Australian Banking Association

HELP TO BUY PROGRAM DIRECTIONS

Treasury

24 May 2024

Australian Banking Association

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Key recommendations

The ABA recommends the following:

1. Income thresholds and property price caps are reviewed to account for the current economic environment. Current thresholds and caps may inadvertently restrict some consumers from accessing the Help to Buy scheme (**Scheme**) as intended.
2. The Treasury consider whether a minimum deposit of 5% would be a more appropriate policy setting to minimise the risk of customer hardship and financial difficulty under the Scheme.
3. The Scheme is modified to reflect that a 30-year loan term for construction of new homes commences only after the interest only build period is complete.
4. The Scheme adopt current industry timeframes for completion of buildings (up to 36 months) or permit exceptions to the timeframes to account for known delays in the construction of buildings.
5. The Scheme is modified to permit loan term extensions for applicants experiencing hardship.
6. The Treasury remove the requirement for Housing Australia to provide a contribution at each progress payment stage and carry out further consultation with banks and the construction sector to determine a more appropriate point at which these contributions could occur.
7. Housing Australia consider changes to the Scheme to enable a customer to access additional funds where a replacement contract is higher in value than the original contract.
8. The Scheme include Aboriginal and Torres Strait Islander-specific policy parameters or targets to support these participants towards home ownership.

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About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

Australian Banking Association

ABA submission to Help to Buy Scheme Program Directions

1. Overview

The Australian Banking Association (**ABA**) welcomes the opportunity to provide feedback on the Help to Buy Scheme program directions (**directions**). Home ownership remains an important financial and lifestyle goal for many Australians and policies that facilitate affordable and sustainable home ownership should remain at the centre of Australia's housing policy agenda.

On 10 May 2024, the ABA and our members attended a consultative session with Treasury on the directions. At this session, members provided verbal feedback on the directions.

Members welcomed the more equitable split of responsibilities between banks undertaking financial aspects of the scheme and Housing Australia undertaking administrative aspects of the scheme, which are naturally more aligned to each party. Members also noted the design principle of the scheme that permits homeowners to undertake small modifications or improvements to the home without seeking approval from Housing Australia. This is a welcome point of distinction to State-based shared equity schemes.

The ABA notes the purpose of the Help to Buy Scheme is to improve housing outcomes for eligible Australians by reducing the upfront deposit hurdle and ongoing mortgage repayments associated with purchasing a home. However, majority of member feedback focussed on policy design elements that may make it more difficult for consumers to access or be eligible for the Help to Buy scheme, such as income caps. This submission provides supplementary information on some of these points of feedback.

The ABA would welcome further discussions with Treasury on the matters contained in this submission.

2. Comments

The ABA provides the following comments in relation to provisions contained within the directions.

Timeframe for implementation of Help to Buy Scheme

The ABA has previously engaged with Treasury and sought a minimum three-to-six-month period for banks to implement and establish systems to support the scheme. Banks continue to require a minimum of three to six months for implementation.

Single and joint income thresholds

Section 8 of the directions prescribe the income thresholds for applicants and participants to be eligible for the Help to Buy scheme of $90,000 for a single participant and a combined income of $120,000 for joint participants.

While the ABA understands the scheme has been deliberately designed to narrow its application to cohorts who generally cannot meet deposit costs upfront, members are concerned the current income thresholds will significantly restrict the number of applicants who can qualify under the scheme or be able to purchase a property in today's market. The ABA notes that many of the policy settings, such as income thresholds and property caps, were committed to in May 2022 when property values and interest rates were considerably lower. At that time, the median Australian property was valued at $752,507, while interest rates were at in 0.35%. In April 2024, these figures sat at $779,817 and 4.35% respectively (and in the case of select capital cities, there figures have increased beyond the median (for example, in Perth prices rose from $555,538 to $721,278 over the same period)).

As Treasury is aware, banks are required to comply with a range of prudential, regulatory, and responsible lending obligations when assessing the serviceability of a loan and a consumer's ability to repay the loan. These settings are dependent on a range of factors, including interest rates, which can impact on serviceability.

To assist Treasury with understanding the potential practical impact of some of these settings, the ABA provides the following illustrative example to demonstrate how the single and joint income threshold cap could be applied in the context of bank lending requirements. We note that banks will also factor in credit and risk policies and the individual circumstances of a consumer, which will also have an impact on how much they are able to lend.

A single individual on a maximum income of $90,000 with a 2% deposit and a 30% government shared equity contribution would likely be able to purchase a property valued at approximately $600,000, provided they have no other debt. In the case of a single individual with a dependent and a small loan (such as a credit card or personal loan), the borrowing capacity of an individual will be lower. These values would make it restrictive for an individual to purchase a property in any of Australia's capital cities, and in some regional areas.

ABA members participating in the NSW Shared Equity Scheme have observed similar issues relating to the income caps under that scheme, which are comparable to the caps proposed under the directions. To ensure that prospective homeowners have the best possible chance of entering and sustaining home ownership, and the scheme is effective in its application, the ABA requests the eligibility parameters for the scheme be reviewed with the current economic environment in mind. The ABA notes the Victorian Shared Equity Scheme income thresholds could be considered as a starting point.

Property price caps

Section 7 prescribes the residential property price caps that apply to the program. These price caps restrict the purchase price of the relevant property that may be purchased under the Help to Buy scheme. The ABA notes the intention of the price caps is to support applicants to purchase modest homes. Similar to our feedback on proposed income thresholds, the ABA encourages Treasury to review the property price caps in light of the current and forecasted property values in each jurisdiction, particularly where there has been rapid property value growth, such as South Australia and Western Australia.

