s 22

From: Vallence, Christian
Sent: Wednesday, 20 August 2025 5:59 PM
To: s 22
Cc: s 22 Dowie, Nicholas
Subject: RE: Analysis: effect of HGS changes on dwelling prices~~[SEC=PROTECTED, CAVEAT=SH:CABINET]~~

Hi s 22

With a big thanks to s 22 the below 5 points step through the reasoning behind elements of the table below.

Happy to chat through as needed.

--

1. Denominator of demand shock: annual housing transactions vs dwelling stock

s 22

- Treasury uses the stock of dwellings (around 11.2m) as the denominator.

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2. Numerator of demand shock: number of new FHB households

- The numerator of the percentage demand shock is the number of new FHB households assumed to form as a result of the HGS changes.

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- Treasury assumes that the HGS changes will result in 16,000 additional FHB households in the first year, and 3,100 from the second year onwards.

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3. Source of demand elasticity estimates

- The price elasticity of housing demand relates the percentage change in housing demand to a percentage change in dwelling prices.

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- Treasury's analysis uses an elasticity estimate from Treasury's own housing system model, which is an updated version of Saunders and Tulip (2019). Treasury's elasticity estimate indicates that dwelling prices are a little more sensitive to housing demand compared with both Saunders and Tulip (2019) and Abelson (2016).

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4. Factoring in the supply response

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- However, the Saunders and Tulip (2019) demand elasticity *already* accounts for the housing supply response.
- Consistent with this, Treasury's estimates do not make a final adjustment to the price impact estimate to account for the supply response, because this supply response has already been factored into the estimate.

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5. Modelling the income effect

- The HGS changes will result in more FHB households effectively receiving free LMI. Households' savings on LMI will translate into a higher willingness to pay for housing.

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6. Analysis timeframes

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- Treasury's headline dwelling price impact (0.6%) reflects the impact of additional housing demand in all years going forward.
    - Treasury's estimate of 0.6% relates to the dwelling price impact over the medium term.

s 22

s 22

From: Vallence, Christian
Sent: Monday, 11 August 2025 6:17 PM
To: s 22 s 22 TREASURY.GOV.AU>; Cook, Brendan <Brendan.Cook@TREASURY.GOV.AU>
Cc: Hunter, Nerida <Nerida.Hunter@TREASURY.GOV.AU>; Dowie, Nicholas <Nicholas.Dowie@TREASURY.GOV.AU>; s 22 <s 22 TREASURY.GOV.AU>
Subject: Analysis: effect of HGS changes on dwelling prices

Key points

- The Green column shows our final estimate s 22
- We estimate the effect on dwelling prices to be +0.6 on national dwelling prices over the medium term, primarily due to the bringing forward of demand to purchase dwellings

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Estimates of dwelling price impacts of HGS changes

	New household formation effect					Income effect		
Organisation/approach	New FHB households	Demand denominator	Increase in demand (%)	Elasticity coefficient	Dwelling price effect (%)	All additional HGS users after policy change[1]	Dwelling price effect (%)	Combined dwelling price effect (%)
Treasury	16,000 in first year; 3,100 in each year after	11.2m dwellings	0.19	3.10	0.59	26,000	0.01	0.60

s 22 [redacted]

[1] In the first year after the policy changes are implemented.

Details

Treasury estimates

- Treasury estimates that the proposed changes to the Home Guarantee Scheme (HGS) will result in dwelling prices being 0.6% higher over the medium term.
    - This is Treasury's preferred estimate of the dwelling price impact. This estimate supersedes previous advice, which was based on preliminary analysis.
- Treasury has estimated this dwelling price impact with the same macroeconometric model used by the NHSAC for projecting housing supply.
    - The price impact is calculated by comparing the model's forecasts of dwelling prices under a scenario with the HGS policy changes versus forecasts under a scenario without the policy changes.
    - The model includes a supply response arising from higher dwelling prices.
    - Treasury's estimates incorporate additional housing demand as calculated by Home Ownership Policy Unit.
- The table above provides a simplified breakdown of Treasury's estimation method so that it can be easily compared against other estimation methods.

s 22 [redacted]

Kind regards,
Christian

Christian Vallence
Assistant Secretary, Land, Planning, Infrastructure, Cities and Urban Policy, Housing Group
Head of Office of the National Housing Supply and Affordability Council
Head of Treasury Sydney Office
The Treasury
201 Kent Street, Sydney
P +61 2 6263 3195 M s 22 [redacted]
EA: s 22 [redacted] | P s 22 [redacted] | E s 22 [redacted]@Treasury.gov.au

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FOI 4065
Document 4

s 22

From: s 22
Sent: Tuesday, 14 October 2025 10:53 AM
To: s 22
Subject: FW: Note on uncapping HGS annual places~~[SEC=PROTECTED, CAVEAT=SH:CABINET]~~
Attachments: s 22

~~PROTECTED//CABINET~~

Re. your other email, I understand it was sent by Felix on 19 Feb 25 to the Treasurer's office.

