



This document & the consultation process

This document contains features of the Government's proposed First Home Loan Deposit Scheme (**Scheme**). It has been prepared to facilitate feedback from residential mortgage lenders as part of a formal consultation process undertaken by the National Housing Finance and Investment Corporation (**NHFIC**).

The purpose of the consultation process is to (1) provide NHFIC with information to assist with the development and implementation of the Scheme, (2) understand the market's views on the possible scope of their responsibilities under the Scheme and identify issues of concern for the market on the implementation of the Scheme more generally, and (3) obtain feedback from the market on commercial, financial, operational, timing and risk issues associated with the implementation of the Scheme.

The commencement, operation and final scope of the Scheme are subject to Government and NHFIC approval processes, legislation coming into effect to amend the *National Housing Finance and Investment Corporation Act 2018* (Cth) (**NHFIC Act**) and changes being made to the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (Cth). The NHFIC Board will be responsible for the subsequent development, implementation and operation of the Scheme. The Scheme may or may not proceed at all, or on the terms outlined in this document. Recipients of this document are required to observe the *Important notices* set out below and must not rely on this document for any purpose.

Responses

Lenders are encouraged to provide responses to NHFIC in writing on the matters identified in this document for consultation, by email to Lenders@FHLDS.nhfc.gov.au or by post at Level 10, Export House, 22 Pitt Street, Sydney NSW 2000.

NHFIC can also be contacted at Lenders@FHLDS.nhfc.gov.au or on 1800 549 767 (from 9am - 5pm (AEST) Monday to Friday) to discuss matters relating to this document and the consultation process.

Responses are to be received by NHFIC by no later than 5pm (AEST) on Thursday 3 October 2019.

Any procurement process

The consultation process is not a procurement process. NHFIC makes no promise, undertaking, agreement or representation as to the commencement, process, content or outcome of any procurement for this Scheme. The details provided in this document or by NHFIC during the consultation process regarding a prospective procurement are indicative only, and any procurement may or may not proceed at all, or on the terms indicated by this document.

Proposed Key Scheme Features

1 Guarantee	<p>A contractual guarantee to be given by NHFIC in favour of Participating Lenders (Guarantee) who have funded Eligible Loans to Scheme Borrowers (Scheme-Backed Loans). Up to 10,000 Scheme-Backed Loans nationally will be able to take the benefit of the Scheme in each financial year.</p> <p>The Guarantee will provide for:</p> <ul style="list-style-type: none">• a guaranteed amount that is limited to the difference between:<ul style="list-style-type: none">- the deposit applied by the Scheme Borrower (minimum 5% of the purchase price for the relevant Eligible Property); and- 20% of the purchase price for the Eligible Property, <p>(Guaranteed Amount, which enables up to a maximum of 15% of the purchase price for the Eligible Property to be guaranteed); and</p> <ul style="list-style-type: none">• upon default and enforcement of security for a Scheme-Backed Loan, claims to be made by the Participating Lender for unpaid amounts owing by the Scheme Borrower (with coverage intended for principal, accrued interest and holding and sale costs) up to the Guaranteed Amount for that loan. <p>NHFIC will maintain a register of Scheme-Backed Loans and will issue Guarantee Certificates to Participating Lenders (setting out the Guaranteed Amount) for each such loan.</p>
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For consultation – The scope of the Guarantee's coverage takes reference from parental and other third-party guarantees provided for residential mortgage loans.

Feedback is sought on:

- the Guarantee's intended coverage; and
- the order in which guarantee payments are presently applied towards the different components identified above of the overall amount owing under a defaulted loan (ie, the ordinary payments 'waterfall').

