s 22

From: Grant, Angelia <Angelia.Grant@TREASURY.GOV.AU>
Sent: Thursday, 9 April 2026 7:46 AM
To: McCririck, Rachael <Rachael.Mccririck@TREASURY.GOV.AU>
Cc: McDonald, Hamish <Hamish.McDonald@TREASURY.GOV.AU>; Carlton, Freya <Freya.Carlton@TREASURY.GOV.AU>; Perks, Christopher <Christopher.Perks@treasury.gov.au>
Subject: Some advice on the neutral rate, borrowing and yields [SEC=OFFICIAL]

OFFICIAL

Dear Rach,

I had a chat with Saul Eslake yesterday and he made a few comments that I am hoping that you and your team can give me some advice on.

s 22

- The share of bank lending to first home buyers has increasingly gone to those with high loan-to-value ratios.

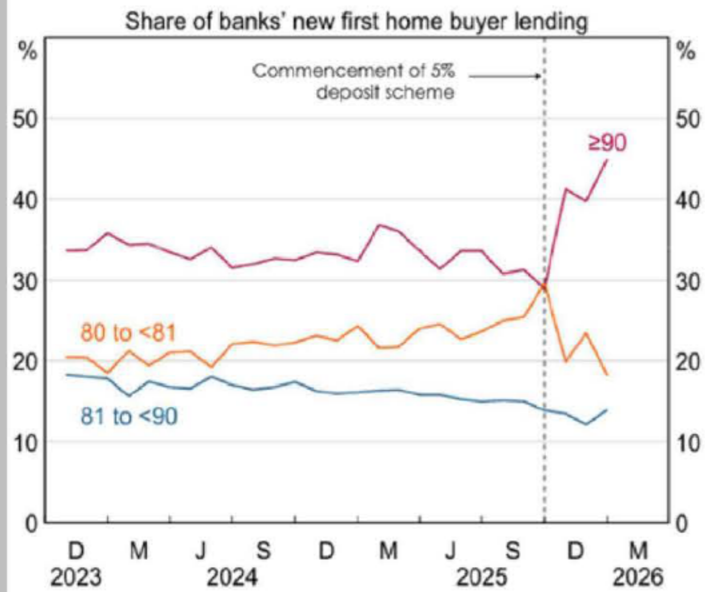
s 22

Ange

The vast majority of mortgage borrowers will be able to cope with higher interest rates – but some first-time buyers may be vulnerable

s 22

First-home-buyer borrowing by loan-to-value ratio



s 22

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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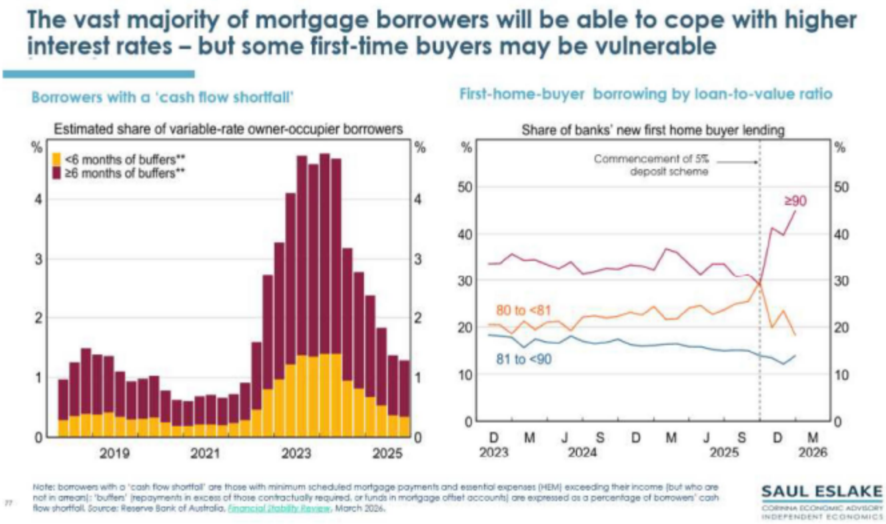
Saul's comment: *The share of bank lending to first home buyers has increasingly gone to those with high loan-to-value ratios.*

