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Mr David Crawford

Manager – Housing Unit

Social Policy Division

The Treasury

CANBERRA ACT 2600

Dear David

NHFIC INVESTMENT MANDATE DIRECTION - RECOMMENDATIONS

Common Equity Housing Limited (CEHL) is pleased to provide feedback and recommendations on the exposure draft and explanatory statement for the Investment Mandate Direction.

About CEHL

CEHL is a provider and developer of affordable housing. Owning 2,200 properties across Victoria, CEHL houses 5,000 people and has net assets in excess of $750m.

CEHL uses co-operative housing models to empower people to build strong communities through better housing solutions

Community Housing Provider (CHP) requirements for NHFIC to successfully differentiate from Commercial Financiers

There are three requirements that must all exist for the registered CHP sector to successfully engage with NHFIC:

a) Highly competitive <u>pricing</u>
b) Nil or low levels of <u>security</u>
c) Long-term <u>loan tenor</u>

a) Pricing

The draft Investment Mandate Direction requires NHFIC to:

- Cover its operating costs;
- Charge a risk margin;
- Retain capital; and
- Consider providing dividends.

These requirements are identical to those of any Australian Commercial Financier, and based upon our initial modelling, are unlikely to result in NHFIC being able to pass on lower interest rates to the registered CHP sector and therefore will have neither supply impact or improve housing outcomes for the sector's clients.

Recommendation: In order to add value to the CHP sector, NHFIC must provide loans through the ABHA that are substantially lower interest than Commercial Financiers.

b) Security

Under section 17 of the draft Investment Mandate Direction there is a requirement for NHFIC to seek security for any loan <u>at least commensurate with existing security arrangements with Commercial Financiers</u>.

While it is the intention for NHFIC (with the AHBA) to raise money on different terms than would be normally available to registered CHPs, a requirement to provide security commensurate with Commercial Financiers is inconsistent with the intent for NHFIC to support efficient lending to the registered CHP sector. It does not differentiate NHFIC from any Australian Commercial Financier and will constrain registered CHPs.

There are two significant challenges for NHFIC relating to the provision of the security or the nature of it:

- As Treasury would be aware, the assets of a registered CHP are charged in favour of State and Territory governments. Typically this takes the form of a mortgage or charge on title or fixed and/or floating charge over all the assets of the CHP. NHFIC and the CHP would therefore, in addition to a CHPs current lenders, need to negotiate any sharing of security with the respective State or Territory.

- The class of property assets (occupied by lower income households and those experiencing disadvantage) is such that no lender would actually seek to exercise its rights as mortgagee and dispose of assets due to the publicity that would arise in doing so - therefore the assets of a CHP have low inherent value.

The whole principle of NHFIC lending to the registered CHP sector, is that the sector is highly regulated under the National Regulatory Scheme for Community Housing (NRSCH) (or their equivalents in Victoria and Western Australia), and are subject to constant oversight by housing regulators. The need to provide security in favour of NHFIC represents a clear threshold issue for the sector.

> *Recommendation:*
>
> In order to provide value, improve access and efficiency, and not constrain the capacity of registered CHPs, security should not be required.

c) Loan tenor

We understand that it is the intent of the AHBA to raise 10-year funds and to provide it to the sector on similar tenor. We believe that this would be an attractive tenor to the registered CHP sector.

> *Recommendation:*
>
> In order to provide value to the CHP sector, NHFIC must provide loans with minimum 10 year tenor on an interest only fixed interest basis, including through the bond build process of the ABHA initial reserve.

Points of clarification

Eligible AHBA borrower

Section 16 of the Draft Investment Mandate Direction appears to indicate that loans can only be made to registered CHPs on an individual basis, while under the National Housing Infrastructure Facility section 22, loans, investments and grants can be made to Special Purpose Vehicles (SPVs).

It is anticipated that CHPs may wish to form SPVs or cooperatives to undertake some projects that are large or complex for an individual registered CHP, but would enable registered CHPs to pool their skills and resources.

It is therefore likely that an individual SPV borrower may not in its own right be a registered CHP but is made up of a partnership or coalition of registered CHPs. We would appreciate confirmation that it is possible for loans through AHBA to be made to a SPV or similar structure.

> *Recommendation:*
>
> In order to provide clarity, loans through AHBA should be made to registered CHP supported SPVs or similar structures, even though the borrowing entity in its own right my not be a registered CHP.

Use of AHBA loans for mixed tenure outcomes

CHPs undertake a range of housing and property related activities in support of their objects towards affordable housing outcomes. Often this involves activities or developments of a mixed tenure nature, which can include social, affordable, shared ownership or market housing outcomes. It needs to be clear that section 19 (a) would allow for mixed tenure outcomes as an acceptable purpose.

Recommendation: In order to provide clarity, mixed tenure outcomes should be confirmed as an acceptable purpose.

CEHL appreciates the work of the Government and Treasury to establish NHFIC and we look forward to the continuing engagement with the CHP sector to ensure that NHFIC is successful in achieving its objects.

CEHL is very happy to engage with Treasury at any time.

Yours sincerely

Stephen Nash
Managing Director

Brad Hosking
Corporate Director