



Corporate Services Scrutiny Panel Starter Home Deposit Loan Scheme Review Hearing with The Mortgage Shop

WEDNESDAY, 13th FEBRUARY 2013

Panel:

Senator S.C. Ferguson (Chairman)
Deputy J.G. Reed of St. Ouen (Vice-Chairman)
Connétable D.J. Murphy of Grouville
Deputy S. Power of St. Brelade
Deputy R.J. Rondel of St. Helier

Witnesses:

Mr. Peter Seymour, The Mortgage Shop

[13:59]

Deputy J.G. Reed of St. Ouen:

I would like to welcome everybody to this Corporate Services public hearing today and I would like to draw members of the public's attention to the code of behaviour and we hope that you will comply with it. I would like particularly to welcome Peter Seymour to this meeting and I think it would be useful if we just went round the table and introduced ourselves before we start on the questions that we have prepared.

[14:00]

The Deputy of St. Ouen:

Thank you. Mr. Seymour, when did you first become aware of these proposals?

The Mortgage Shop:

Probably in the media; I imagine it would have been about 6 months ago, perhaps, when mention was first made of them.

The Deputy of St. Ouen:

Have you been consulted at all by any individual department regarding the proposals?

The Mortgage Shop:

No.

The Deputy of St. Ouen:

Not at all?

The Mortgage Shop:

No.

The Deputy of St. Ouen:

Do you find that strange?

The Mortgage Shop:

No. I believe that the States system has probably sufficient expertise within it to be able to rely upon the advice of their officers and probably the appropriate time to be looking for a layperson's view, outside of the States, is at scrutiny.

The Deputy of St. Ouen:

What is your general view of the deposit scheme?

The Mortgage Shop:

I believe that the scheme - with goodwill all round and without too much public or political opposition - could be made to work very effectively indeed.

The Deputy of St. Ouen:

Can you point us to any other jurisdictions that provide some form of similar schemes?

The Mortgage Shop:

I understand there are not dissimilar schemes that have been tried at various times in the U.K. (United Kingdom) but, quite frankly, I have not kept in touch with those in recent years because I did not feel any need to.

The Deputy of St. Ouen:

As a mortgage provider, are you aware of any of the companies that you deal with offering 100 per cent mortgages or some assistance to a person who would otherwise be unable to raise all the funds necessary to purchase a home?

The Mortgage Shop:

In the 23 years since I established The Mortgage Shop, any number of lenders have offered various facilities up to 100 per cent, including Newcastle Building Society who we introduced to the Island a number of years ago but have now faded into insignificance. Certainly Jersey Home Loans, part of the Kent Reliance Building Society, were offering them a number of years ago and currently Skipton International are offering a 100 per cent guarantor facility where a property or asset-owning Channel Island-based parent will put up 15 per cent of collateral or equity to support the facility. There are a number of 95 per cent mortgages as well which have, in the past, been available from a larger number of lenders, to include Newcastle, NatWest, Lloyds TSB. Jersey Home Loans told me this morning they are planning to introduce a pilot 95 per cent scheme in Guernsey. That probably covers it.

The Deputy of St. Ouen:

With regard to these new schemes in the current economic climate that we face, can you give us some idea of what sort of uptake there has been, for instance with regard to the Skipton mortgage that you mentioned earlier?

The Mortgage Shop:

The Skipton mortgage has, very surprisingly, not been particularly popular, particularly in Jersey. It is also available in Guernsey where I understand a larger number of them have been taken up, but I believe that this is partly due to lack of confidence in the current climate, which is the reason why parents may not perhaps be willing to support their children with a 100 per cent facility. In the past the 100 per cent schemes were very popular because we were in a totally different environment; a very buoyant climate with rapidly rising property prices.

The Deputy of St. Ouen:

In your written submission to us, which we are very grateful to have received, you stated that the question needed to be addressed as to whether taxpayers' funds could be put to this type of use, especially as the home owners eventually sell at a profit. Can you just elaborate on some of your thoughts around that?

The Mortgage Shop:

Well, it is not only my own thoughts as a taxpayer but there is also quite a significant groundswell of views which I have heard from any number of people in the last 6 months who are very concerned about the possibility that taxpayers' money is being inappropriately used to enable house owners to make a profit at some time in the future when they sell on their properties. What is not contained within the proposal here is the fact that upon sale of the properties, if the scheme gets off the ground, not only the 15 per cent, which is being lent interest-free to the individual purchasers, has to be repaid but also a profit on any enhanced value of the property at the point of sale. That is correct, is it not?

The Connétable of Grouville:

I am just going to come in there, Peter, because the Minister for Housing and the Minister for Treasury and Resources and the Director of the Population Office all seem to disagree on this. We eventually nailed them down to the fact that what they are going to do, in fact, is put in a notional interest rate on the 15 per cent and if they make a profit they will then charge that interest rate. That is as we understand it was this morning anyway.

The Mortgage Shop:

Right, thank you. That is not mentioned in the report.

The Connétable of Grouville:

I agree with you, it was not clear. We questioned them very deeply about that and that is the impression we got at the end.

The Deputy of St. Ouen:

Absolutely, and we have sought further information just to confirm exactly how this issue would be dealt with because, as you rightly say, providing an interest-free loan for certain individuals to benefit on the sale of their property perhaps would be considered inequitable by some.

