



24 September 2019

Mr Andrew Gaczol
Acting Committee Secretary
Senate Standing Committees on Economics
Parliament House
Canberra ACT 2600

Via email: economics.sen@aph.gov.au

Dear Mr Gaczol

National Housing Finance and Investment Corporation Amendment Bill 2019 [Provisions]

COBA welcomes the opportunity to comment on the *National Housing Finance and Investment Corporation Amendment Bill 2019 (the Bill)*. COBA represents Australia's credit unions, mutual banks and building societies.

Credit unions, mutual banks and building societies together lend more than \$90 billion for housing to Australians, of which around 80 per cent is to owner-occupiers.¹ Collectively, the mutual sector is the fifth largest housing lender. Our point of difference is our model – our customers are also the owners of our institutions. Our focus on the customer over external owners removes the temptation to put 'profit before people', something that is inherent in the investor-owned model. The Royal Commission included a lengthy discussion on these issues. Given we are funded primarily by household deposits, at its simplest, customer-owned banks take Australians' deposits and lend them to other Australians to reach their dreams of homeownership.

Supporting measures to help first home buyers

COBA supports the First Home Loan Deposit Scheme (FHLDS)² and we strongly support its objective of helping first home buyers. For COBA members, helping our customer-owners to buy homes to live in is part of our sector's DNA.

Owning a home is an aspiration of many Australians and considered to be the 'Great Australian Dream'. Six in 10 Australians are holding onto the dream of home ownership³. One in two young

¹ COBA estimates based on APRA Monthly ADI Statistics, August 2019

² See COBA media releases:

COBA welcomes introduction of legislation to implement First Home Loan Deposit Scheme (12 September) – link

COBA welcomes boost for first home buyers (13 May) – link.

³ Ipsos (Westpac), 2017, A place to call home - Australians' views on housing affordability, page 8. Available [online](#).

Australians says that buying a house is priority in the next five years.⁴ For most Australians, the home is the most valuable asset that they will own. This can lead to financial benefits if there are capital gains. More than 90% of those surveyed believe that owning a home is the best way to build financial security.⁵

Most importantly, home ownership has significant non-financial benefits. Broadly, these include the benefits of security, control and stability associated with living in 'a place of your own'.⁶

More specifically, they can include:

- 'the sense of independence and autonomy which ownership confers – the freedom from control and surveillance by a landlord and the ability to personalise the property according to one's tastes'.
- 'a greater sense of emotional security and a stronger development of self and identity'⁷.
- stronger incentives for owner occupiers for civic involvement compared to renters.⁸ There are likely to be both private and public benefits to greater civic engagement.
- a greater security of tenure, reinforcing incentives for community participation. Less frequent relocation also minimises disruption to established social networks and children's education.⁹

These benefits can be significant and their importance to the Australian psyche is best summarised through the following:

The material home represents the concrete expression of the habits of frugality and saving ... one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours; to which we can withdraw, in which we can be among friends, into which no stranger may come against our will.

Sir Robert Menzies, 'Forgotten People' speech, 1942

But the great Australian dream is now taking longer to achieve. As noted by Housing Minister the Hon Michael Sukkar MP, "[t]he average time it's taking people to get a deposit together in Sydney and Melbourne is 10 years and 8 years respectively"¹⁰. In the early 1990s, this time had been around 6 years but has been estimated at around 9 to 10 years by the Grattan Institute.¹¹ It is becoming harder and taking longer for first home buyers to access the benefits of homeownership. This additional saving period is likely to increase the average age of first home buyers. For aspiring homeowners, this additional time may also delay other life milestones and aspirations such as a starting a family.

⁴ ABC, 2019, Climate change has replaced jobs and housing as the number one issue for young Australians, survey shows, available [online](#).

⁵ See Ipsos (Westpac)

⁶ AHURI, 2010, The benefits and risks of home ownership for low-moderate income households [Link](#)

⁷ Saunders (1990, p.84) & Saunders (1990, p.293) via footnote 6

⁸ Productivity Commission, 2004, First Home Ownership, page 3, Available [online](#).

⁹ *ibid*

¹⁰ Transcript from the Hon Minister Michael Sukkar MP, Interview with Patricia Karvelas, ABC News Afternoons, ABC News Australia [link](#)

¹¹ Grattan Institute, 2018, page 20. Available [online](#).

