

HOME OWNERSHIP FOR LOW INCOME FAMILIES

EXECUTIVE SUMMARY



Victorian Ministry of Housing
and Construction



Australian Institute
of Family Studies

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**Second Evaluation Report on the Victorian Ministry of Housing and
Construction Capital Indexed Loan (CAPIL) Scheme**

prepared by the

AUSTRALIAN INSTITUTE OF FAMILY STUDIES

for the

VICTORIAN MINISTRY OF HOUSING AND CONSTRUCTION

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This booklet summarizes the results of the Australian Institute of Family Studies Second Evaluation Report to the Victorian Ministry of Housing and Construction on the Capital Indexed Loan Scheme. The Second Evaluation Report, titled *Home Ownership for Low Income Families*, is part of a five-year study to follow the progress of the original families to receive a Capital Indexed Loan. The study was funded by the Victorian Ministry of Housing and Construction.

This summary was prepared by Dr Maryann Wulff, Fellow, Australian Institute of Family Studies.

BACKGROUND

Since the late 1970s, the Australian housing system has been operating in a dramatically changed economic and social environment. Contributing factors have been the deregulation of the finance market and, after April 1986, the deregulation of new home loan interest rates. Home loan interest rates have become more volatile: for example, nominal home loan interest rates jumped from around 9 per cent in the late 1970s to 15 per cent in 1986, effectively excluding many families from becoming home owners. Families living on a single low wage or struggling to manage on pensions and benefits simply could not meet the entry costs (the deposit money and the initial mortgage repayments) required by traditional (credit foncier) mortgage arrangements.

By restructuring traditional mortgages and offering Capital Indexed Loans, the Victorian Ministry of Housing and Construction has, since late 1984, extended the opportunity to purchase a home to very low income families. The distinctive features of Capital Indexed Loans (Capil) are:

- The size of the loan may be up to 95 per cent of the value of the house. In 1987-88 the ceiling purchase price for a Capil home was \$84,000; the average loan was \$56,000.
- Mortgage repayments, while set at 25 per cent of family income, are adjusted annually with increases in the Consumer Price Index. In contrast to traditional mortgage structures, the 'real' level of Capil mortgage repayments stays the same, while the 'nominal' level of repayments increases.

- Repayment levels can be adjusted along with increases or decreases in family income, making the effective term of the loan flexible.

Because of these aspects of the Capital Indexed Loan, low income families can begin to accrue equity in a home of their own, rather than remain many years renting in the public or private housing sectors.

Australian Institute of Family Studies Capil Evaluation Project

At the request of the Victorian Ministry of Housing and Construction, the Australian Institute of Family Studies is following the progress of the first families ever to receive a Capil loan. Begun in April 1985, the study is designed in such a way as to compare the Capil families, that is, families who applied and received a Ministry of Housing Capital Indexed Loan, with a similar group of families who rent accommodation either from the Ministry of Housing or a private landlord. Originally, 481 Capil families were interviewed along with 275 renter families. The findings from the first round of interviews, conducted with all families in the Spring-Summer of 1985-86, are reported in the *First Evaluation Report of the Victorian Ministry of Housing's Capital Indexed Loan Pilot Scheme*, released in July 1987.

Families were interviewed for a second time in October-November 1987. Due to refusals, non-contacts, missing information, and some families selling their Capil homes, 406 families form the basis of analysis in *Home Ownership for Low Income Families: the Second Evaluation Report*. From the original 275 renter families, 167 were interviewed at the follow-up. The majority of this sample loss is due to refusals and non-contacts, but 46 of the renter families had purchased a home since the original interview - 38 with a Capil loan - making them no longer eligible as a control.

Aims of the Second Evaluation Study

The Second Evaluation Report shows the impact of nearly two years of home ownership on the families. The major aims of the evaluation study are:

- to assess the impact of receiving a Capil loan (thereby providing the families with secure, affordable housing) on the ability to increase employment and family income.
- to examine if a low income group of families, many with incomes close to the poverty line, can meet the costs of home ownership, not only the loan repayments, but rates, insurance, and repairs and maintenance.
- to see whether home ownership leads to greater housing satisfaction than renting privately or publicly.
- to look at how the scheme is operating for the families. Do they understand the scheme? Do they think the Capil loan scheme is a worthwhile family investment?

