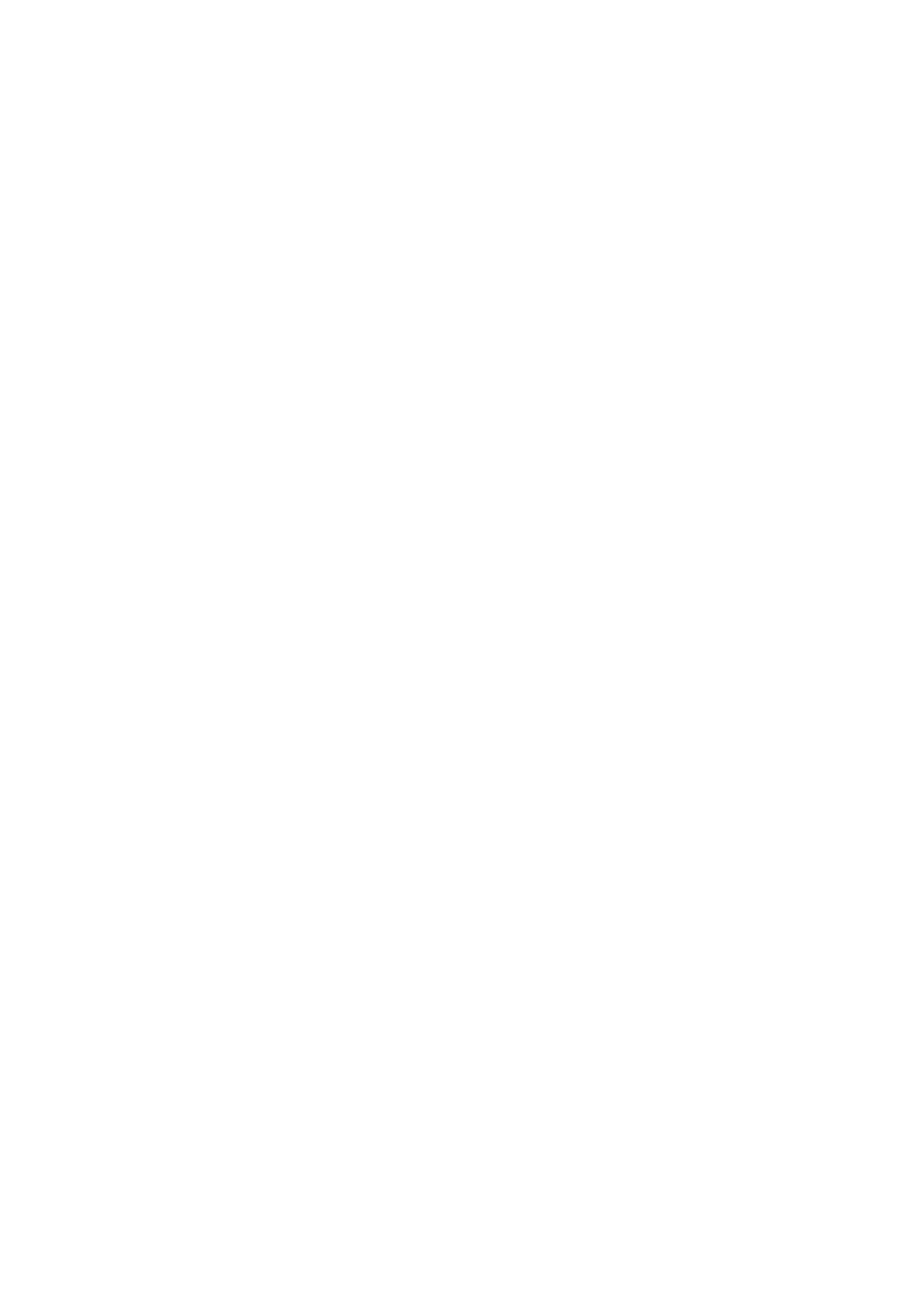
NSW Government Submission

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

December 2020



Contents

[NSW Government submission – Review of the operation of the NHFIC Act 2018 3](#_Toc59177547)

[The role of NHFIC in housing supply 3](#_Toc59177548)

[Impact of NHFIC on the Community Housing Provider Sector 6](#_Toc59177549)

# NSW Government submission – Review of the operation of the NHFIC Act 2018

The NSW Government welcomes the opportunity to provide input to the Commonwealth Government’s Review of the operation of the *National Housing Finance and Investment Corporation Act 2018* (the Review).

