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Canberra ACT 2600

AHURI submission regarding the *National Housing Finance and Investment Corporation Amendment Bill 2019*

On behalf of the Australian Housing and Urban Research Institute (AHURI) I am pleased to make a submission to the Committee relating to the *National Housing Finance and Investment Corporation Amendment Bill 2019* ('the bill').

This submission provides a short summary of AHURI research addressing the bill's proposal for the National Housing Finance and Investment Corporation (NHFIC) to provide guarantees to first home purchasers through the First Home Loan Deposit Scheme. AHURI also support the proposal in the bill that the NHFIC be empowered to take on a new research function to examine housing demand, supply and affordability.

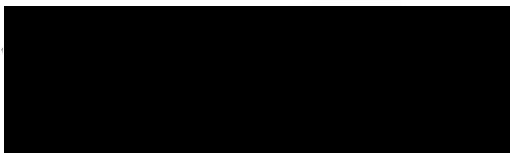
We note that Minister Sukkar, in his second reading speech for the Bill, indicated that the NHFIC 'will establish close relationships with other research organisations to ensure its research efforts on housing affordability are focused where they are most needed and that they complement existing housing related research'. As an organisation with 20 years' experience in housing, homelessness and urban research, and an established track record in serving policy and practitioner audiences, AHURI is well placed to support this endeavour.

In this submission, we reference AHURI research relevant to the bill. AHURI research is available free from www.ahuri.edu.au.

If there is any way we can be of further assistance, please contact me directly on



Yours sincerely,



Dr Michael Fotheringham
Executive Director



Submission for the National Housing Finance and Investment Corporation Amendment Bill 2019

Australian Housing and Urban Research Institute

2019

About AHURI

As the only organisation in Australia dedicated exclusively to housing, homelessness, cities and related urban research, AHURI is a unique venture. Through our national network of university research partners, we undertake research leading to the advancement of knowledge on key policy and practice issues.

AHURI research informs the decision-making of all levels of government, non-government sectors (both private and not-for-profit), peak organisations and the community, and stimulates debate in the media and the broader Australian community.

Our mission is to inform and impact better housing, homelessness, cities and related urban outcomes through the delivery and dissemination of relevant and authoritative research. To achieve this mission we deliver four key programs.

National Housing Research Program

AHURI's National Housing Research Program (NHRP) invests around \$4 million each year in high quality policy-oriented housing research and associated activities. We broker engagement between policy makers, key stakeholders and researchers. This allows us to undertake research that is immediately relevant and actively contributes to national housing policy development.

Our network of university research partners conducts research on key policy issues utilising a variety of research activities. This ensures the flexibility to undertake longer-term projects when fundamental research is needed, while also responding quickly to new strategic policy issues as they arise.

Australian Cities Research Program

AHURI is actively broadening its scope to consider the role, functioning and policy questions facing Australian cities. We are enhancing our significant evidence base on housing and homelessness policy and solutions, and consolidating our role in delivering integrated and robust evidence to guide policy development. We are investing in and developing partnerships for an Australian Cities Research Program. AHURI is working with governments and relevant stakeholders to expand our role in delivering research that informs urban policy and the shaping of cities in Australia.

Professional Services

AHURI Professional Services draws on our in-depth understanding of housing, homelessness, cities and urban policy and the expertise of AHURI's national network of Research Centres. We deliver evidence reviews and synthesis, policy engagement and transfer, and are experts in research management and brokerage.

Conferences, events and engagement

Our conferences, events and communications stimulate professional and public dialogue. We disseminate research in innovative ways and engage with government, private, not-for-profit sectors and the community.

National Network of AHURI Research Centres

There are currently eight AHURI Research Centres across Australia:

- AHURI Research Centre—Curtin University
- AHURI Research Centre—RMIT University
- AHURI Research Centre—Swinburne University of Technology
- AHURI Research Centre—The University of Adelaide
- AHURI Research Centre—The University of South Australia
- AHURI Research Centre—The University of New South Wales
- AHURI Research Centre—The University of Sydney
- AHURI Research Centre—University of Tasmania.

