

# Submission to Home Ownership Inquiry

Aboriginal and Torres Strait Islander home ownership

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## Executive Summary

The barriers to home ownership are disproportionately greater for the Aboriginal and Torres Strait Islander segment of the market compared to the broader housing market, as reflected in relatively low home ownership rates. While Indigenous home ownership participation has risen from 26 per cent in 1971 to 37.4 per cent in 2011, it is still significantly below the 69.6 per cent rate for other Australian households.

In light of all Australian jurisdictions' policy objective to lessen Indigenous disadvantage, continued demand side assistance through targeted measures to increase Indigenous home ownership is warranted. Home ownership contributes to the broader employment and social inclusion picture for Aboriginal and Torres Strait Islander people. Research has found that owning a home brings feelings of autonomy and security; creates a strong incentive for long term sustainable employment and higher wage growth for the main job-holder; and encourages children of Indigenous home-owners to gain a job themselves and to aspire to own their own home.

The direct economic benefits for the individual and families are also significant. Home ownership provides a critical pathway to increased personal wealth, retirement savings, and equity for business ownership or other investment. Given the opportunity, Aboriginal and Torres Strait Islander people can derive the significant financial and non-financial benefits from home ownership that the broader Australian community has benefited from for generations.

The affordability and broader challenges of Indigenous home ownership vary according to geographic zones and the different housing markets as outlined in this submission. While overall the current challenges have the effect of dampening short term demand, the long term demographic trends suggest that the latent demand from Indigenous home buyers will increase significantly. To ensure that the home ownership gap continues to close, the short term affordability issues need to be addressed while strategies are also put in place to address the long term needs of the growing Indigenous population.

Indigenous Business Australia (IBA) administers the Australian Government's Indigenous Home Ownership Program (IHOP), which is aimed at addressing the barriers to affordability across Australia. There is also a range of State and Territory government targeted programs that assist Aboriginal and Torres Strait Islander home buyers, such as stamp duty exemptions or discounts, shared equity schemes, concessional interest loans, and public housing tenant sales schemes. Additionally, there are specific strategies in place in some jurisdictions to address the particularly complex barriers to home ownership on Indigenous land and in many remote Indigenous communities.

IBA uniquely addresses a market segment not currently serviced by mainstream banks and financial institutions. IBA provides targeted concessional home loans and other support to Indigenous Australians who have the capacity to repay a long-term loan but are unable to secure finance from a bank or other home lending institution. It focuses on people in greatest need and on first home buyers in regional areas. In addition to concessional loans the high level case management support provided to clients is the other essential element in IHOP's success.

To enable IBA to operate in this high risk market segment, its regulatory framework is different to that of banks and other financial institutions. In particular, IBA is exempt from the majority of the *National Consumer Credit Protection Act 2009* (NCCP) in recognition of the high risk profile of IBA's customer segment compared to the general population. Nevertheless, IBA largely follows the principles of the Act especially in terms of responsible lending conduct. The exemptions allow IBA to operate more flexibly to assist Indigenous

Australians to achieve their home ownership goals while maintaining a responsible lending stance.

The likelihood of increasing pressure on Indigenous home ownership affordability, including through demographic effects of a faster growing and younger Aboriginal and Torres Islander population, underlines the need to augment IHOP and other existing measures that address the disparity between Indigenous and non-Indigenous levels of home ownership.

For Aboriginal people at the margins of home affordability, having access to the First Home Owner Grant (FHOG) and stamp duty concessions has made the difference between being trapped as renters versus having home ownership. The decisions by jurisdictions since 2011 to change their First Home Owners Grants and stamp duty concession schemes, especially by reducing or abolishing the grant for the purchase of existing homes, has had a significant adverse impact on the ability of Indigenous Australians to obtain finance from commercial lenders and/or IBA. IBA has observed that even in its traditional outer metropolitan and regional markets, our typical low to middle income customers are increasingly being squeezed out of the home buyer's market.

This means that fewer people will be able to be assisted by IBA and/or the banks. In effect, the discontinuation of FHOG and stamp duty concessions to buyers of existing homes incurs a significant opportunity cost in terms of the economic and social benefits that would have accrued through increased rates of Indigenous home ownership. In the long term, this cost is compounded by the intergenerational effect - including retarding wealth accumulation and retirement savings.

Targeted application of FHOG and stamp duty relief to low to middle income Indigenous Australians by all jurisdictions would be consistent with all governments' commitments to increase Indigenous home ownership and to the overall commitment to addressing Indigenous disadvantage. It would also complement government and corporate efforts to increase Indigenous employment. Because of the small size of the Indigenous population compared to the overall population, providing grants and stamp duty concessions would not have the same inflationary and other distortionary effects on the housing market as has been argued in relation to the general application of concessions or subsidies.

At the same time IBA has adjusted its own policy settings to help alleviate the affordability pressures on its customers as well as implementing strategies to deepen its market penetration. We have also commenced consultation with the Government and financial institutions to address the long term latent demand for home ownership anticipated from projected growth in the Indigenous population, through new collaborative approaches to expand the delivery of home loans to Indigenous Australians.

Noting the high proportion of Indigenous households in social housing (30 per cent overall and 80 per cent in remote areas), IBA will continue working with governments on initiatives for enabling the choice to transition to home ownership, including specific strategies in relation to remote housing.

### Summary of Recommendations

1. In order that the gap in Indigenous home ownership does not increase it is critical that governments seek to augment existing market gap measures, such as the national Indigenous Home Ownership Program (IHOP) and state and territory government targeted programs. In particular:

- a. All jurisdictions should target application of the First Home Owners Grants and stamp duty relief to low to medium income Indigenous Australians regardless of

whether they are purchasing an existing or new home. This will facilitate more Indigenous Australians being able to access home loans from mainstream financial institutions, in addition to those who may qualify for IBA assistance.

- b. The Australian Government, financial institutions and IBA should continue to work collaboratively to devise ways to leverage the capacity of IHOP so that it can meet the long term demand for Indigenous home ownership and thus bridge the gap between Indigenous and non-Indigenous home ownership rates.
- c. IBA recommends close collaboration between state and territory government programs and loan providers, including IBA, to strengthen the pathway between social housing rental and home ownership, building on the many initiatives already in place across jurisdictions.
- d. The sale prices for government funded new houses and existing social housing stock (inclusive of land) offered for private sale in remote discrete Indigenous communities, should be set at realistic levels, so that there is reasonable security over a loan and there is a real chance of houses being bought and sold, enabling a housing market to evolve.

## Introduction

This submission seeks to explain how the barriers to home ownership are disproportionately greater for the Aboriginal and Torres Strait Islander segment of the market relative to the broader housing market, as reflected in relatively low Indigenous home ownership rates. Further, it is noted that this situation could grow worse given demographic and economic trends. The operation of the Australian Government's main intervention in this area, the Indigenous Home Ownership program, is also explained, which provides an insight into the dynamics of the Indigenous home ownership market segment. It is argued that continuing targeted intervention by governments is warranted and that furthermore there are relatively minor and practical adjustments to existing housing policies, across jurisdictions that could enhance this support. These measures would provide a meaningful contribution to achieving the objectives of all Australian governments to reduce Indigenous economic disadvantage.

This submission draws on evidence and directions from many previous reviews of housing and home ownership, in particular IBA's own submission to the Senate's Economic References Committee Housing Affordability Inquiry provided in April 2014<sup>1</sup>.

## IBA's statutory role and purpose

IBA is an independent Commonwealth Statutory Authority operating within the portfolio of the Department of the Prime Minister and Cabinet.

IBA was created to assist and enhance the economic development opportunities of Aboriginal and Torres Strait Islander people across Australia. Its purpose and functions are set out in the *Aboriginal and Torres Strait Islander Act 2005* (the ATSI Act), which requires IBA to accumulate and use a substantial capital asset base for the benefit of Aboriginal and Torres Strait Islander people and to engage in commercial activities to promote self-management and economic self-sufficiency.

In pursuit of these functions, IBA operates a holistic set of economic development programs spanning home ownership, business development and larger scale investments.

