Don Stewart
NSW

Inquiry team
The Affordability and Availability of Housing for First Home Buyers
Productivity Commission
LB2, Collins Street East
Melbourne, Victoria 8003

Dear Commissioner,

It always seems that there is a direct link between the public policy objective being sought by a housing mortgage interest rate increase and bank profits. Basically — to me at least — the rate increase just opens the conduit between the borrower's repayments and the bank's bottom line just that little bit wider.

Given this, 1 been wondering why the full financial benefit of a mortgage interest rate increase has to go to banks (or other private sector lenders) and why some of the interest-related increase in revenue could not be diverted for use on nominated housing-related activities, some of which might improve housing affordability.

Hypothetical example:

The Reserve correctly increases interest rates to dampen housing sector activity, (as opposed to increasing interest rates to dampen broader general domestic inflationary trends or at other times when the international cost of money is going up).

Comment/question
Couldn't the same policy objective (ie dampened housing sector activity) be achieved if the increase occurred <u>but</u> if some of the interest rate increase was diverted for use by government as a revenue stream for housing-related regional infrastructure and social housing programs.

1 assume that such a revenue stream would be handy and, for many reasons, including lowering housing input costs associated with developer contributions and reducing market demand or providing a revenue stream which could be used to subsidise rates of returns for private developers etc would have a beneficial impact on house prices.

There may be potential conflict of interest issues for the Reserve and Government if it this happened but 1 would assume that these would not be insurmountable.

Regards

Don Stewart