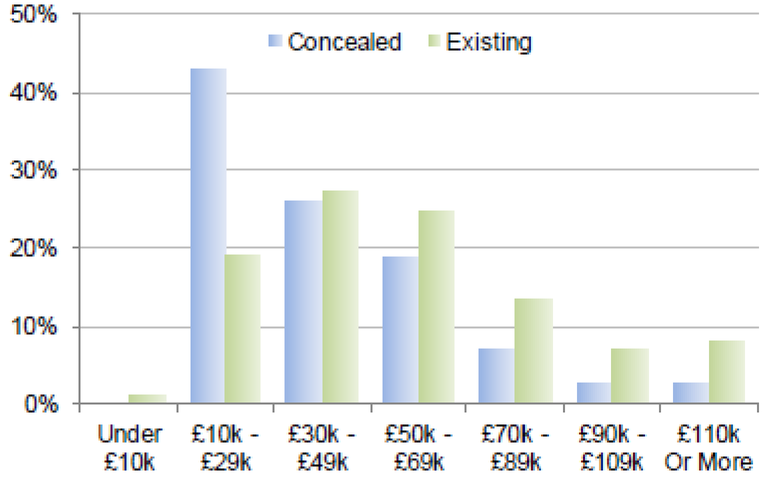
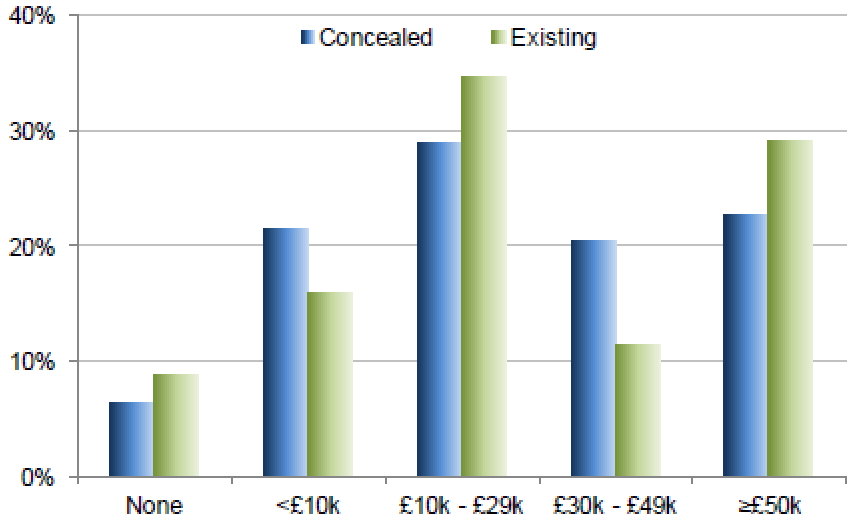


Figure 12 – Money available for a deposit and moving costs



10.5 Finally, this table (taken from *Housing Affordability 2002 – 2011*) shows the affordability of starter home properties at the lower quartile price for first-time buyer households. A 'starter home' is taken to mean a one- or two-bedroom property. The table shows that there was an improvement in the affordability of starter homes for first-time buyers from 2010 to 2011. However, 23% of first-time buyer households were unable to purchase a starter home at the lower quartile price.

Table 8 – Affordability of lower quartile starter homes (1- or 2-bedroom flat or house); young working (FTB) households.

Year	Lower quartile price (starter homes)	Household income required to service mortgage affordably	% of FTB households unable to purchase
2010	£230,000	£41,400	36
2011	£195,000	£35,100	23

10.6 We have also included a copy of the analysis undertaken by the Statistics Unit to determine the potential impact of the proposals and how many households would potentially be eligible. The table shows the lower quartile price (based upon transactions during the previous four quarters); the turnover of properties within the lower quartile (also based upon the previous four quarters); the number of working households which could not afford to buy a property at the lower quartile with a 5% deposit; and the number of households which could not afford to buy the same property with a 5% deposit and 15% States loan. The difference is the number of households which could potentially be helped by the scheme and the income ranges show the range into which those households fall.