- Saul's observation that lending at high loan-to-value (LVR) ratios has increased is correct, but we note that this was the expected policy outcome.
  - The 5% Deposit Scheme allows eligible first home buyers to take out loans with a 5% deposit without having to pay for lenders mortgage insurance.
  - Housing Australia data and RBA liaison suggests there has been strong participation in the scheme. The corollary is that the share of first home buyers with a loan-to-value ratio above 90 per cent has increased.
- Generally speaking, highly leveraged borrowers are more vulnerable to financial pressures if interest rates rise. They tend to have smaller financial buffers than other groups and are more likely to fall into negative equity.
  - It is important to note, however, that loan applications must be assessed with a serviceability buffer, which is 3 per cent in the case of first home buyers who took up the 5% Deposit Scheme.
- APRA and the RBA generally view that risks to the financial system from those who participate in the 5% Deposit Scheme are limited, despite their high LVRs. This is because the Government guarantees up to 15 per cent of the property value in case of default. The RBA also noted that first home buyers have historically tended to experience more favourable labour market outcomes than other borrowers.



s 22 [redacted]

From: s 22 [redacted]
Sent: Friday, 27 March 2026 10:01 AM
To: s 22 [redacted]
Cc: s 22 [redacted]
Subject: APRA Quarterly Property Exposures (QPEX) Statistics - December 2025 [SEC=OFFICIAL]

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Australian Government
The Treasury

Treasury Economic Note

Quarterly Property Exposures (QPEX) Statistics, December 2025 Quarter

s 22 [redacted]

New lending activity – in particular, investor lending – has been strong in 2025

s 22

[redacted]

- After declining over the last 3 quarters, the share of new loans with **high loan-to-value (LVR)** ratios (≥90 per cent) has risen to 7.7 per cent in December 2025. The share of new loans with an LVR 80–90 per cent has remained relatively stable at around 24.5 per cent.
  - The RBA's February 2026 *Financial Stability Review* separately noted that the share of high LVR lending among first home buyers has picked up recently but remains low overall. This increase was attributed to the Australian Government 5% Deposit Scheme.

s 22

[redacted]

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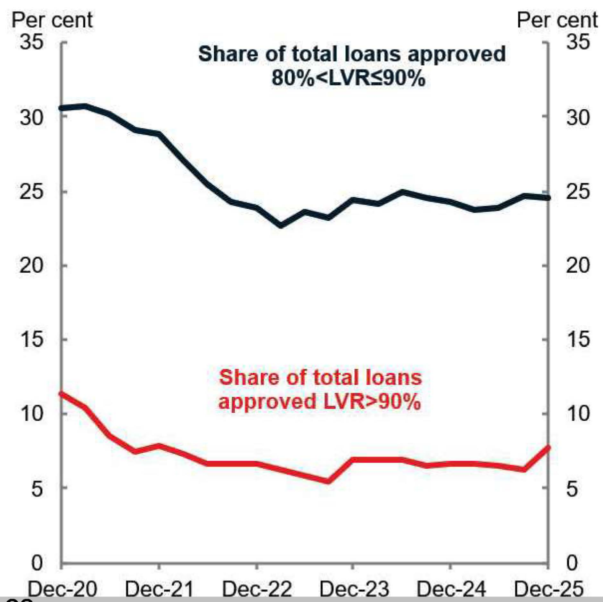
[redacted]

Chart 4: Share of new lending that has a high loan-to-value ratio



s 22

[redacted]

s 22 [redacted]

From: McCririck, Rachael
Sent: Wednesday, 3 December 2025 4:25 PM
To: Heath, Alex ; Williams, Eleanor ; Cagliarini, Adam
Cc: s 22 [redacted] s 22 [redacted] ; Carlton, Freya ; Perks, Christopher ; s 22 [redacted]
Subject: For information: Estimates questions of relevance in RBA appearance [SEC=OFFICIAL]

OFFICIAL

Hi Alex and Eleanor,

s 22

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Document 5

- The interaction between APRA's DTI lending restrictions and the 5 per cent deposit scheme. In particular, it was asked whether macroprudential rules could see higher earners stay on the 5 per cent scheme while lower earners get pushed off. There were also some questions on the effects of the deposit scheme on house prices. (Senator Bragg)
    - RBA had already noted that DTI limits are not close to binding and reiterated that point here in suggesting it was not likely there would be any interaction effects.
    - Freya discussed the house prices aspect with HG, who would handle that if it came up I assume.

s 22

Cheers

Rachael McCririck (she/her) — **Assistant Secretary**
Fiscal and Monetary Policy Branch, Macroeconomic Analysis and Policy Division, Macroeconomic Group
s 22 s 22
EA: s 22 @treasury.gov.au

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.