2% deposit

Section 17 sets out requirements for an eligible applicant under the Help to Buy scheme. One of these requirements relates to Housing Australia being satisfied that the applicant will, either individually or jointly with another applicant, provide a deposit of at least 2% of the purchase price of the relevant property.

The ABA notes that some other shared equity schemes administered by States, such as the Victorian Shared Equity Scheme, require a minimum deposit of 5%. Some banks have observed that in their participation in other schemes where a 2% deposit is accepted, they tend to see higher rates of arrears and missed payments, compared to a higher level of deposit.

The ABA encourages Treasury to consider whether a minimum deposit of 5% would be a more appropriate policy setting to minimise the risk of customer hardship and financial difficulty under the scheme.

30-year loan term

Section 22 provides that it is a mortgage requirement that the term of the mortgage does not exceed 30 years. The ABA supports this provision but seeks two exceptions be included in the directions:

1. For arrangements that relate to the construction of a new home, most banks commence a customer's loan term after the interest only build period has been completed. This enables customers to make principal and interest repayments over a 'true' 30-year period. The practical impact of this exception is that where a customer's build period is extended due to circumstances beyond their control (such as a new builder taking over the project due to a builder insolvency), the customer will still have 30 years to pay back the principal and interest of the loan.
2. Loan term extensions should be permitted in circumstances where a customer has entered hardship. Extension of loan terms is one of the primary hardship measures that a bank will take to reduce a customer's monthly repayment. Even in cases where a loan term extension is not chosen as a hardship measure, often after a hardship period, a bank will extend the loan term to

ensure that interest capitalised can be repaid over a longer period. In effect, this helps to ensure the customer's monthly repayment following hardship is not materially increased.

The ABA therefore recommends the directions are changed to reflect that a 30-year loan term for construction of new homes commences only after the interest only build period is complete and permit loan term extensions for applicants experiencing hardship.

Construction timeframes

Section 24 sets out the timeframes in which the construction of a new dwelling must occur. It provides the construction of the dwelling must commence within 12 months of the day on which the applicant becomes the owner of the property to which the arrangement relates (known as the 'transfer date') and be completed within 24 months of the transfer date.

The construction sector has seen a significant increase in the number of insolvencies. In the Q4 2023, construction sector insolvencies increased by 32%, compared to the same period in 2022, reflecting an elevated risk that a replacement contract may be required to complete a build mid-way due to an insolvency. Where these circumstances occur, the replacement builder typically increases the time and cost associated with completion of the construction contract to mitigate against additional risks.

Due to these circumstances, some banks have extended their timeframes for commencement and completion of build to allow more time (for example, up to 36 months), permitting 12 months from loan contract disclosure to build commencement and 24 months from commencement to build completion.

The ABA recommends the directions adopt current industry timeframes for completion of construction, as noted above, or permit exceptions to the timeframes, to limit operational risk and potential financial loss associated with construction not being completed on time.

Progress payments for construction

Section 59 sets out circumstances when Housing Australia is to pay the Commonwealth's contribution to support participants to purchase or build homes. For new homes, Housing Australia must pay the Commonwealth's contribution at the time of settlement of the land, and at the time of each construction progress payment.

In a typical construction project, there may be anywhere between 7 and 11 progress payment stages, depending on the jurisdiction and type of construction. Banks have noted that inclusion of an additional party at each progress payment stage will add further time and complexity to these points, which are already more difficult points to administer of the construction process. As an alternative, the ABA suggests Treasury remove the requirement for Housing Australia to provide a contribution at each progress payment stage and carry out further consultation with banks, the construction sector, and Housing Australia to determine a more appropriate point at which these contributions could occur to enable more flexibility and smooth payments process.

Replacement contracts

Schedule 1, clause 14 provides that replacement contracts are available where Housing Australia is satisfied that the original contract has been terminated for reasons outside of the participant's control or it is otherwise appropriate to terminate the contract due to the circumstances (such as builder insolvency).

The ABA notes its comments above relating to construction sector challenges and an increase in builder insolvency, which has seen more replacement contracts being entered into at a greater cost than the original contract. Anecdotal feedback suggests that some replacement contracts are up to 30% greater in price. There may also be cases where an existing contract is varied or includes a rise and fall provision, typically increasing the contracts by around 10%.

This presents an issue for participants under the scheme who take the maximum 40% equity contribution from the Commonwealth to maximise their borrowing power, but additional funds are needed to meet the new cost of the replacement contract. In this circumstance, a customer would be required to fund the difference between the original contract and the replacement contract, either out of pocket or through additional credit. These options may be unavailable to the customer due to the lower income threshold targeted by the scheme, putting the customer and bank in a difficult position and potentially creating a hardship situation that would need to be overcome.

The ABA recommends Housing Australia consider changes to the directions to enable a customer to access additional funds where a replacement contract is higher than the original contract. For example, Treasury could explore an exception to the maximum Commonwealth contribution amount of 40% (enabling a higher or 'top up' contribution to be made in such cases) or an equity buffer. Banks would welcome the opportunity to work with Treasury in this regard.

Policy parameters for Aboriginal and Torres Strait Islander participants

The directions do not include any targets to support greater home ownership for Aboriginal and Torres Strait Islander participants. Aboriginal and Torres Strait Islander individuals are overrepresented in social and affordable housing but are less likely to own their own home. The ABA encourages Treasury to consider the inclusion of Aboriginal and Torres Strait Islander-specific policy parameters or targets to support these participants towards home ownership.

The ABA notes the Victorian Shared Equity Scheme includes additional supports for Aboriginal and Torres Strait Islander participants that could be considered as a starting point (under the Victorian Scheme, Aboriginal and Torres Strait Islander participants only require a 3.5% deposit and are eligible for a 35% shared equity contribution).