Overview of Capil Families

Capil families are a diverse group, low income notwithstanding. They reside in a number of different locations throughout Victoria – just over half in the Melbourne metropolitan area, and the rest in the country areas of the State. Most respondents are married (55 per cent), but many (45 per cent) are unmarried parents (separated, divorced, or widowed) raising children on their own. More marriages than separations occurred between the first and follow-up interview: thirty-one sole parents partnered while seven couples separated. All but fifteen Capil families still have children living with them; in half the cases, older children left the family home; in the other cases the departing parent took the children along with them.

The youngest respondent is only 21 years and the oldest 60 years, but on average they are in their mid-thirties. Two-fifths of the respondents still have a pre-school age child, another two-fifths have their youngest child at primary school, and the remainder have only adolescent or older children. The families

are ethnically diverse as well: over half of the respondents were born in Australia, 30 per cent in a range of European countries, and the remainder were mainly recent migrants from Asia.

At the time of the follow-up interview, over half the families relied on pensions and benefits for their income – the majority on Supporting Parents or Widows Pension, a sizeable group on unemployment benefits, and a minority on invalid or sickness benefits. In the 45 per cent of families with a wage earner, most of the husbands described themselves in regular full-time employment. Those female sole-parents who were employed, however, were evenly divided between stable full- or part-time work.



Typical weatherboard home in Melbourne's Northern suburbs

KEY FINDINGS

Employment and Income

For the Capil families, both couples and sole parents increased their employment between the first and second interviews. Gains in employment were more evident among the Capil loan families than among renters.

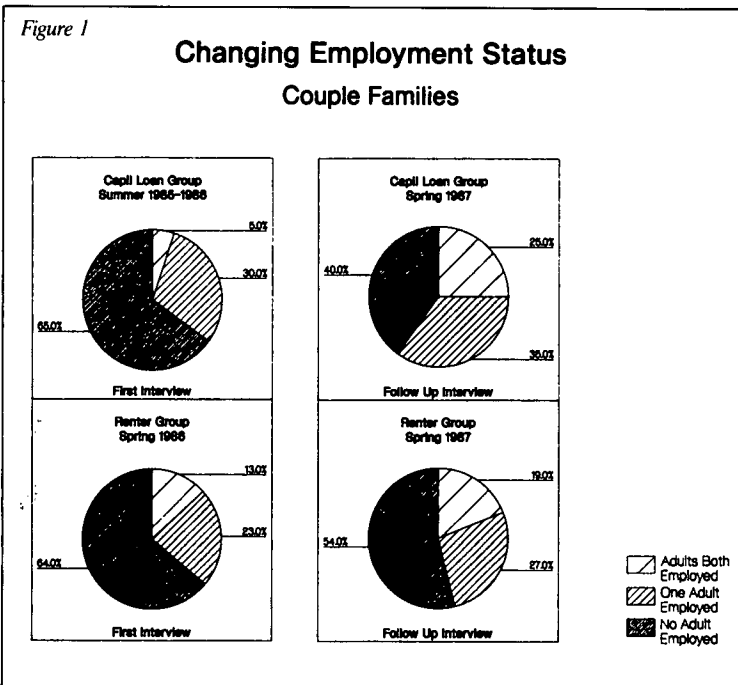
In Capil families fully one-quarter of the couples had both adults in employment and another 35 per cent had at least one adult employed by the time of the follow-up interview. For couples renting, by comparison, about one-fifth had both adults in the workforce and another 27 per cent had one adult employed. Moreover, in 54 per cent of the families where couples were renting, neither adult was in the workforce compared with 40 per cent of the Capil families (see Figure 1).

Sole parents increased their labour force activity as well. At the time of the first interview, 7 per cent of sole parents were employed full time, a figure that had increased to 19 per cent by the follow-up interview. Moreover, at the first interview, 75 per cent of sole parents were not employed – this declined to 56 per cent by the follow-up interview. Correspondingly, sole parents who were renting also increased their employment, but not to the extent of their Capil counterparts. Full-time employment rose from 2 to 9 per cent; part-time employment from 17 to 27 per cent; and the proportion not working declined from 81 per cent to 64 per cent (see Figure 2).

