National Housing Finance and Investment Corporation Consultation Paper

Department of Housing and Public Works comments – October 2017

Section 4.1: The affordable housing bond aggregator
Issues for consideration
1. Eligibility — It is currently envisaged that the bond aggregator will only provide loans to Tier 1 and Tier 2 CHPs. Could there be benefits to expanding the eligibility criteria to include other stakeholders involved in the provision of affordable housing? **DHPW comment:** DHPW recommends that proposed eligibility requirements be broadened to include all NRSCH registered CHPs, and that eligibility restrictions be based on minimum project size (value, number of properties etc.) DHPW also recommends that the bond aggregator allow applications (which meet set minimum project size requirements) from new entrants, on the proviso that the organisation registers as a CHP prior to the loan agreement with the bond aggregator being executed. Limiting bond aggregator loans to Tier 1 and 2 CHPs would be unnecessarily restrictive and may exclude CHPs with the appetite and capacity to grow the sector. The NRSCH tiering system's primary goal is to assign to a provider 'risk associated with scale and scope of a provider's community housing business.' This definition does not take into account the aspects of a provider's business not related to community housing. In practice, this results in Tier 3 providers who, by definition, have a very small community housing portfolio but whose wider business interests equal or exceed (in assets and revenue) those of Tier 1 providers. Also, many Tier 3 providers in Queensland are faith based organisations whose constitution determines their tier rating. Some of these providers have capacity to contribute to new affordable supply, but would be excluded from accessing bond aggregator finance under the currently proposed eligibility criteria. Additionally, the proposed eligibility requirements restrict the possibility for new entrants to consider expanding into the community housing sector. Again, there are a significant number of organisations whose size, scope and appetite for expansion may be greater than Tier 1 or 2 CHPs and who would, under currently proposed eligibility requirements, be restricted from accessing the bond aggregator.
2. Purpose of loans — The bond aggregator's loans are expected to be primarily used for funding housing maintenance and turn-key purchases. Do stakeholders agree with this focus? Is there scope for the bond aggregator to provide construction finance or should the bond aggregator be prevented from providing such finance? **DHPW comment:** DHPW strongly supports the use of the funding from bond aggregator loans for construction financing, enabling direct financing of new housing supply. The proposed financing of maintenance, but not construction, seems to be counter to the intent of the bond aggregator to achieve growth in affordable supply and ongoing viability. Additionally, the NHIF should provide for housing in brownfield and infill developments to maximise opportunities for new affordable housing.
8. Government guarantee — How would a potential Government guarantee on NHFIC bond issuances impact the NHFIC's ability to raise and price funds? **DHPW comment:** The Australian Government should provide a guarantee on NHFIC issued bonds to provide stability and security and to ensure the bonds offered are attractive to investors. Given that bonds, like many other financial instruments, are priced on a risk / reward basis, an Australian Government guarantee would put downward pressure on bond prices, and therefore the interest paid by CHPs. One of the key risks the guarantee would

address is the inconsistency and potential for change in housing policies across the NRSCH member jurisdictions. As a result, there is a risk that any significant changes to housing policy or strategy in a jurisdiction can impact an investor's perceived risk, and therefore the price of bonds being issued, impacting the funding costs to all CHPs seeking funding.

While some of this risk can be mitigated through a portfolio approach to funding – that is, issuing bonds on behalf of a geographically diverse group of CHPs – it is not possible for the bond aggregator to have control over the size, timing and intent of applications. A government guarantee, along with a portfolio approach, is seen as an optimum solution for mitigating this risk and maintaining investor confidence in the stability of the bonds being issued.