LGBTIQ+ Ally

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SENATOR BRAGG

- On high loan to valuation ratio loans - 5 per cent deposit scheme
  - They are riskier, so expected to have mortgage insurance. High LTV are riskier because the more you borrow means that it takes a smaller change in prices for it to mean that you are borrowing more than the asset is worth
- On the interaction between APRA DTI rules and Govt 5 per cent deposit scheme. Could it mean higher income earners could stay in the scheme, but lower earners could be pushed out of the program because of the macropru rules
  - The APRA rules aren't binding

s 22

s 22

From: s 22
Sent: Thursday, 4 December 2025 10:04 AM
To: s 22
Subject: APRA at Senate Estimates - 3 December 2025

Hi team,

s 22

Interaction With the Home Guarantee Scheme (5% Deposit Scheme)

- APRA noted that 95% LVR loans are inherently high risk, but system-wide high-LVR lending is currently low. APRA has not yet seen data from the expanded scheme and will monitor flows closely as the program matures.
    - Loans with LVRs above 90% carry a higher risk of loss, including the possibility of negative equity.
    - It is up to the banks to manage their lending risks, regardless of whether a government scheme is involved.
    - Government schemes come and go, and prudential settings are designed to be robust across programs and cycles.
    - APRA stated that high-LVR loans are still treated as higher risk for capital purposes, even when supported by a government guarantee.

Regards,

s 22 — **Assistant Director, MEL**
Monetary and Macroprudential Policy Unit | Fiscal and Monetary Policy Branch
Macroeconomic Analysis and Policy Division
P +s 22

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Document 8

s 22

From: s 22
Sent: Thursday, 12 February 2026 9:45 AM
To: s 22
Cc: s 22
Subject: Summary of APRA's Estimates Appearance 11/02/26 [SEC=OFFICIAL]

OFFICIAL

Hi all,

See below REPU's summary notes from APRA's estimates appearance yesterday. Sharing for visibility noting that APRA received questions relating to your policy areas.

Discussed topics included s 22 , housing (including 5% scheme) s 22

Many thanks,

s 22
Regulator Engagement and Powers Unit
Financial System Division

s 22

s 22

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[redacted]

- 5% deposit scheme
  - APRA acknowledged that, generally, the higher the loan to valuation ratio, the high the probability of default.
  - Brief comments on high debt to income lending vs high LVR loans.
  - Comments on risk and high LVR: APRA noted their measures of resilience that support risk.
  - On the 5% deposit scheme, APRA does have data on first home buyers generally (new data from December quarter) but QoN taken to provide more specific data on the scheme.

s 22

[redacted]

s 22 [redacted]

From: s 22 [redacted]
Sent: Friday, 10 October 2025 4:40 PM
To: s 22 [redacted]
Cc:
Subject: RBA appearance at Senate Estimates, 10 October 2025 – Summary [SEC=OFFICIAL]

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s 22 [redacted]

s 22 [redacted]

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- On the 5 per cent deposit scheme for first home buyers, the Governor noted this could lead to more loans originating at high LVR or DTI ratios, however many borrowers are likely to refrain from borrowing at their maximum capacity. She also said the banking sector is unlikely to be exposed to greater financial stability risks due to the nature of the government guarantee.

s 22 [redacted]

Thanks,

s 22 [redacted]
Monetary and Macroprudential Policy Unit | Macroeconomic Analysis and Policy Division
P s 22 [redacted] @treasury.gov.au

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s 22
[redacted]

– Since the expansion of the Government's 5% Deposit Scheme, **high loan-to-valuation (LVR) lending to first home buyers has increased** (Chart 2). However, the RBA sees limited risks due to Government guarantees and strong labour market conditions.

s 22
[redacted]

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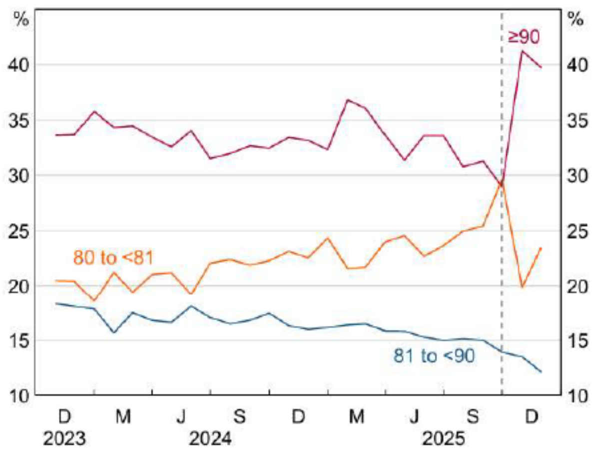
[redacted]

Chart 2: Share of first home buyer lending, by loan-to-value ratio (Graph 2.12 in FSR)



* Dashed line marks the begining of the expanded 5% deposit scheme. Data from the 12 largest ADIs collected on a 'best endeavours' basis. Earliest observation November 2023. Latest observation December 2025.