~~PROTECTED//CABINET~~

From: s 22 @TREASURY.GOV.AU>
Sent: Thursday, 20 February 2025 9:19 AM
To: s 22 <s 22 TREASURY.GOV.AU>
Subject: FW: Note on uncapping HGS annual places~~[SEC=PROTECTED, CAVEAT=SH:CABINET]~~

~~PROTECTED//CABINET~~

FYI

~~PROTECTED//CABINET~~

From: Donovan, Felix <Felix.Donovan@TREASURY.GOV.AU>
Sent: Wednesday, 19 February 2025 8:43 PM
To: s 22 @TREASURY.GOV.AU>
Cc: Crosthwaite, Kerren <Kerren.Crosthwaite@TREASURY.GOV.AU>; s 22 <s 22 TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; Kelly, Lynn <Lynn.Kelly@treasury.gov.au>; Preston, Robb <Robb.Preston@TREASURY.GOV.AU>
Subject: RE: Note on uncapping HGS annual places~~[SEC=PROTECTED, CAVEAT=SH:CABINET]~~

~~PROTECTED//CABINET~~

Hi s 22

With thanks to our FSD colleagues, we had the opportunity to confidentially test (in general terms) some our thinking on HGS expansion with some trusted experts in banks and at APRA earlier today. This largely confirmed the advice we provided last Friday, though has added some further nuance in a couple of places **s 47E(d)** **s 47E(d)** – I've attached the updated note here for your reference in case useful.

Please let me know if you have any questions.

Cheers,
Felix

Felix Donovan
P +61 2 6263 2255 **M** +s 22

~~PROTECTED//CABINET~~

From: Donovan, Felix
Sent: Friday, February 14, 2025 2:46 PM
To: s 22 @TREASURY.GOV.AU>
Cc: Crosthwaite, Kerren <Kerren.Crosthwaite@TREASURY.GOV.AU>; s 22 <s 22 TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; Baird, Tim <Tim.Baird@TREASURY.GOV.AU>; Preston, Robb <Robb.Preston@TREASURY.GOV.AU>
Subject: Note on uncapping HGS annual places

Hi s 22

As discussed, please find attached a short summary of our view on the risks of uncapping annual places in the HGS, consistent with our conversation yesterday afternoon.

Please let me know if you have any questions.

Cheers,
Felix

Felix Donovan — **Assistant Secretary**
Housing Finance Branch
Housing Division
P +61 2 6263 2255 **M** s 22

treasury.gov.au
Langton Crescent, Parkes ACT 2600
Twitter | LinkedIn | Facebook

The Treasury acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, water and community. We pay our respects to them and their cultures and to elders both past and present.

Expanding the Home Guarantee Scheme

s 22

[redacted]

- Accurately sizing the increase in uptake is challenging, but we expect it could increase to 60,000 - 70,000 guarantees per year:
  - Inframarginal: Removing or substantially increasing income caps will mean the existing ~10,000 first home buyers who are LMI customers will use the HGS instead.
  - Marginal: A further ~10,000-20,000 first home buyers may bring purchases forward, and the risk is on the upside in the first year of implementation where there is likely to be pent-up demand from the previously ineligible cohort of higher-income first home buyers.
- For context, the number of FHBs has been approximately 100,000-110,000 per annum on average over the past 20 years – except for spikes in outlier years (2009, 2021) due to broader economic factors. Major lenders noted that serviceability will remain the key binding constraint for prospective first home buyers in the short term, with an expected shallow rate-cutting cycle and a persistently high ratio of housing values to median

incomes. This sets a natural limit on the number of first home buyers able to secure high-LVR (>80%) loans and therefore be interested in HGS.

s 22

[redacted]

FOI 4065
Document 5

s 22

From: Vallence, Christian
Sent: Tuesday, 19 August 2025 8:19 AM
To: s 22
Cc: s 22 Cook, Brendan; s 22 Dowie, Nicholas
Subject: RE: Analysis: effect of HGS changes on dwelling prices[~~SEC=PROTECTED, CAVEAT=SH:CABINET~~]

~~PROTECTED//CABINET~~

Hi s 22

We model additional demand over a 10-year period, which is the forecast horizon of the model. The 0.6% price effect of HGS reflects the cumulative effect of all 10 years of demand shocks, not just the first 6 years. This difference is because markets are forward looking, and we estimate the effect will be fully reflected in prices by year 6. Actual demand shocks are as follows:

Year	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35
Additional demand (new FHB households)	16,000	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100	3,100
Additional supply required	18,560	3,524	3,524	3,524	3,524	3,524	3,524	3,524	3,524	3,524