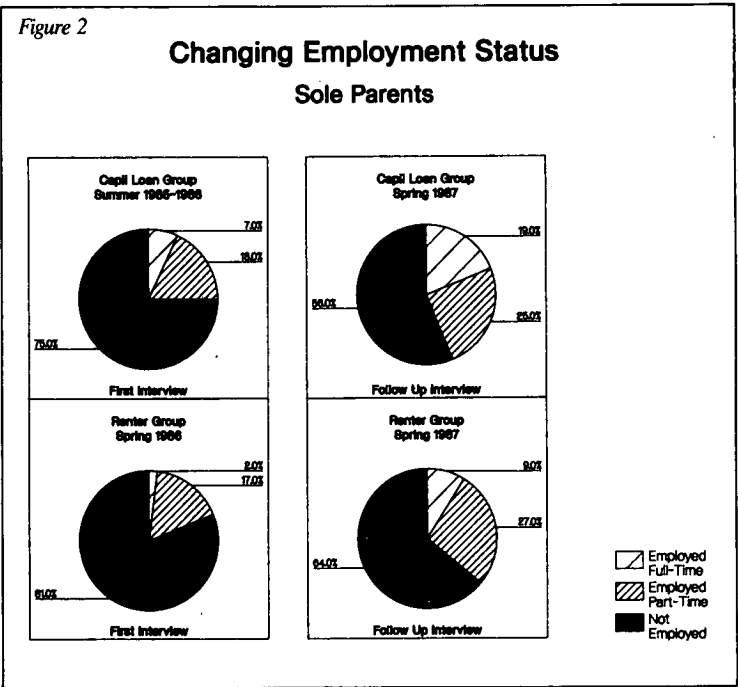
To some extent, the differences observed between the loan and renter families in their employment patterns may result from two factors: first, sample loss among the renters may account for part of the difference, with those renter families

remaining in the study for the follow-up interviews experiencing fewer gains in employment than those families no longer participating in the study. Secondly, the duration between the first and follow-up interviews differed for loan and renter families – renters, on average, were interviewed six months after the loan group.

Average incomes of Capil families increased both in real terms and relative to Average Weekly Earnings. As a result of generally increased employment and income, Capil loan families were far more likely than either renters in the public



or private sectors to report that they were better off now than a year ago (see Figure 3). Public renters tended to report that their financial situation had stayed the same, while private renters, more than the other groups, perceived their financial situation as deteriorating and reported that they were worse off now. Capil families were optimistic about future improvements in their financial situation, with half the families predicting they would be even better off a year from now. Only two-fifths of the families renting accommodation thought they would be doing better next year.



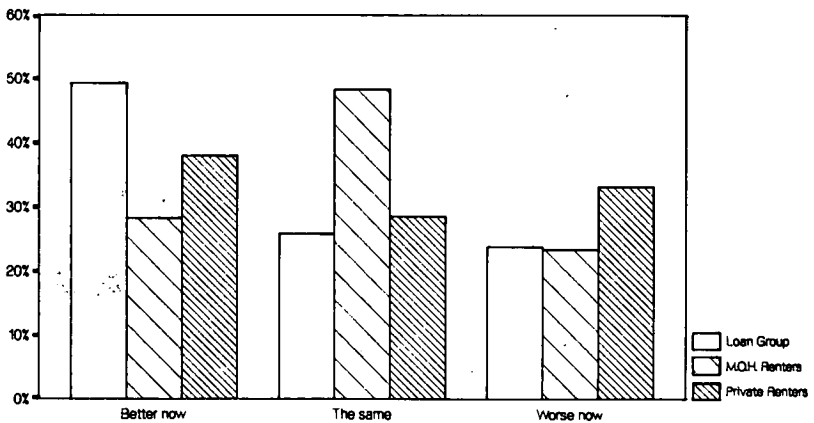
Housing Costs

With a Capital Indexed Loan, families are buffered against any unexpected drops in their income because they have the option to re-adjust their mortgage payments to 25 per cent of their (lowered) income. In other words, a family hit by unemployment may decrease their repayments, leaving them with the same relative disposable income, although a bigger outstanding balance and a longer term loan. Alternatively, families where an adult returns to work or finds a better paying

Figure 3

Perceived Change in Financial Position Over Previous Year. Capil Loan Families and Public and Private Renters

% of group saying ...

