



Supporting Low-income Homebuyers in Ireland, 1990–2003: Profile, Policy and Issues



Centre for
Housing Research

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Foreword

There is a strong preference for home ownership in this country. It has become the expected tenure of choice for the majority and is a central concern of housing policy. High levels of home ownership have been achieved. Financial supports for low-income home ownership have effectively contributed to the trend of home ownership, as this report points out. Concerns have been expressed, however, regarding the sustainability of home ownership for those with very limited incomes and also more generally about the value for public money of highly subsidised private home ownership.

It was in this context that the Department of the Environment, Heritage and Local Government commissioned the study to examine the effectiveness of low-income home ownership schemes over the period 1990–2003 and to make recommendations for any necessary improvements. It is also hoped that the study will help inform the Department's response to the recent recommendation of the National Economic and Social Council that these different schemes should be amalgamated. It also offers useful insights in the context of the Department's recent statement on Housing Policy *Delivering Homes: Sustaining Communities*.

The research relied considerably on administrative data collected from five local authorities, supported by a review of relevant literature, interviews and a survey of the Money Advice and Budgeting Service. The main data collection involved searching paper and microfiche files to find the relevant information. This was laborious and time-consuming, but nonetheless necessary. The process demonstrated not only the potential value of these files in informing policy analysis and policy making, but also the fact that there is scope to make this information much more accessible, more uniform and more user-friendly.

One of the gaps in the research is the absence of the direct experiences of those who have used the schemes to buy their homes. It was not possible to incorporate this element into the study, due to time and resource constraints. It is hoped, however, that the Centre will follow-up on this study with an examination of the implementation of all the schemes since 2003 and to this end the incorporation of the customer voice will be a priority.

I would like to thank the authors of this report, Patrick Shiels, Dermot Coates and Fiona Kane of the Centre for Housing Research and Dr Michelle Norris of the School of Applied Social Science, University College Dublin. Those who helped provide the information on which the report is based – the five local authorities and the Money Advice and Budgeting Service in particular – are to be thanked. Dr Kasey Treadwell-Shine, Mary Bruton, Josephine Allison and Naomi Feely of the Centre assisted with various elements of the research. John O'Connor from the Affordable Homes Partnership and Dr Declan Redmond from University College Dublin acted as reviewers and provided very useful insights on an earlier draft of the report.

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Executive Summary

Introduction and Context

The level of home ownership in the Republic of Ireland is relatively high compared to many other Western European countries. It is driven by a wide range of factors – economic, demographic and cultural – but also by longstanding government support for this housing tenure. This support includes measures to facilitate home ownership for low-income households who would otherwise be unable to purchase dwellings on the open housing market. The range of supports directed to such households is the focus of this report.

Such supports are not a new phenomenon in Ireland. Local authorities in this country have a long history of providing mortgage loans to help those with low incomes to become home owners. Rapid house price inflation since the mid-1990s, however, has made home ownership more difficult for aspiring buyers and in response a range of measures has been introduced. International research raises a note of caution regarding the ability of low-income households to sustain home ownership and the risks associated with attempting to expand the home ownership sector (Doling and Horsewood, 2004). The National Economic and Social Council (2004) has also recommended that the current schemes be amalgamated into a single ‘First Home’ scheme. It was in this context that the Department of the Environment, Heritage and Local Government (DoEHLG) commissioned the research project to review the effectiveness of the current schemes and to make any relevant recommendations for improvements.

This report examines the operation of five of the principal supports for low-income home buyers – the tenant purchase scheme, the mortgage allowance scheme, local authority loans, the shared ownership scheme and the 1999 affordable housing scheme – between 1990 and 2003. More recent initiatives such as affordable housing under Part V of the Planning and Development Acts 2000 to 2006 and the Affordable Housing Initiative are not covered in this research, but it is planned that these schemes will be included in future work to be carried out by the Centre.

The study is based on administrative data collected in five local authority operational areas: Leitrim, Longford, South Dublin and Wicklow County Councils and Dublin City Council. The local authorities were selected to provide a mix of urban and rural settings. The research methods used in the study involved an analysis of administrative records held by the local authorities, interviews with local authority housing and revenue officials and a questionnaire survey of local branch offices of the Money Advice and Budgeting Service (MABS). Information regarding 14,961 of the 52,373 households who availed of the five schemes examined over the years

1990–2003 was gathered and analysed from the administrative files. It is important to acknowledge that the former figure may include some double counting, as participant households may avail of more than one scheme simultaneously, e.g. a local authority housing loan could be used to purchase a dwelling under the 1999 affordable housing scheme. This means that the households examined in the study made up a maximum of 29 per cent of all those who availed of the tenant purchase, mortgage allowance, local authority loans, shared ownership and the 1999 affordable housing scheme between 1990 and 2003.

Profile

The research has found that, as would be expected, households taking up these schemes tended to have below-average incomes. Furthermore, different types of households are attracted to different support programmes. The characteristics of households that availed of the shared ownership and the 1999 affordable housing scheme mirrored those of the general first-time home buyer. However, those availing of the tenant purchase scheme tended to be significantly older, to be married and to have a higher number of children. Participants in the mortgage allowance scheme were similar in terms of number of children and marital status to tenant purchasers but were distinguished by younger household heads.

Two particular trends were noted in the types of households availing of these schemes between 1990 and 2003: an increase in the number of female-headed and/or single households and a decline in household size. Rural households were more likely to be married and headed by a male compared to those in urban areas. Data relating to income were limited to gross income figures (net figures were not recorded in the administrative files) and these showed that those availing of the schemes had incomes in the region of a half to two-thirds of the average. In 2003, the average weekly gross income for all households was D868 compared to between D436 and D556 depending on scheme for low-income home purchasers. Those availing of the tenant purchase scheme and those in rural areas were most likely to record low gross incomes.

The cost of dwellings bought by scheme participants tended to be lower than the average, as would be expected, but prices have increased above general house price inflation over the 1990–2003 period. While second-hand houses increased in value two and a half times (263.8 per cent) between 1992 and 2003, the average price for those availing of the schemes increased four-fold (394.5 per cent). At the most extreme level, house price inflation for those in the tenant purchase scheme has increased by over 700 per cent during this period, albeit from a very low base. These above-average price increases may be linked to the gentrification of some local authority estates, but further research would be required to confirm this point.

Discussion

Achievements of the Supports

The various schemes of support for low-income home buyers which are examined in this report enabled up to 52,373 households to access home ownership between 1990 and 2003. This is a substantial achievement for the schemes, particularly in the increasingly competitive housing market experienced since the mid-1990s, and indicates that they have been effective in increasing levels of home ownership.

Issues Raised Regarding the Supports

The tenant purchase scheme accounted for just over half (51 per cent) of all low-income home purchase scheme participants over the period 1990–2003. Sales to tenants have declined in more recent years, and this route to home ownership is likely to be increasingly unaffordable for low-income tenants. Evidence from the administrative files suggests that the lack of a claw-back mechanism allows for considerable profit for those selling on their properties, but more in-depth research is required to make definitive conclusions in this area. While the mortgage allowance scheme was considered to be operationally unproblematic by those interviewed, low take-up of the scheme was identified as the main issue, as was its usefulness for buying affordable housing.

Use of local authority loans has declined, but officials drew attention to the relatively disadvantaged position of those who availed of this support in the 1980s and early 1990s at high, fixed rates of interest. Officials also raised concerns regarding the take-up of the shared ownership scheme. They pointed to the perceived complexity of the scheme, delays in the completion of sales and house price inflation as possible reasons for its reduced popularity. In addition, it was felt that more people were switching to the affordable housing options, notwithstanding possible problems with income limits and variation in the application process by different local authorities. A common issue raised regarding all of the schemes was the degree to which they were able to respond to higher house prices.

An official definition of housing affordability is a situation where housing costs do not exceed 35 per cent of net income. As explained in more detail in Section Three, only information on gross income was available from the administrative files. However, this indicated that between one-third and a half of participants in the schemes were spending more than 35 per cent of their gross income on mortgage repayments. This is particularly worrying given that participants tended to have bought low-cost accommodation. The survey found that those availing of the shared ownership scheme were most likely to have experienced arrears of three months or greater during the course of their mortgage – two in five (41 per cent) had done so, compared to about one in five of those who had availed of the tenant purchase scheme (21 per cent) or a local authority loan (23 per cent). Although the affordable housing scheme was only established in 1999, one in six (16 per cent) of participants had experienced loan arrears, most of whom had experienced repayment problems early in their mortgage term.

Data gathered through the Money Advice and Budgeting Service (MABS), interviews with officials and the international literature provide some indications of possible reasons for these arrears, including: low incomes, family size, marital break-up, unforeseen or special circumstances (such as loss of employment, bereavement, Christmas, First Holy Communion), a history of rent arrears, local authority management of arrears and a perception that authorities may be less strict than commercial lending institutions in addressing loan arrears. In relation to this latter point, the Centre has produced Good Practice Guidelines on rent and loan arrears for housing practitioners (Clarke and Norris, 2001).

Recommendations

A key objective of this study, as agreed in the terms of reference, is to make any relevant recommendations to improve the effectiveness of these programmes. Based on the findings of this study, the following recommendations are proposed:

Recommendation 1: Improvements are needed in the general operational management of the various low-income home ownership schemes, including application vetting, management information systems and staff training

- Local authorities responsible for implementing the home purchase supports should review their procedures for vetting the financial situation of applicants for these schemes. As part of the application process, households should clearly demonstrate their ability to repay loans. In addition, more pre-purchase financial and budgeting advice is needed for low-income home purchasers.
- For households on very low incomes, home ownership may not be a viable option. These households should not be accepted for entry but re-directed to other, more appropriate housing supports such as social housing and the new Rental Accommodation Scheme (RAS), which operates in the private rented and voluntary housing sectors (see Coates and Norris, 2006).
- The DoEHLG should examine the scope for improving the guidance accompanying the returns to be completed by local authorities for the purposes of the Annual and Quarterly Statistical Bulletins. At present, there appears to be a risk of differing interpretations amongst local authorities when completing these returns with a consequent undermining of the comparability and usability of this valuable source of information.
- Priority should be given to the development and use of management information systems necessary for authorities to facilitate early identification of households experiencing repayment difficulties. These would also allow for early intervention, setting and monitoring targets, profiling 'at risk' groups and developing arrears preventative strategies. The data need to be organised in a standardised fashion and be available in a user-friendly electronic format.
- Staff training in relation to the vetting of potential applicants and the prevention and management of loan arrears should be prioritised by local authorities.

Recommendation 2: Income and loan limits should better match the localised housing market

- The DoEHLG should examine the possibility of more regular updates of the income limits for access to the various home purchase support schemes. In particular, the option of linking income limits to general consumer price inflation, wage increases and house price increases, or to some combination of these three factors, should be explored. The possibility of tailoring income limits for access to the low-income home purchase schemes to reflect the variations in the housing market in different parts of the country should also be considered.
- The DoEHLG should consider reviewing more regularly the maximum loan available under the local authority housing loans scheme in order to ensure that it keeps pace with developments in the housing market. This is particularly important for participants in the shared ownership scheme who currently do not have access to commercial mortgages.
- The DoEHLG should give consideration to the scope for adopting a variant on the Voucher Homeownership initiative used in the United States (see Section One). This could be achieved under the aegis of the Rental Accommodation Scheme (RAS) by allowing those with a long-term housing need and deemed capable of sustaining a home loan to use the financial support available from their local authority to purchase some or all of their home.

Recommendation 3: The operation of the various schemes should be regularly reviewed, drawing on international innovation, to ensure that they are equitable, efficient, appropriately targeted, understandable and comprehensive

- The findings of this study do not support the idea that the amalgamation of the various schemes would lead to their greater effectiveness – defined as sustainable home ownership. Rather, it is recommended that the priority should be to better focus the schemes on their respective target groups and to make them more user-friendly.
- On the grounds of equity, and in view of the potentially considerable profits made on the resale of some tenant purchase dwellings highlighted in the report, the DoEHLG should explore the possibility of instituting ‘claw-back’ arrangements for the tenant purchase scheme and thus bring it more into line with the other schemes. Such arrangements should give some weighting to the length of tenancy prior to initial sale.
- The DoEHLG should review the operation of the shared ownership scheme, drawing on international innovation in this area, with a view to addressing operational problems. These include: the complexity of the scheme, delays in processing transactions and the costs of renting the local authority’s share of the dwelling (which can render the costs of participating in the scheme unaffordable).
- Additional research is required to examine the impact of more recent schemes, which could not be included in this research: units provided under Part V of the Planning and Development Acts 2000 to 2006, the Affordable Housing Initiative and the attainment of targets under the local authority Social and Affordable Action Plans.
- Research is also needed on the take-up of affordable housing supports by key workers in frontline public services, particularly in the principal urban centres (see Section One).
- The issues raised in this report highlight the need for the development of alternatives to home purchase for ‘intermediate households’. Such households have too high an income to qualify for social housing but may not be able to source appropriate accommodation in the private sector without experiencing financial difficulties (e.g. affordable private rental).

Recommendation 4: Priority should be given by local authorities to monitoring and combating loan arrears

In addition to the general operational improvements highlighted above, local authorities should give priority to the prevention and management of loan arrears, as follows:

- Greater co-ordination is required between local authorities and the Money Advice and Budgeting Service (MABS) in identifying and referring households experiencing loan arrears.
- Solutions to the problem of households in loan repayment difficulties may include more flexible tenures in addition to precisely targeted assistance. The DoEHLG should examine the potential application of a system of ‘downward staircasing’ for households unable to sustain their mortgage. This system would assist such households in a graduated manner to return to social or private rented tenures.

Detailed recommendations are contained in Section Five of the report.

SECTION ONE
Introduction



1.1 Background and Context

Levels of home ownership in the Republic of Ireland are relatively high compared to many other western European countries. Approximately three-quarters of households in Ireland (77.4 per cent) own their own homes, while only about half do so in many other European countries, e.g. France (56 per cent), the Netherlands (54.2 per cent) and Germany (43 per cent) (Norris and Shiels, 2004).

Rates of home ownership are related to a wide range of economic, demographic and cultural factors. However, in the Irish context they are also the result of longstanding government support for this tenure (O'Connell, 2005). Such support can be traced back to the late nineteenth century, when the Small Dwellings Acquisitions Act, 1899 provided loans to help private renting tenants buy their dwellings from their landlord. The remit of this scheme was widened over subsequent decades as local authorities were empowered to provide loans for the purchase of other types of properties.

Table 1.1 Specific Supports for Low and Intermediate Income Home Ownership, 2006

HOME PURCHASE SUPPORT	YEAR OF INCEPTION	PURPOSE/TARGET GROUP
Local Authority Housing Loans	1899	To advance mortgage finance for home purchase to low-income households unable to access commercial mortgage facilities
Tenant Purchase	Housing Act 1919 Labourers Act 1936 Housing Act 1966 Standardised national scheme introduced 1973	To enable local authority tenants to purchase their dwellings at a discounted price
Low Cost Sites	1991	To enable low-income households or voluntary and co-operative housing bodies to build dwellings for their own use on discounted sites located on surplus local authority owned land
Mortgage Allowance	1991	To facilitate local authority tenants to purchase private housing and surrender their social rented dwelling back to their local authority
Shared Ownership	1991	To assist low-income households to purchase housing in joint ownership with their local authority. Full equity in the dwelling is subsequently acquired by participants within 25–30 years
Rent Subsidy	1991	To provide an annual subsidy towards the rental equity of the shared ownership scheme
Affordable Housing Scheme	1999	To provide new properties for sale by local authorities, in areas where affordability is an issue, at a discount from the market value of comparable housing in the area
Mortgage Subsidy	1999	To reduce mortgage repayments by providing a subsidy towards the monthly instalments on a loan
Affordable Housing under the auspices of Part V of the Planning and Development Acts 2000 to 2006	2001	To make available houses or land for persons in need of accommodation whose income would not be adequate to meet repayments of the mortgage for the purchase of a property because the payments would exceed 35 per cent of their annual disposable income
Affordable Housing Initiative (<i>Sustaining Progress Agreement</i>)	2003	To enable 10,000 affordable housing units to be built on lands in State ownership and through Part V. Affordable Homes Partnership established in 2005 to facilitate and expedite supply in the Dublin region.

As is detailed in Table 1.1, following the foundation of the State other supports for home buyers were introduced, including: grants for first-time buyers (initiated in the 1920s and ended in 2002), schemes to enable local authority tenants to buy their dwelling (made available in rural areas from the mid-1930s and in urban areas from the 1960s) and mortgage interest tax relief (Norris and Winston, 2004).

In the 1980s and early 1990s, the scale of general supports for all home buyers (such as mortgage interest tax relief) was rolled back and these were replaced by more targeted measures aimed at enabling low-income households to purchase a dwelling. Together with the impact of the tenant purchase scheme, which has facilitated the sale of some two-thirds of all local authority rented dwellings, these supports for low-income home buyers have resulted in large numbers of low-income households in Ireland owning their homes. Housing wealth is much more evenly distributed across the social class spectrum than are other types of wealth such as shares (Fahey *et al*, 2004).

By the late 1990s, however, the socio-economic context for housing policy making had changed dramatically. Strong economic growth, rising disposable incomes and associated population increase, underpinned by a steady fall in the comparatively high average Irish household size and in interest rates, led to a marked increase in the demand for housing (Central Statistics Office, 2002; Fahey *et al*, 2004).

As a result, the traditional pattern of a low and steady rate of residential property price inflation ceased. House prices countrywide increased by 251 per cent between 1996 and 2002; and the rate of increase was significantly higher in the Dublin area.

Ensuing concerns about the affordability of home purchase for low-income households led to the introduction of a number of 'affordable housing' measures by central government (Norris and Winston, 2004). The first of these, introduced in 1999, enables local authorities to build dwellings for sale at below market value on their own land. Also, Part V of the Planning and Development Acts 2000 to 2006 empowers local authorities to require that up to 20 per cent of land zoned for residential development is employed to meet the need for social rented housing and for affordable housing. Under the *Sustaining Progress* national agreement the government committed to increasing the supply of affordable housing by 10,000 units and in 2005 the Affordable Homes Partnership was set up to drive and co-ordinate the output of affordable housing in the greater Dublin area (Government of Ireland, 2003).

1.2 Recent International Developments

The issue of access to home ownership for low to intermediate-income households has also emerged in other countries. An overview of some recent international developments is detailed in Table 1.2. The main issues identified in the table relate to the different approaches used to extend home ownership, supports for 'key workers' in high housing cost areas, the increasing involvement of the voluntary sector in low-cost home ownership and the development of information and budgeting supports for prospective low-income home buyers.

Table 1.2 Overview of Developments in Selected Countries

UNITED KINGDOM

Partly in response to the recommendations of the Home Ownership Task Force and the Barker Review, the Department for Communities and Local Government is currently implementing a five-year plan, *Sustainable Communities: Homes for All*, launched in early 2005. As part of this plan, the Housing Act 2004 introduced Home Information Packs designed to make it easier to buy and sell a home.

HomeBuy and Shared Ownership

HomeBuy offers qualifying applicants an equity loan to meet 25 per cent of buying a home. Shared Ownership enables applicants to buy a share of a property and pay rent on the outstanding portion. Under recent changes, there are now three products under each scheme – Social, New Build and Open Market (often referred to as Conventional Shared Ownership).

In the case of the newly launched Social HomeBuy, a new opportunity has been extended to housing association or local authority tenants who do not have the Right to Buy or the Right to Acquire.

Key Worker Living

Under the HomeBuy scheme, key workers employed by the public sector in London, the South East and East of England can access support to buy a home, upgrade a family home or rent a home at an affordable price (75-80 per cent of market rent). These supports are available to households with an income of up to £60,000 and include equity loans, shared ownership and intermediate renting.

Key workers are paid on national pay scales and although they may receive a London-weighting, this does not compensate for higher house prices in this region. Therefore, this initiative is designed to support home ownership and improve recruitment and retention in the public sector. It is available to frontline staff in essential services including teachers, nurses, police and probation officers, social workers, planners and fire fighters.

In order to reduce the imbalance between supply and demand, HomeBuy will endeavour to ensure that output under this initiative in high demand areas will involve new build. At the time of writing, this scheme had exceeded its targets by assisting more than 4,000 applicants, almost 70 per cent of whom were employed in the education and health sectors.

Improved Use of Public Lands

The Home Ownership Task Force recommended the greater use of public land for affordable housing. In order to achieve this, surplus sites are now put on a register for 40 days to give public sector bodies an opportunity to acquire them prior to placement on the open market.

UNITED STATES

The Department of Housing and Urban Development (HUD) is the USA's housing agency. HUD is responsible for the enforcement of America's housing law and the creation of affordable housing opportunities.

Voucher Homeownership

HUD is currently monitoring the implementation of the Voucher Homeownership (VHO) initiative whereby low-income households in receipt of housing vouchers may apply these towards home ownership. This initiative aims to foster greater choice by allowing recipients to move away from the traditional application of the vouchers towards rental costs. Rather, these can now be used as a means of offsetting the expenses of purchasing a home. This can be achieved by using the vouchers to meet the costs of mortgage repayments and/or by counting these as a source of income when determining mortgage eligibility.

As part of this initiative, qualifying households are required to undertake home ownership counselling and to submit to a Housing Quality Standards and an independent inspection. By 2006 approximately 5,000 homes had been purchased in this manner – this represents an almost doubling in take-up in less than 2 years.

Ongoing Research and Evaluation

Fannie Mae and Freddie Mac are both government-sponsored, private corporations with a public housing mission. HUD is charged with regulating these corporations. As part of that process, HUD has commenced an evaluation of its residential mortgage programmes in order to determine whether they are consistent with the public purpose of the corporations and to ensure improved transparency.

HUD is also currently examining the gaps in home ownership that exist between Hispanics and non-Hispanic whites and the effectiveness of initiatives designed to assist the former group in becoming home owners.

