



4 November 2019

Manager
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600
By email: housingconsultation@treasury.gov.au

Dear Sir or Madam

National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019

The Australian Banking Association (ABA) welcomes the opportunity to make a submission on the *National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019* Exposure Draft (the direction) and Explanatory Statement.

The ABA welcomes any assistance to help Australians own their first home and supports the Government's commitment to deliver the First Home Loan Deposit Scheme. The ABA also notes APRA's letter¹ to industry clarifying the capital treatment of the guarantee. Together these measures will mean that more borrowers can access finance with a 5 per cent deposit.

Importance of customer protections

The ABA welcomes the inclusion of a specific requirement to assess a lender's standard of customer care, particularly the treatment of customers in financial hardship. The ABA considers this to be an important requirement. The ABA would like to highlight the additional protections of the 2019 ABA Banking Code of Practice (the Code).² All home loans from ABA member banks are subject to the additional protections of the Code. These additional protections include:

- Taking extra care when providing banking services to customers that are experiencing vulnerability
- Providing dedicated Customer Advocates in banks to improve situations for customers when things go wrong; and
- Better conduct and oversight of mortgage brokers.

Promoting competition

The ABA also supports the Government's intention to ensure a competitive market comprising of a panel of different lenders. This will ensure borrowers can find the product that best suits their needs, at the best price.

The ABA supports the inclusion of Subsection 29C(4) which allows switching between eligible lenders, noting that the first NHFIC panel of approved lenders will have an 'initial term' of two and a half years, with the opportunity for other lenders to join the next approval round (panel refresh). The ABA supports

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²The Australian Banking Association 2019, *The Banking Code of Practice*, <https://www.ausbanking.org.au/wp-content/uploads/2019/06/Banking-Code-of-Practice-2019-web.pdf>



the ability of a customer to switch between panel members to ensure customer can access the best deal.

Implementation timeline challenges

The ABA looks forward to working with NHFIC on the implementation of the scheme to provide guarantees as soon as possible.

The ABA considers that the scheme start date of 1 January 2020 is significantly challenging. The directive timeline notes that NHFIC approved lenders will be announced in early December 2019 and NHFIC is to expect lenders to offer guaranteed mortgages by 1 January 2020. This leaves less than 15 business days to design, build and implement compliant computer systems, develop the processes and procedures for this new guarantee mortgage product. The scheme will also require associated staff training, updated consumer information and product disclosures required by law.

Customers will have an expectation that NHFIC approved lenders will be able to offer this product from 1 January 2020. However, the required implementation processes need more time than proposed by the Direction to ensure the delivery of an appropriate product for customers and a level of customer service that meets community standards.

The Senate Economics Legislative Review Committee also identified a number of significant implementation issues not yet resolved.³ These include:

- How guarantees will be allocated to approved lenders by NHFIC
- How NHFIC will monitor the loan to value ratios of those mortgages guaranteed NHFIC will need to determine the point at which the guarantee is extinguished once the LVR falls below 80 per cent under the Direction.
- How NHFIC expect lenders to verifying taxable income as defined under the *Income Tax Assessment Act 1997*, as this is not currently possible.
- The process and standard by which NHFIC require lenders to verify the relationship status of joint borrowers under the Scheme, in particular de facto relationships.

The ABA considers that resolving outstanding implementation issues is critical to the prompt delivery of the Scheme.

Differences between Federal and State based First Home Buyer assistance

The ABA considers the proposed thresholds on property price and salary are reasonable. However, the ABA does note that there are significant differences between the limits of the scheme and state based first home assistance schemes. For example, in NSW the maximum property value is \$800,000 versus \$700,000 under the scheme for a property in Sydney. These differences could create customer confusion and result in a poor customer experience. The ABA looks forward to working with Government and NHFIC to find a way to effectively communicate these differences.

Savings requirements and financial difficulty

The ABA believes that the NHFIC requirements for first home buyers to use all their savings as a deposit is not prudent. First home buyers should be able to maintain a savings buffer in case of unexpected life events. The RBA also considers that borrowers need a financial buffer in the event of financial shock to support financial stability⁴, this is particularly the case for first home buyers. The ABA strongly recommends that this obligation be removed from the direction.

Further, the approved lenders should be given some discretion to allow a customer with a guarantee to move between principal and interest repayment to interest only repayments in the case of financial difficulty.

³ <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommsen%2F42583ec5-464a-4a0b-880d-f7c41678c09e%2F0006;query=id%3A%22committees%2Fcommsen%2F42583ec5-464a-4a0b-880d-f7c41678c09e%2F0000%22>

⁴ <https://www.rba.gov.au/publications/fsr/2019/oct/household-business-finances.html>



New construction can take more than a year

The ABA notes the requirement in paragraph 29C(3) that “if the loan relates both to the purchase of an interest in land on which a dwelling is not affixed and for the construction of a dwelling on the land, the loan may be an eligible loan even if the terms of the loan agreement permit interest-only repayments for a specified period”. It is important to note that in some cases, particularly when there is more than one contractor or where builders are in short supply, the construction period could be longer than originally foreseen. Given this, the ABA would like to see this section amended to ensure first home buyers and off-the-plan purchasers can confidently rely on the guarantee.

Better information on housing

The ABA supports NHFIC undertaking research on the housing market. Providing better evidence-based information on the state of the housing market will improve decision making within and outside of Government. Housing is major contributor to the economy and community well-being.

ABA supports the NHFIC data and research direction to fill gaps and to make its research transparent through publication. To meet this obligation, the ABA considers it important that NHFIC access existing data on housing finance provided by banks such as APRA’s Economic and Financial Statistics, rather than replicate the data collection. ABA members provide a wealth of data⁵ to regulators and allowing NHFIC to access this data is more efficient and will increase the potential benefits from existing collections.

As noted earlier, the ABA is committed to working with NHFIC and Government to deliver the Scheme and we look forward to a continued close working relationship to resolve any outstanding issues. Please contact me if you have any further queries regarding the ABA’s consideration of the First Home Buyers Deposit Scheme.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K. O'Brien'.

Karen O'Brien
Policy Director

⁵ <https://sbr-pet.apra.gov.au/ARF/ARF.html> ; For housing specific collection see: https://sbr-pet.apra.gov.au/ARF/ARF_320_8-D2A2.html ; https://sbr-pet.apra.gov.au/ARF/ARF_744_0B-D2A2.html ; State level example: https://sbr-pet.apra.gov.au/ARF/ARF_392_0_1-D2A2.html