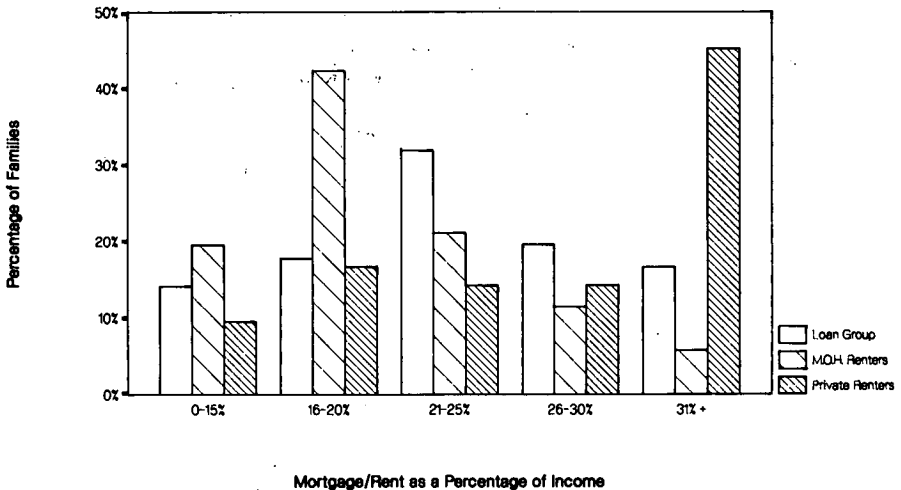


job may increase their repayments and, in effect, reduce their outstanding debt and pay off their mortgage more quickly.

About one-third of all Capil families were repaying the recommended percentage of their income to the Ministry of Housing. Nevertheless, a minority (14 per cent) of families spent less than 15 per cent on repayments, while a similar proportion struggled with relatively high repayments of over 30 per cent of their incomes (see Figure 4). Many families simply overlooked the opportunity to adjust their mortgage payments in line with fluctuations in their family income.

Figure 4

Mortgage or Rent Payments as a Percentage of Income by Tenancy Capil Loan Families and Public and Private Renters





Contemporary brick veneer 3 bedroom home in Melbourne's Western Suburbs

While on average Capil families were repaying 24 per cent of their incomes on mortgage repayments, families renting from the Ministry of Housing paid 20 per cent of their incomes, while private renters faced the highest housing costs of 34 per cent of incomes on rent. In dollar terms, Capil families paid \$64.00 on average per week on their mortgage repayments; Ministry of Housing clients paid \$43.00 per week on rent; and private renters, \$83.00 per week.

As home ownership brings additional costs of rates and house insurance, the total average housing costs of Capil families came to \$76 weekly, still considerably higher than the public renters, but lower than the private renters. When this expanded measure of housing costs (mortgage plus rates and house insurance) is employed as the benchmark against which to compare Capil home owners with renters, it emerges that Capil families, in fact, have the highest housing costs of the three tenure groups: two-thirds of Capil families are outlaying over 25 per cent of their incomes on housing, compared with 59 per cent of private renters and 16 per cent of public renters. The trade-off for Capil families, however, is that this expenditure is offset by the increasing value of the home.

After meeting mortgage repayments, rates, and insurance, the Capil loan families still possess a higher after-housing disposal income than families who rent. Couples tend to have higher disposal incomes than sole parents, with over one-quarter of the couples having \$300 weekly after housing costs compared with a mere 3 per cent of sole parents. Most of the Capil sole parents had after-housing incomes of \$150 or less weekly. Sole parents renting privately from a landlord are particularly disadvantaged, with three-quarters living on less than \$150 weekly after paying their rent.

In response to the question, 'how easy or difficult is it for you to meet your mortgage payments each month?', just on half of all Capil families reported that they 'just managed', one-third said 'easy' and a minority of families (14 per cent) reported difficulty each month in meeting repayments. Just under 10 per cent of families had entered into an arrears agreement with the Ministry of Housing so that they continued to repay their loan each month along with a specified amount of their arrears.

Level of Housing Satisfaction

For the families interviewed, the opportunity to purchase their own home with a Capital Indexed Loan provided them access to the 'Great Australian Dream'. As one respondent said when first receiving the loan:

Getting the loan is like winning Tattslotto. Own a bit of land. Independence. Something to pass on to the kids . . . it's basically what you live for, to own your home and pass it on.

In the interval between the first and second interview, the glow of new home ownership had dimmed slightly, mainly because of paying rates, fuel bills, and repairs.

At the follow-up interview, over two-thirds of Capil families reported continued satisfaction with nearly all aspects of their housing environment: features including space, privacy, natural light, as well as the condition of their home; the general location of their home and accessibility to shops, transport, and children's schools; and the amount they were paying on their mortgage each month.

What had diminished their overall housing satisfaction in the years since the first interview were the 'extra' costs associated with owning a home, specifically rates, fuel bills and repair costs. Around half the families interviewed were unhappy about having to pay rates and fuel bills and with having to meet the costs of repairs.