The National Housing Finance and Investment Corporation (NHFIC) Act aims to improve housing outcomes for Australians, including by addressing the need for financing and other mechanisms to support the delivery and increased supply of affordable housing. NHFIC has demonstrated potential to improve housing outcomes in NSW, including through funding and support for the Community Housing Provider (CHP) sector and financing to the NSW Land and Housing Corporation (LAHC) and its housing projects.

LAHC, a division of DPIE, is responsible for the NSW Government’s social housing portfolio. LAHC supports the strategic priorities of the Government's social housing policy, *Future Directions for Social Housing in NSW*, by providing more social housing – both directly, and through engagement with the private and CHP sectors. As a Public Trading Enterprise (PTE) which manages and funds renewal of the social housing portfolio, LAHC’s partnerships with the non-government sector and use of innovative financing mechanisms are key to its operations. NHFIC financing is valued as one of these mechanisms.

LAHC has established a $100 million agreement with NHFIC, allowing it to access National Housing Infrastructure Facility (NHIF) loans and grants to fund housing-enabling infrastructure and remediation works underpinning current projects.

LAHC has also worked with NHFIC to engage with the CHP sector on a mixed tenure, Build-to-Rent (BTR) project. Eligible CHPs tendering for this project have the option to access an innovative finance package via the Affordable Housing Bond Aggregator loan.

Both forms of funding diversify the means for renewal of LAHC’s social housing portfolio, support the viability of CHP-led projects and increase the supply of more social, affordable and market housing in NSW.

The NSW Department of Communities and Justice (DCJ) also welcomes NHFIC’s contribution to increasing the sustainability of the NSW community housing sector. DCJ has participated with NHFIC in 12 major financing and refinancing transactions for registered CHPs, valued at over $900 million, and sees two key differentiators between NHFIC and other lenders:

* Affordable housing is NHFIC’s core business, so NHFIC is dedicated to understanding the sector, making it more accessible to borrowers and better equipped to manage risks and provide a return to investors. This compares with private sector lenders who view affordable housing as an important but small part of their businesses.
* Its mission, set out in the Act, strongly aligns with state and territory government and community housing sector partners.

NHFIC loans offer low rates of interest with competitive margins and should reduce borrowing costs, strengthen CHP balance sheets and result in additional supply of affordable housing.

NSW’s experience and recommendations relating to the operation of the NHFIC Act are outlined below.

## The role of NHFIC in housing supply

### National Housing Infrastructure Facility (NHIF)

NHFIC has endorsed the eligibility of four LAHC housing projects under a $100 million NHIF agreement. Across the projects, loan and grant funding will facilitate and/or bring forward infrastructure and remediation works, and the delivery of associated housing. It will also generate savings that will support delivery of approximately 40 (or around 10%) more social homes than would otherwise have been realised.

LAHC’s experience in a major redevelopment, Ivanhoe at Macquarie Park, illustrates a range of benefits that can be realised through access to NHIF funding. Ivanhoe is a flagship $2 billion mixed tenure project, delivered by a consortium that includes development partner Frasers Property Australia (FPA) and a CHP. The $41.23m NHIF facility will allow all roads, subdivision and infrastructure works to be financed and delivered in the first stages of the project, rather than over a longer term program. These works were also facing potential delays due to COVID-19 economic impacts. Alongside this, a CHP also intends to seek an AHBA loan to purchase 130 affordable housing units in the project, which brings forward delivery of the building by four years from 2027 to 2023. Together, the NHFIC facilities will enable the development to proceed in line with the original program and bring forward delivery of the 130 affordable homes by approximately four years.

