STATES OF JERSEY

STARTER HOME DEPOSIT LOAN SCHEME (S.R.5/2013): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Presented to the States on 16th April 2013
by the Minister for Treasury and Resources

STATES GREFFE

STARTER HOME DEPOSIT LOAN SCHEME (S.R.5/2013): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Ministerial Response to: S.R.5/2013

Ministerial Response required by: 16th May 2013

Review title: Starter Home Deposit Loan Scheme

Scrutiny Panel: Corporate Services

INTRODUCTION

The Panel have undertaken a thorough piece of work that has added value to the overall proposition, with many of the recommendations immediately actioned. The Report of the Panel is therefore welcome.

FINDINGS

	Findings	Comments
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.	As the Panel has noted, the Deposit Loan Scheme will address the specific obstacle of high deposits, but further measures are required if we are to achieve our Strategic Plan objective of ensuring that Islanders are adequately housed, for example, with reference to supply (noting the issues with the housing waiting list and arising from the Housing Needs Survey); in relation to social rented housing (which is why the Housing Transformation Programme is essential); and in relation to complimentary affordable housing products (to be developed, subject to approval, by the Strategic Housing Unit).
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.	It is pleasing that the evidence given to the Panel was such that the principles of the scheme were "welcomed", and it is recognised that the details and structure of the scheme are essential.

	Findings	Comments
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.	As noted by the Panel, the scheme addresses the specific obstacle of high deposits. It also provides some modest improvements in affordability. As to alternatives, such as an equity-based loan scheme, this is a very different proposition to a repayment loan scheme, and generally means (i) the money lent by the States is not actually repaid except in the event of sale; and (ii) that any decrease in price is a risk borne by the States. This involves additional complexity and risk, and defers replenishment of the scheme and its consequent ability to be extended. While there is a place for shared ownership models, this scheme is a modest pilot on the simple principle that the States lend the money to householders who have themselves saved, but struggle to raise the full deposit, with reasonable assurance that the monies lent can actually be repaid.
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.	The deposit loan scheme is a pilot project that has been modelled on similar schemes operated elsewhere, but tailored to Jersey's housing need; and having considered alternative schemes in operation elsewhere (including those mentioned in the Report of the Panel), and having reviewed schemes in the United Kingdom, including the devolved jurisdictions and at local government, and elsewhere in the world, where indeed, a range of schemes co-exist. The notable types of scheme to address the issue of high deposit costs, however, fall broadly into one of either: (i) deposit loans, as proposed in Jersey; (ii) equity-based schemes, as discussed above; or (iii) guarantee schemes, which: • rely on lenders to accept the guarantee and be prepared to lend a higher loan-to-value, with this not finding initial favour with lenders; • would take longer to introduce as they cannot build on the procedures of the established

	Findings	Comments
		States Loan Schemes, or readily fit within the existing legal provisions that govern the granting of loans. Following completion of the pilot, its results can be assessed, and indeed, the results of other schemes in operation elsewhere can be continued to be monitored. This could mean, as elsewhere, other products and schemes could be introduced.
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.	All mortgage lenders confirmed that there were assorted mortgages available subject to a range of lender criteria. It is known there are 90% – 100% mortgages in the local market, but these are not the norm; and naturally, these mortgages require levels of equity, income, or security which the cohort of households targeted by the scheme will likely lack. The 80% mortgage was considered after due consideration to the advice given by mortgage lenders and with reference to products in the market. The 5% element contributed by the householder was a policy decision that savers should be obliged to contribute part of the deposit such that the scheme would be accessible to householders who, in the generality, had saved.
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.	The Economic Adviser supports the development of policy in a number of ways, in particular, the Economic Adviser is a part of the Central Policy Unit of the Chief Minister's Department, upon whose advice, amongst others, the Minister for Treasury and Resources relied upon in the development of the Scheme. Furthermore, and in addition, the Economic Adviser attended a meeting of Ministers to provide advice and guidance, and subsequently reflected this in writing. In doing all this, the Economic Adviser understandably raised risks associated with prices and the behaviour of lenders, and these risks have accordingly and appropriately been mitigated in the parameters of the scheme. For example: (i) the narrow eligibility criteria with reference to income and