Families renting housing from the Ministry of Housing were particularly satisfied with their rent payments and reported a level of satisfaction beyond that expressed by Capil families or private renters. About 80 per cent of public renters reported that they were satisfied with the amount they paid on rent. Ministry of Housing clients also reported quite high levels of satisfaction with the accessibility of their homes to public transport, shops, and schools.

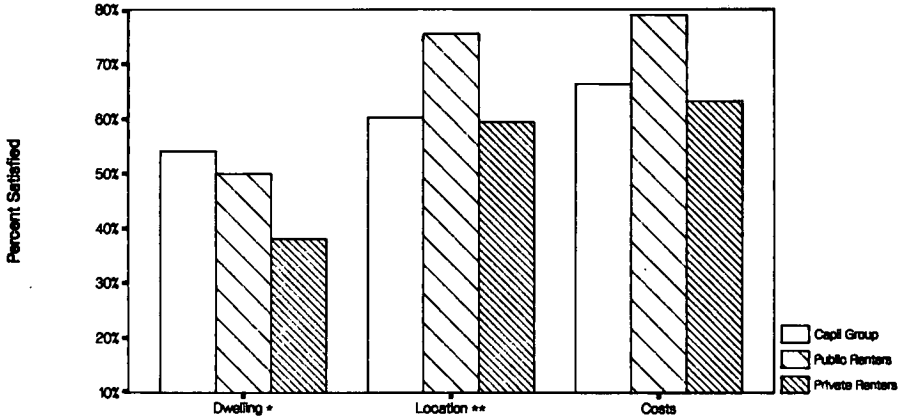
Private renters reported lower levels of satisfaction than either Capil families or public tenants on nearly all aspects of their environment. They were particularly dissatisfied with their dwellings in terms of space, condition, light and privacy.



Log cabin in outer Eastern suburbs built with a Capil loan

Figure 5

Overall Satisfaction with Dwelling, Location and Costs: Capil Loan Group and Public and Private Renters



* the variable "dwelling" takes into account seven individual items relating specifically to the house

** "location" takes into account five individual items relating specifically to location

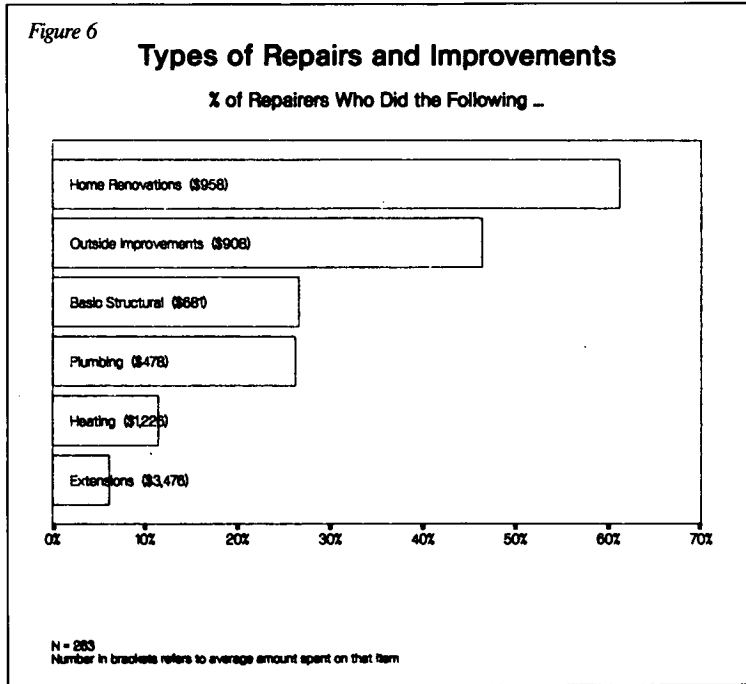
The percentages indicated refer to the proportion of each group responding "satisfied" or "very satisfied" on each and every item comprising either "dwelling" or "location".

Figure 5 summarizes the overall satisfaction of Capil families relative to public and private renters with all aspects of their dwelling, all aspects of location, and mortgage or rent payments. Capil families were more satisfied with their dwellings per se than were public or private renters, but public renters expressed greater satisfaction with their locations and rent payments. (Despite their satisfaction with the location of their Ministry accommodation and the very affordable rent payments, these families nonetheless reported they wished to own a home, preferably with a Capital Indexed Loan.) Private renters were lower on all aspects of housing satisfaction than other families.

