

P-04-487 A Welsh Government deposit loan scheme for first time Welsh home buyers – Correspondence from the Petitioner to the Committee, 25.05.14.

Annwyl Mr Sargeant,

Thank you for your latest response to the Sovereign Wales petition asking for a deposit scheme for first time Welsh home buyers. With approximately 15,000 new home buyers in Wales annually according to a 2005 report, it is thought that around half of those would be likely to take advantage of the proposed deposit offer. This would mean that, annually as an example, 7,500 lower earners could receive a 5% deposit of £7,500 for a new home at an average home price of £150,000, amounting to a total annual loan fund figure of £56 million a year. In essence this would be a 'Finance Wales for houses' fund. However, interest rates could obviously be less business orientated than Finance Wales, with a small admin fee for the first couple of years before the gradual repayment process started with a proposed minimal interest that is just over the base rate.

This annual capped fund by the Welsh Government could therefore be of enormous help to first time home buyers in Wales whose earnings are below a certain threshold, as long as they were properly means tested of course, and also fell within the local residency test or worked / had a business within the area. Even a less ambitious fund of half this figure again at £28 million a year would provide a deposit for an impressive 3,750 lower income new home buyers a year. I can see no reason why renters needing deposits couldn't also be eligible for this scheme provided they are means and eligibility tested in the same way.

The fund would therefore target those who need it the most; people who are working but need that first leg up the housing ladder. It would also help these citizens to not be priced out of their localities by disproportionate house prices and deposit demands. I believe such a scheme is especially necessary in many parts of Wales as the cost of a basic home and deposit is often above the means of many working people. House prices have rocketed whilst average wages in Wales remain relatively low. As mentioned, provided that the home buyers in question were properly means tested and the mortgage lenders agree to take part and accept the 5% deposit as has happened elsewhere, there is no reason why the scheme would

not be a success. There is also the possibility that the Welsh Government could deal directly with the mortgage lenders when administering the loan.

Mr Sargeant mentions the risks of defaulting and repossession, and the Welsh Government being exposed to losses. However the Help to Buy Scheme that the Welsh Government is offering also has equivalent if not more risks involved and fails to address one of the main problems facing new home buyers on lower incomes – being able to afford the initial deposit for a home. Mr Sargeant also mentions the risks of defaulting involved when buyers have none of their own monies invested in a property. This may or may not be the case but could be overcome by offering that the first time home buyer puts in between 1% – 1.5% towards the deposit – a far more achievable and realistic sum for low earners for homes up to the value of £150,000 in my view. Any percentage sum considerably higher than this would defeat the object of the fund although it would also mean that the proposed Welsh Government fund could be reduced.

The Welsh Government (through Help to Buy (Wales) Ltd) is offering a shared equity loan of up to 20% of the purchase price of a new home which will mean offering on average a £40,000 per home shared equity loan using tax payers money (on a £200,000 home) – £32,500 more risk by the Welsh Government per home buyer than what the Sovereign Wales deposit petition proposes. There is a potential for an even riskier £60,000 shared equity loan if a maximum full £300,000 loan is given under the Help to Buy Scheme.

The dangers of the Help to Buy Schemes have been outlined at great lengths in the British press and elsewhere. One area of concern is that the potential of falling house prices and another housing bubble could mean Welsh citizens taking part in the Help to Buy Scheme could make a considerable loss on their homes. Another concern is that these schemes are essentially large scale guarantees using tax payers money. Many are also worried about the uncomfortable relationship between government and house builders who have less incentive to be competitive if effectively subsidised by government.

I'm sure there are areas of this deposit fund proposition that could be bettered and improved and I also can't see a reason why in theory both these schemes couldn't work alongside and complement each other. But I believe that the deposit fund

could answer a more immediate and bigger need in Wales, especially at this point in time. I'll try to sum up what I believe are the main advantages of the proposed First Time Home Buyer Deposit Scheme as opposed to a Help to Buy Scheme below:

Proposed Deposit Fund for first time buyers advantages

A deposit fund for first time home buyers will help people on to the housing ladder and to overcome the main first hurdle of finding a deposit.

This deposit fund would only be on offer to first time buyers in Wales rather than first time buyers **and** movers as offered by the Help to Buy Scheme, therefore specifically helping those facing the initial biggest hurdle in buying a first home in Wales

The proposed deposit scheme would cover homes valued up to around £150,000 which is a more realistic price for those starting out on the property ladder in Wales at this point (as opposed to the Help to Buy Scheme which is for new-build homes worth up to £300,000 which, along with the necessary deposit, is out of reach for most buyers in Wales)

The Welsh Government would not only be offering a deposit loan fund, they would also be investing in the future of sustainable local communities and economies by helping local first time buyers stay living and working in those communities.

The deposit fund could apply to both existing homes and new development homes.

Help to Buy Scheme disadvantages

There are obvious dangers if a house slump occurs and the value of the house drops. Help to Buy is also stacked in favour of the better off who can afford a bigger deposit as there is a stipulation that a 5% deposit has to come from the buyer first.

The Help to Buy Scheme is only valid for new build developments and only with house builders registered with the scheme. Existing homes and buildings are not covered. This also raises concerns about over familiarity and cosiness between the Government and the registered house builders which could lead to a lack of

competitiveness in this area and a generally unhealthy situation.

If dealing with the total £170 million available in the pot up to the year 2016 as set out by the Welsh Government, this Help to Buy scheme would only help a total of approximately 4250 buyers in Wales if using an average £40,000 shared equity loan per buyer. In contrast, an equivalent 15,000 first time home buyers in Wales could be helped in the same period via this proposed deposit fund. If the scheme carried on indefinitely, at least 7500 buyers could be helped annually in Wales.

The Wales Help to Buy Scheme is available to those wishing to purchase new-build homes worth up to £300,000 which, along with the necessary deposit, is out of reach for most buyers in Wales.

As mentioned, the Welsh Government (through Help to Buy (Wales) Ltd) is offering a shared equity loan of up to 20% of the purchase price of a new home which will mean offering on average a £40,000 per home shared equity loan using tax payers money – £32,500 more risk by the Welsh Government per home buyer than what the Sovereign Wales deposit petition proposes. The dangers of the Help to Buy Schemes have been outlined at great lengths in the British press and elsewhere. One area of concern is that the potential of falling house prices and another housing bubble could mean Welsh citizens taking part in the Help to Buy Scheme could make a considerable loss on their homes. Another concern is that these schemes are essentially large scale guarantees using tax payers money. Many are also worried about the uncomfortable relationship between government and house builders who have less incentive to be competitive if effectively subsidised by government.

I appreciate everyone's time and diligence in considering these proposals once again and hope that the proposals and suggestions are found to be constructive and of interest in general,

Sincerely,

G.Meredith"