

HomeStart Finance

# **Submission to the Inquiry into Affordable Housing**

Senate Economic References Committee

March 2014

## Summary

HomeStart Finance believes access to suitable finance is a key ingredient of the overall affordable housing debate. Although mainstream lenders would argue otherwise, our 25 years of experience is that there is a segment of the market largely unserved and this group – essentially our core customer base – are those for whom home ownership of any description is often most out of reach. HomeStart's lending experience over multiple interest rate cycles and various economic shocks demonstrates this segment of the community can be successful home buyers.

The key elements of our submission are:

- Access to appropriate finance for all segments of the community should not be overlooked in the debate on housing affordability. Dwelling supply is also important, but our focus is on financing the buyer.
- Australia already has proven home ownership assistance models operating in two states, including HomeStart Finance in South Australia. The operation and success of these state-based models should be considered by the Committee for wider adoption nationally.
- State taxes, in the form of stamp duty, represent the single largest barrier for many households seeking to buy a home. HomeStart is cognisant of the impact on State revenue of removing stamp duty and would therefore suggest the Committee consider ways in which stamp duty could be deferred until property sale, or financed in a fashion similar to that used for university tuition fees. The Committee would already be aware of alternative approaches involving a broadening of the tax base.
- Past savings programs orientated at first home buyers (e.g. First Home Saver Accounts) were simply not structured attractively for the current generation of buyers. It is ironic that a household in difficulty with their mortgage has the option to access superannuation to clear arrears, whereas a household in otherwise good financial condition cannot temporarily access their super for a deposit. The Committee should look overseas at schemes such as the Canadian Home Buyer's Plan which facilitate a limited drawdown of super to buy a first home, provided such a scheme allows for subsequent replenishment of the super fund in a reasonable time frame.

Nationally, affordable housing policy typically leaves the provision of finance entirely up to the private sector. HomeStart's experience and results demonstrate there is a role of government to play in providing a stepping stone for customers to move from private rental or other accommodation into assisted home ownership. To this end, it is appropriate for the Committee to gain an awareness of HomeStart's activities and how it has facilitated the development of affordable home ownership in South Australia. In turn, this information can provide options for consideration at a national level.

## Background information on HomeStart

HomeStart was established by the SA government in 1989 with the purpose of operating a home ownership assistance program. In its twenty five years of history HomeStart has now helped an entire generation of South Australian home buyers to purchase a home (over 64,000 households), generated a profit in every year of operation and returned more than \$380M to the SA government. It is estimated that more than 80% of customers would have been unable to get a loan from a mainstream lender at the time they purchased a home. The organisation's current loan portfolio is approximately \$1.9bn, supported by net assets of around \$170M.

HomeStart's reason for being is to "make home ownership a reality for more people in more ways" and this is achieved by:

- Accepting lower deposits for certain groups of customers, such as people with formal qualifications, key workers (e.g. nurses) or trades
- Accepting a wider range of customer income sources for loan servicing, including Centrelink benefits
- Increasing customer borrowing power without increasing monthly instalments, through subsidised rate home loans or innovative structures such as shared equity
- Reducing upfront costs through self-insuring the credit risk on its mortgage portfolio, enabling customers to avoid paying lenders mortgage insurance (LMI) and instead pay a loan provision charge which for most borrowers is much smaller than LMI

### **Legislative context and governance**

HomeStart is a statutory corporation established under the South Australian *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations* pursuant to the *Housing and Urban Development (Administrative Arrangements) Act 1995*. HomeStart is empowered to:

- Facilitate home ownership in South Australia by lending and providing other forms of financial assistance, including finance on concessional or special terms for low to moderate income earners.
- Provide, market, and manage home finance products and facilitate schemes to encourage home ownership, including mortgage relief schemes, as well as facilitating finance for the development of aged care facilities and rental accommodation in regional areas.

A Board of seven members oversees the performance of the organisation, with members appointed by the State Governor. The organisation reports to the Minister for Housing.

HomeStart operates as a financial institution and complies with relevant consumer credit legislation including the *National Consumer Credit Protection Act 2009 (Cwlth)* which governs the licensing and supervisory regime for brokers and lenders.

The organisation is also subject to a range of other legislation including the *Privacy Act 1988 (Cwlth)* and the *Anti Money Laundering and Counter Terrorism Financing Act 2006 (Cwlth)*.

### **Competitive neutrality**

Lending activities are financed by the South Australian Financing Authority (SAFA) at market rates and HomeStart operates within an overall borrowing limit agreed with the SA government. Consistent with the principles of competitive neutrality a guarantee fee of 1.60% is paid on outstanding debt and HomeStart's variable interest rate of 5.99% is priced above the market average of 5.95%, and well above the discounted rate commonly available which at the time of writing averaged 5.10%<sup>1</sup>. HomeStart does not offer any rate discounts.

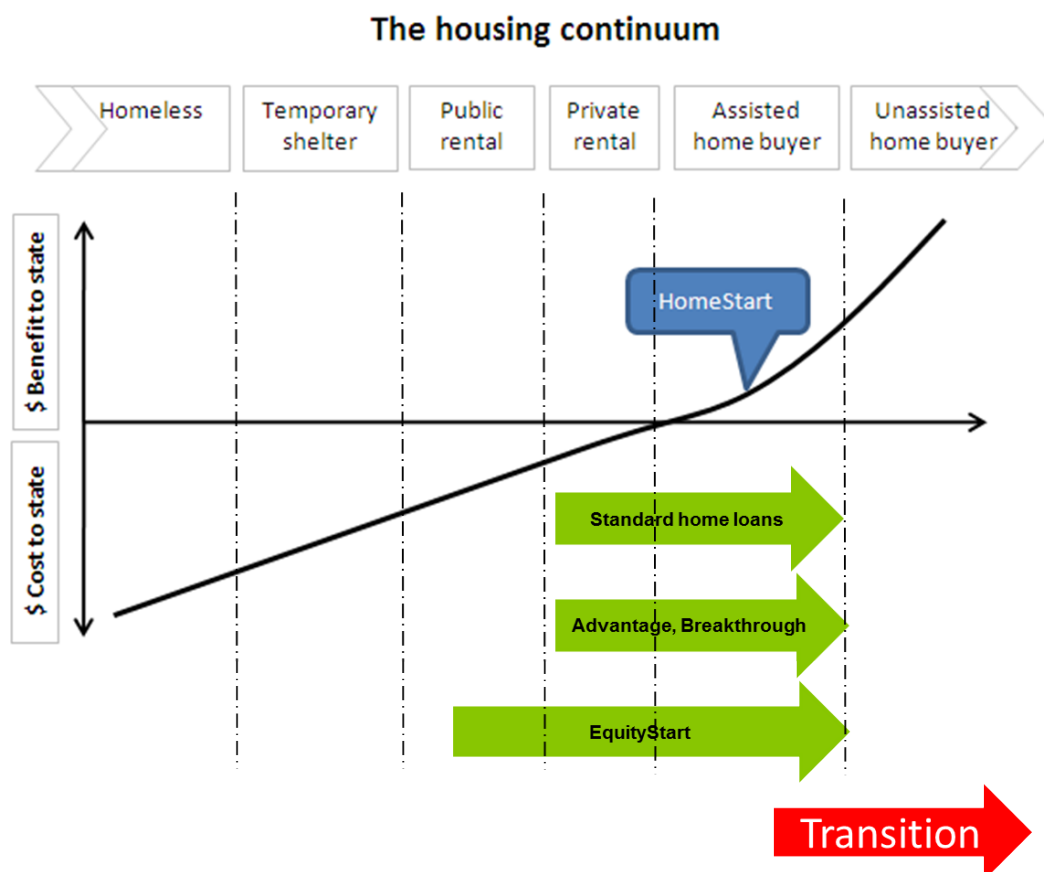
In this way, HomeStart uses its interest rate deliberately to position itself as an interim solution for customers entering home ownership for the first time or re-entering the market after changes in their life circumstances.