Housing Repairs and Home Improvements

Capil families shared the general desire of new home owners to alter, renovate, repair and maintain their homes. All but a minority of Capil families reported making some kind of repair or improvement since they first moved into their Capil home. At the most recent interview, for example, two-thirds of the families reported undertaking home repairs and improvements since their last interview.

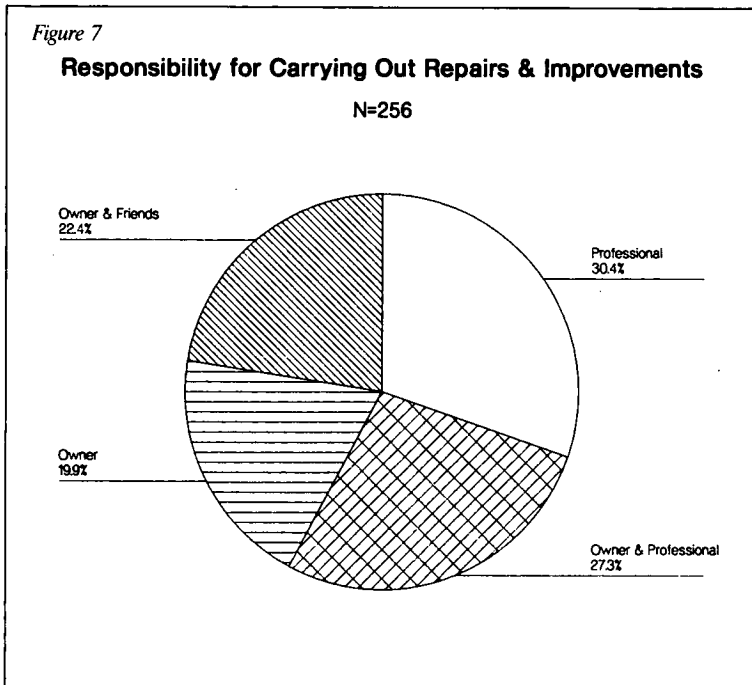
General home renovations, such as fixing up the kitchen or bathroom, or putting in a new window or door, were the most popular form of repairs. Many families improved the outside of the home by building a garden shed, or a carport. About 30 per cent of repairers undertook very basic or structural repairs such as rewiring, restumping or roofing work. A similar proportion carried out plumbing works. Less common, but more costly, were the installation of heating or putting an extension on the



home. The average cost of these repairs ranged from \$478 for plumbing repairs to \$3476 for a home extension (see Figure 6).

Most families drew on personal savings or funds to carry out repairs, rather than take out bank loans or borrow money from relatives or friends. When asked how difficult it was to raise the money for repairs, two-thirds of the respondents reported that it was somewhat to very difficult, while the remainder said it was not a problem. The extent of work undertaken made it difficult for some families to raise money for repairs. Families clearly preferred to finance the repair work out of their own savings, rather than take a bank loan or put it on credit, or in particular, borrow from a relative or friend. While nearly half of families relying on relatives or friends reported it was 'very difficult' to raise the money, less than 20 per cent of those who used their own savings did so.

There is much evidence of the willingness of Capil home owners to not only stretch their limited budgets to cover repair



costs, but also to put their own physical efforts into improving and maintaining their homes (see Figure 7). Only one-third of the work undertaken was carried out solely by professional tradesmen. This was largely the case for heating and plumbing repairs. In the majority of repair jobs, the owners became involved personally, often doing the job totally on their own or with the help of friends and relatives. Such substantial owner involvement in repairs and home improvements is a valuable form of 'sweat equity' that is likely to improve their property values considerably and thus their 'real equity' in their home.



Modern 3 bedroom brick veneer in outer Western suburbs

Perceptions of the Capil Scheme

Towards the end of the interview, respondents were asked 'now that you have been in your home for a while, how satisfied or dissatisfied are you with the Capil scheme itself?' Respondents then ranked themselves on a scale ranging from very dissatisfied to very satisfied. Overall two-thirds of the families reported that they were 'satisfied' or 'very satisfied' with the Capil scheme: indeed, 30 per cent of families described themselves as 'very satisfied'. Twenty per cent of families expressed dissatisfaction with the Capil scheme, and about 13 per cent were neutral.