COBA believes that the FHLDS will help get eligible Australians into the first home sooner. It is still likely to take several years for prospective first home buyers to amass a 5 per cent deposit. However, for many prospective first home buyers, particularly those on middle incomes, they can make the ongoing repayments to service their mortgage. In these cases, the barrier is the considerable time it takes to save a 20 per cent deposit. The FHLDS will be another option alongside parental guarantees and lenders' mortgage insurance to help reduce this time. It is expected that demand for this scheme is likely to be strong with 75 per cent of first home buyers surveyed likely to apply for the scheme.¹²

While other alternatives to the above options exist (such as saving while renting or living with parents), these options may delay the non-financial benefits for those most eager to get into a home. These options may also not be possible for all Australians. Waiting to save for a deposit could mean up to seven years of not deriving these home ownership benefits, particularly the non-financial benefits.¹³ This is not an insignificant period of a prospective first home buyers' life.¹⁴

COBA notes some commentary around the financial risks of the FHLDS to first home buyers, including encouraging first home buyers to take out larger loans or exposing them to the risks of negative equity. These risks are not any different from those under the parental guarantee or LMI options. While these, like all mortgages, have the ability to create financial stress, these financial costs must be balanced against the non-financial benefits. Given this scheme is optional, prospective first home buyers can weigh up whether or not it is right for them. Similarly, there are a number of regulatory protections to ensure that first home buyers do not overextend themselves.

ASIC-regulated lenders are required by law to ensure that they meet their responsible lending obligations under the *National Consumer Credit Protection Act 2019*. APRA-regulated lenders must also meet APRA's lending standards¹⁵ and APRA scrutiny of their credit policies. Customer-owned banking institutions are overseen by both these regulators. Under APRA's lending standards, ADIs must apply an interest rate buffer of 2.5 per cent to ensure the consumer can afford the loan if there are significant increases in interest rates. It would be prudent from a consumer perspective for these APRA standards to apply to non-ADI lenders to deliver competitive neutrality and ensure borrowers have an appropriate interest rate buffer.

Supporting homebuyers through the customer owned banking sector

Customer owned banks (credit unions, building societies and mutual banks) have long focussed on owner occupiers, including first home buyers. For some COBA members, first home buyers comprise up to 20 per cent of their loan portfolio.

¹² Genworth, 2019, The Genworth First Home Buyer Sentiment Report, page 22. Available [online](#).

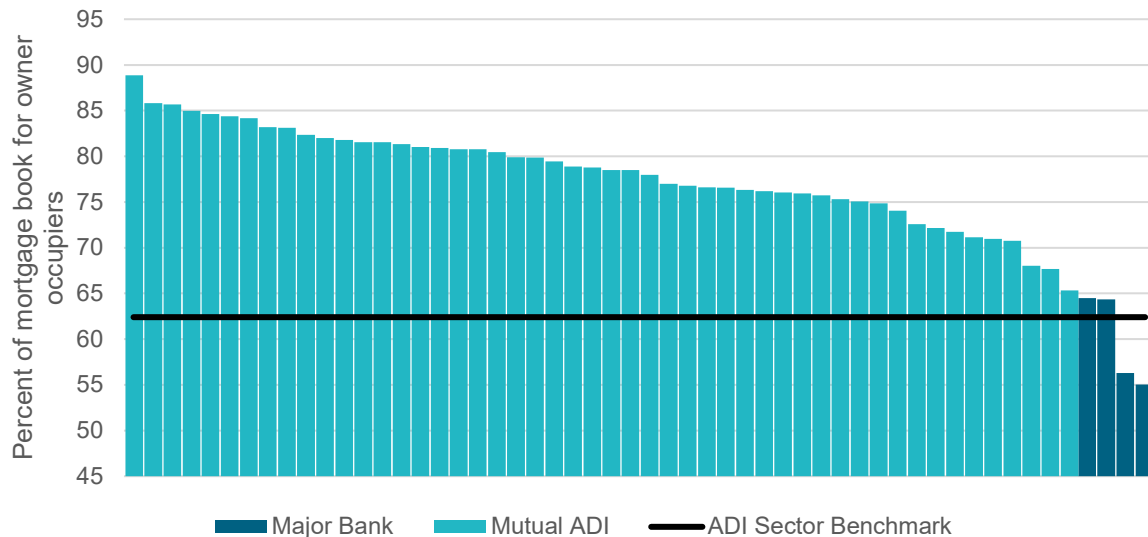
¹³ COBA estimates based on it taking 2 to 3 years of saving to get to a 5% deposit and taking 10 years to get a full 20% deposit for a Melbourne/Sydney home.

