

28 May 2024

Ms Vera Holenstein
Assistant Secretary
Housing Division
Treasury

Via email: housing@treasury.gov.au

Dear Ms Holenstein

Help to Buy Program Directions consultation

COBA welcomes the opportunity to comment on Treasury's consultation on the draft Help to Buy Program Directions 2024.

COBA represents Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over \$175 billion in assets and is the fifth largest holder of household deposits. Customer owned banking institutions account for around two-thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs).

Key points

COBA supports the objectives of Help to Buy; however, the program needs to be structured so it is accessible to as many participating lenders as possible to support customer choice.

COBA is concerned that the scheme will be complicated to implement and maintain for non-major banks.

Due to the program's complexity the Government must develop clear customer communication materials. This material needs to be properly targeted towards the low to middle income users of the product. It needs to be clear on what is involved in the product and the role that the Government has in sharing in the equity of the dwelling.

COBA seeks clarity on the processes and roles for each party to the arrangement, this includes clarity on APRA's view on the treatment of these loans, the pricing expectations of the loans, and the role of Housing Australia throughout the process.

We have provided detailed comments on different aspects of the Help to Buy scheme and the draft Program Directions in **Appendix A** of this submission.

We look forward to engaging with Treasury on this issue and thank you for taking our views into account. Please do not hesitate to contact Robert Thomas, Policy Manager (rthomas@coba.asn.au) if you have any questions about our submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Michael Lawrence', with a stylized flourish at the end.

MICHAEL LAWRENCE
Chief Executive Officer

Appendix A: COBA comments on aspects of the Program Directions

Issue	Provision	COBA Comment
Applicant eligibility		
Income thresholds	8	<p>COBA's members have expressed concern with the suitability of the thresholds. While recognising the intent of the program being tailored towards low- and middle-income Australians, our members are concerned that the thresholds may be too low to service the loans under current interest rate settings and property values, even with the assistance of the Commonwealth. We note that depending on the jurisdiction, the joint income threshold of \$120,000 could be difficult to service a loan while supporting two adults with a child.</p> <p><i>Proposed alternative</i> We suggest for simplicity to align the income thresholds with those in the First Home Guarantee Scheme (singles \$125,000, joint \$200,000). If, however, this is considered too high then \$150,000-\$170,000 could also be suitable for the joint income threshold, with \$125,000 for singles.</p> <p><i>Borrowing capacity</i> A member has provided the following examples on borrowing capacity with the following assumptions:</p> <ul style="list-style-type: none"> • No external liabilities (e.g., personal loans, credit cards, HELP/HECS debts, BNPL). • Declared living expense at or below the bank's living expenses benchmark. • At the bank's most favourable current interest rate. <p>The approximate maximum borrowing capacity under various scenarios are:</p> <ul style="list-style-type: none"> • Single applicant, no dependants: ~\$450,000. • Single applicant, 1 dependant: ~\$400,000. • Joint applicant couple, \$60,000/\$60,000 income split, no dependants: \$575,000. • Joint applicant couple, \$60,000/\$60,000 income split, 1 dependant: \$525,000. <p>These translate to maximum purchase prices ranging from \$662,000 to just beyond the \$950,000 threshold, depending upon borrower/s and property category (including, existing versus new property).</p> <p>We note that these are under the most favourable conditions and that for many of those targeted under the Help to Buy scheme they may not meet these conditions. This will mean that many people will not be able to borrow up to this capacity.</p>
Complexity of product and information provided to applicants		The Help to Buy product is complicated as it involves the Commonwealth taking a share of the equity. This has many flow on impacts that goes beyond a normal mortgage. The complexity will become especially apparent in the

