Housing career after the rejection of a state supported first time buyers’ loan

Rolf Barlindhaug
Senior Researcher, Norwegian Institute for Urban and Regional Research (NIBR, www.nibr.no)
Department for Housing and Environmental Planning Research
Phone: (+47) 22 95 89 81 / (+47) 928 84 955
e-mail: rolf.barlindhaug@nibr.no

Torunn Kvinge
Senior Researcher, Norwegian Institute for Urban and Regional Research (NIBR, www.nibr.no)
Department for Housing and Environmental Planning Research
Phone: (+47) 22958937/ (+47) 92448962
e-mail: torunn.kvinge@nibr.no

Abstract
The municipalities redistribute funds from the Norwegian State Housing Bank for home purchase. The scheme is targeted at disadvantaged in the housing market. Nevertheless, those who receive these loans must have an income high enough to allow for mortgage payments. The loan is given at interest rates equivalent to the average interest rate in the financial market. The benefits for the household are linked to the access of credit without the need of downpayment, and without having to pay an extra risk premium. About 30 percent of the applications for a loan are not approved, most of them because the applicant is not supposed to be capable of paying the loan back. In this paper we will examine the housing situation for those whose application were rejected, two years after the decision was made, and contrast the situation to those who were acknowledged. We mainly focus on the home ownership rate and the factors which influences the probability of being a home owner after two years. The analysis is based on a rich data set, consisting of the complete application data from 2006 and a number of register information about the applicants for the years 2005 to 2008. Age, ethnicity, household type, location, income and equity all seem to be important. Generally the home ownership rate was rising with income and equity, but falling with age. We find that the home ownership rate among those who were not granted a state loan – because of lacking ability for mortgage payment–was on average 30 percent in 2008. The variation in ownership rates between different groups of applicant was, however, substantial. The home ownership rate was highest among young couples and lowest among people over 50 years old, living alone.

Introduction
A main objective in the Norwegian housing policy is that most household should be home owners. Today, nearly 80 per cent of the households are home owners, whether they are individual owners of a property, co-owners in condominiums, or co-owners in a housing cooperative. While between 90 and
95 per cent of the population will be home owners during their lifetime, almost all will also be tenants for a shorter period at some point (Gulbrandsen & Nordvik 2007).

Many first time buyers get help from parents, either in form of inheritance in advance or by using the parent’s property as a security for a 100 percent mortgage. Some have been saving part of the downpayment through an arrangement with favourable tax treatment of these savings, limited for young people. But many young or disadvantage groups in the housing market do not have this possibility to save or receive help from parents. Start-up loan is the main instrument for helping many of those into home ownership. The loan is primarily intended for first-time buyers who are unable to access the private mortgage market and who do not have savings or equity as a financial source. The target group must have a personal economy strong enough for repaying the loan and at the same time having a minimum consumption of other goods, according to a standard budget for subsistence.

More than 30 percent of the applications for a start-up loan are turned down. In our study we follow this group 2-3 years after the turn down of the application in 2006 and investigate to what degree they despite the rejection, have achieved home ownership. What are the main factors behind a later home owner status for this group and why do some become home owners and others not? We contrast this group to the housing carriers of those who received a start-up loan.

In our study all our subjects already have taken the decision to be home owners when applying for a start-up loan. This reduces the set of explanations for later home ownership among those who were rejected.

**Home ownership: the preferred form of tenure**

Nordvik and Aarland (2009) points out that variation in tenure choice is connected to tenure preferences, the relative cost of owning to renting and variation of available opportunities. The private rental market in Norway consists of many small owners and many temporary tenancies (Aarland and Nordvik 2008). Housing units that can be transformed into owner-occupied housing, without the need for any legal transactions or physical conversions, comprise more than 60 per cent of rented units in Norway (ibid.).

In the simplest form, one should be a home owner if the cost of owning is less than the costs of renting. The favorable tax treatment of home ownership compared to renting pulls in the direction of home ownership, but households also have to take into account transaction cost and expected house price appreciation. There is no taxation of imputed rent, and the assessed value of a house is set to about one third of the market value for the purposes of taxing wealth. Interest expenses are fully deductible from tax on capital income.