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Submission for the National Housing Finance and Investment Corporation Amendment Bill 2019

The National Housing Finance and Investment Corporation Amendment Bill 2019 ('the bill') introduces two broad amendments to the National Housing Finance and Investment Corporation Act 2018. The first is the implementation of the First Home Load Deposit Scheme, which is designed to assist first home buyers enter home ownership earlier. The second is a research function to examine housing demand, supply and affordability in Australia.

This submission responds to both amendments, which expand the functions of the National Housing Finance and Investment Corporation (NHFIC).

Provision of Guarantees to improve access to home ownership

The First Home Load Deposit Scheme is designed to provide up to 10,000 loan guarantees per year to eligible first home buyers. There are a number of relevant research findings in AHURI's published evidence base that are pertinent to the design and intent of this scheme.

First home purchasers need support

Aspirations for home ownership remain high

AHURI research (Parkinson et al. 2019) shows that aspirations for home ownership remain high among young people but many feel it is out of their grasp:

- 70 per cent of early adults aspire to owner-occupation and nearly two-thirds (61%) of those with a tertiary educated member in their household believed it to be possible to purchase within five years.
- however many with lower education don't believe these aspirations are realisable over that period—around 42 per cent of those with an education to year 11 or below thought that home ownership was impossible, they had no intention or they were unsure.

AHURI research (James et al. 2019) shows that the lack of a deposit is an issue for older Australians

- 61 per cent of older Australians aged 55–64 cited lack of a deposit as a barrier to long term housing aspirations, the most important barrier of all cited. This was also an issue for those aged 65–74 and those 75 years and above.

There is evidence of intergenerational inequity, and delayed and frustrated household formation

AHURI research shows that it has become progressively harder for households to enter into home ownership:

- The deposit gap to income ratio (the proportion of deposit needed to enter home ownership relative to household income) has risen from virtually zero in 1970 to almost 400 per cent in the late 2000s. Over the same period, home ownership rates among younger adult cohorts have progressively declined (Yates, 2008).
- The proportion of emerging young adults (18–24 years old) staying with parents has increased from 58 per cent in 2003–04 to 66 per cent in 2015–16. The

proportion of early adults (aged 25–34) staying with parents has increased from 14 to 20 per cent over the same period (Parkinson et al. 2019).

To counter issues of access, many households are drawing on resources from parents or relatives to facilitate home ownership access, but this has its problems (Barrett et al. 2015):

- Inter-generational transfers benefit home buyers by enabling rapid transition to first-home ownership (effectively doubling the chances of the recipient transitioning to home ownership). However, this contributes to increasing house prices.
- Intergenerational transfers usually involve a transfer from a wealthy donor to a less wealthy recipient first home buyer. However, some recipients are existing home owners and are usually already higher in the wealth distribution—the net effect of these transfers is therefore to widen wealth inequality.

There have been many programs to support first home owners but the evidence base about their effectiveness is thin

Programs include direct subsidies, savings schemes and deposit guarantee schemes

The broad idea of improving deposit assistance for first home purchasers is not new. AHURI research (Hulse et al. 2010) has shown that initiatives have included:

- Relaxation of minimum deposit requirements among some lenders.
- Introduction of a First Home Owner Grant (FHOG) in 2000—providing a lump sum to help purchasers buy their first owner occupied property. The amount of FHOG was increased during the global financial crisis to assist home purchasers enter housing and also stimulate the economy, but the increases were withdrawn at a later stage.
- State/territory assistance such as exemptions on stamp duty and loan guarantee schemes such as Keystart (Western Australia) and Homestart (South Australia).
- Deposit saving schemes such as First Home Owner Accounts (designated accounts for households saving for a deposit which attract a partial co-payment from the government as well as tax advantages) and the First Home Super Saving Scheme which enables people to build a deposit inside their superannuation fund through voluntary contributions.