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<sup>1</sup> Market statistics from Reserve Bank of Australia, Indicator Lending Rates

## Role in the SA housing finance market

HomeStart's role in the home finance market is best described using the housing continuum diagram below, illustrating the different housing tenures and corresponding cost / benefit to the state.



The diagram shows how HomeStart's products are targeted at people in private or public rental and enable them to shift to the right, moving away from government assistance including Commonwealth Rent Assistance (CRA). It also highlights that home ownership via HomeStart provides a net financial benefit to government, as opposed to the cost of services through provision of public rental (e.g. HousingSA), private rental assistance (e.g. CRA) or resulting from homelessness.

A key message from the housing continuum is that HomeStart is the gateway for customers to eventually achieve home ownership via mainstream finance. To this end, HomeStart positions itself as a way to buy a home sooner, and also as an interim step between renting and home ownership.

This means customers who discharge their HomeStart loan (either by repayment or to refinance to another lender) represent successful home ownership policy outcomes.

At times in the past HomeStart has proactively worked to refinance customers to other lenders. Strategic levers – an interest rate higher than market, use of brokers for distribution – are used to achieve this goal in the long run.

### HomeStart by the numbers

Loans settled since 1989	more than 64,000
Current loan portfolio value	more than \$1.9 billion
Current security property value	estimated at more than \$3.4 billion
Date commenced self-insuring portfolio	1 July 2000
Loans written since then	more than 30,000 and valued at \$3.7 billion
Of which, number suffering credit loss	around 500
Value of credit losses since July 2000	approximately \$9.5 million
Credit losses as a percent of loan value	approximately 0.26%
Funds returned to SA government	in excess of \$380 million
Retained earnings	approximately \$170 million
Funds contributed by SA government	approximately \$128 million of which \$76m was initial capital in 1989.
Net financial benefit to SA government	more than \$420 million
Net financial benefit per loan	around \$6,500

### Financial performance

The organisation is subject to high level financial operating parameters including:

- An increase in the borrowing limit (currently \$2.105bn) of 5.25% p.a.
- Return on equity (ROE) target of 9.0%
- Payment of dividends and income tax equivalents as agreed with government
- Capital adequacy floor of 12%. Note that HomeStart is not subject to prudential supervision by APRA and voluntarily follows APRA's capital adequacy standards as a credit protection measure for the state.
- Cost to income target of 55%

HomeStart meets or exceeds all of its financial performance criteria. In 2012-13 the following results were achieved:

- ROE of 10.3%
- Profit before income tax equivalents of \$16.4 million
- Cost to income ratio of 53.6%
- Capital adequacy of 14.3%

### Financial relationship with the SA government

Last financial year HomeStart returned \$38.9m to the SA government including:

- Guarantee fee revenue of \$27.1 million
- Income tax equivalent of \$4.4 million
- Dividends of \$6.3 million
- Other fees of \$1.1 million

HomeStart receives Community Service Obligation (CSO) payments from the SA government (\$5.4m in 2012-13) in recognition of the non-commercial activities undertaken. These activities include:

- Acceptance of non-commercial credit risk
- Subsidised interest rate loans, such as the Advantage Loan
- Costs of lending to specific customer groups

### **Customer profile**

HomeStart's internal estimates are that approximately 80% of customers would be unable to get a loan from mainstream sources at the time they purchased a home. Notwithstanding this statistic, at least half of loans made to first home buyers are eventually refinanced which means that once a customer has spent a few years building equity and demonstrating a repayment history with HomeStart they become attractive for mainstream lenders. This is the essence of HomeStart's role: creating opportunities to give people a start in home ownership and then encouraging an eventual shift to private sector financing. It recycles HomeStart's capital and limits the exposure of the state government.

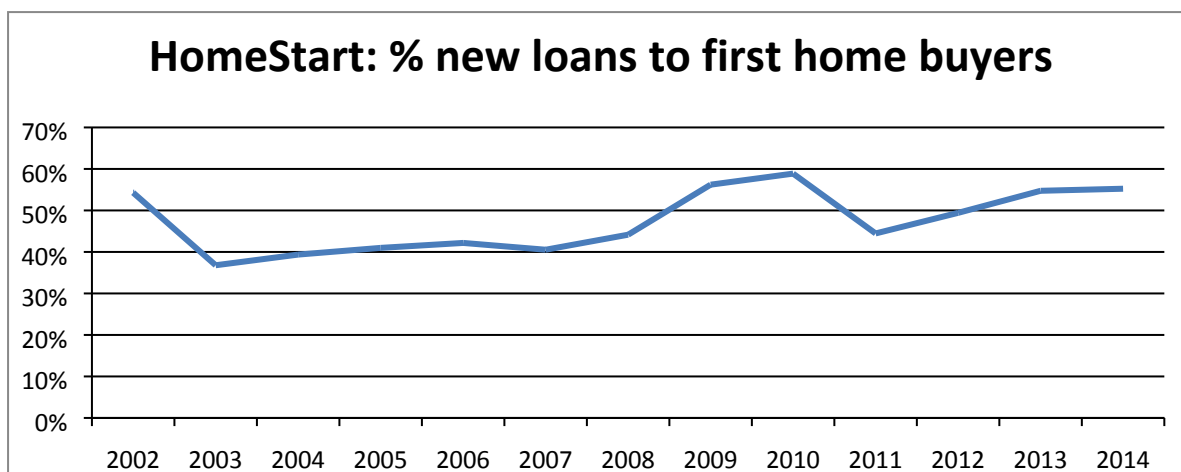
A snapshot of HomeStart's lending since 2008 shows:

- 54% of loans were to first home buyers
- 32% relied on Centrelink as their primary income source
- 21% were in professional or managerial occupations
- 19% worked part time or casual
- 71% were earning less than \$65,000 at the time they took out the home loan
- 34% were single without children, and a further 26% were couples with children
- 46% were moving out of private rental to buy a home (75% of whom were first home buyers). A further 15% were living with parents (77% were first home buyers)
- 23% of customers were eligible to receive a portion of their borrowings in the form of a subsidised rate loan, either due to low income or status as a HousingSA tenant.

