COMMON EQUITY HOUSING
South Australia

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Mr David Crawford
Manager – Housing Unit
Social Policy Division
The Treasury
CANBERRA ACT 2600

Dear David

RE: NHFIC Investment Mandate Direction – Recommendations

Common Equity Housing SA Ltd (CEHSA) is pleased to provide feedback and recommendations on the exposure draft and explanatory statement for the Investment Mandate Direction.

About CEHSA

CEHSA is a provider of community housing in South Australia managing 160 properties in the Adelaide Metropolitan Area and the Yorke Peninsula of South Australia. CEHSA's vision is that the co-op housing model continues to actively grow, evolve and empower communities in South Australia and this is achieved by CEHSA providing strategic, governance and advocacy services to enable housing co-ops to flourish.

Four key requirements for Community Housing Providers (CHP's) to successfully engage with NHFIC and to differentiate from Commercial Financiers.

1) Competitive pricing
2) Nil or low levels of security
3) Loan terms and tenure
4) Eligible organisations must include Special Purpose Vehicles (CPV's)

1) Competitive Pricing

The draft Investment Mandate Direction requires NHFIC to:

- Cover its operating costs;
- Charge a risk margin relative to risk;
- Retain capital; and
- Consider providing dividends.

These requirements are identical to those of any Australian Commercial Financier and based upon our initial understanding of the approach being taken to establish HNFIC there is a risk that NHFIC may not be able to deliver a lower cost of finance. If that is the case, we have concerns that the opportunity to increase supply or improve housing through lowering the cost of finance will be limited.

Recommendation*:*

In order to add value to the CHP sector, NHFIC must provide loans through the ABHA that are set at a substantially lower interest than Commercial Financiers.

2) Nil or low levels of security

Under section 17 of the draft Investment Mandate Direction there is a requirement for NHFIC to seek security for any loan at least commensurate with existing security arrangements with Commercial Financiers.

While it is the intention for NHFIC to raise money on different terms than would be normally available to registered CHPs, a requirement to provide security commensurate with Commercial Financiers is inconsistent with the intent for NHFIC to support efficient lending to the registered CHP sector. Our view is that it does not differentiate NHFIC from any Australian Commercial Financier and will constrain registered CHPs.

There are two significant challenges for NHFIC relating to the provision of the security or the nature of it:

- As Treasury would be aware, the assets of a registered CHP are charged in favour of State and Territory governments. Typically, this takes the form of a mortgage or statutory charge on title or fixed and/or floating charge over all the assets of the CHP. NHFIC and the CHP would therefore, in addition to a CHPs current lender, need to negotiate any sharing of security with the respective State or Territory.

- The class of property assets (occupied by lower income households and those experiencing disadvantage) is such that no lender would actually seek to exercise its rights as mortgagee and dispose of assets due to the publicity that would arise in doing so - therefore the assets of a CHP are deemed to have low inherent value.

The whole principle of NHFIC lending to the registered CHP sector, is that the sector is highly regulated under the National Regulatory Scheme for Community Housing (NRSCH) and are subject to constant oversight by housing regulators. The need to provide security in favour of NHFIC represents a clear threshold issue for the sector.

Recommendation:

In order to provide value, improve access and efficiency, and not constrain the capacity of registered CHPs, security should not be required.

3) Loan terms and tenure

We understand that it is the intent of the AHBA to raise 10-year funds and to provide it to the sector on similar tenure. We believe that this would be an attractive tenure to the registered CHP sector. Given the nature of revenue streams from low income tenancies, fixing the interest rates and interest only loan repayments from CHP's will enhance the viability and certainty for projects.

Recommendation:

In order to provide value to the CHP sector, NHFIC must provide loans with minimum 10-year tenure on an interest only fixed interest basis.

Building up a portfolio of funded projects via the proposed initial reserve of funds to HNFIC ahead of the first bond issues is also essential.

4) Eligible organisations must include Special Purpose Vehicles (CPV's)

Section 16 of the Draft Investment Mandate Direction indicates loans can only be made to registered CHPs on an individual basis, whilst the National Housing Infrastructure Facility (Section 22) enables loans, investments and grants to be available to Special Purpose Vehicles (SPVs).

It is common practice in the property development industry for organisations to form SPV's, or co-operatives, around specific projects, particularly if they are large or complex. It is anticipated that CHPs may wish to pursue this pathway also for NHFIC financed projects as a way to pool skills and resources, and to enable efficient project delivery.

It is therefore likely that an individual SPV borrower may not, in its own right, be a registered CHP, but is made up of a partnership or co-operative of registered CHPs. Confirmation of this capacity honours the spirit and intent of NHFIC without ruling out a common development pathway mechanism.

Recommendation:

NHFIC loans should be made to registered CHP and/or SPV's or similar structures controlled by registered CHP's, even though the borrowing entity in its own right may not be a registered CHP.

CEHSA appreciates the work of the Government and Treasury to support affordable housing through the establishment of NHFIC and we look forward to you continuing to engage with the CHP sector to ensure that NHFIC is successful in achieving its objectives.

Yours sincerely

Angela Carey
Chief Executive Officer