The Mortgage Shop:

Yes, I think the old States Loan Scheme, which is now totally defunct and which stopped lending maybe 15 years ago or something like that, what happened is that interest rates of up to 10 per cent were charged but if anybody did not qualify under a means test to pay the 10 per cent, they were able to get the loan down to, I recall, 3.5 per cent. Now, what happened is that a subsidy debt built up within the mortgage which was the difference between 3.5 and 10 per cent and, if at any time during the term of the States loan the mortgage was repaid following the sale of the property, then the States loan had to be paid plus the subsidy debt. So the States (the taxpayer) were never out of pocket. However, a significant part of that scheme also meant that if the term

ran through to full term, the subsidy debt disappeared. If the States really want to sell this particularly proposition not only to their fellow members but also to the general public and the media, who I suspect are going to be very critical of this issue of taxpayers' money, I think there should be something built in, as we were saying before, that an element of profit on resale of the property is paid back. By the same token, I had also understood that, in the event of negative equity occurring when a property which had been purchased under this scheme was sold, less of the 15 per cent would be paid back, once again on a graduating basis. This, I had understood, was the proposal as well. There might be a bit of confusion over this, though.

The Connétable of Grouville:

There is still confusion. We are not sure how they came out of that one because I asked the question what would happen, would they go forward and take over the first charge in order to redeem the second charge, and we could not really get any sense out of that.

The Deputy of St. Ouen:

Are you aware of the First Buy Scheme that is operated in the U.K. and do you have any views on it?

The Mortgage Shop:

The U.K. is so totally and utterly different. House prices are different and the whole culture of purchase and sale in the U.K. is so totally different to here that, while I am aware of the scheme, I cannot really form any compatibility or comparison between it and the local situation.

The Deputy of St. Ouen:

Moving on, I presume you have had a chance to consider some of the house affordability issues that are contained in the report. From your experience, do you think that the figures used in the proposal with respect to house prices and house affordability are a fair reflection of reality?

The Mortgage Shop:

They are. They are most certainly a reflection of reality. For example, if we take the sample of 3-bedroomed houses, which at the peak in June/July 2008 were selling at up to £535,000, those houses have certainly fallen by at least 20 per cent, possibly 25 per cent and, as a consequence, a £410,000 ceiling, which is proposed in this report, is easily achievable. Since being asked to prepare this report, I have been consulting estate agents and even looking through the pages of the *J.E.P. (Jersey Evening Post)* and every night I have been finding between 10 and 25 3-bedroomed or even 4-bedroomed houses for sale well under £400,000.

The Deputy of St. Ouen:

Are you suggesting that perhaps the maximum level is too high?

The Mortgage Shop:

I think it is good to build a little bit of leeway or, in fact, quite a bit of leeway into the scheme because when property rises, which inevitably it will do because of the curious situation of supply and demand in Jersey, then there will be scope to cater for this without the need to go back and virtually reinvent the scheme again.

Deputy S. Power:

May I ask a question, Peter? The houses that you have identified that might fit what the Treasury are saying is the lower quartile of about £410,000 for a 3-bedroom house, how difficult do you think it would be to match the prospective purchaser who might go for a deposit guarantee within the £55,000 to £65,000 eligibility? If we are trying to match somebody who has a limited income to a limited supply of, as you say, £410,000 houses, how difficult it would be to get that process together?

The Mortgage Shop:

Well, what I had mentioned in my report is that I and my colleagues have tested a number of scenarios against the proposal in the report and it works perfectly and, in fact, it works well within the lending guidelines of every lender in the Island. So that is very comforting. What happens is that most lenders will impose a particular maximum percentage which they feel a borrower should spend out of their gross disposable income and these figures, which I have run through here, show that one is barely touching 30 per cent on most of these tests that we done. Whereas lenders will in fact permit anything up to 50 or even 55 per cent of gross disposable income to be spent on a mortgage. So, one is well within the guidelines.

The Deputy of St. Ouen:

Can you explain to us very briefly what the different in practice would be if it was worked on a 50 per cent level rather than a 30?

The Mortgage Shop:

Well, if it was worked on a 50 per cent level then we would be seeing much higher levels of borrowing becoming available through the scheme, which I think would be totally inappropriate because what I did not add is that the 50-percenters or the 55-percenters are those people who are qualified individuals: doctors, accountants, lawyers, advocates, fund managers and people like that. They have a far higher level of disposable income than the people who this scheme is aimed at and, therefore, lenders become a lot more relaxed.

The Deputy of St. Ouen:

Just one last question on that. If one was considering a first-time buyer, looking at the question in the first-time-buyer market, what sort of percentage would mortgage lenders generally consider to be appropriate?

The Mortgage Shop:

There are 4 lenders in the Island who are Skipton, NatWest, Lloyds and ...

The Connétable of Grouville:

Barclays?

The Mortgage Shop:

J.H.L. (Jersey Home Loans) - not Barclays, no - all of whom are offering 90 per cent mortgages at the present moment, but what that 90 per cent represents varies significantly between the lenders because they all have different underwriting criteria.

The Deputy of St. Ouen:

Could you give us an idea just of the range?

The Mortgage Shop:

Between 4.5 times multiple and in excess of 6 times multiple.

The Deputy of St. Ouen:

So there is quite a variability in the mortgages available for those that possibly might have more difficulty in affording a home with one lender?

The Mortgage Shop:

Yes.