Nevertheless, risks are associated with home ownership. Unexpected rises in interest rates will imply increased out-of-pocket costs, and can lead to home owners falling into arrears. The size of the household’s permanent income is the other main factor deciding if a household will become a home owner. The house price level varies strongly along the urban-rural dimension. For a given income more households in urban areas cannot afford to be home owners.

Home ownership is also associated with a range of advantages, including capital gains when house prices rise; having something to leave to one’s children; and low out-of-pocket costs when the debt is paid off (Munro 2007). Ownership is also assumed to make owners more independent and secure. As Aarland and Nordvik (2008) point out, home owners, in contrast to renters, do not have to ask for permission to make changes to the interiors of their dwellings. Moreover, low-income households often enjoy the additional benefit of undertaking renovations themselves (ibid.).
Whitehead and Yates (2007) find that the risks of home ownership increase with the amount of household wealth that is concentrated in housing and the higher the borrowing requirement. Owner occupation exposes owners to housing value variations over time, transaction costs associated with the benefit of being in a particular location, and timing difficulties associated with realising the asset on relocation.

Young people often find it difficult to become home owners. Munro (2007) ascribes lower ownership rates among young people to increasing student indebtedness, high house-price-to-earnings ratios and an extended period of youth. Sandlie (2008) found that in Norway, the younger generation is delaying owner occupation, but that it will eventually catch up with preceding generations.

Using panel data for Norway from EU-SILC in 2003 and 2004, Aarland and Nordvik (2008) found that income, education and entering into partnership, increased the probability of renters to be home owners after a move in 2004. Weaker, but still a significant contribution to increased home ownership, was an increase in the number of children and preschool children compared to younger children. Regional variation in house prices and earlier home ownership had no influence on the transition from renting to owning in their data.

Aarland and Nordvik (2008) did separate computations for low income households and other households. Among the low income households they did not find any connection between income and the tendency to choose ownership when moving. Nor did the acquisition of a partner or an extra child have any effect on home ownership. On the other hand, savings or positive wealth increased the probability to move from renting to home ownership in the low income group. Savings show economic responsibility, ease the possibility of getting a mortgage from a private credit institution and show that they strongly want to be home owners (ibid.).

Many countries have programmes that promote home ownership among low-income groups. Some of the initiatives encourage social rental tenants who are in employment to become owner-occupiers in other areas, thereby increasing the concentration of economically inactive households in the social rental sector (ibid). In Ireland, as Norris et al. (2007) point out, universal support for housing was abolished in the 1980s and the remaining resources were reoriented towards enabling low-income households to purchase a home. Widespread arrears on mortgages among scheme participants cast doubts on the sustainability of the type of home ownership that such schemes are meant to facilitate (ibid.).

**Norwegian ownership-promoting housing policy instruments**

In this section, we present a brief overview of the two main Norwegian housing policy instruments that are designed to promote home ownership: the start-up loan and the individual investment cash grant. In addition, a tenure-neutral housing allowance scheme helps low-income households to obtain a suitable house or to retain one.

Applications for start-up loans can be lodged with the local authority as a form of full or supplementary financing to facilitate entry into the housing market. Local authorities fund loans from the State Housing Bank at market rates. In the case of repossession, any loss is shared between the local authority (25 per cent) and the State Housing Bank (75 per cent). The terms of the start-up loan for the borrower are based on market conditions, but the rate of interest is not adjusted to compensate for the higher level of risk that is incurred. Each year, around 6,000 households receive a start-up loan, but about 30-40 per cent of applicants are turned down, mostly because they are unable to afford the annual housing expenses for the actual dwelling.

Start-up loans are primarily intended for first-time buyers who are unable to access the private mortgage market. In principle all households that are exposed to credit constraints, independent of age,
health conditions and land origin, can apply for a start-up loan. Credit constraints are connected to the lending institutions assessment of the applicants’ ability to repay the loan on the current income. The higher downpayment, the less is the risk for the lending institution. The risk can be reduced when the applicants can use their parents’ property as security for the loan. Those who would be most disadvantaged in a situation without equity will be those without the possibility of getting help from parents or other personal net work.

