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The Committee Secretary
Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

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RE: Inquiry into Home Ownership

The focus of this brief submission is to highlight the critical need for a more effective response from financial market participants to the challenge of developing innovative funding solutions for those Australians seeking the opportunity of achieving home ownership and better utilising housing wealth.

I welcome, within the context of this inquiry, the opportunity to discuss a range of financial product categories that should be encouraged through industry consultation and appropriate policy development, to meet the challenges faced by:

- First Home Buyers struggling to commence the journey towards home ownership,
- Those seeking to re-enter the housing market following disruptive life events, and
- Senior Australians who, through a concentration of personal wealth in their family home, have become asset rich but cash poor in retirement.

It is quite clear that deregulation of the home loan market introduced competitive tension between Authorised Deposit-taking Institutions ("ADI's) and the so-called Non-Bank Home Loan Providers ("Non-Banks") and that this more competitive market delivered significant consumer benefits.

However, the adverse and on-going impact of the Global Financial Crisis ("GFC") has undermined these improved outcomes and as a result of the consequential limited access to non-deposit taking capital market funding, continues to drive market concentration through a process of acquisitions and market withdrawals.

It is timely that the Standing Committee on Economics carefully consider the capacity and willingness of the Australian financial markets to respond to the urgent need of preserving the opportunity for Australians to access the benefits of home ownership.

An effective and well-informed Government housing policy is critical to delivering important national outcomes in health, education, employment and social inclusion.

Housing Market Conditions

There is a clear and present danger of adverse structural change to the Australian housing market that will see home ownership concentrated in a landlord class of older Australians and an increasing proportion of younger Australians trapped as rent-payers.

First Home Buyers face an unprecedented challenge of saving a sufficient deposit to qualify for a home loan. Typically, lending institutions aim to achieve a Loan to Valuation Ratio ("LVR") of 80%. Above this (often referred to as a High LVR Loan), home loan providers tend to rely on Lender's Mortgage Insurance ("LMI") providers to underwrite the higher risk of default associated with these transactions.

There are very few LMI providers in the Australian market and consumers suffer from this lack of competition. Despite the fact that LMI protects the lender from losses and not the borrower, it is common practice for consumers to be required to pay the premium of an LMI policy.

Some Government initiatives, for example, the First Home Owner's Grant tend to worsen not improve home affordability in that they simply enable purchasers to increase the loan size they can obtain and thereby, drive a higher property prices.

Recently introduced Foreign Investment Review Board ("FIRB") restrictions aimed at reducing the inflationary effect of non-domiciled property investment are inadequate. Against the obvious appeal of achieving property ownership in a country where the effect of law offers significant protection for their investment, such investors face minimal financial penalties for breaching the rules. First home buyers are particularly vulnerable to foreign "hot capital" investment in both the Sydney and Melbourne markets.

It could be argued that policy changes recently introduced by the Australian Prudential Regulatory Authority ("APRA") aimed at reducing Property Investor lending activity in favour of owner-occupiers, will do very little to address the core problem of home affordability as these measures are unlikely to change the overall level of home loan activity.

Financial Markets Failure

The Australian financial markets have failed to develop suitable and innovative products to assist those struggling to achieve home ownership and access their housing wealth.

However, the opportunity for reform exists and more than any other approach, an effective Government initiative aimed at encouraging the development of viable Shared Appreciation and Equity Release markets in Australia is likely to address the home ownership crisis facing this country.

The Global Financial Crisis severely impacted the capacity of the financial markets to develop and deliver suitable products. Early development of products such as Shared Appreciation Mortgages ("SAM's") and non-bank Equity Release facilities have stalled. Whereas there was once a healthy competitive tension between the Big Four Banks and other Non-Bank Lenders that encouraged product development, the market has now significantly contracted through a process of acquisitions and market withdrawals.

It has been asserted through numerous Senate Committee and Productivity Commission Inquiries that Government has a role to play in addressing this market failure.