Sources: APRA; RBA.

s 22 [redacted]

- A significant change since the period shown is the improved ability for first homeowners to purchase property with 5% deposit. This may result in them having higher DTIs going forward.
  - However, this would not proportionately increase risks to banks (given government guarantees) and could be a consideration by APRA in setting potential carve outs and different treatment for different loan segments under a DTI limit.

Kind regards,

s 22 [redacted] Director
Banking and Credit Unit
Banking, Currency and Credit Branch
Financial System Division
P s 22 [redacted]
Twitter | LinkedIn | Facebook

There has been an uptick in some riskier forms of lending

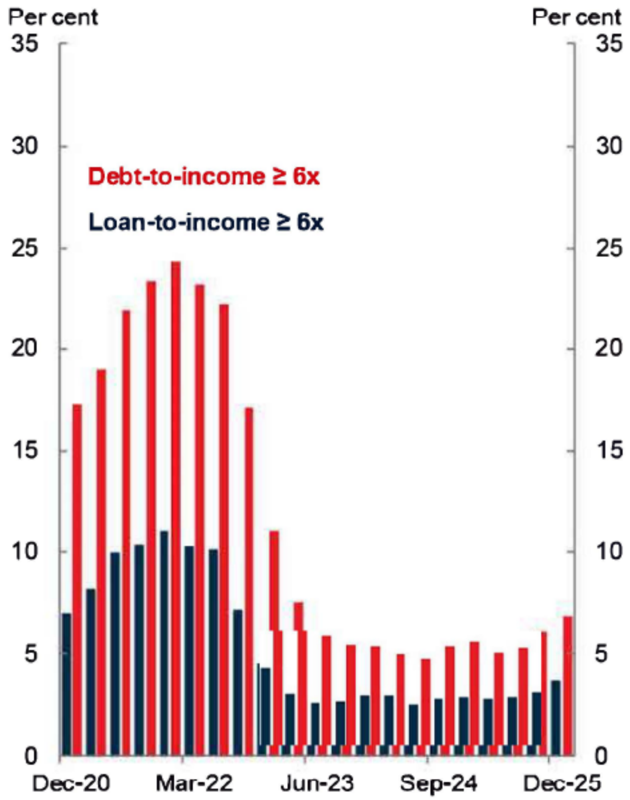
The share of new lending with **high-debt-to-income (DTI) ratios (≥ 6) rose to 6.8 per cent** in the December quarter, up from 5.8 per cent a year ago.

- The share of **high DTI lending for investors** increased to a little over 11 per cent in the December quarter.

The share of new loans with a **high loan-to-value ratio (≥90 per cent)** has also increased, from 6.7 per cent in December 2024 to **7.7 per cent in December 2025**.

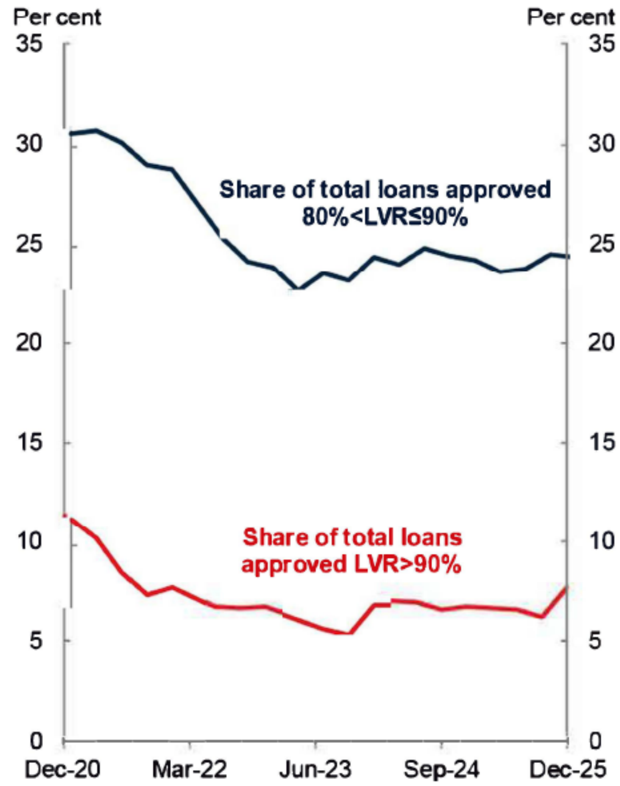
The increase in high-LVR lending partly reflects uptake of the Government's first-home buyer scheme.

