Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

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

Wednesday 25 September 2024

Dear Committee Secretary

Senate Economics Committee Inquiry into Financial regulatory framework and home ownership

OwnHome welcomes the opportunity to make a submission to the Senate Economics References Committee Inquiry into *"Financial regulatory framework and home ownership"*.

OwnHome is a new consumer lender, which offers borrowers a low deposit pathway to homeownership via a registered second mortgage, a **Deposit Boost Loan (DBL)**. We provide a loan for the deposit, up to the full 20%, and customers get a separate 80% LVR loan with another lender for the remainder of the purchase price.

OwnHome's mission is to expand access to homeownership, enabling families to bridge the deposit gap and access the lowest cost home finance. Since launching in 2023, we have received over 25,000 applications, and have helped hundreds of families purchase their first home. Investment arms CBA and NAB are investors in OwnHome.

As the fastest growing home lender for first time buyers, we have a unique insight into the challenge of home ownership access and the modern-day requirements for families purchasing in Australia. We would welcome any opportunity to leverage our industry positioning and experience to assist the Committee more closely.

Yours sincerely,

James Bowe
Co-Founder and Co-CEO

<u>OwnHome Submission</u>

1. Executive Summary

Housing access and affordability presents a significant and growing challenge in Australia. Nationally, dwelling values have increased 382% 1992 - 2022, or in annual compounding terms, rising by 5.4% on average[1]. In the same period, wages have not kept pace. As a consequence, it is far more expensive to purchase your first home, and saving for these upfront costs takes more time.

Access to intergenerational wealth transfers, or more proverbially 'The Bank of Mum and Dad', is increasingly becoming the deciding factor in an individual's access to homeownership in Australia.

OwnHome's Deposit Boost Loan bridges the gap for first home buyers, enables greater flexibility and choice for consumers and pairs with existing lender products to increase industry participation in the housing challenge.

The key elements of our submission are:

- What a Deposit Boost Loan is and the role it plays in improving access to homeownership;

- How a Deposit Boost Loan increases competition for consumers while improving systemic financial stability versus existing low-deposit solutions such as Lenders Mortgage Insurance;

- The challenges that individuals face when attempting to access a service such a Deposit Boost Loan as a result of entrenched lender preferences for inherited wealth, along with the burden being imposed on the shadow finance solution of the Bank of Mum & Dad

This submission also considers specific questions posed in the Inquiry's Terms of Reference (ToR), drawing the following conclusions:

- Deposit Boost Loans enable greater access to homeownership without compromising financial stability, enabling banks to offer lower-LVR, lower-risk loans to first home buyers (ToR - 7);
- Deposit Boost Loans protect consumers from "mortgage prisoner" scenarios by allowing simpler refinancing of high LVR loans (ToR - 7);
- OwnHome's Deposit Boost Loan has proven that alternative capital can fund the highest LVR portion of home loans, reducing reliance on banks or taxpayers for higher income families (ToR 7);
- Australian Prudential Regulation Authority appropriately imposes risk-weighted capital obligations on banks based on the value and priority of banks' security with reference

[1] https://www.corelogic.com.au/__data/assets/pdf_file/0015/12237/220829_CoreLogic_Pulse_30years_Finalv2.pdf

to underlying collateral, protecting depositors. Deposit Boost Loans provide a capital buffer, ensuring Australian deposit-taking institutions maintain an 80% exposure to the property at origination (ToR - 1);

- Debt and equity arrangements such as guarantor home loans, lender's mortgage insurance or unregulated family loans for home deposits do not offer consumers sufficient protection and are susceptible to failure during systemic crises (ToR - 8).
- The federal government can improve access and protections for consumers by providing clear guidance on the anti-competitive nature of denying applicants with a Deposit Boost Loan approval.

Thank you for the opportunity to contribute to this important inquiry. We look forward to continued dialogue and working together to create a more equitable path to homeownership for all Australians.

2. Introduction to OwnHome and our mission

OwnHome's mission to make homeownership more accessible.

We are a new consumer lender, which offers borrowers a low deposit pathway to homeownership.

We provide a loan for the deposit, a 'Deposit Boost Loan', up to the full 20%. Customers get a separate 80% LVR loan with OwnHome or another lender for the remainder of the purchase price.