Investment cash grants, or vouchers for purchasing houses, may be provided along with start-up loans to first-time buyers. The objective is to help particularly disadvantaged households to own a home. The grants are available to households with permanently low incomes who would not otherwise qualify for a start-up loan. No clear rules or guidelines are defining the terms of eligibility or the extent of the grant. On average, one-time grants provided in 2008 constituted 20 per cent of the purchase price. There is a form of clawback on the investment grant that can affect a household’s willingness to move if the family’s circumstances change. Five per cent of the grant is calculated as the household’s equity for each year prior to an eventual sale.

Housing allowances in Norway are tenure-neutral, and repayments of principal count as eligible housing expenses. The Norwegian housing allowance scheme is designed in accordance with the housing gap scheme (see Kemp, 2007).

**Data and method**

The analysis is based on a rich data set, consisting of the complete application data from 2006 and a number of register information about the applicants for the years 2005 to 2008. In 2006 there were 8325 applicants for a startup-loan either for buying a home, for rehabilitation or for refinancing an existing owner occupied house.

There were 6718 applicants for buying a home and 33 percent of those were turned down. In this study we mainly focus on those who applied for a start-up loan for buying a home and were turned down because they were considered not to be able to repay the loan. We investigate to what degree they on their own have managed to be home owners during a two years period after the rejection. In a multivariate analysis we try to find the factors that increase or decrease the probability of later home ownership. Since our main focus is on those who were rejected because they were assumed not to able to repay the loan, income is probably the main factor explaining who will later go into home ownership. But also borrowing constraints due to lacking equity could be an explanation.

The data set characterize the household by age, country background, household type, income, income sources, if they receive housing allowance and social security. Information on both the applicant and an eventually co-applicant (partner) is available for each year in the period. The register data do not directly give information about the household’s tenure. We use information from the declaration data from the register. In the declaration home owners have to state the assessed value of their home, if they have any. This assessed value is part of the households’ gross wealth. Net wealth, after the deduction of debt, is the basis for wealth taxation. All household not being home owners has no information on the assessed value. If either the applicant or the co-applicant has a positive value on the assessed value of the house, we identify them as home owners. The others we have called renters, though we really do not know if they are without a dwelling and for example live by their parents.

Some of the applicants are identified as home owners when they apply for the loan. Such information we also find in the application data given to the local authorities, forwarded to the State Housing Bank. In a situation of reestablishing after a partnership dissolution, this will often be the case (Barlindhaug and Dyb 2003).
Information on income is detailed, partly from the declaration and partly non-taxable incomes from other sources. In the analysis total income for the applicant and the co-applicant is used. Total incomes consist of occupational income, capital income plus taxable and non-taxable public transfers to the households. The taxable transfers are mainly income security benefits, while the non-taxable transfers are housing allowances, scholarships, family allowances and social security. For our purpose household income is total income minus housing allowances. Income is then seen as resources used on taxation, living expenses, (net) housing expenses and eventually savings. Housing expenses are gross housing expenses minus housing allowances. The household income is divided on the square root of the number of persons in the household to an equivalent income, or income per capita, as a way to compare income between different types of households.

In the analysis we use a variable called liquid wealth, a wealth that can be used as equity when buying a house. Liquid wealth is computed for year 2005, the year before the application year. This variable is computed as total gross wealth minus eventual value of all real estate owned by the household, for example second homes and real estate abroad.

The following geographical division is made; “big cities” include Oslo, Bergen, Trondheim, Stavanger, Kristiansand, Tromsø and Sandnes. “Big city surroundings” are the municipalities around the big cities as Sørlie (2007) has defined it. These municipalities including the big cities belong to what we have called the “big city regions”.

Who were the applicants?