Higher-risk lending as a share of new residential lending



Source: APRA, Treasury

Share of new lending with a high loan-to-value ratio (LVR)



Source: APRA, Treasury

s 22 [redacted]

From: s 22 [redacted]
Sent: Wednesday, 3 December 2025 1:58 PM
To: s 22 [redacted]
Cc: s 22 [redacted]
Subject: Senator Bragg SE with RBA [SEC=OFFICIAL]

OFFICIAL

Hi s 22 [redacted]

As requested, please find some commentary from Senator Bragg and the RBA on housing and prices.

It seemed that Senator Bragg is trying to find a link with the 5% deposit scheme and house prices, and if it will have a domino effect on proliferating riskier loans (with high LVRs), which may cause APRA's new macroprudential tools to kick in.

Please also note that Senator McKim was also asking about housing, mainly if the RBA has a view on tax concessions and housing policy.

- *Senator Bragg: If you go back 5 years or 10 years, you were getting 200K homes each year. High as 220K in 2017. Looking at 170K this year. Where do you think we are heading on supply?*
  - RBA:
    - We are not qualified to talk about supply of housing.

- Yes, we have structural undersupply of housing and for many years. Chronic underbuilds. Regulation getting in the way for development. Governments have recognised this. If you look at numbers so far, we are not going to reach targets.

- *Senator Bragg: What are the impacts of Cth govt demand side policies on housing prices, noting we are in a supply constrained environment?*
  - RBA:
    - Any policies that add to demand in a supply constrained environment will find their way in pricing. No particular insights on amounts. Other people have done their own calcs on price impacts, but by definition yes

- *Senator Bragg: In relation to 5 per cent deposit scheme, last time you appeared, RBA said prices might be bit higher than otherwise were. We have now found out that this policy was announced without any modelling undertaken by Treasury. Treasury said they did do modelling, but only after the policy was announced. Was the Bank consulted on Treasury doing the modelling and the price impacts of the 5 per cent scheme*
  - RBA
    - Don't believe they weren't consulted. But are taking it on notice to confirm

- *Senator Bragg: The October data from Cotality, SQM and others shows direct links between 5 per cent deposit scheme coming in and "adding to higher prices in the entry level portion of the market". Does RBA agree with this?*
  - RBA:
    - We don't do independent analysis on this. We just use Cotality's data and research.

- *Senator Bragg: Do you think Cotality is a reasonable data house?*
  - RBA:
    - Yes - Cotality is a reasonable data house
    - We have seen lending data which suggests there were a few extra first home buyers in October once the 5% deposit scheme kicked in.
    - We noticed there was a slight increase in the average value of the loans going to first home buyers so that's consistent. Translating this to a price effect is another thing entirely.

- *Senator Bragg: Quoting Cotality: "The step up in growth rates coincides with the 5% deposit scheme going live in October. This will likely add to housing demand, especially around lower to middle price points of the market". Is this a reasonable assessment?*
  - RBA:
    - Yes, this seems consistent with lending data

- *Senator Bragg: Has 5% deposit scheme impacted prices in the first month of going live?*
  - RBA:
    - The lending data suggests that there is an impact, but this is not the same as price impact. But it does appear consistent.

- *Senator Bragg: When you are talking about the loan, are you talking about 95% of the loan?*
  - RBA:
    - We can see number and value of first home buyer loans. The average value of first home buyer loans has picked up. This could be because of high loan to valuation ratio or there is no cap on incomes of first home buyers, so there are some higher income people coming in as first home buyers

- *Senator Bragg: High income people coming into the Scheme?*
  - RBA:
    - Yes, the scheme removes the income cap. People who were constrained previously due to their higher incomes can now rely on the government scheme.

- *Senator Bragg: As a result, would lower income earners with a higher LVR not being able to use the scheme because higher income earners squeezing them out?*
    - RBA:
        - Lower income people can still use the scheme. They can still get a loan up to 95% of the valuation of property

- *Senator Bragg: Has RBA been consulted on new APRA tools?*
    - RBA:
        - Yes we were consulted.

- *Senator Bragg: What was your input to this consultation?*
    - RBA:
        - We provide advice to APRA on macroprudential environment and risks to financial stability. We don't tell APRA what to do but highlight where the risks to financial stability are. The concern is if you end up increasing riskier lending, banks can find themselves having more loans with high loan to valuation ratios or high debt to income ratios.
        - RBA advised there could be some pressures brewing, but this is not substantial currently.