	Findings	Comments
		property prices (use of the lower quartile) (also see Finding 20 below); (ii) the limitation on funds available; (iii) the partnership arrangements being entered into with lenders and associated procedures, including the inability to tier products (also see Finding 11 below); and (iv) the monitoring of the project as a pilot initiative following which a detailed assessment will be made and reported upon.
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.	The States of Jersey Law 2005 establishes the Council of Ministers to, among other things, co-ordinate the policies for which Ministers are responsible, and to discuss and agree policies for which 2 or more Ministers are responsible. The Code of Conduct for Ministers thereon indicates that if a Minister wishes to bring a proposition to the Assembly that affects another Minister, they should discuss that proposition with the other Minister, and if they are in agreement, the matter can then go forward. The Ministers for Treasury and Resources and Housing worked closely together in the development of the scheme, in consultation with the Chief Minister, and thereon, circulated the proposals to the Council of Ministers for comment, recognising the importance of delivering on the proposal.
8	The criteria presented in the proposition do not appear to prevent households from subsequently letting their property to a third party.	The ability to let properties to third parties will be prevented, and made explicit in the scheme rules. In doing this, some limited exceptions will be included in the rules, with reference to necessary overseas medical treatment and limited periods of overseas secondment (not to exceed 2 years (to align with the treatment around housing qualifications adopted by the Population Office)). These seem reasonable and limited exceptions reflecting the natural and understandable personal circumstances that families can face, while prevent letting to third parties in other circumstances.

	Findings	Comments
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.	There clearly is a balance to be struck between developing a policy and providing details around its operation such that the Assembly are satisfied as to its adequacy and appropriateness, and the requirement that the Assembly provide 'in principle' support and direction prior to the finalisation of arrangements, including contractual matters. In the case of this scheme, advanced work has taken place by Officers of the Treasury and Resources and Chief Minister's Departments, in consultation with external parties and internal legal advisers, such that processes and procedures, roles and responsibilities, scheme rules, and legal arrangements, are developed. These matters will then be finalised, including contractual arrangements with primary lenders, subject to States approval, and within the constraints of appropriate controls and governance structures.
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.	The States will work in partnership with lenders to achieve success, and contractual relationships will be established with those lenders such that those lenders do not have ability, or incentive, to relax due diligence requirements; for example, that debt collection and related procedures are triggered should the loan repayments fall behind in respect of any portion of the 95% lending, i.e. the lending of both the primary lender and the States of Jersey will be subject to the same arrangements. This will take place alongside internal procedures applied by the Officers of the Treasury and Resources and Chief Minister's Departments in assessing applications. In summary, the issue is recognised, is understood, and mechanisms to address the risk have been considered, and mitigation will be enshrined with the scheme rules, procedures, policies and arrangements.
11	It is the Ministers' intention to establish a partnership arrangement with participating mortgage lenders. The proposed scheme would only be feasible with the	See comment above, and in particular, the rates and products available to persons under the scheme will be no different from those available to persons outside the scheme, i.e. lenders will not be permitted to

	Findings	Comments
	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.	tier their products such that persons under the scheme are on different rates or terms (other than by virtue of the scheme rules themselves, e.g. the requirement to repay the interest subsidy in the event of onward sale with sufficient profit to make such a repayment).
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.	The existing rules applied by the Population Office in respect of first-time buyers exist for a reason that it is natural and understandable, notably, that persons who have gained an initial footing on the property ladder by way of a flat, and who want to move up the ladder in the event, for example, of having or planning a family, are placed in the same position as another couple who have rented, whether privately or in social housing, or lived at home. Indeed, it is difficult to see why the latter group of individuals are in more need than the former.
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.	Ministers decided to link savings to the Income Support legislation as the level of those sums were seen to be appropriate for those claiming Income Support. Indeed, the asset cap is needed to recognise that: (i) if the States are lending money, they should only do so to persons who need that money, but that: (ii) people moving home will naturally and often have modest expenses, in particular, at the lower quartile, where properties may need redecorating or some investment, and that having a lower asset cap will effectively mean such persons move into properties without any ability to do this. Indeed, at a policy level, it is difficult to understand why a person should be able to claim Income Support with one level of assets, but an aspiring home-owner with the same level of assets (after their 5% deposit and having paid fees and expenses) should not be able to have the same level of assets.
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	The statistical analysis provided by the Statistics Unit showed the *potential* numbers eligible under the income and property criteria used, *if* all such persons were all so minded to purchase a property