Of relevance to this inquiry, the Indigenous Home Ownership Program (IHOP) was established in 1975 and is one of the most enduring specific purpose programs established by the Commonwealth. The IHOP provides Aboriginal and Torres Strait Islander people, who do not qualify for bank finance, with an affordable home loan. IHOP is targeted at first home buyers.

## Gap in Indigenous home ownership

According to the Australian Census the Indigenous home ownership participation rate rose from 26 per cent in 1971<sup>2</sup> to 37.4 per cent in 2011, but is still significantly below the 69.6 per cent rate of other Australian households.<sup>3</sup> Over this period IHOP has made an important contribution to the increase in Aboriginal and Torres Strait Islander home ownership

<sup>1</sup> While parts of the previous submission has been duplicated here because of the cross over in the terms of reference of the Committees and the continued relevance of many of the points, the information has been substantially updated and the submission refocused to the current inquiry's terms of reference.

<sup>2</sup> Altman, J.C., Biddle, N., Hunter B. 2004. *Indigenous Socioeconomic Change 1971-2001: A Historical Perspective*, Discussion Paper No. 266/2004, Centre for Aboriginal Economic Policy Research, ANU. Table 1 shows 1971 census rate is 26%. Note that it dropped to around 20% by 1981 before rising again in the 1990s. Accessed 16/06/15 from [http://caepr.anu.edu.au/sites/default/files/Publications/DP/2004\\_DP266.pdf](http://caepr.anu.edu.au/sites/default/files/Publications/DP/2004_DP266.pdf)

<sup>3</sup> Australian Bureau of Statistics (ABS) 2011. *2011 Census of Population and Housing: Aboriginal and Torres Strait Islander Peoples (Indigenous) Profile*. See tables 10a & 10b. Excludes tenure type 'not stated'.

participation rates in Australia, having assisted over 16,000 Indigenous Australian families buy their homes since 1975. IBA estimates that 20 per cent of the improvement in participation rates is directly attributable to IHOP.<sup>4</sup> At the same time, IBA estimates that this intervention has enabled Indigenous Australians to accumulate \$1.9 billion in wealth through home ownership.

In the 2011 census there were 209,000 Indigenous households, with 135,000 households not in home ownership. The statistics show that 65,000 new Indigenous households would need to move into home ownership to equal the wider Australian home ownership rate<sup>5</sup>. At the same time the Indigenous population is growing at a faster rate than the non-Indigenous population; expected to increase by 60 per cent from 2011 to 2031<sup>6</sup>. The population is also relatively youthful, with 55.8 per cent less than 25 years of age compared to 31.9 per cent in the non-Indigenous population<sup>7</sup>.

These trends present both opportunities and challenges. A growing, youthful population has the potential to contribute to the productivity of the nation through participation in the workforce, which would contribute to the overall strategy of closing the gap<sup>8</sup>. The Government is clearly responding to this situation through its focus on targeted education and employment programs for Indigenous Australians. Strategies to increase home ownership opportunities complement these initiatives as home ownership increases incentives for people to find work and stay in jobs. However, demographic trends, combined with the economic environment for housing, mean that closing the gap in home ownership is a growing challenge.

## Current affordability barriers for Indigenous Australians

Barriers to Indigenous home ownership are numerous, wide-ranging and include both financial and non-financial barriers. While many of the barriers faced by Indigenous Australians are not unique to Indigenous people, the barriers are more prevalent and more profound in this segment of the housing market. There are also unique barriers in terms of the cultural accessibility of mainstream services and communal land title that require special attention. The challenges also vary greatly between geographic zones. Each of these aspects is described in more detail below.

<sup>4</sup> Based on IHOP having assisted 16,000 households and this accounting for over 20% of the increase in the number of Indigenous home owners (or purchasers) according to the census over the period of IHOP's operation.

<sup>5</sup> Calculated by applying the non-Indigenous rate of home ownership to the total number of Indigenous households, and deducting the number of Indigenous households who already owned their home or had a mortgage. The difference is the number of Indigenous households required to transition to home ownership to close the gap in home ownership. Excludes tenure type not stated (ABS *Census of Population and Housing: Aboriginal and Torres Strait Islander Peoples (Indigenous) Profile*, Table 10a&10b).

<sup>6</sup> Biddle, N. 2013. *Indigenous Population Project 2011 Census Papers, Paper 14 Population Projections*, Centre for Aboriginal Economic Policy Research, ANU, Canberra, Figure 3. Accessed 15/06/2015 at [http://caepr.anu.edu.au/sites/default/files/cck\\_indigenous\\_outcomes/2012/12/2011\\_CensusPaper05\\_FinalWeb.pdf](http://caepr.anu.edu.au/sites/default/files/cck_indigenous_outcomes/2012/12/2011_CensusPaper05_FinalWeb.pdf)

<sup>7</sup> Biddle, N. *Indigenous Population Project 2011 Census Papers, Paper 5 Population and Age Structure*, Centre for Aboriginal Economic Policy Research, ANU, 5. Accessed 15/06/15 from [http://caepr.anu.edu.au/sites/default/files/cck\\_indigenous\\_outcomes/2012/12/2011\\_CensusPaper05\\_FinalWeb.pdf](http://caepr.anu.edu.au/sites/default/files/cck_indigenous_outcomes/2012/12/2011_CensusPaper05_FinalWeb.pdf)

<sup>8</sup> Ibid, 21

## Access to finance

The main financial barriers faced by Indigenous Australians relate to their capacity to qualify for and service the ongoing financial commitments associated with a home loan. Banks continue to lend only to those clients who can meet stringent eligibility criteria and where the loan-to-valuation ratio (LVR) is less than 80 per cent unless lenders mortgage insurance (LMI) is obtained. Most banks will lend only up to 95 per cent LVR even with LMI compared to IBA's median LVR for loans approved in 2013-14 of 98 per cent. IBA has a limited capital pool from which it can fund new home loans and its lending is targeted to customers who cannot finance their home purchase through another lender. In order for inroads to be made into closing the gap in Indigenous home ownership participation, it is critical that banks and other financial institutions continue to play a role in providing home finance to Indigenous Australians. State and territory grants and stamp duty concessions have been important mechanisms assisting low to medium income Indigenous Australians to access bank finance and IBA home loans. In recent years reductions in these measures have had a significant impact on Indigenous Australians ability to access finance for home loans. This critically important issue is discussed in more detail below.

## Shortage of affordable housing

The significant increase in house prices relative to incomes, which has occurred across the country over the past two decades, has placed an increasingly heavy burden on first home buyers<sup>9</sup>. Given that Indigenous Australians are significantly disproportionally represented in terms of low incomes, this is a more prevalent and serious issue for them. For example, on 2011 Census figures, the average disposable income for an Indigenous Australian was 70 per cent of that of a non-Indigenous Australian<sup>10</sup>.

The impact of higher home prices is that home buyers are required to set aside a greater portion of their income to service home loans. This in turn means that relatively higher incomes are now required than in the past to service loans in many of Australia's housing markets (allowing for regional and geographic differences in the markets). The minimum annual income required to afford the median Australia house price is around \$100,000 and much greater incomes would be required in many capital city markets<sup>11</sup>. This is currently around 30% higher than annual income based on average fulltime weekly earnings of all Australians (\$77,000 at December 2014<sup>12</sup>). Of course, it is for this reason the majority of first home buyer mortgages are supported by at least two income earners.

The average household annual income of successful applicants for IBA home loans in 2013-14 was \$75,000. The ability of IBA's customers to afford a loan at these income levels is

<sup>9</sup>The Senate Economics References Committee, 2015. *Out of Reach? The Australian housing affordability challenge*, Parliament House, Canberra. Accessed 12/06/15 from [http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/Affordable\\_housing\\_2013/Report](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Affordable_housing_2013/Report)

<sup>10</sup> Biddle, N. 2013. *Indigenous Population Project 2011 Census Papers, Paper 11 Income*, Centre for Aboriginal Economic Policy Research, ANU, 5. Accessed 15/06/15 from [http://caepr.anu.edu.au/sites/default/files/cck\\_indigenous\\_outcomes/2013/07/2011CensusPaper11\\_Income%20upd.pdf](http://caepr.anu.edu.au/sites/default/files/cck_indigenous_outcomes/2013/07/2011CensusPaper11_Income%20upd.pdf)

<sup>11</sup> Housing Industry Association and CBA 2014. *Affordability Index and Report*, Media Release for March Quarter 2014. Accessed 15/06/2015 at <https://hia.com.au/~media/HIA%20Website/Files/Media%20Centre/Media%20Releases/2014/national/Housing%20Affordability%20Remains%20Favourable%20in%20Early%202014.ashx>

<sup>12</sup> ABS 2015, 6302.0 - *Average Weekly Earnings, Australia, Nov 2014*. Accessed 15/06/2015 from <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0> (Annual income calculated based on Full-time adult average weekly ordinary time earnings of \$1,477)

due to the extra concessional and other support provided by IBA and the purchasing of houses in more affordable markets (outer metropolitan and regional).