Deputy R.J. Rondel:

Peter, do you think the scheme would work if there was only one lender and do you think there are any disadvantages if there is only one lender who signs up to the scheme?

The Mortgage Shop:

One lender apparently has signed up to the scheme. Speaking to all of the 6 banks who have been asked to comment on it, they have all said that once they have a little bit more information they would be very happy to consider and all have verbally told me that they would be happy to participate. Going back to your question, if a lender is asked to provide funding on a block of flats

or on a housing estate they will usually wish to lend no more than 30 to 35 per cent on the total number of units within that development. Now, we are talking about something a little bit different here but it is still a self-contained scheme and one might find a reluctance on the part of any one lender to fund the entire scheme because they could in fact find themselves in hot water in the event of property prices falling and the whole lot then falling in terms of negative equity.

[14:15]

Deputy S. Power:

Peter, what is the general reaction of the primary mortgage lenders, say the 6 that you have mentioned, to sharing security? In other words, Lloyds TSB take a first charge and then somebody else comes in on a second charge. What is the normal reaction to stuff like that?

The Mortgage Shop:

Well, this type of activity is frowned upon and even discouraged by all lenders because what has been frequently happening over the last couple of years is that people who have a first charge, say in favour of Barclays or whoever, will then go to a secondary lender. They have got themselves into trouble with credit cards or their business is going down the pan or something like that, and they will then go to a secondary lender who may well wish to register a charge ranking behind the first lender. Most lenders now, having cottoned on to this, refuse to allow this to happen. Whether they can stop this ... if one has a lawyer who is not prepared to listen to the lenders, he can quite easily register a bond through the Royal Court at 2.30 p.m. on a Friday afternoon without the primary lenders knowing anything about it. So it is a little bit of a hollow threat. Back to what you were saying, though, Sean, all of the lenders I have spoken to ... because I approached the lenders on a negative basis saying: "What do you think? This is a 95 per cent mortgage," which is what it is: 80 per cent primary loan, 15 per cent States loan, 5 per cent deposit. That 5 per cent deposit in many cases will probably not necessarily have been saved. It may well be provided by parents or relatives. All the lenders said: "Well, so long as we are not exposed to a level greater than 80 per cent we are not really bothered." I was very surprised by the reaction but because it is the States rather than a private individual or small lender who is putting up the funding for the second charge, I think that is the reason why.

The Connétable of Grouville:

In your opinion, would these people be acceptable of a scheme where they put up their 80 per cent under the normal criteria and then another 15 per cent under a guarantee from the States rather than having this second charge business and everything else?

The Mortgage Shop:

The States would still be advised by the Law Officers of the Crown to have a registered charge, I am sure.

The Connétable of Grouville:

Would they?

The Mortgage Shop:

I am sure. It is quite a lot of money.

The Connétable of Grouville:

As a guarantor?

The Mortgage Shop:

Yes.

Deputy S. Power:

How do you think the eligibility will work for the scheme? Who do you think will be eligible for the scheme? Do you think there is a lot of pent-up demand out there?

The Mortgage Shop:

Let us face it, people are so scared about the current climate, probably more so in the Channel Islands than in the U.K. because one hears of the confidence and the optimism rising in the U.K. ... indeed Mervyn King, the Governor of the Bank of England, has today spoken very positively about Britain slowly coming out of recession and seeing some very positive signs of growth. Unfortunately, we do not have anybody who can speak with such authority in the Island and the population listens very much to the media which does tend to be a little bit pessimistic about things and all of the constant bad news about retail outlets being closed and building firms going to the wall has not helped. I also add that probably the constantly bad weather has not helped either because we would normally at this time of the year, in our own business, be seeing 65 to 70 appointments a week and I have not seen that since January, February and March last year. Certainly at the present moment we are handling about 30 or 40 appointments a week and the conversion rate, because many people are dipping their toes in the water but not jumping in, is very low. It is very low at the present moment. As a consequence, confidence clearly is not there and we do need to have some really good news put out to encourage people to start thinking without trying to control the market or anything like that.

Deputy S. Power:

So you do think there is a pent-up demand out there and there are people who would be eligible?

The Mortgage Shop:

I believe there is a significant pent-up demand. Many people probably have been waiting for 4 or 5 years for the opportunity to get their foot on the bottom rung of the ladder.

Deputy S. Power:

Coverage this morning on the BBC said there would be hundreds of people eligible for this scheme. In actual fact it is £3 million and if your average deposit is £40,000, we are talking about something in the region of 60 to 80 applications that may be successful.

The Mortgage Shop:

Yes.

Deputy S. Power:

So is not a lot. Do you think this will help the market?

The Mortgage Shop:

It is not a lot but, by the same token, I have had 4 or 5 calls or emails this morning from potential subscribers to the scheme and, putting them through our means test, none of them needed to be raising the level of funding which is shown as being the maximum within the scheme because prices have fallen so significantly. You may well find, rather than the pilot scheme offering to 100, it might get up to 125 or 130 perhaps; the flip side of the coin.

The Deputy of St. Ouen:

Obviously we are looking to make sure that the scheme is as fair and equitable as possible. In your opinion, is that the case?