2 Participating Lenders

Lender participation under the Scheme may be determined through a procurement process open to financial institutions that are appropriately licensed to provide credit for residential mortgage loans to Scheme Borrowers (and their authorised representatives). Any procurement process may:

- be conducted following enactment of the required amendments to the NHFIC Act;
- take account of conduct and lending standards applied by the relevant applicant;
- have regard to the applicant's capacity and commitment to be operationally ready by 1 January 2020; and
- include an assessment of customer-facing criteria – specifically, the overall customer loan experience offered by the applicant, transparency and consistency of the applicant's customer terms (including loan pricing), the applicant's standards of customer care and contributions to national availability for the Scheme (including through existing distribution channels).

Each lender appointed to participate under the Scheme through that process (**Participating Lenders**) will then contract with NHFIC (on a bilateral basis) to enable them to offer Scheme-Backed Loans. Panel appointments may be limited in number and will be subject to periodic review (on a panel-wide or individual lender basis).

For consultation – A key principle for the Scheme is that first home buyers should have certainty, choice and competitive offerings.

Feedback is sought on:

- the potential panel criteria described above – in particular, upon the approaches that may be adopted for a customer's loan pricing terms and operational requirements for delivery of Scheme offerings on and from the Scheme commencement date; and
- on the approach to allocating Scheme places – eg, assignment of places to Participating Lenders through individual lender allocations or through overall allocations that are available generally to lenders of a particular size or kind.

3 Eligible Loans

Simple owner-occupier residential mortgage loan products:

- requiring regular principal repayments on a standard amortisation schedule (ie, 'P&I loans'), but not limiting discretionary changes to payment schedules for Scheme Borrower hardship;
- that do not provide for an ongoing line of credit to be made available to the Scheme Borrower; and
- for which appropriate assurance can be provided by the Participating Lender to NHFIC on continuity of terms over the life of the loan and on compliance with relevant consumer-based requirements.

For consultation – The Scheme intends to benefit first home buyers who have demonstrated genuine efforts to save for a home deposit and who would otherwise (1) take significant time to independently save for a 20% deposit, and/or (2) have less than a 20% deposit and would need to purchase LMI coverage to be able to enter the home loan market.

Feedback is sought on how such applicants would be assessed, including views on establishing a genuine savings history and the ability to comprehensively identify a borrower's savings and other assets. Feedback is also being sought on how the availability or restriction of existing loan product features (such as offset accounts, prepayments and redraw) may affect or allow those not otherwise eligible to take the benefit of the Scheme.

<p>4 Scheme Borrowers</p>	<p>Persons who will be eligible to take the benefit of Scheme-Backed Loans will:</p> <ul style="list-style-type: none"> • have a minimum deposit of 5% of the purchase price for the relevant Eligible Property (comprising 'genuine savings'); • be owner-occupiers for the Eligible Property; • be singles or couples (both) that are first home buyers; • be natural persons who are over 18 years of age; • be Australian citizens; • have taxable income of not more than \$125,000 (for singles) and \$200,000 (combined, for couples) in the previous financial year; and • be purchasing an Eligible Property. <p>To ensure integrity of the Scheme, each of these matters will be verified.</p> <p>It is the Government's overarching expectation that Participating Lenders will maintain the relationship with Scheme Borrowers and that any subsequent finding that a borrower was not eligible to be a Scheme Borrower risks termination of the Guarantee for the relevant loan and/or, in certain circumstances, termination of the participation contract between NHFIC and the Participating Lender.</p> <p>It is also expected that Participating Lenders will apply their own credit and lending processes in making the loan (noting that NHFIC will obtain appropriate assurances on these processes).</p> <p>NHFIC will not have any relationship or engagement with Scheme Borrowers.</p> <hr/> <p>For consultation – Consistent with Government's expectations as described above, feedback is sought on:</p> <ul style="list-style-type: none"> • the ability of Participating Lenders to determine Scheme Borrower eligibility; and • the consequences to apply where any ineligibility as a Scheme Borrower is determined (whether due to fraud, error or otherwise) in circumstances where funding of deposit and/or loan amounts has occurred.
<p>5 Eligible Properties</p>	<p>Any dwelling type (existing or newly-built) located in Australia which is purchased at a price below specified thresholds (dwelling price caps are expected to be announced shortly).</p> <p>It is intended that 'off-the-plan' house and land packages, and loans for land and a separate contract to build home, will also be supported.</p> <hr/> <p>For consultation – Feedback is sought on distinct features in the loan application, credit assessment and funding processes for lending against newly-built dwellings relative to existing dwellings which may require differing procedural approaches under the Scheme.</p>
<p>Issue of the Guarantee</p>	
<p>6 Scheme places</p>	<p>The availability of a Scheme place will be confirmed to Scheme Borrowers by the Participating Lender during the loan application process.</p> <p>Subject to the approach adopted for the allocation of Scheme places to Participating Lenders, NHFIC may interact with Participating Lenders to ensure Scheme places are being deployed efficiently in accordance with the Scheme's allocation of places for each financial year.</p> <hr/> <p>For consultation – Feedback is sought on the capacity of lenders to interface with NHFIC via a secure online portal to provide real-time data on the allocation of Scheme places.</p>
<p>7 Issue of the Guarantee</p>	<p>Where a Scheme Borrower has agreed terms for purchase of an Eligible Property and Scheme eligibility criteria have been appropriately verified, a confirmation of the Guarantee applying to that Scheme-Backed Loan (subject only to funding) will be provided to the Participating Lender.</p> <p>A Guarantee Certificate (specifying the Guaranteed Amount) will be issued to the Participating Lender for each Scheme-Backed Loan that is funded by it and will evidence registration of that loan under the Scheme.</p>

