Genworth

Level 26
101 Miller Street
North Sydney
NSW 2060
Australia
Tel 1300 655 422
Fax 1300 662 228
genworth.com.au

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Manager
Social Policy Division
Treasury
Langton Cres
Parkes ACT 2600

Dear Sir/Madam,

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

Genworth welcomes the opportunity to comment on the Draft National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019 (**Draft Investment Mandate Amendment)**, which is amending the *National Housing Finance and Investment Mandate Direction 2018* to prescribe the parameters of the First Home Loan Deposit Scheme (**Scheme**) to be delivered by the National Housing Finance and Investment Corporation (**NHFIC**).

Genworth is the leading provider in Australia of lenders mortgage insurance (**LMI**) and is supportive of initiatives that help first home buyers (**FHBs**) make their dream of home ownership a reality sooner. LMI providers, including Genworth, already help FHBs realise their dream of home ownership by reducing the size of their home loan deposits normally required by lenders, removing a significant barrier to FHBs being able to enter the housing market in Australia. For the last 54 years, Genworth LMI has been helping Australians with less than a 20% deposit to acquire homes sooner.

Genworth's comments focus on two key areas:

1. The likely impact of the proposed Scheme parameters on the size of the demand for the Scheme; and
2. Some potential Scheme risks that do not appear to have been addressed in the Draft Investment Mandate Amendment.

Likely impact on demand for the Scheme

When we apply the Scheme salary and house price caps proposed in Draft Investment Mandate Amendment to Genworth's new FHB policies written in 2018, approximately 65% would fall within these guidelines. Considering Genworth's share of the high LVR market we estimate that approximately 42,000 of the c.100,000 annual FHBs would meet the proposed Scheme criteria. This estimate does not include any additional potential demand from borrowers who are currently on the sidelines, building their deposit nor loans that are originated at 80% LVR with the support of a parental guarantee.

Our analysis shows that demand for the Scheme will be well in excess of the allocated 10,000 per annum. We believe therefore that the Scheme objective to help low-to-middle income borrowers pursue their dream for modest housing, will be significantly challenged by the level of competition in FHBs seeking to participate. Those FHBs that have greater need for the help will be competing against many more borrowers with potentially greater resources, diluting the Scheme as a tool to assist government with social equity. To ensure the Scheme is accessible to the target borrowers, we suggest setting the house price caps at a level more consistent with modest housing.
For the remaining FHBs that are unable to take advantage of the Scheme, the LMI industry will be here to continue supporting a healthy housing market. We appreciate the comments in the

Explanatory Memorandum to the National Housing Finance And Investment Corporation Amendment Bill 2019 that "[t]he development of the Scheme has prioritised the maintenance of a viable and profitable LMI industry, as LMI enables high-LVR lending and benefits the financial system more broadly" and "[c]onstraining the size of the Scheme is important."

Potential risks associated with the Investment Mandate that may arise if not addressed in the Draft Investment Mandate Amendment or other Scheme guidelines

As NHFIC operationalises the Scheme and makes more information about it publicly available, it is also important to recognise the remaining potential risks of the Scheme.

Several Scheme parameters and principles may be difficult to enforce or are contradictory, including:

- owner occupation requirement;
- borrowers to use the maximum amount of savings as a deposit;
- incentives to pay down their loan as soon as possible;
- ability to refinance; and
- no restrictions on loan modifications.

While the Scheme is intended to apply to owner occupied borrowers, there doesn't appear to be a mechanism in place to prevent the borrower from converting the property to an investment property after settlement. In the case of the various First Home Owner's Grants across the country, borrowers are required to repay the grant if the residency requirements are not met.

We note that the Draft Investment Mandate Amendment provides for borrowers in the Scheme to refinance their original loan. This ability to refinance and remain in the Scheme may conflict with the principle requiring NHFIC to encourage and incentivise borrowers to repay their loans as soon as possible. Borrowers could be free to execute refinances several times, significantly extending the original term, increasing the duration of the guarantee and the time to pay down the principal balance. We recommend guidelines be provided related to term extensions to uphold to NHFIC's principle, minimize the Scheme's duration risk and reduce the likelihood of having future LMI borrowers also removed from the available market.

The requirement that NHFIC must ensure all eligible first home buyers have used the maximum amount of their savings as a deposit will be challenging to enforce. We have seen the difficulties in lenders validating living expenses in the context of responsible lending, and it is difficult to gain the complete financial picture of any borrower. We expect lenders may find validating assets even more challenging within the Scheme context. For these situations, the Scheme should mandate a monitoring mechanism to identify any breach and prescribe an appropriate disincentive for non-disclosure by borrowers.

Finally, several forms of loan modifications are common in the home loan market including "top-ups" and variations, allowing borrowers to execute security substitutions, cross-collateralisations, or further loan advances. Each of these events have the potential to extend the paydown period or alter the underlying risk of a loan and may require explicit rules in the Scheme guarantee documentation. They create additional enforceability risks to NHFIC not contemplated within the Scheme parameters.

Genworth looks forward to continuing the conversation with Ministers, Treasury and NHFIC as the start date for the Scheme of 1 January 2020 grows closer. For further questions about this submission, please contact Alexander Drake, Head of Government and Industry Affairs on either 02 9458 2029 or alexander.drake@genworth.com .

Yours sincerely,

Georgette C Nicholas

Georgette Nicholas
Chief Executive Officer and Managing Director