

From: s 47F
To: s 22
Cc: s 22 ; s 47F s 22
Subject: RE: Home Guarantee Scheme Amendments Consultation [650 - OFFICIAL Sensitive]
Date: Thursday, 22 June 2023 4:18:49 PM
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[image003.png](#)
[image004.png](#)
[image005.png](#)
[image006.png](#)

Hello s 22

Thank you for giving COBA the opportunity to comment on the Exposure Drafts of the NHFIC Investment Mandate Amendment and accompanying Explanatory Statement.

COBA, on behalf of our members, would like to raise the following issues:

Owner-occupied exemption – ‘temporarily’ inconsistency in the ES

While COBA members welcome this exemption, we have identified a lack of clarity between the IM and ES regarding the changes to the owner-occupied exemption for borrowers. Page 6 of the ES states that:

Items 32 and 36 amend paragraph 29K(1)(b) and insert a new subsection 29K(3) to provide a broader exception to the owner-occupied requirement where borrowers are temporarily required to relocate by their existing employer and as a result it is impractical for the property to continue to be owner-occupied for a period.

However the relevant section of the IM does not mention that the borrower’s relocation needs to be temporary, and only states that the borrower must be required to relocate:

36 At the end of section 29K

Add:

- (3) Despite paragraph (1)(b), the NHFIC must not seek to prevent a particular residential property from being used other than as an owner-occupied residence where:
 - (a) a loan that was guaranteed under the Home Guarantee Scheme was used to purchase the property; and
 - (b) after the time the loan agreement was entered into, the property had been used as an owner-occupied residence; and
 - (c) the owner-occupier, or one of the owner-occupiers:
 - (i) has been required, by their employer, to relocate; or
 - (ii) suffers from an illness that the NHFIC considers to be serious; or
 - (iii) has carer responsibilities for a person who suffers from such an illness; and
 - (d) as a result, the NHFIC is satisfied that it is impracticable for the property to continue to be used as an owner-occupied residence.

This inconsistency should be addressed as the lack of clarity could result in a considerable level of uncertainty for participating financial institutions when engaging with a borrower in such a circumstance. Furthermore, should the interpretation of the relocation provision be as stated in the ES (i.e. temporary), there is no clarity over what constitutes as ‘temporary’ and therefore this also raises a considerable level of uncertainty for participating financial institutions when assessing a borrower’s eligibility under this clause. Some members note that people may be given postings without necessarily have an end date so which could lead to confusion if there was a requirement for it to be temporary.

Regional First Home Buyer Guarantee eligibility – ‘some part’

We have identified a lack of clarity in the ES regarding to the regional area residency requirement exemption. Page 6 of the ES states that:

Similarly, item 15 amends paragraph 29C(2AA)(b) to provide that the Regional First Home Buyer Guarantee applies to loans where at least one borrower under the loan agreement has lived in the regional area or an adjacent regional area for some part of the previous 12 months, but was unable to live in the area in the remaining part of the year because the borrower's existing employer required them to relocate for work.

The corresponding IM amendment is below:

15 Paragraph 29C(2AA)(b)

Repeal the paragraph, substitute:

(b) throughout the rest of the period:

(i) the borrower has been required by the borrower's employer to relocate; and

*National Housing Finance and Investment Corporation Investment Mandate
Amendment (Enhancing the Home Guarantee Scheme) Direction 2023*

3

EXPOSURE DRAFT

EXPOSURE DRAFT

(ii) as a result, it has been impracticable for the borrower to continue to live in the regional area or an adjacent regional area.

The period of time in which a borrower need not have resided in a regional area is listed as 'some part of the previous 12 months' however such a broad definition gives no clarity on what would be considered a reasonable period of time to have lived in a regional area to be eligible. The current draft leaves considerable scope for borrowers to remain eligible even if they have only spent one day in a regional area in the past 12 months before being relocated. In addition, there is no clarity on whether this relocation is temporary (like the owner-occupier exemption) or not.

Evidence requirements for borrowers claiming exemptions

We are concerned that the additional exemptions which have been included (such as, but not limited to, the owner occupier exemption listed above, the Family Home Guarantee Simultaneous settlement and purchase of existing home exemption and the Regional First Home Buyer Guarantee regional area residency requirement exemption) are likely to impose a significant burden on participating financial institutions to collect and assess relevant and appropriate evidence from borrowers to substantiate eligibility, particularly given the lack of clarity and detail in the IM and ES around any evidence requirements. Greater detail or clarity on this would be very helpful.

We appreciate that this consultation process has been short due to the need for a 1 July start date, however our members are very concerned about the short timelines which have been provided in order to implement

changes to the guarantee scheme's operation. Our members are small institutions and do not necessarily have the resources to implement changes in such a short timeframe. Our concern is that such a short timeline gives larger banks, particularly the majors, a competitive advantage in having their systems operational to take on this expanded set of eligible borrowers from day 1 while smaller members such as ours may be unable to do so. This is particularly pertinent in light of the other changes made to the IM which removes the 50 per cent cap on major bank's offering of places to borrowers under the scheme.

Thank you for taking the time to consider our response and please feel free to get in touch if you have any questions regarding the concerns we have raised.

We note that some of these issues may be resolved with NHFIC's resultant scheme rules.

Regards

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Director - Policy

Customer Owned Banking Association

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Customer Owned Banking Association is the industry body for credit unions, building societies and mutual banks. COBA is owned by its member institutions and provides representation and advocacy services as well as fraud and financial crimes services.