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
Singles and couples no children								
Dwelling Type	Lower quartile dwelling price	Turnover of properties in lower quartile	15% deposit value	Before	After	Income group aided	No. of households aided by deposit scheme	
1-bed flats	£171,000	66	£25,650	2,817	1,958	£29,000 - £34,000	859	
2-bed flats	£262,000	58	£39,300	6,273	5,345	£44,000 - £53,000	928	
2-bed houses	£328,000	30	£49,200	8,197	7,261	£56,000 - £66,000	936	
All 1 and 2 bed dwellings	**£195,000**	**154**	**£29,250**	**3,971**	**2,940**	**£33,000 - £39,000**	**1,031**	**£30,000,000**
Couples One child + Single parent families one child								
Dwelling Type	Lower quartile dwelling price	Turnover of properties in lower quartile	15% deposit value	Before	After	Income group aided	No. of households aided by deposit scheme	
2-bed flats	£262,000	58	£39,300	1,783	1,313	£44,000 - £53,000	470	
2-bed houses	£328,000	30	£49,200	2,154	1,968	£56,000 - £66,000	186	
3-bed houses	£410,000	81	£61,500	2,989	2,557	£75,000 - £86,000	432	
All 2 & 3-bed dwellings	**£320,000**	**169**	**£48,000**	**2,099**	**1,968**	**£54,000 - £65,000**	**131**	**£6,000,000**
Couples two children + Single parent families two children								
Dwelling Type	Lower quartile dwelling price	Turnover of properties in lower quartile	15% deposit value	Before	After	Income group aided	No. of households aided by deposit scheme	
3 bed houses	**£410,000**	**81**	**£61,500**	**2,052**	**1,845**	**£70,000 - £83,000**	**207**	**£13,000,000**
					Number of households aided by scheme		**1,369**	**£49,000,000**

11. APPENDIX 3: PANEL MEMBERSHIP, TERMS OF REFERENCE AND EVIDENCE CONSIDERED

Panel Membership and Terms of Reference

11.1 The Corporate Services Scrutiny Panel comprised the following Members:

Senator S C Ferguson, Chairman

Deputy J G Reed, Vice-Chairman

Connétable D J Murphy

Deputy S Power

Deputy R J Rondel

11.2 The following Terms of Reference were agreed for the review:

1. To review *Starter Home Deposit Loan Scheme* (P.131/2012) and the key issues arising from that proposition, with particular attention to the following:
   a) The consultation and work undertaken by the Minister for Treasury and Resources in the development of the proposals; and
   b) The manner in which the proposed trial scheme is intended to operate;
2. To consider the potential economic effect of the proposals;
3. To consider the manner in which the proposed trial scheme will, if implemented, be monitored and evaluated;
4. To consider how the scheme, if extended beyond a trial period, would be funded; and
5. To report to the States Assembly on the work undertaken.

11.3 To assist its work, the Panel appointed the Chartered Institute of Housing (CIH) to advise it on the proposed Starter Home Deposit Loan Scheme. Mr John Perry acted on behalf of CIH to advise the Panel.

Evidence Gathered

11.4 The following documents were considered by the Panel during its review:

a) *Building Loans (Jersey) Law 1950*

b) *States of Jersey Law 2005*

c) *Public Finances (Jersey) Law 2005*

d) *Public Finances (Transitional Provisions) (No.2) (Jersey) Regulations 2005*

e) The Official Record of the States Assembly, 29th March and 5th April 2011; 15th and 29th May, 4th December 2012

f) *Code of Conduct for Ministers* (R.14/2006), Council of Ministers, 10th February 2006

g) *Starter Home Deposit Loan Scheme* (P.131/2012), Minister for Treasury and Resources, Lodged on 4th December 2012

h) Minutes of the Council of Ministers, A2 – 9th January 2013 and

i) *Jersey's Housing Assessment 2013 – 2015*, Statistics Unit

j) *Housing Affordability in Jersey 2002 – 2011*, Statistics Unit, 22nd March 2012

k) *Jersey House Price Index – Third Quarter 2012*, Statistics Unit, 15th November 2012

l) *Jersey House Price Index – Fourth Quarter 2012*, Statistics Unit, 21st February 2013

m) *Band 5 Applicant Summary – For Affordable Housing Purchase Schemes*, Department of Housing, 31st January 2013

n) *Budget 2011*, House of Commons Treasury Committee, Printed on 5th April 2011

o) *FirstBuy Buyers' Guide*, Homes and Communities Agency, August 2011

11.5 Written material and responses to the Panel's questions were received from the Chief Ministers' Department on 29th January, 13th February, 20th February and 27th February 2013

11.6 The Panel put out a call for evidence from the public on 4th and 11th February 2013, to which a total of 19 written submissions were received from members of the public. The Panel also wrote directly to a number of mortgage lenders, mortgage brokers, conveyancers and estate agents, in response to which the following written submissions were received:

- Benest and Syvret – 5th February 2013
- Skipton International – 8th February 2013
- The Mortgage Shop – 11th February 2013
- Jersey Estate Agents Association – 13th February 2013
- Acorn Mortgages – 14th February 2013
- Future Finance – 18th February 2013
- Cherry Godfrey – 13th February 2013
- Appleby – 26th February 2013

- Minister for Planning and Envonment – 1st March 2013

11.7 The Panel held the following public hearings, transcripts of which are available on the Scrutiny website (www.scrutiny.gov.je):

13th February 2013	Minister for Housing
	Minister for Treasury and Resources
	Managing Director – The Mortgage Shop
18th February 2013	Chief Statistician
25th February 2013	Joint Presidents – Jersey Estate Agents Association

11.8 In addition, the Panel received a briefing in confidence from the Economic Advisor on 18th February 2013.