The Mortgage Shop:

Yes, for the people at whom it was aimed. I feel very sorry, though, for the young professionals returning to the Island after having been at university, training college or further education for between 5 and 7 years, who have paid their own way or whose parents have paid their way, coming back to the Island with significant student debt, which most of them, whether they liked it or not, would have accumulated, but with very good incomes. Let us face it; a couple of young professionally-qualified individuals will soon be earning well in excess of £100,000 between them. They are clearly not going to be able to eligible for this scheme, but they have still got to establish themselves for the first time, having been in further education for so long. They have had to buy

all the chattels of life, such as a bed and clothes and transport and all the other bits and pieces, and they do not stand a chance of becoming property owners for probably 2, 3 or 4 years. They are the ones who are being pushed into a bit of a corner by this privileged route.

The Deputy of St. Ouen:

Is there any way, as you see it, that we could address that issue within the current scheme by extending or expanding it?

The Mortgage Shop:

Well, it could be extended but then there is going to be even more criticism of the fact that taxpayers' funds are being used to enable people to make a profit.

Deputy S. Power:

Do you have any concerns on the application process itself and how it can operate, in terms of how the banks assess or how Housing assesses? How do you think that is going to work?

The Mortgage Shop:

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. What does bother me significantly is the fact that I believe that the allocation process or the acceptance of applicants to the scheme could be open to abuse. 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 - with Data Protection preventing us from saying anything - 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.. As a consequence I think that the whole question of the allocations side of things has to be looked at very closely and a very tight safeguard built in to make sure that people are genuine applicants.

The Deputy of St. Ouen:

With regard to the applicants themselves, you say that there need to be sufficient safeguards. How would you propose to do that? How do you suggest that is done?

The Mortgage Shop:

People are going to have bare their chests very much to answer very searching questions and one can establish, certainly by undertaking an ordinary Know Your Client procedure, whether people are resident in the Island, what their intentions are and looking at their expectations and aspirations with their employers. Anybody on a short-term contract might just have come over and got a short-term job while they have left behind a permanent job in the U.K. or elsewhere in the

world. Any number of people would be only too happy to subscribe to the scheme because they are thinking of returning to the Island sometime in the future. They do not know when, but want to make sure they have a little pied-à-terre set aside for themselves at some time in the future. Those are the sort of scenarios that I think have to be very carefully researched.

Deputy S. Power:

On the application process, Peter, do you think there will be more applications coming from potential purchasers of flats or do you think there will be more applications coming from the standard 2 or 3-bedroom house? Where do you think the demand is and what do you think will happen given it is a small scheme?

The Mortgage Shop:

I think the demand is more likely to come from people wishing to purchase one and 2-bedroom flats and the figures which I did not give you show that, with a one-bedroom flat, the deposit on a purchase price of £171,000 would have to be £8,550 and the fairly accurate estimate of costs, which are going to be legal fees, valuation and all of that sort of thing - no stamp duty or share transfer of property tax because obviously most of these purchases fall outside of that completely - will be £3,744. So for a one-bedroom flat an applicant is still going to have to find a total of £12,294.

Deputy S. Power:

Yes. So that is a significant sum.

The Mortgage Shop:

If we look at the other end of the scale, the £410,000 house purchase, the applicants are going to have to find £20,500; on top of which their fees will be £7,152. So the total cash they are going to have to have in their back pocket is going to be £27,652. Now, that is still going to mean that many applicants, while wishing to subscribe to the scheme, will be unable to do so.

Deputy S. Power:

Yes. That was my next question.

The Mortgage Shop:

I believe that one and 2-bedroom flats will be a lot more popular perhaps than the 3-bedroom houses.

Deputy S. Power:

Can I follow this through? Let us say the one and 2-bedroom flats become the majority demand area. How does that work then with security?

The Mortgage Shop:

No problem because most of these will be share transfer flats. A security interest agreement will be held by the principal lender and the States will be able to follow on with a second charge or a second security interest agreement.

The Deputy of St. Ouen:

I am interested to hear you say that you believe that most of the properties will be share transfer flats because, as I understand the scheme, it is designed to capture properties in the lowest 25 per cent of the market value for that particular type of accommodation. That does not necessarily draw one's mind particularly straight away to share transfer flats as fitting in that category.

The Mortgage Shop:

Yes.

The Deputy of St. Ouen:

You say: "Yes," but if we are saying that share transfer flats would not necessarily fall into the bottom 25 per cent category price range, then how can we say that the majority of property that will be sold will be share transfer?

The Mortgage Shop:

Because in the last couple of years the activities of several large developers in the Island have swallowed up most of the first-time purchasers looking to purchase flats and, as a consequence, there is a huge surplus of one-bedroomed share transfer flats currently on the market. Share transfer flats have a lower-value usually than a flying freehold flat. That is the reason I am saying specifically share transfer. However, I have 2 applicants who have come to see me in the last couple of days who are both buying freehold houses, one or 2-bedroom freehold houses, for under £230,000. As a consequence, one could apply the 2-bed flat principle to those freehold houses as they qualify very easily within the criteria.

The Deputy of St. Ouen:

We talk about housing affordability. I think we all recognise that, whether we like it or not, not everybody is going to be able to afford their own home. There will always be individuals that will, for various reasons, choose to rent or be required to rent.

The Mortgage Shop:

Yes.

The Deputy of St. Ouen:

If you are saying to us that the market has adjusted and that prices are becoming more affordable for a larger group of people, my question is, why do this now, because there could be a risk that this could help to inflate prices within the marketplace.

