community sector banking

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Introduction

Community Sector Banking is Australia's specialist banking service for not-for-profit organisations. We have been providing not-for-profit organisations with convenient, tailored banking since 2002, when Bendigo Bank and Community 21 (a consortium of 20 leading community sector organisations) joined forces to create Community Sector Banking. Today, we are proud to assist over 7,500 not-for-profit customers achieve their goals.

Our shareholders collaborate closely: Bendigo Bank provides use of their branches, financial licenses and high level governance support; while Community 21 supplies in-depth knowledge of, and access to, the not for profit sector.

Our shareholders ensure that Community Sector Banking (CSB) remains innovative, sustainable and continues to assist our customers create social change. CSB is a significant lender to the Community Housing Provider (CHP) sector (it is amongst the three largest funders of social housing in Australia).

Submission

Our following submission is based upon an in depth commercial understanding of the social housing sector in Australia. This understanding has been developed over a number of years as a consequence of public policy analysis, organisational credit risk analysis and discussions with all levels of Australian Government and the social housing sector.

Stock Transfers

CSB is a supporter of stock transfers in Australia as long as the assets are leveraged to increase supply and not simply as a mechanism for cost and liability transfer. There is no doubt that Australia's current delivery system for social housing supply (the State Housing Authorities) has failed. State Housing Authorities (SHA's) are headlong into asset sales programs to reduce debt and unfunded liabilities whilst shifting tenants into the general rental market to be supported by the Federal Governments Commonwealth Rental Assistance (CRA).

Whilst some initial progress for stock transfers has been created in recent years for the development and capacity building of an alternative CHP sector, this would appear now to have stalled. It is our opinion that State Governments are deliberately slow for self interest, management of redundancies, public sector career progression etc. There is also a growing trend to transfer stock without title. SHA's argue that banks lend on the basis of cash flow, or the ability to service debt, so title, or security for the loan is not necessary. This is a concern for CSB as it reduces the sector's ability to increase the supply of affordable housing for many Australians.

Whilst it is true that banks lend to CHP's based on their ability to service debt, prudential lending will also require security usually in the form of the assets being transferred and leveraged. Lending secured against rental streams only will significantly reduce the CHP's ability to borrow and increase housing supply. We do not know of any banks in Australia or any jurisdiction in the world that lend unsecured to the sector unless there is a Government Guarantee involved.

Transfers should include title as well as management rights, cash flow and security for leveraging. Stock transfers should initially include assets with rental yields highest to market value (e.g. approx 75% not the 50% being experienced by some). CHP's are spending time annually increasing rental yields off low return assets unable to support debt, whilst State Governments retain higher yielding assets so they can meet budgets. All this does is significantly impact on CHP's ability to leverage and increase supply or upgrade poorly maintained transferred stock. It also raises a viability issue for CHP'S who then withdraw from transfer opportunities, e.g Logan in Queensland. This is then suggested by SHA's as an indication of CHP's inability to build capacity. Unlike SHA's, CHP's take on unacceptable commercial risk, being offered financially unviable stock transfers will simply mean they have to say no.

Long Term Funding Options

CSB is also of the opinion that the sector needs more funding sources apart from Government and a small number of banks. Sector funding requires very long term debt to make it work, at least 20 year funding. CSB also believe that this funding need can be found in the Bond market. In order to meet these long term funding needs, the sector should look to replicate what has been achieved in the UK.

In order for this to occur, bonds will need to obtain strong Credit Ratings from the Rating Agencies. In order to obtain long term funding of at least 20 years, it seems that funding will need to be obtained offshore, given the lack of appetite in Australia by superannuation funds. Investors here (superannuation funds) look for liquidity in bond issuances plus, investment yields are considered too low, while social housing is also not an understood asset class. There is stigma with tenants; generally social housing is seen as high risk assets, etc. In addition there are no non Government bonds currently at 20 year tenors versus offshore (Europe/USA/Japan) where markets are much deeper. Local support is at 5&7 year tenors.

These offshore markets have investors seeking 20+ year funding, mainly Pension Funds. This allows them to match assets and liabilities. They are familiar with the UK CHP sector via UK Housing Association bonds. Australia would be attractive as an alternative to UK/Europe as a diversification of Risk with, most likely, a higher Credit Rating. In order to achieve both strong ratings and long term debt, some form of Government support will be required.

Government support may be required by way of a Standby Guarantee. If long term funds are sourced from offshore, Government assistance will be required with Foreign Exchange exposure.

Commonwealth Rental Assistance (CRA)

CRA is vital to increase rental yields for CHP's and to provide tenants with the ability to move around the rental market. CSB understands that the Federal Government provides $8 billion dollars in CRA payments per year and rising.

The continued provision of CRA will support CHP business models that can support debt. Debt will support growth and the increase of supply. The removal of CRA and a CHP's capacity to leverage it will reduce CHP's to the same level of inactivity as offered by SHA's.

National Regulatory Framework

The development and implementation of a regulatory framework supports improved confidence amongst lenders. Ideally, for simplicity, this is a national system. However if a national system can't be adopted, then every State should be required to have some form of mandatory regulation and possibly accreditation for CHP's.

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