It is predicted that the affordability problem is likely to continue for some time, with interest rates staying relatively low and price growth continuing, albeit at a lesser rate than in the past two decades.<sup>13</sup> Over the last couple of years IBA has observed an increasing trend for our traditional low to middle income customers being squeezed out of the home buyer's market. This of course reflects a broader market trend, but the effect is much more accentuated with this segment of the market.

### Lack of exposure to home ownership

A family history and social setting where home owning is the norm also has a strong influence on whether people aspire to home ownership. In many Aboriginal and Torres Strait Islander families there has been little or no generational or familial exposure to home lending. This reflects a broader historical legacy of disengagement from the economy and mainstream services that still affects many Aboriginal and Torres Strait Islander individuals and communities. Even where Indigenous and non-Indigenous households' socio-economic ranking (taking into account factors such as income, education and employment status) are the same, there is still a significant gap between Indigenous and non-Indigenous home ownership rates. This is highlighted by the fact that the home ownership rate for non-Indigenous households living in the most *disadvantaged* areas (57%) is above the rate for Indigenous households in the most *advantaged* areas (55%).<sup>14</sup>

### Geographic variation in challenges and opportunities

It is useful to categorise the affordability and broader challenges for Indigenous home ownership by geographical characteristics, such as remoteness, as this demonstrates the different strategies that are required to address the overall gap in Indigenous home ownership. The table below shows the distribution of the Aboriginal and Torres Strait Islander population by remoteness classification, compared with the non-Indigenous population.<sup>15</sup>

<sup>13</sup> NSW Parliamentary Research Service 2014. *Housing Affordability in New South Wales*, Briefing Paper No1/2014, vi. Accessed 15/06/15 at [http://www.parliament.nsw.gov.au/prod/parlment/publications.nsf/0/B3D723202932C63ACA257C61001D07AF/\\$File/Trends%20in%20home%20ownership%20-%20REVISED.pdf](http://www.parliament.nsw.gov.au/prod/parlment/publications.nsf/0/B3D723202932C63ACA257C61001D07AF/$File/Trends%20in%20home%20ownership%20-%20REVISED.pdf)

<sup>14</sup> Australian Institute of Health and Welfare 2014. *Housing circumstances of Indigenous households: tenure and overcrowding*. Cat. no. IHW 132. Canberra: AIHW, p12 (based on analysis of 2011 Census)

<sup>15</sup> Geographic classifications are based on the Accessibility/Remoteness Index of Australia (ARIA)

**Estimated resident Aboriginal and Torres Strait Islander population, Remoteness Areas, 30 June 2011.<sup>16</sup>**

	<b>Aboriginal and Torres Strait Islander</b>	<b>Non-Indigenous</b>	<b>Total</b>
<b>Remoteness Classification</b>	%	%	%
<b>Major City Areas</b>	34.8	71.3	70.2
<b>Inner Regional</b>	22.0	18.3	18.4
<b>Outer Regional</b>	21.8	8.7	9.1
<b>Remote</b>	7.7	1.2	1.4
<b>Very Remote</b>	13.7	0.5	0.9

### Major City Areas

About one third of the Indigenous population live in urban settings, that is, the capital cities and the other major cities close to these. Here the local economies are diverse and there is relatively good access to employment opportunities and hence relatively higher incomes. There are also lower construction costs as a result of economies of scale and increased competition, although these may be negated by high land values and shortage of available land.<sup>17</sup> The main issue affecting affordability in these areas, for all Australians, is house prices. In many urban areas the housing market is heated and home ownership for people on low to medium incomes is problematic. The net result of having a strong housing market and access for only some Indigenous people to higher incomes are reflected in the low proportion of IBA loans in major cities (25 per cent of the overall portfolio and 22 per cent of new loans in 2013-14).

### Inner regional areas

Inner regional areas include the fringes around the major cities and larger regional towns/cities close to the capital cities or in the corridor between Melbourne and Sydney. House prices are more moderate and in these areas there is also good access to employment opportunities. This is reflected in the high concentration of IBA home loans in inner regional areas (39% of the portfolio and 45 per cent of all new IBA loans).

### Outer regional

Regional centres with relatively large Indigenous populations, such as Dubbo in New South Wales or Cairns in Queensland are defined as outer regional areas. Houses are generally more affordable for people on low to medium incomes in these areas; building costs are comparable to city areas; and there is access to relatively low priced housing. However,

<sup>16</sup>ABS 2013. *Estimates of Aboriginal and Torres Strait Islander Australians, June 2011*. 3238.0.55.001. Accessed on 17/06/15 from <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3238.0.55.001>.

<sup>17</sup> Crabtree L, Blunden H, Milligan V, Phibbs P, Sappideen C, Moore N, 2012. *Community Land Trusts and Indigenous housing options*, Australian Housing and Urban Research Institute, Final Report No. 185, 78. Accessed 17/06/15 from [http://www.be.unsw.edu.au/sites/default/files/upload/research/centres/cf/publications/cfprojectreports/AH\\_URI\\_fin\\_185.pdf](http://www.be.unsw.edu.au/sites/default/files/upload/research/centres/cf/publications/cfprojectreports/AH_URI_fin_185.pdf)

offsetting these cost advantages, the employment situation can be quite variable. Overall employment participation is lower and employment opportunities are more dependent on variability in the local economy, and the presence and continuing viability of major employers. As a consequence, the incomes of Indigenous Australians are generally lower and less secure. Dependency on social housing is greatest in outer regional and remote areas. Thirty per cent of IBA loan portfolio is in outer regional areas and it accounts for 23 per cent of new loans.

### Remote and very remote

The challenges to Indigenous home ownership are most significant and complex in remote and outer remote areas.<sup>18</sup> The form of land tenure is one of the biggest concerns. Many Indigenous people in these areas reside in discrete Aboriginal communities that are particularly reliant on social housing, which in many cases may not be located on freehold land. The land tenure may be communal-titled land or other land fettered under various state-based land rights legislation regimes; or a mix of different forms, including freehold, such as at Hope Vale and Coen in Queensland. For private home ownership to occur in these locations, the land tenure legislation often needs to be reformed (at least to enable long term leasing) to provide suitable security for mortgages, which is a basis for a housing market to evolve. Secondly, even when security of land tenure has been established, there may be inadequate infrastructure in place and/ or lack of the appropriate governance, planning and state and territory government administrative frameworks to facilitate private home ownership. Processes around resolving these issues are complicated and may take several years to resolve.

In addition to these barriers, household income levels in these communities are lower and more fluctuating than in other locations, reducing the likelihood of obtaining home loan finance.<sup>19</sup> Higher cost of building and lack of employment opportunities in remote areas, as well as long standing inadequate tenancy arrangements in Indigenous communities with low and below market rental levels, are also seen to act as a disincentive to home ownership<sup>20</sup> (noting that reform processes under the National Partnership Agreement on Remote Indigenous Housing (NPARIH) are attempting to normalise tenancy arrangements).

In resource rich areas in remote towns with normal freehold land and opportunities for employment, the presence of mining workforces can inflate the cost of housing. In addition, harsh climatic conditions and poor access to skilled tradespeople in many remote areas results in larger depreciation rates of dwellings, and higher maintenance and insurance costs.<sup>21</sup>

People in this region are most likely not to have been exposed to home ownership and are therefore less likely to consider it as an option. Nevertheless there are Indigenous Australians in remote locations who are in a relatively strong financial position with the desire to own a home. Indeed, 10 per cent of IBA's new loans are in remote Australia (9 per cent of the overall portfolio) and IBA has 70 home loan customers in areas classified as 'very remote', including on the Tiwi Islands in the Northern Territory (which is Aboriginal land under a township lease that provides for long term tradeable sub-leases).