Finally, HUD is exploring the extent of Alternative Financial Service Providers (AFSP) such as pawnshops. These lenders target households with atypical credit histories and charge excessive interest rates with resultant higher rates of foreclosure on home loans. Preliminary findings suggest that AFSPs tend to be located in low-income household neighbourhoods and disproportionately in those areas with high concentrations of immigrants.

NEW ZEALAND

Housing New Zealand is a national agency with responsibility for providing affordable home ownership and rented housing. This agency facilitates a range of home ownership workshops covering topics such as the importance of ongoing maintenance and household budgeting. Regional workshop organisers assist applicants with the development of personalised saving and repayment plans and provide ongoing advice and support. Housing New Zealand also provides assistance to those wishing to save a deposit through the Kiwisaver scheme.

Welcome Home Loan

These loans are available to those who can afford mortgage repayments but cannot qualify for a home loan because of insufficient savings. Applicants receive up to 100 per cent of the house price, with the State providing mortgage insurance to the lender. However, Housing New Zealand tenants cannot buy the homes they are living in as it is government policy not to reduce the number of State rental properties.

Under changes recently introduced to broaden the scope of this initiative, no deposit is required for houses up to NZ\$200,000 and assistance is now available for households earning up to NZ\$85,000.

Low Deposit Rural Lending

This initiative allows qualifying households to borrow using a loan requiring a minimum deposit of 3 per cent. These loans are available to low-income households living in the Central and Upper North regions of New Zealand conditional on them having passed the necessary workshop(s).

Source: Department for Communities and Local Government (UK), Department for Housing and Urban Development (USA) and the Housing New Zealand Corporation.

The following lessons for Ireland arise from this brief examination of developments in other countries:

- More pre-purchase financial and budgeting advice is needed for those with low incomes becoming home owners. This could take the form of workshops and counselling – at the pre-purchase stage and thereafter on an ongoing basis – with a preventative focus. The service could draw on the DoEHLG’s own *Life Steps* booklet on purchasing a home and the advice and support provided by local authorities and the Money Advice and Budgeting Service (MABS).
- The DoEHLG should give consideration to the scope for adopting a variant on HUD’s Voucher Homeownership initiative in order to simultaneously provide greater choice and address the imbalance between supply and demand of quality, affordable housing. This could potentially be achieved under the aegis of the Rental Accommodation Scheme (RAS) by allowing those with a long-term housing need and deemed capable of sustaining a home loan to use the financial support available from their local authority to purchase some or all of their home. For instance, an unemployed recipient of the One Parent Family Payment could receive up to €1,300 per month (or the equivalent of the repayment on a €250,000 mortgage over 25 years).

However, these current arrangements only purchase existing rental capacity and provide minimal incentive for the private sector to deliver the additional units required for both the implementation of the RAS and to meet future affordable housing demand. Providing broader options to RAS recipients and the market – perhaps under the terms of new housing Public Private Partnership (PPP) arrangements – could attain greater value for money outcomes in a number of ways, including the transfer of cost and risks to potential home owners over time.

- Further research is needed on the take-up of affordable housing supports by key workers in frontline public services and the extent to which such employment-related supports are required in Ireland, particularly in the principal urban centres. As part of this work, the DoEHLG could endeavour to determine whether the current arrangements meet the needs of those public sector workers on moderate incomes and the extent of recruitment and retention difficulties related to housing affordability. This research could be undertaken by the Centre for Housing Research as part of its ongoing work programme in relation to affordable housing.

1.3 Rationale and Focus

The pace of change in the housing market and in policy regarding supports for low-income home owners, described above, highlighted a need for a comprehensive review of these supports. As a result, in 2004 the Centre for Housing Research was asked by the Department of the Environment, Heritage and Local Government to undertake this task. In addition, the study is also intended to fulfil the commitment contained in the National Agreement *Sustaining Progress* that a review would be carried out of the effectiveness of housing programmes designed to assist low-income groups and help assess the recommendation recently made by the National Economic and Social Council (2004) that some of the existing supports for low-income home owners should be amalgamated into a single ‘First Home’ scheme.

This study examines the most significant supports for low-income home owners in operation in 2003, namely:

- the local authority tenant purchase scheme
- the shared ownership scheme
- local authority housing loans
- the mortgage allowance scheme
- the 1999 affordable housing scheme.

At the time when this research was commenced very few affordable dwellings had been completed under the auspices of Part V of the Planning and Development Act 2000 to 2004, and none had been provided under the Affordable Housing Initiative (the establishment of which was announced in the *Sustaining Progress* agreement). It is planned that future research to be conducted by the Centre for Housing Research will incorporate these more recent initiatives.

1.4 Research Objectives

The objectives of this research were as follows:

- to generate detailed quantitative data on the operation of the main supports for low-income home buyers operated by local authorities in Ireland for the period 1990–2003
- to discern the effectiveness of existing programmes operated by local authorities to assist low-income purchasers of private housing
- to identify the underlying causes behind the success and/or failures of current house purchase assistance programmes
- if relevant, to recommend how the effectiveness of these programmes could be improved.

1.5 Research Methods

The research methodology involved four main stages:

Firstly, a detailed literature review of supports for low-income home ownership, both in Ireland and other countries, was carried out. This review also involved examination of the evolution of the terms of the relevant low-income home ownership schemes between 1990 and 2003.

Secondly, the operation of these schemes in five local authorities was assessed, namely:

- Dublin City Council
- Leitrim County Council
- Longford County Council
- South Dublin County Council
- Wicklow County Council.

The case study local authorities were selected in order to ensure a mix of urban and rural operational areas, which reflects the distribution of the Irish population at large (60 per cent urban / 40 per cent rural).

Information was collected on the personal characteristics, finances and housing careers of those who had availed of the relevant low-income home ownership supports in these areas between 1990 and 2003 and on the extent of their compliance with the terms of these schemes. This information was held in electronic format in the South Dublin County Council, a mix of electronic and microfiche in Dublin City Council and in papers files in Leitrim, Longford and Wicklow County Councils. All relevant files were sourced in the authorities, bar in Dublin City Council. In this latter case, due to the volume of households approved for tenant purchase over the period 1990 to 2003, details of which were stored on microfiche, a sample of 40 per cent of these cases were collected (which meant that 69.2 per cent of all participants in the five schemes in that area were included in the survey).

As Table 1.3 below demonstrates, in total, information on almost 29 per cent of relevant cases was collected as part of this study. It is important to acknowledge, however, that this figure may include some double counting, as participant households often avail of more than one scheme simultaneously, for example, using a local authority housing loan to purchase a dwelling under the 1999 affordable housing scheme. It was not possible to accurately estimate the extent of this double-counting, due to the nature of the administrative files from which the data were drawn. The large sample size, however, does allow for the profile analysis undertaken in this research.

Table 1.3 Low-Income Home Purchase Supports, 1990–2003

Scheme	Files collected (N)	Total number of participants nationwide (N)	Data collected as % of all participants nationwide
Tenant Purchase	6,086	26,833	22.7
Shared Ownership	6,898	13,961	49.4
Local Authority Housing Loans	1,421	6,676	21.3
1999 Affordable Housing	321	2,804	11.4
Mortgage Allowance	235	2,099	11.2
Total	14,961	52,373	28.6

The third source of information for the research was in-depth interviews with 15 key personnel directly involved in the operation of the low-income home purchase supports in the case study local authorities and in the DoEHLG. In the interviews, the following issues were explored:

- the operational experience of the various schemes – their achievements and shortcomings
- changes in the clientele of the schemes between 1990 and 2003
- the extent to which participants conform to the terms of the schemes
- opinions on trends identified in the case study research
- the possible future of the schemes in the medium to long-term.

Fourthly, in September 2005 a postal survey was carried out of all Money Advice and Budgeting Services (MABS) local offices. This organisation, which is funded by the Department of Social and Family Affairs, provides financial advice to indebted households. The survey enquired about MABS staff experiences of dealing with participants in the low-income home purchase supports under examination in this report (see Appendix 3 for copy of questionnaire). The survey generated 20 replies, which constitutes a 30.8 per cent response rate.

1.6 Outline of Report

This report is organised into five sections. Section Two provides an overview of the five schemes under examination and details changes in their terms between 1990 and 2003. Section Three examines the characteristics of the households who availed of these schemes in the case study areas and Section Four examines the issues related to the administration of these schemes. The final section, Section Five, summarises the key findings of this study and discusses their implications, as well as drawing out recommendations.

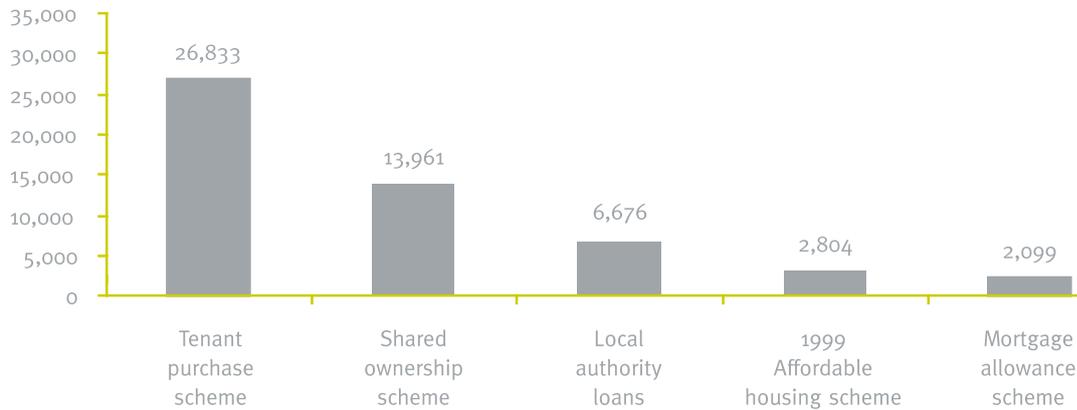
SECTION TWO
Overview of Schemes



2.1 Introduction

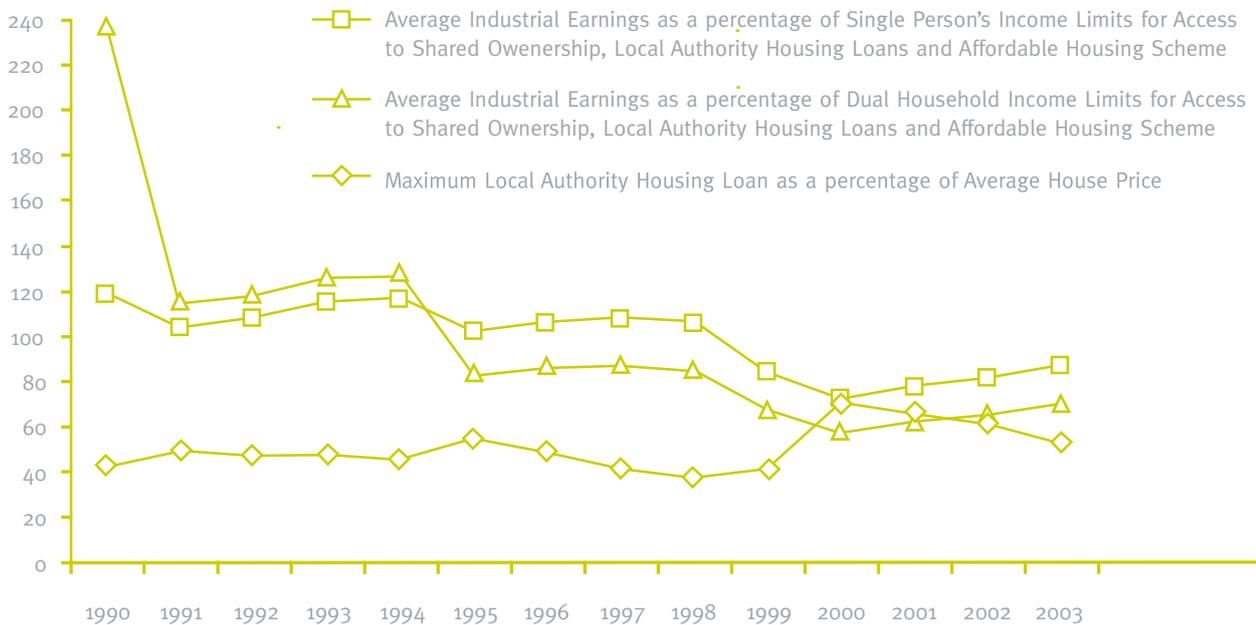
This section describes the five schemes covered in this research and details any changes in their terms or take-up between 1990 and 2003. An outline of the terms of these (and more recent) schemes is provided in Appendix 1. The conclusion to the section assesses the contribution that these supports have made to help low-income households access home ownership. By way of introduction, Figure 2.1 gives a breakdown by scheme of the total transactions (52,373) over the study period. It shows the substantial contribution of the tenant purchase scheme to low-income home purchase. Figure 2.2 sets out the overall trends in the eligibility limits for support under these schemes. This shows that the absence of index linking to wage inflation has served to restrict eligibility and that by 2003, only those single persons with earnings at less than 90 per cent of the average industrial wage qualified for assistance, down from 120 per cent in 1990.

Figure 2.1 Low-Income Home Purchase Scheme Transactions, 1990–2003



Source: Department of the Environment, Heritage and Local Government (various years)

Figure 2.2 Average Industrial Earnings as a percentage of Single Person Household and Dual Household's Income Limits for Access to the Shared Ownership, Local Authority Housing Loans and Affordable Housing Schemes and Local Authority Housing Loan Maxima as a percentage of Average House Prices, 1990–2003



Source: Department of the Environment, Heritage and Local Government (various years) and administrative data generated by Dublin City Council and Leitrim, Longford, South Dublin and Wicklow County Councils. Note: Only the local authority housing loan scheme was operational for the full period examined in this graph; the shared ownership scheme was founded in 1991 and the affordable housing scheme was founded in 1999. Average house prices refer to the mean of new and second-hand house prices. The income eligibility criteria for dual income households more than doubled in 1991.

2.2 Tenant Purchase Scheme

2.2.1 History

The tenant purchase scheme is one of the oldest of the supports for low-income home owners under examination here. Tenants of county councils were afforded the right to purchase their dwelling by the 1936 Labourers Act, and the Housing Act, 1966 extended this right to tenants of borough and city councils (Norris, 2003). Since the mid-1960s, two-thirds of the total of 330,000 dwellings constructed by local authorities have been bought by tenants, accounting for about one quarter of owner-occupied homes in this country (Fahey, 1999: 3-4). Indeed, as already mentioned, Fahey *et al* (2004) attribute the relatively high levels of home ownership among low-income households in Ireland chiefly to the tenant purchase scheme. The sale of dwellings to tenants has also been linked to social, community and housing management benefits. The DoEHLG housing policy statement *Social Housing: The Way Ahead* claims that the tenant purchase scheme ‘... has been a key factor in the stabilisation of housing estates, in the upkeep of the houses and in promoting community development’ (Department of the Environment, 1995: 30).

On the other hand, these sales have been linked to the ‘residualisation’ or increased concentration of low-income households in the local authority sector, because households who purchase are generally better off than their counterparts who continue to rent (Fahey *et al*, 2004). This may create management problems for local authorities as the remaining tenants are likely to be poor and, because local authority housing rents are linked to the incomes of tenants, more low-income tenants means less rental revenue to cover maintenance costs, etc. Furthermore, tenant purchase reduces the number of local authority dwellings available for letting to households on the housing list. For instance, although 121,079 local authority dwellings were built between 1973 and 1999, the extent of sales to tenants during this period resulted in a net gain of only 9,923 units to the stock. As a result, the recent National Economic and Social Council report argues:

If the strategic objective of increasing the stock of social housing is accepted, then it is necessary to address the issue of disposals, given the very different context in which the longstanding policy of tenant purchase is now operating. The Council recommends that the current tenant purchase scheme immediately be modified to better support wider strategic objectives, principally the provision of a strong, core social housing stock. The further step – of redirecting tenants who wish to purchase exclusively to the shared ownership and affordable housing schemes – should be actively considered.

(National Economic and Social Council, 2004: 209)

2.2.2 Evolution of the Terms of the Tenant Purchase Scheme

Since the introduction of a nationwide tenant purchase scheme in the 1960s, the terms on which dwellings have been sold to tenants have been amended on a regular basis. Between 1990 and 2003 the terms of these schemes were changed significantly on five occasions:

- From 1993 tenants of more than one year standing were offered a minimum discount of H3,809 off the market value of their dwelling, or a 3 per cent discount for each year of tenancy to a maximum discount of 30 per cent.
- From 1995 tenants were afforded the option of purchasing their dwelling by means of the shared ownership scheme as an alternative to buying it outright. In addition, while calculating the market value of the dwelling local authorities were required to take account of its existing state of repair and to disregard

any increase in the market value due to improvements made to the dwelling by the tenant. Tenants were also able to subtract the value of the first-time home buyers' grant from the sale price. Despite the cessation of the first buyers' grant in 2002, this provision is still available to tenant purchasers. In addition, from 1995, tenant purchasers were allowed to secure mortgage finance from a commercial lender, whereas previously all sales to tenants were financed by local authority housing loans.

- Section 14(2) of the Housing (Miscellaneous Provisions) Act, 1997 empowers local authorities to refuse the tenant purchase of a dwelling if the tenant is or has been engaged in anti-social behaviour or if it would not be in the interest of good estate management. After a tenant buys the dwelling, the relevant local authority must approve the first subsequent resale. Section 14(3) of the same Act also empowers local authorities to refuse to authorise the resale of a dwelling on the same grounds.
- In 1998 the qualifying period necessary to obtain tenant purchase discounts was changed in the case of marriage breakdown situations.
- From 1999 local authorities were required to take into account all periods of tenancy in local authority dwellings when calculating the discount for tenant purchasers.

It is important to note that a 'once off' additional discount was made available to all local authority tenants who purchased their dwellings in 1988 and 1989. The volume of transactions in the latter year was so high, however, that some applicants were not processed until the early 1990s and thus are included in the data collected for this study.

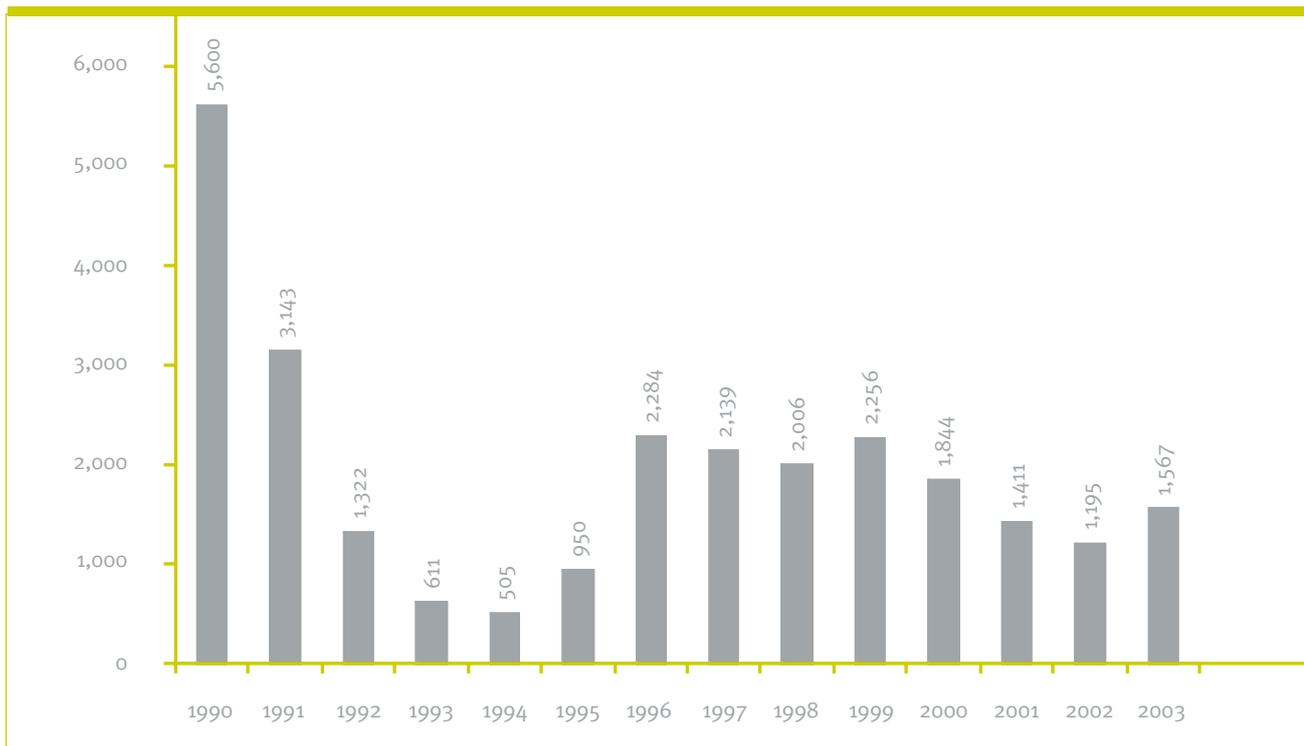
In addition, certain types of dwellings such as local authority flats and sheltered accommodation for older people and social housing provided by voluntary and co-operative housing associations were traditionally excluded from the tenant purchase scheme. The Department of the Environment, Heritage and Local Government's recent policy review, *Housing Policy Framework: Building Sustainable Communities*, (2005: 4) indicates that 'The Government will introduce a new tenant purchase scheme, operational from January 2007, which will allow for the sale of local authority flats under certain conditions' and commits the Department to working with '... the voluntary and co-operative housing sector to pilot a new tenant purchase scheme for some new voluntary homes'.

2.2.3 Tenant Purchase Scheme Transactions

Figure 2.3 traces sales of local authority dwellings under the tenant purchase scheme between 1990 and 2003. It reveals that the number of dwellings sold to tenants sharply declined during the first half of the 1990s, then recovered in the mid-1990s and stabilised thereafter. Short-term fluctuations in the take-up of the scheme also reflect the influence of changes in its terms (as detailed on pg 15).