~~PROTECTED//CABINET~~

From: s 22 s 22 @TREASURY.GOV.AU>
Sent: Monday, 18 August 2025 2:04 PM
To: Vallence, Christian <Christian.Vallence@TREASURY.GOV.AU>
Cc: s 22 <s 22 @TREASURY.GOV.AU>; Cook, Brendan <Brendan.Cook@TREASURY.GOV.AU>; s 22 s 22 @TREASURY.GOV.AU>; s 22 s 22 @TREASURY.GOV.AU>; s 22 s 22 @TREASURY.GOV.AU>
Subject: RE: Analysis: effect of HGS changes on dwelling prices[~~SEC=PROTECTED, CAVEAT=SH:CABINET~~]

~~PROTECTED//CABINET~~

Thanks Christian. Just double checking that the additional demand and required supply are not cumulative? This means that the additional demand and supply required looks like this:

Year	25-26	26-27	27-28	28-29	29-30	30-31	Total (6 years)
Additional demand (new FHB households)	16,000	3,100	3,100	3,100	3,100	3,100	31,500
Additional supply required	18,560	3,524	3,524	3,524	3,524	3,524	36,180

Grateful if you could please confirm this table is accurate and reflects what you have modelled.

Cheers,

s 22 — **Director of Policy**
Office of the Hon Clare O'Neil MP
Minister for Housing | Minister for Homelessness | Minister for Cities
M s 22
E s 22 @treasury.gov.au

The Office acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, water and community. We pay our respects to them and their cultures and to elders both past and present.

~~PROTECTED//CABINET~~

From: Vallence, Christian <Christian.Vallence@TREASURY.GOV.AU>
Sent: Friday, 15 August 2025 1:42 PM
To: s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Cc: s 22 @TREASURY.GOV.AU>; Cook, Brendan <Brendan.Cook@TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Subject: RE: Analysis: effect of HGS changes on dwelling prices[~~SEC=PROTECTED, CAVEAT=SH:CABINET~~]

~~PROTECTED//CABINET~~

Hi s 22

On 1., the full effect takes 6 years to flow through

On 2., the 0.6% price impact would be neutralised by an additional 18,560 completions in the first year after the HGS changes are implemented, and another 3,524 in each subsequent year. Conceptually, this reflects the need to offset:

1. The additional demand for dwellings due to the bring forward effect
2. The additional demand due to the income effect
3. The fact that 12% of new supply is lost to demolitions

~~PROTECTED//CABINET~~

From: s 22 @TREASURY.GOV.AU>
Sent: Thursday, 14 August 2025 12:43 PM
To: Vallence, Christian <Christian.Vallence@TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Cc: s 22 @TREASURY.GOV.AU>; Cook, Brendan <Brendan.Cook@TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Subject: RE: Analysis: effect of HGS changes on dwelling prices[~~SEC=PROTECTED, CAVEAT=SH:CABINET~~]

~~PROTECTED//CABINET~~

Hi Christian,

That sounds good.

A couple of additional questions on your modelling:

1. What timeframe have you used for your modelling? (i.e., when you say the impact is +0.6% over the 'medium term', I assume that this is over a few years after the model reaches equilibrium – how many years is this?)
2. What would the additional supply need to be in order to offset the +0.6% increase? (i.e., how many homes would we need to build over what timeframe to reduce this impact to 0%?)

Cheers,

s 22 — **Director of Policy**
Office of the Hon Clare O'Neil MP
Minister for Housing | Minister for Homelessness | Minister for Cities
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E s 22 @treasury.gov.au

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~~PROTECTED//CABINET~~

From: Vallence, Christian s 22 @TREASURY.GOV.AU>
Sent: Thursday, 14 August 2025 8:23 AM
To: s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Cc: s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Subject: RE: Analysis: effect of HGS changes on dwelling prices[~~SEC=PROTECTED, CAVEAT=SH:CABINET~~]

~~PROTECTED//CABINET~~

Hi s 22

s 22 will get back to you on this one.

Separately, we're meeting with s 22 n Monday morning. s 22 have also asked if s 22 can attend s 22, which we've agreed to (couldn't figure out how to politely say no).

I'll update you after the meeting. As discussed, we'll keep it focused on understanding their methodology and not discussed Treasury's approach or findings, nor our views on their methodology.

~~PROTECTED//CABINET~~

From: s 22 @TREASURY.GOV.AU>
Sent: Wednesday, 13 August 2025 5:47 PM
To: Vallence, Christian s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Cc: s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Subject: RE: Analysis: effect of HGS changes on dwelling prices[~~SEC=PROTECTED, CAVEAT=SH:CABINET~~]

~~PROTECTED//CABINET~~

Hi Christian s 22,

Thanks for this.

Quick question: what is your current estimate for the <u>total number</u> of first home buyers that will be supported by HGS in the first 12 months after it is uncapped? I assume it would be ~26k additional plus the current annual HGS uptake (~44k), giving a total of about ~70k?

Cheers,

s 22 — **Director of Policy**
Office of the Hon Clare O'Neil MP
Minister for Housing | Minister for Homelessness | Minister for Cities
M +s 22
E s 22 @treasury.gov.au

The Office acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, water and community. We pay our respects to them and their cultures and to elders both past and present.