LAHC is also undertaking a housing renewal project at Rosemeadow in Sydney, using NHIF finance to forward-fund subdivision and civil works. The project involves subdivision of a vacant 5.1ha site to deliver 104 residential housing lots for private sale, and construction by LAHC of a 45 unit Seniors Living complex for elderly social housing residents. By utilising NHIF finance, comprising a 25% grant and low interest loan, the project will be able to contribute an additional $2.6m toward the cost of the 45 Seniors Living units. This is the equivalent of 6.5 additional units.

For LAHC:

* the NHIF provides a valued complement to NSW Government activities to boost housing supply
* the scope of the definition of eligible project proponents and eligible projects for NHFIC financing outlined in the Investment Mandate is also effective.

#### Key recommendations

While LAHC has only engaged in the early phases of the funding process, it encourages the Review to consider initiatives that will further accelerate the delivery of housing projects. These may include:

* Streamlining the NHIF application process. NHFIC has already worked with LAHC to develop a short-form version of the Application Form that eliminates duplication across the form’s loan and grants sections. The Review may consider retaining this change for all applications. LAHC also suggests combining the Expression of Interest and Application steps
* Adjusting the commercial terms and credit information requirements in government applications and transaction documents to better reflect the level of risk associated with government-to-government transactions

### Increasing private investment in housing

As noted above, LAHC has worked with NHFIC to provide CHPs with the option to apply for an AHBA loan as part of a LAHC tender for a mixed tenure build-to-rent redevelopment. This low-cost financing package was strongly welcomed by the market. It will provide approximately 61% of the project funding over a 10-year term. NHFIC’s involvement has also attracted investment through Cbus Super, which will provide access for CHPs to seek a further 19% of the project funding as junior debt over a 10-year term.

The stapled finance package offered by NHFIC and Cbus supports new housing supply by contributing up to 80% of project cost at concessional rates, encouraging CHP participation and capacity-building, and moving towards closing the funding gap for delivering new social and affordable housing.

#### Key recommendations

The combined involvement of NHFIC and Cbus was new for all parties in the tender process, and has highlighted opportunities for:

* NHFIC to enhance earlier review of tenderers’ eligibility creditworthiness for AHBA loans to help further streamline tender evaluation and process
* additional resourcing at NHFIC to meet anticipated demand for further projects of this scale and nature.

### The appropriateness of NHFIC’s financing, including its ability to complement other Commonwealth and state government housing activities

##### Addressing the funding gap

The establishment of NHFIC and associated bond aggregator followed the Affordable Housing Working Group Report to Head of Treasuries on ‘Supporting the implementation of an affordable housing bond aggregator’ released by the Council on Federal Financial Relations in September 2017.  A key aspect of that report was ‘*Complementary reforms will be required to support the bond aggregator’*, with *Recommendation 1: That the Commonwealth and State and Territory governments progress initiatives aimed at closing the funding gap, including through examining the levels of direct subsidy needed for affordable low-income rental housing’*.

While NHFIC provides benefits in terms of the ability of the CHP sector to access cheaper, longer tenor financing, the key issue to significantly address the supply of affordable housing is addressing the funding gap.  While most state governments have provided significant additional resources towards affordable (social) housing in their most recent budgets, the Commonwealth has not provided any additional resourcing since the 2017 report was released*.*

#### Key recommendations

* To support the affordable housing bond aggregator and role of NHFIC, it is important that the Commonwealth also provide additional resourcing to assist in *closing the funding gap* - indeed this would be the most significant aspect the Commonwealth could address to support the supply of affordable housing.