	<p>For consultation – The customer experience, including a streamlined process and competitive pricing outcomes, is a key consideration for the Scheme.</p> <p>Feedback is sought on the customer’s application journey, including through different distribution channel entry points – eg, via mortgage brokers.</p>
8 Duration & release	<p>The Guarantee will remain in place for a Scheme-Backed Loan until the earliest of:</p> <ul style="list-style-type: none"> • the loan being repaid (including by refinance); or • the balance of the loan falling below 80% of the original purchase price. <p>For consultation – Feedback is sought on the possible role of valuations in connection with borrower, lender and Scheme integrity needs.</p>
Scheme & claims administration	
9 Reporting & audit	<p>Participating Lenders will be required to:</p> <ul style="list-style-type: none"> • report regularly in relation to their Scheme activities, including Scheme-Backed Loans offered and funded by them; and • enable audit of their Scheme activities. <p>These matters will form part of the participation contract with NHFIC.</p>
10 Claims & customer care	<p>All matters relating to delinquency, collections, default and enforcement are intended to follow a Participating Lender’s own policies. These matters and appropriate standards for treatment of Scheme Borrower hardship may be considered as part of any procurement process relating to appointments of Participating Lenders</p> <p>Claims made under the Guarantee will rely upon verification of relevant processes having been followed. Absent special circumstances, NHFIC would not be involved in any dealings with Scheme Borrowers under an enforcement scenario.</p>
11 Ongoing customer assurances	<p>It is expected that Participating Lenders will provide assurances to NHFIC that Scheme Borrowers will be treated on a consistent basis as would other customers (with the same characteristics and circumstances) under the lender’s residential mortgage loan portfolio. These matters will form part of the participation contract with NHFIC.</p> <p>For consultation – For the matters identified in items 9, 10 and 11 above, feedback is sought on:</p> <ul style="list-style-type: none"> • the need for NHFIC to implement appropriate safeguards in relation to specific market practices to minimise claims being made on the Guarantee; and • the ability for standardised approaches to enforcement and customer care to be required for Participating Lenders – including by reference to voluntary standards, industry codes and generally accepted practices.