In our data we have no information on who is exposed for credit constraints. The State Housing Bank operates with different user groups in the application form. This is not precisely defined groups and not mutually exclusive. Most of the applicants belong to the groups; first-time buyers, economic disadvantaged and re-establishers. The dominant group is the first-time buyers, who are younger than the others, more often unmarried, had rarely children and is more often renters. A relatively high part of their income is occupational and they have the highest income per capita. The economic disadvantaged and re-establishing applicants often have had partnership dissolution and have status as single parents. Especially the economic disadvantaged group has relatively low income per capita and is more often living in a big city.

From our register data we can identify the applicants’ country background. Immigrants, who constitute about 20 percent of the applicants, were often first-time buyers when they not were categorized as refugees in the application form. They more often lived in social rented housing, were married and had children. They had incomes near the average of all applicants. Compared to the other groups, the income from occupational work constituted a large part of the total income.

In addition to the three mentioned groups, first-time buyers, economic disadvantaged and re-establishers, we call a forth group the “social target group”. In this group we find the disabled, the homeless, drug abused persons, people with psychosomatic illness and refugees.

Who received a loan approval and who were turned down?

The local authorities undertake a means-testing among applicants who are on the margin to be able to repay the loan (downwards means-testing) and a means-testing among those with the highest incomes, some of them are not in the target group and is expected to enter home ownership without public help (upwards means-testing). Some of those who the local authorities assess not to be able to repay the loan, can be put in a situation where home ownership is affordable by giving them an investment grant along with a corresponding lower start-up loan. The budget for such grants is limited.
In 2006 there were 6818 loan applications for buying a home which after the treatment can be divided into the four following groups:

1) Those who were given a loan approval (54 percent)
2) Those who were given a loan approval in combination with an investment grant (13 percent)
3) Those who were turned down because they were supposed not to be able to repay the loan (19 percent)
4) Those who were turned down because they had too high income or wealth, but also other reasons (14 percent)

In figure 1 income per capita and the growth in income during the period 2005-2008 is shown for the four groups.

Figure 1. Income per capita in 1000 NOK and growth in income in the period 2005-2008 after application group.

Our data show that those who got a loan approval in combination with an investment grant (group 2) are the most disadvantaged. They do not differentiate much from the group who was turned down because servicing the loan would be difficult (group 3), but they more often lived with their parents or in social rental housing when they applied and belonged to the of the most prioritized user groups, such as refuges, disabled, homeless, drug abused etc. Their income from occupational work is also relatively lower.

The group who were solely given a loan approval (group1) looks much like the group who were turned down because they had too high income or wealth (group 4). Those with a start-up loan approval had higher income from occupational work, which is important when assessing the ability of future repayment of the loan. They also more often lived outside the biggest towns, where the house price level is lower.

**Later home ownership among those who were turned down**

Our data give us the possibility to follow the development in the home ownership rate for the different groups, from the year 2005, one year before they applied, to 2008. This was the latest possible observation year for the declaration, when data were ordered in late 2010. Not all who were given a
loan approval had actually become home owners during this period. A share of 88 percent of those who were given a loan approval in combination with an investment grant had become home owners at the end of 2008. Among those who solely got a loan approval, 83 percent were home owners in 2008. Even more households in these two groups had been home owners during the period. We find that among those who reached home ownership in 2006, after having used the loan approval, 9 percent had moved to the rental sector during the period 2006 to 2008.

Figure 2. Ownership rate in the period 2005-2008 for groups of start-up loan applicants in 2006. Percent

As figure 2 shows, 47 percent of those who in 2006 were turned down because income or wealth were too high, had become home owners in 2008 (group 4). In group 3, those who were judged not to be able to service the loan, 30 percent had become home owners during the same period.

In this part we focus on the two groups that were turned down in 2006, and try to explain which elements were the most important for later owner occupation. Some of the applicants who were turned down had earlier been home owners. One reason to apply for a start-up loan is the need for a new dwelling after partnership dissolution. Kan (2000) asks if preferences for home ownership will be enhanced by former experience of home ownership. Will the experience from earlier home ownership in itself increase the probability of becoming a home owner some years after the rejection? And will equity from earlier home ownership reduce the credit constraints and ease the reentering into home ownership? Changes in the applicant’s household composition will probably affect tenure choice. Making a couple increases the purchasing power and will increase the probability of buying a dwelling.