##### Potential to increase lending capacity

NHFIC brings significant benefits through its partnerships with the NSW Government, even where projects are not related to new supply. DCJ has observed, for example, that NHFIC’s role as a mission-aligned lender to the community housing sector allows it to work closely, as a partner with state government colleagues, through complex transactions towards the shared outcomes of a stronger community housing sector and more affordable housing. As a mission-aligned lender, NHFIC also has a clear brief to develop an understanding of the ‘business’ of affordable housing which benefits borrowers, state government partners and enables it to understand and manage the risks associated with affordable housing for its investors and guarantor.

The expected benefits of greater presence of the sector in affordable housing is expected to become more evident as borrowers are able to realise the benefits of reduced borrowing costs.

#### Key recommendations

* A significant increase in the scale of NHFIC’s lending capacity would allow it to become a significant driver of growth in affordable housing and provide a trusted destination for investment in affordable housing.

## Impact of NHFIC on the Community Housing Provider Sector

### Affordable Housing Bond Aggregator (AHBA) loans

One of the key benefits NHFIC has provided for registered CHPs is the ability to access lower interest rates and very competitive lending margins that reduce borrowing costs. The product offered by NHFIC is straightforward and easy to understand, which reduces transaction costs.

As an example, LAHC is presently supporting two applications for AHBA loans by CHPs. LAHC’s support is in the form of consent for NHFIC to take a first ranking mortgage (up to an agreed first priority amount) over CHP-owned properties in which LAHC has a registered mortgage or statutory interest. In one of those cases, the CHP has applied for an AHBA loan to refinance existing debt and finance current and future affordable housing projects. The CHP projects a saving of $11.5m on a $71M loan when compared to a commercial lender, which could equate to approximately 23 affordable dwellings.

The following issues, however, have been observed that may impact on a borrower’s ability to leverage cost savings and manage other risks to their business:

* NHFIC requires relatively high levels of securitisation against borrower assets and, in some cases, cashflows. This may limit the capacity of some borrowers to deal in assets to respond flexibly to other risks and demands on often limited cashflows, and may limit access to other finance
* Where providers have replaced 25-year (or longer) amortising loans with NHFIC fixed term, ‘principal payment at end of term’ based loans over a 10-12 year term, there may be an increased financial risk to those providers where they need to refinance to meet the tenor of the original loan.

#### Key recommendations

* The Review may consider whether the way that NHFIC bonds are structured has increased refinancing risk (i.e. no required amortisation in most cases).
* The Review is also encouraged to consider whether most CHPs have the financial capability required to understand complex project financing documents and the implications of these type of documents in their business (such as restricted flexibility and/or the level of compliance requirements through reporting). Alongside NHFIC’s capability development activities, it may be desirable to streamline these documents.
* It is not clear how NHFIC manages its portfolio of loans to promptly identify possible problem loans before they become distressed. When would the relevant entity (e.g. LAHC) be notified and what might the implications be (if any) for tenants should a project fail?
* The Review may consider measures to allow NHFIC to increase loan to value ratios and offer a greater range of flexible loan products that are better matched to individual borrowers’ circumstances. This would allow greater flexibility for borrowers to manage demands on their cashflow and leverage the balance sheet benefits of lower borrowing costs (for example, amortising loans or longer tenor loans).
* A significant increase in the scale of NHFIC’s lending capacity would allow it to build on early successes, become a significant market player, drive sector growth and leverage its natural advantage as a mission aligned lender to the community housing sector.
* NHFIC’s positive impacts on CHPs’ delivery of housing could also be enhanced by refining internal processes and/or delegations to facilitate more timely assessment of loan applications.

## The Governance and Operation of NHFIC

#### Key recommendations

NSW encourages the Review to consider:

* whether the requirement that NHFIC pay dividends to the Australian Government is a factor that could limit its ability to more effectively meet its mission. Consideration could be given to allowing NHFIC to retain dividends to increase its financial capacity.
* Further development of a treasury/banking skill set within the organisation, including the NHFIC Board.

Together, these initiatives could provide capacity and a pathway to developing a greater range of flexible loan products.