### **First home buyers**

Lending to first home buyers is a core part of HomeStart's objectives and this customer segment currently represents over 50% of new loans. The graph below illustrates the trends, with a rise in first home buyer activity evident as a result of increased government incentives after the global financial crisis. The ratio has stabilised at around 55% in the last two years.

Non-first home buyers will typically take out a HomeStart loan as a result of changes to their circumstances, such as divorce or re-entering the property market for a variety of reasons. Although HomeStart does allow customers to refinance their existing bank loan to a HomeStart loan, this is a relatively small part of the business and generally not an attractive option due to the higher interest rate. Refinance activity is higher when interest rates are well above their current levels, typically where monetary policy settings are contractionary.

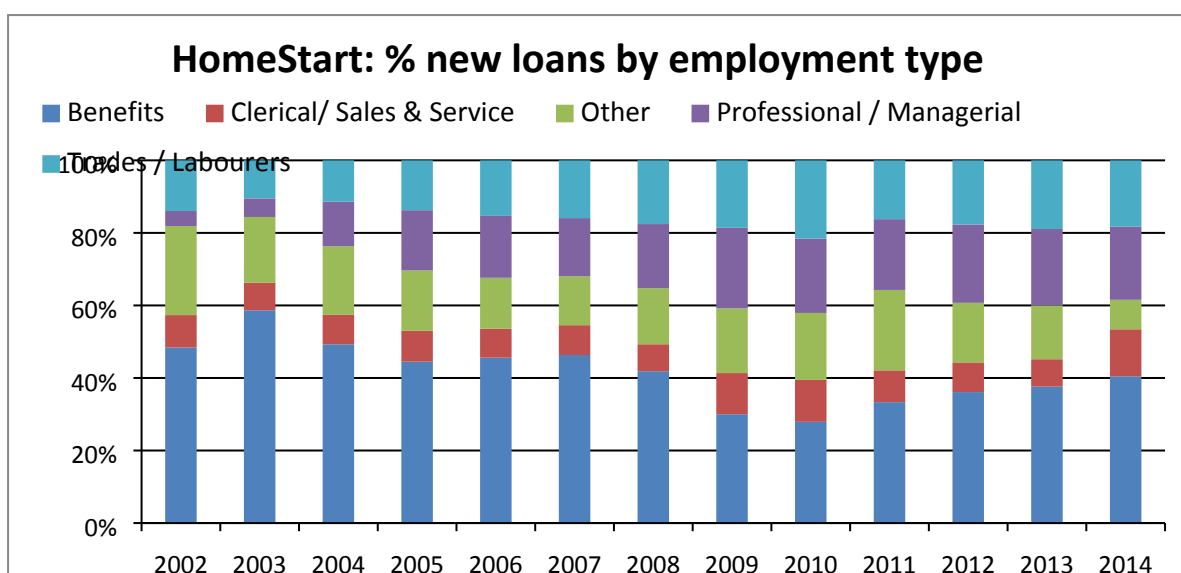


Source: HomeStart internal data.

### Employment and income source

HomeStart's acceptance of Centrelink income for loan servicing (subject to certain criteria, such as ensuring it is sustainable) represents a key difference to mainstream lenders. This has been a feature of the organisation's lending since inception although the proportion has substantially declined from almost 60% in 2003 to around 40% in 2014. Long term growth is evident in other employment classes including trades/labourers, professional/managerial and clerical/sales & service type roles. This is the result of two factors:

1. Long term house price growth has outstripped inflation, creating an affordability gap
2. Deliberate targeting of key workers (nurses, trades, teachers) who are first home buyers with difficulty raising a deposit and covering upfront costs. These people tend to refinance their loans faster than other categories of buyers. For example since 2008, the average age of a loan held by a nurse or teacher when refinanced is 3.3 – 3.4 years compared with 6.1 years for a customer reliant upon Centrelink income.

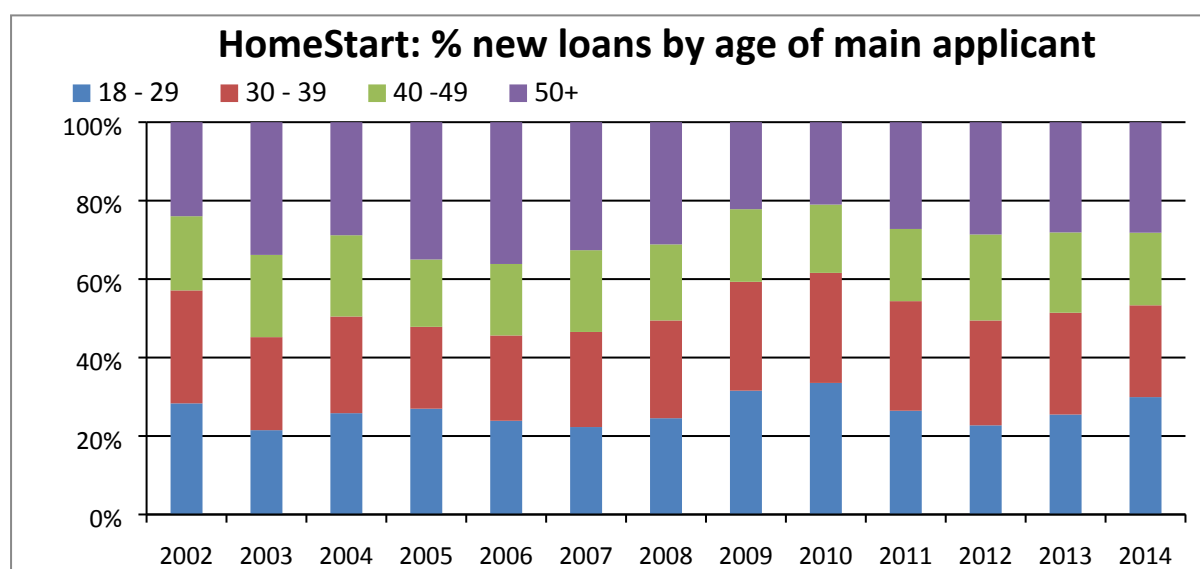


Source: HomeStart internal data.

## Customer age

HomeStart exhibits a relatively even split across the major age brackets as shown below. Historically, 75 – 80% of first home buyers are aged under 39. A rise in the 20 – 29 age bracket in 2009 and 2010 reflects significant first home buyer activity in response to increases to government incentives.