Applicants for a start-up loan who were turned down have shown interest for home ownership through their application for a start-up loan. Not all young persons are in a position that they want to be home owners, for example those under education, those on temporary work in a certain geographical region or those who are uncertain on their future marital status. We find that the ownership rate in 2008 among single persons who were rejected in 2006 is considerable higher than for the corresponding group in the population as a whole.

The ownership rate usually increases with age. Among those who were turned down after applying for a start-up loan we find the opposite pattern. In fact the ownership rate in 2008 for those more than fifty years was considerable lower than for those in their 20-ties.
We use a multivariate logistic procedure to single out the main factors behind entering into home ownership for those who two years earlier having shown an interest in being a home owner and was rejected a loan. They were rejected both by a private credit institution and by the local authority, due to credit constraints and lacking ability to repay the loan. We contrast this group (group 3) to group 4, those who were turned down in the local authority largely because their income or wealth was too high.

With a few exceptions we use household characteristics from 2008 as explanation variables in the analysis, as a substitute for the household characteristics and the expected development in central variables as income and household composition at the time of purchase, which could be sometimes between 2006 and 2008. An exception of the 2008 characteristics is the amount of equity or past savings, where we use 2005 data. After a purchase an eventual positive equity in 2005 will disappear in the declaration data. This is because the assessed value in the declaration consists about 25 percent of the market value. Our hypothesis is that a positive equity in 2005 would ease home ownership in 2008, despite a rejection on a start-up loan application in 2006. Income is measured as an equivalent income or an income per capita in 2008.

As already mentioned, Aarland and Nordvik (2008) did not find that earlier home ownership had any influence on later transition from renting to owning. We think that several arguments exist for including this variable in the analysis. Earlier home owners have experience with lending institutions and have shown responsibility by managing home ownership. Many earlier home owners have been through partner dissolution. The reason for applying for a start-up loan is not a problematic exit from home ownership, not being able to service an earlier debt, but the reason for applying is the new economic situation after the partner dissolution. In the analysis we use information from the declaration in 2005 both on the applicant and the co applicant to ascertain earlier home ownership. We have no information about home ownership before 2005.

An important result in Sandlie (2008) was that partnership formation increased the probability of becoming a home owner. Households with two incomes will have fewer problems with affordability than households with one income. Census data and repeated surveys and housing and living conditions confirm that ownership rates are higher for couples than for singles controlling for age. In the analysis, on the basis of a household variable in the register data, we use a variable describing if the applicant is living in a partnership or not in 2008. Eventual changes in marital status, during the period 2006-2008, are not taken into account.

The house price level is considered by a regional variable where households living in big city regions in 2008 are separated from the others. We also have interest in investigating if immigrants behave different than applicants with a Norwegian background and the importance of living in social renting housing at the time of a start-up loan rejection in 2006.

We undertake separate analysis for both rejection groups, the group that were turned down due to assumed problems with servicing the start-up loan and the group which were turned down because income or wealth were too high. In table 1, we do not show the odds-ratios resulting from the logistic analysis. With a certain reference household as a starting point, described below, we have computed the changes in the probability for being a home owner in 2008 (in percent points) when changing the values in the explanatory variables, one by one.

Table 1. Changes in the probability of being a home owner in 2008. Logistic regression. Applicants with a rejection on a start-up loan in 2006. Percent points
The reference person is in the age 20-29 years (in 2006), not in a partnership, living outside the big city regions and has a Norwegian background. The applicant lived in other accommodation than social rental housing when applying for start-up loan and had average income and equity. The expected ownership rate in 2008 for this reference person is 34 percent.