~~PROTECTED//CABINET~~

s 22

Supplementary Budget Estimates 2025 - 2026

TOPIC: **MODELLING OF THE 5% DEPOSIT SCHEME**

WITNESS: Christian Vallence, Assistant Secretary, Cities, Planning, Infrastructure and Analysis Branch

Kerren Crosthwaite, First Assistant Secretary, Housing Supply and Cities Division

Strategic Narrative

- Treasury modelling indicates that the expansion of the 5% Deposit Scheme (previously the 'Home Guarantee Scheme') will benefit first home buyers who use the scheme.
- Modelling suggests the expansion will place modest upward pressure on dwelling prices over the medium-term.
- Other forecasters have produced different results. No modelling approach is perfect and different approaches will yield different results.

KEY FACTS AND FIGURES ***Detail may inform the Key Facts and Figures Brief**

- Treasury has provided advice that the expansion of the 5% Deposit Scheme will increase dwelling prices by +0.6% nationally over 6 years.

Talking Points

Treasury Modelling

- Treasury has provided advice to government that the expansion of the 5% Deposit Scheme will increase dwelling prices by +0.6% nationally after 6 years.
  - 6 years is the point at which Treasury expects the effect on dwelling prices to be fully realised
  - Treasury has only provided advice on the impact of the scheme expansion after 6 years and has not provided advice on the effect on dwelling prices in the first year
- Treasury's estimate of the dwelling price effect accounts for additional supply induced by the demand increase, along with the macroeconomic outlook at the time the results were generated.

- Treasury's modelling framework is not suitable for forecasting short-term price effects
  - The model is designed to capture all responses in the housing system to changes in parameters, such as the additional supply that materialises when prices rise (which in turn dampens prices). These responses take time to eventuate.
  - Short term price effects can be influenced by temporary imbalances in supply and demand which are difficult to forecast.
- Treasury's model is an econometric model that quantifies interrelationships between macroeconomic and demographic variables, and construction, completions, vacancies, rents and dwelling prices.
  - It is based on a 2019 RBA Working Paper by Trent Saunders and Peter Tulip, available on the RBA website.
  - In common with most Australian research on housing markets, and most macroeconomic forecasting, it uses single-equation least squares estimates using aggregate quarterly data. Identification is typically through lags and a priori reasoning.
- The expansion of the scheme is expected to have only a modest impact on housing demand.
  - in the first year of the expanded scheme (2025-26), Treasury estimates an additional 16,000 first home buyer households will purchase a home. This consists of:
    - 3,100 first home buyer households that would not have purchased otherwise; and
    - 12,900 first home buyer households that will bring forward their decision to purchase from future years due to increased availability of financing.
  - in subsequent years (2026-27 to 2034-35), an additional 3,100 first home buyer households will purchase a home each year.
  - in each year (2025-26 to 2034-35), a further 10,000 first home buyer households (who would have purchased a home without the expansion) will now purchase with increased borrowing capacity, as they are able to avoid lenders mortgage insurance.
- This represents a small share of expected property transactions.
  - There are around 700,000 residential property transactions in Australia each year.

  - There were 120,000 first home buyers in 2024. The annual number of first home buyers has ranged from 80,000 to 180,000 over the past 5 years.
- The LMI savings for first home buyers is expected to exceed the modest price impact of the scheme.
  - For instance, the average first home buyer seeking to purchase a $700,000 property with a 5% deposit could expect to save around $28,000 in LMI.
  - By contrast, a 0.6 per cent increase in dwelling prices would add only $4,200 to the purchase price.

Commentary that is supportive of Treasury's findings

- Brad Jones, Assistant Governor (Financial System), RBA, speaking at the Standing Committee on Economics, 22 Sep 2025:
  - "Our sense is that [the 5% deposit scheme] could add to overall housing credit in the order of one to two per cent. At the very margin, you may see a little more upward pressure on house prices in the short term, recognising that first home buyers account for about 20 per cent of the flow of new housing credit."
- Brendan Coates (Grattan), quoted in AFR on 1 October 2025:
  - "Treasury's 0.5 per cent house price impact over the long term feels about right, but the price impact might be higher in the short term"
- Peter Tulip (Centre for Independent Studies), Posting on X, 3 October 2025
  - "Many economists think there is high substitutability between renting and owning. This scheme may cause a large shift from renting to owning with no net effect on housing demand."

Comparison with Insurance Council of Australia Modelling

- The Insurance Council of Australia provided by the Consultant Lateral Economics estimates that the expansion of the Scheme will cause an increase in dwelling prices of 3.5% to 6.6% in the first year (see 'Background' for further details).
- The Insurance Council of Australia's estimates of dwelling price effects are not directly comparable to Treasury's estimate.
- The Insurance Council's methodology computes annual price increases using a rule-of-thumb from the research literature that is calibrated using the

total stock of housing but applies this rule-of-thumb to the annual flow of housing (that is, the annual number of housing transactions).