	Findings	Comments
	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.	during the life of the scheme. This, of course, is not the case, as these individuals face a wide variety of personal circumstances, and the Statistics Unit cannot with a reasonable accuracy estimate the effects of these variety of personal circumstances with reference to how many people will actually purchase under the scheme. However, it is proper that a limitation is placed on the project in terms of available funds, and by way of it being a pilot project that can then be assessed.
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.	Assessments of affordability and ability to repay under this scheme will be made by the lenders (and verified by the States) in the same way as they assess and make their normal lending decisions. In short, the ability to repay a loan under the scheme will be equivalent to any other person accessing mortgage finance.
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.	See response to Finding 14 above.
17	Announcement of the proposed scheme is likely to have raised expectations which could not be met.	Islanders have indicated repeatedly the importance of housing, and a desire for home ownership. Naturally, any scheme will then be welcome while also raising expectations. However, this is a pilot scheme, with accordingly prudent eligibility criteria. Overall though, the fact that Islanders will welcome the scheme, and that it may be over-prescribed as a result, does not in itself seem a reason not to proceed; on the contrary, it means that the scheme is needed, that it is appropriate for it to be a pilot scheme, and that communications and confirmations need to be clear.
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	The scheme will have robust procedures in place before commencement as to receipt and processing of applications, and issuance of loans, including as to governance and monitoring, based on the existing financial rules based on Financial

	Findings	Comments
	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.	Directions. However, it is the case that the scheme will be on a "first come, first served" basis, as it is difficult to see any other way to run a loan scheme that is contingent on a person identifying a property, saving their own 5% deposit, and securing lending from the primary lender. As to the limitation on funding, it is only proper and natural that this limitation exists, in particular, for a pilot project. The purpose and limitations of the scheme will need to be clearly communicated to applicants, including in relation to any confirmation of acceptance of eligibility. As pointed out, this is a pilot project, and these matters can be further considered during the life of the project and with reference to any extension.
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.	The development on the former Jersey College for Girls site will be delivered after the pilot life of the scheme. On the broader policy question, having given consideration to the issues, the proposition is clear that Loans cannot be obtained for major new build developments so as not to discourage developers from offering new purchase discounts, and this seems a wholly reasonable premise; in particular, noting that the development market has some participants with a sizeable market share. However, some very small private developments will be permitted, notably, small conversions of a single house into 5 or less multiple occupancy units, or the development of 2 or less new standalone properties.
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	The eligibility criteria for the scheme have been narrowly defined to focus on the lower quartile of the market, and in doing this, it is likely that some sellers will price their properties below the lower quartile threshold, or purchasers will make offers below the lower quartile threshold, in order to qualify for the scheme, i.e. as well as inserting some additional demand, the scheme may also have deflationary consequences in order to satisfy the requirements of the scheme. In addition, the persons helped by the scheme may be