The results show that for those turned down because they were lacking repayment abilities, the probability for being a home owner in 2008 increases with income and equity. A 10 percent change from the average income increases the ownership rate by 2.9 percent points. The income effect is stronger than what was found by Aarland and Nordvik (2008). This is not a surprise, considering our sample; households wishing to be home owners in 2006 and who were temporary stopped because the income then was too low for servicing the mortgage. The effect on ownership of equity is much lower, only 0.5 percent point as a result of a 10 percent change from the average equity.

Clearly we can see that being in the age 20-29 when applying, gives a high probability of being a home owner two years later. In contrast to what we find in the rest of the population the probability of being a home owner in 2008 decrease with age. 17 percent points for applicants more than 50 years compared to the age group 20-29. Households more than 50 years who not yet have become home owners have a number of characteristics not taken into consideration in our analysis. They have a low share of occupational income and more often on social benefits, which only give them a small income increase from 2006-2008. They more often belong to the unspecified user group. Probably they have a lot of problems of more permanent character.

We find that immigrants, in contrast to those with a Norwegian background, have a higher ownership rate when controlling for other characteristics. Immigrants have 8.4 percent higher probability for being home owners in 2008 than applicants with Norwegian background. Having a spouse increase the probability of being a home owner with 14.3 percent points compared to single persons. This confirms the results from other analysis of entering into home ownership (Sandlie 2008, Aarland and Nordvik 2008).

Having been a home owner in 2005 strongly increases the probability of being a home owner in 2008 after a rejection on the start-up loan application in 2006. Earlier home owners increase their probability of being home owners in 2008 by 31.5 percent points compared to others. A higher house price level in the big city regions should imply less affordability and a lower ownership rate among

<table>
<thead>
<tr>
<th>Rejection repayment ability</th>
<th>Other rejections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicants income 1000 NOK, 10 % change</td>
<td>2.9</td>
</tr>
<tr>
<td>Equity in 2005 1000 NOK, 10 % change</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Reference: 20-29 years

| Reference situation: Person age 20-29 years, not an immigrant and not in partnership, live outside the big city regions and not in social rental housing. * significant level p < 0.05, ** significant level p < 0.01, *** significant level p < 0.001. |
|---|---|---|
| 30 – 39 years | -12.9 | -18.0 | -18.0 |
| 40 – 49 years | -12.7 | -14.3 | -14.3 |
| 50+ years | -15.0 | -29.5 | -29.5 |
| Immigrant | 8.4 | 9.2 | 9.2 |
| In a partnership 2008 | 14.3 | 13.0 | 13.0 |
| Home owner in 2005 | 31.5 | 35.4 | 35.4 |
| Big city region | -7.4 | 0.1 | 0.1 |
| Social rental housing in 2006 | -16.8 | -10.6 | -10.6 |

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applicants with a rejection in these regions. Our analysis shows that living in big city regions reduces the probability of being a home owner in 2008 with 7.4 percent points. Among those living in social rental housing when they applied for a loan, about 30 percent received a loan approval, the same share as for the applicants as a whole. The actual number of applicants coming from this sector was relatively small, 8 percent of all. We believe the local authorities were active in pushing the presumed most qualified households in the social rental sector into home ownership. Then the turnover rate in the social rental sector also could increase. But what happened to those applicants who were turned down, coming from this type of accommodation? In contrast to applicants in other housing accommodations the probability to be home owner in 2008 was 16.8 percent points lower.

Summing up the results we can identify two different applicants, one with a high probability of later becoming a home owner and one type of applicant which have a small probability of becoming a home owner. A young household living in a partnership, with incomes and equity 20 percent higher than on average, one of them or both have been home owners in 2005, are immigrants and living outside the big city regions will have a probability of 87 percent to be a home owner in 2008. In contrast a single Norwegian person aged 50 years or more, living in social rental housing in a big city region with income and equity 20 percent below average has a 5 percent probability of being a home owner in 2008.

The analysis of group 4, those who were turned down because they had too high incomes or wealth show the same characteristics are deciding who will later be home owners as with the other rejected. Nevertheless we see that among these applicants, households more than 50 years have as much as 29.5 percent points lower ownership probability than those aged 20-29 years. Our reference household, as described before, is 20-29 years, not in a partnership, living outside the big city regions, not an immigrant, living in other accommodation than social rental housing and has average income and equity. The expected ownership rate in 2008 for the reference person in group 4 is 46 percent.