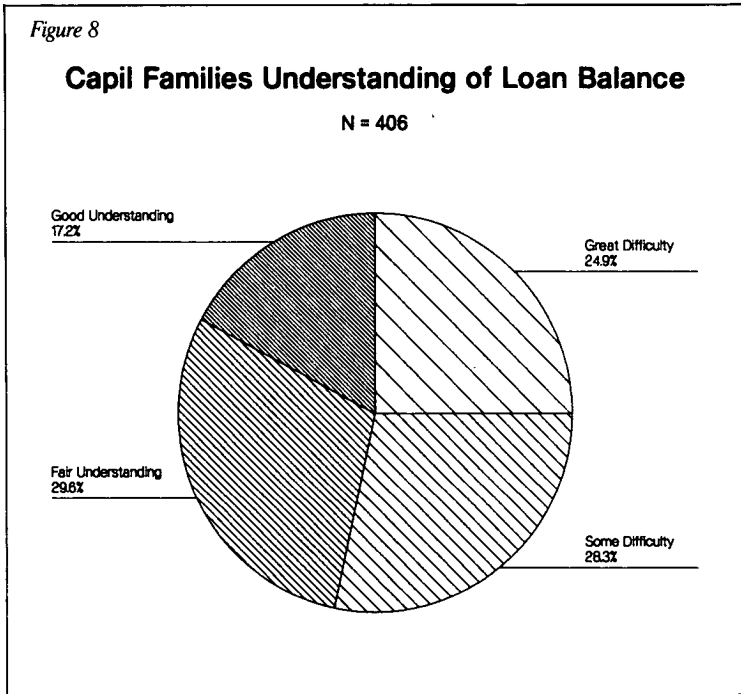
Further discussions revealed that most expressions of dissatisfaction related to misunderstandings about the nature of the Capital Indexed Loan. Many families perceived their mortgage repayments to be increasing, even though with a Capil loan the 'real' payment level stayed the same. In other words, the distinction between a changing 'nominal' rate and a constant 'real' rate was confusing. Moreover, when a statement arrived from the Ministry showing a rising outstanding loan balance, many families could not understand that the rise was related to their low level of repayment in the early years of the loan, the very feature of the Capil scheme allowing them access to home ownership. Because not all annual interest charges were met by low repayments, the excess charges were added to the balance of the loan.

To illustrate, interviewers reminded respondents that 'on a Capil loan the amount outstanding increases in the first few years of the loan' and then asked respondents to assess how well they understood this aspect of the loan. Twenty-five per cent of the Capil families reported great difficulty; another twenty-eight per cent 'some difficulty'; thirty per cent said they had a 'fair understanding' while only 17 per cent of the families described themselves as having a 'good understanding' of the nature of the loan (see Figure 8).

Typical of concerns about the rising balance outstanding is the comment of a respondent:

Capil is a good idea, but ... it's not fair that the mortgage keeps increasing even though you're paying it back. You'll never own the house.

Figure 8



This lack of understanding of how the loan operates came through even more clearly later in the interview when respondents had an opportunity to say how they felt about the scheme. Just over half the sample responded that Capil was working well for them. Of this group, most made no comments or recommendations for change to the scheme, and about ten per cent even included positive comments about the financial security it brought, or the fact that it was cheaper than rent.

It has enabled me to buy a house I would not have been able to buy otherwise.

Just under 20 per cent of respondents reported that overall they were satisfied with the scheme, but had reservations about the way the loan was tied to rises in the Consumer Price Index:

It's very depressing. The CPI increase goes on the loan every three months, and you think you're getting somewhere with your payments and all of a sudden you're \$2000 higher than your initial loan.

The remaining thirty per cent of respondents were unhappy with the scheme, overwhelmingly because of the CPI increases or what they felt was limited information from the Ministry:

... the CPI business wasn't impressed upon us. We were thinking we were getting a low interest loan and the next minute the interest rate had jumped to goodness knows what ...

Poor or limited understanding of how a Capil loan actually works led between 15 to 20 per cent of families to express greater dissatisfaction with housing costs and to question whether the scheme was even worthwhile for them and their families.

The Second Evaluation Report recommends that families need to have clear and accessible information on the often confusing structure of a Capil loan. Improved brochures and publications describing the loan, alongside better counselling and advisory services for families wishing to take on a Capil loan, would lead to a marked improvement in client satisfaction - both with the loan scheme itself and with the housing costs (mortgage, rates, house insurance, repairs) faced by home owners.



