

THE NAVAL HOME LOAN SCHEME

The Naval Home Loan Scheme, or more properly the "Advance of Pay Scheme for Long Service Leading Rates and Above" was announced by the Minister of Defence (Royal Navy) in the House of Commons on the 11th March, 1965. The following article tries to set out the rules for this scheme, which are contained in D.C.I. 1317/65, in a simple, easily understood form.

The scheme was introduced as an incentive for men to re-engage to complete time for pension and, in consequence, applies only to Leading Rates and above of twenty-five years of age or over, who re-engage or have re-engaged to complete time for pension.

Provision is made for eligible personnel to receive a lump sum of money to cover the deposit, legal expenses, surveyor's and land registration fees entailed in buying a house on which a Building Society or Local Authority is willing to advance about ninety per cent. of their valuation of the property.

Amount of the Advance of Pay. An interest free advance of pay to a maximum of the Terminal Grant payable to a Leading Hand at twenty-two years service, currently £657, can be made. The actual amount being calculated in one of two ways:

- (a) 12% of the purchase price of the house, plus £100 to cover legal and other fees.
- (b) A sum which is the difference between the purchase price and the amount of mortgage raised plus £100.

The alternative which produces the lesser sum being the one given.

To put these details into figures, if you find a house you like priced at £4,000 and a Building Society or Local Authority is willing to advance a 90% mortgage (£3,600), the amount of advance that you can be given is the difference between the mortgage price and the purchase price plus £100—a sum of £500.

e.g. $£4,000 - £3,600 = £400 + £100 = £500.$

Similarly, taking the £4,000 house again. If the Building Society was willing to lend only £3,500 (87.5%) the advance of pay would be 12% of the purchase price plus £100, in this case £480 + 100, a sum of £580.

e.g. 12% of £4,000 = £480 + £100 = £580.

Experience in the Pay Office of HMS *Mercury* has shown that the latter form of payment is the one which is normally made.

In all cases, the payment of the advance of pay will be made direct to the solicitor handling the purchase, on the condition that it will be returned to the Supply Officer if the purchase is not completed.

Applications. When an eligible person finds a house he would like to buy, he should arrange a mortgage and obtain the services of a solicitor. Nothing should be finally signed until the advance of pay is approved. Having done this, he should complete an application form which can be obtained from the Ship's/Captain's Office. This application will be vetted and, provided all the requirements are met, the advance will be made.

In addition to providing details of the proposed purchase, the application form contains certain provisos and conditions for which the applicant signs acceptance when he hands in the application form. These conditions etc. are covered in subsequent paragraphs.

Repayment of Advance. On handing in your application for an advance of pay, you sign to the effect that you will repay the advance and understand that you will not be eligible for Discharge by Purchase until the advance is repaid.

Repayments depend on the amount of time left to serve. If you have ten or more years to do to complete time for pension, the following rules apply:

Repayment at 10% per annum over the last ten years of service. In figures this would mean that an advance of £580 would be repaid at £58 per year, extracted at approximately £2 4s. 8d. per fortnight.

If the applicant has less than ten years to serve to complete time for pension, the repayment is as follows:

10% per annum for the remaining years of service, the balance being recovered from his terminal grant. Taking an advance of £580 by an applicant with seven years left to serve, the repayment would be approximately £2 4s. 8d. per fortnight for the seven years and the balance, £174, recovered from his terminal grant.

Arrangements can be made for repayment of the whole advance at any time, but any other deviations from the repayment schedules detailed above are forbidden.

Premium. In addition to the repayment of the advance, a premium of 12s. 6d. for every £100 borrowed will be made every year until the advance is repaid. The purpose of the premium is to permit waiver of the repayment under the circumstances discussed in the following paragraph. These payments are made three times a year and on a loan of

£580 would be £3 12s. 6d. per year in three payments of £1 4s. 2d.

Waiving of Repayment. If a rating who has been given an advance of payment fails to complete time for pension, he will be required to repay the balance of the advance in full except in the following circumstances:

- (a) In the case of death or invaliding, the recovery will be waived.
- (b) In an exceptional case, the recovery can be waived at the discretion of the Ministry of Defence.

Selling the House. If a rating sells the house for which an advance has been made he must inform his Commanding Officer immediately, and the balance of the advance must be repaid at once, whether or not the rating purchases another house. Failure to report the sale may lead to the rating being charged the commercial rate of interest for the whole period that the loan was made. At the moment the commercial rate is $7\frac{1}{8}\%$!

As soon as the advance is repaid, he becomes eligible for another advance providing that the new purchase is a direct consequence of being drafted to a different area from the one in which he was serving when he bought the first house.

Letting. If the house is let, the rating's Commanding Officer must be informed immediately. During the whole period of letting, he will be required to pay to the Ministry of Defence interest on the outstanding portion of the advance at current Building Society interest rates. This sum will be recovered in relatively small sums from the fortnightly pay. It is also worth noting that this interest paid is claimable against ones income tax.

Married Quarters. Provided that his place of duty is not within twenty miles of the house he is buying under this scheme, a rating will not lose his Married Quarters entitlement. He will not, however, be entitled to a married hiring.

Promotion to the SD List. All the provisions of the scheme will continue to apply to ratings who have received an advance, have started repayments, and are subsequently promoted to the SD list.