  - Treasury considers this methodology unsuitable for estimating the overall, persistent impact of the policy measure, but notes that no modelling approach is perfect and that different approaches will yield different results.

- Compared with Treasury, the Insurance Council of Australia assumes that more households will benefit from LMI savings. However, the overall effect of this on their estimate is small, adding only 0.2ppt to their estimate of the first-year dwelling price impact.
- The Insurance Council of Australia report claims that Scheme participants may end up paying more due to increased dwelling prices than they will save by avoiding lenders mortgage insurance, which they estimated to cost 1.5% to 4% of the property value.
  - With a 0.6% increase in dwelling prices, as estimated by Treasury, Scheme participants would make significant savings.

Background

General background

- In late July 2025, the Housing Minister's Office asked Treasury to estimate the effect of the 5% Deposit Scheme expansion on dwelling prices.
- The expansion was enacted by the Government on 1 October 2025. It increases access to the Scheme by uncapping the number of places available, removing income caps, and increasing property price caps.
  - For further information on 5% Deposit Scheme, see SB25-000841.
- Treasury's modelling has attracted media commentary, including comparison with alternative estimates provided by the Insurance Council of Australia, AMP, and SQM research.
- Some commentators consider that the expansion undermines the broader aim of increasing housing affordability. While the changes benefit home first buyers, they are also expected to put upward pressure on dwelling prices.

Report by the Insurance Council of Australia

- On 24 August 2025, the Insurance Council of Australia released a report that analyses the effect of the 5% Deposit Scheme expansion.
- The report asserts that dwelling price increases due to the expansion may cost participating first home buyers more than they save in lenders mortgage insurance and may price some first home buyers out of the market.
  - The Housing Minister has been reported as saying that the Insurance Council of Australia's estimate of the price effect is built on wrong assumptions.
- The report estimates that in the first year after the expansion:
  - demand for dwellings will increase by an additional 21,000 to 39,000 first homebuyer households
  - dwelling prices will increase by 3.5% to 6.6% nationally
  - dwelling prices will increase by 5.5% to 9.9% at the lower end of the market, where first home buyers are likely to buy.

Key dates

- 24 July 2025:
  - Treasury received the Insurance Council of Australia's submission to the Home Guarantee Scheme consultation, which included Lateral Economics' report on the impacts of the policy changes.

  - The Housing Minister's Office tasked Treasury to generate its own estimates of the dwelling price impacts of changes to the Home Guarantee Scheme (there is no written record of this request, but the timing of the request has been inferred from related written records).
- 25 July 2025: Treasury sent preliminary estimates of the dwelling price impact to the Housing Minister's Office.
- 12 August 2025: Treasury sent final estimates of the dwelling price impact to the Housing Minister's Office.
- 15-20 August 2025: further written correspondence from Treasury responding to clarifying questions from the Housing Minister's Office.

	Name and Role	Group/Branch/Organisation	Phone (w)	Phone (mob)
Cleared By	Name: Christian Vallence Role: Assistant Secretary, Cities, Planning, Infrastructure and Analysis Branch	Housing Group; Housing Supply and Citied Division; Cities, Planning, Infrastructure and Analysis Branch	x3195	s 22
Contact Officer	Name: s 22 Role: Director, Housing Modelling and Analysis Unit	Housing Group; Housing Supply and Citied Division; Cities, Planning, Infrastructure and Analysis Branch	s 22	
Consultation	n/a			

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Document 11

Lenders' Mortgage Insurance and the 5 per cent Deposit Scheme

KEY MESSAGE

- The Government's 5 per cent Deposit Scheme (the Scheme) (previously known as the Home Guarantee Scheme) supports eligible first home buyers and single parents to purchase a home sooner with a deposit as little as 2 per cent.
- The Government recognizes the Scheme's impact on the lenders mortgage sector, however, the Government expects that the remaining demand for lenders mortgage insurance-backed loans will ensure a robust domestic market continues.

KEY FACTS AND FIGURES

- The Scheme is administered by Housing Australia on behalf of the Government. Under the Scheme, part of an eligible home buyer's loan is guaranteed by the Government, enabling the home buyer to purchase a home without paying lenders mortgage insurance (LMI). For further information see QB25-000197.
- The Insurance Council of Australia (ICA) released a report on 24 August 2025 suggesting the expanded Scheme may cause home buyers to end up paying more than they save due to higher dwelling prices, and that the sector's long-term viability could be at risk.
  - The ICA's report suggests the expanded Scheme will increase dwelling prices by 3.5 per cent - 6.6 per cent nationally in the first year. The ICA's estimates of price effects are not directly comparable to Treasury's estimate that that the Scheme will increase dwelling prices by 0.6 per cent nationally over 6 years.
    - Treasury's estimate of the dwelling price effect accounts for additional supply induced by the demand increase, which takes time to eventuate.