As an example, customers purchasing an apartment for $1,000,000 can borrow $200,000 from OwnHome, $800,000 from OwnHome or another lender and repay both loans over time.

Along with a deposit loan, OwnHome offers a free home buying service which helps clients find and negotiate for their dream property. This service helps them navigate the complex home buying journey, avoid homes with defects, and gives them the best opportunity to grow equity in their home and refinance us out fast.

OwnHome's primary product, the Deposit Boost Loan was publicly launched in September 2024. Over 50,000 Australians have applied online to OwnHome, representing enquiry loan amounts of $5 billion. We have helped hundreds of families finance, find and purchase their homes since launch, building deep and direct customer relationships along the way. OwnHome has received financial investment from Square Peg, X15 (the venture arm of CBA), NAB Ventures (the venture arm of NAB) and other investors in Australia.

OwnHome's Deposit Boost Loan addresses the housing access challenge directly, by reducing the upfront costs required to purchase. In developing a novel and competitively priced consumer service, OwnHome is also helping clients better afford their home loan too.

3. The deposit barrier in homeownership

In Australia, there are two distinct, critical challenges in relation to homeownership: accessibility and affordability. Accessibility pertains to those individuals or families who are more than capable of servicing a mortgage, but are unable to access one.

A significant and growing challenge faced by Australians in accessing homeownership is saving for the upfront costs associated with purchasing a property: deposit, stamp duty, transfer and mortgage registration fees, conveyancing fees, building and pest inspection reports or strata reports and lender's mortgage insurance.

To illustrate this example, here are estimated upfront costs associated with homeownership in NSW for a $1,000,000 home.[2]

[2] The Low Deposit Premium goes up to 2.2%, but may be lower depending on your deposit contribution. The above does not include rate information. LMI rates are a rough guide based on Home Loan Experts' rate table. Actual LMI rates will vary by provider. While conveyancing and building & pest/strata reports are not mandatory, they are standard parts of the home

Calculate your upfront costs

Purchase Price: $ 1,000,000

State or Territory: NSW

About You: I am a first home buyer

Calculate now

	0% deposit home loan	STANDARD HOME LOANS		
	0% deposit home loan You'll need upfront **$64,372**	20% deposit home loan You'll need upfront **$243,972**	10% deposit home loan You'll need upfront **$169,132**	5% deposit home loan You'll need upfront **$140,002**
Deposit required	$0	$200,000	$100,000	$50,000
Initial fee	Low Deposit Premium, up to $22,000	LMI $0	LMI $25,160	LMI $46,030
Stamp duty	$39,529	$39,529	$39,529	$39,529
Transfer & mortgage registration fees	$343	$343	$343	$343
Conveyancer or solicitor	$2,500	$2,500	$2,500	$2,500
Building & pest or strata report	Included Four reports cost $0	Not included Four reports cost $1,600	Not included Four reports cost $1,600	Not included Four reports cost $1,600
Buyer's agent service	Included	Not included	Not included	Not included

3.1 First homeowners are deposit-constrained

The deposit and upfront costs required to purchase a home is a primary obstacle for prospective buyers, affecting all income segments.

As per the RBA in 2022, almost 50% of first home buyers have an LVR of at least 85%[3]. More recent 2024 research from CoreData and Helia suggest 76% of first home buyers are now trying to buy without a 20% deposit.[4]

Research on savings totals held by Australians is varied, with a recent report finding that the average Australian has $37,915 saved away in 2024[5].

It also found that households earning more than $100,000 per year ($67,932) have more than twice as much money saved as households earning less than $50,000 ($30,848). And as the

purchase process. The assumption is that multiple reports may be required. Total upfront cost includes assumed costs for conveyancing and building & pest/strata reports.

[3] Alfonzetti, Maia, *Are First Home Buyer Loans More Risky* (RBA Bulletin, March 2022).

[4] Helia, *Home Ownership Pulse Survey* (Report, July 2023).

[5] Finder, https://www.finder.com.au/savings-accounts/savings-account-statistics (report, 2024)

generation that is at the peak of their careers, gen X have the most in savings ($57,794), while gen Z have the least ($28,372).

