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National Housing Finance and Investment Corporation Investment Mandate Direction 2018 – Exposure Draft

Thank you for the opportunity to comment on the exposure draft *National Housing Finance and Investment Corporation Investment Mandate Direction* to support the operation of the National Housing Finance & Investment Corporation (NHFIC).

HIA considers that the draft Mandate is sufficiently broad in its scope to provide for opportunities for the NHFIC to engage in innovative responses to the current challenges that all levels of government and the private sector are experiencing in meeting the infrastructure needed to cater for the demand for housing, especially at the more affordable end of the spectrum.

The Mandate for the bond aggregator function of the NHFIC is clear in its intent and delivery options. HIA's only comment on this aspect of the Mandate is the $150 million restriction on the warehousing function. Prima facie this limit seems too low if the objective of the aggregator is to make the bonds issued by NHFIC attractive to institutional investors. HIA hopes that Treasury has engaged with potential investors in the bonds about the scale of their potential appetite for the bonds in making the judgement about the $150 million warehousing limit.

Similarly HIA hopes that Treasury has consulted broadly with the community housing sector about the pace at which their demand for finance might accumulate as this will have a significant impact on the appropriateness of the $150 million limit.

This $150 million limit could also become a constraint on the Corporation's infrastructure investments in the early years if the Corporation is to be funded at a rate of $200 million a year for the first five years.

As it applies to the Infrastructure Facility the Mandate is very broad, appropriately giving the Corporation scope to innovate in its operations. HIA has a concern that the requirement in the mandate to maintain the real value of the permanent fund will bias the Corporation's investment decisions towards loans rather than grants or other innovative investment opportunities.

There is also a concern that the limiting the Facility's investments to those where there is a significant level of involvement from a local or state government or a community housing organisations is too restrictive. Excluding purely private businesses from working directly with the Corporation will cut off significant potential to meet the objectives of bringing forward provision of additional affordable housing: it is not just community housing organisations who deliver affordable housing to the market.

It would be desirable where state and local governments are involved to have an explicit reference in the Mandate favouring those infrastructure projects where the government partners were able to provide concessions or incentives, like elimination of upfront infrastructure charges on new home buyers, that lower the up-front costs project providers face as a direct means of improving housing affordability. Such concessions could potentially be recouped by the government at some later stage in a project's life such as through increased rate payments or when the property is sold.

The $2 billion limit on the Corporation's loan book seems unnecessary if it is to operate on commercial terms. If the Corporation is delivering a return to the Government that meets the objective of the Commonwealth's cost of borrowing, then the Commonwealth should be indifferent to the size of the Corporation's book, especially as the Corporation is unlikely to become a major player in the overall housing development finance market.

The broad scope of activity which the Investment Mandate enables is positive but will clearly require another level of detail for the Corporation's Board to develop to describe the priorities and processes that the Corporation will use in deciding between what should be a significant level of interest from competing projects. This will be a challenging task but one that will hopefully promote new ways of delivering much needed affordable housing.

HIA has reviewed the supporting draft legislation for the NHFIC and we continue to support the establishment of the Corporation. If the correct settings can be achieved to make each aspect of the Corporations work financially viable for all parties, it will be supported by the housing industry.

If you would like to discuss any of the comments outlined above, please do not hesitate to contact Warwick Temby (w.temby@hia.com.au) or myself.

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

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