

**Written Submission 2.28****Mr T Hart**

Dear Deputy Reed,

Thank you for your letter of 31st January 2013 requesting a submission in connection with your review of the proposed scheme ahead of its debate by the States Assembly.

I do not have a great deal of comment in relation to what is proposed. The crucial thing, in my view, will be to ensure that in each case the scheme works properly in conjunction with the buyer's bank borrowing. It is encouraging in this regard to note from paragraph 3.7 of the Report that local mortgage providers have confirmed the viability of the scheme and their preparedness to lend under it but it will be important to make sure that the details are right. There will need to be close consultation with local mortgage providers in relation to the formulation of the detail of the scheme if the States approve the principle.

For example, I note that these loans are to be repayable at 0% interest "over an agreed period", with the "subsidy on market rates" being recoverable if the property is sold "at a profit" before the end of the period. One would clearly not want a situation where a sale for a particular price triggered a requirement to pay backdated interest in an amount which could not be afforded out of the sale proceeds.

Let us take an example where the initial purchase price was £400,000, funded by a bank loan in the sum of £340,000 and a States loan in the sum of £60,000. Let us then say that after 5 years the property was sold for £410,000 and this was classed as a sale "at a profit" and triggered a requirement to pay 5 years' worth of interest on the £60,000 at 5% per annum, i.e. a total of £15,000 (I am assuming for the purposes of this example that there had been no material repayment of capital). Out of the sale proceeds of £410,000, the borrower would therefore have to pay:

- estate agents' fees
- lawyers' fees
- the outstanding capital of the bank loan, which for present purposes I will assume to remain not significantly less than the £340,000 advance
- the outstanding capital of the States loan
- the backdated interest

Clearly in this example there would not be sufficient funds. This to my mind makes it critical to ensure that in formulating the detailed rules of the scheme there is a real focus on ensuring that the trigger for payment of backdated commercial interest is workable.

Yours sincerely

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