There are few publicly available evaluations of the effectiveness of first home buyer schemes

AHURI research shows that government programs like FHOG have been successful in enabling first home purchasers to enter home ownership earlier (Wood et al. 2003). They have been successful partly because they have eased the deposit constraints of first home purchasers, especially when the grants were set at a more generous level than they are at present. However there have otherwise been few publicly available evaluations of the other schemes, including those involving housing deposit guarantees or saving schemes. AHURI research has documented organisations, such as Keystart, responsible for innovative home ownership programs and home loan guarantees, although mainly in the context of shared equity products (Pinnegar et al. 2009).

Programs should be well targeted

Schemes directed to help first home purchasers should be appropriately targeted so as to facilitate sufficient take-up of the scheme without providing assistance to those who do not need it, or who would be better off receiving alternate assistance.

The high maximum income limits provided in the NHFIC scheme appear generous, and would include most persons able to afford home ownership. It is not clear how these limits were set and whether the scheme will be otherwise prioritised to those on lower incomes or on a first come first served basis. The inclusion of house price caps are intended to provide some brake on the scheme pushing up house prices.

Modelling by AHURI of the FHOG found that provision of the grant enables many home buyers to purchase in the short run, but many of those purchasers would have been able to purchase at a later date (Wood et al. 2003). The subsidies do not substantially assist lower income households who might not have otherwise been able to access the home ownership market (other mechanisms, like shared equity schemes are recommended for this purpose).

A valid question remains about the value of home ownership for those on low incomes. Low to moderate income purchasers have been increasingly constrained to purchase in outer urban areas. Although they have built wealth, house prices in these areas have not increased as quickly as houses in middle and inner urban areas (Hulse et al. 2010). On the other hand, an increasing number of young people appear unable to access home ownership and will be unable to access its wealth building opportunities (Yates, 2008; Flood and Baker, 2010).

Mortgage stress is a risk for default even though default is rare

An important issue is whether those likely to use the First Home Loan Deposit Scheme are at greater risk of mortgage stress and default.

Mortgage default is rare and not necessarily related to low income

AHURI analysis (Berry et al. 2010) found that overall rates of mortgage default in Australia were not high compared to overseas. Default was no more likely among lower income groups than higher income groups—the average purchase price, mortgage amount and average deposit of defaulters were not different from the wider Australian population.

High Loan to Valuation Ratios (LVRs) are an important risk factor for default and AHURI research argues in favour of regulation to ensure that lending is based on debt servicing capacity and to restrict the size of loans relative to asset value. In practice, lenders have generally built in more risk mitigation for low income households. Most lower income households taking out loans had at least some initial equity—indeed the lower the loan taken out, the higher the relative amount of equity (Berry et al. 2010).

Mortgage stress poses risks for default

AHURI research found that many low income earner home purchasers face greater risks than equivalent house purchasers did 30 years ago, with almost 45 per cent experiencing mortgage stress. A key issue is 'ongoing affordability', especially in the face of increasing interest rates or higher unemployment, or family breakdown and illness or disability (Hulse et al. 2010).

The issues with default do not appear to be related to the initial risk profile of the household. Most defaults (60%) are among more established purchasers (those that had purchased over 5 years ago). However, they are more likely to reflect mortgage stress—those who had defaulted reported difficulties in meeting payments and this had

often been going on for a long period of time. The most important initial causes for default included loss of or reduced work, excessive other debts and high interest rates, and frequently more than one thing went wrong (Berry et al. 2010).

This points to an ongoing need for lenders to monitor the risks associated with mortgage especially if there were changes in income and for NHFIC to understand the risks for particular groups at risk.

The First Home Loan Deposit Scheme will provide a form of insurance for lenders

The First Home Loan Deposit Scheme provides access to loans with deposits as low as 5 per cent (Explanatory Memorandum, page 15) and allows for access to finance without the need to save a 20 per cent deposit or pay lenders mortgage insurance (Explanatory Memorandum, page 16). This means that through the provision of the guarantee, the First Home Loan Deposit Scheme will provide a first loss guarantee on eligible loans for the difference between the deposit and 20 percent of the property purchase subject to the 5 per cent deposit. The lender may claim for amounts owed by the first home buyer after the sale of the property up to the amount guaranteed (page 17). The net effect of this program is to be an alternative provider of insurance for home buyers (by so doing the Australian government is doing what some other countries have been doing for some time). There may be downstream impacts on the lenders mortgage insurance industry and also (via increased demand) the effect on pricing of loans.