The Mortgage Shop:

Many critics of the States will probably say that this should have been introduced several years ago rather than now. Certainly now, I believe, is the appropriate time to be doing so because the fall in house prices is certainly levelling out or flattening. I still believe, however, that we will see further falls in house prices. I will not quantify it. It might be 2.5 or 5 per cent, but that is just the name of the game at the present moment while lack of confidence continues to reign in the Island.

[14:30]

The impact on the housing market; I believe that this is still too small a scheme to have a major impact and - repeating what I said earlier, that I believe house prices still have a little way to fall - I think that if the scheme is introduced now it will have no impact whatsoever on housing prices.

Deputy S. Power:

Can I ask a follow-up question on that? Peter, you were good enough to go through the legal costs of what might happen to the prospective ...

The Mortgage Shop:

Yes.

Deputy S. Power:

Two quick questions. Number one is: will prospective purchasers face 2 sets of legal costs? Obviously the bank will be one set and perhaps the agent for the States might be a second, although we have been told it might be the one law firm. Is that an issue? The second one is you said that a second charge on freehold, on simple public sector places, are going to be okay, but on share transfers and on flying freehold it will not be an issue. Given your experience of second charges on flying freehold or on specifically share transfer, is there a reason why there are so many share transfer flats on the market?

The Mortgage Shop:

It is very rare to find any owner looking for a second charge against a share transfer property because they are less likely to get themselves into financial difficulty than somebody who has a much larger mortgage on a house. As a consequence, the majority of second charges we have seen are being applied to freehold houses rather than flats, either share transfer or flying freehold.

Deputy S. Power:

So in this situation, where you said that you thought that the majority of demand might be share transfer flats or flying freehold, what would happen to this pilot scheme if perhaps the majority were share transfer flats or flying freehold flats? What will that do to that legal process?

The Mortgage Shop:

It will not make any difference. Picking up on what you said a little earlier in terms of legal fees, there will be a certain nominal element in respect of the registration of the second charge. Normally stamp duty would be applicable to the borrowing but, once again because these are first-time buyers, the provisions of the subsidy scheme will effectively mean that there will be no stamp duty or share transfer property tax applied. There might be another couple of hundreds pound maybe, for registration costs in favour of the States.

The Deputy of St. Ouen:

It is suggested that those who already own a property by share transfer or a first-time-buyer property will be able to access this scheme. Do you think that is appropriate for a scheme that is designed to encourage home ownership for a group of people that otherwise would not be able to do so?

The Mortgage Shop:

I have been asked that question many times in the last couple of days as well; so clearly it is in the minds of many people who are currently owners of flats wishing to trade up and start a family. Now, certainly if they were trading up and selling their flat they should be able to pull together at least a 5 per cent deposit, after sale costs and, therefore, they could still be eligible for the scheme. Indeed, under the Jersey Home-Buy Schemes, and I recall also with the States Loan Scheme originally, anybody who has owned a flying freehold or share transfer flat is still eligible and enjoys first-time buyer status in regard to qualifying for these States schemes.

The Deputy of St. Ouen:

I hear exactly what you are saying and we all appreciate the current rules and regulations that apply. What I am saying is, with the new scheme that is specifically designed to include people that otherwise would not own a home into that category, do you think that it is right that we should

be providing interest-free loans for people who already own a property - I accept that their circumstances can be difficult - to upgrade or is it a case of encouraging individuals to get on to the property ladder in the first place?

The Mortgage Shop:

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 allowing flat owners to move up the scale, it is then making the places that they vacate available to the one and 2-bedroom applicants under this deposit scheme.

The Deputy of St. Ouen:

I think you said earlier that at the moment there is a surplus of one-bedroom and 2-bedroom flats.

The Mortgage Shop:

Yes.

The Deputy of St. Ouen:

So the vacating of a currently-used one or 2-bedroom flat would not necessarily have a significant effect on the market.

The Mortgage Shop:

No, I agree. It is a good argument though, is it not?

Senator S.C. Ferguson:

You have said that this scheme is so small that it will not have an effect on the market and we have just mentioned the fact that there is a feeling that there is excess capacity in the housing market. What is your feel for the size of the market for this particular tranche of people in the bottom quartile? There is talk, if the scheme is successful, to have a further one. How big are we going to get it before we really start affecting the market?

The Mortgage Shop:

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, many of them within this...

Senator S.C. Ferguson:

What about the rental properties as well?

The Mortgage Shop:

Also rental properties.

Senator S.C. Ferguson:

Yes. I get the feeling that there is a lot of rental accommodation available, which are possibly properties that people cannot sell.

The Mortgage Shop:

Yes, I think there are also quite a lot of rental properties available because many occupants or tenants of the smaller units have probably gone back home to stay with mum and dad because they can no longer afford the rents. There is a totally different attitude which prevails on the Island now. It is an attitude of thrift, of austerity. People used to come to us 5 or 6 or 7 years ago and they would have credit card debt of between £30,000 and £80,000. Now, to have £5,000 or £6,000 credit card debt is the norm. Many people never use credit cards other than paying them off every month. As a consequence, more and more people now are realising that they have to start looking after themselves and start saving towards a deposit and so there are a lot of people who have gone back home to be able to achieve this. That is the reason why there are probably more rental flats available in the market and probably more rental houses as well.

