Genworth

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

6 January 2021

Mr Chris Leptos AM
NHFIC Act Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: NHFICSecretariat@treasury.gov.au

Dear Mr Leptos,

Review of the operation of the *National Housing Finance and Investment Corporation Act 2018*

Genworth is pleased to provide a submission to the Review of the operation of the *National Housing Finance and Investment Corporation Act 2018*.

The National Housing Finance and Investment Corporation (NHFIC) and Genworth are aligned in our objective of, "assisting earlier access to the housing market by first home buyers (FHBs)". Genworth has facilitated home ownership for over 50 years as the leading provider of Lenders Mortgage Insurance (LMI). Our comments within this submission are based on trend analysis of the long term historical data we have gathered over five decades experience in insuring High Loan to Value (HLVR) mortgages, including for FHBs.

We have addressed our comments to item 3 of the Terms of Reference in the Issues Paper dated December 2020 – The role of NHFIC in Increasing Homeownership.

The role of NHFIC in increasing homeownership

The First Home Loan Deposit Scheme (FHLDS) has been popular with FHBs, as the successful applicants are able to borrow with as little as a 5% deposit without the usual costs of low deposit borrowing such as increased interest rates or lenders' mortgage insurance (LMI), as the cost associated with the increased borrowing risk is covered by the Federal Government. Notwithstanding the popularity of the Scheme, given the cost is ultimately borne by Australian taxpayers, most of whom are not benefiting from the Scheme, it is important to examine whether the Scheme is achieving its goal to improve FHBs access to the housing market.

Whilst it is too early to know definitively, based on our analysis of Genworth insured FHB loans over the 12 months prior to the introduction of the Scheme, and the limited publicly available data on the loans supported by the Scheme, our initial assessment is that the Scheme appears to allow borrowers to purchase a property approximately 1 – 2 years earlier than they otherwise would have. Our initial analysis indicates that the majority of scheme participants (likely in excess of 75%) would likely have been eligible to borrow for a property without the support of the scheme within 12 – 30 months of their scheme assisted property purchase.

In undertaking this analysis we have considered typical eligibility criteria for loans supported by lenders' mortgage insurance against the eligibility criteria for the Scheme (see Attachment 1). This reveals that other than in respect of the income/loan servicing requirements, eligibility requirements for the Scheme are more restrictive in all dimensions than for loans outside the Scheme. With respect to income/serviceability requirements, we estimate that only approximately 12% of Scheme participants to date would have income levels lower than those which would be generally acceptable for non-Scheme loans. As such, it appears very likely that the vast majority of scheme participants would be in a position to apply for a non-Scheme loan following a period of additional savings, which we estimate to be 1 – 2 years.

We also note that Genworth's recent launch of a monthly premium LMI policy will assist those individuals with an ability to service a loan but a lower level of existing savings to purchase a property sooner than the traditional single premium product. As this product is adopted by more lenders, then we anticipate the benefit of the Scheme in bringing forward home ownership will be further diminished.

Considerations for the review

In undertaking the Review, we recommend that the Committee consider the following:

1. Incorporating the Scheme limit (10,000 guarantees per year) in the Act.

   Allowing the size of the Scheme to be governed via the investment mandate rather than via normal parliamentary legislation, leaves the LMI industry vulnerable to the risk of unilateral Scheme expansion by ministers, potentially rendering the LMI industry unviable without warning or recourse. Such a failure in the private LMI market would adversely impact home ownership to a much greater extent than any positive impact of the scheme. To minimise this risk, the Government should reconsider legislation that would require Scheme expansion to be achieved by an amending Act.

2. Partnering with the LMI industry.

   LMI contributes stability to the Australian financial system by providing private capital and access to global reinsurance. Partnering with the LMI industry to share the risks associated with the Scheme will add private capital to the financial system and reduce the future burden on taxpayers.

3. Alternate options to grow home ownership.

   To address the wider issue of housing affordability for FHBs not eligible to benefit under the Scheme, the Government could consider treating the fee that a borrower effectively pays their lender for the lender's LMI premium as tax deductible. This would enable more FHBs to benefit from the Government's commitment to supporting a broader group of FHBs within reasonable, progressive parameters.

Conclusion

Genworth believes that it is in the interests of all parties that the Scheme does not ultimately become a taxpayer-subsidised competitor to a functioning, commercially based LMI industry. We suggest that partnering with the LMI industry to share risk and minimise the potential impact on taxpayers may be a more attractive alternative.

Genworth requests consideration of the concepts provided in this submission in light of both the demand for help from FHBs and the need to recover the housing and construction sectors from the effects of the recession and COVID-19.

Genworth appreciates the opportunity to contribute to this consultation. My colleagues and I are available to discuss these issues with you at a mutually agreeable time.

Yours sincerely,

Pauline Blight-Johnston
Chief Executive Officer and Managing Director

Attachment 1

This attachment provides a comparison of the Scheme requirements with Genworth's underwriting guidelines, showing that the Scheme's requirements are narrower than Genworth's guidelines in all respects other than in respect of required income/loan servicing levels..

Criteria	FHLDS Requirements	Genworth Criteria
Income test	Singles <=$125k, Couples <=$200	No explicit income requirement, income requirements are based on responsible lending serviceability requirements (~90% of Genworth's 2019 policies were within Scheme limits)
Home/property requirements	No vacant land	Vacant land up to 2.2 hectares Above 40m^2 Up to 50 hectares
Prior property ownership	Neither borrower may have previously owned property	No limitation
Citizenship	Australian citizens only	Citizen or permanent resident for Australia or New Zealand
Minimum age	Must be 18 or older	18 or older
Deposit requirement	At least 5% of the property value	Minimum 5% for owner-occupied. Many lenders have reduced their appetite to accept loans with LVR's greater than 95% including LMI capitalised premium
Owner-occupier requirement	Must live in the property for life of guarantee*	Not applicable
House price limits	Regional limits	Maximum loan limit of $1.15M per security for 95% LVR, up to $2M for lower LVR loans

*except in certain circumstances for Australian Defence Force personnel