The level of tenant purchases has declined since the 1970s and this has been related to a number of structural factors (Norris and Winston, 2004). Firstly, the sale price of dwellings is calculated on the basis of their market value, and as mentioned in Section One, house prices in this country have risen dramatically since the mid-1990s, making properties less affordable to those with low incomes. Secondly, average incomes of local authority tenants are low compared to those of the general Irish population, and income poverty levels among households living in this sector have increased since the mid-1980s – limiting access to mortgage credit (Nolan *et al*, 1998; Murray and Norris, 2002). Thirdly, in the operational areas of the city councils, particularly Dublin City Council, the potential for sales of dwellings was traditionally curtailed by the exclusion of local authority flats and dwellings designated for older tenants from the tenant purchase scheme. Finally, social housing provided by voluntary and co-operative housing associations cannot currently be sold to tenants.

Figure 2.3 Local Authority Dwellings Sold under the Tenant Purchase Schemes, 1990–2003



Source: Department of the Environment, Heritage and Local Government (various years).

It is unlikely that the introduction of additional discounts would drive up tenant purchase rates significantly. However, the proposed extension of the tenant purchase scheme to residents of flats complexes has the potential to lead to a marked increase in sales, at least in the short term. In the Dublin City Council operational area, for example, some 11,000 local authority tenants live in this type of accommodation (Murray and Norris, 2002). Approximately 13,000 dwellings are rented from voluntary and co-operative social housing providers (Mullins *et al*, 2003). Thus the extension of the tenant purchase rights to this sector would also increase transactions under this scheme. Residential property inflation and low incomes, however, are likely to limit the numbers of social renting tenants who can afford to buy their homes.

2.3 Shared Ownership Scheme

2.3.1 History

The shared ownership scheme was introduced in 1991 to allow qualified households buy either a new or second-hand dwelling in partnership with the local authority. The selected property is inspected by the local authority prior to sale in order to ensure that it is structurally sound and meets the household's needs. If approved, it is subsequently acquired by the local authority and the purchaser buys a proportion of the equity (minimum of 40 per cent) of the dwelling with a local authority loan and leases the remainder from the authority. The rent is set at 4.3 per cent of the value of the authority's equity and is increased annually at a rate of 4.5 per cent. A subsidy towards the rent is available; this is graded, based on income. The purchaser is obliged to acquire the full equity of the dwelling within a 25-year period of its initial purchase, but may acquire the local authority share in one or more stages after a minimum period of one year in the case of most local authority areas, and after a minimum of three years in the case of Dublin City.

2.3.2 Evolution of the Terms of the Shared Ownership Scheme

Table 2.1 charts the changes in the terms of the shared ownership scheme since its establishment in 1991. The main changes have been a gradual increase in the income limits and a reduction in the minimum equity (from 50 to 40 per cent) which participants were obliged to purchase. The income limits for eligibility for access to the shared ownership scheme and for the rental subsidy have also been revised on a number of occasions since the early 1990s – particularly in 1995, 1999 and 2000.

In 2003, the terms of this scheme were substantially revised. In the first instance, the rent payable was further reduced to 4.3 per cent of market value. Rents were increased by a fixed 4.5 per cent annually (previously, this had been updated in line with the Consumer Price Index), but were calculated on the original capital sum only (i.e. the rented equity would no longer increase in line with the property market). Moreover, local authorities were informed that ‘the cost of financing future shared ownership transactions should be significantly reduced’ (DoEHLG, HMS 05/03, 2003).

Table 2.1 Reforms to the Shared Ownership Scheme, 1991–2003

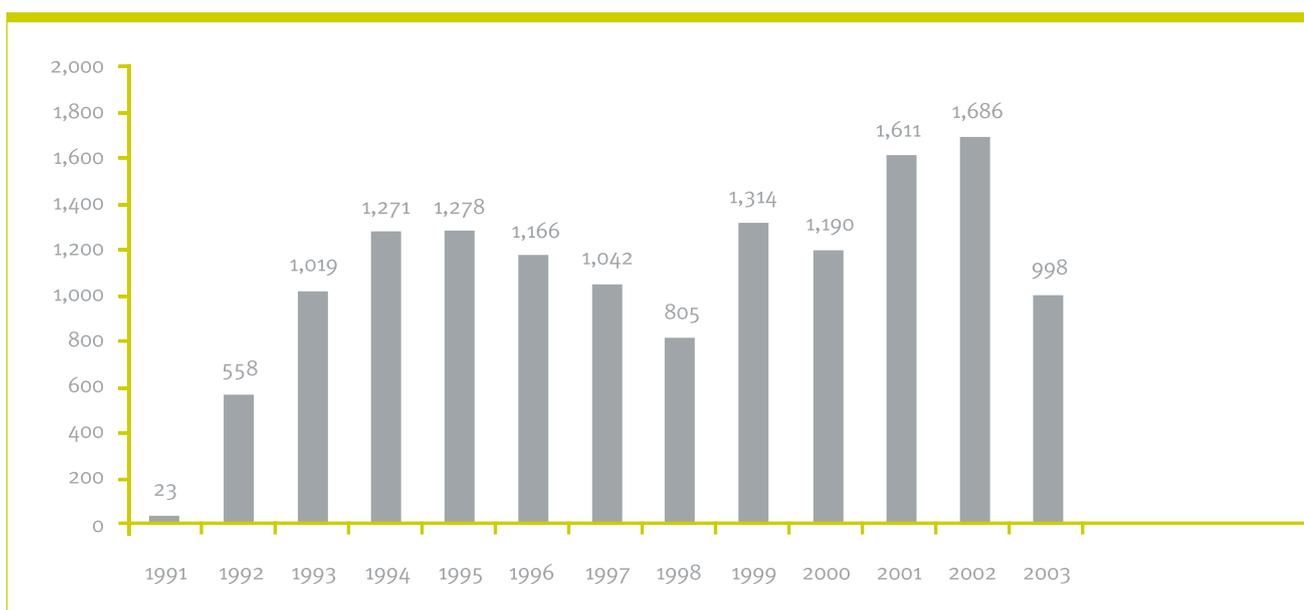
Date	Income limit for qualification		Minimum initial equity	Income limit for rent subsidy	Maximum rental subsidy available	Rent as % of market value
	Single income household	Dual income household				
	€	€	€	€	€	%
1991–1994	15,236	27,934	50	12,697	889	5.0
1995*–1997	17,776	44,441	40	13,967	1,079	5.0
1998*	19,046	47,615	40	15,236	1,524	4.5
1999*	25,395	63,487	40	15,236	1,524	4.5
2000–2001*	31,743	79,359	40	25,395	2,031	4.5
2001*	31,743	79,359	40	25,395	2,539	4.5
2002*	32,000	80,000	40	25,395	2,539	4.5
2003*	32,000	80,000	40	28,000	2,550	4.3

Source: Norris and Winston, 2004 and Information supplied by the Department of the Environment, Heritage and Local Government. Note: *In 1995, a new system for determining the eligibility of dual income households for the shared ownership scheme was introduced. Under this system, the household is eligible if two and a half times the income of the principal earner in combination with once the income of the secondary earner does not exceed the limit. In the case of a single earner, his/her income must not exceed two and a half times the limit.

2.3.3 Shared Ownership Scheme Transactions

Between 1991 and 2003, a total of 13,961 dwellings – excluding any affordable housing units purchased with shared ownership finance – were purchased through the shared ownership scheme (DoEHLG, various years). Figure 2.4 reveals that during the initial three years of the operation of the scheme the number of shared ownership transactions increased markedly, from 23 in 1991 to 1,278 in 1995, but that over the three subsequent years transactions fell to a low of 805 in 1998 before rising again in 1999, 2001 and 2002.

Figure 2.4 Number of Transactions Completed under the Shared Ownership Scheme, 1991–2003



Source: Department of the Environment, Heritage and Local Government (various years).

These trends in transactions under the shared ownership scheme indicate that they are shaped primarily by changes in the income limits for qualification, and by developments in the housing market, rather than by other aspects of the terms of the scheme. For instance, the reduction in the initial minimum equity which participants are obliged to purchase and a significant increase in the maximum level of rental subsidy available in 1995 did not stem the fall in the use of the scheme over the three subsequent years. However, the marked increases in the income limits for access to shared ownership in 1999 and 2000, coupled with the reduction in the rate of house price inflation during these years, did effect a marked increase in the number of shared ownership transactions in subsequent years.

In contrast, the relatively infrequent updating of the income limits for access to the shared ownership scheme during the early and mid-1990s, and their failure to keep pace with house price and wage increases, eroded the effectiveness of this measure and thus reduced transaction numbers. As is discussed in more detail in Section Four, in recent years, according to several of the local authority officials interviewed for this study, the advent of new supports for low-income home buyers, particularly the affordable housing schemes, has also attracted potential users of shared ownership away from this scheme.

2.4 Local Authority Housing Loans

2.4.1 History

As was mentioned in Section One, local authorities have provided mortgage loans for over a century, and this provision has played a key role in the expansion of home ownership in Ireland. Until recent decades local authorities provided mortgages to a relatively wide range of income groups. As late as the 1970s, local authority loans accounted for almost half of all new mortgage loans and over one-third of the value (Fahey and Maître, 2004). However, in 1987, access to local authority mortgages was restricted to low-income households who had failed to secure a mortgage from

a commercial lending institution and this change in eligibility criteria resulted in a marked decrease in the proportion of all new mortgages advanced by local authorities (Norris and Winston, 2004). Since 1995, local authorities were empowered only to offer annuity (i.e. standard repayment) loans, whereas previously they had also provided income-based loans (determined on the basis of the borrower's income) and convertible loans (which are income related for a period and then are converted into annuity loans) (Department of the Environment, 1995).

The case study research carried out for this report indicates that currently the vast majority of local authority housing loans are used in conjunction with one of the other supports for low-income home buyers. The amount of local authority loans used to purchase dwellings on the open market without the aid of for instance the mortgage allowance for tenants or the shared ownership scheme is negligible (see Figure 2.5).

2.4.2 Evolution of the Terms of the Local Authority Loans Scheme

Table 2.2 summarises the amendments made to the terms of the local authority loans scheme between 1990 and 2003. It reveals that the income limits for access to this scheme were raised significantly from the late 1990s, while the maximum loan available was doubled in 2000. Prior to 1995, participants in other schemes were required to access a mortgage from a local authority, whereas from 1995 access to commercial mortgages was introduced.

Table 2.2 Revisions to the Income Eligibility and Loan Limits for Local Authority Loans, 1990–2003

Year	Income limit for qualification		Maximum Loan
	Single income household	Dual income household	
	€	€	€
1990	12,697	12,697	26,665
1991–1994	15,237	27,934	31,743
1995*–1997	17,776	44,441	41,901
1998	19,046	47,615	48,250
1999	25,398	63,487	63,487
2000–2001	31,743	79,359	127,000
2002–2003	32,000	80,000	130,000

Source: Norris and Winston (2004); Department of the Environment, Heritage and Local Government (various years); Wage Inflation data are taken from the Central Statistics Office Index of Average Industrial Earnings.

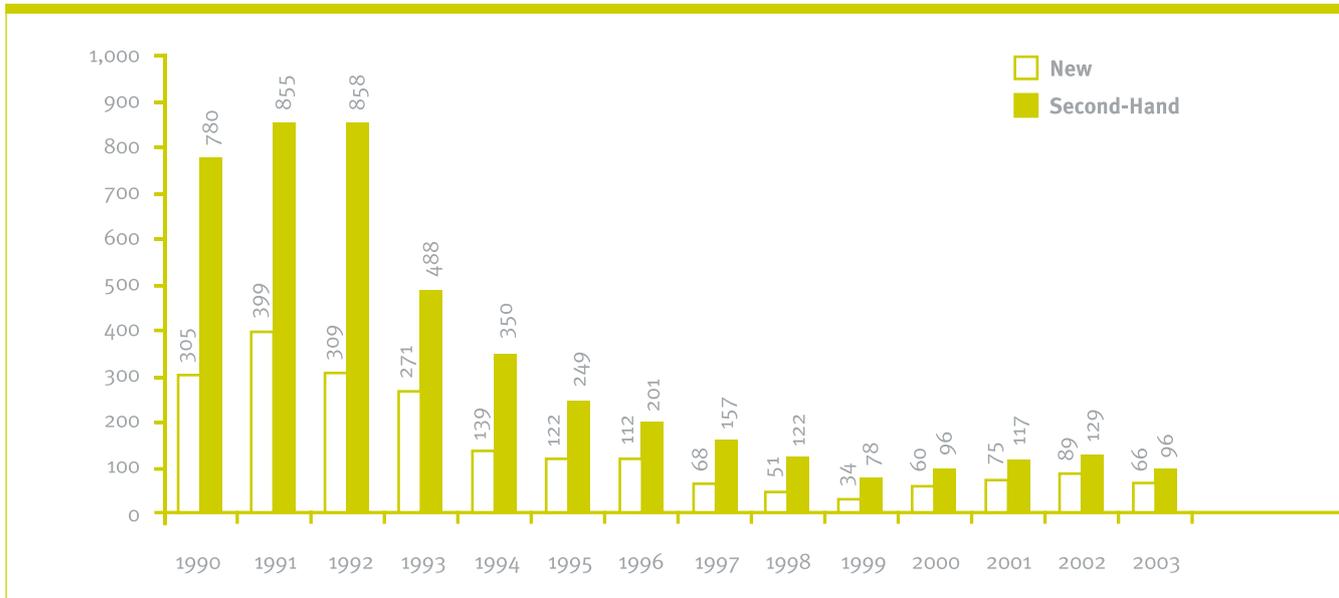
Note: From 1995, 2.5 times the income of principal earner in dual-income households plus once the subsidiary earner's income must not exceed this amount in order to qualify for a local authority mortgage.

2.4.3 Local Authority Loans Scheme Transactions

Figure 2.5 details the number of transactions under the local authority housing loans scheme between 1990 and 2003, and also specifies whether these loans were used to purchase new or second-hand dwellings. It should be noted that this information refers to local authority loans that were used to finance home purchase on the open market and therefore not used in conjunction with the other home purchase support schemes. It shows a sharp decline in the use of this type of loan scheme, particularly for purchasers of second-hand dwellings. This decline may be due to the introduction of alternative routes to low-income home ownership in the mid-1990s (such as the shared ownership scheme) and the wider availability of commercial mortgages by private lending institutions. Figure 2.6 also shows a widening gap between general

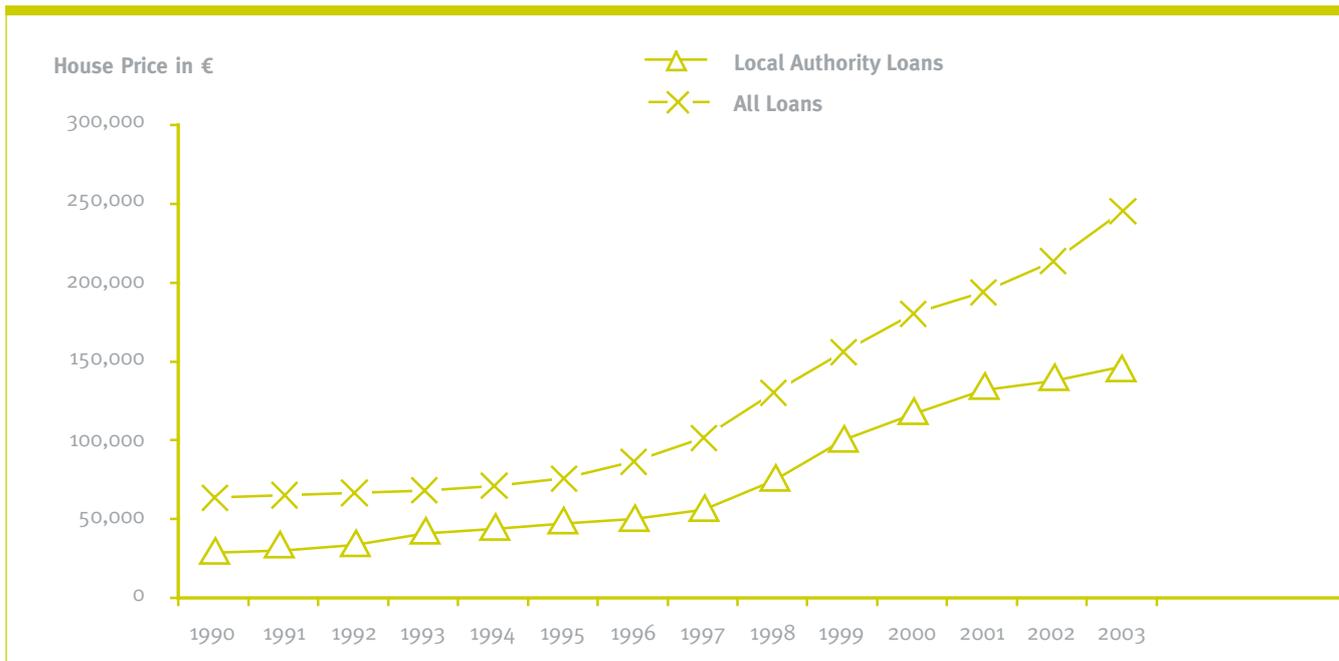
house prices and houses bought using local authority loans – which suggests that potential users may have been priced out of the market. Furthermore, from the interviews with officials it was evident that, since the late 1990s, some authorities have stopped advancing loans for home purchase unless they were being used to finance purchases of affordable housing or using the shared ownership scheme.

Figure 2.5 Number of Local Authority Loans Approved for the Purchase of New and Second-Hand Dwellings, 1990–2003



Source: Department of the Environment, Heritage and Local Government (various years). Note: Data refer to loans advanced for home purchase on the open market and not in conjunction with other purchase supports.

Figure 2.6 House Prices for Dwellings Purchased under Local Authority and All Mortgage Loans, 1990–2003



Source: Department of the Environment, Heritage and Local Government (various years). Note: Data refer to loans advanced for home purchase on the open market and not in conjunction with other purchase supports.

2.5 1999 Affordable Housing Scheme

2.5.1 History

The affordable housing scheme was introduced in 1999 on foot of the recommendations of the first Bacon Report (Bacon and Associates, 1998). At the time of its establishment, it was envisaged that the majority of output under the scheme would be in the urban areas where rising house prices had created affordability problems for aspirant home owners (Department of the Environment and Local Government, 1999).

Under the scheme, local authorities provide newly built houses at a discounted price on their own lands. A site subsidy per house is available from the DoEHLG to local authorities – €50,000 in City Councils and the Dublin local authorities (since January 2006) and €31,800 in other local authorities. The purchaser can also benefit from a loan of up to 97 per cent of the house price. Eligibility for this scheme is based on the same criteria as for the shared ownership scheme. A mortgage subsidy is also available, subject to income limits. Until 2005, all purchasers of affordable housing had to finance their acquisition with the aid of a local authority mortgage loan, but since then commercial lenders have entered this market.

The terms of the 1999 affordable housing scheme also include a claw-back or anti-profiteering measure designed to prevent the quick resale of units bought under the scheme for substantial profit. This provision requires purchasers of affordable dwellings who resell them within 20 years of initial purchase to recoup to the relevant local authority a percentage of the difference between the original discounted price of the dwelling and its original market value. After year 10, the level of this claw-back falls by 10 per cent for each subsequent year of ownership, falling to zero after 20 years. In 2000 this claw-back provision was extended to include those who used the shared ownership scheme to purchase affordable housing.

2.5.2 Evolution of the Terms of the 1999 Affordable Housing Scheme

Table 2.3 outlines the revisions made to the rules regarding eligibility for the affordable housing scheme between 1999 and 2003. Most noticeably, there was a significant increase in the income limits in 2000, a year after the scheme was first introduced.

Table 2.3 Amendments to the Income Eligibility Limits of the 1999 Affordable Housing Scheme, 1999–2003

Year	Income limit or qualification		Income limit for mortgage subsidy	Site subsidy
	Single income household	Dual income household		
	€	€		
1999	25,395	63,487	15,236	N/a
2000	31,743	79,359	25,395	38,092 urban* 31,743 rural
2001	31,743	79,359	25,395	Same
2002	32,000	80,000	25,500	Same
2003	32,000	80,000	28,000	Same

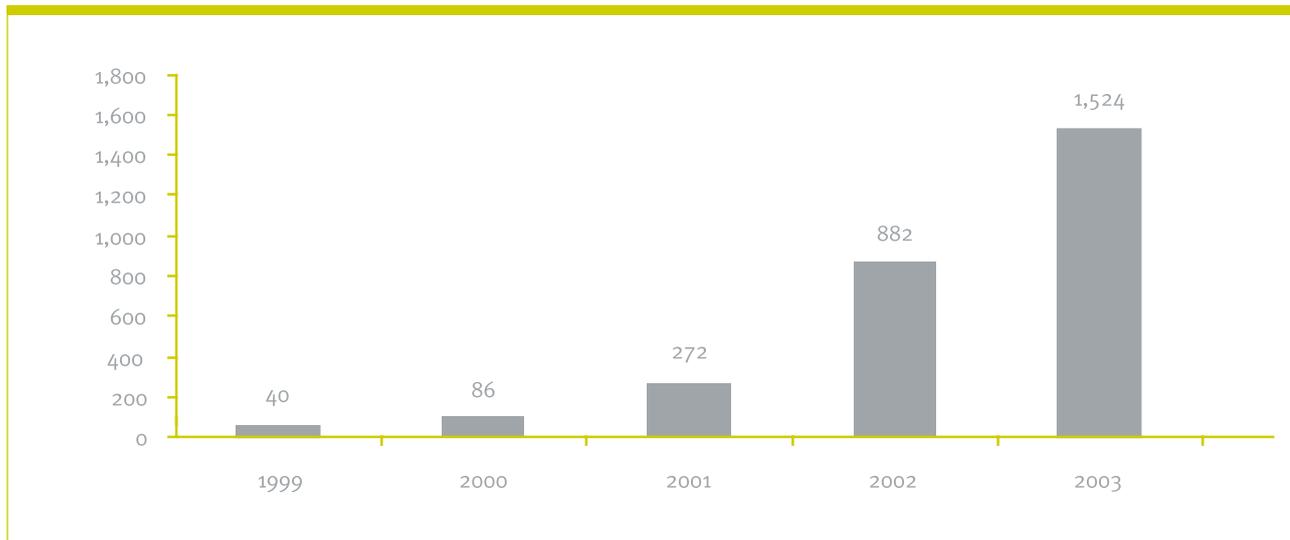
Source: Information supplied by the Department of the Environment, Heritage and Local Government.