**Should more or fewer start-up loans be given?**

Is it possible on the background of our data and analysis to say something about the dimension of the local authorities’ use of the start-up loan instrument? Are the credit constraints set by the local authorities too strong?

Since applicants with the highest incomes are not in the target group, the question will be if more loans should be given to the group which were turned down because they were believed not to able to service the loan. The non-subsidized start-up loan covers 100 percent of the purchase price and the receivers of the mortgage do not then need any equity or money for any down payment. Households who otherwise would have credit constraints could then be helped into home ownership. Nevertheless, in the treatment of the applications, local authorities have to assure that households will be able to repay the mortgage in the future.

When we compare those who received a start-up loan with those who were rejected because they were lacking repayment abilities, we see a clear difference in income between the two groups. It then seems that economy and repayment ability has played a major role in the local authority’s application treatment. Yet, there will always be some households, which of different reasons will move from the owner occupied to the rental sector after they have been helped into home ownership. And there will always be some household in need for social security, despite that they were found able to servicing the loan in 2006. Of those who were given a loan approval in 2006, 7 percent received social benefits in 2008, against 2 percent for the total population.

Another question arising, when we see that the ownership rate after a couple of years is quit high also among those who were rejected, is if this loan is oversized. Could not many, especially among the young age group, wait some years before entering into home ownership? Many of them will after a
short period have incomes high enough for servicing a loan from a private credit institution. If the size of the downpayment is the problem, saving part of their income for some years could be a solution. A downpayment will also ensure that the lending institution can recover the balance due on the loan in the event that the borrower defaults. Making a down payment demonstrates that the borrower is able to raise a certain amount of money for long-term investment. Servicing student loans and having to pay high rents in the private rental market make it nevertheless difficult to save money for a downpayment.

Will an increase in the number of investment grants be more targeted?

Our analysis show that group 2, those who were given a loan approval in combination with a start-up loan had more or less the same household characteristics as group 3, those who were rejected because they were supposed not to able to service the loan. 88 percent of the households in were home owners in 2008 and had managed very well compared with group 3 who only had a 30 percent ownership rate this year. An increase in the number of investment grants would put more household in a position where they would be able to repay a loan. Investment grant would then be an effective instrument for increasing the ownership rate among a main target group of disadvantaged on the housing market.

One can still question if giving a large investment grant is the right way to subsidize households who want to be home owners. Barlindhaug and Astrup (2010) discuss the possibilities of giving the investment grant as an interest free loan for a limited period of time. Giving large grants to some qualified and nothing to others close to be qualified, can imply undesirable distributional effects.

Credit worthiness and the risk for losses

As already mentioned small losses on the start-up loans is used as an argument for giving this loan to more households. The granting of credit depends on the confidence the lender has in the borrower's credit worthiness. Credit worthiness is about the borrower's ability and willingness to pay. Lenders in general utilize a number of financial tools to evaluate the credit worthiness of a potential borrower. The local authorities could loosen up the claim to certain amounts for living expenses exclusive housing, or they could claim the use of fixed interest loans. They then do not have to take into account the risk for a future rise in interest rates. The loan could also be repaid over a longer period of time without paying installments for the first period. When doing some or all of these changes more households are exposed with the risk of entering home ownership. If prices are falling at the same time as income reduction makes a sale of the property necessary, it would be the household who has to take the loss, having to repay a rest debt after the sale.

In Norway house prices has risen for a long period of time, and is in 2011 at all time high. Low interest rates, low unemployment and rising incomes are the main factors behind this development. Bank of Norway is now expecting a doubling in interest rates during the next three years. Their house price model indicates a 10 percent fall as a result of this increase, other factors held constant. For a household without equity entering home ownership, it could be an expensive experience contrasted to a rental alternative, despite the tax benefits related to owner occupation.
References