Office Responsible	Assistant Treasurer and Minister for Financial Services - The Hon Dr Daniel Mulino MP	**Adviser**	s 22
Contact Officer	s 22	**Contact Number**	s 22
Division responsible	Financial System Division		
Date of Update	30 September 2025		

Lenders' Mortgage Insurance and the 5 per cent Deposit Scheme

  - Treasury's modelling framework is not suitable for forecasting short-term price effects, which can be influenced by temporary imbalances in supply and demand which are difficult to forecast.

- Various factors have contributed to decreased demand for LMI in recent years including the introduction of the Scheme, banks more frequently offering LMI waivers, increased use of parental guarantees, and higher interest rates impacting high LVR lending.

- The Government consulted with industry from 7 to 25 July 2025 to inform the implementation of the expansion.

- Based on consultation feedback, the Government will direct Housing Australia to promote the diversity of lenders who offer the Scheme, making it easier for first home buyers to buy a home through smaller, customer-owned and regional banks.

Office Responsible	Assistant Treasurer and Minister for Financial Services - The Hon Dr Daniel Mulino MP	**Adviser**	s 22
Contact Officer	s 22	**Contact Number**	s 22
Division responsible	Financial System Division		
Date of Update	30 September 2025		

Lenders' Mortgage Insurance and the 5 per cent Deposit Scheme

BACKGROUND

LMI

- LMI insures lenders against the risk of not recovering the outstanding loan balance if a borrower is unable to meet their loan payments and the property is sold for a value lower than the loan balance.
- The current commercial LMI market consists of four entities: ANZ LMI (which exclusively supplies LMI to ANZ Bank), Arch LMI, Helia and QBE LMI.

Scheme impacts on the LMI industry

- According to the ICA, the Scheme has significantly reduced private LMI demand since its introduction in January 2020, with only 1 in 10 first home buyers now using LMI, down from previous levels of 3 in 10 prior to its introduction.
- This reduction coincides with reduced demand for LMI across the market (not just amongst first home buyers). While this is driven in part by the Scheme, there are other contributing factors, including variations in demand for high LVR loans, increases in banks offering LMI waivers and greater use of familial guarantees in lieu of LMI.
  - Despite its reduced volume of business, the Australian LMI industry has remained profitable.

Office Responsible	Assistant Treasurer and Minister for Financial Services - The Hon Dr Daniel Mulino MP	**Adviser**	s 22
Contact Officer	s 22	**Contact Number**	s 22
Division responsible	Financial System Division		
Date of Update	30 September 2025		

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Document 12

s 22

From: Vallence, Christian
Sent: Tuesday, 26 August 2025 4:14 PM
To: s 22
Cc: s 22 s 22
Subject: RE: Another 5% enquiry~~[SEC=PROTECTED]~~

~~PROTECTED~~

Legend. thanks

~~PROTECTED~~

From: s 22 <s 22 TREASURY.GOV.AU>
Sent: Tuesday, 26 August 2025 4:12 PM
To: Vallence, Christian <Christian.Vallence@TREASURY.GOV.AU>
Cc: s 22 @TREASURY.GOV.AU>; s 22 <s 22 TREASURY.GOV.AU>
Subject: RE: Another 5% enquiry~~[SEC=PROTECTED]~~

~~PROTECTED~~

Looks great! I've added/changed two words in red. Need to clarify that we are only talking about our preference re modelling housing policy changes.

Treasury did not model the price impact on a year-by-year basis. Treasury's preferred approach is to model the effect of housing policy changes over the medium term, typically 5 to 10 years. This reflects the fact that there are multiple feedback loops in Treasury's housing model. For example, additional demand induces higher prices, which in turn produces additional supply, which lowers prices. Taking a medium-term approach allows for sufficient time for these feedback mechanisms to play out.

s 22 — **Director**
Housing Modelling and Analysis Unit
Cities, Planning, Infrastructure and Analysis Branch
Housing Supply and Cities Division | Housing Group
P +s 22
Office location: Canberra

s 47C, s 47E(d)

s 47C, s 47E(d)

From: s 22 <s 22 TREASURY.GOV.AU>
Sent: Tuesday, August 26, 2025 11:48:01 AM
To: Media <media@treasury.gov.au>; s 22 @TREASURY.GOV.AU>
Cc: s 22 @TREASURY.GOV.AU>; s 47E(d) @TREASURY.GOV.AU>; s 22 <s 22 TREASURY.GOV.AU>
Subject: RE: Another 5% enquiry ~~[SEC=OFFICIAL]~~

~~OFFICIAL~~

Thanks s 22 I'll have to involve s 22 team on this one as his team produced the Treasury estimate. We'll have a look and get back to you.