Note: N/a means not applicable. Urban areas that qualify for the maximum site subsidy are the city councils and the four Dublin local authorities. *The urban site subsidy was raised to €50,000 in January 2006.

2.5.3 1999 Affordable Housing Scheme Transactions

Figure 2.7 shows the growth in output of affordable dwellings since it was established to 2003. In 2003, 1,524 dwellings were provided under the scheme, exceeding the objective set in the *National Development Plan 2000–2006* which stipulated that 1,000 affordable houses would be provided annually (Government of Ireland, 2003). In the early years after its establishment, the supply response was slower in the large urban areas. However, this has recently changed and by 2003, 712 dwellings or almost half of the total output under the scheme were built in the operational areas of the four Dublin local authorities – the vast majority of these in Fingal County Council (335 dwellings) and Dublin City Council (369 dwellings).

Figure 2.7 Dwellings Provided under the 1999 Affordable Housing Scheme, 1999–2003



Source: Department of the Environment, Heritage and Local Government (various years).

Local authority officials interviewed for this study confirmed that the vast majority of the dwellings built under the 1999 affordable housing scheme have been provided in partnership with private developers on local authority owned lands under local authority ownership. The continued output under the scheme is therefore dependent on a steady supply of this development land. Affordable housing provided under the auspices of Part V of the Planning and Development Acts, 2000–2006 is built on privately owned lands and this source of affordable housing is likely to become increasingly significant during the latter half of this decade.

2.6 Mortgage Allowance Scheme

2.6.1 History

The mortgage allowance scheme was introduced in 1991 to assist local authority tenants or tenant purchasers and certain tenants of voluntary housing associations who wish to surrender their dwellings to their local authority and purchase or build an owner-occupied dwelling of their own with a mortgage from a commercial lending institution. Under the terms of the scheme, mortgages must be above a specified level, and the allowance is paid on a reducing basis over five years. The allowance is paid directly to the mortgage lender so that the beneficiary's mortgage repayments are reduced by the amount of the subsidy.

2.6.2 Evolution of the Terms of the Mortgage Allowance Scheme

In 1995, following the publication of the DoEHLG housing policy statement *Social Housing: The Way Ahead*, eligibility for the mortgage allowance was extended to include tenants, of not less than one year's standing, of dwellings provided by voluntary and co-operative housing associations under the rental subsidy scheme. This scheme is funded by the DoEHLG and is used principally to provide general needs or 'unsupported' housing (Mullins *et al*, 2003). Table 2.4 shows changes to the level of the allowance and the minimum mortgages eligible between 1991 and 2003.

Table 2.4 Mortgage Allowance Scheme – Levels of Allowance available and Minimum Qualifying Mortgage, 1991–2003

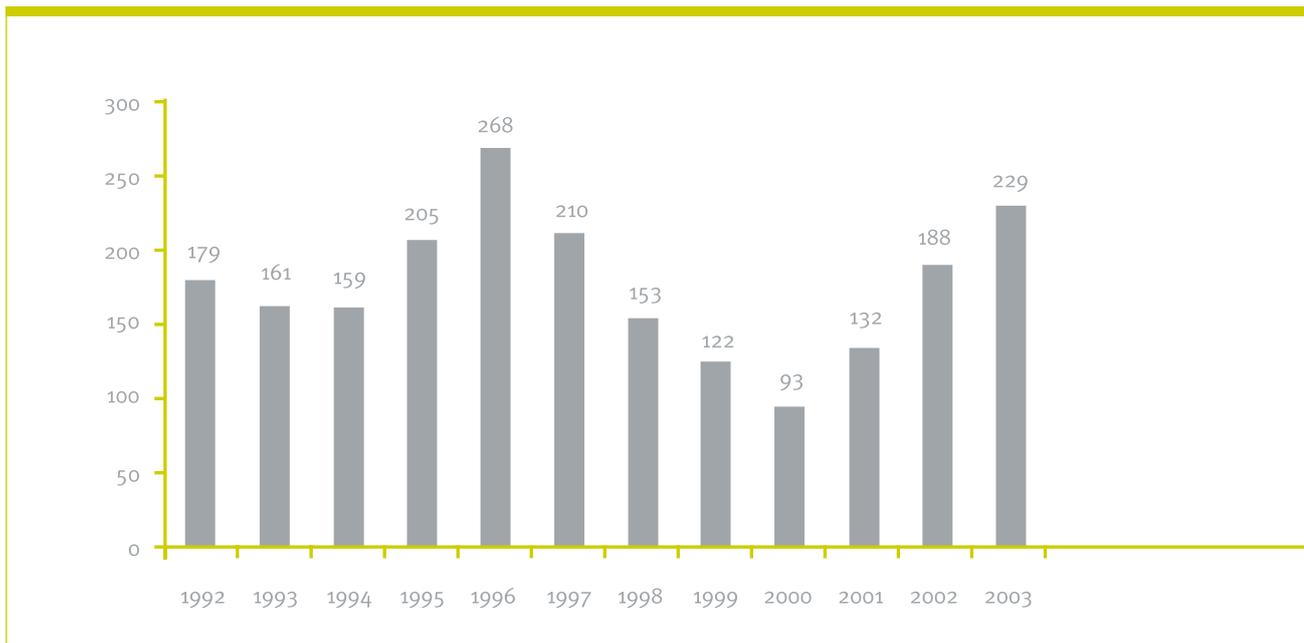
Year	Mortgage allowance amount €	Minimum eligible mortgage €
1991–1994	4,190	12,697
1995–1999	5,714	12,697
2000–2003	11,428	38,092

Source: Department of the Environment, Heritage and Local Government (various years).

2.6.3 Mortgage Allowance Scheme Transactions

Figure 2.8 outlines trends in mortgage allowance scheme transactions since 1992, its first full year of operation. It reveals that the rate of transactions under the scheme has been modest to date, averaging 175 units annually between 1992 and 2003, with a cumulative total of 2,099 units over this period. Transactions under the scheme grew steadily from 1992 to a peak of 268 in 1996, but subsequently underwent a notable decline to a low of 93 in 2000. Since then, the scheme has experienced a revival with 229 dwellings surrendered in 2003.

Figure 2.8 Dwellings Surrendered Under the Mortgage Allowance Scheme, 1992–2003



Source: Department of the Environment, Heritage and Local Government (various years).

2.7 Concluding Comments

The various schemes of support for low-income home buyers which are examined in this report enabled up to 52,373 households to access home ownership between 1990 and 2003. These schemes have enabled participant households to share in the wealth created by the strong residential property price inflation of recent years (Fahey *et al*, 2004).

The figure of 52,373 is net of any house purchases under the 1999 affordable housing scheme financed through shared ownership (for example, 17 per cent of affordable housing under the 1999 scheme was bought under shared ownership in 2003). At the time of writing, the extent of any overlap between shared ownership and tenant purchase was unclear.

Between the census years 1991 and 2002 the number of owner-occupied households increased by 182,083. Examining this slightly shorter timeframe (1991–2002 rather than 1990–2003), we see that up to 29 per cent of that growth in owner-occupation was due to participation in these low-income schemes. This is a substantial achievement for the schemes, particularly in the increasingly competitive housing market experienced since the mid-1990s, and indicates that these initiatives have been effective in increasing levels of home ownership. Of itself, however, this does not indicate that the supports have been effectively targeted – a point which is picked up in the subsequent sections of this report.

Over the period, the tenant purchase scheme has been the most popular scheme, but this raises concerns in view of the decline in sales of local authority dwellings to tenants. This section has also raised the difficulty of up-grading the qualifying criteria for these schemes in a period of high house price inflation, while still keeping the focus of the schemes to their original target audience of low-income households.

The next two sections of the report will examine the implementation of these schemes in the five case study local authority areas.

SECTION THREE
Profile of Recipients



3.1 Introduction

This section profiles the recipients of the various schemes between 1990 and 2003, based on the information contained in the local authority records. The analysis focuses in particular on the following areas:

- household composition – including gender, age and marital status of head of household and family size at time of final approval for the low-income home ownership supports
- previous tenure of purchasers prior to availing of these schemes
- source and method of home purchase finance – the method used to purchase the dwelling and the source of mortgage finance employed, if relevant
- income and house price trends – household incomes at the time of home purchase, open market values of the dwellings purchased and the discounted price offered to the participant households
- the affordability of mortgage repayments.

In relation to these five areas, changes over time in the characteristics of the relevant households, urban and rural variations and differences between participants in the low-income home owner supports and all home owners are also examined, where relevant.

3.2 Household Composition

Table 3.1 gives details of the composition of the households that availed of low-income home purchase supports in the case study local authorities over the period 1990–2003, in terms of gender, age, marital status and number of children. It shows that scheme users can be grouped into three distinct categories:

- Firstly, the households that availed of the tenant purchase and mortgage allowance scheme are distinguished by a predominance of married couples, headed by males, who are generally older than is the norm among participants in other schemes, and these households also have a higher number of children on average. Notably, heads of tenant purchaser households are much more likely to be widowed (11.7 per cent) than is the case among participants in any of the other supports for low-income home owners examined here.

Table 3.1 Characteristics of Participants in Low-Income Home Purchase Support Schemes, 1990 to 2003

Scheme	Gender of household head (%)		Mean age of household head (years)
	Male	Female	
Tenant Purchase	59.1	40.9	46
Mortgage Allowance	73.2	26.8	33
Local Authority Loan	64	36	34
Shared Ownership	57.8	42.2	29
1999 Affordable Housing	54	46	32
Mean	59.1	40.9	35.48

Note: Data for affordable housing scheme refer only to 2002 and 2003.

Table 3.2 Change in the Characteristics of Participants in Low-Income Home Purchase Support Schemes between 1992/93 and 2002/03

Scheme	% Female headed households at time of purchase		% Household heads married	
	92/93	02/03	92/93	02/03
Tenant Purchase	35.8	50.9	76.6	64.2
Mortgage Allowance	20.7	67.7	Nav	Nav
Local Authority Loan	22.2	46	43.8	20.6
Shared Ownership	38	46	53.3	10
1999 Affordable Housing	N/a	46	N/a	15.6
Mean	34.7	47	61.3	18.6

Note: Nav means not available. The data available for mortgage allowance recipient households in the years 1992–93 and 2002–03 were of an insufficient size to produce reliable data as a representative sample on marital status. The affordable housing scheme was introduced in 1999 so data for 1992–93 are not available. The marital status of participant households was organised into four categories: married, single, cohabiting and divorced/separated/widowed, for this reason the percentage of household head married and single categories in this table do not add up to 100 per cent.

	Marital status of household head (%)					Number of children in household (%)		
	Married	Single	Separated/ Divorced	Widowed	Co-habiting	0	1-2	3+
	73.2	7.6	5.9	11.7	1.6	14	38.7	49.7
	61	21.7	4.3	0	13.0	7.4	54.1	38.6
	46.8	34.9	2.2	0.2	15.9	54.5	40	5.3
	17.6	70.7	4.2	0.1	7.4	59.7	37	3.3
	15.6	54	5.3	0	25.0	60	34.4	5.6
	35.6	49.5	4.5	3.2	7.2	46.5	37.5	16

% Household heads single		Households with children					
		% with no children		% with 1-2 children		% with 3 or more children	
92/93	02/03	92/93	02/03	92/93	02/03	92/93	02/03
2.4	20.4	5.7	30.1	32.2	44.5	62.1	14.4
Nav	Nav	31.8	4.2	54.6	58.3	13.6	37.5
34.8	50	46.9	56.9	43.8	40.6	9.3	2.5
27.2	79.4	31.9	66.9	60.2	31	7.9	2.1
N/a	54.4	N/a	60	N/a	34.8	N/a	5.2
18.7	64.8	22.9	60.7	47.3	34.3	29.8	14

The similarity between the household composition of participants in these two schemes is probably related to the fact that they are drawn from the same pool of applicants – local authority tenants.

- The second group consists of households in the shared ownership and the 1999 affordable housing scheme, who tended to be younger (average age 29 and 32 years respectively), single and less likely to have children compared to tenant purchasers.
- Local authority loan recipient households are a third group, occupying an intermediary position between the first two categories in terms of age and marital status and family size. As mentioned in Section Two, the vast majority of recipients of local authority loans used this finance to acquire a dwelling in tandem with another scheme. It is not surprising, therefore, that the characteristics of loan recipients would reflect a mix of the characteristics of participants in these other programmes.

3.2.1 Change in Household Composition between 1992/93 and 2002/03

Table 3.2 above compares the composition of the households that were approved for the various low-income support schemes in 1992 and 1993 to those approved in 2002 and 2003. It reveals that the household profile of participants in these schemes changed radically over the course of this decade. A notable change over this period has been an increase in the number of female-headed (defined as the primary applicant on scheme application forms) and single households, and a decrease in the proportion of married couple participants. In the case of the shared ownership scheme, this latter decline was particularly marked – from 53 per cent to 10 per cent. There was also an increase in the number of households with no children, reflecting trends among the Irish population at large.

Table 3.3 Characteristics of Participants in Low-Income Home Purchase Support Schemes, by Urban and Rural Areas, 1990–2003

Scheme	% Households headed by males		% Households headed by females	
	Urban	Rural	Urban	Rural
Tenant Purchase	57.7	79.5	42.3	20.5
Mortgage Allowance	75	65.8	25	34.2
Local Authority Loan	59.9	75.2	40.1	24.8
Shared Ownership	57.1	74.3	42.9	25.7
1999 Affordable Housing	46.3	65.9	53.7	34.1

Note: Dublin City and South Dublin County Council operational areas are classified as urban areas; Longford, Leitrim and Wicklow County Councils are classified as rural areas.

3.2.2 Regional Variations in Household Composition

Table 3.3 examines variations in the structure of the households that availed of low-income home purchase supports in urban and rural areas. It reveals that participant households resident in rural local authority areas (counties Longford, Leitrim and Wicklow) are significantly more likely to be headed by a male than their counterparts in urban areas (resident in the operational areas of Dublin City and South Dublin County Councils). For example, almost four-fifths (79.5 per cent) of the rural tenant purchase households between 1990 and 2003 were headed by males, compared to close to three-fifths (57.7 per cent) of those in urban locations.

Further analysis indicates that the representation of married couples was significantly higher in rural areas. Married couples predominated among rural shared ownership households (43.3 per cent) followed by single persons and cohabiting couples (24.5 and 21.6 per cent respectively). In contrast, in the urban local authority areas under examination, the opposite pattern was true – single persons formed the vast majority of households (72.6 per cent), with married and cohabiting couples accounting for only 16.5 and 6.8 per cent respectively.

% with no children		% with 1-2 children		% with 3 or more children	
Urban	Rural	Urban	Rural	Urban	Rural
14.8	6.9	37.8	45.9	47.4	47.2
7.9	5.9	56.5	47.1	35.6	4.7
60.7	44.2	36.2	46.5	3.1	9.3
60.4	40.1	36.7	44.4	2.9	15.5
64.0	51.8	32.8	38.2	3.2	10

3.2.3 Comparison of Participant Households and All Mortgage Loan Approvals

Figure 3.1 compares changes in the characteristics of participants in the low-income home ownership schemes between 1992/93 and 2002/03 to changes in the characteristics of all households that availed of mortgage finance in these years. This focuses solely on changes in marital status, because of data limitations. It shows a rise in the proportion of single people drawing down mortgages and a decline in the proportion of married people doing so. This trend applied to all mortgages and particularly those who availed of the shared ownership scheme and particularly those who availed of the shared ownership scheme. A similar shift was evident for the tenant purchase scheme and the local authority loans scheme, but it was less dramatic.

Figure 3.1 Change in Marital Status of all Mortgage Borrowers and Participants in the Low-Income Home Purchase Support Schemes between 1992/93 and 2002/03



Source: Department of the Environment, Heritage and Local Government (various years) and data supplied by local authorities. Note: Data on the affordable housing scheme for 1992/93 are not available because this scheme was established in 1999.

3.3 Previous Tenure

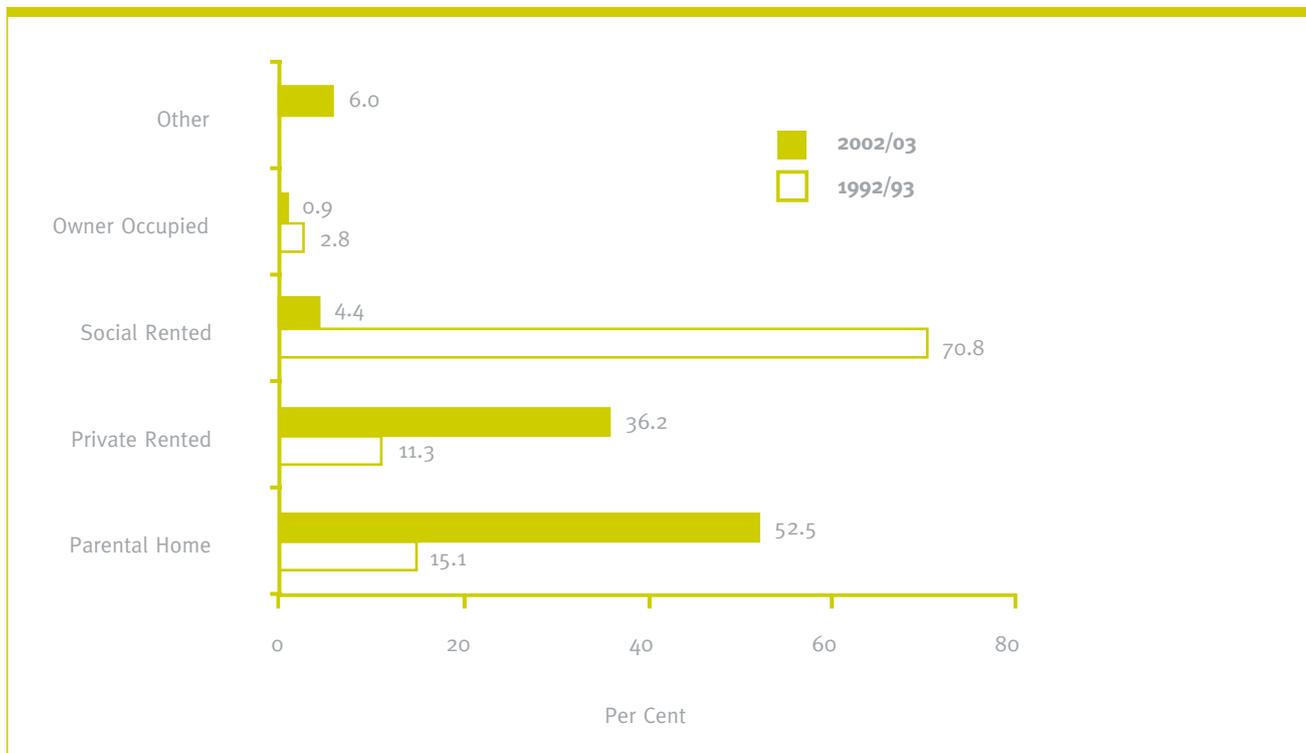
Information is available on the previous tenure of participants in the tenant purchase and shared ownership schemes prior to their home purchase. This information is not available for the other programmes under examination in this report, however, because it was not requested on the application forms for the other schemes and therefore was not on the administrative files used for the study.

Participants in the tenant purchase scheme were by definition local authority tenants prior to buying their home – the average tenancy prior to home purchase was 15.3 years. Only one-fifth (19.3 per cent) of those examined had bought their dwelling within nine years of being allocated a local authority tenancy. This may be related to the fact that tenant purchasers qualify for the maximum discount from the market value of their dwelling after ten years of tenancy.

In terms of the age of the dwellings bought through tenant purchase, almost a half (44.2 per cent) were built between 1971 and 1980, a third (32.9 per cent) were built between 1981 and 1990 and a further 7.3 per cent constructed since 1990. More detailed analysis indicates that the age of the dwelling when sold is often similar to the average length of tenancy prior to home purchase. This indicates that the majority of the local authority rented dwellings that are sold to tenants have never become available for re-letting to applicants for housing, but rather that they are bought by the tenants to whom they were initially rented after construction.

Figure 3.2 details the tenure in which participants in the shared ownership scheme resided at the time of their application to the scheme. In 2002/03, the majority (52.5 per cent) of these households had previously lived in the parental home, a third came from private rented accommodation (36.2 per cent) and very few (4.4 per cent) were in social housing. Figure 3.2 also shows significant change in tenure origin between 1992/93 and 2002/03. In 1992/93, the majority of households approved under the shared ownership scheme were formerly resident in social rented housing – accounting for 70.8 per cent. In contrast the proportion of applicants resident in the parental home was much lower in the early 1990s (15.1 per cent) as was the proportion resident in private rented accommodation (11.3 per cent).

Figure 3.2 Previous Tenure of Households Approved under the Shared Ownership Scheme, 1992/93 and 2002/03



Note: Accommodation classified in the 'Other' category includes living with non-parental relatives and friends, sharing a dwelling with another household and employer-owned accommodation.

This development is related to two factors. Firstly, in 1995 the income limits for eligibility for the shared ownership scheme were increased significantly which would have rendered households with higher incomes eligible. Secondly, sharp house price inflation from the mid-1990s onwards is likely to have rendered participation in the scheme increasingly difficult for social rented households in view of their low average incomes (Murray and Norris, 2002).