<sup>18</sup> *ibid*; Memmott, P, Birdsall-Jones, C, Moran, M, and Long, S. 2009. *Indigenous Home Ownership on Community Title Lands*. AHURI Positioning Paper No. 112. Australian Housing and Urban Research Institute (AHURI). Accessed 17/06/2015 from [http://www.ahuri.edu.au/publications/download/ahuri\\_20501\\_pp](http://www.ahuri.edu.au/publications/download/ahuri_20501_pp)

<sup>19</sup> Crabtree L, et al. Op Cit, 74

<sup>20</sup> Australian National Audit Office 2010. *Home Ownership on Indigenous Land*, Performance Audit Report 23:2010-11, 19.

<sup>21</sup> Crabtree L, et al. Op Cit, 78.

There have been concerted efforts underway for several years to address barriers to Indigenous home ownership in remote areas. These are described further below.

## Benefits of Indigenous home ownership

Increasing Indigenous home ownership contributes to the broader picture of addressing Indigenous disadvantage. IBA's own research, and research undertaken in the wider Australian community, have demonstrated that the broader economic and social benefits of owning a home are often as important as the financial benefits to the home owners.<sup>22</sup>

IBA's research has found that owning a home and the responsibilities that this brings create:

- a strong incentive for long term sustainable employment;
- higher wage growth for the main job-holder; and
- children of Indigenous home owners being more likely to have a job themselves and to aspire to own their own home.

Of the 58 customers surveyed as part of the research (mainly in rural locations in Northern Australia), the household income of home owners increased on average by more than 50 per cent over the average period of six years since they had purchased their home.<sup>23</sup>

Broader research into the risks and benefits of home ownership amongst low-moderate income earners in the outer suburbs of Melbourne has highlighted that "the main driver for home ownership is to have a home (rather than an investment) in which the psycho-social benefits of owning can be achieved, in particular, security, control and stability of living"<sup>24</sup>. These benefits in turn are thought to support mental health (for example increased self-esteem), physical health and improved educational outcomes for children.<sup>25</sup> For example, in IBA's survey of 58 customers, all school-age children - in every family who participated in the survey - were attending school.<sup>26</sup> By targeting clients who would not otherwise even consider or be able to enter into home ownership, IHOP provides the education, pathways and role models to promote home ownership aspirations and its benefits more broadly.

## Individual wealth creation

For Australians generally, home ownership is one of the main sources of financial security, which can be relied on to assist in savings, generate equity for investments, support retirement, and to hand on as an inheritable asset. There are acknowledged risks in home purchasing that low-moderate income purchasers may be particularly vulnerable to (e.g. (mortgage/financial stress and uncertainty regarding the continuing appreciation of house prices). Notwithstanding these however, research suggests that low-moderate income purchasers have benefited from wealth accumulation in a similar way as have high income earners in recent decades<sup>27,28</sup>. For Indigenous Australians, home ownership has an even

<sup>22</sup> Memmott et al. Op Cit; Crabtree L et al. Op Cit.

<sup>23</sup> Moran, M., McQueen K. and Szava, A.2010. *Perceptions of Home Ownership among IBA Home Loan Clients*. Urban Policy and Research, Vol 28, No 3, 311-325

<sup>24</sup> Hulse, K., Burke, T., Ralston, L., Stone, W. 2010. *The benefits and risks of home ownership for low-moderate income households*, AHURI Final Report No. 154. Melbourne: Australian Housing and Urban Research Institute. Accessed 15/06/15 from <http://www.ahuri.edu.au/publications/>

<sup>25</sup> Hulse, K. & Burke, T.2009. *The Benefits and Risks of Home Ownership: Disaggregating the effects of Household Income*. Australian Housing and Urban Research Institute Positioning Paper 120. Accessed 15/06/15 from <http://www.ahuri.edu.au/publications/>

<sup>26</sup> Szava, A and Moran, M 2008 *Perceptions of Home Ownership among IBA Home Loan Clients*, Indigenous Business Australia, Canberra, and the Centre for Appropriate Technology, Alice Springs, 12. Accessed 17/06/15 from <http://www.iba.gov.au/about-us/publications/#Reports>

<sup>27</sup> Hulse, K. et al. 2010, Op Cit.

greater importance as the main vehicle for wealth generation, given that it is only in recent decades that they have been in a position to acquire property and begin to accumulate assets.

The potential for home ownership to contribute to personal wealth is demonstrated by IBA's estimate that capital gains resulting directly from home ownership have created an additional \$1.9 billion in personal asset value for its customers.<sup>29</sup>

Equity in the home is also a basis for further wealth creation through small business formation. IBA is aware that a number of its customers have used home equity to generate business income (or have plans to do so). Its survey of 58 home ownership customers in outer regional and remote towns demonstrated that 26 per cent of home owners intended to invest in other property, 9 per cent in starting a business and 9 per cent already derived income from their home (usually by basing a small business there).<sup>30</sup> IBA has examples of home loan customers that after obtaining a level of financial security and equity, have then taken out a business loan to become self-employed and in turn employ other Indigenous Australians. In this way, home ownership has been a stepping stone to greater participation in the economy.<sup>31</sup>

In summary, the current gap in Indigenous home ownership participation is particularly worrying, given the importance of home ownership in enabling Indigenous people to accumulate savings or make additional investments. Already much worse off at retirement than non-Indigenous people, this situation will be exacerbated if home ownership is kept out of reach. It is significant to note that most Aboriginal and Torres Strait Islander people have not benefited from the capital gains of the increasing property values of the last two decades because they do not own a home.<sup>32</sup> This has significant intergenerational repercussions.

### Cost saving to government

The participation in Indigenous home ownership has positive long term cost benefits for government. The more economically independent Indigenous Australians can become, the less financial and other supports are required from government. For example, the cost savings from home ownership versus public housing costs have been estimated to be in the order of \$167 million to \$669 million per 100 households over a 20-year period (this research is discussed further below).<sup>33</sup> Thus encouraging Indigenous families from social housing into home ownership, even with subsidies to facilitate the process, is financially beneficial to government fiscal outlays.

### Government commitment to supporting Indigenous home ownership

In recognition of the importance of home ownership in addressing Aboriginal and Torres Strait Islander disadvantage, all Australian governments give a high priority to helping

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<sup>28</sup> Senate Economic References Committee, Op Cit.

<sup>29</sup> Estimate based on the individual capital gain each customer has made from owning their home during the time they held an IBA home loan from the program's inception in 1975.

<sup>30</sup> Szava, A & Moran, M. Op Cit, 42.

<sup>31</sup> Further research is needed to quantify the indirect benefits of this wealth accumulation in terms of Aboriginal and Torres Strait Islander business development and jobs growth. However, based on trends in the wider Australian economy, this indirect impact is expected to be significant.

<sup>32</sup> Select Council on Housing and Homelessness 2013. *Indigenous Home Ownership Paper*, Department of Families, Housing, Community Services and Indigenous Affairs, Canberra.

<sup>33</sup> Urbis Pty Ltd 2010. *Cost effectiveness assessment of IBA's home ownership program*, Sydney (report commissioned by IBA), 25-6. Accessed 17/06/15 from <http://www.iba.gov.au/about-us/publications/#Reports>

Indigenous Australians achieve their home ownership aspirations. This position is reaffirmed by the range of government initiatives in place, which aim to increase the number of Indigenous Australians owning homes.<sup>34</sup> These are summarised in **Figure 1**.