- *Senator Bragg: If you have 6x or more times ratio of DTI for owner occupier and investor, you can find that you won't get financing*
    - RBA:
        - Limits are nowhere near binding, the amount is only 20% of flow of new loans.
        - In aggregate, the proportion of "risky" loans" is still in single figures

- *Senator Bragg: Is this is an important measure?*
    - RBA:
        - Yes, a pre-emptive measure which is good to have and cautions banks.

- *Senator Bragg: Is it good to have a lot of 95% loans in the system?*
    - RBA:
        - 5% of loans are high LVR. They are risky, but in the absence of the 5% deposit scheme, you are expected to have mortgage insurance. This 5% scheme proposes that people don't need to buyer mortgage insurance. The government effectively guarantees it.
        - It is riskier, the more you borrow, the higher the LVR is.
        - The risk is if prices fall, then what you owe will be worth more than what the asset is worth.

- *Senator Bragg: If APRA reduces these risky loans and at the same time the government is pushing 95% loans, wouldn't it be the case that higher income earners could stay in the 5% scheme but lower income earners with fewer assets could actually be squeezed out of the loans because of APRA tools?*
    - RBA:
        - APRA tools aren't binding. There is headroom for banks.

Kind regards,

s 22 — **Analyst (surge), SYD**
Domestic Demand Unit | Domestic Demand, International and Trade Branch
Macroeconomic Conditions and Population Division
P +s 22

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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.

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s 22

[redacted]

- A significant change since the period shown is the improved ability for first homeowners to purchase property with a 5 per cent deposit. This may result in them having higher DTIs going forward.
  - Over 2024–25, the Home Guarantee Scheme supported approximately one third of all first home buyers. Median DTIs were 4.8 for the First Home Guarantee and 4.3 for the Regional First Home Buyer Guarantee.
  - It is likely that lower income borrowers (like first home buyers) will continue to have lower DTIs (as the portion of their income available to service debts will generally be lower than that for higher income individuals).

s 22 [redacted]

Why are the capital risk weights appropriate for first home buyers?

s 22 [redacted]

- Higher LVRs reflect higher risks of default and consequential losses associated with the class of loans. It is appropriate therefore that banks

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put aside more capital for higher LVR loans to cover these potential losses. Higher LVR loans are therefore more costly for banks to provide.

- APRA's capital requirements for first home buyer loans extended under the Government's Home Guarantee Scheme (from 1 October 2025 to be known as the '5% Deposit Scheme') are materially lower than for those without a guarantee.

s 22

[redacted]

s 22

[redacted]

- A significant change since the period shown is the improved ability for first home owners to purchase property with 5% deposit. This may result in them having higher DTIs going forward.
  - However, this would not proportionately increase risks to banks (given government guarantees) and could be a consideration by APRA in setting potential carve outs and different treatment for different loan segments under a DTI limit.

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates 2025 - 2026

Agency:	Department of the Treasury
Question No:	SBE327
Topic:	Moral hazard risk and strengthening prudential standards
Reference:	Spoken p. 19 (06 November 2025)
Senator:	Matthew Canavan

Question:

Senator CANAVAN: Put this in your head. You can stew over it, and I'll come back to it if I get time. The basis of this line of questioning is that, and I'm not saying this pejoratively, my assessment here is that there is a moral hazard risk by doing this program and that now we have a situation going forward where neither the banks nor the customer, neither side of the transaction, are bearing the costs of the risk of default. In a traditional LMI situation, the mortgage holder pays for those risks. They're facing those risks. They've got to assess whether it's worth paying for the LMI to provide the insurance to the bank.

We're now effectively paying the LMI for them, so you're introducing moral hazard. We can all say that there are standards are in place and, yes, people of course are not going into loans thinking they can't repay. But we know many times, again and again, when government's do this and introduce moral hazard it does have perverse outcomes. My fundamental question is: how has the government designed this scheme with guardrails in place to minimise that moral hazard risk? Maybe we can come back to that.

Senator Ayres: The guardrails are the prudential requirements that apply to the banks. The government is standing behind this, backing ordinary people, decent Australians, who otherwise would have to wait for a decade before they got homeownership. It is not anything but us leaning in to support ordinary people having a fair crack at it. That's it. Prudential requirements are the same.

Senator CANAVAN: But I'd like to know, did the officials provide advice around this issue of moral hazard risk? Is it something you assessed and said, 'We think we need to design a scheme this way or this way—maybe strengthen the prudential standards.' It sounds like we relying on what was there before, even though I would posit that we are introducing an additional risk here.

Mr Rimmer: I'm happy to take on notice your question and look more widely across the Treasury, because it does cross a number of different groups. I would, with respect, say that the characterisation that you've given misses a very important point, which is that a default that gets to this point that's gone through the hardship provisions of individual lenders is not in any way an experience that's going to be enjoyable for the customer concerned. So it's not the case that the customer gets out of a default situation cost free. This is a situation that would be deeply traumatic.