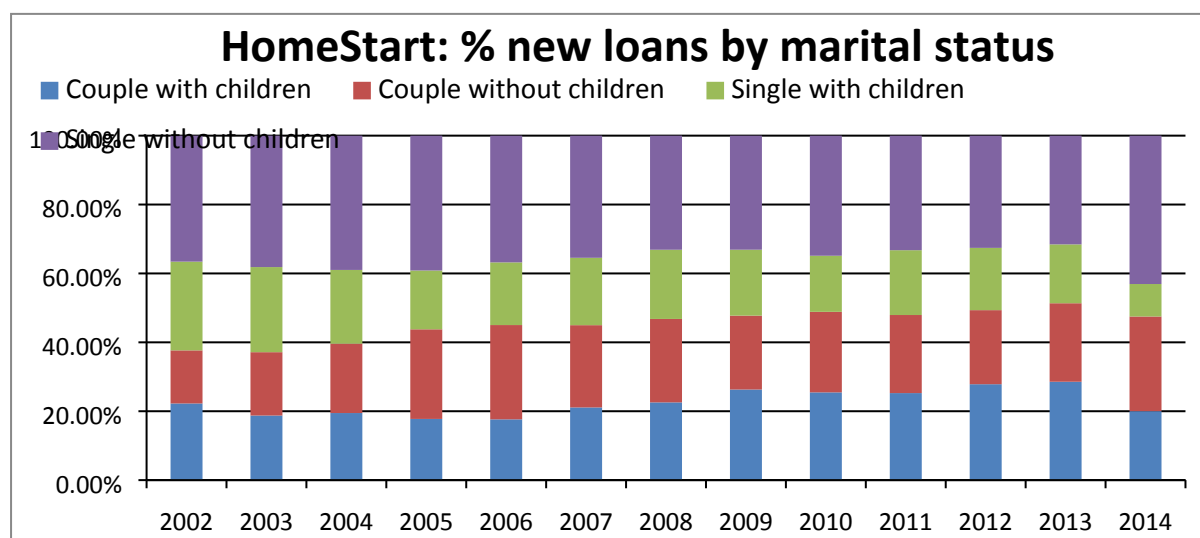
The majority of older customers are either non-first home buyers (typically re-entering the market) or, particularly in the early 2000s, reverse mortgage customers.



Source: HomeStart internal data.

## Household composition

Household composition of new customers is generally aligned with the market segments that have the most difficulty with affordability: young singles who represent around 35 – 40% of lending. There is also a correlation between changes in household and employment types when viewed over the longer term.

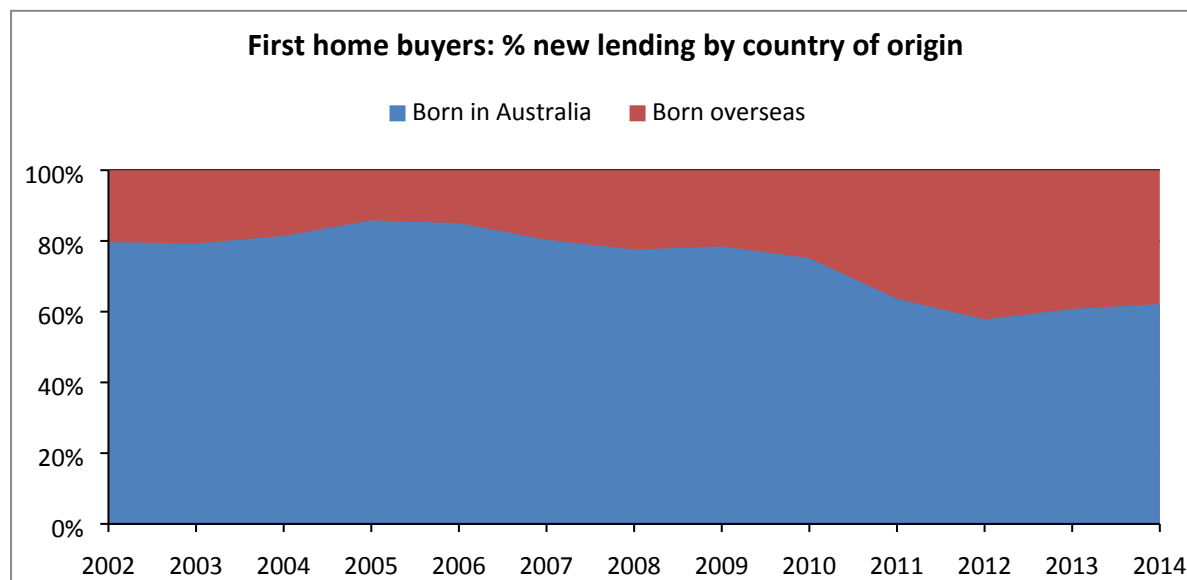


Source: HomeStart internal data.



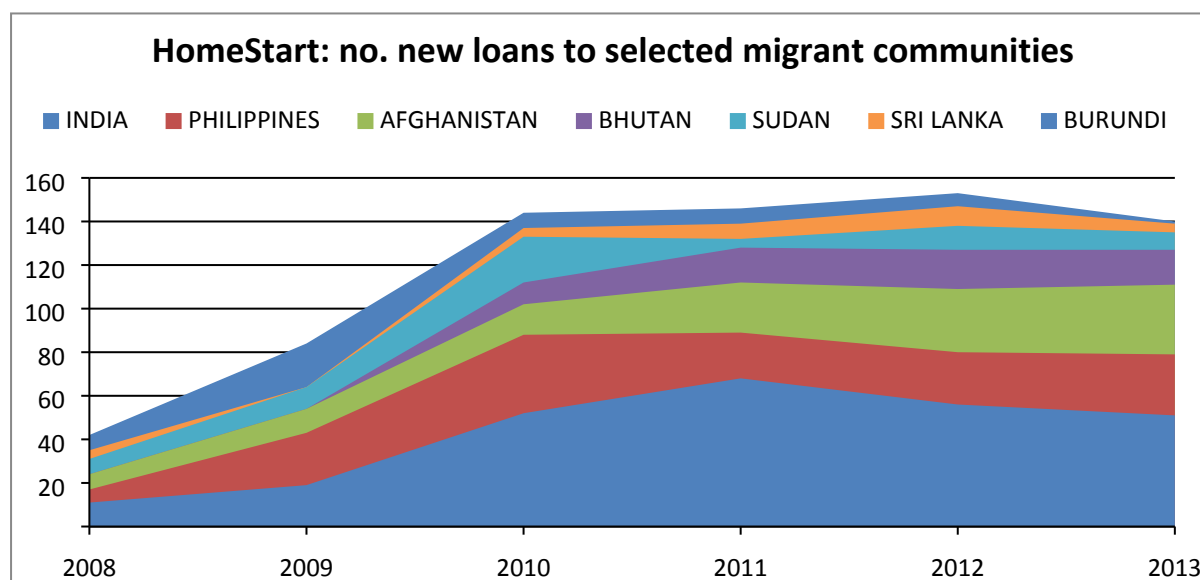
## Migrant communities

The graphs below shows some of the significant changes in countries of origin, demonstrating how HomeStart's lending criteria has helped many humanitarian arrivals to settle and form new communities.



Source: HomeStart internal data.

One example of this is the arrival of Bhutanese refugees to Australia via a UNHCR resettlement program. Adelaide is now home to a significant community of Bhutanese people and HomeStart has worked with them to facilitate home ownership through offering educational seminars and support including interpreter services. The Bhutanese community has worked hard to establish themselves in their new country and see home ownership as an important step in that direction. Other communities of migrants have also worked hard to build a culture of home ownership including groups from Burundi and Afghanistan.