Kind regards,

s 22 — **A/g Director, CBR**
Home Ownership Policy Unit, Housing Finance Branch
P s 22

treasury.gov.au
Langton Crescent, Parkes ACT 2600
Twitter | LinkedIn | Facebook

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~~OFFICIAL~~

From: Media <media@treasury.gov.au>
Sent: Tuesday, 26 August 2025 11:42 AM
To: s 22 <s 22 TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Cc: Cook, Brendan <Brendan.Cook@TREASURY.GOV.AU>; s 47E(d) @TREASURY.GOV.AU>; Media <media@treasury.gov.au>
Subject: Another 5% enquiry ~~[SEC=OFFICIAL]~~

~~OFFICIAL~~

Thank you s 22 . Meanwhile another one has come in, this one from the Australian: (He also sent it directly to the HM office and the TO)

I refer to Treasury analysis released by the government on Monday claiming the expansion of the home guarantee scheme would push up home prices by 0.5 per cent over six years.
What is Treasury's analysis on the impact on home price growth in the first year of the scheme?

s 47F

W theaustralian.com.au

Can you also help us with one please? Thank you again very much.

s 22 – Assistant Director
Media Unit, Communications Branch

~~OFFICIAL~~

From: s 22 <s 22 TREASURY.GOV.AU>
Sent: Tuesday, 26 August 2025 10:11 AM
To: s 22 @TREASURY.GOV.AU>
Cc: Cook, Brendan <Brendan.Cook@TREASURY.GOV.AU>; s 47E(d) @TREASURY.GOV.AU>; Media <media@treasury.gov.au>
Subject: RE: FOR RESPONSE: Media enquiry - 5% deposit: were Lenders Mortgage Insurance providers consulted? ~~[SEC=OFFICIAL]~~

~~OFFICIAL~~

Thanks s 22 we'll take a look at this.

Kind regards,

s 22 — **A/g Director, CBR**
Home Ownership Policy Unit, Housing Finance Branch
P +s 22

treasury.gov.au
Langton Crescent, Parkes ACT 2600
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~~OFFICIAL~~

From: s 22 @TREASURY.GOV.AU>
Sent: Tuesday, 26 August 2025 9:59 AM
To: s 22 <s 22 TREASURY.GOV.AU>
Cc: s 22 @TREASURY.GOV.AU>; s 47E(d) @TREASURY.GOV.AU>; Media <media@treasury.gov.au>
Subject: FOR RESPONSE: Media enquiry - 5% deposit: were Lenders Mortgage Insurance providers consulted? ~~[SEC=OFFICIAL]~~

~~OFFICIAL~~

Hi s 22

We received the below media enquiry last night. Apologies for the delay in forwarding. Can your team assist with a draft response please.

Thank you

Kind regards,

s 22
Executive Officer to Dr Nerida Hunter
Homelessness and Housing Policy Division
P + s 22

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~~OFFICIAL~~

From: Media <media@treasury.gov.au>
Sent: Monday, 25 August 2025 4:24 PM
To: s 22 @TREASURY.GOV.AU>; Media <media@treasury.gov.au>
Subject: Media enquiry - 5% deposit: were Lenders Mortgage Insurance providers consulted? ~~[SEC=OFFICIAL]~~

~~OFFICIAL~~

Hi s 22 to consider tomorrow please: can you help us get a draft response we could send to the Minister's office for clearance? (No deadline mentioned)

- Were Lenders Mortgage Insurance providers consulted?
- Does the government believe this expansion will push them out?

Thank you kindly

Cheers COB

s 22 – Assistant Director
Media Unit, Communications Branch

~~OFFICIAL~~

From: s 47F @momentummedia.com.au>
Sent: Monday, 25 August 2025 4:17 PM
To: Media <media@treasury.gov.au>
Subject: Broker Daily commentary

You don't often get email from s 47F @momentummedia.com.au. Learn why this is important

Hello!

I'm reaching out on behalf of Broker Daily as I'd love some clarification around the new 5% deposits scheme.

The questions have to do with lenders mortgage insurance (LMI) providers. With the government providing the 15% needed to get to an LVR of 80% I wonder if this scheme will push these providers out now that more people will be accessing it.

My questions are:
- Were LMI providers consulted?
- Does the government believe this expansion will push them out?

Cheers
s 47F

Editor - Broker Daily

MOMENTUMMEDIA

s 47F

Web: www.momentummedia.com.au

LinkedIn: s 47F

Address: Level 13, 132 Arthur Street, North Sydney NSW 2060

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brokerdaily

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Possible SE questions on Treasury's modelling of the 5% Deposit Scheme

Can you table your advice?

- On notice

It has been suggested that there are problems with your modelling - will you release it?

- On notice
- Treasury is comfortable with its modelling approach.

Everyone thinks the price effect will be much more than 0.6 per cent. Surely, you've under-estimated the effect on dwelling prices?

- No modelling approach is perfect, and different approaches will yield different results
- Treasury has only provided advice on the impact of the scheme expansion after 6 years and has not provided advice on the effect on dwelling prices in the first year.
- Many of the estimates quoted in media focus on the short-term price effect, typically over 1-year. The short-term price effect may be greater than the long-term price effect:
  - In the short-term, there will likely be additional demand from FHBs who bring their purchase decision forward from future years. This type of demand will not be present in later years.
  - The ability of the housing market to respond to increased demand with additional supply is also greater in the long-term.
- Several respected economists have supported Treasury's position, including from the RBA, Grattan Institute, University of Sydney, and Centre for Independent Studies.