		<p>later stages of the product's life when the mortgage is paid off or where the customer seeks to sell the property. Additionally, the shared equity nature of the product could cause ongoing complexities for the customer where:</p> <ul style="list-style-type: none"> • The Commonwealth's share increases in dollar value over time due to property value increases meaning that the customer needs to pay the Commonwealth out at a higher dollar value to exit the scheme. • The property value decreases and as such the Commonwealth's share of the ownership increases as the original investment is preserved at the original dollar value invested. This will be to the detriment of the customer who would be bearing the full value of the property value falling. <p>This creates risks for the lender in that it could provide higher levels of credit risk, arrears, and credit issues. However, the scheme could limit its ability to price accordingly.</p> <p><i>Information provided to applicants</i></p> <p>Given the product's targeted groups and noting these above risks, COBA is concerned that the ability to understand the product will require a very high level of financial literacy that may be beyond the average Australian. This concern will be exacerbated in instances where a customer does not have strong English skills. Based on these concerns, it is likely that our members would insist or strongly recommend on the customer obtaining independent legal and/or financial advice before entering into the contract.</p> <p>As such, the Government must ensure that all explanatory material be provided in plain language and that it be as clear as possible on all the consequences of the product. We would also suggest that example scenarios be provided such as:</p> <ul style="list-style-type: none"> • What happens in the later life of the product where a customer pays off the mortgage and the Commonwealth still has equity. • What happens if the customer decides to sell the property while the Commonwealth still has equity. • What happens if the property value decreases. Additionally, what happens to the Commonwealth share if the customer decides to sell after a depreciation.
<p>Complaints and reputational risk</p>		<p>COBA members are concerned about the potential reputational risk arising from this product, especially in circumstances where the customer has not understood the product or the role of the Commonwealth. Members are particularly concerned in instances where a property is sold and the Commonwealth still has its equity share, which impacts the amount that the customer receives on sale.</p> <p>Our members' concerns arise from experiences with the Home Guarantee Scheme. There have been instances where a borrower's eligibility changes or ceases after the loan is funded and complaints regarding this have been directed to the lender and not to Housing Australia. These complaints are worked through by the lender because it is the customer-facing entity with whom the customer has been interacting with, and not Housing Australia. We recognise that with the five yearly reviews there will be a stronger role for Housing Australia in this scheme</p>

		compared to the Guarantee scheme, however, our members are still concerned that when something goes wrong the negative sentiment will be directed towards the lender.
Property		
Price caps for eligibility	7	<p>COBA suggests that the price caps be revisited as these may no longer be suitable for current market conditions. The proposed caps may be too low in all markets due to significant changes in property prices including outside of the Sydney and Melbourne markets.</p> <p>An additional consideration is that the current price caps may be unrealistic based on the current income caps. For example, the \$950,000 cap for Sydney may not be reachable for \$90,000-\$120,000 incomes even with the Government covering 30-40% of the cost. If higher property caps are to be considered, then we think that there must also be a revisiting of the income thresholds.</p>
Maintenance obligations	31, 60	<p>COBA seeks clarification on the following issues:</p> <ul style="list-style-type: none"> • What are the terms and conditions of property maintenance? • How will the maintenance obligations be monitored and on whom will the obligation of verification lie? • Will the customer need to provide evidence of ongoing costs being met? If so, what evidence will need to be collected and to whom will it be provided, Housing Australia or the lender?
Valuations		COBA seeks clarity on what will be the acceptable differential between the valuation and the purchase price at the time of the loan and program approval. We also seek clarity on who will pay for the costs of the valuations required for the five yearly reviews and on what will be the process for a change in the equity balance.
Pricing		
Pricing of products		<p>COBA seeks clarity on how banks will be expected to price these products. We ask that the pricing expectations be disclosed before lenders apply for the panel as the economics of the product feeds into whether our members will apply to join. This is important given narrowing residential mortgage margins and the expectation that there will be significant additional administrative costs to offer this product to customers. Any expectations that these products be priced exactly the same as much less complex existing products may reduce small lender interest.</p> <p>Based on their experiences with the Home Guarantee Scheme, our members advise that there are significant additional operational requirements on these products. These are almost entirely manual and are over-and above regular loans that must be satisfied at the stages of acquiring and maintain scheme-supported loans. This includes, but not limited to:</p> <ul style="list-style-type: none"> • Eligibility verification. • Additional documentation requirements. • Seeking approval from Housing Australia.

		<ul style="list-style-type: none"> • Incremental reporting. • Ongoing compliance. • Periodic reviews and assessments. <p>Please also note our comments above on complexity of the product for customers also impacts on our members ability to properly assess risk and price accordingly. Especially on the higher levels of credit risk, arrears, and credit issues that may occur.</p>
Construction loans		
Time limits	24(1)	<p>COBA understands that the requirement to have construction commence within 12 months and completed within 24 months is intended to ensure that some limits are imposed in order to increase the supply of new dwellings and to prevent indefinite delays. However, we note that there are currently shortages in both labour and materials for the construction of new dwellings in Australia and that these time limits may not be appropriate. We would suggest as a starting point that completion within 36 months may be appropriate.</p> <p>COBA also seeks clarity on what the effects will be if the time limits for commencing and completing construction are not met. Our members are especially concerned on what the consequences would be in these circumstances.</p>
Exceptions and extensions	24(2)	<p>This provision provides Housing Australia the ability to adjust timeframes as it considers necessary or appropriate. We believe it would be beneficial if guidance was made available by Housing Australia on the circumstances it will exercise this power. COBA members are particularly concerned about ensuring that when there are delays outside the control of the bank or the customer that Housing Australia will provide extensions.</p> <p>Additionally, we suggest that a simple, portal-based process be provided for the seeking of extensions, rather than using emails. This will make the record keeping easier for all parties and make it clear what an extension decision is. Members have also suggested that a longer time frame for making the extension be provided then the 30 days currently provided under the Home Guarantee Scheme.</p>
Risk		
APRA treatment of products		<p>COBA seeks clarity on how APRA will treat these products from both a capital and reporting perspective.</p> <p>If these loans end up as high LVR loans, then they will be competing against the Home Guarantee Scheme in risk appetites and with other high LVR lending. We note that at the current income thresholds our members may find it difficult to approve a loan based on serviceability even if a reduced LVR treatment is provided by APRA.</p>