3.4 Source and Method of Home Purchase Finance

Table 3.4 details the method of home purchase and the source of mortgage finance employed by the households who have availed of the low-income supports in the case study areas. It reveals a high rate of reliance on local authority loans, apart from households who availed of the mortgage allowance scheme. This is because, as was explained in Section Two, until recently participants in the 1999 affordable housing scheme did not have access to commercial mortgages. Such was also the case for tenant purchasers prior to 1995 and remains the case for participants in the shared ownership scheme.

Table 3.4 Method of Home Purchase and Source of Mortgage Finance Employed by Participants in the Low-Income Home Purchase Support Schemes, 1990–2003

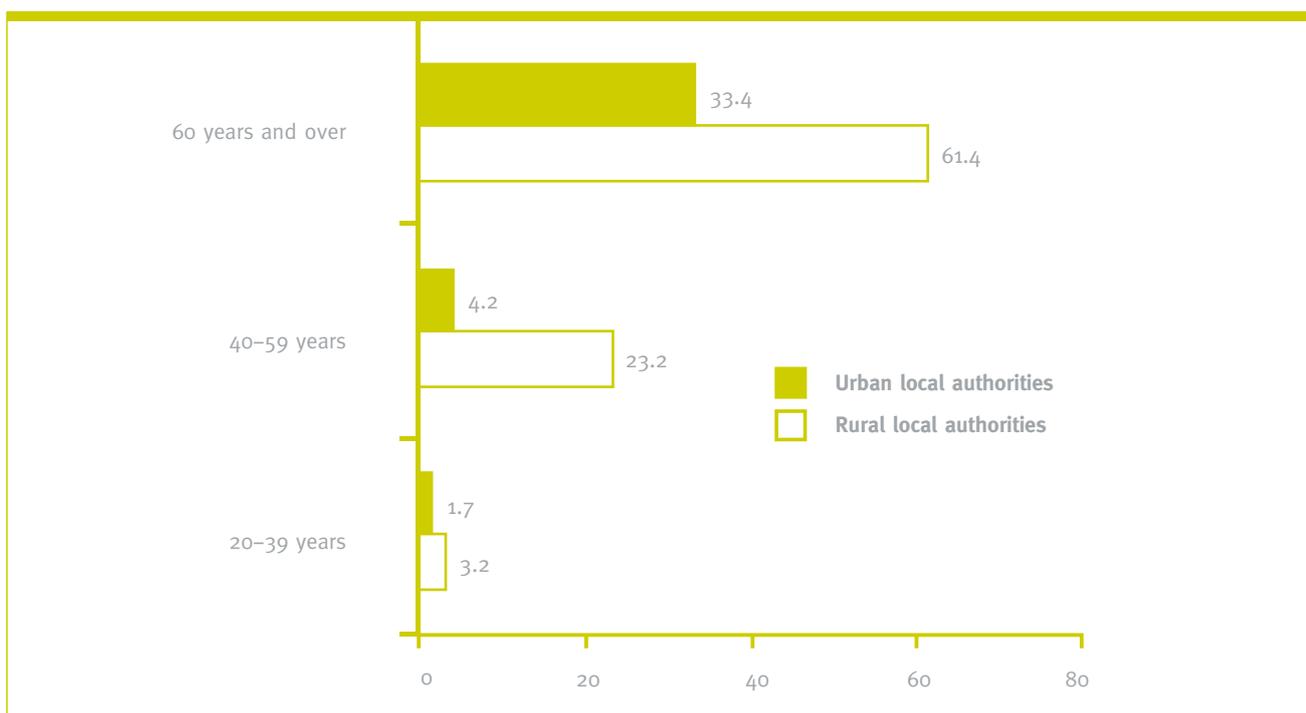
Scheme	Method of home purchase 1990–2003		Source of mortgage finance 1990–2003			
	Mortgage loan	Cash	Local authority loan	Bank loan	Building society loan	Other
	%	%	%	%	%	%
Tenant Purchase	96.2	3.8	61.2	2.8	17.9	18.1
Mortgage Allowance	100	0	4.5	5.7	89.8	0
Shared Ownership	100	0	100	0	0	0
1999 Affordable Housing	100	0	100	0	0	0

Note: A number of commercial lending institutions merged their operations in the late 1990s and early 2000s and therefore the distinction between banks and building societies as the source of mortgage lending disguises significant overlap between the two categories. The category designated 'Other' consists mainly of credit union loans.

In the case of tenant purchase households, almost two thirds used local authority loans to finance their home purchase. However, amongst this group, reliance on local authority loans did fall after 1995, when the restriction on the use of commercial mortgages to finance tenant purchase transactions was removed. Those tenant purchasers who did not use local authority loan finance were most likely to use a building society mortgage to pay for their home purchase.

Almost all households who availed of the tenant purchase scheme used a mortgage to finance the purchase of their dwelling, but a small minority (3.8 per cent) purchased in cash. Those who paid in cash were more likely to be from a rural local authority and, as Figure 3.3 reveals, sixty years of age and over.

Figure 3.3 Percentage of Tenant Purchase Transactions Financed by Cash, by Age Group and Location, 1990–2003



Note: Dublin City and South Dublin County Council operational areas are classified as urban areas; Longford, Leitrim and Wicklow County Councils are classified as rural areas.

According to housing officials interviewed for the survey, cash purchases tended to occur where an older tenant was helped financially by adult children to buy the dwelling. In many cases, these children were living with the parent. In this vein one interviewee reported that, in her experience: “Any of the cash purchases, it’s usually a son or daughter buying the dwelling for their mother. Usually it’s a son taking out a loan and buying the house for his mother. [The local authority] will always look to see where this cash is coming from – we have an obligation to do this check”.

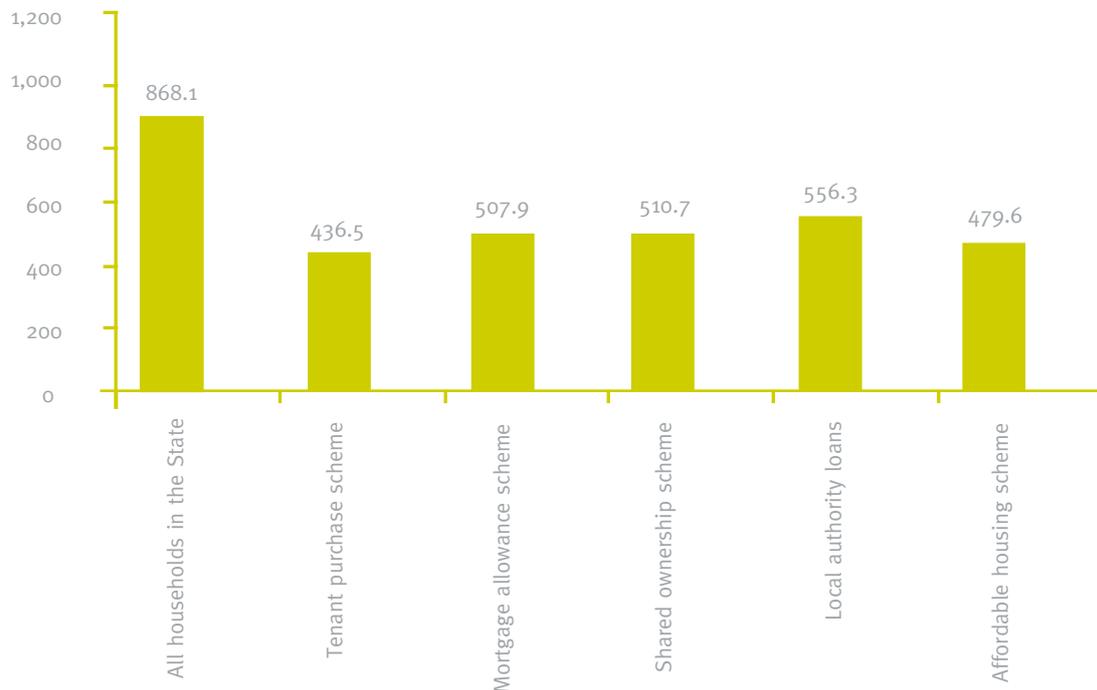
3.5 Income and House Price Trends

3.5.1 Incomes

Data on incomes were limited to gross income figures in the administrative files, and are the basis of the analysis here. Figure 3.4 compares the weekly incomes of the households in the case study areas that availed of the low-income home ownership supports in 2003 to that of all Irish households. As would be expected, it reveals that as access to these home purchase supports is limited to households with incomes below a specified level, the gross income of participants averaged between a half and two-thirds of all households in the State.

Tenant purchasers tended to have the lowest incomes of all the schemes, averaging €436.45 before tax in 2003. This is consistent with research on the socio-economic characteristics of local authority tenants, such as that carried out in the Dublin City Council operational area by the Centre, which found that almost two-thirds (62.5 per cent) of tenant households had incomes below 50 per cent of the national average in 2001, compared to 20.4 per cent of the general population (Murray and Norris, 2002).

Figure 3.4 Gross Mean Weekly Household Incomes (€) of Participants in Low-Income Home Purchase Supports and All Households in the State, 2003



Source: Central Statistics Office (2005) and data supplied by local authorities.

Note: Data on gross incomes were only available from the files collected and therefore income data do not account for income tax, PRSI or Pension-related deductions nor do they measure welfare-related inputs.

Moreover, research carried out for Combat Poverty Agency indicates that 22.5 per cent of tenant purchase households had incomes below 60 per cent of median in 2000 compared to 11.4 of all mortgage holders (Fahey *et al*, 2004).

Figure 3.5 details changes in the mean gross weekly income of households that availed of low-income home purchase supports between 1990 and 2003 and compares them to trends among all households. It shows that, over this period, general household incomes have grown faster than those availing of the schemes. For several years the mortgage allowance scheme bucked this trend – probably because it is not means tested. However, this pattern also changed after 1999/00. Among the households who availed of the low-income home purchase supports, participants in the tenant purchase scheme saw the greatest percentage increase in their incomes (168.8 per cent) over this period. In contrast, those availing of shared ownership experienced the lowest increase in their mean incomes, which grew by 86 per cent during the corresponding period.

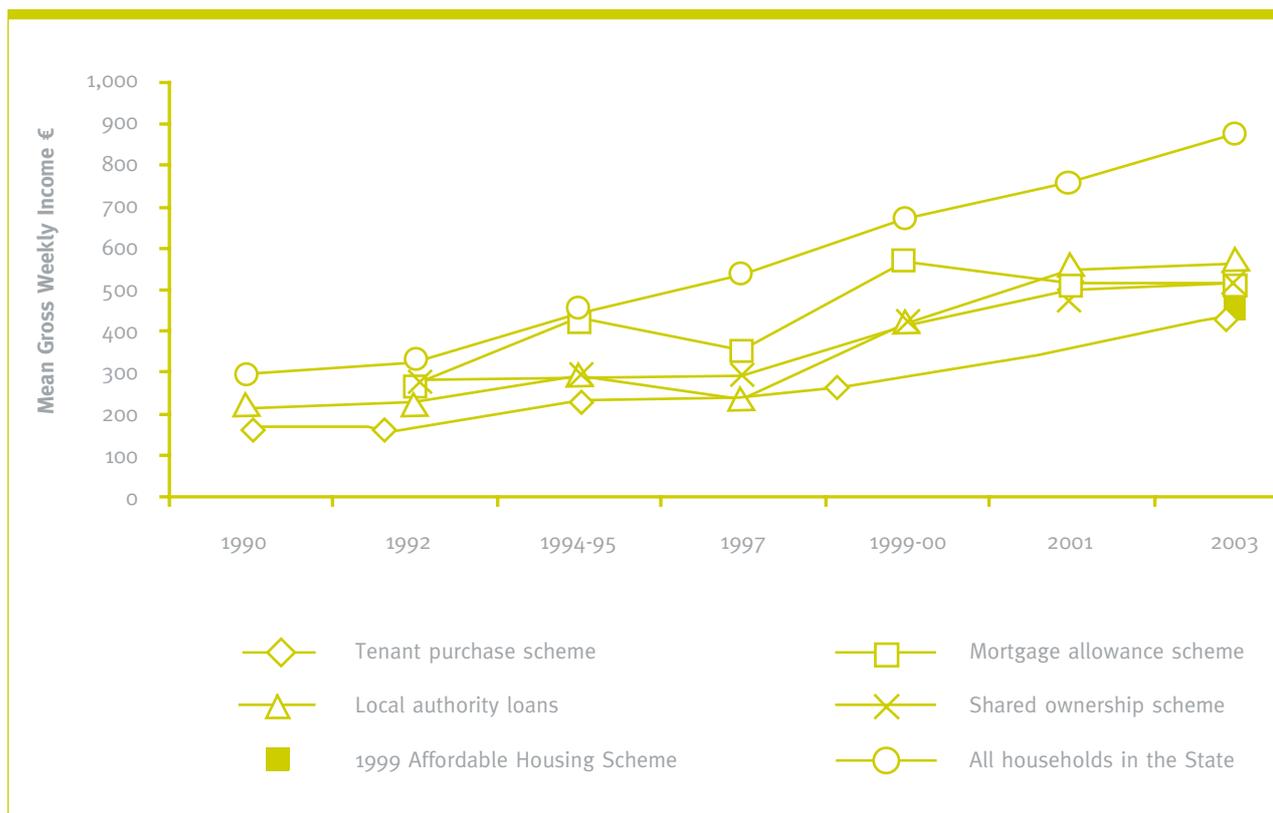
The differences in incomes between households in urban and rural areas that availed of the low-income home purchase supports in 2002/03 are outlined in Table 3.5. This table reveals that, in general, the incomes of urban home buyers are greater than their rural counterparts. These differences are particularly marked among tenant purchasers – urban households in this category have an average income almost 40 per cent greater than their rural counterparts. Similarly, the incomes of urban households that availed of the mortgage allowance scheme were almost 26 per cent higher than the equivalent for rural areas. However, the difference between incomes of households that purchased affordable housing in urban and rural areas is negligible – 0.4 per cent.

Table 3.5 Household Incomes of Participants in Low-Income Home Purchase Schemes, by Urban and Rural Areas, 2002/03

Scheme	Mean gross weekly income (€)		Difference between urban and rural areas (%)
	Urban	Rural	
Tenant Purchase	443.22	318.61	39.1
Mortgage Allowance	650.90	517.13	25.9
Local Authority Loan	580.27	528.86	9.7
Shared Ownership	519.77	457.01	13.7
1999 Affordable Housing	485.55	483.77	0.4

Note: Dublin City and South Dublin County Council operational areas are classified as urban areas; Longford, Leitrim and Wicklow County Councils are classified as rural areas.

Figure 3.5 Change in Gross Mean Weekly Household Income for Low-Income Home Purchase Supports and All Households, 1990–2003



Source: Data supplied by the Central Statistics Office and the case study local authorities.

Note: Data for all households are abstracted from a number of sources: 1990 and 1992 data are taken from Index of Average Industrial Earnings; 1994–95 and 1999–00 data are taken from Household Budget Survey; 1997, and 2001 data are taken from ESRI Living in Ireland Survey. 2003 data are taken from the EU Survey on Income and Living Conditions 2004. Income data do not account for income tax, PRSI or Pension-related deductions nor do they measure welfare-related inputs.

3.5.2 Prices

Figure 3.6 compares the market value of dwellings bought using the supports for low-income home purchasers in the case study local authority areas with prices in the general housing market and compares trends in price inflation for dwellings in both these categories between 1990 and 2003. It reveals that the cost of dwellings purchased by scheme participants was consistently lower than average prices across the entire housing market. Furthermore, although there has been very significant inflation in the price of all types of dwellings between 1990 and 2003, the rate of increase in the prices of dwellings bought by participants in the low-income home ownership supports has been greater than is the case for the housing market in general.

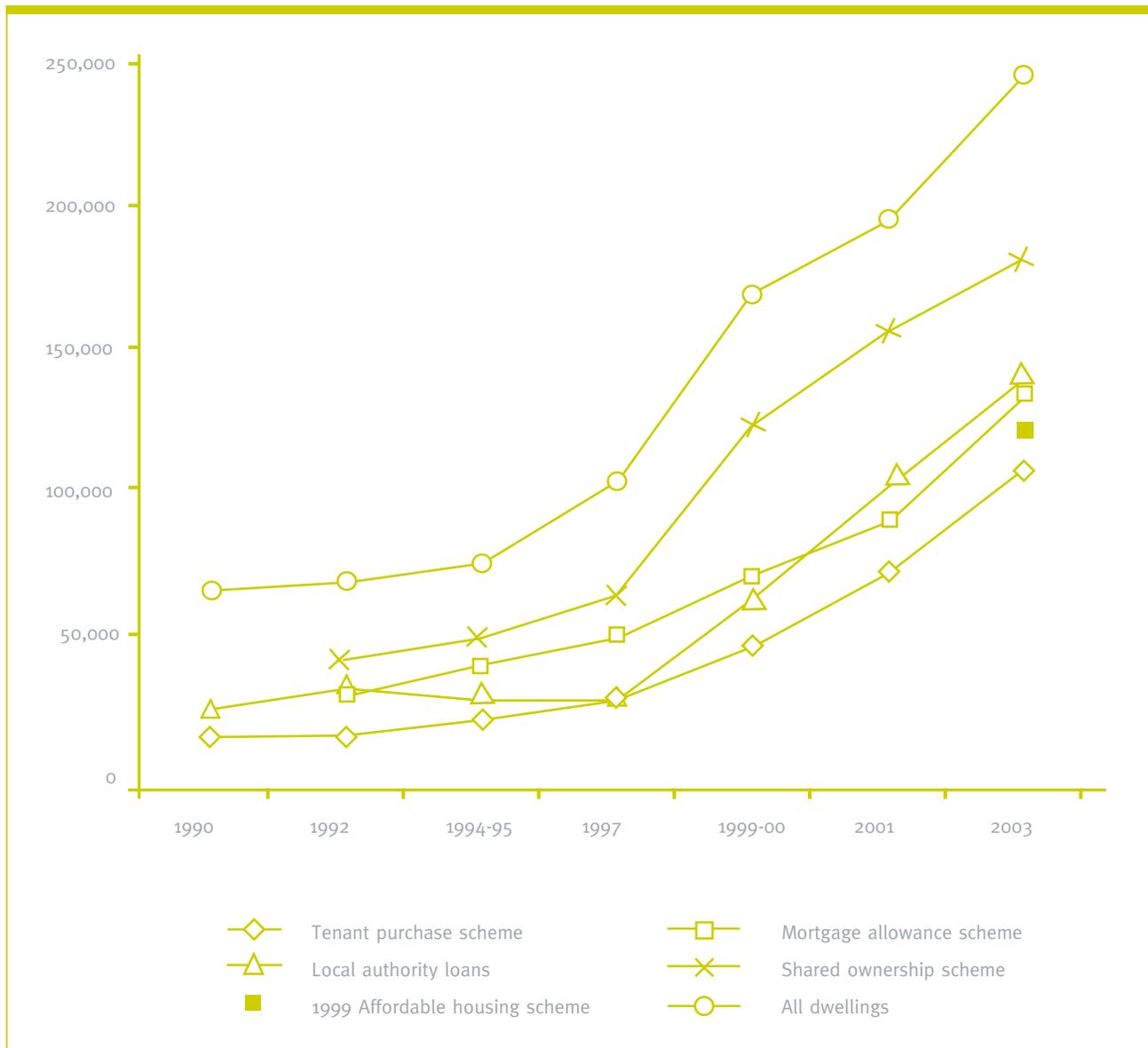
In 2003, the average price paid for a dwelling in Ireland was €244,733. However, the average price paid by participants in the low-income home purchase supports under examination here was just €145,699. It is important to bear in mind, nevertheless, that as the only available data on the mortgage allowance scheme refer to the value of mortgages granted rather than the price of dwellings, this figure may slightly underestimate purchase prices for this group. The average cost of dwellings bought using the low-income home purchase supports also varies according to the specific scheme in question. Figure 3.6 (page 37) reveals that tenant purchasers paid the lowest prices on average (€105,901 in 2003), participants in the 1999 affordable housing scheme paid €120,186 to purchase their dwelling during that year, while participants in the mortgage allowance and the local authority loans schemes paid €132,335 and €138,654 respectively. In contrast, dwellings bought under the shared ownership scheme were significantly more expensive – €180,785 on average in 2003 – although this additional expense is of course mitigated by the fact that these households did not purchase the full equity of the dwelling initially.

Between 1992 and 2003, the average price paid by participants in all the schemes combined increased more than six-fold (642 per cent), whereas the price of all dwellings increased by just 264 per cent during this period. The corresponding increase for dwellings sold under the tenant purchase scheme was particularly high, at 730 per cent, but these had been initially valued at lower prices. The average mortgage loan borrowed by participants in the mortgage allowance scheme rose by 376 per cent and the average local authority loan rose by 415 per cent. The increase in the average price of dwellings bought under the shared ownership scheme rose by the lowest degree – 337 per cent. However, as Table 3.6 (page 38) illustrates, the housing bought under this scheme has been consistently more expensive than dwellings sold under the other schemes.

Higher house price inflation among the various schemes reflects the particularly large proportion of the households examined in this study which have purchased their dwelling in the relatively high cost locations of Dublin City Council and South Dublin County Council – four fifths of all such cases analysed. It may also reflect higher levels of price inflation in the bottom end of the wider housing market compared to more expensive properties. To date, no robust research has been carried out on this issue for the housing market as a whole. Several of the local authority officials interviewed for this research, however, related the particularly large increase in the price of properties sold under the tenant purchase scheme to the gentrification of local authority estates, particularly those in the inner suburbs of cities and large towns. Table 3.6 gives a breakdown of the house prices paid by scheme participants resident in urban and rural local authority area and supports both these explanations. It reveals particularly high price inflation in the price of properties bought by scheme participants living in urban areas.