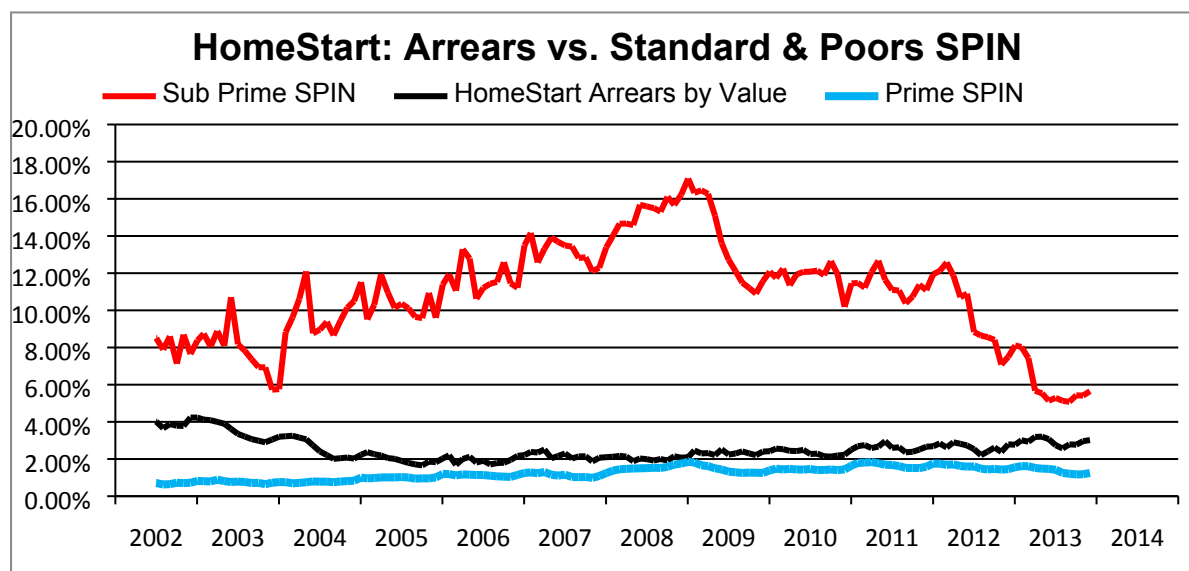
Source: HomeStart internal data.

## Credit quality

It is wrong to characterise HomeStart's lending as either "sub-prime" or "low-doc". HomeStart's lending policies and credit criteria are strict and full documentation of income is required. Customers with poor credit histories are not eligible for a HomeStart loan. Notwithstanding these guidelines, HomeStart's customers typically sit outside the criteria for mainstream finance due to deposit or income sources. The graph below is therefore useful in that it compares arrears data on prime mortgages as represented by the Standard & Poors Mortgage Performance Index (SPIN), arrears for sub-prime mortgages and arrears on HomeStart's mortgages.

HomeStart's arrears rate sits above that of prime mortgages, as would be expected, but it is materially better than that experienced by sub-prime lenders and further reinforces the point that the group of customers serviced by the organisation are capable of receiving and sustaining mortgage finance.

In considering credit quality it is also important to recognise that HomeStart complies with responsible lending guidelines as set out in the National Consumer Credit Protection Act (NCCP).

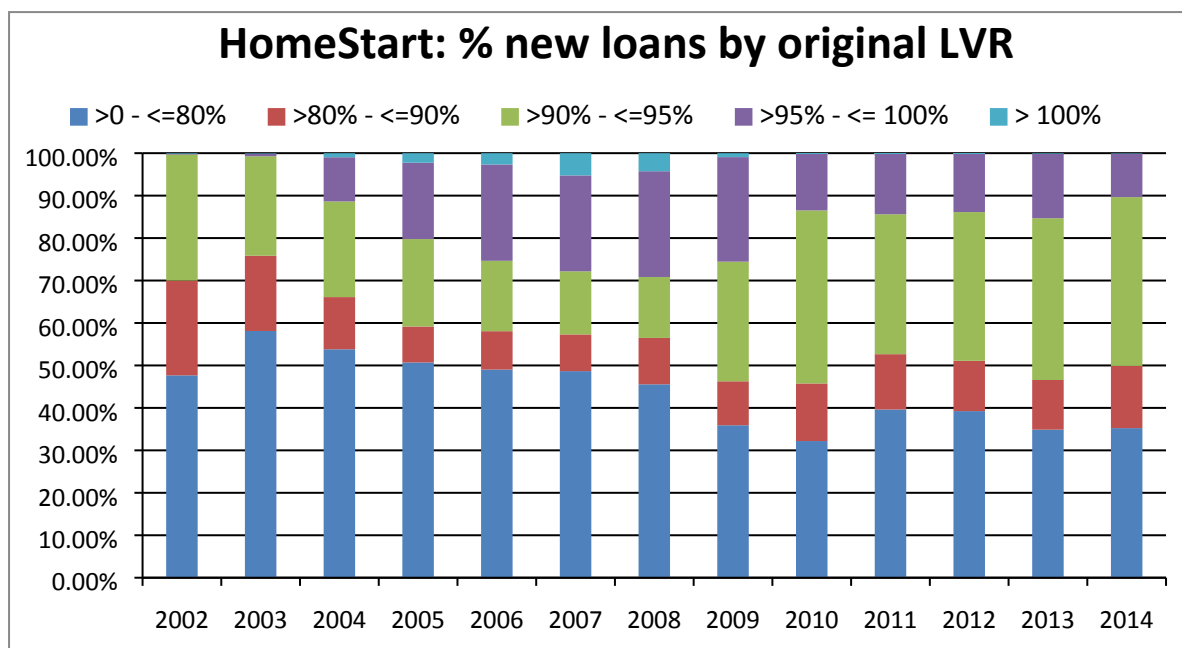


Source: HomeStart internal data, Standard & Poors

## Customer deposit

Reflecting the organisation's purpose and place in the market, a large proportion of loans are written to customers with relatively low deposits. The graph below shows the distribution of new lending by loan to value (LVR) ratio<sup>2</sup>. A high LVR indicates a low deposit, and vice versa. It shows that around 35 – 40% of new customers have a deposit of 5 – 10%. Around 10 – 15% of customers commence with a deposit of 3- 5% (HomeStart's minimum is 3% for certain customers such as those with tertiary qualifications who also meet other credit criteria).

<sup>2</sup> The loan to value ratio is a measure of the amount borrowed by a customer against the value of the property they are buying.



Source: HomeStart internal data.

### Lenders mortgage insurance (LMI)

It is standard in the mortgage industry for customers with a deposit of less than 20% to be charged what is known as Lenders Mortgage Insurance (LMI). Somewhat disingenuously, the concept of LMI is not to insure the customer, rather it provides a payout to the lender in the event the customer cannot repay their loan and a credit loss is incurred.