Governments at all levels have recognised the upfront costs challenge as significant of intervention, and are providing relief through programs. At the Federal level, the Family Home Guarantee (2% deposit) and First Home Buyer Guarantee (5% deposit) are reducing the costs associated with Lender's Mortgage Insurance.

Additionally, State governments have been increasing the stamp duty relief available for first home buyers. As an example, in July 2024, the NSW Government increased the threshold for stamp duty exemptions from $650,000 to $800,000 and increased the threshold for stamp duty concessions from $800,000 to $1 million.

The government's balance sheet is logically focused on supporting lower and lower-middle income families in bridging the deposit hurdle via NHFIC's FHG and FHBG program. The income threshold for the FHOGS is $125,000 for an individual and $200,000 for a couple, which may be considered a logical limit for government-subsidised support.

3.2 Bank of Mum and Dad become the fifth biggest lender in Australia

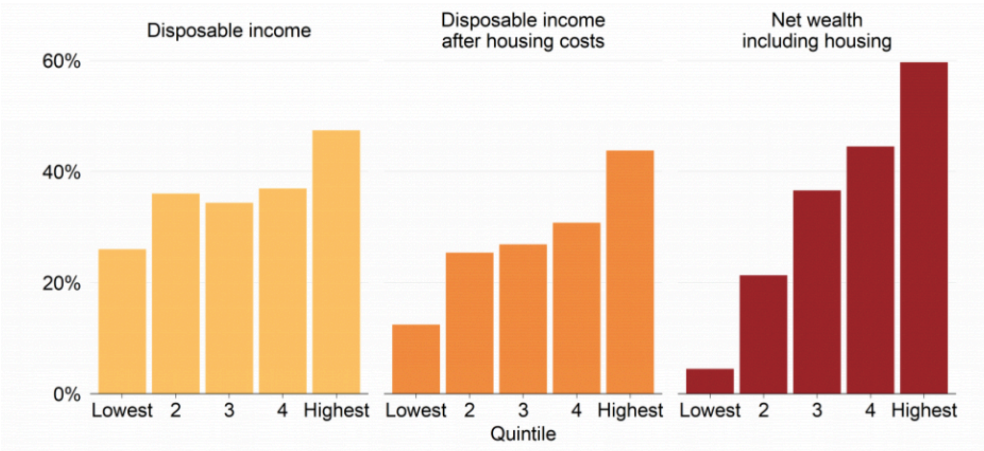
Research estimates that familial support is provided to 41% of new homeowners, lending an average of $73,522 to help children access homeownership.[6]

As a result, **familial support, whether through gifted funds, guarantor, or other means, has become the defining factor in whether Australians are able to achieve the goal of homeownership**.

3.3 Non-homeowners lose out on economic opportunities that contribute to a widening income and wealth inequality gap

- Since 2003-04, wealth of high-income households has grown by more than 50%, much of that due to increasing property values. Whereas the wealth of low-income households – mostly non-homeowners – has grown less than 10%.[7]
- In more than half of the previous 30 quarters until June '19, the median Sydney home earnt more than the median full-time worker. In other words, a relatively low risk, low-effort investment provided greater returns than a year of hard work.[8]

[6] https://mozo.com.au/home-loans/articles/bank-of-mum-and-and-dad-report-2020 (2020)
[7] Grattan Institute (2023)
[8] Ryan-Collins & Murray (2021), When homes earn more than jobs: the rentierization of the Australian housing market

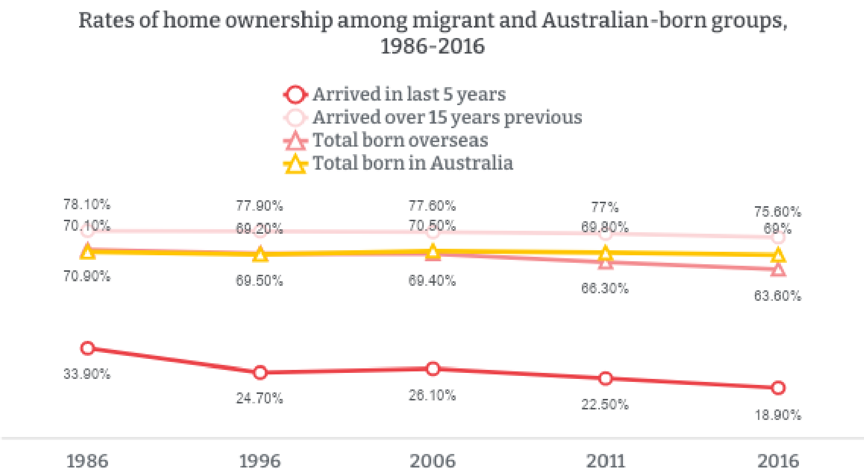


Note: Growth in income including housing costs is calculated by subtracting growth in housing costs from growth in disposable income.
Source: ABS Survey of Income and Housing microdata

