

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates, 2 June – 4 June 2009

Question: bet 10

Topic: Shared Equity Loans

Hansard Page: Written

Senator Payne asked:

1. Last year the Shadow Minister for Housing and Local Government wrote to the Treasurer asking that up to \$500 million from the existing \$8 billion investment in residential mortgage backed securities be set aside for shared equity loans. Has the department undertaken any scoping work on this proposal?
2. Has there been any reference across to FAHCSIA on this concept, from Treasury?
3. Does the department agree that an allocation of this scope could allow 5000 Australian households to instantly cut their mortgage repayments by up to 30 per cent – or to reduce their upfront home purchase costs by a similar percentage?
4. Has the Government allocated any financial support for shared equity loans?
5. If so, how much has been allocated and when was it allocated?
6. If not, is the concept under active consideration?
7. Has the department undertaken any scoping work on the costs and benefits of providing financial support for shared equity loans?

Answers:

Question 1

To support competition in Australia's mortgage markets, on 26 September and 12 October 2008, the Government directed the Australian Office of Financial Management (AOFM), to purchase residential mortgage backed securities (RMBS).

RMBS markets were significantly impacted by the financial crisis. As these securities were a key source of funding for smaller authorised deposit taking institutions (ADIs)

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and non-ADI lenders, the failure in this market has significantly reduced the capacity of these lenders to compete.

The market for securities based on shared equity loans has not developed, as they are relatively new products. Consequently, the lack of access to funding for securities based on these loans does not constitute the same risk to competition as the collapse of the RMBS market, and the initiative was not extended to this category of security.

Question 2

On 27 January 2009, the Deputy Prime Minister, Julia Gillard announced that the Government would establish the Community Response Taskforce (the Task Force) to allow the non-profit sector to deal directly with the Government about the impact of the Global Financial Crisis on vulnerable Australians. In this context, Treasury has liaised with FAHCSIA on equity release products.

Question 3

The number and nature of people assisted is dependent on the model used, for example: the maximum loan size, the maximum loan to value ratio, the minimum income, and minimum repayments required.

Question 4

The Government has not allocated any resources to shared equity loans.

Question 5

Not Applicable.

Question 6

The Government is closely monitoring the impact of the Global Financial Crisis on mortgage stress.

Question 7

The Department has surveyed products in the market, including shared equity loans.