The cost of LMI can be many thousands of dollars for even small loans. HomeStart is unable to obtain LMI for its portfolio and since July 2000 has undertaken a form of self-insurance using an internally managed fund known as the Risk Transfer Vehicle (RTV). Customers are required to make a contribution toward the cost of their credit risk in the form of a fee at the time the loan settles and known as the Loan Provision Charge (LPC). The LPC is charged on the basis of LVR bands and the proceeds are invested in the RTV investment fund. Actuarial assessments are regularly undertaken on the adequacy of the RTV and the fund has always been solvent.

HomeStart's LPC is significantly cheaper than LMI as shown in the two tables below highlighting the differences for a first home buyer purchasing a \$300,000 (table 1) and \$400,000 (table 2) property.

**Table 1: First home buyer purchasing a \$300,000 existing property**

Deposit	HomeStart LPC	Genworth LMI
5% deposit	1,115	7,210
10% deposit	870	3,672
15% deposit	870	2,116
20% deposit	495	600
25% deposit	495	-

**Table 2: First home buyer purchasing a \$400,000 existing property**

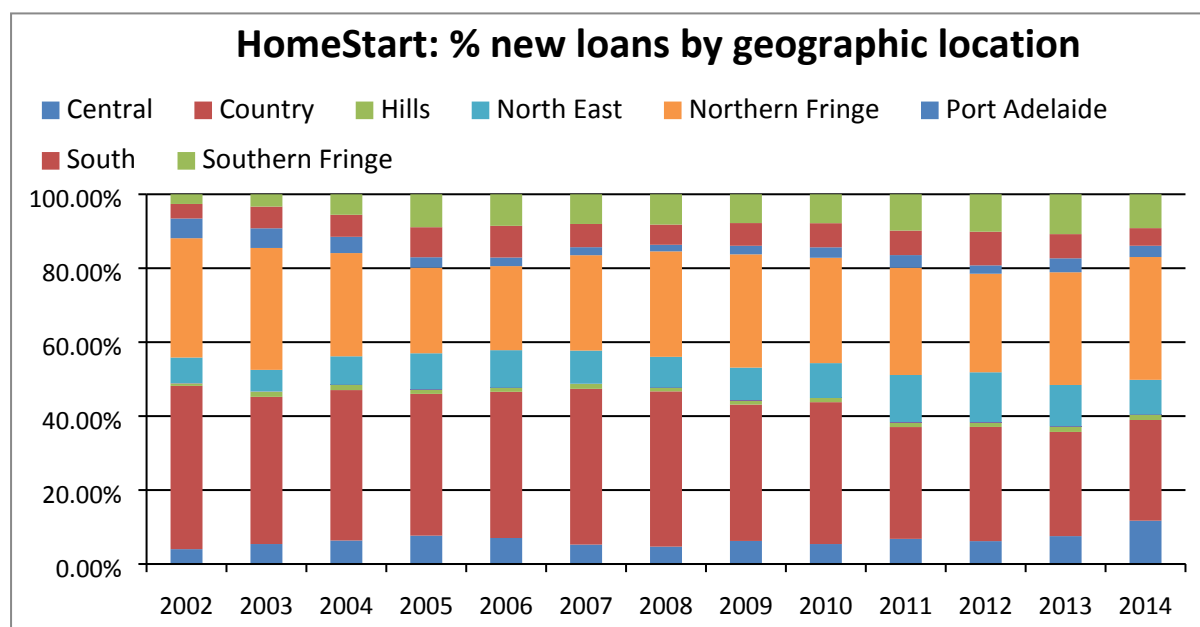
Deposit	HomeStart LPC	Genworth LMI
5% deposit	1,115	12,577
10% deposit	870	6,336
15% deposit	870	3,536
20% deposit	495	1,095
25% deposit	495	-

Sources: HomeStart; Genworth LMI premium estimator, March 2014

As can be seen, the approach taken by HomeStart delivers a substantially cheaper outcome for most of its customers. LMI providers do, in some cases, allow customers to add the premium to their loan balance and repay it over the life of the loan. This adds to the monthly repayment cost, and also increases the amount of interest payable over the life of the loan.

### Geographic concentration and property value

The geographic distribution of HomeStart's loans is representative of the demographics of our customer base, with a large proportion (29%) of lending undertaken in Adelaide's outer northern suburbs including local government areas such as the City of Playford (e.g. Elizabeth) and City of Salisbury. HomeStart has also undertaken a significant proportion (30%) of lending in regional towns particularly centres such as Whyalla, Port Augusta and Port Pirie. Adelaide's southern fringe suburbs account for around 13% of lending.



Source: HomeStart internal data. Regions other than 'country' denote suburban Adelaide.

Loans are distributed through a network of brokers and loan managers (including BankSA branches), as well as via the organisation's own internal lending function. Loan managers undertake origination, approval within lending guidelines and post-settlement management of the loan. By contrast, brokers provide origination, with approval handled by HomeStart.

Third party distribution is an important strategic component because it delivers:

- A lender of “next resort” for brokers unable to find a suitable mainstream lender
- Geographic reach

HomeStart’s distribution approach is not unusual in the mortgage finance industry, with the major difference being partnerships with two other financial institutions (BankSA and People’s Choice Credit Union).

## **Loan products offered**

There are four basic types of HomeStart Loans available:

### **1. HomeStart Loan**

HomeStart Loans are available for owner-occupiers in South Australia. The HomeStart Loan is fundamentally different to ‘normal’ home loans. It is designed to be affordable throughout interest rate cycles and this is achieved by generally only adjusting the instalment once per year, typically in line with inflation. This means that when rates go up, the loan term will increase and vice versa. By contrast, a standard home loan is written with a defined term (e.g. 30 years) and the instalment will go up and down with interest rates so that the loan term is always paid off in that time. Variations of the core product include:

#### **HomeStart Loan (maximum LVR of 95%)**

Available for customers to buy an existing property or build a new home in South Australia. Some geographic restrictions apply.

#### **Graduate Loan (maximum LVR of 97%)**

Limited to holders of qualifications down to Diploma level and specific Certificate III/IV qualifications. Geographic restrictions and specific credit criteria apply.

#### **Low Deposit Loan (maximum LVR of 97%)**

Geographic restrictions and specific credit criteria apply. An interest premium of 1% is charged in the first year of the loan.

### **2. Subsidised interest rate products**

These loans are taken in conjunction with one of the HomeStart Loans above. In the case of the Advantage and EquityStart products interest accrues on these loans at a rate generally equivalent to CPI and repayments are not due until the HomeStart Loan has been paid out.

#### **Advantage Loan**

A subsidised rate loan of up to \$45,000 available to households earning less than \$60,000 p.a. The amount available scales downward between net incomes of \$37,500 and \$60,000.

### **EquityStart Loan**

A subsidised rate loan of up to \$50,000 available to public housing tenants to purchase their existing HousingSA property or another home.

### **Wyatt Loan**

Delivered in partnership with the Wyatt Trust which provides funding for the loans and HomeStart provides administration, credit assessment, and distribution. Wyatt Loans are interest free and available for a term of up to 5 years to specifically targeted customer groups. The Wyatt Loan is available to assist with upfront costs associated with purchasing a home. Total funds available are capped.