Statements supporting Treasury's position:

- Brad Jones, Assistant Governor (Financial System), RBA, speaking at the Standing Committee on Economics, 22 Sep 2025:
  - "Our sense is that [the 5% deposit scheme] could add to overall housing credit in the order of one to two per cent. At the very margin, you may see a little more upward pressure on house prices in the short term, recognizing that first home buyers account for about 20 per cent of the flow of new housing credit." ParlInfo - Standing Committee on Economics : 22/09/2025 : Review of the Reserve Bank of Australia Annual Report 2024
- Brendan Coates (Grattan):

  - "Treasury's 0.5 per cent house price impact over the long term feels about right, but the price impact might be higher in the short term" Albanese government's expanded first home buyer scheme experiences 'unprecedented demand' on day one

- James Graham, University of Sydney:
  - "University of Sydney economist James Graham said the scheme would probably increase average prices by 0.5 per cent to 1 per cent, but the effect could be 'much larger' for homes just below the price caps." Albanese government's expanded first home buyer scheme experiences 'unprecedented demand' on day one
  - Dr Graham has provided reasoning for his position based on a comparison with interest rate effects: How PMI change may affect house prices, a quick calculation | James Graham posted on the topic | LinkedIn

- Peter Tulip (Centre for Independent Studies)
  - "Many economists think there is high substitutability between renting and owning. This scheme may cause a large shift from renting to owning with no net effect on housing demand." - From discussion on X
  - Note that Peter Tulip has also criticised the scheme on other occasions.

Why did you not model the short-term effects?

- Treasury's modelling framework is designed to capture all responses in the housing system to changes in parameters, such as the additional supply that materialises when prices rise (which in turn dampens prices). These responses take time to eventuate.
- Short term price effects can be influenced by temporary imbalances in supply and demand which are difficult to forecast.

Did you provide advice on the effect on properties more likely to be purchased by FHBs under the scheme, eg properties under the cap?

- No. The advice related to the effect on the national housing market.

Does your modelling account for changes to interest rates?

- Yes, noting that the final estimates were provided to the HMO on the 12 August.

Did you discuss your findings with Lateral Economics?

- No. However, Treasury has met with Lateral Economics to discuss their estimates.

Why is Treasury correct and Lateral wrong?

- The Insurance Council of Australia's estimates of dwelling price effects are not directly comparable to Treasury's estimate.
- Treasury has reservations about aspects of the methodology used by the Insurance Council:
  - The methodology produces annual estimates that are not cumulative. It is not well suited to estimating the overall, persistent impact of the policy measure.
  - The methodology uses a rule-of-thumb for estimating long-term price increases from the economics literature but applies this to the calculation of annual price increases.
- However, Treasury notes that no modelling approach is perfect and that different approaches will yield different results.

Won't speculators absorb scheme benefits and bid up prices for FHBs?

- While there may be speculation, the LMI savings for first home buyers are expected to exceed the modest price impact of the scheme over the longer-term:
  - For instance, the average first home buyer seeking to purchase a $700,000 property with a 5% deposit could expect to save around $28,000 in LMI.
  - By contrast, a 0.6 per cent increase in dwelling prices would add only $4,200 to the purchase price.

s 22 [redacted]

From: Vallence, Christian
Sent: Monday, 28 July 2025 10:10 AM
To: Office of the NHSAC - Data and Forecasting Unit
Subject: FW: Dwelling price impacts of the Home Guarantee Scheme expansion[[redacted]

~~PROTECTED//CABINET~~

~~PROTECTED//CABINET~~

s 47C, s 47E(d) [redacted]

~~PROTECTED//CABINET~~

From: s 22 [redacted]
Sent: Monday, 28 July 2025 9:08 AM
To: Vallence, Christian s 22 [redacted]@TREASURY.GOV.AU>; s 22 [redacted]@TREASURY.GOV.AU>
Cc: s 22 [redacted]@TREASURY.GOV.AU>; Hunter, Nerida s 22 [redacted]@TREASURY.GOV.AU>; Dowie, Nicholas s 22 [redacted]@TREASURY.GOV.AU>; s 22 [redacted]@TREASURY.GOV.AU>; s 22 [redacted]@TREASURY.GOV.AU>
Subject: RE: Dwelling price impacts of the Home Guarantee Scheme expansion[~~SEC=PROTECTED, CAVEAT=SH:CABINET~~]

Thanks Christian. Grateful if we can set up a time to discuss this today.

I'll drop some time into your calendar.

Cheers,

s 22

Office of the Hon Clare O'Neil MP
Minister for Housing | Minister for Homelessness | Minister for Cities

s 22

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s 47E(d), s 47C