In the case of participants in the tenant purchase and the 1999 affordable housing scheme, the market value of their property at time of purchase does not reflect the price they paid for it, because they generally received a significant discount. Tables 3.7 and 3.8 (page 38, 39) detail the discounts received by participants in both these schemes in 1992/93 and 2002/03. They show that for the tenant purchase scheme the level of discounts has reduced as a proportion of the market value. In explaining this, it is important to keep in mind that the discounts attached to the 1988 scheme were particularly generous to buyers. The market value of tenant purchase properties has increased substantially over the period, however. The level of discount has increased to an average approximately €45,000 per sale. While the average amount of discount in 2002/03 was similar for the affordable housing scheme (€40,715), in terms of proportions this amounted to a smaller discount – one-fifth (22.2 per cent).

Figure 3.6 Change in Average House Prices for Dwellings Acquired Using Low-Income Home Purchase Supports and All Dwellings, 1990–2003



Source: Data provided by the case study local authorities and Department of the Environment, Heritage and Local Government (various years). Note: Data on the Tenant Purchase and Affordable Housing schemes refer to the discounted price paid by purchasers; data on the Mortgage Allowance and Local Authority Loan schemes refer to the value of mortgages.

Table 3.6 Market Value of Dwellings Purchased by Participants in the Low-Income Home Purchase Supports in Urban and Rural Areas, 1992–2003

Scheme	Mean market value of dwellings (current €)					
	1992			2003		
	All	Urban	Rural	All	Urban	Rural
Tenant Purchase	26,297	26,482	20,383	154,126	159,082	95,011
Mortgage Allowance	27,800	27,940	Nav.	132,335	180,690	113,738
Local Authority Loan	26,946	28,885	23,994	138,654	137,588	118,233
Shared Ownership	41,406	42,718	45,685	180,785	177,071	124,513
1999 Affordable Housing	N/a	N/a	N/a	155,814	204,450	155,289

Note: Dublin City and South Dublin County Council operational areas are classified as urban areas; Longford, Leitrim and Wicklow County Councils are classified as rural areas. Data on the Tenant Purchase and Affordable Housing schemes refer to the market price as assessed by each local authority; data on the Mortgage Allowance and Local Authority Loan schemes refer to the value of mortgages.

Table 3.7 Mean Discounts to Participants in the 1999 Affordable Housing and Tenant Purchase Schemes, 1992/93 and 2002/03

Scheme	House price				% Discount on market value	
	Market value in €		Discounted price in €			
	1992/93	2002/03	1992/93	2002/03	1992/93	2002/03
Tenant Purchase	26,671	143,843	13,197	98,411	50.5	31.6
1999 Affordable Housing	N/a	184,613	N/a	143,635	N/a	22.2

Note: N/a means not applicable. Because the affordable housing scheme was established in 1999, data for 1992/93 are not available. * Data on house price for mortgage allowance and local authority loan schemes only relate to the amount of loan advanced to participant households. The significantly higher mean market value and discounted prices for dwellings under the affordable housing scheme reflect its recent introduction and the higher house prices during its more limited period of operation.

It is noticeable from Table 3.7 that the extent of the discount available to tenant purchasers is higher than would be expected. An internal review (DoEHLG, 2005) based upon data provided by sixty-six housing authorities for all sales under the scheme in 2003 found evidence of extensive under-valuation of properties. According to this, twenty-three of the respondent housing authorities were administering the allowance for improvement works in a manner contrary to the scheme's regulations. Under Housing (Sale of Houses) Regulations, 1995 where improvements have been carried out these are deducted from the property's initial value to give the market value on which the tenancy discount is based. However, in the case of twenty-three housing authorities the discount for the duration of tenancy was applied incorrectly. In many cases it was applied to the property's full value and this discount plus the value of the improvement works were deducted to calculate the purchase price. This formula served to significantly increase the value of the discounts offered to tenants and, in turn, has represented a hidden cost to the Exchequer.

Table 3.8 Range of Discounts to Participants in the Affordable Housing and Tenant Purchase Schemes, 1992/93 and 2002/03

Year		Scheme			
		Tenant Purchase		1999 Affordable Housing	
		Market price	Discount price	Market price	Discount price
		€	€	€	€
1992/93	High	58,925	50,165	N/a	N/a
	Low	10,158	5,079	N/a	N/a
2002/03	High	425,362	293,944	210,000	165,000
	Low	16,000	7,618	110,000	85,700

Note: N/a means not applicable. As the affordable housing scheme was established in 1999, data for 1992/93 are not available. Data on house price for mortgage allowance and local authority loan schemes only relate to the amount of loan advanced to participant households. The significantly higher mean market value and discounted prices for dwellings under the affordable housing scheme reflect its recent introduction and the higher house prices during its more limited period of operation.

3.6 Affordability of Mortgage Repayments

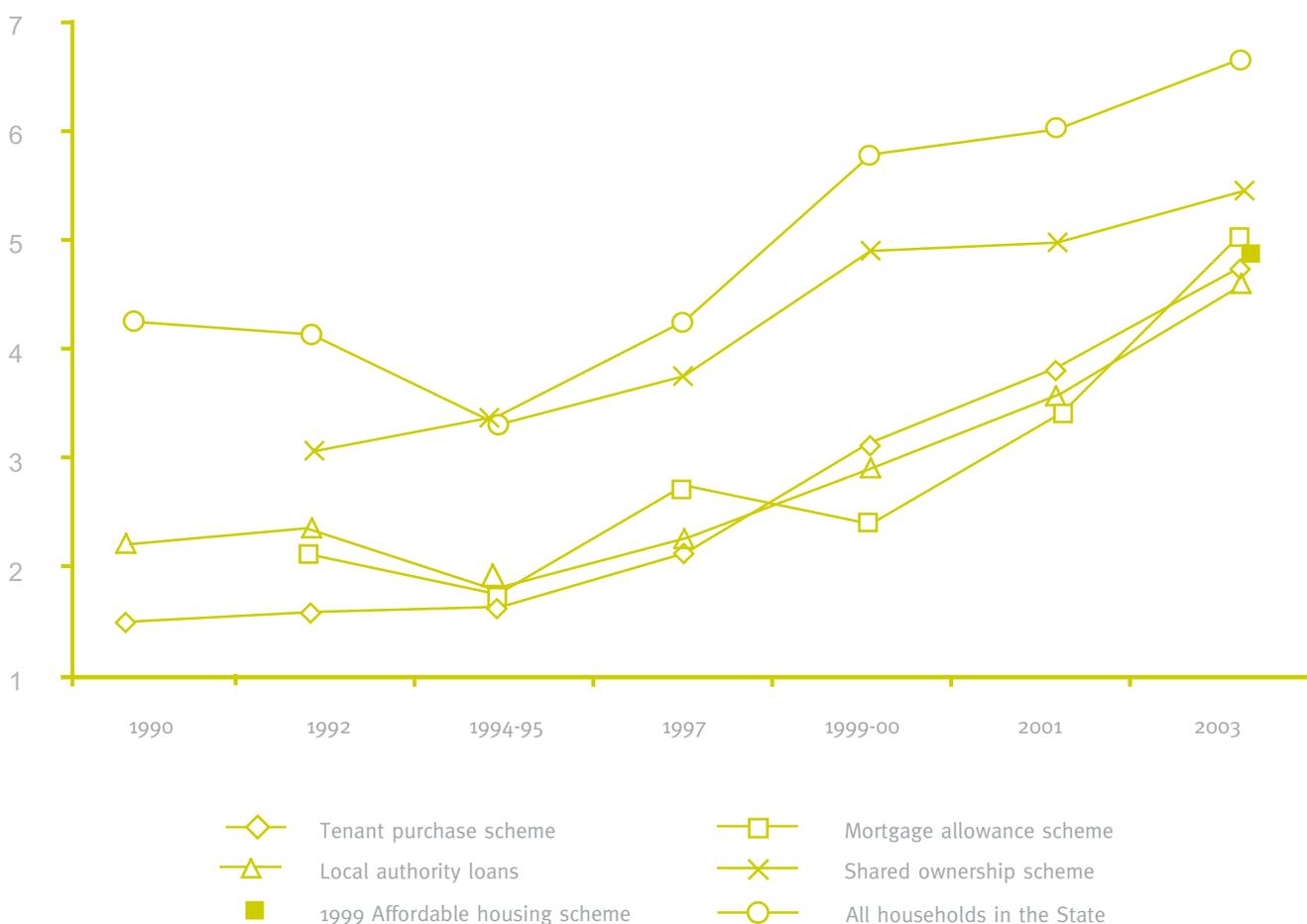
Figure 3.7 assesses the implications of the trends in house prices and incomes described above for the affordability of home purchase by participants in the relevant low-income home buyer supports by calculating the ratio of the average incomes of the participant households to the prices of the dwellings they purchased.

This analysis reveals that until the early 1990s, the ratio of house prices to incomes was generally lower among participants in the low-income home buyer support schemes than was the case in the population at large. In 1992, this ratio – expressed in terms of the value of the average house price as a multiple of gross incomes – was 1.51 for tenant purchasers, 2.04 for participants in the mortgage allowance scheme and 2.29 for households that availed of local authority loans. In contrast, the equivalent figure for all households in the State was 4.1. The particularly low house price to income ratios for tenant purchasers in the early 1990s is probably related to the fact that many of the sales processed during these years availed of the 1988 tenant purchase scheme, which allowed generous discounts.

The house price to income ratio for participants in the shared ownership scheme requires separate comment. At 3.0 in 1992 it is relatively high compared to the other schemes, but this figure is somewhat misleading as purchasers under this scheme would have bought only a portion of the property (on average 52 per cent) and would have paid rent to the authority on the remainder. The affordability implications of this payment are examined in more detail later in this section.

As has been well documented elsewhere (for instance: Bacon Associates, 1999; National Economic and Social Council, 2004) since the mid-1990s house price growth has been very strong and has risen much faster than incomes. This trend is also evident among the low-income home ownership scheme participants examined in Figure 3.7. In 1997 the participants in the tenant purchase, mortgage allowance and local authority loan schemes tended to buy properties twice to two-and-a-half times their incomes, but by 2003, housing costs had doubled to between 4 and 5 times their income. The house price to income ratio for the population in general also rose over this period but less sharply. Those who bought under the shared ownership scheme are the outliers in Figure 3.7 – in this case house prices had risen to over six times income by 2003.

Figure 3.7 House Price to Income Ratio of Participants in the Low-Income Home Purchase Support Schemes, 1990–2003



Source: Department of the Environment, Heritage and Local Government (various years) and data supplied by the Central Statistics Office.

Note: Data for all households are abstracted from a number of sources: 1990 and 1992 data are taken from Index of Average Industrial Earnings; 1994–95 and 1999–00 data are taken from Household Budget Survey; 1997, and 2001 data are taken from the ESRI Living in Ireland Survey. 2003 data are taken from the EU Survey on Income and Living Conditions 2004. Income data do not account for income tax, PRSI or Pension-related deductions nor do they measure welfare-related inputs.

An official definition of affordability, taken from Section 93(1) of the Planning and Development Acts, 2000-2006 is that over the course of a year mortgage payments do not exceed 35 per cent of a person's annual income net of income tax and social insurance payments. As already explained, the administrative files contained information on gross income only. Using this measure, Table 3.9 shows that for each scheme, one-third or more of households devoted more than one-third of their gross incomes to housing costs.

Those availing of the shared ownership scheme would appear to be particularly vulnerable to affordability risks, as over half of these households (51.8 per cent) in 2003 spent more than 35 per cent of gross income on mortgage loan servicing. Disaggregation of this figure shows that, on average, a fifth (21 per cent) of gross income was used to service the loan on buyer's share of the equity in the dwelling and very few (1.9 per cent) paid in excess of 35 per cent of gross weekly net income in mortgage servicing costs alone. It is when the rent levied on the local authority's share of the dwelling is factored in that the average percentage of gross income devoted to housing costs goes above 35 per cent and affordability becomes a more prominent issue.

Table 3.9 Percentage of Gross Income Devoted to Servicing Mortgage Debt by Participants in Low-Income Home Ownership Support Schemes, 2003

Scheme	Average % of gross weekly income devoted to mortgage loan servicing	% of households spending 35 per cent or more of gross weekly income on mortgage loan servicing
Tenant Purchase	34.4	32.9
Mortgage Allowance	28.2	33.3
Local Authority Loan	29.8	40.2
Shared Ownership	35.7	51.8
1999 Affordable Housing	32.2	33.0

Note: Data for shared ownership scheme refer to both mortgage loan and rent paid on local authority equity of property. These data assume that households have used a local authority loan to purchase their dwelling.

3.7 Concluding Comments

This analysis has demonstrated that, as would be expected, low-income home purchase supports catered predominantly for households with below-average incomes, which indicates that these schemes have been successful in achieving their objective of helping these households become home owners. However, different types of households were attracted to different supports. There had also been a shift towards more women and single people taking up these schemes as the number of households with married couples and/or children has fallen. Participants in rural areas were more likely to be headed by males.

The dwellings bought with the support of these schemes were less expensive than average. However, as a result of their lower incomes many participants spent more than 35 per cent of their gross income in servicing their mortgage, raising affordability concerns. In Section Four, the affordability of dwellings bought using the low-income home purchase supports is examined in more detail, as is the extent of arrears on mortgages taken out by these households.

SECTION FOUR
Operational Issues



4.1 Introduction

This section examines the operation of the low-income home ownership schemes in the case study areas. In particular it focuses on the manner in which local authorities have implemented the schemes and the issues arising from this implementation process. The issues under examination here were initially identified from analysis of administrative data on scheme participants in the case study areas. These issues were then explored further in in-depth interviews with officials from the housing and finance departments of the relevant authorities.

In addition to this introduction, the discussion is organised in seven parts. Subsections 4.2–4.6 examine the schemes in turn, and then the crosscutting issue of mortgage arrears is analysed in depth. Sub-section 4.8 identifies the key concerns raised in the preceding discussion for the effective operation of these programmes.

In the case study areas of counties Leitrim, Longford and Wicklow data on participants in the low-income home owner supports were held in paper files. These were more detailed compared to the computerised files held in the other two areas. Parts of this section, therefore, rely more heavily on data from these three counties, and where that is the case, they are collectively referred to as the ‘rural’ local authorities.

4.2 Tenant Purchase Scheme

4.2.1 Prolonged Applications for Tenant Purchase

Examination of rural files revealed that many tenant purchase households applied to purchase their dwelling on a number of occasions, and under a number of different tenant purchase schemes, before finally getting approval to proceed with the purchase. In some cases, this took 10 to 15 years. The longest duration between initial application and the actual transfer of the dwelling to tenant that was identified in the paper files was 38 years.

The local authority officials interviewed for this study reported that many tenants aspire to home ownership early in their tenancies, but often lack the means to do so. This is not surprising given that inability to afford one’s accommodation is an eligibility criteria for a local authority tenancy. However, officials added that, in the process of deciding for or against proceeding to complete the purchase of their dwelling, a number of households apply under the scheme to find out the open market value of their dwelling and the discount that is available.

4.2.2 House Price Inflation

Section Two of this report revealed that take-up of the tenant purchase scheme has declined over time. The local authority officials interviewed for this research linked this shift to house price inflation. Prospective tenant purchasers, it was argued, were finding it increasingly difficult to purchase their dwellings at the discounted rate as the open market values have continued to increase. As shown in Figure 3.7 above, the price of tenant purchased dwellings has increased three times more than the rate of income growth among tenant purchasers between 1990 and 2003. In particular, local authority housing in the urban areas examined in the study has become less attainable to tenant purchase households, distinguished by the lowest mean incomes and largest household size. Thus one local authority official reported:

Tenant purchase has been a very successful scheme – but numbers have declined somewhat in recent years due to increasing house prices. The number [take up of the scheme] isn't as high as in previous years. I'd say this was because of the high price of houses. Even with the 30 per cent discount, house prices are still quite high ... The high prices of houses in Dublin are impacting on the operation of the schemes.

A consequence of this trend is an increase in the number of prospective tenant purchase households that have challenged the local authority valuation of their dwellings. This has been the case particularly when the purchase process has taken a considerable period of time to be completed after the initial application and the property is subsequently re-appraised by the local authority at a higher value than the initial valuation. Refurbishments and extensions made to dwellings by tenants prior to purchase generally add to the market value but, as was mentioned in Section Two, under the terms of the scheme authorities are obliged to disregard any increased value related to such improvements when calculating the sale price of the dwelling. The local authority officials interviewed for this study argued that the challenges associated with making this calculation often worsen disputes over the purchase price.

In addition, paper records available for rural authorities revealed a limited number of cases (26 in total) where intending tenant purchasers requested repairs and refurbishments to their dwellings, prior to purchase, under the disabled persons and essential repairs grants (see Norris and Winston, 2004, for a full description of these schemes). It was not always explicit that only the value of repairs funded by the tenant would be deducted from the market value when assessing the sale price of dwellings for sale under the scheme.

4.2.3 Impact on the Local Authority Housing Stock

As was mentioned in Section Two, sales of dwellings through the tenant purchase scheme reduce the number of dwellings available for letting. The considerable number of households assessed as in need of local authority housing (43,684 in 2005 – DoEHLG, 2006) has been put forward as an argument for the discontinuation of tenant purchase and the use of other mechanisms (such as shared ownership) to enable local authority tenants to surrender their dwelling and purchase a home elsewhere (National Economic and Social Council, 2004).

The local authority officials interviewed for this research held mixed opinions about this recommendation. Those based in rural authorities, where impediments to the delivery of new social housing were not so great, generally felt that the advantages of the tenant purchase scheme as they saw them – facilitating tenants to acquire a growing capital asset and giving them a greater stake in the community – outweighed the shortcomings, mainly stock losses. On the other hand, officials working in urban authorities, where social housing is in higher demand and more difficult to construct or acquire, were more critical of the scheme's erosion of the limited stock.

Data collected from the paper files in rural areas and also the data held on microfiche by Dublin City Council allowed for identification of the location of dwellings sold under the tenant purchase scheme between 1990 and 2003. These data indicate that sales tend to take place in close geographical proximity to each other over a relatively short period of time, typically in a single housing estate or along a single road. The relevant local authority officials attributed this pattern of sales to a number of factors including: peer pressure, information regarding the right to buy being passed between neighbours and the fact that neighbours may share similar demographic and financial circumstances which drive them to buy their home at around the same time. The spatially concentrated pattern of tenant purchase sales that took place at around the same time does not support the view that this scheme helps to stabilise communities but rather confirms Blackwell's (1988) argument that the vast majority of sales are concentrated in already stable areas.

4.2.4 Resale of Tenant Purchased Dwellings

It is a condition of tenant purchase that the local authority be informed should the new owner resell the property. However, the relevant data are not easily available. According to the *Public Expenditure Review: Review of the Local Authority Tenant Purchase Scheme* (DoEHLG, 2000, unpublished), the Department has only limited information in relation to the number of houses resold, although this report does state that 'contact with local authorities suggest that the numbers are likely to be small'.

For this research, price data on the first resale of tenant purchased dwellings was available for only twenty-two dwellings in the rural authorities. Such data were absent in the urban area case studies. The information was not recorded in the computerised records system employed by Dublin City Council and South Dublin County Council, the resale value was not always noted on the paper files and the incidence of resale of tenant purchase housing was low – only 8.7 per cent of these dwellings in the rural authorities sold between 1990 and 2003 were resold during that period.

Among the twenty-two dwellings for which data on the first re-sale were available, the average duration between tenant purchase and the resale was 4.5 years and the average price appreciation between the two transactions was 269.3 per cent. More detailed analysis of these cases indicates that tenant purchasers who resold their dwelling in the mid-1990s made the largest profits. Thus, for instance, three dwellings resold in 1996 made profits of 185, 293 and 546 per cent respectively, whereas a dwelling resold in 2003 had doubled in price. The particularly high profits on resales in the former period are related to the fact that several dwellings were initially bought during a time of relatively low house price inflation using the 1988 scheme which offered particularly generous discounts, and were subsequently resold during a period of high house price inflation.

While these are a very limited number of cases, the findings indicate that a more in-depth investigation of resale profits is warranted. Analysis of this type is particularly appropriate in view of the fact that, unlike the affordable housing scheme, there is currently no mechanism to recoup the profits made on the resale of dwellings sold under this scheme. This should be balanced, however, with the fact that in the tenant purchase scheme, the discount given is linked to the length of tenancy (up to a maximum of ten years), whereas for the affordable housing scheme the discount is more immediate and universal.

Another issue related to the resale of tenant purchase housing is the purchase of these dwellings by local authorities and others for re-letting as social housing. Analysis of paper records on shared ownership transactions in the rural authorities indicated that participants in this scheme regularly bought ex-tenant purchased dwellings. Officials in Dublin City and South Dublin County Councils reported that these authorities also purchase these types of properties to add to their own housing stock.

As it was explained by one official:

If someone is selling their house under tenant purchase, they would go to the housing construction section of the Authority and ask if they would like to buy the dwelling back. Housing construction make a judgement call on the offer – [they] look to see the house for the state of repairs – how much would it cost to bring the house up to a standard to introduce a new tenant.

The rural case study local authorities were less likely to employ this strategy because social housing output in these parts of the country was subject to fewer market constraints.

4.3 Mortgage Allowance Scheme

Compared to other supports for low-income home buyers under examination in this report, take-up of the mortgage allowance scheme has been relatively modest since its establishment in 1991. For this reason, and also because the terms of the scheme are straightforward (there is no means test for instance) the local authority officials interviewed for this study confirmed that relatively few problems arise in its operation.

The local authority officials interviewed attributed the low take-up of the scheme to the relatively small level of the allowance in comparison to the discounts available under the tenant purchase scheme, which consequently, they argued, was a more popular route to home ownership for local authority tenants. The relatively modest level of this allowance and of its take-up was a deliberate strategy on the part of government. The 1991 housing policy statement *A Plan for Social Housing* argues that 'Not being a direct cash grant' the mortgage allowance '... should not result in the large scale surrender of local authority houses as happened under the £5,000 surrender grant in 1985–1987' (Department of the Environment, 1991: 23). Research by Threshold (1987) on the impact of the £5,000 grant in Dublin found that the departure of these households destabilised the local community and, because many of the tenants who took advantage of the grant had higher than average incomes, reduced average incomes locally which, in turn, undermined the local economy.