Senator S.C. Ferguson:

Yes. So we are talking, you reckon, about 1,000 units available?

The Mortgage Shop:

Yes.

The Connétable of Grouville:

You said you had a lot of queries this week or emails asking questions about this scheme. What else do you think is needed to be publicised in order to make it clearer to people and also is there anything there that you think is missing that we should include or the States should include in the advertising or the selling of the scheme? Is there anything there you think is important that has not been included?

The Mortgage Shop:

This scheme has to achieve popularity inside the Chamber and outside. Particularly outside I think there has to be a sweetener with it and that sweetener has to be centred around the fact that the

taxpayer is, medium to long-term, not going to be out of pocket, as we discussed much earlier. I really believe that is the case because what is repeatedly said is: "Why should it be taxpayers' funds that are being diverted to this."

The Connétable of Grouville:

We have had those submissions coming in.

The Mortgage Shop:

In terms of anything that is missing from the scheme itself, no because the fundamentals of the application process and so on are not shown in here and that is really where the detail has to be.

The Connétable of Grouville:

Yes. That is what we worried about this morning. We have been asking a lot of questions on the fine-tuning, which is missing at the moment, for instance. You were not clear on the interest rates or the profit shares to be charged at the end of the 20-year agreement, which we did not know about either until this started. So those sort of things, I think, need to be publicised a bit more clearly so that people know exactly where they are. As to the way they are going to set up the charge, should it be tied to the primary lender's rate or should it be an ad hoc? We just do not know at this stage, but we are coming up with what we think would be the answer.

The Mortgage Shop:

Well, the primary lenders are obviously there to make a profit. Should the States be seen to be making a profit out of the charges they are imposing?

The Connétable of Grouville:

But, there again, that goes against the people who are saying that we are...

The Mortgage Shop:

Exactly. I really believe that there has to be the safeguard at the end of the term or in between times if the property is sold. It is very important to have something there.

The Connétable of Grouville:

Yes, if they sell it after 5 years or 10 years, which is quite possible. I do not know how long people stay in homes these days.

The Mortgage Shop:

People used to move house every 7 years on average. Not in Jersey, but in the U.K. where there is a far greater choice. But I believe that over here many people, once they have got themselves a 3-bedroomed house, they are probably there for life, I would have thought.

Deputy S. Power:

Only because it is such a painful process. My next question is the Constable of Grouville has alluded to the fact that there is a lack of information in the report and proposition as to how the mechanics of this thing work. You have expressed some concerns about taxpayers' money being used. Is there anything else that you think may cause a problem as it goes out into the market in terms of the bank knowledge, the litigation side of it or the conveyancing side? Is there anything else you feel the States have not looked at or need to look as a matter of some urgency? There is no template for this.

The Mortgage Shop:

No. What I would like to see in this is greater flexibility because we have a very simple statement here about one-bedroom flats up to a maximum price of £171,000, 2 beds up to £262,000 and 3-bed house up to £410,000. There needs to be a blurring of the barriers between those because, as I said earlier, it is quite possible that many people will be coming to the States looking to buy a 2-bedroomed house, which actually falls into the bottom end of the 2-bedroom flat category. So it is just sort of terminology, I guess.

The Connétable of Grouville:

These are, they say, average rates or mean positions. So they cannot be set in stone.

The Mortgage Shop:

Yes, exactly. Back to what you were saying, Sean, I think this is fine as it does, but the devil is in the detail, is it not?

The Deputy of St. Ouen:

One of the criteria lays out a maximum level of liquid assets.

The Mortgage Shop:

£9,800, was it not?

The Deputy of St. Ouen:

Yes, that a single person can retain and in fact it goes up to £15,200...

The Mortgage Shop:

Yes.

The Deputy of St. Ouen:

I just wondered if you could give us some indication of what generally mortgage companies or lenders would view as a reasonable amount of liquid assets or do they not take that into account?

The Mortgage Shop:

It does not apply. This is a means-tested scheme, which is aimed specifically at people who cannot afford to get on the proper ladder without its help, and, therefore, that is the reason why the liquid assets of £9,200 up to £15,200 apply. With a conventional lender, a bank or a building society that would not be required to requested.

The Deputy of St. Ouen:

Bearing in mind that a mortgage lender or bank would be charging interest on the money it lends and in fact the States are choosing to offer an interest-free loan, my question is do you believe it necessary that this quite significant amount, I maintain, of liquid assets should be able to be accumulated or retained by the individual rather than used to help purchase their home, which we are indeed going to be supporting?

The Mortgage Shop:

I could not agree more. However, the reality of things is that most people do like to have a rainy-day fund if at all possible. We have seen so many hundreds of people made redundant, suffering unemployment, and many of those would not have survived if they had not had a rainy-day fund plus their redundancy and the likes. Also, one never knows what the future holds and I think that people who do not have a certain amount of cash stashed away are putting themselves up for a fall in the event of anything unfortunate happening in their lives.

The Deputy of St. Ouen:

Absolutely and I totally agree with you. But you just told us, as I understand it, for the general man or woman in the street that wants to take out a mortgage, the mortgage company will not consider whether that couple of individual will have any liquid assets or access to further reserves over and above what they are using to purchase their home. So why single out this group or treat this group differently to anybody else?