¹⁴ Given an expected FHB age of 25-35 years, with an average life expectancy of 80 years, 5 to 7 years would be more than 10% of remaining life expectancy. These are also likely to be years where the stability of homeownership is likely to be most beneficial (i.e. when starting a family).

¹⁵ See APRA's APG 223 on Residential Mortgage Lending

Helping Australians purchase a home to live in, including their first one, is a core business of credit unions, mutual banks and building societies. Around 80 per cent of our mortgage book is in the owner-occupied segment compared to around 60 per cent for the broader banking sector.¹⁶

Our focus on owner occupiers¹⁷



COBA recognises that governments at both state and federal levels have played a strong role in helping first home buyers. State Governments have a multitude of grant and stamp duty relief schemes. The Federal Government’s FHLDS is one of many several measures, including the First Home Super Saver Scheme which allows Australians to save a deposit in their superannuation account and various other housing affordability measures.

However, our sector recognises that it is not just the Government’s role to help get first home buyers into their homes. Industry has a part to play. Many COBA members have programs and products to help first home buyers to address the ‘deposit gap’. Most customer-owned banks offer a ‘family guarantee’ product¹⁸. These products allow a family member to partially or fully guarantee the first home buyer’s loan. This contributes to the 20% minimum deposit and can remove the need for lenders’ mortgage insurance for both credit risk and regulatory capital purposes.¹⁹

Our sector has also created other innovative products to address this deposit gap. These include parental shared equity agreements, grants and home saver schemes as outlined in the case studies below.

¹⁶ COBA figures based on APRA Monthly ADI Statistics for July 2019 for housing loans to investors and owner occupiers. Note mutual ADI is the same as customer-owned banking institution and comprises credit unions, building societies and mutual banks.

¹⁷ COBA figures based on APRA Monthly ADI Statistics for loans to investors and loans on owner occupiers.

¹⁸ Canstar, 2019, First Home Buyers Award Report, available [online](#).

¹⁹ The family guarantee decrease the loan to value ratio of the potential loan and therefore reduces the capital requirements and credit risk to the bank.

Case Study 1: Bank First - First Start Shared Equity Agreement (SEA)



Bank First introduced the award-winning²⁰ First Start Shared Equity Agreement (SEA) in November 2018.²¹ This was developed in response to customer feedback. The First Start SEA is a formal agreement that supports parents or other family members who contribute money towards a deposit to help a home buyer get into the property market.²²

While many parents are keen to help get their children into their own home, there is a risk of legal disputes and family breakdowns when informal family loans and contributions go wrong. First Start provides parents and children with peace of mind and protection. The agreement protects all parties by structuring the financial assistance into a formal agreement.

The First Start SEA provides the Home Buyer with an alternative to utilising funds provided by family as part of their property purchase to help them acquire a home loan. In exchange for their monetary support, it entitles the family to a repayment of the same share of the sale proceeds of the home as they contributed to the purchase costs. This turns what would originally be a gift or an informal loan into a formal equity interest. “We strived to create a deposit assistance alternative that had the interests of both the home buyer and contributor in mind, ensuring First Start not only meets their needs but provides clarity and peace of mind,” says Bank First CEO William Wolke.²³

Bank First is a Melbourne-based mutual bank that was originally established by Victorian educators in 1972. Founded by care and compassion, Bank First’s very first loan was to a single mother for a bond to acquire housing for herself and her two children. It has more than 108,000 members.

Case Study 2: Credit Union SA - \$5,000 First Home Buyers Grant



Credit Union SA recognised how hard it can be for first home buyers to get into the property market. It introduced a \$5,000 First Home Buyers Grant to eligible First Home Buyers in March 2016.²⁴ Credit Union SA will pay its 500th First Home Buyer’s Grant this month and has paid \$2.5 million in grants over the last 2 years.

This grant is available to First Home Buyers who borrow at least \$250,000 to purchase or build a first home with a loan to value ratio over 80%. It is available to both owner-occupiers and investors. The ability to use this grant for existing dwellings fills a gap in the current SA Government scheme.