Opportunity for Reform

Home ownership has long been a key social and political goal for successive Australian Governments. Since the 1950's, Government has sought to encourage socially-driven mortgage lending through systemically significant initiatives such as, Government-assisted housing and the War Services Home programme.

However, in the current environment, there are only limited and often State-based examples of Government-sponsored initiatives aimed at improving accessibility to home ownership (e.g. "Home Start" in South Australia and "Key Start" in Western Australia).

Australia lags behind both the UK and US markets in terms of effective and appropriate market intervention.

As an example, Mortgage Insurance was introduced in Australia through the Australian Government-owned Housing Loans Insurance Corporation Limited ("HLIC") and according to The Treasury, payments received from the HLIC met the cost of administering and meeting the Commonwealth's obligations arising from ongoing management of the residual portfolio of LMI contracts. However, HLIC was eventually privatised and formed the basis of one of the very few surviving private market LMI providers.

Given the private market appears to be unwilling to support the emergence of innovative home loan products to meet the needs of current-day Australian home buyers, Government may well need to repeat the wisdom of the 1950's by establishing a scheme whereby LMI is made available where it is needed.

There are a number of important ways in which the Australian Government can encourage the development of the Australian financial markets. This support might focus on government backed, but privately operated, co-ownership funding initiatives such as, Shared Appreciation Mortgages ("SAM's").

A SAM is typically offered in conjunction with a traditional (Principal and Interest) home loan and can be applied in order to reduce the cost of purchasing a property.

Rather than apply an annual percentage rate and require monthly repayments, a SAM provider gains the right to share in the sale proceeds of the property when it is sold. This share is usually calculated as a multiple of the original funding amount. For example, if the SAM originally represented 20% of the purchase price, the SAM provider will typically have a claim of up to 40% of the sale proceeds, when the property is sold.

In this way, the customer can purchase a property that they might not otherwise be able to afford if they had to pay regular monthly repayments on the full purchase price, by agreeing to share any appreciation in the value of their home.

These products are intended to assist First Homebuyers by increasing the available funding beyond the traditional LVR. Thereby, reducing the deposit needed to purchase a home and improving the affordability of housing finance by reducing their loan repayments.

The Australian equity release market has failed to meet the needs of Senior Australians.

Significantly, numerous research studies have shown that senior Australians overwhelmingly wish to stay in their own homes for as long as is possible and therefore, some form of legitimate home equity release is likely to be embraced by the generation now facing the prospect of living longer with the desire to live well in retirement.

However, the ongoing impact of the Global Financial Crisis ("GFC") has resulted in the withdrawal of a significant number of equity release providers and eliminated a degree of competition between major banks and non-bank specialist providers that had previously delivered consumer choice to those considering the most suitable strategy for drawing on their housing wealth.

There are a number of important ways in which the Australian Government can encourage the development of the equity release market and assist senior Australians to access the stored value in their homes through legitimate equity release options.

Since the deregulation of the financial system, the Residential Mortgage-Backed Securities ("RMBS") market has provided an important source of funding for new and smaller mortgage lenders to compete with the major banks. However, the disruption to the international capital markets caused by the GFC, has adversely impacted liquidity in this market.

The Federal Treasurer announced on the 26th September, 2008 that the Australian Office of Financial Management (AOFM) would purchase Australian RMBS as part of then Government's commitment to strong and effective competition in Australia's mortgage markets.

In the current environment, the RMBS market could be an important source of funds for both Shared Appreciation and Equity Release product providers. However, the Selection Criteria established for the AOFM to invest in RMBS does not provide for these transactions.

I thank you for the opportunity to raise these important matters.

I hope that this information is of interest to the committee and that it will form the basis of further discussions between us.

Please do not hesitate to contact me   , at any time.

Respectfully Yours,

Kevin Conlon (M. App. Fin.)
Founder, Equity Release OZ