3.4 Migrants to Australia are disproportionately affected by housing access challenges

It is important to note how housing policy affects Australia's migrant community, given nearly 30% of Australian residents are born overseas[9].

- Home ownership rate amongst migrants with less than five years' standing in Australia dropped by 15% between 1986 and 2016 to 18.9%, while the Australian-born group remained stable.[10]
- 54% of migrants with permanent resident visas aged 15 and over own their home, compared to 67% of Australians overall.[11]
- Accessing homeownership in Australia for migrants is becoming increasingly difficult, which has long-term impacts on Australia's economic prosperity given our reliance on migration for economic growth.



[9] https://www.aihw.gov.au/reports/australias-health/profile-of-australias-population (2024)
[10] https://www.ahuri.edu.au/sites/default/files/migration/documents/AHURI-Final-Report-328-Australian-home-ownership-past-reflections-future-directions.pdf (2020)
[11] https://www.abs.gov.au/statistics/people/people-and-communities/understanding-migrant-outcomes-insights-australian-census-and-migrants-integrated-dataset-australia/latest-release (2016)

4. Deposit Boost Loan: A Solution for First-Time Buyers

4.1 About Deposit Boost Loans

OwnHome's solution is a straightforward paired home loan for your deposit, known as a Deposit Boost Loan.

A Deposit Boost Loan is a second home loan, registered behind a first mortgage and regulated under the National Credit Code and its associated regulations and hardship protections. Deposit Boost Loans directly solve the challenge of aspiring homeowners with deposit constraints.

4.2 How it works

Under a Deposit Boost Loan customers have two separate loans. A Deposit Boost Loan funds the portion of funds above 80% LVR, delivering up to 100% home financing. Customers then have a separate first mortgage at up to 80% LVR.

Customers pay a Low Deposit Premium at loan origination. The Low Deposit Premium is typically significantly cheaper than Lenders Mortgage Insurance, that would otherwise be payable on a single high-LVR loan.

The Ownhome Deposit Boost Loan is a principal and interest loan amortised over a 15 year term, chosen for its consumer benefits, expounded on below.

4.3 Benefits for the consumer

- **More equity sooner:** As a result of the shorter loan term and split structure of a Deposit Boost Loan, customers build equity more quickly in their home, versus if they had a single high-LVR 25 or 30 year mortgage. Borrowers are able to make additional repayments at no additional charge.
- **Lower rates:** Due to paying down their Deposit Boost Loan more quickly versus their 80% LVR first mortgage, homeowners automatically bring their effective interest rate down over time as the mix between the lower rate first mortgage and the Deposit Boost Loan shifts with each payment.
- **Lower upfront costs:** Traditional low-deposit loans attract Lender's Mortgage Insurance, which can be cost-prohibitive, particularly at higher LVRs. LMI exists to insure banks rather than for the benefit of homeowners. A Deposit Boost Loan does not require LMI as an ADI's exposure to the loan is capped at 80%.
- **Access to home buying support:** As a particular feature of the OwnHome Deposit Boost Loan, customers benefit from tailored homebuying support, including due diligence, valuations, negotiations and auction bidding, all provided by licensed Buyer's Agents. This is a key differentiator from LMI, which has no tangible value-add for customers. Moreover, given that so many deposit-constrained consumers are first homebuyers with limited housing market experience, customer feedback specifically credits the home buying team in unlocking homeownership in practice.

In summary, Deposit Boost Loans are net beneficial for aspiring homebuyers, often costing less interest over the life of the loan while helping customers build financial security more quickly. In addition, in alignment with the mission of helping Australians into homeownership, embedded homebuying support is provided.

