

4 November 2019

Via email: housingconsultation@treasury.gov.au

National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019

COBA welcomes the opportunity to comment on the draft NHFIC Investment Mandate Direction for the First Home Loan Deposit Scheme (FHLDS).

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has \$121 billion in assets and 4 million customers. We lend over \$90 billion for Australians to purchase homes, with the vast majority going to owner-occupiers.

COBA supports the FHLDS. Several COBA members are likely to participate in the current NHFIC procurement process. COBA believes that this scheme is likely to improve a first home buyer's ability to purchase their first home more quickly without the cost of lenders' mortgage insurance.

COBA provides some brief comments below around potential amendments or clarifications to this investment mandate.

29B – Eligible Lenders

More clarity is needed in the Explanatory Statement around what is considered to be the "reputation of the lender" (29B(3D)) and the "extent to which the decision to approve a lender will promote competition in lending markets and related markets" (29B(3E)). A lack of clarity may unnecessarily discourage smaller lenders from applying in future rounds.

In the first case, at one extreme 'reputation' could be interpreted as requiring a national reputation (i.e. the recognition by potential borrowers across the country). This may be difficult for smaller lenders. An alternative interpretation relates to potential misconduct. The NHFIC Request for Proposal implies that it is likely to be the second of these interpretations.¹ This should be clarified.

Similarly, several COBA members have also queried what is the "extent to which the decision to approve a lender will promote competition in lending markets and related markets". At the broadest level, this could be interpreted as promoting competition in national lending markets. Not all customer-owned banking institutions operate on a national basis but are likely to promote competition in their

¹ See question 13 of NHFIC Request for Proposal (dated 28 October 2019). [Online](#).

chosen markets. These chosen markets could be in a region, a few states or in a particular demographic. COBA interprets this as sub-national market competition. This should be clarified.

29F(1) – Price Caps

The proposed price caps are generally reasonable and in line with the ‘modest’ home. However, COBA members have outlined some further considerations to calibrate these price caps.

These considerations are:

- *Addressing the divide for ‘multi-state’ towns.* For example, the closely located border towns of Albury and Wodonga would compete with each other for first home buyers. However, the current price caps provide a \$75,000 price cap advantage to the NSW town of Albury. This could be remedied by increasing the “Victoria—other”. Given the significant population growth within the Melbourne and Geelong regions, increasing this cap would increase the incentives for FHBs to look outside these regional centres.
- *Increasing North Territory price cap.* Some COBA members have noted that this price cap appears to be a bit low for housing in Darwin, noting that the Government has prescribed a single NT-wide price cap.
- *Including of Toowoomba as a ‘regional centre’.* Some COBA members have noted that it could be appropriate if this area was included as a regional centre given that the other areas surrounding Brisbane are designated as regional centres (Gold Coast and Sunshine Coast).

29K – Principles for the operation of the scheme

The proposed principles are acceptable but we have two comments on the content and application of these principles.

In terms of the content, COBA considers that the Minister should involve a ‘smaller lender’ principle in line with the Government’s intent to ‘promote competition through prioritising smaller lenders’. This also aligns with the Government’s expectation in the draft Explanatory Statement:

These rules are designed to ensure the Government’s expectation that smaller lenders play a significant role in the First Home Loan Deposit Scheme to boost competition is met (page 5 of the draft Explanatory Statement)

This would not prevent NHFIC from administering the scheme in a “responsible and commercial manner” given the presence of para 29K(2).

In terms of application, COBA members have noted some concerns about the application of these principles and the consequential impacts on lenders. There are concerns that an overly mechanical application of these principles could lead to excessive requirements on smaller lenders. This concern must be considered in the application of these principles, which could be addressed by both the above ‘smaller lender’ inclusion and a nuanced application of 29K(2).

Please contact Mark Nguyen on 02 8035 8443 (or mnguyen@coba.asn.au) if you want to discuss any aspect of this submission.

Yours sincerely



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