	Findings	Comments
	be a risk of distorting that part of the market.	vacating units which could then be sold, or increase the supply of rental stock, i.e. the net supply and demand effect a move could be nil, suggesting the net overall effect on prices and rents will be nil. The extent of these competing factors on price and rents will be closely monitored during the life of the scheme. Certainly, however, the property market has been in a prolonged period of limited activity and marginally declining prices, with a large supply of properties. In these circumstances, having considered in depth the implications, it is difficult to see a limited scheme of this nature having a material effect.
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.	It remains the case that deposits on properties, including in relation to flats, are relatively sizeable, given prices and predominant lending criteria, and indeed, the Statistics Units web-page is clear in outlining that: *"the mean prices of 1- and 2-bedroom flats and of 2-bedroom houses were slightly higher in 2012 than in 2011"*
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.	The Panel have outlined in their report that they understand that there would be no difficulty in obtaining satisfactory security. This is also the view taken in the development of the scheme following appropriate engagement with legal advisors and partnership lenders.
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.	The States has a long record of lending to assist house purchase through the Dwellings House Loan Fund. The Deposit Loan scheme will not be dissimilar in its operation, in that it will lend money after having made an assessment of ability to repay. There will proper financial oversight by the States Treasury and a partnership arrangement with lenders which will have early warning alerts in the process should any borrower get into financial difficulties.

	Findings	Comments
		Furthermore, as outlined above, proper assessment of ability to repay will be undertaken at the outset, and security obtained. In this context, and based on experience, the risks are therefore limited.
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.	The requirement to repay the interest discount accrued over the life of the loan (being the difference between the 0% applied to the loan and the prevailing market rate applied by the primary lender on the 80% main mortgage) would be due should a property be sold before the 20 year term of the loan, up to the extent that there was profit on the sale to meet that repayment. This information will be clearly outlined in the communications, including confirmations of eligibility provided to applicants. It should also be pointed out that this requirement to repay interest discount already exists in relation to the Dwelling Houses Loan Scheme, and has operated in this way for many years.
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.	The discretion proposed in the proposition related primarily to the treatment of new developments. However, the Ministers have made their position clear at the Panel, and instead, this will be a matter for the scheme rules with reference to Finding 19 above.
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.	See Response to Finding 20 above.
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.	The Finding is noted, but the implication appears to be that persons should be ineligible to access the scheme where their parents, or indeed, other close relatives, have sufficient assets to provide the deposit. This is not considered a viable or appropriate rule.

	Findings	Comments
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.	Noted and agreed.
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.	Noted and agreed.
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.	As outlined in Finding 24, interest is recoverable at the point of sale in the event of sufficient profits being made. In the meantime, the repayments of the principal monies lent will take place, thus replenishing the scheme (as contrasted with an equity-based scheme). Having said this, the rules of the scheme will be assessed during the life of the pilot, and could be changed in any extended scheme.

	Findings	Comments
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.	The above responses are intended to provide the responses requested by the Panel.

RECOMMENDATIONS

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
1	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.	T&R	Accept	See Response to Findings 3 and 4 above.	Immediate
2	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.	CoM		This is a matter for the Council of Ministers to consider.	2013
3	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.	T&R	Accept	See Response to Finding 8 above.	Immediate
4	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.	T&R	Reject	See Response to Finding 12 above.	

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
5	The Minister for Treasury and Resources should re-examine the appropriateness of the eligibility criteria in respect of liquid assets.	T&R	Reject	See Response to Finding 13 above.	
6	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.	T&R	Accept	See Response to Finding 18 above.	Immediate
7	The Minister for Treasury and Resources should amend the eligibility criteria for the scheme to ensure that all new-build properties would be eligible.	T&R	Reject	See Response to Finding 19 above.	
8	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.	T&R	Accept	See Response to Finding 22 above.	Immediate
9	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.	T&R	Accept	See Response to Finding 23 above.	Immediate
10	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.	T&R	Accept	See Response to Finding 24 above.	Immediate
11	The Minister for Treasury and Resources should re-visit whether interest should be charged on the loans provided under the scheme.	T&R	Reject	See Response to Finding 30 above.	

CONCLUSION

The Panel have added value to the development of the scheme, as reflected in the fact that many of the recommendations have been accepted and immediately acted upon, and where recommendations were not accepted, those matters will nevertheless form part of the monitoring of the scheme, and could then be reflected in any extension to the scheme proposed.