For Banks, the benefit of a Deposit Boost Loan is similarly straightforward. The loan sits subordinate to the first mortgage provider's claim. A Deposit Boost loan serves as a capital buffer for the first mortgage provider - the same as any deposit contribution from customer savings, gifted funds or family loan. As a result, where Banks would otherwise have to charge low-deposit clients a higher interest rate due to the reduced capital buffer and logically higher risk-weighted capital obligations, banks are instead able to charge the lower rates of their 80% LVR loans.

4.4 OwnHome customers

While many believe that the housing challenge affects low and middle-income families only, OwnHome's client base illustrates that there are significant and structural challenges affecting middle and higher income families. Based on settled home purchases, the average OwnHome client is:

- A first home buyer
- 39 years old
- Partnered in a long-term committed relationship
- Parenting
- Earning a household income above $250,000
- With savings above $70,000
- Citizens of Australia, with experience of immigration.

These are clients who have often been saving for years, are established in their careers with settled family lives, but who crucially, don't have access to the bank of mum and dad.

5. Low deposit pathways and responsible lending

Access to low-deposit home finance is one of the most important factors in whether or not families are able to achieve their dreams of homeownership.

Responsible lending guidelines are helpfully clear in Australia, governed by the National Credit Code. Providers of consumer credit are required to assess the ability of borrowers to meet their debt obligations, and expenses along with appropriate buffers.

5.1 Existing low-deposit solutions

There exists a suite of low-deposit solutions that meet the responsible lending guidelines:

- **Federal Government backed Guarantee loans** (Family Home Guarantee; First Home Buyer Guarantee; Regional Home Guarantee) enabling first home buyers to borrow up to 98% of the value of the property without LMI;

- **LMI-backed home loans** which allow individuals to borrow up to 98% of the value of the property, so long as customers pay a costly insurance premium on behalf of banks;

- **Guarantor loans** which allow individuals to borrow up to 110% of the value of the property being purchased, without the need for Lenders Mortgage Insurance;

- **Family & friend loans**: where banks allow borrowers to take out a loan from friends or family for the portion of funds above 80% up to 100% of the property value;

These existing solutions involve borrowers contributing as little as 0% of their savings toward their home deposit. **Under all these solutions, borrowers are assessed on their ability to meet their credit obligations into the future.**

5.2 Guarantor Loans and responsible lending

A guarantor home loan in Australia allows potential homebuyers to purchase a property without the need for a large deposit by having a family member—usually a parent—act as a guarantor. The guarantor provides additional security to the lender, using the equity in their own property as collateral for the loan.

Where banks lend 110% of the value of a property, they will typically take a second mortgage on a parent's property to obtain additional security. Banks do this to bring the risk-weighted capital obligations down to those of an 80% LVR home loan. The benefit for the borrower is they are able to access the lowest rates of the 80% LVR home loan, even where they are borrowing up to 110% of the property value.

Lending up to and above the value of an entire home is standard practice for most banks via their family guarantor home loans. This is much relied upon by first home buyers with access to the bank of mum and dad. Lenders meet their responsible lending obligations by assessing the borrowers ability to meet the repayments associated with the home loan.

However, guarantor loans are complicated. Guarantor loans came under scrutiny in the most recent Royal Commission in banking practices, finding that guarantors were not always aware of the implications and obligations being a guarantor imposes. For guarantors, they are unable to sell their own property until their guarantor obligations are discharged. If a borrower defaults, the guarantor is liable for the shortfall, including the potential of losing their own home.

5.3 Family loans and responsible lending

Loans from friends and family are commonly used to cover the shortfall of funds required for a home purchase. However, as they fall outside the National Credit Code, these loans are unregulated.

The implications for friends and family who provide funds can be severe, including the loss of their life savings and the breakdown of friendships and family relationships. The implications for aspiring homeowners can be fraught and the protections non-existent.

One increasingly common drawback of loans from family to purchase a property, is for partners whose family did not contribute. Due to these loans being unregulated, the terms may be punitive, for example, excluding the spouse from the proceeds of sale in the event of a family breakdown.

While loans from friends and family are not regulated, the basis on which banks assess these under responsible lending obligations are helpfully straightforward. The loan obligations are factored into serviceability assessments just like any other liability.