Type of housing purchase assistance program	There are mainstream programs that apply in two or more jurisdictions	There are also targeted Indigenous specific programs or elements of programs
First Home Owners Grants	√	-
First Home Saver Accounts	√	-
Stamp duty exemptions or discounts	√	*
Shared equity schemes for social housing tenants and others	√	*
Concessional loans	√	√
Public housing tenant sales schemes	√	√
Miscellaneous small programs**	√	√

\*Targeted elements of a very limited nature

\*\*Mortgage relief, assistance with fees, deposit assistance, land rent assistance

**Figure1: Summary of mainstream and Indigenous-specific housing purchase assistance programs available (they apply variably across jurisdictions)**<sup>35</sup>

## Indigenous Home Ownership Program

To address the gap between Indigenous and non-Indigenous home ownership rates, the Australian Government has for many years provided funding for concessional housing loans to eligible Indigenous Australians, through the Indigenous Home Ownership Program managed by IBA. IHOP is the main home ownership program nationwide and has an active portfolio of over 4,300 loans with a face value of \$870 million as at 30 June 2014.

### Addressing a gap in the housing market

Based on the specific socioeconomic characteristics that define them as a group, low to medium income Aboriginal and Torres Strait Islanders can be viewed as comprising a specific segment of the overall Australian housing market. This segment has not traditionally been adequately serviced by financial institutions. This situation can be viewed as a 'gap' in the market in which banks do not operate.

IBA provides targeted concessional home loans to Indigenous Australians who have the capacity to repay a long-term loan but are unable to secure finance from a bank or other home lending institution. The program aims to address barriers such as loan affordability, low savings, impaired credit histories and limited experience with long term loan commitments. It focuses on people in greatest need and historically has targeted first home

<sup>34</sup>Select Council on Housing and Homelessness, Op Cit.

<sup>35</sup> This table has been compiled based on information presented in the Select Council on Housing and Homelessness, Op Cit, and the Senate Economics References Committee, Op Cit.

buyers. The program sets interest rates, deposit requirements and other support arrangements at levels that support people on low to middle incomes to buy a home, who may otherwise never obtain home ownership.

Many Indigenous Australians, particularly in major towns and cities close to employment opportunities, have sufficient income to service a mortgage. However, they may not have the income to save for the upfront capital costs of purchasing a home, including a deposit, stamp duty, conveyancing and other fees. IHOP also helps Indigenous people living in remote Indigenous communities overcome additional barriers, such as a lack of readiness by financial institutions to accept restrictive land tenure arrangements, higher construction costs and the absence of established residential property markets.

The effective targeting of the IHOP program to customers who cannot afford the usual bank financing options is demonstrated by the distribution of the income and equity contribution of IHOP loan customers. In 2013-14 the median annual income of applicants was \$71,844 and the average income was \$75,067 compared to Australian first home buyers overall who on average have incomes over \$100,000.

Generally, IBA interest rates commence at 4.5 per cent, gradually increasing until they reach the IBA home loan rate, which is set in accordance to an index of average industry standard variable rates. All properties purchased by customers under the program are subject to satisfactory building and valuation reports and secured by a registered mortgage.

In the 2013-14 financial year the program received 5,226 enquiries and made 556 loans for \$141.7 million. The median IBA house purchase price was \$340,000 and the average loan amount was \$314,865 (including loan funding that was sourced from other lenders – known as split loans).

By focusing on a high risk market segment and offering basic entry level concessional loan finance products, the program does not compete with mainstream banks or other home loan lenders. The operation of IHOP in this unique market segment is reflected in the characteristics of IBA's lending. For example:

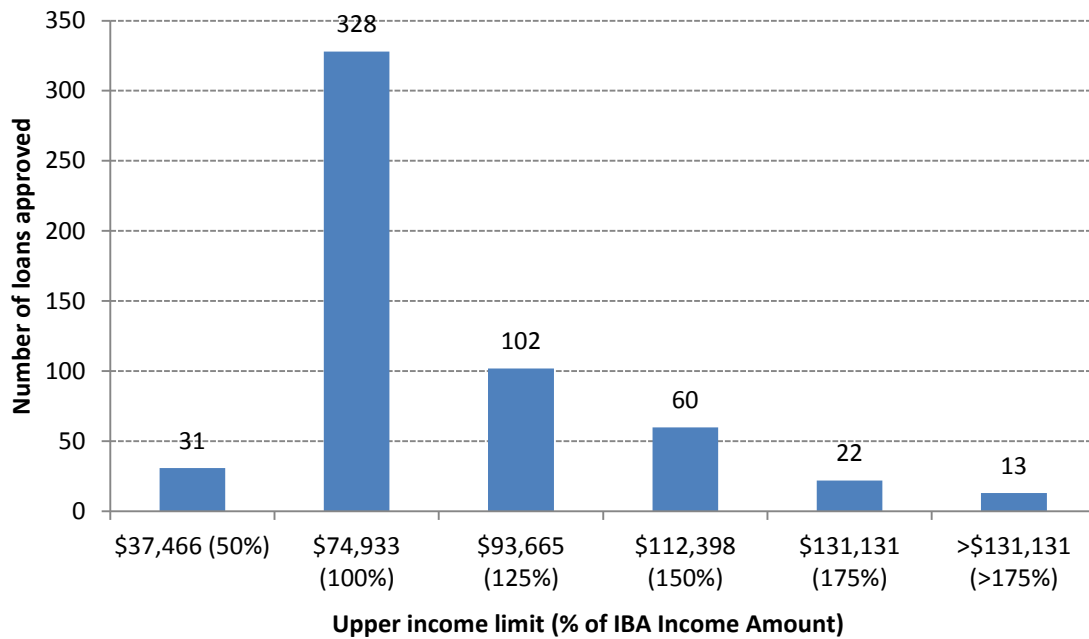
- Around 90 per cent of new IBA housing loans are to first home buyers. This contrasts with banks and other home lenders where the latest data highlights that only 12.2 per cent of loan borrowers are first home buyers.
- More than 80 per cent of loans approved in 2013-14 were to customers with incomes less than \$97,000 (125 per cent of the IBA Income amount-IIA<sup>36</sup>). **Figure 2** below highlights the distribution of IHOP lending by upper income level of customers.<sup>37</sup>

Customers contributed on average less than \$16,500 to the purchase of their home, including FHOG. This represents approximately 5 per cent of the average purchase price.

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<sup>36</sup> IBA Income Amount is equivalent to the national average weekly male earnings, as calculated by the Australian Bureau of Statistics.

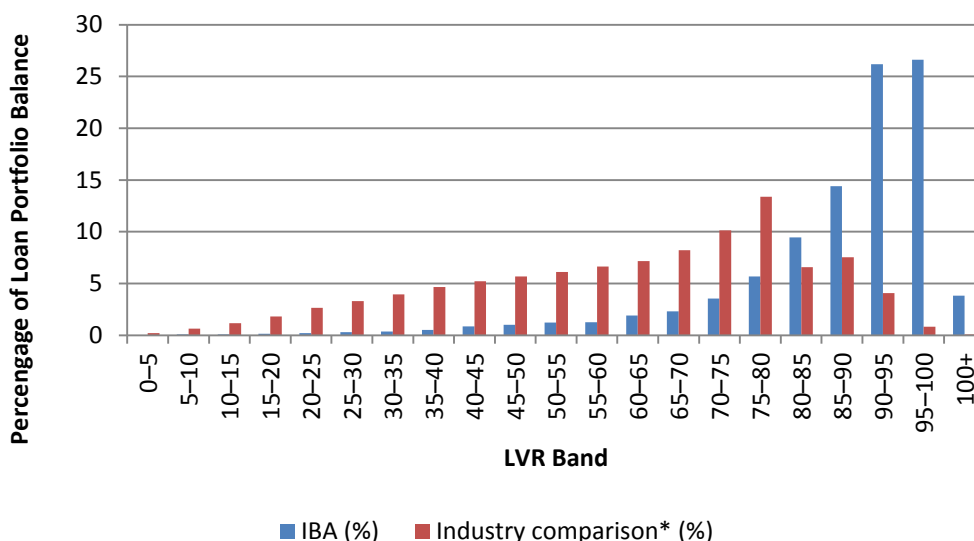
<sup>37</sup> Income levels are percentages of the IBA Income Amount (IIA).



**Figure 2: Distribution of Approvals by Income Band (2013-14)**

Most mainstream lenders have developed sophisticated automated points scoring loan assessment processes, which are the primary determinate of loan affordability. Mainstream applicants who have low wages, negligible assets, limited or no savings, high consumer debt or a blemished credit history are assessed as too high risk. The IHOP adopts a far more flexible approach where each case is considered on its merits.

