

PRODUCTIVITY COMMISSION DISCUSSION DRAFT

This association stands by its comments made in its earlier submission to the Commission.

It holds the view that Governments (both Federal and State) have the capacity to assist potential First Home Buyers into home ownership without imposing any further imposition on the taxpaying public.

Whilst the Commission has provided statistics which show that 80% of First Home Buyers saved the deposit for their homes, it appears unable to quantify the number of people wishing to purchase, but who are unable to obtain a deposit by whatever means and therefore continue to remain in other forms of accommodation.

Our industry believes that the greatest impediment to home ownership is the individual's inability to save a deposit whilst at the same time maintaining a high level of consumer spending, which includes home rental.

A broad education program, emphasizing the need to budget one's finances could assist those who wish to make home ownership their goal. Furthermore, potential first home buyers should be educated to focus on their housing "needs" rather than their housing "wants", particularly if they have limited financial resources.

The limits referred to in our earlier submission are as follows:

- Maximum house price (Victoria) - \$300,000.00.
- Maximum loan to 95% LVR.
- Maximum home size - 180 square metres.
- Maximum family income - \$80,000 per annum.

Where applicable, these limits should be indexed.

The First Home Owners Grants could be limited to those who meet the above criteria, as should any other Government assistances which may be contemplated. If people were encouraged to purchase homes as above, they would need less of a deposit than is presently the 'norm,'.

The State Government of Victoria has the capacity to guarantee Co-Operative Housing Societies in this state (Section 73 Co-Operative Housing Societies Act 1958). When such a guarantee is made available, borrowers from the Co-Operatives receive a reduced interest rate on their loans of currently up to one percentage point below the banks' normal lending rate. By guaranteeing the Society, the Government is accorded the capacity to direct the funds to those who meet this criteria, such as that indicated above. Just as importantly, it can direct that funds either to purchase or build are loaned in certain geographical areas eg. regional centres or designated growth areas. The need for mortgage insurance is lessened because the Co-Operative Housing Societies Act provides for a portion of each loan to be indemnified at no cost to the borrower.

Our industry sees the use of Government Guarantees and its subsequent “directives” as being of use not only to first home buyers as such, but as an important tool in rejuvenating regional areas of Australia, particularly the area of government migration policy.

There are waiting lists in Victoria, and probably in all States, for Government provided housing. The Government of Victoria has in excess of 65,000 units of accommodation. Instead of continuing to provide more and more rental housing, State Governments should be encouraged to also provide a home saving grant of say \$5,000.00 to eligible persons to vacate the public housing for home ownership, allowing current rental stock to be made available to the waiting list.

Together with the First Home Owners Grant of \$7,000.00, this would assist with a deposit. The front end lump sum payments for Stamp Duty and Mortgage Insurance could be amortised over a period of years, as the Commission suggest, by way of an annual land tax. However, this would cause short term cash flow problems for State Governments and Mortgage Insurance Companies.

If the Western Australian Governments Annual maintenance cost of \$5,000.00 per unit of accommodation, transferred to the Victorian stock by 65,000 units, the annual maintenance bill for Victoria is a staggering \$325 million per annum.

We agree with the Commission's finding that due to a number of factors, that the surge in demand and hence prices is a "bubble", which will settle down to realistic levels when this pent up demand has been satisfied, and Monetary policy starts to bite.

The Commission's suggestion in regard to Stamp Duty (and we would include the "one off" Mortgage Insurance premium) to capitalize these payments, and have them paid for by a land or property tax over a number of years is very sensible.

Many lending institutions do not mortgage insure, but Co-Operative Housing Societies in Victoria insure all loans above 80% LVR. Further, our finance providers, the major lenders, insist on this provision.

We represent Co-Operative Housing Societies in Victoria, and although we are a small sector compared with the Bank and Mortgage Originators, assist segments that these other institutions deem ineligible.

We can make loans to these people because we are involved at the "coal face", interviewing all loan applicants, continuing to monitor and advise during the course of the loan, strict collection procedures relating to any arrears collection.

The Commission's report makes reference to the Keystart Home Loan scheme in Western Australia. Having studied it in detail, we believe that it could be the model for such a scheme to be introduced by the Federal Government.

Even though the scheme lends on 2% deposit to individuals, its default rate is not significant, and is self insuring.

The scheme is at no cost to the Western Australian Government, and in fact is accumulating significant profits on an annual basis. Four groups of Co-Operative Housing Societies are its lending arm.

We trust that our comments are of some benefit to your Commission and look forward to its outcomes.

JohnMcIntosh
President
Housing Societies and Mortgage Managers Association
Inc,