Among the households living in the case study areas who availed of the mortgage allowance between 1990 and 2003, the vast majority (95 per cent) used the allowance to purchase housing on the open market with commercial mortgages. The remainder used the allowance in conjunction with a local authority loan to purchase dwellings under the 1999 affordable housing scheme. Two of the local authorities interviewed indicated that the use of mortgage allowance in their operational areas had been largely confined to the purchase of affordable housing in recent years.

Nationally, local authority tenants employed the mortgage allowance to purchase 4.6 per cent of affordable dwellings sold in 2003 (DoEHLG). The use of the scheme to assist social housing tenants to purchase affordable housing appears to contradict the original objective of the scheme, which was to help these households buy housing on the open market. However, officials from urban councils argued that the particularly high house prices in these areas meant that the purchase of dwellings on the open market was no longer a viable aspiration for the vast majority of local authority tenant households.

4.4 Local Authority Loans

4.4.1 Declining Use and Maximum Loans

The local authority officials interviewed for this study confirmed that the use of local authority loans to purchase dwellings on the open market has declined to almost negligible levels. As was mentioned in Section Two, this development is related to the introduction of restrictions confining the use of these loans to low-income households refused mortgage finance by commercial lending institutions. In addition, the liberalisation and growth of the commercial mortgage sector has also reduced dependence on this source of finance. One local authority official interviewed for this study summed up the situation:

There aren't many local authority annuity loans on file at the moment, because basically it was back in the 70s and 80s that people looked to us as a source of mortgage finance as they had such trouble getting approved by the banks and building societies. It's much easier to get a mortgage outside [the local authority] these days and access to mortgages is so much easier. Local authorities are getting out of the loan business.

Since 1995, tenant purchasers can avail of private finance. Data from the case study areas indicate that in 2003, two-thirds (67.7 per cent) of tenant purchase transactions were financed in this way. The extension of commercial mortgages to the affordable housing scheme in 2005 will inevitably lead to an increase in the use of such finance in this scheme. Therefore, in the medium-term, the use of local authority loans will become increasingly confined to the shared ownership scheme, participants in which cannot currently access commercial mortgages.

The local authority officials interviewed for this research also attributed declining use of local authority loans to the relatively low limits on the loans that can be provided under this scheme. In 2006, the maximum local authority housing loan available was €185,000 but the average price of a new house stood at €294,580 nationally or €390,629 in Dublin in the first quarter of that year (DoEHLG, 2006). Officials reported that the gap between the loan limits and house prices, particularly in Dublin, had severely limited the range of properties available to potential buyers under the shared ownership and the 1999 affordable housing scheme. The recent extension of commercial mortgages to the 1999 affordable housing scheme will ease this problem somewhat for this group, but those using the shared ownership scheme do not have access to this option.

Raising the loan limits, particularly in high house cost areas, and extending commercial mortgages to the shared ownership scheme were two options put forward in the interviews. However, any changes to further extend the schemes should consider the ability of scheme users to make mortgage repayments and the importance of not fuelling housing inflation in this segment of the housing market thereby further pricing out those on low incomes.

4.5 Shared Ownership Scheme

4.5.1 Operation of Shared Ownership in Practice

As was explained in Section Two, under the terms of the shared ownership scheme, qualified households select either a new or second-hand dwelling which is subsequently acquired by the local authority. The household then buys a proportion of the equity of the dwelling and leases the remainder from the local authority at a rent which is set at a percentage of the value of the authority's equity. In addition, participants must buy out the local authority's share of the dwelling within 25 years of the initial purchase. The officials interviewed noted that many of those who used this scheme enjoyed improvements in their income in the years following the initial purchase, which gave them the option to buy out the remaining equity in their house. This had the added advantage of reducing the rent payable on the local authority share of the dwelling.

4.5.2 Impediments to the Take-up of the Shared Ownership Scheme

When asked why the scheme's popularity was in decline, officials pointed to its perceived complexity, and said that many applicants had a poor understanding of how it works. House price inflation in urban areas coupled with the limits of the maximum loan available and the introduction of the relatively straightforward affordable housing scheme were also raised as negatively impacting on take-up of this option. As a consequence, in the view of one housing officer interviewed:

The affordable housing scheme definitely seems to be taking over from shared ownership ... unless they drastically improve the loan limits for it [the shared ownership scheme] I don't think people will consider it as an option any more.

In addition, because the local authority inspects all dwellings proposed for purchase under the shared ownership scheme, buying a house using this mechanism can take a considerable period of time and this aspect can frustrate both the vendor of the property and the shared ownership applicant. One of the local authorities examined in this study operated a 'caretaker' system for households encountering such delays in the process of acquiring their dwelling. In these cases, the local authority assigned the purchaser as an interim tenant of the local authority until the sale was fully closed. This arrangement, according to the local authority officials involved, helped to minimise problems encountered in the sale of shared ownership property and should be examined by the DoEHLG as a potential mechanism for use in other housing authorities.

As noted above, there has been an increase in the number of single people buying under this scheme (and other affordable schemes). When asked, officials thought the primary reason for this is that joint-income households are increasingly not eligible for these schemes because their incomes slightly exceed the income limits specified. As one official explained:

There are a huge number of moderate-income households that are priced out of the housing market in these areas but don't qualify for the schemes and they are stuck in a no-man's land at the moment. This is especially true if it's a joint loan application between couples as their joint income is pushing the household above the eligibility limit.

Dublin City Council and South Dublin County Council personnel reported a marked increase in the purchase of apartments under the shared ownership scheme in recent years. This trend was seen as the result of house price inflation restricting the range of accommodation options for low-income households availing of the scheme; but it also reflects a general trend towards more apartment living for single people in urban areas.

4.6 1999 Affordable Housing Scheme

4.6.1 Popularity of Affordable Housing

The affordable housing option was seen as an increasingly popular option for low-income buyers, according to the officials interviewed:

Our affordable housing application list is becoming nearly as big as the social housing waiting list. Over 400 applicants are on the list [at present] ... It's becoming a huge housing option for people – especially for young, working people.

This popularity was attributed to the fact that the scheme was 'straightforward' and 'user-friendly'. As mentioned above, in some locations, the growth in popularity of affordable housing has been at the expense of the shared ownership scheme. However, this latter scheme is used by affordable housing purchasers. In 2003, for example, almost one in five (17 per cent) of 1999 affordable housing scheme units were bought using the shared ownership scheme.

Despite the popularity of the scheme, officials identified some implementation difficulties. The loan limit (€165,000 during fieldwork, raised to €185,000 in 2006) was mentioned as a difficulty, as was the uniformity of the loan levels and income limits nationwide (given the regional variations in salaries and house prices). In relation to the latter difficulty, it was suggested that the DoEHLG should examine the possibility of amending these limits in the case of Dublin and the other urban areas.

4.6.2 Access to Affordable Housing

Variations in the affordable housing application procedures were noted in different local authorities. In all cases, applicants' income must not exceed the maximum income limit for qualification set by the DoEHLG. Once applicants qualified under this criterion, however, the case study local authorities varied in relation to other selection criteria. One of the local authorities did not employ any other selection criteria apart from time on the waiting list. Another authority, in contrast, allocated 10 per cent of its affordable dwellings to existing social housing tenants, 30 per cent to residents of the area where the dwellings were located and the remainder to all other eligible applicants, with the former group accorded the highest priority. Others used a points-based system including: length of residence in the county, current housing circumstances and whether the applicant lived in the area where the dwellings were located.

In some cases, variation in the methods used to determine access to the scheme is necessary to reflect local social or economic conditions. On the other hand, these variations raise issues of equity and also may cause households resident in one local authority operational area to apply for the scheme in another area in order to take advantage of allocation criteria that are more advantageous to them. In particular, there is scope for this to occur in adjoining areas in an urban hinterland that operates as a single housing market. This practice could undermine and constrain the ability of a given local authority to operate its affordable housing scheme in an equitable and efficient manner.

4.7 Local Authority Loan Arrears

A significant finding from this study was both the level and extent of arrears on mortgages advanced by local authorities amongst households that availed of the various schemes. This arrears issue is of considerable importance to the operation of the supports as it raises the question: are the schemes facilitating unsustainable home ownership? For the purpose of this study, arrears were defined as the failure to meet the repayments on a local authority mortgage loan over three months or more. Loan arrears data for this study were collected from paper files provided by the rural local authorities only and, where available, corresponding data were sourced from the electronic file formats of the two urban local authorities. However, individualised data on mortgage arrears to commercial lenders were not available, as lending institutions do not disclose such information.

4.7.1 Extent of Loan Arrears

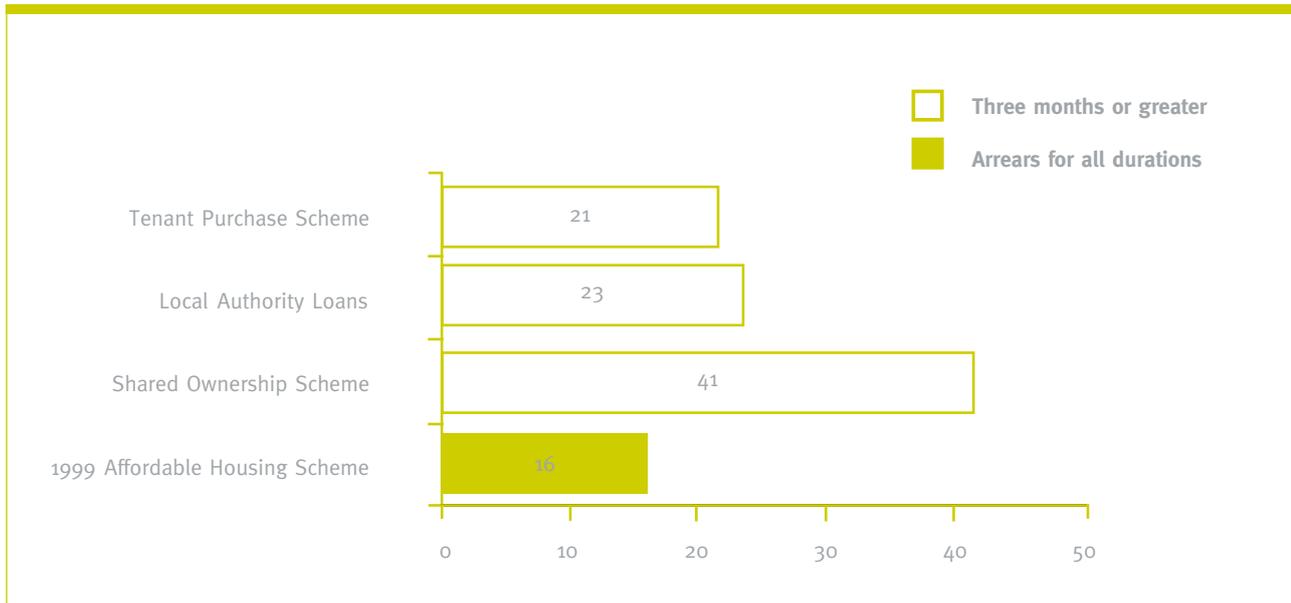
Earlier research has identified loan arrears as an issue in relation to these schemes (Downey, 1997, 1998). An audit of local authority financial management operations carried out by the Department of the Environment, Heritage and Local Government (1997) also identified arrears accounting for an average of 17.6 per cent and 16.3 per cent of the amount of revenue collectable from housing loans nationwide in 1995 and 1996 respectively. Another review of local authority financial management between 1993 and 1995 identified that the majority (53.3 per cent) of arrears on housing loans were greater than three months duration (DoEHLG, 1996). It must also be noted, however, that overpayments on the accounts of local authority mortgage borrowers have also been identified (Office of the Ombudsman, 2000). This investigation found systemic weaknesses in the processing of loan repayments; specifically, the Ombudsman found that many local authorities had continued to accept payments from borrowers on loans that had been paid in full and failed to take adequate steps to refund overpayments.

The data on local authority housing loans presented in Figure 4.1 encompass both loans used to fund the purchase of a dwelling on the open market and loans for the purchase of dwellings using a low-income home purchase support. However, as was mentioned in Section Two of this study, all of the participants in the shared ownership and the 1999 affordable housing scheme that were examined for this study availed of local authority housing loans, as did all of the participants in the tenant purchase scheme prior to 1995 and one-third of tenant purchasers in 2003.

Figures 4.1 and 4.2 show the extent of loan arrears lasting three months or more in the rural and urban local authorities. Data from the rural authorities were gathered from paper files, while the urban authorities provided computerised tables. As can be seen from the tables, in both settings arrears of three months or more were not uncommon, ranging from a fifth to two-fifths of users of the more established schemes, and approximately half of all low-income purchasers recording some degree of arrears. In rural areas, users of the shared ownership scheme would seem to have the most difficulty in remaining on top of their repayments, whilst in urban areas the same applies to tenant purchasers.

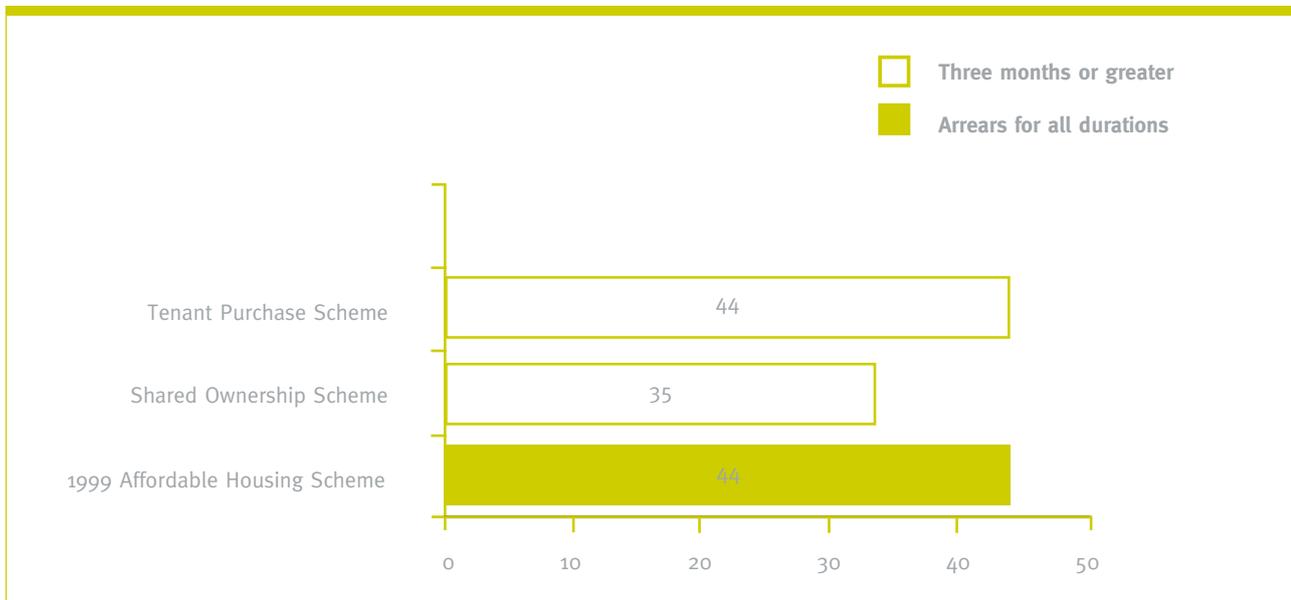
More detailed analysis of the paper records in relation to tenant purchasers found that two-fifths (40.6 per cent) had been in rent arrears at some stage during their time as local authority tenants and that, of these, 23.6 per cent were in arrears in the 12 months prior to buying their home. On this point, it is interesting to note that some tenant purchasers had previously been served a notice to quit while tenants due to rent arrears. Legally this would have terminated their tenancy. In relation to the 1999 affordable housing scheme, given its relatively recent inception, all arrears were included. The majority of this group in arrears had experienced loan repayment difficulties from the outset of their purchase or very shortly thereafter. These rates of arrears are above those of the commercial mortgage lending institutions where, for example, 7.2 per cent of mortgages had arrears in 2001 (Irish Mortgage and Savings Association, 2002).

Figure 4.1 Percentage of Participants in the Low-Income Home Purchase Support Schemes in Rural Local Authority Areas who Experienced Loan Arrears of Three Months or More between 1990 and 2003



Source: Data supplied by case study local authorities. Note: Rural local authorities refers to counties Leitrim, Longford and Wicklow. Data for the affordable housing scheme refer to 2002 and 2003 only.

Figure 4.2 Percentage of Participants in the Low-Income Home Purchase Support Schemes in Urban Local Authority Areas who Experienced Loan Arrears of Three Months or More between 1990 and 2003



Source: Data supplied by case study local authorities and generated from files as at 31/12/2003. Note: For tenant purchase scheme, urban local authorities refer to South Dublin County Council only; for remaining schemes, urban local authorities refer to Dublin City Council only.

4.7.2 Factors Contributing to Loan Arrears

Research in the United Kingdom (Ford, Burrows and Nettleton, 2001) has identified lower-income households as being particularly vulnerable to falling into arrears on their mortgages. This is because of their limited financial resources, greater vulnerability to economic fluctuations and greater dependence on increasingly unstable and casual forms of employment. These factors act in concert to place low-income households at a significantly greater risk to falling into housing arrears following a negative change in circumstances.

Analysis of the survey data together with interviews with the local authority officials responsible for these schemes indicate that the following are the key drivers of loan arrears in the Irish context:

- low incomes – a number of households had difficulties in making loan repayments from the very outset of the purchase of their dwelling, indicating an inherent inability to realistically meet mortgage payments from their source of income
- family size – as family size increased so did the risk of arrears
- unforeseen or exceptional circumstances affecting incomes – e.g. loss of employment, bereavement, First Holy Communion
- marital or relationship break-up
- in the case of tenant purchase households, a history of rent arrears
- a tendency for those in arrears to pay off loan arrears from commercial lending institutions first.

Table 4.1 Number of Low-Income Home Purchase Support Scheme Participant Households in Rural Local Authority Areas in Mortgage Arrears 1990–2003 by Gender, Marital Status, Number of Children and Gross Weekly Income

	N	Gender of household head		Marital status of household head			
		Male	Female	Married/ Cohabiting	Single	Separated/ divorced/ widowed	Not recorded
Tenant Purchase	63	84%	16%	70%	5%	18%	7%
Local Authority Loans	80	78%	22%	53%	25%	6%	16%
Shared Ownership	133	74%	26%	66%	25%	9%	0%
1999 Affordable Housing	19	53%	47%	47%	42%	11%	0%
All Schemes	295	76%	24%	62%	22%	10%	6%

Note: These data only include participant households who have purchased their dwelling with a local authority housing loan and where the presence of arrears was noted on the purchase file. Data on arrears in commercial loans are not available. Data on arrears for mortgage allowance recipients are also not available. Data on arrears for affordable housing scheme for 1990 to 1999 are not available because the scheme was introduced in 1999. Rural local authorities refer to counties Leitrim, Longford and Wicklow. Totals for schemes in combination vary because data on individual household characteristics for all households in loan arrears were not available. For the purposes of comparison, gross weekly income was up-rated in line with CSO figures on average gross weekly earnings for all industrial workers.

Income levels and household composition are the most influential determinations of arrears, but the balance of these two indicators does vary by scheme. Income and household composition are particularly influential determinants of arrears among tenant purchaser households. In contrast, a comparison of incomes, household composition and loan arrears failed to uncover a strong relationship between these variables in the case of participants in the shared ownership and the 1999 affordable housing scheme.

Table 4.1 gives details for the rural scheme users who had experienced arrears of more than three months duration, and for whom more detailed data were available from the paper files. The table does not provide strong evidence as to the possible causes of people falling into arrears. There does not seem to be a strong relationship between low gross income and experiencing arrears, for example, but the presence of children in the household does seem to be a risk factor. This latter point is consistent with other research which found higher income poverty levels among families with children. For instance, Murray and Norris (2002) study of Dublin City Council tenant households revealed that households consisting of two adults and four or more children had the highest income poverty levels.

Local authority officials interviewed as part of the study suggested that the transition from paying an income-linked differential rent as a social rented tenant to paying a loan as a tenant purchaser was often difficult for households due to the substantially greater amount of repayments. This view is supported by an analysis of data on the scheme participants which indicates that mortgage arrears are slightly more common in households that previously experienced rent arrears as tenants. Over a quarter (25.3 per cent) of tenant purchase households in loan arrears of greater than three months duration had been in rent arrears as tenants. This compared to 14.8 per cent of defaulting households with no history of rent arrears as tenants.

The findings here support the general need for further research to include households who have experienced arrears.

	Number with children in household				Gross weekly income (estimated 2003 equivalent)			
	0	1-2	3+	Not recorded	Under €200	€200 – €399	€400 +	Not recorded
	0%	33%	52%	15%	16%	38%	2%	44%
	29%	36%	6%	29%	6%	25%	46%	23%
	33%	41%	14%	12%	0%	16%	62%	22%
	42%	42%	11%	5%	5%	26%	69%	0%
	25%	38%	20%	17%	5%	24%	45%	26%

4.7.3 Money Advice and Budgeting Services (MABS) Survey

To supplement this information on loan arrears, in September 2005 a postal survey was carried out of all Money Advice and Budgeting Services (MABS) local offices. This organisation, which is funded by the Department of Social and Family Affairs, provides financial advice to indebted households. The survey enquired about MABS staff experiences of dealing with participants in the low-income home purchase supports under examination in this report (see Appendix 3 for questionnaire). The survey generated 20 replies, which constitutes a 30.8 per cent response rate. According to the MABS officials, the predominant characteristics of households in housing rent or loan arrears that are referred to their service include the following:

- households on welfare support (20 per cent)
- very low-income working households (18 per cent)
- lone parent households (17 per cent)
- households headed by divorced or separated persons (17 per cent)
- households with a large number of dependants (11 per cent)
- households headed by women (10 per cent).

