

Home Choice Loan (HCL), the state-backed mortgage scheme announced in the Budget, will give mortgages up to €285,000 to first-time buyers, with a maximum loan-to-value ratio of 92 per cent.

Applicants have to provide proof that they have been unsuccessful in getting a sufficient mortgage from a bank or building society to buy a new home. The Government considers a loan of less than 92 per cent of the value of a home to be insufficient.

The Government claims that HCL will use the same criteria as banks in considering applications. This couldn't possibly be true, because if HCL did impose the same lending standards as banks, then the loan decisions would be exactly the same. This can only mean that HCL will, in fact, apply looser lending standards than prime lenders. As such, HCL mortgages should be considered subprime loans.

It has been reported that successful applicants will be offered standard variable rate mortgages, with rates around 5.4 per cent. If true, this would represent a significant subsidy to successful applicants.

Interest rates on subprime loans are typically 2-3 percentage points higher than prime loans. This premium compensates the lender for the greater risk. Every HCL mortgage therefore contains a taxpayer-financed subsidy of roughly €7,000 per year.

Disturbingly, this subsidy is off-budget. The loan finance will be obtained from the state-backed Housing Finance Agency (HFA). The remaining borrowing capacity of the HFA is €500 million. A HCL scheme of this size would imply €12.6 million of hidden subsidies annually.

Worryingly, the HFA's borrowing limit could be increased by €5 billion, pushing disguised public spending on HCL subsidies to €139 million annually. This amount should appear as a spending item in the Budget. Off-budget schemes are undemocratic, lack transparency and accountability, and pose enormous risks for taxpayers.