Answer:

Through the 5% Deposit Scheme, the Government provides guarantees to lenders in lieu of the homebuyer taking out Lenders Mortgage Insurance (LMI). This can save participants tens of thousands of dollars in LMI costs and can bring forward homeownership for eligible homebuyers.

Guarantees are only called upon where a borrower defaults on their home loan, the guaranteed property is sold, and there are insufficient proceeds to repay the full balance of the lender's loan. Like LMI, the guarantee is designed to protect the lender if a borrower defaults on their home loan. Borrowers remain liable for any loan shortfall owed to the lender after the claim payment has been applied. This information is communicated in the published 5% Deposit Scheme Information Guide.

There remain significant disincentives to participants defaulting on their mortgage under the 5% Deposit Scheme. Mortgage defaults under the Scheme have personal and financial stability costs, as with mortgage defaults generally. There may also be additional costs associated with foreclosure, including legal fees, moving expenses, recourse to other assets, sentimental attachment to the property and implications for future credit applications.

Lenders' credit policies, regulated by APRA's credit risk standards and by responsible lending laws, provide important protections for and constraints upon 5% Deposit Scheme participants. These protections include preventing unaffordable debt and managing the risk of significant financial hardship, including the risk of a consumer being forced to sell their home.

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates 2025 - 2026

Agency:	Department of the Treasury
Question No:	SBE326
Topic:	Analysis on reduction of property prices
Reference:	Spoken pp. 17-18 (06 November 2025)
Senator:	Matthew Canavan

Question:

Senator CANAVAN: I'll just come back to my question. It's a pretty simple question: Has there been any modelling, scenario analysis or risk analysis on, if there is a certain reduction in property prices, what that will mean for the interaction between the five per cent scheme and the level of prudential risk in the system?
Dr Hunter: I would need to take that detail on notice.
Senator CANAVAN: It doesn't sound like there has been.
Mr Rimmer: We will take that question on notice, but, on the underlying premise, banks under the five per cent deposit scheme are still required to undertake the normal responsible lending arrangements. They're still required to assess capacity to pay. They're required to consider fully the customer's circumstances before they enter into a lending agreement in exactly the same way that they would without the five per cent deposit scheme. All that the five per cent deposit scheme does is mean that that 15 per cent or, in some cases, 18 per cent is guaranteed by government. So if there is a risk in the system—and we estimate it to be a very modest risk—the risk is to the government in having to pay out on the guarantee in some cases. But the experience to date has been that the number of cases which have triggered the guarantee has been vanishingly small. So the—
Senator CANAVAN: Yes, but that's in the context of a rising property market.
Mr Rimmer: Sure. I accept the premise of your question.

Answer:

As part of the policy development process, the Treasury advised the Government on potential prudential impacts of the Scheme expansion under different economic conditions. Treasury monitors the Scheme's loan portfolio performance and works closely with the Australian Prudential Regulation Authority (APRA) to support their prudential supervision of financial institutions. APRA's prudential powers enable APRA to impose requirements to address systemic risks and promote financial system stability.

Lenders participating in the 5% Deposit Scheme are required to meet APRA's prudential standards for credit risk management in assessing all new borrowers applying through the Scheme. Lenders are also required to comply with their responsible lending obligations under the *National Consumer Credit Protection Act 2009*, which also has a role in constraining the build-up of risk in the loan book of consumer credit providers.

CUSTOMER OWNED BANKING ASSOCIATION

25 July 2025

s 22
a/g Assistant Secretary
Housing Finance Branch
Treasury

Via email: homeownershippolicy@treasury.gov.au

Dear s 22

Home Guarantee Scheme Expansion – Targeted Consultation

The Customer Owned Banking Association (COBA) welcomes the opportunity to provide a submission to Treasury's targeted consultation on the Home Guarantee Scheme (HGS) expansion.

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over $185 billion in assets and is the fifth largest holder of household deposits. Customer-owned banks (i.e. mutual banks) account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

With our long-standing commitment to first home buyers, the customer-owned banking sector welcomes the Government's focus on housing affordability and accessibility.

Key points

Given the removal of income caps and unlimited places, we expect there to be significant demand for the HGS product from Australians.

More than half of the customer-owned banking sector is not currently on the HGS panel. To promote equitable competition in the lending market, customer-owned banks of all sizes must be granted fair access to the HGS panel to allow them to write HGS loans.