The officials estimated that about two-thirds (65 per cent) of households in mortgage arrears managed to eventually clear these back payments, but the length of time within which this occurs ranges from six months to five years.

Two additional points were raised by the MABS practitioners, which are worth noting here. Firstly, some felt that loan and rent arrears were allowed to develop to a 'crisis' level because the local authority did not inform and warn the client household of the emerging problem. Also, many respondents noted that repayments were not timed in sequence with the clients' income to their bank accounts. Secondly, in their experience, many low-income households prioritised repaying other loans or arrears before clearing housing debts with their local authority.

4.7.4 Approaches to Addressing Loan Arrears

The two preceding sub-sections give some insights into the probable characteristics of those most likely to experience loan arrears, and the MABS survey also raised the importance of early intervention. In terms of developing an approach to addressing arrears it is also important to understand how they first come about. An examination of the relevant paper records in the rural authorities indicated that there was a clear pattern to the development of mortgage arrears. Initially, the household tended to default on the home insurance policy – part of the mortgage agreement – and was issued with a reminder by the local authority that the policy had lapsed and that it must be renewed. Within a subsequent three to four months, notice of loan arrears usually began to be issued to the household in question.

This pattern indicated that households in financial difficulties tended to falter with meeting non-mortgage housing costs, including home insurance, before going on to develop mortgage arrears. Moreover, it should be noted that where a local authority is not proactive in managing loan arrears from an early stage, this represents an additional, hidden 'support' to the purchaser, with the opportunity cost of the repayments deferred being borne by the State.

Interviewees acknowledged the influence of the dissemination of the publication *Good Practice on Rent Assessment, Collection, Accounting and Arrears Control* by the Centre for Housing Research and the related training course organised by the Centre to inform and familiarise local authority staff on good practice in the strategic management of rent and loan arrears (Clarke and Norris, 2001). In recent years, all of the case study local authorities have established a dedicated unit or assigned a person to monitor rent and loan repayments and any arrears that may be emerging and to manage and collect these rent and loan arrears.

There was general agreement among officials that, due to the low income of many of the households in question, early intervention was critical to avoiding spiralling debt. Thus one interviewee made the point:

[The local authority] has put processes in place to tackle loan arrears. We try to get households that fall into arrears for one month ... to catch up as soon as possible on their default as it will be near impossible for these households to clear their arrears given the amounts that they are paid each month.

In the interviews, emphasis was given to the importance of face-to-face contact and drawing up a plan to clear the arrears, while repossession was seen as a last resort. One official commented:

My personal opinion is that we are providing a service to low-income families and if they get into arrears, we will accept amounts above their regular mortgage [to clear the arrears] no matter how small, before going for a repossession. Even if the clearance repayments are very small, the loans are long-term, and eventually they can clear their arrears.

4.8 Concluding Comments

This section has highlighted a range of operational issues relating to the implementation of the low-income home purchase supports covered in this study, which are summarised in Table 4.2 below. These relate mainly to the impact which house price inflation has had on the workings of the schemes and are taken up in the next section of the report. In addition, this section has also highlighted the issue of loan arrears. Low-income families with children would seem to be most at risk, and the issue is most prominent in the shared ownership scheme.

Table 4.2 Overview of the Key Operational Issues Pertinent to the Operation of Low-Income Home Purchase Supports

SCHEME	OPERATIONAL ISSUES
Tenant Purchase	<ul style="list-style-type: none"> ■ Repeated unsuccessful applications for tenant purchase by households over a number of years ■ Decline in take-up of scheme ■ Scheme reduced availability of social housing stock ■ Sales often occur in geographical clusters ■ Some evidence of re-sales at substantial profits ■ Recycling of stock back to LA or to shared ownership house purchasers ■ Rent arrears during tenancy prior to purchase ■ Legal proceedings served to households in rent arrears including Notice to Quit but subsequently permitted to purchase same dwelling
Mortgage Allowance	<ul style="list-style-type: none"> ■ Take-up is modest as LA tenants prefer tenant purchase scheme ■ Mortgage allowance scheme increasingly used to facilitate purchase of housing under affordable scheme for LA tenant households ■ Uniformity of scheme terms not reflecting housing market variations
Local Authority Loan	<ul style="list-style-type: none"> ■ Declining use of these loans due to greater access to commercial mortgages and growing gap between loan limits and average house prices ■ Low-income households locked into loans advanced during 1980s unable to re-mortgage with commercial lending institutions and are repaying fixed high interest rate loans ■ Households advanced local authority loans processed through shared ownership system in early 2000's ■ Uniformity of scheme terms not reflecting housing market variations
Shared Ownership	<ul style="list-style-type: none"> ■ Scheme considered by officials to be complex and lengthy to process ■ While overall use of the scheme is in decline, more single people using it and also more use for apartments in urban areas ■ Scheme used to facilitate purchase of dwellings under the affordable housing scheme ■ Many couples on joint incomes in urban areas slightly above income eligibility limits but remain unable to purchase open market value housing ■ Uniformity of scheme terms not reflecting housing market variations
1999 Affordable Housing	<ul style="list-style-type: none"> ■ Popularity of scheme is at expense of shared ownership scheme ■ Shared ownership scheme used to fund home purchase ■ Income limits exclude households unable to afford open market accommodation in urban areas ■ Uniformity of scheme terms not reflecting housing market variations ■ Criteria for priority for scheme vary amongst local authorities.

SECTION FIVE
Conclusions and Recommendations



5.1 Introduction

This report has examined the operation of five of the principal supports for low-income home buyers – the tenant purchase, mortgage allowance, local authority loans, shared ownership and the 1999 affordable housing scheme – in five local authority operational areas between 1990 and 2003. This final section sets out an overall assessment of the effectiveness of these schemes in enabling low-income households to purchase a home and highlights the issues arising from this assessment. In addition, recommendations for reforms are proposed.

The various schemes of support for low-income home buyers which are examined in this report enabled 52,373 households to access home ownership between 1990 and 2003. This figure is net of any house purchases under the 1999 affordable housing scheme financed through shared ownership (for example, 17 per cent of affordable housing under the 1999 scheme was bought under shared ownership in 2003). At the time of writing, the extent of any overlap between shared ownership and tenant purchase was unclear.

Between the census years 1991 and 2002 the proportion of the total housing stock held by owner-occupiers fell for the first time in the history of the State, even though the number of this type of household increased by 182,083 units. Examining this slightly shorter timeframe (1991–2002 rather than 1990–2003), we estimate that 29 per cent of that growth in the number of owner-occupiers was due to participation in these low-income schemes. This is a substantial achievement for the schemes, particularly in the increasingly competitive housing market experienced since the mid-1990s, and indicates that these initiatives have been effective in increasing levels of home ownership. In addition, the average income of scheme users was about half that of the national average, which indicates that the schemes are well targeted to lower-income households.

The main challenges for the schemes identified by the research related to declining take-up, the affordability of loan repayments and loan arrears. The schemes recorded much higher loan arrears than that experienced in the general housing mortgage market and high proportions of users spending over a third of their income on loan repayments. The decline in the take-up of some of the schemes, particularly the tenant purchase scheme, reflects the growing affordability gap between lower incomes and average house prices. This raises concerns about the suitability of home ownership to some households and also identifies the importance of active arrears prevention and management.

5.2 Recommendations

A key objective of this study, as agreed in the terms of reference, is to make any relevant recommendations to improve the effectiveness of these programmes. Based on the findings of this study, the following recommendations are put forward.

Recommendation 1

Improvements are needed in the general operational management of the various low-income home ownership schemes, including application vetting, management information systems and staff training

- Local authorities responsible for implementing the home purchase supports should review their procedures for vetting the financial situation of applicants for these schemes. As part of the application process, households should clearly demonstrate their ability to repay loans. In addition, more pre-purchase financial and budgeting advice is needed for low-income home purchasers.
- For households on very low incomes, home ownership may not be a viable option. These households should not be accepted for entry but re-directed to other, more appropriate housing supports such as social housing and the new Rental Accommodation Scheme (RAS), which operates in the private rented and voluntary housing sectors (see Coates and Norris, 2006).
- The DoEHLG should examine the scope for improving the guidance accompanying the returns to be completed by local authorities for the purposes of the Annual and Quarterly Statistical Bulletins. At present, there appears to be a risk of differing interpretations amongst local authorities when completing these returns with a consequent undermining of the comparability and usability of this valuable source of information.
- Priority should be given to the development and use of management information systems necessary for authorities to facilitate early identification of households experiencing repayment difficulties. These would also allow for early intervention, setting and monitoring targets, profiling 'at risk' groups, and developing arrears preventative strategies. The data need to be organised in a standardised fashion and be available in a user-friendly electronic format.
- Staff training in relation to the vetting of potential applicants and the prevention and management of loan arrears should be prioritised by local authorities

RECOMMENDATION 2

Income and loan limits should better match the localised housing market

- The DoEHLG should examine the possibility of more regular updates of the income limits for access to the various home purchase support schemes. In particular, the option of linking income limits to general consumer price inflation, wage increases and house price increases, or to some combination of these three factors, should be explored. The possibility of tailoring income limits for access to the low-income home purchase schemes to reflect the variations in the housing market in different parts of the country should also be considered.
- The DoEHLG should consider reviewing more regularly the maximum loan available under the local authority housing loans scheme in order to ensure that it keeps pace with developments in the housing market. This is particularly important for participants in the shared ownership scheme who currently do not have access to commercial mortgages.
- The DoEHLG should give consideration to the scope for adopting a variant on the Voucher Homeownership initiative used in the United States (see Section One). This could be achieved under the aegis of the Rental Accommodation Scheme (RAS) by allowing those with a long-term housing need and deemed capable of

sustaining a home loan to use the financial support available from their local authority to purchase some or all of their home.

Recommendation 3

The operation of the various schemes should be regularly reviewed, drawing on international innovation, to ensure that they are equitable, efficient, appropriately targeted, understandable and comprehensive

- The findings of this study do not support the idea that the amalgamation of the various schemes would lead to their greater effectiveness – defined as sustainable home ownership. Rather, it is recommended that the priority should be to better focus the schemes on their respective target groups and to make them more user-friendly.
- On the grounds of equity, and in view of the potentially considerable profits made on the resale of some tenant purchase dwellings highlighted in the report, the DoEHLG should explore the possibility of instituting ‘claw-back’ arrangements for the tenant purchase scheme and thus bring it more into line with the other schemes. Such arrangements should give some weighting to the length of tenancy prior to initial sale.
- The DoEHLG should review the operation of the shared ownership scheme, drawing on international innovation in this area, with a view to addressing operational problems. These include: the complexity of the scheme, delays in processing transactions and the costs of renting the local authority’s share of the dwelling (which can render the costs of participating in the scheme unaffordable).
- Additional research is required to examine the impact of more recent schemes, which could not be included in this research: units provided under Part V of the Planning and Development Acts 2000 to 2006, the Affordable Housing Initiative and the attainment of targets under the local authority Social and Affordable Action Plans.
- Research is also needed on the take-up of affordable housing supports by key workers in frontline public services, particularly in the principal urban centres.
- The issues raised in this report highlight the need for the development of alternatives to home purchase for ‘intermediate households’. Such households have too high an income to qualify for social housing but may not be able to source appropriate accommodation in the private sector without experiencing financial difficulties (e.g. affordable private rental).

Recommendation 4

Priority should be given by local authorities to monitoring and combating loan arrears

In addition to the general operational improvements highlighted above, local authorities should give priority to the prevention and management of loan arrears, as follows:

- Greater co-ordination is required between local authorities and the Money Advice and Budgeting Service (MABS) in identifying and referring households experiencing loan arrears.
- Solutions to the problem of households in loan repayment difficulties may include more flexible tenures in addition to precisely targeted assistance. The DoEHLG should examine the potential application of a system of ‘downward staircasing’ for households unable to sustain their mortgage. This system would assist such households in a graduated manner to return to social or private rented tenures.

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Appendix 1

Outline of Low-Income Home Purchase Support Schemes

This appendix sets out the terms of the low-income home purchase support schemes as they stood at the end of 2006. The five schemes covered in this research are outlined and then a brief description of the more recent supports is provided. Further details regarding these schemes are available from the Department of the Environment, Heritage and Local Government's website (www.environ.ie).

A1.1 Tenant Purchase Scheme

The tenant purchase scheme allows tenants of a local authority house to purchase the dwelling either outright or by way of shared ownership. The terms of this scheme are as follows:

- Application for the scheme is open to tenants of more than one year's standing as a local authority tenant. From 2007, it is proposed to extend the minimum duration of tenancy from one to three years with participation subject to anti-social behaviour controls and limited to those tenants who are not, and have not been, in arrears.
- Certain types of dwellings are excluded from the scheme including:
 - Local authority flats (proposed to extend the scheme to these dwellings in 2007)
 - Dwellings provided for and occupied by elderly persons
 - Demountable or mobile dwellings; and
 - Local Authorities may, at their discretion, exclude dwellings which should not be sold under the scheme on account of their structural condition or for an indefinite period if the dwellings are planned for remedial/refurbishment works.
- A discount of 3 per cent of the market value of the dwelling applies for each year of the tenancy subject to a minimum deposit and a maximum of 30 per cent, plus a grant of €3,809. From 2007, it is proposed to bring forward the maximum discount of 30 per cent from ten to six years with an additional special long-term discount available to tenants of over ten years whilst the grant will be discontinued.
- The structural condition of the house is taken into account and any increase in the market value due to improvements made to the house by the tenant will be disregarded in calculating the price.
- The purchase price is payable on completion of the sale and is financed from the tenant purchaser's own resources or a mortgage loan from a financial institution or a housing authority.

- Housing authorities meet the costs of the transfer of the dwelling and tenant purchasers meet the costs associated with the mortgage.

A1.2 Mortgage Allowance Scheme

This is an allowance given to tenants or tenant purchasers of a local authority house who surrender their property to the local authority and take out a mortgage of at least €38,092 to purchase or build a property themselves. The mortgage allowance is also available to tenants of more than one year of a dwelling provided by a voluntary housing association under the rental subsidy scheme. The allowance is available up to €11,450 and is payable over a five year period. The mortgage allowance is paid directly to the lending agency on a reducing basis over the five years.

A1.3 Local Authority Loans

Local authority loans are available to individuals who wish to purchase or build a house but are unable to get a mortgage from a building society or bank. The loan can be up to 97% of the price of the house subject to a maximum of €185,000. In order to qualify for a local authority loan, an applicant must:

- Produce documentary evidence that he/she has been refused a loan from at least three financial institutions.
- Satisfy an income eligibility test:
 - A single income household's gross income in the previous tax year must not exceed €40,000.
 - In the case of a two-income household the gross income of the principal earner multiplied by two and a half times plus once the gross income of the subsidiary earner must not exceed €100,000.

Approved applicants for local authority housing and tenant or tenant purchasers of local authority housing and tenants of more than one year of a voluntary housing association surrendering their dwelling are exempt from the loan income eligibility test.

A1.4 Shared Ownership Scheme

Shared ownership involves the purchase of a new or second-hand home, with the local authority initially taking at least a 40 per cent stake, which it rents to the beneficiary. The individual participants fund their equity stake through a local authority loan. While they are buying a share in the home, ownership is shared between themselves and the local authority. They make payments on a mortgage for the part they own and pay rent to the local authority for the other part, at a rate of 4.3 per cent of the value of the share in the ownership held by the local authority. The rent is increased annually by 4.5 per cent.

To be eligible for the above schemes, a household must be:

- In need of housing and satisfy an income test. A single income household's gross income should not exceed €40,000, while in the case of a two-income household, that two and a half times the gross income of the principal earner plus once the gross income of the subsidiary earner should not exceed €100,000, or
- Have been approved for local authority social housing, or
- Be an existing local authority tenant or a tenant of voluntary housing associations in certain circumstances.

A graded subsidy towards the rent is available to shared owners whose household income in the preceding tax year is €28,000 or less.

A1.5 1999 Affordable Housing Scheme

Under the 1999 affordable housing scheme, local authorities provide newly built houses at a discounted price on their own lands. A site subsidy of up to €50,000 a house is available from the Department for the City Councils and the Dublin local authorities and €31,800 in other local authorities to assist with affordability. The purchaser can also benefit from a loan of up to 97 per cent of the house price. Eligibility for this scheme is based on the same criteria as for the shared ownership scheme.

There is also a graded subsidy towards the mortgage available to those households whose incomes in the preceding tax year is €28,000 or less. Households availing of the mortgage allowance scheme are not eligible for the mortgage subsidy in addition to their mortgage allowance. Purchasers eligible for the scheme should be given the option of availing of the mortgage allowance or the mortgage subsidy.

Redemption or ‘Claw-back’ Provisions

In the event of an affordable dwelling provided under the 1999 affordable housing scheme, being resold within 20 years, a ‘clawback’ or anti-profiteering provision allows for the payment of a proportion of the proceeds to the local authority. The percentage of the proceeds to be repaid will be equal to the percentage discount originally received from the local authority, but this declines on a sliding scale over time.

The claw-back is applicable when the house is sold within a 20-year period of purchase. If the dwelling is sold within the first 10 years after purchase, the full claw-back will apply. A 10-year tapering reduction of the claw-back amount will apply when the house is sold after a 10-year period of occupation of the affordable house, whereby the amount payable will be reduced by 10 per cent for each year.

Affordable Housing under the Planning Acts – Part V Schemes

Part V affordable housing is provided under the auspices of the Planning and Development Acts 2000–2006. This Act specifies, inter alia, that up to 20% of land zoned for residential developments or for a mix of residential and other uses, is to be reserved to meet social and affordable housing needs and must be made available to local authorities at existing value rather than development value. Part V applies only to planning permissions for developments of 5 or more houses on zoned land of 0.1 hectares or more.

Affordable housing provided under this scheme may be sold outright or by way of shared ownership to eligible persons at a discounted price. Eligibility under this scheme is limited to persons in need of accommodation and whose current income would not be adequate to meet repayments of the mortgage for the purchase of a property because the payments would exceed 35% of their annual income after tax and PRSI are deducted. In the case of a two-income household, half the net income of any subsidiary earner is taken into account in making this assessment.

In the event of a re-sale of the property the same ‘clawback’ or anti-profiteering arrangements apply under Part V as with the 1999 affordable housing scheme.

Affordable Housing Initiative

The Affordable Housing Initiative was introduced under the *Sustaining Progress* agreement to meet the needs of persons who in the past would have been expected to purchase a property through the private market but are unable to do so in the current housing market. Under this initiative 10,000 affordable housing units will be provided through the release of under-utilised or surplus local authority/state lands and the provision of Part V of the Planning and Development Act 2000 (as amended). The Affordable Housing Initiative does not impact on the Exchequer or General Government Balance and is additional to funding which is available for the local authority and other social and affordable housing programmes.

Eligibility arrangements under this scheme are the same that apply to Part V (the cost of mortgage repayments on a property in an area would exceed 35% of their net income on a market value house in the area). In the event of a re-sale of the property the same 'clawback' or anti-profiteering arrangements apply under the Affordable Housing Initiative as with the 1999 affordable housing scheme and Part V scheme.

Appendix 2

List of Organisations Interviewed

- Department of the Environment, Heritage and Local Government
- Dublin City Council
- Leitrim County Council
- Longford County Council
- Money Advice and Budgeting Service (MABS)
- South Dublin County Council
- Wicklow County Council

Appendix 3

Survey of MABS Practitioners

This survey is part of a major study into low-income home ownership in Ireland being carried out by The Housing Unit on behalf of the Department of the Environment, Heritage and Local Government. The households of greatest interest to the research team are those in the following categories:

- Social housing tenants
- Tenant purchasers of local authority housing
- Shared ownership households
- Households in receipt of mortgage allowance
- Households in the affordable housing scheme

We would be very grateful if you could return this questionnaire by email by October 1st. If you require clarifications or seek additional information, please contact Patrick Shiels in The Housing Unit at: pshiels@ipa.ie

Please tick the box with an “X” beside each reply category:

1. How often would you advise households in housing-related arrears compared to those in general debt-related difficulties?

- On a daily basis*
- Twice or more weekly*
- Weekly*
- Fortnightly*
- Monthly*
- Rarely*
- Never*

2. Would housing arrears typically form a central aspect of debt issues among clients or would they play a more peripheral role?

- Housing arrears form a central aspect*
- Housing arrears are an aspect as part of overall arrears*
- Housing arrears form a peripheral aspect*
- Housing arrears do not form any aspect*

3. In terms of households encountering housing rent and loan arrears, would most of these have been referred by their respective local authority or another agency?

- Yes*
- No (state agency)*

4. From your experience, is there a distinctive typology of households encountering housing-related arrears difficulties in terms of income, family structure and housing tenure? (please tick/mark more than one if appropriate)

- Very Low Income*
- Single Parent Household*
- Family size 3+ children*
- Female head of household*
- Divorced/separated head of household*
- Head of household on welfare support*
- Other (please specify)*

5. Of the schemes in place to assist low-income home ownership (Tenant Purchase, Shared Ownership, Affordable Housing, Mortgage Allowance) are referrals to MABS greater among households in any one particular scheme?

- Tenant Purchase*
- Shared Ownership*
- Affordable Housing*
- Mortgage Allowance*

6. Do households that encounter housing arrears manage to reduce and clear these arrears over a set period of time?

- Yes (state typical period)*
- No*

7. Could you identify any issues that you believe households in housing arrears encounter in terms of falling into arrears and struggling to maintain repayments? (Please write a brief list of 4 to 5 main issues below)

8. Does your branch of MABS advise households in the Tenant Purchase Scheme that are repaying a loan from a bank or building society?

Yes

No

9. Are the issues that households in arrears to banks/building societies face similar to those on a local authority loan?

Yes

No (please state reasons)

10. Are there any issues related to housing related arrears that you think could add to those covered in the questions above? (please state below)

Thank you for taking the time to answer this brief survey.

Price €15



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