



Committee Secretary Standing Committee of Economics Via email:

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## **Submission to the Senate Inquiry on Australia's Financial Regulatory Framework and Home Ownership**

**Submitted by: Ello Lending Co**

### **Introduction**

At Ello Lending Co, we believe that homeownership is a fundamental right for all Australians. As a national mortgage brokerage dedicated to helping First Home Owners (FHO) enter the property market, we possess deep insights into the challenges and barriers facing aspiring homeowners. Drawing on our decades of collective experience, we have witnessed firsthand the erosion of the Great Australian Dream due to a combination of restrictive government policies, lender practices, and market conditions. This submission outlines the key challenges facing potential First Home Owners and proposes actionable solutions aimed at improving their access to homeownership.

### **Challenges**

The barriers to homeownership for First Home Owners are multifaceted and can be classified into three primary areas: lender practices, regulatory constraints, and government policies. Below is a detailed analysis of these issues.

#### **1. Lender Practices**

Lending practices play a critical role in determining the borrowing capacity of First Home Owners, and we have observed significant disparities between lenders in this regard.

- **Serviceability Variances:** Lenders differ considerably in their assessment of borrowing capacity, with some discrepancies exceeding \$100,000. These differences stem largely from how lenders apply buffer rates on existing debts such as personal loans, credit cards, and Buy Now Pay Later facilities. Such inconsistencies create confusion for borrowers and unnecessarily restrict their borrowing power.
- **HECS/Study Help Loans:** The treatment of education debts by lenders often disproportionately reduces borrowing capacity. For example, a borrower with a HECS debt of \$8,000 recently saw a \$120,000 reduction in borrowing capacity. In many cases, the full repayment of these debts is imminent, yet lenders still factor





them heavily into serviceability calculations, limiting the borrower's ability to purchase a home.

- **Self-Employed Borrowers:** Self-employed first-time buyers face even greater obstacles. The rigorous documentation requirements and scrutiny imposed by lenders often result in delays or rejection, further complicating access to home loans for this segment.
- **Casual Employment:** The casual workforce, a significant part of the Australian job market, faces uneven treatment in income assessments. While some lenders calculate income based on 52 weeks of wages, others account for as few as 40 weeks, which severely impacts borrowing capacity for casual employees.

## 2. Regulatory Constraints

Regulatory policies, specifically those imposed by the Australian Prudential Regulation Authority (APRA), disproportionately impact First Home Owners.

- **Buffer Rates:** APRA's requirement of a 3% buffer rate on top of the effective interest rate is particularly disadvantageous for First Home Owners. These young Australians, typically early in their careers with limited income growth, find their borrowing capacity substantially reduced. A more nuanced approach is necessary—one that differentiates between owner-occupier and investor loans, with reduced buffer rates for the former.

## 3. Government Policies

Government schemes aimed at assisting First Home Owners are well-intentioned but fall short in several key areas.

- **Income Limits:** Current programs such as the First Home Owner Grant and Home Guarantee Scheme have rigid income thresholds that exclude a large segment of aspiring homeowners. For example, a couple earning \$215,000 in the 2023–2024 financial year no longer qualifies for the Home Guarantee Scheme, despite having qualified in the previous year (2022–2023) with an income of \$190,000. These thresholds need to be adjusted to reflect rising incomes and house prices.
- **FHOG:** Adjusting the First Home Owner Grants to reflect market conditions given that it's not reflective of the rising inflation and average or median property prices (except in QLD).
- **Stamp Duty:** Stamp duty continues to be one of the most significant upfront costs associated with homeownership. Although many states offer concessions for First





Home Owners, these are often limited, leaving many potential buyers with unaffordable upfront costs.

- **Housing Supply:** The chronic shortage of affordable housing is exacerbated by a lack of long-term planning at both state and federal levels. The imbalance between demand and supply places additional pressure on housing prices, further marginalising First Home Owners.

## Proposed Solutions

As a leader in the mortgage industry, Ello Lending Co is committed to advocating for policy changes that will make homeownership more accessible to First Home Owners. We offer the following recommendations:

### 1. Lender Practices

- **Standardized Servicing Calculations:** Lenders should adopt standardized servicing models for First Home Owner loans that apply fair and consistent buffer rates to secured and unsecured debts. For example, HECS/Study Help loans should be factored in with consideration for the remaining balance and term of repayment rather than applying a blanket reduction to borrowing capacity.
- **Easing Self-Employed and Casual Worker Requirements:** The lending criteria for self-employed and casual workers should be adjusted to reflect modern employment realities. Reducing the documentation burden and implementing more flexible income assessments will allow a broader range of borrowers to qualify for home loans.

### 2. Regulatory Adjustments

- **Review APRA's Buffer Rates:** We recommend that APRA adopt a more tailored approach to buffer rates, reducing them for owner-occupiers while maintaining stricter rates for investors. This would increase borrowing capacity for First Home Owners without compromising financial prudence.

### 3. Government Reforms

- **Expand Income Thresholds for Grants and Schemes:** To account for rising incomes and house prices, we propose that the income thresholds for the First Home Owner Grant and Home Guarantee Scheme be raised. This will ensure that





more Australians can benefit from these programs. Additionally, FHOG amounts also needs to be reflective of the existing market conditions.

- **Broaden Stamp Duty Concessions:** Stamp duty exemptions or concessions should be extended to cover a greater proportion of First Home Owners, particularly in states where affordability is an acute issue.
- **Increase Housing Supply:** Federal and state governments must work together to increase the supply of affordable housing. This can be achieved through incentives for land development and construction, as well as streamlined planning approval processes.
- **Access to Super:** Allowing access to Super to put towards a property purchase for first time buyers can help increase home ownership. One of the biggest challenges for buyers is paying rent and saving for a house deposit. A policy that allows timely access to Super can help buyers get into the property market sooner.

## Conclusion

The challenges facing First Home Owners are numerous and complex, but they are not insurmountable. By enacting sensible reforms in lending practices, regulatory policies, and government schemes, Australia can restore the dream of homeownership for its younger generations. Ello Lending Co stands ready to assist in this effort and offers our expertise to policymakers seeking to improve access to homeownership for all Australians.

Regards,

**Ranin Mendis**

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