

4 November 2019

Manager
Social Policy Division
Treasury
Langton Cres
Parkes ACT 2600

By email: housingconsultation@treasury.gov.au

Dear Sir/Madam,

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

CUA would like to thank Treasury for the opportunity to provide feedback on the National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019 (Investment Mandate).

By way of background, CUA is Australia's largest and oldest credit union, offering responsible financial, health and insurance solutions to around 550,000 Australians. With roots dating back to 1946, CUA has grown and evolved and today, has consolidated assets worth more than \$15.7bn and 1,000 team members.

We believe the First Home Loan Deposit Scheme (the Scheme) closely aligns with our values and creates another potential opportunity for CUA to contribute to the financial wellbeing of Australians, helping them to get onto the property ladder.

Since being announced by the Prime Minister in May 2019, CUA has taken a strong interest in the Scheme, particularly around its design, establishment and implementation. As a smaller lender, CUA welcomes the commitment from the Australian Government that smaller lenders will be prioritised to help boost competition.

CUA acknowledges the release of the draft Investment Mandate and supports its intentions. In response to the Investment Mandate, we have a number of comments which are listed below.

Schedule 1, Paragraph 29C - Eligible loan

The requirements for an eligible loan will need to be incorporated into our assessment process, which can be accommodated. However, CUA will also need to clearly articulate in our loan contracts the conditions set out in paragraph 29C(2). In addition, there needs to be clarification on whether each condition set out in paragraph 29C must continue to be met throughout the life of the Scheme-backed guarantee. For instance, the requirement for a joint loan that each borrower be a spouse or de facto can be considered at the time of CUA's assessment of the loan.

However, this may be harder to monitor over the life of the guarantee. The same challenge applies with monitoring the owner occupier status after the initial loan is granted.

Clarification is also needed as to whether the obligation rests with the eligible lender or if the borrower is obliged to advise the lender should the borrower's status change. At the time of assessing the loan, CUA can establish if the borrower meets the conditions set out in paragraph 29C, but it will be difficult to monitor the borrower's continuing eligibility and adherence to the conditions of the eligible loan.

Paragraph 29C(2)(j) outlines the requirement for scheduled repayments of the principal of the loan for the full period of the agreement. CUA requests that a clause also be added to allow interest only repayments, or no repayments, for brief periods where it is to support a hardship request.

Schedule 1, Paragraph 29E - Income test

It is unclear if the borrower or eligible lender is responsible for ensuring compliance with the income test. CUA has no objection if the eligible lender is solely responsible for administering the income test. However, as the income test is based on the taxable income of the borrower(s) in the preceding income year, CUA will be required to obtain tax returns as part of the approval process for Scheme-backed loans. This is an additional documentation requirement than average simple mortgage applications. Complexities may arise if the borrower has not yet submitted their tax return for the preceding income year. Another complexity is if the borrower's income for the current income year is greater than their income in the preceding income year and as a result, this now exceeds the income test.

Schedule 1, Paragraph 29F - Price cap

CUA accepts the price caps as listed in the Investment Mandate but we request that Treasury apply a small increase in the price caps. This would avoid Scheme-backed loans building up in excessive concentrations in certain locations within each price cap area. A higher cap would expand the range of dwellings and areas where properties would qualify for the Scheme. A small increase in the price caps would also improve the quality of collateral for eligible lenders and offer a more diverse portfolio of loans. Generally, a higher value property used as collateral provides better security for lenders.

Treasury must also clarify the definitions of *price cap* and *value* in Part 2 of Schedule 1. It is possible that the value assessed by the eligible lender may differ from the contract price for the residential property. Instances may arise where the contract price of the property is within the price cap, but the assessed value exceeds the price cap. (ie. The purchaser has negotiated a good price for the property, but an independent valuation indicates it is worth more.)

As the price cap refers to the value of the residential property, we request that Treasury confirm if eligible lenders would be required to obtain an independent valuation to determine compliance with the price cap? Treasury will also need to confirm what form such a valuation would need to take, if it is required.

Schedule 1, Paragraph 29G - NHFIC may rely on information

CUA supports NHFIC, as the issuer of Scheme-backed loans, being provided with information supplied by an eligible lender, a borrower, or other relevant third party. However, CUA notes that it is not yet clear what information eligible lenders would need to provide to NHFIC. A balance is required between the information NHFIC requires and the reporting burden on eligible lenders. This balance extends to the data required by NHFIC and detail/depth of such data.

Schedule 1, Paragraph 29H - Form of guarantee

Clarification is required around paragraph 29H(3) in relation to the value of the residential property. In this context, it is unclear whether the value of the residential property is based on the valuation at the time of the loan origination, as per Part 2 of Schedule 1, or if there is an expectation that eligible lenders will periodically obtain updated valuations to confirm the loan to value ratio. Typically, lenders would only obtain a valuation at the time of assessing a loan application, or in the event of a refinance/ mortgage top-up request.

Schedule 1, Paragraph 29K - Principles for the operation of the scheme

CUA supports paragraph 29K(1)(d) which seeks to ensure borrowers use the maximum amount of their savings as a deposit. However, it is unclear if NHFIC or eligible lenders would have responsibility for ensuring borrowers do use all available savings as a deposit. Due to privacy constraints and a reliance on self-disclosure by borrowers, it would be difficult for eligible lenders to determine if borrowers are using the maximum amount of their savings as a deposit. (ie. Borrowers are required to provide statements of their bank accounts/ savings. However, if they withheld details of savings held in a different account or investment option, it would be unrealistic for the lender to be expected to know about these funds.)

CUA maintains our strong interest in the Scheme and looks forward to continued involvement in the development of the policy. Once again, thank you for the opportunity to provide feedback on the Investment Mandate. If you have any queries or require further information, please do not hesitate to contact Matthew Crossley, CUA Government Relations on 0429 324 917 or by email Matthew.Crossley@cua.com.au.

Kind regards



Megan Keleher

Chief Marketing Officer