Credit Union SA is an Adelaide-based credit union that was originally established by South Australian teachers 60 years ago. It has around 50,000 members.

²⁰ Canstar’s 2019 Innovation Excellence Awards reveals Australia’s finance disruptors - [link](#)

²¹ Bank First ‘First Start SEA’ receives Canstar Innovation Excellence Award – [link](#)

²² First Start Shared Equity Agreement (SEA) - [link](#)

²³ *ibid*

²⁴ First Home Buyers Grant: Get your foot in the door - [link](#)

Case Study 3: Nexus Mutual - Home Saver Account



Nexus Mutual's award-winning²⁵ Home Saver account supports potential home buyers to boost their deposits with extra interest, potential loan interest rate discounts and fee waivers.

Savers receive bonus interest of 2.10% per annum if they deposit a minimum of \$100 and make no withdrawals in a calendar month.²⁶ For every month that a saver meets these criteria they accrue a qualifying month. If the saver then takes out a home loan with Nexus Mutual then they will see a discount of 0.30% for the number of qualifying months. If a customer has five qualifying months, they would receive five months of 0.30% per annum discount on your home loan. Given the time required to save for a deposit, this creates significant savings for potential first home buyers.

"The Home Saver helps with the long-term planning of buying a home, even converting savings into extra benefits such as interest rate discounts and fee waivers, when our members are ready to take up a home loan," says Nexus Mutual CEO Ashley Hood.²⁷

Nexus Mutual is a Melbourne-headquartered credit union servicing the ExxonMobil community. It was formed by Esso employees in 1969 and now has 6,000 members across Australia and beyond. It provides a range of competitive and modern banking products and services that have been tailored to the needs of the ExxonMobil community.

In line with our sector's ongoing support for first home buyers, COBA supports the intention outlined in the NHFIC Amendment Bill's Explanatory Memorandum²⁸ noting that "smaller banks and non-bank lenders will be prioritised to encourage competition". This reflects the Prime Minister's announcement on 12 May 2019.²⁹ While this is framed as 'competition' measure, we believe that it also recognises the key role that smaller ADIs, particularly mutual ADIs, play in owner-occupied housing and supporting first home buyers.

The participation of smaller lenders in the FHLDS will offer genuine choice and value to eligible first home buyers. More lenders than just major banks must be able to offer this product. To be able make the business decision to participate in the FHLDS, lenders need some level of certainty about their minimum and prospective allocations of loans. There are set-up costs that must be incurred. COBA is pleased that these views have been acknowledged in the Explanatory Memorandum³⁰ which notes consultation feedback that "to make a decision on whether to seek to participate, lenders will require some degree of certainty over their respective allocation of loans". There are concerns that smaller lenders could work to offer the product but be crowded out by major banks and left with few, if any, loans. This uncertainty could reduce the number of lenders offering this product. COBA see this as one of the more important hurdles to overcome if the FHLDS is going to offer genuine choice beyond the major four banks.

²⁵ Canstar's 2019 Innovation Excellence Awards reveals Australia's finance disruptors - [link](#)

²⁶ Nexus Mutual Savings Accounts – Home Saver - [link](#)

²⁷ Home Saver wins Canstar's 2019 Innovation Excellence Award - [link](#)

