SUBMISSION 25

10 August 2007

79 Constitution Avenue
Canberra ACT 2612
Tel: (02) 6245 1300
Fax: (02) 6257 5658

Mr Andrew McGowan
Inquiry Secretary
House of Representatives
Economics Committee
Parliament House
Canberra ACT 2600

Dear Mr McGowan

INQUIRY INTO HOME LOAN LENDING PRACTICES AND PROCESSES

As Australia's peak residential building industry organisation the Housing Industry Association (HIA) welcomes the opportunity to provide a submission to the Committee's enquiry into home lending practices and processes. HIA notes the terms of reference for this inquiry and has confined its comments to two proposals, aimed at increasing financial literacy and reducing the loan burden for home buyers.

Extension of the Financial Literacy Program

Despite low unemployment figures, sustained economic growth and high consumer confidence, personal bankruptcies went up by 17 per cent in the 2006-07 financial year. The financial strain on many Australian households from either mortgage stress or rental stress is evident across the country. There are now more than one million households in housing stress, with projections showing that this number will continue to grow significantly if immediate action is not taken.

To combat personal bankruptcies the answer lies not in more regulation or imposing equity-to-debt restrictions on home loans. Suggestions that all would-be home purchasers should have a minimum twenty percent deposit are not only unfair, they fail to recognise that for many this would mean saving $80,000 before being able to purchase a home of their own. Measures such as these will only widen the gap between the housing haves and housing have-nots.

Given the existing complexity and volume of paperwork involved in the home loan process (ostensibly to provide consumer protection), additional regulation must be discouraged. The cost of additional regulation is likely to be passed on to the loan applicant and pose further complexity to what is, for most, already a complicated process.

Financial Literacy in Australia has been a concern for some time hence the need for the Australian Government's Financial Literacy Program. The program is a positive initiative designed to provide practical advice on saving, investing, managing debt and superannuation and to ultimately improve financial literacy.

For most, the purchase of the family home is the biggest financial decision of one's life-time. Naturally, enough emotion is running high at the time of purchase and at the same time, few understand the terms and conditions detailed in loan agreements. Securing a loan is paramount. Less important is a knowledge or understanding of financial markets. As we know, however, an interest rate increase of just 0.5 per cent can have a serious impact on the household budget of a first home purchaser.

As with any investment decision, getting the right advice is essential. It is therefore recommended that special assistance be afforded to would-be home purchasers who may require more than 90 per cent loans to enter the housing market. To deny access to home ownership to those who have not been able to save a specified amount of deposit would be inequitable. Such proposals would exclude many from the market. A better measure would be to ensure that independent financial assistance is provided in the loan application process. This advice would guide aspiring home owners helping them with the important decisions and provide valuable saving and budgetary advice to keep their financial affairs intact.

Under HIA's proposed *'Understanding Your Mortgage'* program, free independent advice would be provided to first-time home loan applicants who are seeking loans for 90 per cent or more of the house purchase price. Under this proposal, lenders would have to sight evidence that independent financial advice had been received by the loan applicant. Advice would need to be relevant and applicable to the loan application submitted and the specific financial circumstances of the applicant.

Financial advice would provide important information to the applicant in relation to debt servicing obligations and, importantly, advice in respect to the impact of interest rate rises on the household budget. Advice would also contain important information on measures to offset the impact of these risks. Applicants would also receive advice on managing their personal budgets, specifically whether the loan they were seeking was practical in light of their existing base wage and other debt-servicing obligations.

Upon the completion of the advice, the financial planner would need to certify that qualified advice had been provided and that the financial planner was satisfied with the ability of the loan applicant to service the loan.

The cost of providing this service should be shared between the Federal Government and licensed financial and lending institutions. To enforce compliance with the requirement, reference to the above obligations within a mandatory Code of Practice is recommended.

The Home Super Saver - Saving for Home Ownership

This year will see a record pool of funds – one trillion dollars invested to secure the financial security of Australians in their retirement. However, further reform is necessary to assist Australians secure the other key ingredient for financial security, their own home.

A secure financial future has always been linked to adequate savings for retirement and a home of your own. The Federal Treasury has acknowledged, "The best outcome for most households, in terms of financial security in retirement, is to achieve both home ownership and a secure and sufficient income stream in retirement." ('Allowing Access to superannuation for housing', Federal Treasury, May 1997).

Australians should have more of a say in respect to how their superannuation is invested. The introduction of a scheme allowing employees to contribute additional savings to a 'Home Super

Saver' would assist Australians in the pegging of the mortgage deposit gap. Under such a scheme, employees who do **not** currently **own** property would have an incentive to contribute additional savings into a Home Super Saver account linked to their superannuation fund. Savings contributed by the employee may then be used down the track to help bridge the home deposit gap.

Wage earners would decide how much of their wage above the 9 per cent compulsory super contribution could be channelled into the Home Super Saver account. Importantly under this arrangement, individual preserved benefits both current and future would be protected. Therefore, the arrangement as proposed would make additional contributions to savings.

Mums and dads who wanted to help their children buy their first home would also be able to make a deposit into their child's Home Super Saver account. Unlike other contributions, these amounts would not attract the normal 15 per cent super tax as income tax would have already been paid on the gifted amount.

Case Studies

- A 17-year old apprentice on a starting wage of $20,000 would have more than $23,000 in their Home Super Saver fund by the time they turned 26 by saving an additional 4 per cent of their wage each year.

- A 20-year old nurse earning $45,000 a year and saving 4 per cent of his or her wage in the Home Super Saver would have more than $12,000 available for a home deposit after five years, which together with the $7,000 First Home Owners Grant would provide a deposit of $19,000.

- A couple earning a combined $100,000 a year and each contributing 4 per cent of their wage a year to the Home Super Saver account would have more than $33,000 available for a deposit after five years, including the First Home Owners Grant.

Not only would the Home Super Saver help many lower and moderate income families to achieve home ownership, it is a pro-saving initiative that would encourage employees to develop an increased commitment to superannuation saving. There is no better way to benefit a young family than by encouraging them into home ownership. The Home Super Saver is the key to restoring home ownership opportunities for young Australians.

HIA believes the Committee should be cognisant of the need to address causes rather than the symptoms. If the Committee would like any further clarification on any of the issues raised in this submission, please feel free to contact Chris Lamont, Senior Executive Director on (02) 6245 1300.

We look forward to making future contributions on this significant issue.

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

Ron Silberberg
Managing Director