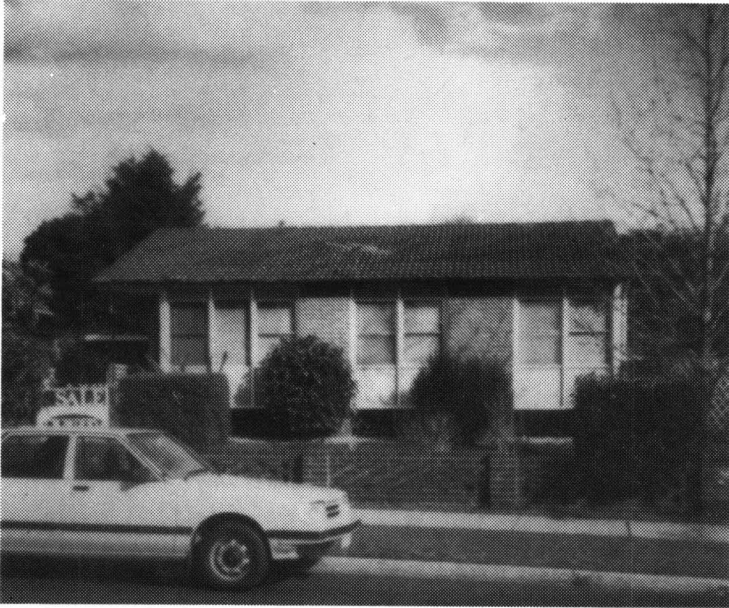
Former Ministry fibro home in Western suburbs

CONCLUSION

To date, 4500 Victorian families have been given the opportunity to purchase a home of their own with a Capital Indexed Loan from the Ministry of Housing and Construction. A total of 22,500 families have placed their names on a waiting list hoping for home finance assistance (see Postscript). By following Capil families through their first five years of home ownership, the struggles, joys, and difficulties experienced by new home owners are better understood. Direct and early feedback from the clients on how the scheme is working for them assists the Victorian Ministry of Housing and Construction in fine-tuning the Capil policy and program operation.

Can a Capital Indexed Loan enable low income families to enjoy the benefits and manage the costs of home ownership? Several indicators in *Home Ownership for Low Income Families: Second Evaluation Report* suggest that it can:

- Capil families have increased their employment and income more than the families remaining in the sample of private and public renters.
- Most Capil families can meet housing costs without difficulty.
- Capil families perceive themselves as doing better financially than a year ago and look forward to the future with optimism.
- Housing satisfaction is high, particularly with the space and privacy offered in their new homes.



Older style former Ministry home on the Mornington Peninsula

- Capil families are building 'sweat equity' in their homes by their high level of personal involvement in repairs and home improvements.

Of course, improved information services for Capil clients along with a streamlined method for adjusting changes in income to the level of mortgage repayments should help to ensure the continued success of the Capil scheme and the satisfaction of Capil clients.

Overall, families think the Capil scheme is worthwhile, even given all the expenses associated with owning a home. A resounding 75 per cent of Capil respondents said 'yes, definitely' Capil is a worthwhile investment for their family. One respondent summed it up when she said at the end of the interview:

The government should keep this scheme up. It's given hope to a lot of people. It gives you incentive, peace of mind, dignity. Everything about this scheme is worthwhile.

In 1989, the Australian Institute of Family Studies will contact Capil families for the third and final time to see how they are faring after nearly five years of home ownership. As their home represents the single most valuable asset for these families, the focus at this stage will be on the improved value of Capil properties and the levels of accrued equity.

FURTHER REPORTS ON CAPIL PROJECT

- First Evaluation Report of the Victorian Ministry of Housing Capital Indexed Loan Pilot Scheme produced by the Australian Institute of Family Studies, July 1987.
- 'Housing for Low Income Families' by Paul Napper in *Family Matters: AIFS Newsletter*, Number 20, April 1988, page 22.
- Home Ownership for Low Income Families: Second Evaluation Report on the Ministry of Housing and Construction Capital Indexed Loan (CAPIL) Scheme prepared by the Australian Institute of Family Studies, June 1988.
- 'Two Years On: How Low Income Families are Faring in Home Ownership' by Maryann Wulff in *Family Matters: AIFS Newsletter*, Number 21, August 1988, pages 49-50.

POSTSCRIPT

The Ministry of Housing and Construction recently introduced The Home Opportunity Loans Scheme to address the issue of demand for housing finance for low to middle income earners. This scheme is based on the use of the Capil loan instrument with funds raised in the private sector through the sale of Victorian Housing Bonds. It is expected that some 3000 Home Opportunity Loans will be made in the 1988-1989 financial year.

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