²⁸ See para 2.13 of the Explanatory Memorandum

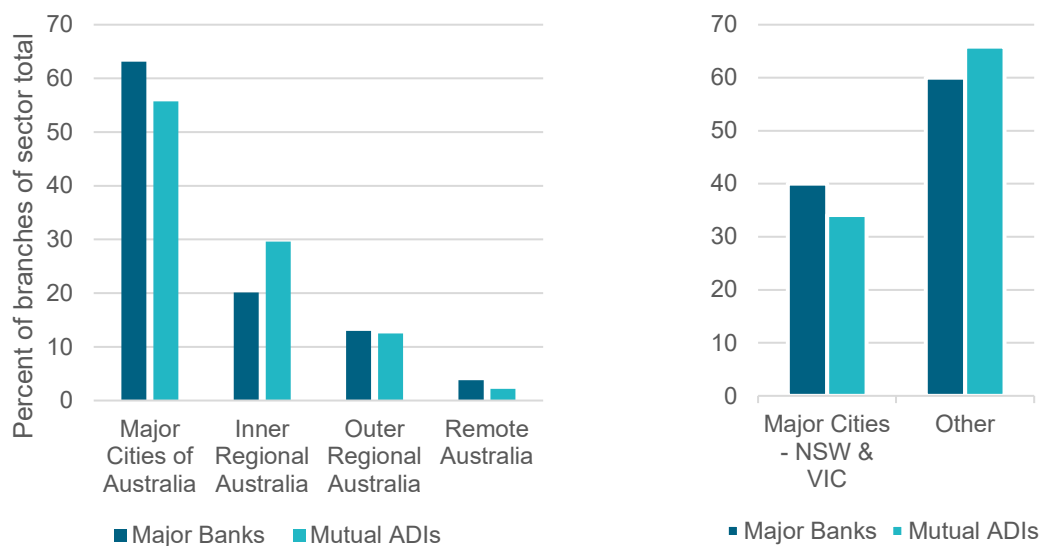
²⁹ Media Release, Liberal Party, Helping Australian Buy their First Home - [link](#)

³⁰ See para 2.47 of the Explanatory Memorandum

COBA also welcomes Minister Sukkar’s ‘important’ inclusion of those in ‘rural and regional’ Australia in the FHLDS.³¹ It is important to recognise that 60 per cent of Australia’s population lives outside the major metropolitan hubs of Sydney and Melbourne.³²

While many brands have national reach through a combination of mortgages brokers and branches, others utilise a single state or multi-state branch model. The geographical footprint of customer-owned banking institutions shows this diversity with a larger proportion of our branches outside these the Melbourne/Sydney population hubs, including through a larger proportion of our branches in ‘inner regional’ Australia³³. Inner regional Australia contains the important second tier of Australian cities. The diverse geographic reach of the customer-owned banking sector means it is well positioned to help the Government meet its target to “ensure that benefits of Scheme participation are spread across the country.”³⁴

The relative inner regional focus, and reach outside of Sydney & Melbourne of our branches³⁵



In addition, many customer owned banks also target specific key worker demographics such as police, teachers and health workers. This is a result of their historical legacies and strategic focuses regarding these demographics. These demographics are well noted to be struggling with the deposit gap in the major hubs of Sydney and Melbourne.³⁶

³¹ See Minister Sukkar’s second reading speech - [link](#)

³² According to the ABS 3101.0 March 2019, around 10 million Australians live in Greater Melbourne or Sydney compared to a total population of over 25 million.

³³ ABS 6261.0.55.001 - Characteristics of Wage and Salary Earners in Regions of Australia, 2000-01, available [online](#) notes that “Parts of Australia classified to Inner Regional include Tamworth and Wagga Wagga in New South Wales, Ballarat and Bendigo in Victoria, Rockhampton, Bundaberg and Gladstone in Queensland, the Adelaide Hills region in South Australia, Bunbury in Western Australia and Hobart and Launceston in Tasmania.”

³⁴ See para 2.13 of the Explanatory Memorandum

³⁵ COBA estimates based on APRA points of presence data for June 2018.

³⁶ Genworth 2019, The Deposit Gap Dilemma, The Impact on Key Workers, available [online](#).

Summary

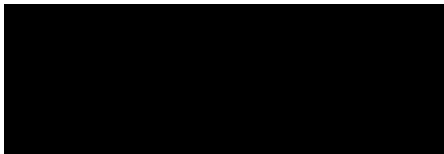
Our sector welcomes the introduction of the NHFIC Amendment Bill. The First Home Loan Deposit Scheme will help Australians buy their first home more quickly without needing LMI or a parental guarantee.

The customer-owned banking sector looks forward to working with the Government to ensure more Australians can buy a home through both the FHLDS and other measures. Our sector is well placed to assist owner occupiers, including first home buyers, across Australia including those in rural and regional Australia and those in key worker demographics.

COBA recommends this bill is passed as soon as possible to give industry and first home buyers certainty ahead of the 1 January start time. Furthermore, some certainty is required about the respective allocation of loans to assist prospective FHLDS lenders to make the decision to participate in the scheme.

Please feel free to contact [REDACTED] on [REDACTED] if you want to further discuss the proposals or views in this submission.

Yours sincerely



MICHAEL LAWRENCE
Chief Executive Officer