28 March 2008

The Secretary
Senate Select Committee on Housing Affordability in Australia
PO Box 6100
Parliament House
CANBERRA ACT 2600

Housing.sen@aph.gov.au

Dear Sir

This letter is in response to the invitation to this association of 27 February 2008, to make a submission to the Senate Select Committee's Inquiry into Housing Affordability.

We expect there will be many views as to barriers to home ownership, including those outlined in the letter of 27 February and MFAA does not profess to have a solution to this very complex issue.

The Committee may be aware that last August, Mr John Symond, Chairman and CEO of Aussie Home Loans, a member of the MFAA proposed an innovative Mortgage Interest Deduction scheme to alleviate housing affordability problems for first homebuyers. Details of this can be provided by MFAA or Aussie Home Loans directly.

However we take this opportunity to make some comments on access to finance.

Very few Australians are in the position to acquire a home unless they obtain funds via mortgage finance so access to mortgage finance is crucial to this issue.

While there may be an argument that ready access to finance increases the demand for housing and therefore increases the price, with the result that housing becomes even less affordable, a far stronger argument is that lack of access to finance simply deprives the vast majority of Australians of ever achieving their aspiration of owning their own home. Home ownership (including borrowers with a mortgage and those who own their properties outright) in Australia, at around 70% is one of the highest rates in the world.

Access to mortgage finance should not be, and should not be seen as, a determinant of housing prices. It is simply a means to enable a purchase to be made. It only has the potential to impact on housing prices in circumstances when the supply of housing cannot match the demand.

With a longstanding home ownership rate of 70%, it is clear that at least 70% of Australians (and most likely more) 'demand' or aspire to owning a home. Therefore there is <u>always</u> demand, and supply should match that demand. However whether the demand can be activated depends largely on access to finance.

Where access to finance is restricted either by availability or price (interest), the pressure for a home simply transfers to the rental market and unaffordable rents for many and lack of availability of property.

Historically (ie pre 1990's)access to mortgage finance in Australia has been restricted.

But over the past decade or so, non-bank mortgage managers have provided effective competition to the banks for the direct benefit of Australian homebuyers.

In 1994 the competition between non-bank mortgage providers and banks intensified providing a major benefit to home buyers in the form of a significant reduction in the margin between mortgage lending rates and the official cash rate.

By offering lower mortgage rates than the banks the non-bank mortgage providers were able to increase their market share of housing lending very quickly. To protect their market share the banks were forced to reduce their lending rates to meet the competition from non-bank providers. The result was a reduction of more than 2% in the margin on mortgage lending over the cash rate which has continued to this day.

Instead of expensive housing finance being rationed by the banks, consumers now benefit from the more plentiful supply of cheaper finance from a much wider range of providers. Reserve Bank statistics show that for the last 15 years it is the non-bank mortgage providers lending both directly and through mortgage brokers, who consistently offer lower average standard variable lending rates than the banks and have been responsible for reducing the spread on mortgage rates over the benchmark cash rate.

The banks have not only been forced to meet the competition from non-bank mortgage providers by cutting their margins, they have also done an increasing proportion of their lending through mortgage brokers. The proportion of mortgages originated through brokers is now around 40% of outstanding loans.

Mortgage brokers now play a critical role in facilitating competition in the mortgage market by subjecting a high proportion of new loans to the competitive test of which loan will give the borrower the most appropriate arrangements for their particular circumstances.

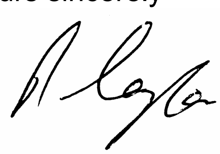
The current liquidity crunch, while impacting on all providers of credit has had a greater impact on non bank lenders, which do not have access to deposits and rely on the global markets and securitization for their loan funding.

ABS Housing finance statistics (January 2008) show that bank lenders now are writing around 87% of the value all housing loans compared to around 80% a year ago.

If non bank lenders are squeezed out of the market because of lack of access to funds, we will likely see a ‘back to the future’ scenario with banks dominating housing lending and interest rate margins creeping back to pre 1990 levels, with the absence of non bank competition. Higher interest rates will mean less access to housing finance and home ownership.

In order to sustain competition in the Australian housing finance market, Australia needs a mechanism such as those which operate in Canada and USA, whereby organizations such as the CMHC (Canadian government-owned) and Fannie Mae and Freddie Mac (privatized US government sponsored) provide access to securitized funds. An article in the *Australian Financial Review* of 27 March 2008, page 79 argues this case in some detail.

Yours sincerely



Phil Naylor
Chief Executive Officer