The distribution of the 4,335 housing loans outstanding at 30 June 2014 showed that a high proportion (72 per cent) of loans had a loan-to-property valuation ratio (LVR) of 75 per cent or more (**Figure 3**), in sharp contrast to the broader lending market, which has only 32.9 per cent in this category (a proportion of which may be investment property purchases). The majority of IBA's new clients can only contribute very small deposits (several thousand dollars).



**Figure 3: Loan-value-ratios (LVR) bands – IBA and Industry comparison (2013-14)**

IBA borrowers are not required to take out expensive mortgage insurance where the LVR exceeds 80 per cent, which is the main customer segment. Normally the cost of this insurance is passed on to the customer by financial institutions.

### IBA has different regulatory framework to banks

To enable IBA to operate in its market segment, its regulatory framework differs in two significant ways to that of banks and other financial institutions.

First, IBA is not an Authorised Deposit-taking Institution (ADI) and therefore is not required to comply with Basel II international standards and regulations in relation to credit risk and minimum capital requirements of financial institutions for ADIs. Under applicable capital adequacy rules, Australian banks are required to hold additional capital for lending with high loan-to-value ratio (LVR), amongst other risk metrics. This lending is closely scrutinised by Australian Prudential Regulation Authority and shareholders.

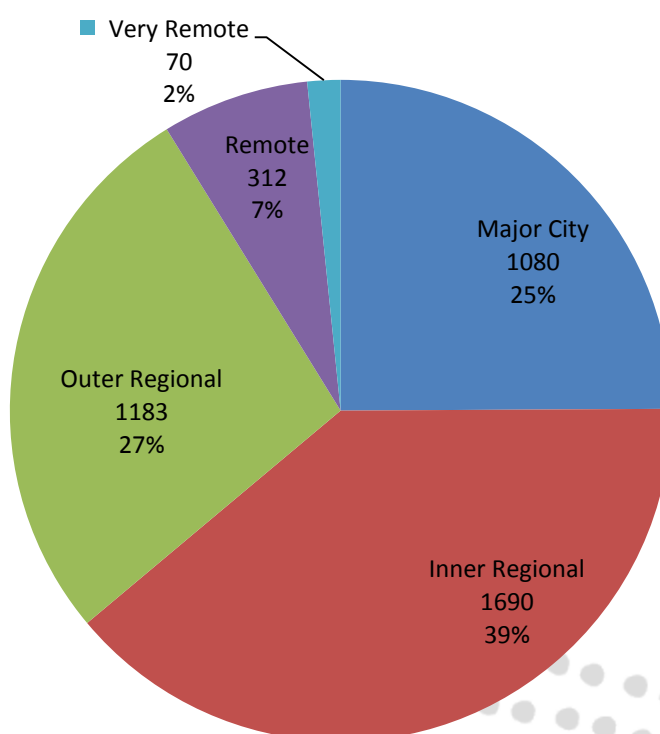
Secondly, IBA is largely exempt from the *National Consumer Credit Protection Act* (NCCP). This legislation also has significant implications for mainstream lenders. IBA's exemption is in recognition that application of the Act would preclude the customer group that IBA was created to facilitate into home ownership. This legislation is supervised by Australian Securities and Investment Commission and is far reaching in how lenders must assess and provide regulated credit, such as mortgages. Credit providers are legally obliged to determine that borrowing is 'not unsuitable' for the customer. The different banks approach this in different ways, however typically they will take in to account evidence such as genuine savings (i.e. whether the person has saved their own deposit), and that there has been no evidence of significant hardship in the last two years. A large number of IHOP customers don't have genuine savings and would face hardship.

### Regional and Remote focus

IBA's strategy is to ensure its program reaches clients in regional areas who would not otherwise have the opportunity of home ownership. This also reflects the greater affordability of houses in regional Australia.

The program also gives particular priority to applicants in emerging market locations (very remote Indigenous communities, usually to construct a new house on leased communal land). Emerging market applicants are eligible to receive free financial literacy training and have access to apply for a range of extra support to assist with home ownership affordability.

Last year approximately 75 per cent of new housing loans were to customers purchasing homes in regional and remote areas, as shown in **Figure 4** below. This contrasts with mainstream lenders where a majority (65 per cent) of home lending occurred in major urban centres<sup>38</sup>.



**Figure 4: Loans by Indigenous Geographic Classification 2013-14**<sup>39</sup>

### Customer Support and Arrears Management

Coupled with the provision of concessional loans, high level case management support provided to clients is the other essential element in IHOP's success. IBA supports Indigenous clients at all stages of the process of applying for, committing to and managing the financial impact of their first home loan. A close relationship is established between the IBA officers (located in Canberra and regional Service Delivery Units throughout Australia) and the client that is maintained for the course of the loan, enabling support to be provided when needed. The personalised ongoing support that IBA provides to borrowers operates beyond the normal mandate of a bank or other financial institution. This level of pre and post-loan support reduces the risk of default and ensures IBA's customers successfully make the transition from renters to home owners, which can be a challenging transition.

<sup>38</sup> Industry comparison is sourced from Standard & Poor's Residential Mortgage-Backed Securities (RMBS) Performance Watch Report, March 2014. As cited in Indigenous Business Australia's Annual Report 2013-14, 61.

<sup>39</sup> Based on number of loans and using Accessibility/Remoteness Index of Australia (ARIA) classifications.

The levels of arrears for the IHOP loans portfolio are higher than for other lenders in the broader market, which is to be expected given the programs focus on low-income first home buyers who are more susceptible to economic downturns. However, in relation to the industry benchmark for **non-conforming loans** (high risk, non-standard loans), IBA's arrears rates are comparable. The banking industry average of non-conforming loans 90+days in arrears is 2.08 per cent; whereas IBA has 2.45 per cent of loans in this category.<sup>40</sup> The loss rate for the portfolio is very small, at 0.15% of the portfolio per annum.

## Program Funding

While IHOP is largely self-funded, from time to time it has received additional capital injections from Government, and from IBA itself, to meet the high demand from potential Indigenous first home buyers. Funds for new housing loans are derived from revenue received from repayments, the early discharge of loans, bank interest on cash funds not yet lent, and from Australian Government appropriations. Since 2012-13 the program has received Australian Government capital funding of approximately \$23 million each year as a result of merging the Home Ownership on Indigenous Land Program with the IHOP.

As at 30 June 2014, the program portfolio consisted of 4,335 active loans with a gross value of \$872 million. As IBA's loans are considered riskier than those of mainstream lenders the risk and return characteristics are recognised in the financial statements as having a fair value of \$597 million in accordance with accounting standards.

Section 181A of the *Aboriginal and Torres Strait Islander Act 2005* establishes the New Housing Fund and sets out how program funds can be spent. Money in the fund can only be spent on the making of new housing loans or related grants and cannot be used to fund day to day operation expenses in running the program. The legislative restrictions imposed on the New Housing Fund necessitates that an annual appropriation is made to cover the day to day administration costs of running the program.

## Effectiveness of IHOP compared to social housing programs

IHOP<sup>41</sup> has consistently been evaluated and assessed as an effective and efficient program for increasing affordable access to Indigenous home ownership. It is a model that has stood the test of time through changing economic circumstances. Some of the salient research that has been conducted into IHOP's effectiveness is described below.

A 2007 evaluation by the Department of Finance and Deregulation, found that "IBA Homes is a well-established program that has been diligent within its resource limitations...and appears to be making a significant impact on Indigenous home ownership rates"<sup>42</sup>. The evaluation found that the program was instrumental in giving Indigenous households entry into the housing market, that demand for the program was strong and that the significant waiting list for loans was largely due to capital constraints within the program. The evaluation recommended that IBA seek to increase the size of the capital base through supporting transition of eligible clients to mainstream lenders, partnering with other lenders

<sup>40</sup> Industry comparison is sourced from Standard & Poor's Residential Mortgage-Backed Securities (RMBS) Performance Watch Report, March 2014. As cited in Indigenous Business Australia's Annual Report 2013-14, 76.