[14:45]

The Mortgage Shop:

Well, it has been a basic principle of the States of Jersey always that, if they are offering any form of subsidised service, liquid assets are taken into account. The same thing will apply, for example, to somebody applying to the Housing Department to become a States tenant. Now, liquid assets are examined very carefully and if someone has £40,000 in their bank account then they will be rejected and the same thing applies here. I think this is making sure that the scheme is offered and allocated as fairly as possible.

The Deputy of St. Ouen:

I hear what you are saying, but I just want to press you on this. We are talking about once the 5 per cent deposit is paid that it is going to be acceptable and that people will meet the criteria to access interest-free loans as long as they have £9,200 in the bank or less. If they are wanting to maximise their ability to purchase a home, generally the individuals use all of the funds available to purchase that home. I am just wondering, whether you set aside the money or not, why would the individual need to borrow the overall amount of money if they had, for argument's sake, £9,000 in the bank which they could use to support and go towards paying a mortgage.

The Mortgage Shop:

I quite take your point. I think this is just a safeguard that has been built in by the author of this report to make sure that the deposit scheme is allocated as fairly as possible. In reality you probably will not find that people have that sort of money. I would expect applicants to have a couple of thousand set aside, but not that sort of money, I do not think.

The Deputy of St. Ouen:

I think you are absolutely right. My experience is that people use all of the fund available when they are purchasing a property.

The Mortgage Shop:

Do remember, however, that sometimes people will keep back an element of funds if they are getting the property they are buying at a really good rate because it needs to be redecorated or it needs a new bathroom or it needs a new roof or something like that. Therefore, that sort of thing would apply then.

The Deputy of St. Ouen:

I suppose that is the other question. If we are focusing and requiring people to buy property in the lowest 25 per cent price value of, let us say, a one-bedroom flat, it is likely that that property will not be perfect.

The Mortgage Shop:

Exactly.

The Deputy of St. Ouen:

Otherwise it would be at the top rate.

The Mortgage Shop:

Selling for a higher value. Yes.

The Deputy of St. Ouen:

What view do mortgage lenders take on first-time buyers buying property where it is likely that an additional investment would be required? Is that taken into account at all?

The Mortgage Shop:

It is taken into account but the protection is given by the preparation of the valuation for mortgage purposes. This is carried out by an Associate or a Fellow of the Royal Institute of Chartered Surveyors. That valuation report goes to the lenders and is quite nit-picky in respect of the condition of the structure. It will also refer to whether a cosmetic upgrade is needed, which is really just paint and wallpaper and so on and so forth, and the lenders will only start to get concerned if there is a call for a structural engineer's report to be carried out or a closed-circuit television survey of the drains because there appears to be subsidence or a timber and damp report is required because of rising damp or wet rot or insect infestation and things like that. Quite a lot of these problems are cured relatively cheaply, but the whole control of this will lie with the lenders and if they feel that there is too much work there for the purchaser to undertake then they will reject the application at the last minute. By the same token, if the work that is needed is roofing work or something like that and the principal borrower is a chippy then, once again, they will take a view and maybe say: "Yes, of course." So every case is judged on its own merits.

Deputy S. Power:

Can I come back to the mechanics of this? You said earlier, Peter, that in your opinion, given the size of the scheme, the majority of the scheme might be used to finance flats as opposed to houses and then you gave the very useful picture of the market out there; of the theoretically 1,000 units two-thirds are flats and a third are houses. Is that an ideal situation whereby the States would create a scheme which will in actual fact accelerate the sale of flats in the majority and not houses and what do you think that achieves? It does achieve a commodity but what does it actually achieve? Do we need more houses or fewer flats? If you could answer the 2; let me know what it will achieve if we sell more flats?

The Mortgage Shop:

The fact is, I think, that the Island suffers from scarce resources in terms of sites for new development and everybody covets a 2 or 3-bedroomed house, not a one-bedroomed flat. In the past it was very easy for young first-time buyers without children (sometimes individuals rather than couples) to purchase 3-bedroomed houses and they, therefore, jumped any number of rungs up the property ladder. I believe that there has been a fundamental change in the attitude that has to be adopted, whether they like it or not, by first-time buyers and that they will be having to buy flats and live in flats for the rest of their lives because they will never be able to afford houses. As time moves on, think ahead maybe 5 decades' time, will any more houses be built in Jersey? More and more people will therefore find themselves having to live in flats. That hopefully answers your questions as to the reason why there is this bias towards flats at the moment.

Deputy S. Power:

Essentially you are agreeing what I am saying, that the scheme will enable the sale of flats?

The Mortgage Shop:

Yes.

Deputy S. Power:

The financing of flats.

The Mortgage Shop:

Yes.

The Deputy of St. Ouen:

I want to touch briefly on how you see the scheme working in practice because we are told that there is a limited amount of money available. There could be up to, if we look at one set of statistics, 1,000 people that could be eligible; although, in reality, I think we have mentioned it could be 60 to 80 people. So can you just talk us through the general process that a purchaser would follow in first securing a mortgage and then purchasing a property and how that would be reflected in this scheme.