Organisations need to be equipped to assess and vet borrowers

The Bill indicates that the introduction of the First Home Loan Deposit Scheme will impose compliance costs on lenders (Explanatory Memorandum, page 4). It is not clear from the present legislation how these requirements will be enforced on lenders.

AHURI research (Berry et al. 2010) has underlined the importance of good processes for responsible lending practices, including confirming debt servicing capacity of borrowers. The research found that in Australia, default was more likely to occur if the loan came from mortgage originators (especially brokers), building societies and credit unions (even though two thirds of all defaults relate to loans with banks, this is less than the four fifths of all loans that are with banks). While refinancing and mortgage churn has had a role in fomenting default, the evidence nevertheless suggests having good checking processes about the borrower may have benefits in terms of reducing risk of this product.

Undertake research into housing affordability, including supply and demand

NHFIC programs should be supported by high quality research and relevant evidence

It is important that the various programs NHFIC operate are supported by high quality research. AHURI recognises the importance of a comprehensive, contemporary evidence base and up to date data on housing supply, demand and affordability.

To this end, AHURI's acquittal report for the 2017-2018 funding period proposed to Treasury the development of an Australian Housing Markets Council. The proposal was that this council would operate in a manner similar to the National Housing Supply Council (abolished in 2013), but with a broader remit—to consider not only supply, but

also demands (underlying, expressed and projected) and a nuanced consideration of stock type and quality in Australia's macro and micro housing markets.

While this proposal was intended as a program of AHURI, it closely resonates with the NHFIC research function identified in the bill. AHURI strongly supports the creation of this research function and is committed to actively cooperating with NHFIC in its delivery.

AHURI's capabilities to assist in research conduct and management

After making the 2018 recommendation, AHURI engaged in discussions with the Treasury to develop an understanding of the activities which would be required.

In 2019, AHURI has discussed the proposed approach with NHFIC management, and suggested that the research function outlined in the bill could be delivered through development of an Australian Housing Markets Observatory. The Observatory would require the capability to support and maintain an expert council (to be known as the Australian Housing Markets Council) involving leading experts from sectors including property, construction, urban planning, social housing, finance and economics. The Observatory would provide draft reports and analysis for the Council's consideration, editing and publishing capabilities, and the management of commissioned research.

AHURI's current capabilities and experience spans each of these functions, and we have proposed that the Observatory leverage AHURI's existing processes, resources and experience.

The Observatory would deliver three core functions:

- *Annual State of Australian housing* reports
- Commissioned reports on specific issues
- Secretariat of the Australian Housing Markets Council, which provides analysis and policy advice to NHFIC and the Australian government.

AHURI remains willing and committed to supporting NHFIC in developing this research function.

AHURI has also considered some of the initial issues that could be addressed through commissioned reports (second dot point above). These might include:

- Measuring the social impact of NHFIC's bond loans to social housing providers, so that the true benefits of the investment are understood (AHURI has now been commissioned by NHFIC for this research)
- Modelling of risks to lenders of default under the First Home Loan Deposit Scheme
- Evaluation of intervention on housing outcomes for low and middle income households of guarantee schemes
- Evaluating impacts of the schemes on consumers and wider stakeholders.

AHURI can further assist the NHFIC in a number of ways:

- AHURI can draw on a network of researchers across the country in our national network of research centres. Through these networks, we have access to experts in a range of disciplines relevant to NHFIC's functions. This includes the areas of housing economics, demographic change, urban geography, and housing finance.

- AHURI's Professional Services team offers evidence review and synthesis, research management, program evaluation, brokerage, policy engagement and transfer, information dissemination.
- AHURI has expertise in economic modelling of policy changes, including microsimulation modelling capability (using the *AHURI 3M* microsimulation model) which has been used to evaluate the effectiveness of other forms of first home ownership assistance.
- AHURI are able to draw together expertise across research, policy and industry experts and facilitate workshops that enable decision-makers to consider new programs or schemes.

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