<sup>41</sup> In 2013 the name of IBA's home loan program changed from Home Ownership Program (HOP) to IHOP. To avoid confusion the IHOP acronym is used here rather than HOP as referred to in the studies.

<sup>42</sup> Office of Evaluation and Audit (Indigenous Programs) 2007. *Evaluation of Indigenous Business Australia*, Department of Finance and Deregulation, Canberra, 7.

to access their capital, private borrowing against equity held in the Homes portfolio (though this would require legislative changes) and through additional government funding.<sup>43</sup>

*The Perceptions of Home Ownership among IBA Home Loan Clients* report<sup>44</sup>, confirmed that IHOP was meeting its social and economic objectives and having a real impact on the quality of life for a growing number of Indigenous Australians. The report highlighted improvements in home-owners socio-economic conditions including an increase in household income of, on average, more than 50 per cent over the average period of six years since the purchase of a home. Other positive effects cited by home owners were about having independence and control over their living environment, feelings of satisfaction and pride that came from owning their own home, and being free of restrictions and interference with their privacy.

A 2010 analysis found that IHOP represented a cost-effective form of government-supported housing, particularly relative to public housing. The analysis compared the net cost to government of providing housing support to Indigenous Australians through the Home Ownership Program with the net cost of providing housing through two alternative housing programs, Commonwealth Rent Assistance (CRA) and state-delivered public housing.<sup>45</sup>

The analysis found that the net cost of IHOP was significantly lower than the net cost of public housing and that, overall, significant savings could be made if home ownership was made more widely available to those Indigenous Australians currently accommodated in public housing. These savings were conservatively estimated under the research model to be in the order of \$167 million to \$669 million per 100 households over a 20-year period. This estimate is conservative as it did not include consideration of broader social benefits in the calculations. The research concluded that there would be benefit in government considering additional funding for the IHOP program, particularly as a means of facilitating home ownership for eligible Indigenous clients who were currently supported through public housing assistance.

## **Importance of maintaining measures to address Indigenous home ownership affordability**

### **Potential for the gap to increase**

The Indigenous segment of the population is particularly vulnerable to the impact of decreasing affordability. This arises not only from the relative social and economic disadvantage of this group, but also the demographic pressures at play as outlined previously. Already on the margins in terms of having low employment rates and incomes, there will be an increasing number of Indigenous households unable to gain access to home ownership and thus any chance of accumulating personal wealth. This means that the gap in home ownership rates and personal wealth may increase over the coming years.

Consideration of these factors, underpins the need to maintain and enhance measures to address the disparity between Indigenous and non-Indigenous levels of home ownership.

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<sup>43</sup> *ibid*, 17.

<sup>44</sup> Moran, M., et al, Op Cit, 311-325.

<sup>45</sup> Urbis Pty Ltd 2010. *Cost effectiveness assessment of IBA's home ownership program*, Sydney (report commissioned by IBA), 25-6. Accessed 17/06/15 from <http://www.iba.gov.au/about-us/publications/#Reports>

## Disproportionate impact of changes to First Home Owners Grant

The inability of customers to fund their purchase costs is a major impediment for customers being able to qualify for a commercial home loan. The decisions by jurisdictions since 2011 to change their FHOG schemes by reducing or abolishing the grant for the purchase of existing homes, along with similar changes to stamp duty concessions, has had a significant impact on IBA customers. Given their more marginal socio-economic status and heavy reliance on purchasing more affordable existing houses, including social housing, these changes have disproportionately affected this segment of the market. This runs counter to the broader policy objectives of governments to address Indigenous disadvantage.

In 2013-14, 34 per cent of all IBA home loans were for newly constructed homes. This compares with 26 per cent in 2012-13 and 12 percent in 2011-12. While the shift to construction of new dwellings may be in line with the intention of changes to FHOG and other state based assistance, IBA believes that this is impacting on home ownership opportunities for a significant segment of potential Indigenous home owners by excluding the option of purchasing existing properties with a minimal deposit. Potential Indigenous home owners seeking to purchase a home in rural or remote areas that have high construction costs and limited access to suitable land are particularly disadvantaged.

This suggests that in many housing markets, without access to this additional assistance, Indigenous Australians will not have sufficient savings to meet the deposit, stamp duty and legal/incidental costs associated with the home purchase. They are therefore unable to access home loan products (IBA or mainstream finance) to purchase existing dwellings. Fewer people will be able to be assisted by IBA and more may remain bound to social housing.

The broader ramifications of discontinuing FHOG and stamp duty concessions for Indigenous buyers of existing homes are that it incurs a relatively large opportunity cost in terms of the economic and social benefits that would have accrued through increased rates of Indigenous home ownership. Additionally, clients who previously may have met bank criteria must now come to IBA for home loans, thus increasing the burden on the limited funding pool for new concessional home loans. It is critical that financial institutions be able to continue to loan to Indigenous Australians if inroads are to be made into closing the gap in home ownership participation.

## Targeted assistance to Indigenous first home buyers

Jurisdictions' targeting of FHOG and stamp duty concessions on existing dwellings for low-to-middle income Indigenous Australians would incur a relatively small cost given the small size of this market segment. At the same time, as discussed already, the social benefits, wealth creation, and reduction in long term government outlays would far outweigh the small upfront cost. It would also be consistent with established policy mechanisms within jurisdictions to have, from time to time, or in particular circumstances, targeted relief for particular sections of the population from general measures (such as stamp duties) in order to meet broader social policy objectives.

We do not believe that such assistance delivered in a targeted way to address this market shortcoming would have the same inflationary and other distortionary effects on the housing market as has been argued in relation to the general application of demand side concessions or subsidies, such as the First Home Owners Grant.<sup>46</sup> Aboriginal and Torres

<sup>46</sup> Eslake, S. 2013. *Australian Housing Policy: 50 years of failure. Submission to the Senate Economics References Committee*, Senate Economic References Committee Affordable Housing Inquiry. Accessed 14/06/15 from

Strait Islanders make up only 3.0 per cent of the Australian population<sup>47</sup>, and within that group, the segment of potential home buyers is much smaller again.<sup>48</sup> Research has suggested that, apart from its potential inflationary effects, FHOG also has the effect of bringing forward demand by drawing intending purchasers into the market, rather than making houses more affordable in real terms.<sup>49</sup> This clearly does not apply with respect to low income Indigenous home buyers who are at or just below the threshold of affordability and rely on assistance to ever be able to make the transition into home ownership.

Targeted application of the First Home Owners Grants and stamp duty relief to those eligible for an IHOP loan would be consistent with all Governments' commitment to increase Indigenous home ownership and to the overall commitment to addressing Indigenous disadvantage. It is consistent with the strategy for targeted measures already in place to encourage Indigenous home ownership in all jurisdictions as outlined above.

## IBA's approach to the challenge

IBA monitors changing market circumstances so that it can adjust the policy settings for its program so that it continues to meet the needs of its customers. For example in March 2015, to assist with affordability issues, the following changes were made to the program's parameters:

- an increase in the income levels for applicants to be eligible to apply for an IBA housing loan. This will result in more applicants being eligible for larger loans.
- an increase in the income level threshold for very low income customers from \$35,000 to \$55,767 to be eligible for a reduced commencing interest rate of 3%.
- introduction of a Fee Finance product to enable customers who do not have sufficient savings to borrow additional loan funds to pay for other costs associated with the home purchase such as state/territory stamp duty, professional legal fees etc.

At the same time IBA is deepening its market penetrations through a range of advertising and marketing initiatives.

IBA also recognises that new strategies are required to meet the long term demand for affordable home loans from the growing Indigenous population. While IBA's outcomes to date have been very positive, taking the same approach into the future is likely not to have the necessary impact required to address the latent demand driven by a growing Indigenous population. IBA has commenced detailed consultations with Government and financial institutions to explore new collaborative approaches to expand the delivery of home loans to Indigenous Australians. In particular we are exploring ways to leverage private capital through credit-enhancement techniques so as to expand the amount of home loans that can be facilitated. IBA will also be examining ways to expand our client base through broader product and service offerings in partnership with the banks and other corporates, including through the use of third party loan originators, such as mortgage brokers.