The Mortgage Shop:

The prospective purchasers would tackle the situation 2 ways. Especially at the launch of the scheme and the amount of publicity and media coverage given to it, many of them will, I hope, be talking to Housing about their eligibility and hopefully they will come to us for the mortgage. If they have not already been to Housing, we would be pointing them in the direction of Housing. Well, we would know what the parameters of the scheme would be by then in any case. So we would

then be able to roll out not just what options are available from the 6 lenders on the Island, we would come up with a seventh option: the States Deposit Scheme: "How about considering this?" Those are the 2 ways in which people would first learn of this. Then if we felt that they were eligible for the deposit scheme we would obviously put them in touch with the relevant individuals within the Housing Department to see whether they are eligible and, if we gained the impression that they were likely to be considered favourably, we would then be moving forward with application to whichever lender we were recommending as being the best to offer them the finance in this particular case. The valuation report that would be prepared on behalf of the lender could also be made available to the States so the Law Officers of the Crown could satisfy themselves that the equity and value was there in the property and the whole process would follow along like that. On the day that the bond was registered and the property changed hands, the first bond that would be registered would be in favour of the principal lender and then immediately after that would be the one in favour of the public of the Island taking second ranking for the deposit.

The Deputy of St. Ouen:

When would the client need to have confirmation that they were going to get the 15 per cent? At what stage?

The Mortgage Shop:

They would need this pretty early on and what we would be encouraging many of our clients to do, if the scheme does come to fruition, is we would be asking them to go and get a bit of paper from Housing first of all before doing anything more.

Deputy S. Power:

So you are suggesting they will get some sort of approval on the eligibility gateway before they target a property?

The Mortgage Shop:

Yes, definitely.

Deputy S. Power:

Inevitably what will happen is they will find a property and then go to the ... the other way round.

The Mortgage Shop:

Yes.

Deputy S. Power:

How do they get approval from Housing if they have not got a specific property?

The Mortgage Shop:

Do they need one?

Deputy S. Power:

I would have thought so.

The Mortgage Shop:

We obtain approval many times for our clients without them even having found a property to buy. That then enables them to go out into the marketplace, they know what the maximum is that they can borrow and therefore ...

Deputy S. Power:

As I say, that might have been the case 4 or 5 years ago. Is that still the case, where you get ballpark approval?

The Mortgage Shop:

Very much so. Yes.

Deputy S. Power:

You get approval and approximate figures and then go and find a property?

The Mortgage Shop:

Yes, and that approval will last for 3 months and then we freshen the application with new financial documents if clients have not found something within that period. One would assume that the same would apply to the Housing side of things if they have not found anything within that time.

The Connétable of Grouville:

Peter, how do you think the primary lenders will react to being managers of the whole system? Not necessarily managing the collection, but managing the credit-worthiness and the assessment of the people coming in?

The Mortgage Shop:

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 ...

The Connétable of Grouville:

Yes, I had not thought of data protection.

The Mortgage Shop:

... which includes valuation and confirmation of income and that sort of thing perhaps.

The Connétable of Grouville:

Yes. That would have to be because you would have an assessment for affordability. I mean that is what we are looking at here.

The Mortgage Shop:

Yes.

The Deputy of St. Ouen:

Just thinking about the process you just outlined, we could have 50, 60, 70, 80 or even 150 people being given an indication that they would be eligible for the scheme and they need that confirmation before they move on to the next step. Obviously they know the sort of sum that they are able to spend to purchase a property. We are also told and the Minister for Treasury and Resources was very clear that there was only £3 million available. Once that is gone that is it. So it is totally limited. My question to you, obviously because you know how the market works, what happens to the individual that is being given that indication that they can have the deposit but then finds that when they complete the money has run out?

The Mortgage Shop:

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.

The Deputy of St. Ouen:

I fully concur with your view but that is not what the documents that we have been provided with say. It says: "This is very much a 6-month scheme. It might not be repeated. There is only £3 million available." So my question to you is, bearing all of that in mind, how worthwhile is the scheme and are you concerned that we are going to end up raising expectations from a whole group of people that currently are struggling, for various reasons, to raise a deposit, believing that they will now be able to afford a home only to find that they are told: "Sorry, you are too late"?

The Mortgage Shop:

Well, this is a fact of life and I am afraid this will not be the first time this has happened. The various versions of the Jersey Home Buy Scheme did result in many people being bitterly disappointed because they were given keys by the Housing Department to go and inspect properties without even knowing whether they could afford them, and most of them could not; so exactly the same argument applies. This has to be managed very carefully and, for once, people's personal feelings have to be taken into account far more carefully than ever before.

The Deputy of St. Ouen:

Thank you very much. Does anybody else have anything to say? On behalf of the panel, I would like to thank you very much for coming and speaking to us. I hope it was a pleasurable experience.

The Mortgage Shop:

It was indeed, thank you.

The Deputy of St. Ouen:

If you do have any thoughts on what we have discussed or any further information that you would like to provide to us, please feel free to contact and submit it to our Scrutiny Officer.

The Mortgage Shop:

Thank you very much. There is one minor point. On page 2 of my report to you the bottom paragraph states in relation to legal fees: "Significant reductions are available to first-time buyers in respect of stamp duty and share transfer property tax and a 40 per cent discount on legal fees." I think I should explain that when the Jersey Law Society abandoned their scale fee, which is one per cent of purchase price, when the competition legislation was brought in all lawyers then felt they had to start discounting from that one per cent and that 40 per cent here would in fact be a 40 per cent discount on the original scale fees, not on any fees currently prevailing.

The Deputy of St. Ouen:

Thank you very much and, with that, I will close the meeting. I thank the public and members of the media for attending and we look forward to seeing you at our next public hearing.

[15:00]