5.4 Deposit Boost Loans and responsible lending

Deposit Boost Loans are a much needed solution for first home buyers.

Deposit Boost Loans fit existing legislation on responsible lending, are governed by the National Credit Code as a straightforward home loan and as a result are well understood by consumers.

In addition, Deposit Boost Loans have some distinct benefits versus these non-government solutions from a responsible lending lens.

- Deposit Boost Loan borrowers are assessed on their ability to meet their credit obligations under the Deposit Boost Loan, along with all other expense and credit obligations, including the expected first mortgage along with interest rate buffers.

- Deposit Boost Loans are a liability like any other, and are factored into the serviceability assessment of credit providers to aspiring homeowners, including the first mortgage provider.

- Deposit Boost Loan customers only ever apply for their first mortgage after being fully assessed and pre-approved for a Deposit Boost Loan, detailing the loan amount, rate, monthly repayments and term.

- The only borrower under the Deposit Boost Loan is the aspiring homeowner, unlike guarantor loans. The provision of credit is via a regulated lender, unlike friends and family loans.

- The shorter term of the Deposit Boost Loan (15 years) means that the absolute credit borrowers are able to access is lower versus if they were only obtaining a single 25 or 30 year high-LVR mortgage. The outcome is that Debt-to-income ratios of Deposit Boost Loan borrowers is <3.5; while APRA tends to view DTIs of >6 as risky.

Low Deposit home finance is the pathway the majority of successful first home buyers rely on to achieve their dreams.

Deposit Boost Loans fit into the responsible lending framework in a straightforward manner, both for OwnHome as a lender, and for the first mortgage providers whose loans rank senior to Deposit Boost Loans.

6. The benefit of Deposit Boost Loans for the financial system

6.1 Risk-weighted capital and ADIs

APRA appropriately imposes risk-weighted capital obligations on banks based on the LVR of the loans they provide. APRA is managing systemic risk with the greatest regard for ADI obligations to their depositors who have trusted Banks with their savings. The larger the exposure by banks on any given property, the greater the risk to the bank in situations of property price declines, which could see banks' credit losses and ultimately a lack of confidence in the solvency of banks. This is what led to the bank collapses in the US during the Global Financial Crisis.

Australia is widely regarded as having one of the most stable banking systems. A large driver of this is the risk weighted capital obligations Australian banks are obligated to hold based on different categories of loans, from corporate loans to credit cards through to home loans. APRA imposes varying risk weight capital obligations for home loans by LVR. That is, as the bank's exposure relative to the underlying value of the security increases, the amount of capital the bank is obligated to hold against that loan also increases. The global standards under the Basel framework also make this distinction that higher LVR loans attract a higher risk weight capital obligation for banks with those loans.

This is in recognition of the fact that housing markets, just like any asset class, can be volatile. Specifically, under Australian Prudential Standards 112, banks are obligated to the following risk weight capital by LVR for owner-occupied loans.

Table 1 Risk weights for standard loans

		Risk weight (%)						
LVR (%)		≤ 50	50.01 - 60	60.01 - 70	70.01 - 80	80.01 - 90	90.01 - 100	> 100
Owner-occupied principal-and-interest	LMI	20	25	30	35	40	55	70
	No LMI					50	70	85
Other standard residential property	LMI	25	30	40	45	50	70	85
	No LMI					65	85	105

As per the table from APS 112, an Australian bank is obligated to hold twice the risk-weighted capital for a loan with an LVR of 100% versus a LVR of 80%. This is a natural consequence of the fact that in the event of a property market downturn of 10% in home prices, a bank would face zero credit loss risk with an 80% LVR loan, but would face the risk of losing 10% of depositors funds on a 100% LVR loan.

An exception is where APRA allows banks to hold the risk weight of 35% for residential property exposures guaranteed by the federal government under the Federal Guarantee schemes. This enables lower-income families to access interest rates equivalent to if they were borrowing 80% of the value of the property, rather than the 98% possible under the Family Home Guarantee. This also allows lower-income families to avoid the need to pay costly LMI for the benefit of Banks.

6.2 The role of non-banks in funding above 80% LVR

The Federal Government balance sheet cannot be expected to be lent out on behalf of all aspiring homeowners.