Important notices

Recipients of this document are taken to have acknowledged and agreed (including without limitation any recipients who submit a response to NHFIC and, by doing so, acknowledge and agree) that:

- information provided by NHFIC in this document and during and for the purpose of the consultation process is not purported to be comprehensive or independently verified;
- nothing disclosed or intimated by NHFIC in this document or during the consultation process, and no failure by NHFIC to comment on any aspect of a response provided during consultations, will provide any person with any kind of approval for or endorsement of their responses to questions raised during the consultation process;
- responses provided or participation in the consultation process may or may not be used by the NHFIC to inform (1) any future procurement process for the establishment of a panel of Participating Lenders, (2) the Scheme or any future transaction document connected with the Scheme, or (3) any proposal to Government or the NHFIC Board in relation to the Scheme;
- NHFIC will not identify by name any person or organisation in any information obtained from responses provided or participation in the consultation process. NHFIC will treat any non-public information provided as part of the consultation process as confidential, subject to NHFIC being able to disclose any such information (1) to NHFIC's advisers or contractors, (2) to NHFIC's responsible Minister or Commonwealth, state or territory agencies or departments, (3) in response to a request by a House or a Committee of Parliament, and/or (4) where the information is required by law to be disclosed;
- if any intellectual property is held in any responses or other materials provided to NHFIC, this should be clearly indicated in writing to NHFIC. Inclusion of this material in any responses or other materials will not change the ownership of intellectual property in that material. However, the ideas, themes and issues raised in any part of the consultation process, responses, materials and any other information provided to NHFIC may be used by NHFIC and the Commonwealth in materials produced as a result of the consultation process, such as business cases and for other matters related to the Scheme;
- any information provided for the purpose of the consultation process or any representation by NHFIC or its representatives must not be interpreted or relied upon as a promise, undertaking, agreement or representation by NHFIC or the Commonwealth as to the terms of the Scheme, that the Scheme will proceed or that there will be a future procurement for the establishment of a panel of Participating Lenders or any other procurement or transaction in respect of the Scheme;
- they undertake at their own risk and are fully responsible for their costs in preparing for and participating in the consultation process and any activities they undertake in respect of the Scheme in connection with this document and the consultation process;
- participation in the consultation process does not mean that the person or organisation will be asked to be involved in any future Scheme activities (eg, as a Participating Lender);
- there is no obligation for a person or organisation to respond to, or participate in, any part of the consultation process. If a person or organisation decides not to respond to, or participate in, any part of the consultation process, this does not preclude them from participating in any future activities regarding the Scheme (eg, as a Participating Lender);
- NHFIC or the Commonwealth may vary or cancel the consultation process and NHFIC makes no guarantee, warranty or representation that the Scheme and/or any subsequent implementation phase or procurement activity will proceed;
- this document and the content of the consultation process are not intended to, and do not, limit or affect the discretions of NHFIC or the Australian Government;
- NHFIC will not, at any time, be liable for any loss, damage, cost, or expense incurred or suffered by any person or organisation arising out of or in connection with:
 - this document or any responses to, or participation in, the consultation process;
 - any of NHFIC's (including its representatives', advisers' and contractors') acts (including responses provided to issues raised in the consultation process either orally or in writing) or omissions in connection with the consultation process; or
 - any person or organisation acting in reliance on any information provided by NHFIC as part of the consultation process;
- NHFIC reserves the right to exclude any person or organisation from providing responses to the consultation process at any time and for any reason. NHFIC may hold telephone calls or meetings with, or seek additional information from, one or more persons, organisations or other parties at any time during the consultation process; and
- in connection with any responses provided by recipients to NHFIC in conference:
 - NHFIC representatives will only provide facts and will not provide personal opinions or preferences. Participants in the consultation process should refrain from asking questions which call for NHFIC representatives to express a personal opinion or preference;
 - any issue or question that cannot be addressed during any individual conference may be taken on notice by NHFIC or the Commonwealth; and
 - NHFIC may decline to respond to any question.

Recipients who wish to participate in consultation meetings with NHFIC may also be required to execute a short document confirming acceptance of these and other relevant terms.