HGS requirements and restrictions need to better suit an expanded scheme given – with more proportionate panel access, audit, and compliance requirements for smaller banks. By not doing so, this will severely impact competition, choice and diversity in the banking market.

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Sydney NSW 2000

Suite 4C, 16 National Circuit,
Barton ACT 2600

Customerownedbanking.asn.au

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Document 25

Key points (continued)

Lender's mortgage insurance (LMI) is important for smaller lenders to write competitively priced high loan-to-value ratio loans for customers who are not eligible for the HGS. Absent LMI, our sector will become increasing reliant on currently small scale and yet-to-be-designed deposit gap alternatives.

Given the uncertainty around such alternatives, smaller lenders must be able to access some form of LMI into the future to ensure they can compete against self-insuring major banks.

The government guarantee backing HGS loans differs from LMI, which introduces additional risks for banks offering HGS loans.

Adjustments to prudential expectations, particularly around high-LVR lending, will allow smaller banks to fully participate in offering the HGS.

Impacts on the banking sector

Housing accounts for 94% of the customer-owned banking sector's lending, with a significant portion dedicated to first-home buyer mortgages. Some COBA members report these constitute approximately 20% of their lending.

As the HGS becomes available to all Australian first home buyers without income caps or limits on places, HGS loans are expected to comprise a significantly larger proportion of bank lending and structurally alter the home lending market.

As a result, all banks of all sizes must be granted fair access to the HGS panel to allow them to write HGS loans. We expect that the vast majority of first home buyers will seek a HGS loan, meaning that banks unable to offer this loan will not be able to effectively compete for first home buyers – a critical market segment for future growth. More equitable access to the HGS would encourage a more dynamic banking landscape, ultimately benefiting consumers through increased choice and competitive housing finance options.

Operation of the lender panel

Despite housing forming the core business for the customer-owned banking sector, more than half of mutual banks and credit unions – 29 institutions in total – are currently excluded from the HGS panel. Among these are customer-owned banks based in regional and rural Australia, as well as those specialising in serving essential frontline workers like teachers, nurses, and police – many of whom are expected to use the HGS to enter the property market for the first time.

We urge the Government to open the lending panel to all customer-owned banks and implement more proportionate panel access, audit, and compliance requirements for smaller banks. Equitable access to the panel would recognise the vital role these lenders provide in competition and consumer choice in the home lending market.

Impacts on the lender's mortgage insurance (LMI) sector

Smaller lenders currently use private LMI providers to offer competitive loans to high-LVR borrowers, especially for non-first home buyers who don't have access to government support schemes. Without easily accessible LMI, smaller lenders would be unable to offer competitive high-LVR loans, putting

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them at a significant disadvantage compared to the major banks who are able to self-insure their LMI needs.

The Government must ensure that smaller lenders will be able to access some form of LMI into the future to allow for effective ongoing competition against the major banks in non-first home buyer market segments. More broadly, as it stands, LMI providers may have to increase the price on LMI to continue to offer these products. This could result in higher costs for HGS-ineligible high-LVR home buyers.

Uncertainty of guarantee

The government guarantee backing HGS loans differs from LMI, which introduces additional risks for banks offering HGS loans.

Banks face the risk of the HGS guarantee ceasing due to borrower actions, which most commonly occurs when a borrower rents out their property, voiding the owner-occupied condition of the guarantee. For some professions, such as teachers or police, this may be more common due to the need to relocate for work as their careers progress and renting out their homes in the meantime.

In any case, this leaves the bank solely responsible for the entire high-LVR loan, without the protection of the HGS guarantee or an LMI policy, even when it has acted appropriately under the scheme. This is a significant concern for customer-owned banks and substantially limits the protection the scheme offers. In a housing market downturn, this could result in lenders facing losses in the event of a borrower default.

A detailed response to the consultation questions can be found in **Appendix A.** We request that Appendix A remain confidential and not for publication.

Appendix B outlines COBA members excluded from the HGS.

Thank you for the opportunity to provide a submission. We look forward to working closely with the Treasury on the design and implementation of the expanded HGS. If you wish to discuss any aspect of this submission, please contact Alexander Woloszyn, Policy Manager (awoloszyn@coba.asn.au).

Yours sincerely

MICHAEL LAWRENCE
Chief Executive Officer

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Effects on financial stability

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[redacted]

- Financial stability risks from housing are currently contained, although credit growth has accelerated and some forms of riskier lending have picked up.

  – Since the expansion of the Government's 5% Deposit Scheme, high loan-to-valuation lending to first home buyers has increased. However, the RBA sees limited associated risks due to Government guarantees and favourable labour market prospects for this cohort.

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