There is an important role for alternative capital providers, specifically *non-bank* lenders such as OwnHome, to provide the capital to aspiring homeowners above 80% LVR, where they do not have access to government support.

For OwnHome, this means picking up the baton from where the government support ends - and overwhelmingly supporting middle-income households who earn too much to access government subsidies, but are similarly challenged in saving a sufficient deposit to avoid LMI.

In light of the fact that it takes the median worker 15 years to save for a median priced home in Sydney if they saved a heroic 15% of their gross income every single week, it is clear that the deposit challenge cuts right across the income spectrum in Australia.

6.3 The benefits of Deposit Boost Loan on the financial system

OwnHome enables banks to provide aspiring homeowners who lack a full 20% deposit with the interest rates available to those obtaining the benefit of the Federal Guarantee Schemes. This is because when clients obtain a Deposit Boost Loan, they are only ever borrowing 80% of the value of the property (LVR) from a bank, and accordingly banks only hold the risk-weighted capital for the 80% LVR home loan they have provided.

A Deposit Boost Loan splits out and reallocates risk from a bank taking a single high-LVR exposure, to instead be borne by the provider of the Deposit Boost Loan.

In the event of a housing market downturn, banks who have high-LVR exposures are at risk of experiencing credit losses, which can lead to the types of systemic risk witnessed during the GFC. While the US saw the largest bank collapses, Australia was not immune. It was during this period that significant consolidation occurred with CBA's incorporation of BankWest and Westpac's acquisition of St George, reducing competition.

A Deposit Boost Loan provides banks the capital buffer above 80% LVR, identical to the role of a customer-contributed deposit. In the event of a default by a customer on their home loan where a customer has funded a 20% deposit, it is this deposit capital that absorbs any loss that results from that borrower default. Where a Deposit Boost Loan is funded at settlement, it is the Deposit Boost Loan that absorbs the loss rather than the bank with its first ranking mortgage.

As a result, Deposit Boost Loans improve the overall financial stability of the broader lending ecosystem. They do this by:

- **Improve access to homeownership**. Deposit Boost Loans are extended to creditworthy borrowers who may otherwise be excluded due to the significant deposit requirements, especially first homebuyers.

- **Lower the ongoing cost of homeownership.** Deposit Boost Loans ensure Banks' LVR for their first mortgage is 80% LVR, and as a result are able to offer the interest available to borrowers on a 80% LVR loan - and equivalent to the rates that First Home Buyer Guarantee or Family Home Guarantee recipients are able to access.

- **Improve Bank's balance sheets.** Deposit Boost Loans improve bank balance sheets, by reducing the proportion of their assets (loans) which have high-LVR exposure.

- **Bolster financial and economic stability.** Deposit Boost Loans take the riskiest portion of the home loan off bank balance sheets, protecting deposit holders with banks. In the event of credit losses during economic downturns the losses are borne by OwnHome whose funds are not provided by depositors, but rather, institutional investors.

- **Increase competition between lenders.** Competition between lenders provides choice for borrowers and assists affordability. Deposit Boost Loans are interoperable across first mortgage providers, ensuring borrowers are capable of accessing the lowest cost of finance rather than the mortgage prisoner dynamic which can eventuate under single LMI-supported loans.

7. **Embedded discrimination within some bank policies in favour of intergenerational wealth.**

There are banks whose credit policy expressly allows individuals to borrow funds from wealthy family or friends, so long as the liability is included in serviceability assessment; this is a logical allowance. However, some of those same banks expressly prohibit a client borrowing from a third party, even where that loan is provided under the National Credit Code (NCC) with all the responsible lending and hardship protections that come with this regulated provision of credit.

As a result, **this structurally incentivises individuals to borrow from friends or family in shadow finance arrangements outside the remit of the NCC**, while prohibiting those without access to these shadow finance solutions from borrowing from regulated third parties to contribute toward their home purchase.

This decreases access to housing, and increases instability.

