



04 November 2015

Manager
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600
By email: housingconsultation@treasury.gov.au

Dear Sir or Madam

National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019

The Australian Banking Association (the ABA) welcomes the opportunity to make a submission on The Treasury's National Housing Finance and Investment Corporation (NHFIC) Investment Mandate Amendment (First Home Loan Deposit Scheme Direction Exposure Draft (the direction) and Explanatory Memorandum.

With the active participation of its member banks in Australia, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and community. It strives to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

The ABA welcomes any assistance to help first homebuyers to own their own home and supports the Government's commitment to deliver the First Home Loan Deposit Scheme. Further, the ABA welcomes APRA's letter to industry clarifying the capital treatment of the guarantee. Together these measures will mean that borrowers under the scheme will be able to obtain financing on similar terms offered to those borrowers with a 20 per cent deposit.

Importance of customer protections

The ABA welcomes the inclusion of criterion recognising a lender's standard of customer care and the treatment of customers in financial hardship. The ABA considers this to be an important criterion which should recognise the additional protections of the Banking Code of Practice (the Code).¹ Under the scheme, all new loans from ABA member banks will be subject to the additional protections of the Code. Additional protections include:

- Taking extra care when providing banking services to customers that are experiencing vulnerability
- Providing dedicated customer advocates in banks to improve situations for customers when things go wrong; and
- Better conduct and oversight of mortgage brokers.

Given this, ABA members have legal obligations to provide a higher standard of customer service than those lenders which are not subject to the Code.

¹The Australian Banking Association 2019, *The Banking Code of Practice*, <https://www.ausbanking.org.au/wp-content/uploads/2019/06/Banking-Code-of-Practice-2019-web.pdf>



Promoting competition

The ABA welcomes reserving an allocation of the guarantees for approved non-major lenders. The ABA's non-major banks provide a valuable source of competition in the mortgage market. Ensuring a variety of providers can offer a loan under the scheme will provide choice for customers and incentives for banks deliver the best deal through competition.

The ABA understands that a borrower may not be able to switch banks during the effective period of the guarantee. Switching is necessary to promote competition in the mortgage market.² Given this, the ABA considers that the final terms of the guarantee should allow switching to ensure this scheme does not reduce competition between mortgage providers.

Differences between Federal and State based First Home Buyer assistance

The ABA considers the limits on purchase price and salary proposed are reasonable. However, the ABA does note that there are significant differences between the limits of the scheme and state based first home assistance schemes. For example, in NSW the maximum property value is \$800,000 versus \$700,000 under the scheme for a property in Sydney. The ABA is concerned that these differences could create customer confusion. The ABA looks forward to working with Government and NHFIC to find a way to effectively communicate these differences

Better information on housing

The ABA welcomes directing NHFIC to undertake research on the housing market. Providing better evidence-based information on the state of the housing market will improve decision making within and outside of Government. Housing is major contributor to the economy and community well-being.

ABA supports the NHFIC data and research direction to fill gaps and to make its research transparent through publication. To meet this obligation, the ABA considers it important that NHFIC accesses existing data on housing supply collected by government institutions rather than replicate those data collections. ABA members provide a wealth of data already to regulators and allowing NHFIC to access this data is more efficient and will increase the potential benefits from existing collections.

Working with NHFIC for successful Implementation

The ABA looks forward to working with NHFIC on the implementation of the scheme to provide guarantees as soon as possible. The ABA considers that the allocation of 10,000 guarantees in the 2018-19 financial year will help borrowers overcome some of the barriers to home ownership. There are still several implementation issues that need to be resolved to ensure the delivery of guarantees to borrowers. These include:

- How the allocations will be allocated across approved lenders.
- Monitoring of loan to value ratios of mortgages by NHFIC to determine the point at which the guarantee is extinguished and
- Verifying taxable income as defined under the *Income Tax Assessment Act 1997*

The ABA will continue to work closely with NHFIC to expedite the resolution of any implementation issues.

Yours sincerely

Karen O'Brien
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² Productivity Commission, *Competition in the Australian Financial System, Inquiry Report*, at page 45, <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system-overview.pdf>