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Mr Jason Lange
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Dear Mr Lange

REGULATION IMPACT STATEMENT – FINAL ASSESSMENT SECOND PASS – FIRST HOME LOAN DEPOSIT SCHEME

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for the First Home Loan Deposit Scheme (the Scheme).

I believe the RIS meets best practice requirements and is consistent with the ten principles for Australian Government policy makers. In particular, the RIS addresses the seven RIS questions:

What is the problem?

Housing price-to-income ratios in Australia have increased steadily since the early 1980s, and increased particularly rapidly over recent years. While historically low interest rates assist borrowers' ability to service a loan, saving for a deposit remains a significant challenge for first home buyers. Lenders generally require borrowers to have a deposit of at least 20 per cent of the property purchase price to avoid paying for lenders mortgage insurance (LMI), which typically costs borrowers between one and two per cent of the property purchase price.

Why is government action needed?

Saving a sufficient deposit is challenging for many first home buyers. The Scheme will support potential first home buyers who have the ability to service a loan but would not otherwise be able to enter the housing market because of the time needed to accumulate a sufficient deposit and the cost of LMI.

What policy options are you considering?

The Scheme was announced as an election commitment with specific policy details, including that the Scheme will assist 10,000 first home buyers per year and it will be implemented by the National Housing Finance and Investment Corporation (NHFIC). Therefore, alternative policy options are not considered.

Within the bounds of the prescribed policy details, it has been determined that the Scheme will provide a first-loss guarantee on eligible loans for the difference between the deposit and 20 per cent of the property purchase price, subject to a minimum deposit of five per cent. Participating lenders will distribute the guaranteed loans.

What is the likely net benefit of each option?

The Scheme will benefit 10,000 first home buyers each year, who will be able to access loans with relatively small deposits without incurring the cost of LMI. There will be minimal additional effort required to access a loan under the Scheme, as eligibility will be largely assessed by lenders alongside usual application processes.

Participating lenders face some additional administrative costs, including upfront preparatory costs and per-loan costs to write a guaranteed loan. However, these costs are discretionary and lenders will choose to participate if they feel that the commercial benefits of participating in the Scheme are sufficient.

There is a risk that implementing the Scheme will adversely impact the LMI industry. While the pool of potential first home buyers will expand, there is a risk that the guarantee is provided to borrowers who would have otherwise have entered the housing market using LMI. The cap of 10,000 guarantees per year and eligible property price caps will limit the degree to which the Scheme displaces demand for LMI.

Who will you consult and how will you consult them?

Treasury and NHFIC have conducted broad stakeholder consultations to inform policy implementation details and to understand the likely impacts of the Scheme. Engaged stakeholders have included lenders (large and small), LMI providers, industry associations, financial intermediaries, mortgage brokers, housing developers, financial regulators and consumer advocates. Treasury plans to consult the public on proposed amendments to the NHFIC Investment Mandate, which will contain the Scheme's key implementation details.

What is the best option from those you have considered?

Consultation has informed the design of the Scheme and will continue to inform implementation details before the commencement of the Scheme on 1 January 2020.

How will you implement and evaluate your chosen option?

There are key implementation challenges for the Government and NHFIC to resolve before the commencement of the Scheme, including how to manage excess demand for the Scheme, setting property price caps, and ensuring that application and approval processes are relatively seamless. An independent review of the Scheme will be undertaken within three years of the Scheme's commencement to ensure that objectives are being met.

I am satisfied that the RIS addresses the concerns raised in your letter of 19 August 2019. Specifically, greater detail has been provided on the impact of the Scheme, including in regard to first home buyers, LMI providers and the housing market. Additionally, analysis of alternative implementation options has now been included.

Accordingly, I am satisfied that the RIS now meets best practice consistent with the Australian Government Guide to Regulation.

I submit the RIS to the Office of Best Practice Regulation for formal assessment.

Yours sincerely



Paul Verschuer
Deputy Secretary
Markets Group