7.1 An example policy summary demonstrating embedded discrimination.

As an example, one major bank today allows borrowers the following funding solutions for the portion of funds above 80% LVR:

- **Guarantor loan:** allows an individual to borrow up to 110% of the property value, where a guarantor provides their own equity as security for the loan.
  - This logically receives risk-weighted capital advantages for the Bank. After all, the total exposure of the bank with reference to the total underlying collateral is 80% LVR or less across both properties combined.
  - However, this guarantor loan would seem to conflict with the Banking Code of Practice (cl. 54) which sets out that where a guarantor does not receive a substantial benefit from the loan further steps will be taken to ensure they are not disadvantaged. It is not clear the benefit guarantors receive from putting their own security of homeownership at risk on behalf of another borrower.

- **Loan from wealthy friends or family**: allows an individual to borrow 80% of the property value from the bank, and the remainder from wealthy friends or family. The terms of the loan are factored into serviceability assessment by the bank.

- **Gifted funds:** allow an individual to borrow 80% of the property, and receive the incremental funds as a gift.

These solutions are only available to individuals or families with access to intergenerational wealth in the form of home equity or cash.

At the same time, this bank's credit policy expressly disallows non-family funded help such as Deposit Boost Loans, even where an individual or household has a higher credit score, more savings, and even greater serviceability on the same total loan amount, but lacking access to intergenerational wealth.

7.2 Access to intergenerational wealth does not make you a better borrower.

Intergenerational wealth does not speak to the creditworthiness of the individual borrower, yet this bank's policy seems to treat it as such. As such, though it is likely unintentional, in effect, this bank's credit policy structurally entrenches intergenerational wealth inequality by treating family-provided support differently from non-family or friend support such as a Deposit Boost Loan.

Banks who discriminate in their credit policies based on access to intergenerational wealth are fortunately, a rarity. Nonetheless, the presence of these discriminatory policies at some banks highlights the entrenched preferential treatment of those with intergenerational wealth and an account with the 'Bank of Mum and Dad'.

8. The federal government can improve priority treatment for aspiring homeowners without compromising financial stability

Our recommendations consider our extensive experience with first home buyers, paired loan providers and the financial system. They are as follows:

8.1 Require banks to be consistent in their treatment of borrowed funds from friends and family versus regulated third parties, such as OwnHome's Deposit Boost Loan.

- Some Banks continue to deny customers access to 80% LVR home loans where those clients have obtained the funds above 80% LVR from a regulated provider of consumer credit such as OwnHome. This entrenches wealth inequality; drives consumers to unregulated solutions such as gifts or loans from family and friends; drives a continued reliance on parents or grandparents putting their own homes as security for other people's loans. These same banks typically direct customers to LMI or self-insured single-loan solutions that are considerably higher cost for consumers.

- Some banks permit personal loans but not secured second mortgages, such as those provided by OwnHome. This is anticompetitive, denying consumers choice. Further, such practices would seem to be prohibited by state law such as Queensland's Property Law Act which prohibits a first mortgage from preventing the registration of a second mortgage. Further, there is no basis on which personal loans are a better form of consumer credit under the National Credit Code.

8.2 Continue to support financial stability by enabling non-banks to fund the riskiest portion of funds above 80% LVR, while enabling families to access the lowest cost path to homeownership via bank home loans.

- APRA should continue to distinguish the amount of risk weight capital banks are obliged to hold based on the banks loan relative to the underlying value of the security for home loans

- Banks should receive, as they do today, the full risk weighted capital benefit where the funds above 80% LVR are provided by a non-bank lender such as OwnHome.

  8.3 Support consumer choice and reduce reliance on shadow finance of intergenerational wealth-based solutions such as guarantor loans; family & friends loans; gifted funds

- **By supporting alternative capital solutions** such as those offered by OwnHome's Deposit Boost Loan, the government can reduce reliance on the proverbial Bank of Mum and Dad, strengthening equity in access to home finance and protecting homeownership from becoming hereditary in Australia.

9. **Conclusion: a path forward for aspiring homeowners.**

We appreciate the Senate's time and consideration in reviewing this submission. At OwnHome, we are dedicated to addressing the deposit barrier that prevents many Australians from achieving homeownership. By offering innovative solutions such as the Deposit Boost Loan, we aim to make homeownership more accessible to all, not just those with generational wealth.

Thank you for the opportunity to contribute to this important inquiry. We look forward to continued dialogue and working together to create a more equitable path to homeownership for all Australians.