## **3. Shared appreciation products**

These loans are taken in conjunction with a HomeStart Loan. They are designed to significantly lift customer borrowing power and HomeStart (or another party) receives a share of the capital gain on the property in lieu of interest on the shared appreciation portion.

### **Breakthrough Loan**

This product sits on HomeStart's balance sheet. The customer pays an annual fee of 3% of the Breakthrough Loan value and shares a portion of the capital gain with HomeStart on sale or refinance. HomeStart holds approximately \$70M (face value) of these loans and has a limit of \$100M. Geographic restrictions apply.

### **Shared appreciation loans (various)**

HomeStart has partnered with local government (e.g. City of Salisbury and Adelaide City Council) to offer shared appreciation products for specific developments. Under these arrangements the shared appreciation portion is retained by Council.

## **4. Reverse mortgages**

Seniors Equity Loans are provided to customers who own their properties outright and are commonly termed "asset rich and cash poor". The maximum loan to value ratio available for the customer is determined by their age. There are no scheduled payments and customers are protected by a "no negative equity" guarantee.

## Response to the Inquiry's terms of reference

### a) The role of all levels of government in facilitating affordable home ownership and affordable private rental, including:

#### i. The effect of policies designed to encourage home ownership and residential property investment,

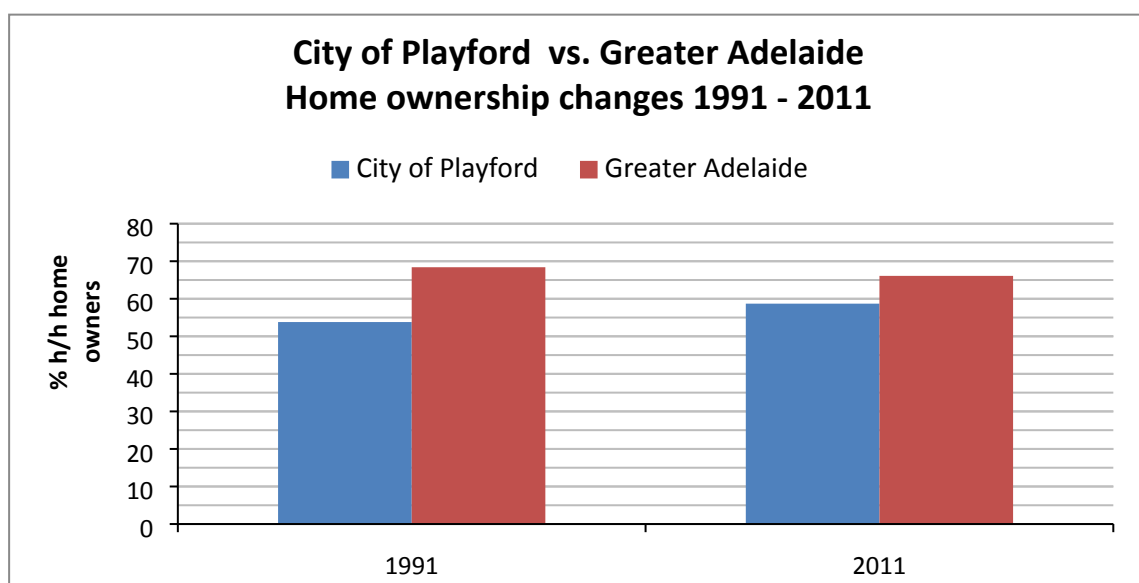
HomeStart itself is a product of successive state governments who have elected to support the notion of fostering home ownership. The background information above provides an overview of what can be achieved or replicated through locally developed models. Several examples below further illustrate how an organisation like HomeStart can work in partnership with others to achieve this goal.

#### Home ownership in the City of Playford

An example of what can be achieved with a variety of housing policies can be found in the City of Playford local government area. Playford is a broad constituency across the outer northern suburbs of Adelaide with a mixture of residential, industry and agriculture, notably including the Holden manufacturing operations at Elizabeth and RAAF Edinburgh.

The graph below shows the change in home ownership rates in Greater Adelaide compared with Playford between 1991 and 2011. Home ownership in Playford in 1991 was at 53.8% of households, compared to 68.4% for Greater Adelaide. By 2011 the gap had narrowed with Playford reporting home ownership of 58.7% (+4.9 pp) and Greater Adelaide 66.1% (-2.3pp).

This change was a function of a variety of government policies fostering home ownership including the presence of HomeStart, first home buyer grants, relatively affordable land releases and urban renewal programs. It is the combination of both affordable supply and access to finance for the intended demographic which has helped lift home ownership in this area.



Source: Australian Bureau of Statistics, Census of Population and Housing 1991 and 2011

Nationally, affordable housing policy typically leaves the provision of finance entirely up to the private sector. HomeStart's experience and results demonstrate there is a role of government to play in providing a stepping stone for customers to move from private rental or other accommodation into assisted home ownership.

### **Loan products for public housing tenants**

A second example of policy intervention to encourage home ownership was the development of the EquityStart loan, which was delivered by HomeStart in partnership with HousingSA.

The EquityStart loan has enabled almost 1,300 public housing tenants to buy a home, either their existing HousingSA property or to purchase an entirely different property. A large proportion (43%) of these loans were taken up in country areas of South Australia with notable volumes also occurring in the northern fringe suburbs of Adelaide. As described above, EquityStart has assisted the overall urban renewal effort in Adelaide's northern suburbs and remains a successful means of shifting people out of expensive public housing and creating home ownership opportunities. It is also worth noting that since the program commenced in 2005, slightly more than one third of the EquityStart loans have been repaid with about 40% of them refinanced to other lenders. EquityStart represents a real example of the housing continuum referenced earlier in this submission.

### **Loans tailored for low-moderate income earners**

In a similar vein, HomeStart's Advantage Loan also represents a significant policy accomplishment that has run for many years. Unlike the EquityStart product, the Advantage Loan is targeted at lower – middle income customers. Currently the loan is structured such that a customer earning less than \$37,500 p.a. after tax can receive a borrowing boost of up to \$45,000. The value is reduced for higher incomes and is not available for net incomes of more than \$60,000 p.a.. This makes the product accessible for a wider range of occupations and suburbs.

### **Partnerships with local government**

HomeStart already offers a shared appreciation product known as the Breakthrough Loan, which enables the customer to buy a better property in exchange for sharing some of the capital gain. Similar arrangements have been facilitated with local government, where council has developed surplus land and held the shared equity 'portion', and HomeStart has provided the remainder of the loan.

### **City of Salisbury and 'Brahma Green'**

Brahma Green was a development of 11 house and land packages on surplus council land. It was a joint initiative of the City of Salisbury, HomeStart Finance and McCracken Homes. Council supplied the land and McCracken Homes undertook fixed price construction projects. The houses were made available to first home buyers who lived or worked in the area and had an income less than \$59,000. HomeStart provided finance and council has a shared appreciation arrangement over the land component.