## Strengthening pathways between social housing and home ownership

Tenancy can be viewed as a pathway to private home ownership, with the capacity and skills for home ownership being gathered through the experience of tenancy. According to the 2011 census, Australia-wide around 30 per cent of Indigenous households are in public or

[http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/Affordable\\_housing\\_2013/Submissions](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Affordable_housing_2013/Submissions)

<sup>47</sup> Australian Bureau of Statistics 2013. *Estimates of Aboriginal and Torres Strait Islander Australians, June 2011*. 3238.0.55.001. Accessed 15/06/2015 from <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3238.0.55.001>

<sup>48</sup> As reflected in the number of inquiries to IBA (5,226 in 2013-14).

<sup>49</sup> NSW Parliamentary Research Service, Op Cit, 19-23.

community housing. In remote areas, where around 25 per cent of the Aboriginal population resides, social housing accounts for around 80 per cent or more of Indigenous dwellings.<sup>50</sup> This ties social housing policy to the efforts aimed at increasing Indigenous home ownership.

While providing safe, sound and affordable housing to those in need always remains the priority, there are likely to be a number of opportunities within state and community managed public housing to provide mechanisms, support and incentives for people who have the capacity and desire to make the transition to private home ownership. This already occurs to some extent, through mechanisms such as shared equity schemes for social housing tenants and public housing tenant sales schemes.

Strengthening the focus by state and territory agreements on developing innovative mechanisms that facilitate transition to home ownership (e.g., rent-to-buy, discounted sale prices, an Indigenous First Home Owners Grant) will, over the longer term, also add to the affordability and sustainability of social housing, as pressure is relieved on the social housing system by tenants moving to private home ownership. Social housing stock and other resources can then be targeted to those in greatest need.

In relation to remote Australia, the property and tenancy management reforms being carried out under the National Partnership on Remote Indigenous Housing (NPARIH) provide a vital platform for private home ownership by supporting and encouraging tenants to move into a 'normalised' system of paying market rents, taking greater responsibility for maintenance, and building financial resilience and discipline.

IBA recommends that governments enhance the focus on collaboration with loan providers to strengthen the pathways between social housing rental and home ownership. This kind of approach is already being trialled in some areas. For example the New South Wales Aboriginal Housing Office (AHO) has a partnering arrangement with IBA to provide home purchase assistance to AHO tenants to buy their AHO home in certain remote NSW townships.

Given this strategic direction governments should be willing to flexibly consider tailoring mainstream initiatives that may impact on social housing reform efforts, such as the effect of recent changes to FHOG and stamp duty concessions on Indigenous home owner aspirants.

### **Affordable and quality housing for remote Australia**

The Australian Government has been working in conjunction with state governments, the Northern Territory Government, and IBA for several years to address the multiple barriers to home ownership that exist in relation to Aboriginal communities in remote Australia. This began with the launch of the Home Ownership on Indigenous Land Program in 2006 (now part of the IHOP program).

The challenge is twofold. On the one hand there is a need to address the capacity of individuals and groups who may aspire to home ownership in areas and family histories where there has been a minimal level of home ownership previously. Progress has been made on this front and we have evidence of demand for home ownership in a number of communities. Under IBA's IHOP program, special grants and other support, in addition to concessional home loan rates, are available to assist people in remote communities.

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<sup>50</sup> Select Council on Housing and Homelessness Op Cit.

On the other hand, in many cases there is a major challenge for governments to put in place the kind of infrastructure, legal and administrative arrangements necessary to support land and house sales and private ownership – something that is taken for granted in major towns and cities. This involves addressing barriers relating to communal land tenure, the pervasive acceptance of social housing as the norm, and having little or no housing market yet established for the re-sale of houses.

From its work with remote communities, IBA has seen that there is considerable demand for affordable private home ownership. Given the overcrowding that exists and the condition of many of the existing houses this demand is expected to continue, especially as the employment situation improves.

In the context of remote housing, there are two additional supply-side barriers that require particular attention: the cost of new housing construction in remote areas and the valuation of social housing stock for sale (both newly constructed and existing stock). These are discussed in more detail below.

### Construction costs in remote areas

Given the shortage of existing social housing and the poor condition of many of the existing houses, new construction or substantial refurbishment is generally required to provide the housing stock that would enable private home ownership in discrete Aboriginal communities. At the same time it is estimated that construction costs in very remote locations are likely to be at least double the costs of non-remote locations.<sup>51</sup>

These factors cause an escalation of the cost of housing in remote areas, which could put home purchasing beyond the reach of most. At the same time, the absence of a developed housing market means that the houses' resale value could be less than its true cost or the loan value, which means there is the risk of homes becoming 'debt traps' should a resale become necessary due to changing family circumstances. This issue has been raised previously by the Cape York Institute.<sup>52</sup>

Continuing investigation into alternative and more innovative construction materials and methods is essential if rising costs are not to make new home construction (utilising lending available through IHOP) out of reach for Indigenous families and communities.

### Sale of social housing

Research in relation to pricing of houses in discrete Aboriginal communities suggests that the approach taken in relation to this issue - particularly with respect to new houses - is critical to the creation of sustainable home ownership markets.<sup>53</sup> The approach to pricing social housing stock is different depending on whether it is old stock or newly constructed houses. New houses tend to be priced based on cost, which makes the price very high and virtually unaffordable for most local Indigenous people. With respect to existing stock, governments take account of the age and condition of the building, which means prices tend to be more affordable, but as noted above such houses may not be desirable for home purchase without substantial refurbishment. An additional factor is the approach taken to

<sup>51</sup> Szava, A. Moran, M. Walker, B & West, G. 2007. *The cost of housing in remote Indigenous Communities: Views from the Northern Territory Construction Industry*. Centre for Appropriate Technology Paper. Alice Springs, Northern Territory. Accessed 15/06/15 at <http://static1.squarespace.com/static/5450868fe4b09b217330bb42/t/54756128e4b0f1adacec2ac4/1416978728332/Cost-of-remote-housing-construction-industry-views.pdf>

<sup>52</sup> Cape York Institute, *From Hand Out to Hand Up- Cape York Welfare Reform Project*, 2007.

<sup>53</sup> Terrill, L. 2014. What Price to Pay? *Home Ownership on Aboriginal Land in the Northern Territory*. Indigenous Law Bulletin, Vol8, Issue 9.

valuation of the land or lease on which the house is located, which also varies between jurisdictions. This also needs to reflect realistic and affordable pricing so as not to inflate the overall cost of a house and land package.

Governments also need to be prepared to release social housing for private purchase, having weighed up the priorities for maintaining adequate stocks of social housing. The successful sale of social housing may also require a willingness to be flexible in terms of other jurisdictional policies or guidelines for the sale or transfer of assets, which in the context of the broader policy objective of encouraging Indigenous home ownership may be overly restrictive. Policies that require social housing stock to be held for a period of time before it can be sold are an example of this.

From IBA's perspective as a lender, it is essential that sale prices for government funded new houses and existing social housing stock offered for private sale in Indigenous communities are set at realistic levels so that there is reasonable security over a loan and there is a real chance of houses being bought and sold in order that a housing market can eventually evolve. IBA acknowledges the work that is currently being done in Queensland and Northern Territory to address these issues, which is bringing affordable transition from social housing to private home ownership closer to realisation.

## Conclusion

The likelihood of increasing pressure on Indigenous home ownership affordability and the demographic effects of a faster growing and younger Aboriginal and Torres Islander population, underlines the need to augment existing measures aimed at addressing the disparity between Indigenous and non-Indigenous levels of home ownership.

For Aboriginal people at the margins of home loan affordability, having access to FHOG and stamp duty concessions would make the difference between being trapped as renters of social housing versus having home ownership. Without this support fewer Indigenous Australians will be able to be assisted by IBA or other financiers. In effect, discontinuing FHOG and stamp duty concessions to existing Indigenous home buyers incurs a relatively large opportunity cost in terms of the economic and social benefits that would have accrued through increased rates of Indigenous home ownership.

IBA, for its part, will continue to work with governments and the private sector to examine ways of extending its reach and expanding its lending capacity to meet the long term demand from Indigenous home owner aspirants.