Better Mortgage Management Pty Ltd (BMM) submission to the Senate inquiry into Australia's financial regulatory framework and home ownership.

BMM acknowledges the difficulties currently faced by home buyers and particularly first home buyers and applauds the committee for taking a proactive stance in investigating how these difficulties may be overcome or improved. We note the following terms of reference.

That the following matter be referred to the Economics References Committee or inquiry and report by **5 December 2024**:

Whether the present financial regulatory framework adequately prioritises the goal of home ownership for Australians, with particular reference to:

1. Australian Prudential Regulation Authority prudential standards and Corporations Act 2001 provisions for lending;
2. the nature and type of debt and equity arrangements being used to underpin housing development;
3. the appropriate involvement (if any) of corporate and institutional funds in the provision of housing;
4. the effectiveness of mechanisms to monitor investment in the residential property market;
5. the tax treatment of residential property and impacts on demand and house prices;
6. the adequacy of metrics available to policymakers for monitoring the ratio of new housing supply relative to population growth;
7. examples of effective priority treatment for aspiring Australian homeowners that do not compromise financial stability; and
8. any related matters.

These terms appear to be well thought through and representative. In particular BMM submits comments in relation to term 3.

To help expand the availability of suitably priced finance for the purchase of residential homes, consideration should be given to the adoption of a proposal such as that promoted by the likes of Greg Medcraft, former chairman of ASIC, wherein government backed bonds are used to finance home loans.

Such a proposal would lower risk for lenders, the government and taxpayers, and improve efficiency in the banking system with zero capital requirements for mortgages funded through the public RMBS. The Medcraft proposal helps even out the market and has worked in countries such as Canada which has similar characteristics to the Australian market. The Canadian model has been operating successfully for over 40 years with huge savings in funding costs, and results in much lower rates. Obviously this would need to be adapted for the Australian market but there is no apparent reason it could not work similarly here.

The current position whereby the “big 4” banks tend to dominate the home loan market due to their ability to obtain funding at lower rates than 2nd tier banks and non-banks reduces competition and restricts finance sources for home buyers. At present non-banks are priced out of the home loan market and find it difficult to compete. Non-banks have had to refocus on secondary markets such as Commercial, SMSF, and Non-Residents where rates are traditionally not as low as standard home loans. A more evenly based system would open up competition with a corresponding improvement in rates to the lowest sustainable level, all to the benefit of home loan consumers.

BMM also notes that in 2023 the House of Representatives Standing Committee on Economics conducted an inquiry into promoting economic dynamism, competition and business formation, and some of the recommendations from that inquiry overlap to some extent on the terms of reference of this inquiry. In particular Recommendation 34 supports the suggestion made by BMM in this submission: (6.107 That the Government examine the merits of adopting a government-backed Residential Mortgage-Backed Securities (RMBS) scheme, taking into account the characteristics, and evaluation, of the Canadian RMBS model.)

Better Mortgage Management Pty Ltd