## **Adelaide City Council and ‘Ergo’ apartments**

The Ergo apartments were constructed on Sturt Street in the Adelaide CBD on land provided by the Adelaide City Council. Fifty-two apartments were designed to be affordable and these customers were able to finance their property using a standard HomeStart Loan and a shared appreciation loan. The latter was a combination of a contribution from the Adelaide City Council and Federal Housing Affordability Fund (HAF) contributions. These loans settled in November 2013.

## **Other issues for consideration**

It is also useful to compare the national funding allocation to *affordable* home ownership with that available for rental assistance (e.g. CRA) and incentives for property investors (i.e. negative gearing). These latter two policies are somewhat in conflict with the notion of encouraging affordable home ownership. Research by the Grattan Institute<sup>3</sup> also suggests the taxation benefits for home owners tend to flow more to higher income households.

### **ii. The taxes and levies imposed by the Commonwealth, state, territory and local governments**

After access to finance, saving up for stamp duty is the single largest barrier to home ownership, particularly for first home buyers. By way of example, a single customer earning \$45,000 (gross) can borrow sufficient from HomeStart to buy a \$270,000 property, equivalent to a variety of 3 bedroom properties around 20-30km north of the Adelaide CBD. They would be required to provide a deposit of at least \$8,100 and then contribute almost a further \$10,000 in stamp duty.

This means if a customer has saved their deposit then they need to save more than the same amount all over again simply to cover a tax. Stamp duty is regressive in that the most vulnerable customers – low-moderate income first home buyers – are least able to afford it, or afford to save for it. The imposition of this tax at the time of purchase creates a significant disincentive both for first home buyers and overall property market transactions.

It is acknowledged that stamp duty represents a substantial portion of the revenue base across all states. Government could elect to consider policies that assist certain types of home buyers to overcome this barrier without necessarily disrupting the revenue base, such as:

- Using a system similar to that employed to finance university costs to cover stamp duty costs (i.e. HELP)
  - Link repayments to income and index the debt by CPI
  - It could be carefully targeted at first home buyers with income eligibility criteria to minimise cost and maximise impact
- Deferring collection of stamp duty to sale of the property
  - This approach would create some interruption to revenue

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<sup>3</sup> See Grattan Institute, ‘Renovating Housing Policy’, October 2013

- It too could be carefully targeted and would suit first home buyers
- As first home buyers are a relatively small part of most markets the overall revenue impact would be lower than blanket adoption of the scheme
- Spreading the cost of stamp duty over several years
  - This approach is similar to existing suggestions advocating a broadening of the tax base, such as a Broad Based Land Tax.

**I. the role of innovative and responsible funding mechanisms used in other countries, including the United Kingdom, United States of America, France, Canada, Austria and the Netherlands, that provide a stable and cost effective way of funding affordable rental and social housing, such as affordable housing supply bonds and an affordable housing finance corporation;**

HomeStart is well aware of a variety of innovative financing models operating overseas including those in the UK and Switzerland, as well as option for home ownership assistance in the Netherlands and Canada.

In considering financing models, HomeStart urges the committee to ensure local successes are not overlooked in favour of international options. In particular, the benefit of using local models is they are developed specifically for the Australian housing market and home buyer attitudes, as well as being readily scalable if necessary.

In addition to financing models, consideration should also be given to reviewing deposit and savings alternatives available to first home buyers, including comparing and contrasting the success and otherwise of local and overseas options.

**Failure of First Home Saver Accounts**

Locally, the First Home Saver Accounts (FHSA) were an unsuccessful means of assisting home buyers from accumulating a deposit. The reasons for this include:

- Inflexible options, not allowing for a “change of heart” or circumstance
- Excessive restrictions around where the money goes if home purchase is not undertaken (i.e. locked up in super for decades)
- An overly long time horizon

Many of these features are not compatible with how today’s generation of first home buyers are living their life which in turn reduces the attractiveness of the product.

**Use of superannuation**

By contrast to the FHSA experience, the Australian Government has been very successful in promoting an alternative long term savings scheme: superannuation. Nonetheless it is somewhat ironic that a person in financial difficulty can apply for early release of their superannuation for mortgage assistance, yet a household of good credit standing cannot use those same funds towards a deposit to buy a home.

Other countries have addressed this problem. By way of example, the Canadian Home Buyers Plan allows first home buyers customers to withdraw \$C25,000 from their super fund and use it to buy or build a home to live in. This is conditional upon replenishing the super fund over a period of 15 years.

Such a scheme in Australia would be best suited to first home buyers. By way of example, a new graduate entering the workforce perhaps on a wage of \$50,000 per year would be expected to accumulate over \$30,000 in super in their first 6 years of working. If they were to access \$20,000 of these funds and then repay this amount over 15 years then 20 years later they would have significant equity in their own home, and have almost \$360,000 in super. The impact of withdrawing the funds means the person would, after 20 years have about \$23,000 less super than if they had not withdrawn the funds<sup>4</sup>. By any objective measure, a household in this position will be financially better off in the longer run, given the accumulated equity and being just a few years away from avoiding ongoing accommodation costs (rent or mortgage payments).

Superannuation is one of the most effective savings schemes known and the funds could be used to satisfy the basic household needs of shelter and security, without necessarily compromising long term retirement goals. HomeStart believes the Canadian model could be adopted with some relatively simple targeting criteria. Replenishment of super in time is a key point that should not be lost, as it helps reduce impact on future retirement savings. It is noted that the Canadian scheme enables a person to pay income tax on the funds rather than replenish their super account. This feature of the Canadian model should not be adopted and replenishment should be mandatory.

## Concluding remarks

Notwithstanding there are many exciting ideas overseas covering the full spectrum of tackling housing affordability, we urge the Committee to start locally (but remain mindful of solutions overseas), keep it simple, and be mindful of the long term success achieved by smaller states such as South Australia with HomeStart. Combinations of proven models from Australia and overseas are likely to be both scalable and workable in Australia and to this end we also encourage the Committee to consider ways in which other countries allow first home buyers to use (and replenish) their super funds during the home purchase process.

In particular, with HomeStart, Australia already has access to a proven model of affordable home finance with nearly 25 years of lending history that delivers:

- Significant reductions in upfront costs for most customers through not using Lenders Mortgage Insurance (LMI)
- A unique home loan product that is designed specifically to remain affordable throughout interest rate cycles and is very suitable to fixed income households
- Options that enable customers to lift their borrowing power, particularly valuable when prices are growing faster than incomes
- Other options that help specific customer groups reduce their upfront contributions and costs, particularly targeted at key workers such as nurses, teachers and trades
- A positive financial return to the South Australian government each year

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<sup>4</sup> Assuming 3% income growth, 6% investment return after tax and a constant 9.25% contribution rate

- A strong track record of credit management, and proof that an otherwise ignored customer segment has the capacity to be successful home buyers and ultimately be bankable by the private sector.

We welcome the opportunity to provide the Committee or any other interested party with more information on HomeStart and our activities.

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