		Our members will need clarity from APRA on how it will treat this product. APRA’s treatment of these loans will be a crucial determinant in whether, and how many, customer-owned banks seek to be added to the lender’s panel for Help to Buy.
Situations where product will be abandoned		<p>COBA members have expressed concern on whether there are circumstances where the Commonwealth would withdraw its equity and support for a loan (for example, due to fraud by the customer) and would leave the lender with the liability.</p> <p>We appreciate comments made by Treasury and Housing Australia at our meeting on 10 May 2024 reassuring lenders that banks would be the first to be paid out in any circumstance where a dwelling was sold and whatever remained would be split between the customer and the Commonwealth as appropriate based on their equity shares.</p> <p>To further address our concerns, we think it is appropriate for there to be a very clear, unambiguous and documented process or rules on how such charges and claims would be prioritised and effective if such a situation occurs.</p>
Commonwealth equity share		<p>COBA members have asked questions and expressed some concern at aspects of how the Commonwealth equity share will work in practice. This includes such issues as:</p> <ul style="list-style-type: none"> • How will the Commonwealth’s share change when the value of the property declines or where a borrower cannot pay? • Will the borrower’s creditworthiness be assessed as part of their repaying the Commonwealth’s share of the equity, or will this be a different process? • What will happen if a customer cannot repay the Commonwealth’s share within 90 days (cl 36(5), (8))? • Will lenders be notified if the Commonwealth share of equity changes, and if so when would this occur? • We ask that examples be provided of when the Commonwealth would adjust the share of equity due to the “participants negligence, fraudulent behaviour, or other unreasonable deliberate or reckless act or omission” (cl 25(3), table item 2).
Program administration		
Assessment Process	14	<p>COBA notes that the Help to Buy scheme is proposed to differ from the First Home Guarantee in that Housing Australia will need to authorise an application. This means that there is likely to be increased back-and-forth between the customer, the lender and Housing Australia before a loan can be approved.</p> <p>Housing Australia should seek to streamline the verification process as much as possible. We ask whether consideration could be given to a more streamlined verification process by Housing Australia like that used for the First Home Guarantee scheme also be used for this program. This would mean most of the verification process</p>

		<p>could be completed by the lender rather than being reliant on potentially duplicative processes by both the lender and Housing Australia. If, however, this is not possible then clarity must be provided on these issues:</p> <ul style="list-style-type: none"> • The application process, including the submission method and what documents need to be provided. • Whether evidence of the financial capacity test has been met and what would be sufficient evidence. • The service level agreement that Housing Australia would be operating under for their assessments. • To whom, and how, can customers complain on delays and/or decisions made during the assessment process.
Top ups		<p>COBA seeks clarification on the following issues:</p> <ul style="list-style-type: none"> • What is the notice period to Housing Australia before applying for the top up? • Will a customer be expected to commence paying down the Commonwealth's share of equity if they are demonstrated to have financial capacity to do so during a top up application? • Will the lender portal need to be updated with top up details? • How will this all be documented and monitored in line with the five yearly reviews?
Five yearly reviews	33	<p>COBA seeks clarification on who will be responsible for engaging with the customer to conduct the review, the lender, or Housing Australia? Additionally, what will be the process if the customer becomes uncontactable?</p>
Allocation of places		<p>COBA understands that the Help to Buy program seeks to provide equity to 40,000 places to low- and middle-income households over four years. While the draft Program Directions provide for the allocation process among the States and Territories, we seek clarification on whether there will be set allocations between the major banks and non-major bank lenders, like the First Home Guarantee scheme.</p> <p>Additionally, in the allocation of places to participating lenders, we seek clarification on whether lenders will be able seek pre-approve or reservation of the allocation of places prior to the Housing Australia assessment.</p>
Oversight		<p>COBA seeks clarification on what reporting obligations will be imposed on participating lenders as part of administering the scheme.</p>