P-04-487 A Welsh Government deposit loan scheme for first time Welsh home buyers – Correspondence from the petitioner to the clerking team, 30.09.13

I read Carl Sargeants response letter of 2nd July to this petition and his initial proposals for a Shared equity scheme in Wales, with interest. Anything that is aimed at helping first time buyers is of course a welcomed development. However, except for the general idea of a (deposit) loan scheme that would be interest free for five years, the suggested 20% Welsh government Shared equity guarantee scheme can't be a sensible, sustainable or financially prudent way forward for the Welsh Government. The potential dangers of the Help to buy and the Shared equity scheme on an UK wide scale have been voiced over and over in the British press as demonstrated in selected examples below:

*Officials at The Institute of Directors said:

"the world must have gone mad for us to now be discussing endless taxpayer guarantees for mortgages"

*Robert Carroll of The Scottish MOV8 Real Estate firm of solicitors and estate agents, said:

"Anything that is aimed at helping First Time Buyers is of course a welcome development. First Time Buyers are the life blood of the property market and without people being able to get onto the property market the market is not as healthy as it could be. First time buyers have been struggling to gather a deposit in recent times because the deposits required by lenders have been higher than they were at the peak of the market in 2007 so, on the face of it, it's good for buyers with smaller deposits that the government is going to underwrite the banks who lend to such buyers, though since the scheme is not just aimed at First Time Buyers it is debatable about whether the scheme just allows lenders to offer even safer loans to people who already have enough money put aside and are moving up the property ladder or buying a second property. However, buyers' inability to purchase a property or get a mortgage is not just about deposit levels. The lenders' criteria about whom they will lend to have also tightened, making it more difficult to get a mortgage even if you do have the required deposit. It is of course helpful if the government will underwrite the mortgage, but it doesn't address the issue of the tighter criteria for whom the lenders are prepared to lend to.

The shared equity scheme for new build properties, with a 20% interest-free loan being provided by the government, will of course help people to get onto the property ladder. A significant chunk of money (about £266 million) has been earmarked for Scotland but it's up to the Scottish Government to decide that it actually wants to implement a scheme north of the Border. However, my concern is that new-build properties tend to drop in value as soon as you turn the key in the front door. So unless property prices rise in the interim period, anyone looking to move-up the property ladder will have to make a loss to do so and that will discourage people from actually moving.

By encouraging buyers to buy new build properties which carry with them a developer's premium whereby the value of the property is likely to be lower than the purchase price as soon as the buyer turns their keys in the front door, this is likely in my opinion to ensure that, although buyers are getting onto the property ladder, they are less likely to be able to move up it. In addition, by supporting only the new build and not second hand sector of the market, I am concerned that builders will be less likely to be prepared to be competitive with the pricing of their new build units because they have been given an artificial leg-up compared with the second-hand properties on the market that would normally provide stiff competition to them. All of this makes it unlikely as far as I am concerned that the buyer is going to get a good deal and that once they are on the housing ladder they will then be able to move up it, the one thing that will actually have the desired effect of stimulating the housing market.

My concern is that the initiatives perhaps don't address the root causes of lower activity levels within the housing market in recent years and that, although they may help buyers onto the housing ladder, they might not help them to move up it in years to come.

Another root cause of the slow-down in the housing market has been a general lack of confidence in the market and this has been the result of general economic doom and gloom, people losing their jobs and the realisation that property prices most certainly can go down as well as up. Simply providing funding for buyers doesn't address the lack of confidence that buyers will have in wondering whether the asset they have just bought will go down in value in the next few years.

As far as I am concerned, the big winners here are the builders and the lenders. The builders have less incentive to be competitive with their pricing and are given an artificial advantage versus the second-hand property market. The lenders have less risk because the mortgage is backed by a government guarantee. The big question is whether all of these ideas and the amount of public funds being poured into them will actually will help the right people, will help those people for years to come and will actually stimulate movement in the property market. The alternative is that they will simply fill the coffers of house builders, will be used by UK lenders as a way of de-risking their current lending positions and will put people in a position, under the next UK government, where they are unable to move home at all because they are, in real terms, in negative equity in their new build homes.

I have to say that I am less than convinced of the effectiveness of any of these initiatives!"- http://www.mov8realestate.com/index.php?option=com_k2&view=item&id=145#sthash.RbdOjIjl.dpuf

*The Guardian newspaper and many other news media also reported that this scheme in general would be economic madness:

"Offering taxpayer subsidies for high loan-to-value mortgages worth up to £600,000, just as the incorrigibly boom-bust British housing market is moving from stop-to-go mode, is at best risky, at worst, downright reckless"
http://www.theguardian.com/business/economics-blog/2013/sep/27/help-to-buy-george-osborne-concession

*Money week stated:

"In case you missed it, George Osborne plans to offer loans on new builds of up to 20%. And more daringly, he plans to offer guarantees on mortgages. The idea is just like that of a doting parent, who offers to put up their own assets should things go wrong with the bank's loan.Long gone are the days when the banks would extend 95% loans (or higher!) alongside fantastic teaser deals with low rates. So when the government effectively says, "we'll put up the other 20%" and brings back the classic 95% mortgage, that obviously has its attractions for many. The chancellor is counting on his policy to bring serious sub-prime lending to the UK and to kick-start the economy... This policy scam needs one thing in order to work: interest rates have to stay pinned to the floor."http://www.moneyweek.com/news-and-charts/economics/uk/budget-2013-now-osborne-is-all-in-63222

In view of all this I would therefore urge that Carl Sargeant re look at the initial Sovereign Wales petition for a Welsh Government annual capped deposit fund for the first time house buyers of Wales rather than a bureaucratic and meddling Help to buy or Shared equity Scheme . The Sovereign Wales deposit plan proposes that Welsh mortgage companies would also need to take part in this scheme and agree to ask for no more than 5% of a deposit on any suitable property. The lenders' criteria about whom they will lend to should also be simplified and made easier for the people wishing to apply for the deposit scheme to get a mortgage. This I believe would be a far more practical, more helpful and un-meddling policy for Wales to take.

This for example would also mean that up to 15,000 Welsh first time house buyers (first time buyers whose earnings are below a certain threshold and have lived or worked in Wales continuously for at least 10 years, or have full time business links to Wales) could be helped annually with a deposit loan of around £7,500 each for an averaged priced house of a house valued at up to £300,000 or so, with the interest payments deferred for 5 years as Mr Sargeant suggests (It’s proposed that the loan itself as could possibly be part deferred as well for some of this period) Once lenders and buyers agree to the scheme, and up to a capped amount, the properties in question could also keep their eligible occupancy clause, as happens with similar schemes in the Peak District and North York Moors National parks - hopefully catering for the next generation of new house buyers.

As previously stated, this scheme would help to get families and individuals on the property ladder and give them a chance to live and work within their own areas and not be priced out of the market by unreasonable average wage to property price ratios whilst also ensuring more money stays within local economies, boosting a more sustainable and productive Welsh economy in general.

Incidentally, as mentioned in another Sovereign Wales petition, the possibilities for a Welsh public bank to play a part in these annual capped deposit loans should also be considered.