STATEMENT TO BE MADE BY THE VICE-PRESIDENT OF THE HOUSING COMMITTEE ON TUESDAY, 20th MAY 2003

The States Loan scheme was brought into being in 1950 by virtue of the Buildings Loans (Jersey) Law. Since that time until the early 1990’s the scheme was virtually the sole source of funding available to first-time buyers seeking to purchase their first homes.

Following the rezoning in 1989 of substantial areas of land for first-time buyer development, the Committee brought into the market place some 500-600 units of affordable accommodation to purchase. In the early 1990’s there was much competition from the commercial lenders offering attractive rates of interest often targeted at first-time buyers and as a consequence demand for loans from the States diminished considerably.

In 1992 the States approved an amendment to the Building Loans (Jersey) Law implementing a variable rate of interest for all loans granted after that date, commencing at 11 per cent and, as commercial rates started to reduce, this figure was also reduced to 10 per cent where it has remained ever since. As commercial rates fell further and as a result of the increased supply of first-time buyer houses caused by the rezoning, the Treasury identified that the potential outflow of funds from the Dwelling Houses Loan Fund could exceed that currently available. In view of the increased availability of loans in the commercial sector it was decided to maintain a higher rate of interest for the States loan scheme not only to encourage new borrowers to seek alternative sources of finance, but to encourage existing borrowers to move their loans to the private sector.

Since 1994 the maximum interest rate on loans has remained at 10 per cent and the minimum as low as 3 per cent depending on income. Several years ago, the Housing Committee considered a proposal to allow any interest paid by a States loan borrower above the standard market rate to be offset against any subsidy due to be repaid to the States by virtue of an earlier reduced rate granted. This proposal was complex, had considerable financial implications for both the States and borrowers and would have required States approval and a change in legislation. A final decision on this matter has been somewhat delayed while officers of the Housing Department and the States Treasury sought, amongst other things, to resolve difficulties in utilising existing computer systems to meet the requirements of the proposal should it have been approved. The Housing Committee had proposed that if proposals were approved by the States, the effect would be backdated to the date of the original proposal in 1998.

Having now consulted further with the Finance and Economics Committee, it has been decided that within the current economic climate the outflow of funds caused by any backdating could not be justified. In addition the Housing Committee has taken the view that with the low level of take up of loans at the present time to make these proposals effective from today is unnecessary and would be unfair on existing and previous borrowers.

However, in view of the current level of commercial interest rates being around 5 per cent, compared with the maximum interest rates still applicable to States loans being at 10 per cent, the Committee has decided, in consultation with the Finance and Economics Committee, to reduce the maximum States Loan interest rate to 7.5 per cent, with effect from 1st June 2003. This reduction will apply to all current loans in force at that time that are subject to variable rates. An Order has been made putting into effect this reduction.