RE: National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020

To whom it may concern,

[redacted]

[redacted] I currently live with my parents in a family home that my father purchased for approximately $200,000 in the early 2000's. Today I earn more than both of my parents combined and would not be able to afford to purchase this same house. One of my long-term goals is to purchase a house however I firmly believe that Australian real-estate is overvalued, not driven by fundamental mechanisms, and in constant danger of a severe correction in prices (as evidenced by the actions of Australia's financial regulators every time there is an economic shock). I also believe that it is not prudential to commit my life savings to such an asset, nor to go into a life-long mortgage debt to purchase such an asset.

Regarding the proposed bill, I note the following:

i) The bill aims to benefit borrowers however I believe that this is taking a very myopic view.

   The availability of credit is one of the strongest factors that drives Australian house prices. This can be evidenced during the Hayne Royal Commission when lenders began applying responsible lending standards more rigorously which resulted in significant house price falls nationally. Conversely, house prices began recovering when lending standards were once again loosened during and following the Royal Commission.

   As such, any bill which aims to relax or loosen lending standards will ultimately cause house price inflation. This is not a good outcome for borrowers given that Australia's real estate market is one of the most expensive in the world, Australian's already suffer from high amounts of mortgage stress, and have poor retirement prospects as a result of the high cost of home ownership.

   Similarly, the social impacts of indebtedness and mortgage stress such a domestic violence and crime should be considered when assessing "benefits" to borrowers.

ii) The bill aims to encourage consumers and businesses to access credit so that consumers can continue to spend and business can invest and create jobs. This is a sound theory, but will not be effective in Australia for the following reasons:

   a) Australia's house-hold debt levels are astronomically high, and there is no guarantee that Australians will have an appetite to go further into debt in order to aid the economic recovery by spending more. In my own experience with the majority of my friends and colleagues in my age range (mid 20's to late 30's), their number one priority is to pay-off their existing mortgage debt. They do not have expendable income to contribute to business investment, and would not borrow to do so.

b) The loan portfolios of Australia's banks are dominated by real-estate and it has been trending this way at the expense of business investment since the late 80's (refer to figure 1.1 below). Much of this investment has occurred in established dwellings which is a poor mechanism for contributing to job creation or increasing outputs in the real economy. Given that lenders clearly preference housing investment over business investment, the bill will not have the desired outcome of encouraging business investments and creating jobs. The most likely effect of the bill would be to further exacerbate Australia's housing bubble. Note that this represents a significant global risk as evidenced by Deutsche Bank's chief economist Torsten Slok who identified that a house price crash in Australia as one of the top 20 biggest risks to financial markets in 2020 (pre-pandemic assessment conducted in late 2019).

A special mention should also be made of the 'wealth effect' argument in which it is believed that owners of property are more willing to spend as the value of house prices increases. With this, the counter argument should be considered in that highly indebted borrowers limit consumption in order to pay down their mortgage debts. With the levels of home ownership in Australia shrinking, it could well be argued that in the future, the number of borrowers with large mortgage debt will exceed home owners (those that feel 'a wealth effect'). If this were to occur, the majority of household consumption would be stifled. This would be especially detrimental to the Australian economy given that Services makes up 50% of Australia's GDP.

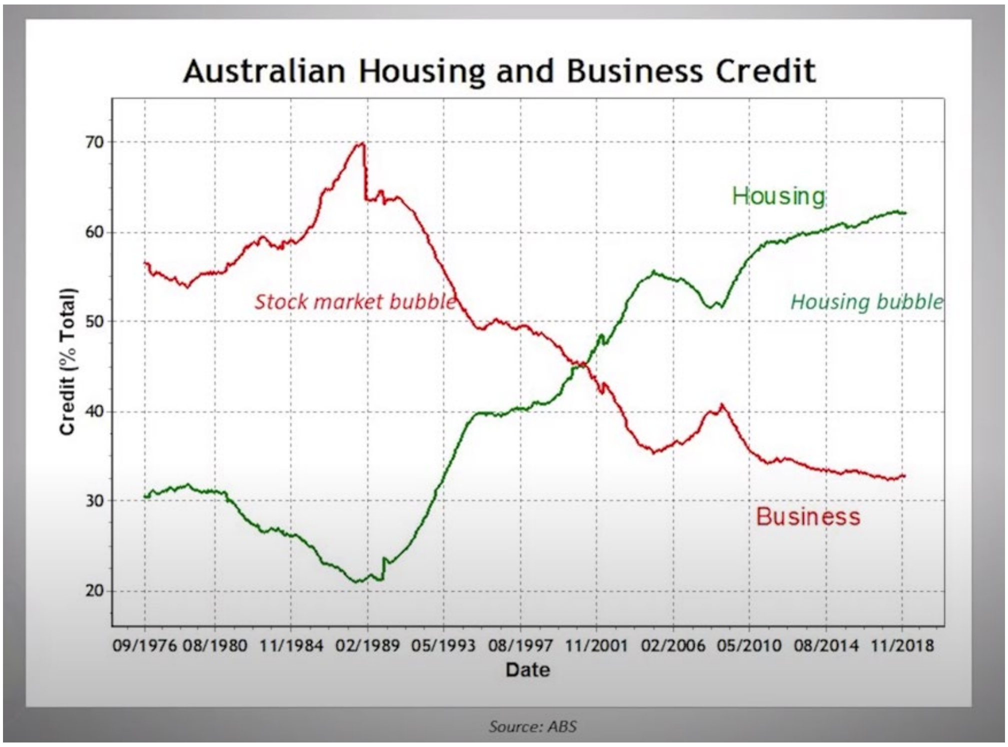

Figure 1.1: Australian Housing and Business Credit

iii) As was evidenced by the Hayne Royal commission, loose lending standards has led to detrimental outcomes for Australian borrowers such as loss of family homes and farms.

If, the bill is passed, then I believe that an amendment should be made so that all loans made under the relaxed lending standards should be of the 'non-recourse' type (where if the borrower defaults the lender can only seize the assets put up as collateral for the loan). This would protect borrowers from predatory lending strategies.

Overall, I think that the proposed bill is dangerous, will not have the desired effect of contributing to economic growth and recovery, and will erode Australia's economic stability by further inflating Australia's housing bubble. As such I believe it to be highly irresponsible and do not think that it should be passed.