

Submission to
Inquiry on First Home Ownership
by
Housing Societies & Mortgage Managers Association Inc October 2003

1. Introduction

The Housing Societies and Mortgage Managers Association (HSMMA) is the peak industry body representing Co-operative Housing Societies in Victoria.

HSMMA wishes to make a submission to the Productivity Commission - First Home Ownership enquiry

The contact for this submission is

Mr Bernie Blight
Chief Executive Officer
The Housing Societies & Mortgage Managers Association Inc
PO Box 226
Collins St West
Phone : (03) 9563 8794
Fax: (03) 9563 7375

He will be pleased to answer any questions or make any comments regarding this submission.

2. General Comments as to State of Housing Market

Quoting a recent newspaper article the size of the average house has increased from 170 sq metres in 1985 to 221 sq metres in 2000, while the average size of the household has reduced to 2.6 persons (from 3.6 in 1955)

The average cost of housing has increased 140% in the last 3 years, partly driven by the multitude of lifestyle programs on television, raising peoples expectations to unrealistic levels.

Less than 20 years ago, the garden and surrounds of a new house were not a major priority to a First Home Buyer. Expectations are now for expensive landscaped gardens as part of the house & land package. Other expectations now include the latest electrical appliances, and full furnishings pushing household debt to excessive levels.

In most instances it is now necessary to have dual incomes to service a home loan and to meet the other living expenses of owning a home.

3. The Deposit Gap

It is extremely difficult to save sufficient deposit and at the same time be paying rent and making other purchases. Therefore fewer people have the capacity to meet lenders requirements when buying their first home.

This was identified in our submission into the Senate Community Affairs Reference Committee Inquiry into Housing Assistance in April 1997 (copy attached) [available from submission contact Mr Bernie Blight]. That particular enquiry did not resolve any existing problems and we hope that this enquiry does not suffer the same fate.

This submission identified the historical growth of the housing status of Victorian, and generally brings the background up to 1997.

Since that date, the significant change in the Housing market has been price increases fuelled by a pent up demand, historically low interest levels, and a general view that to invest in housing provides a better return than many other investments.

The average loan has increased from just under \$ 100,000 in 1997 to in excess of \$190,000 today. (statistics gathered from Co-operative Housing Societies).

The median price of Melbourne houses is in excess of \$360,000.

The deposit required on a house of \$300,00 @ 90% of valuation is \$30,000. Together with stamp duty and legal costs, savings of approximately \$50,000 are necessary to complete the purchase.

4. New House Construction

Many First Home Buyers find it is necessary to build on subdivisions up to 50km from the CBD - Mornington in the South-East, Gisborne in the North-West, Hoppers Crossing, Werribee, Melton in the West, Geelong, and suburbs in the South West, and the Dandenong's in the East. Building costs have risen to in excess of \$10,000 per square, with a further 10% added for G.S.T. House and Land Packages in outer suburbs are rarely below \$250,000. The outer suburbs cause other problems to home owners.

- Cost of transport to place of business
- Time taken commuting from home to place of business
- Adequacy of schools
- Adequacy of shopping facilities
- Adequacy of community facilities - pre-schools, crèches, medical facilities, leisure facilities etc

5. Co-Operative Housing Societies

Co-operative Housing Societies are ideally situated to deliver any "home finance for owner occupiers" outcomes which may result from the Commissions findings.

They have operated in all states of Australia since the early 1940's with the exception of South Australia. They have been a major delivery vehicle for many of the Victorian Government's housing programs including programs funded through the Commonwealth States Housing Agreement since 1956.

The Secretarial Groups which manage the Societies on behalf of the members are wide spread throughout Victoria. These Secretarial Groups currently service a niche market to those who are unable to obtain traditional bank finance. They provide a personal approach to credit assessing and manage the loans whilst providing counselling where necessary until the loan is repaid.

The Co-operative Housing Societies Act (1958) and its amendments has provision for the State Treasurer to provide a Government Guarantee to the Co-operative Housing Society's funds provider. Whilst new guarantees are not being presently issued, provision in the Act still remains. Guarantees were suspended in 1993 in order to assist the State to gain its previously held AAA credit rating. This has now been achieved.

The Government Guarantee has several advantages:

- a) It encompasses an indemnification of all loans made above 80% LVR and up to 95% LVR. This indemnity means that the end borrower does not have to pay a Lenders Mortgage Insurance premium (say \$4000 on the average loan of \$190,000) yet the loan is covered against loss.
- b) The Bank which might lend funds to a Society receives the benefit of a lower risk weighting and therefore can provide funds at a lower rate than would normally be the case.
- c) By issuing a Guarantee the Treasurer of Victoria can dictate the terms of the loan, the maximum value of a home , the size of the home and even the location of property (this may be of benefit to assist other Government initiatives e.g attracting homebuyers to regional cities.)

It is in the area of (c) above where this Association believes that the Co-operative Housing Societies can assist in your Enquiry's attempt to assist First Home Buyers.

Co-operative Housing Societies are heavily regulated financial institutions, being audited by an external auditor, being regularly examined by APRA to ensure compliance with the Act and being supervised by the State Government appointed Registrar of Co-operative Housing Societies.

These institutions have since 1956 acted as State Government conduits for their housing programs, particularly those established with funds from the Commonwealth State Housing Agreements. State Governments have in the past, placed restrictions on the Societies in order to target people in specific socio economic circumstances.

Our industry submits that in order to assist First Home Buyers they could-continue to play an important role.

We submit that the current affordability problems confronting many first home buyers surrounds their "wants" rather than their "needs". Their expectations are buoyed by media and lifestyle programs. They are led to believe that housing " is just not available" for less than \$400,000 (Melbourne & suburbs)

Our industry does not support this statement as our societies current lending profiles show that the average loan being approved for owner /occupied housing - mainly in the Melbourne Metropolitan area is \$192,000. This would indicate that the average purchase price is approximately \$240,000. (It should be noted that the Co-operative Housing Societies assist those lower and middle income earners who are unable to obtain normal bank finance.)

Our industry is of the view that Keystart Housing Scheme Trust of Western Australia which is guaranteed by the Government of that State provides an alternative to the Co-operative Housing Societies structure and is fully endorsed by our members. A copy of the Directors Report in the last Keystart Annual Report is attached [obtain from www.keystart.com.au, or, submission contact Mr Bernie Blight]. We also attach a copy of an earlier submission made by our Industry to the 1997 Senate Inquiry into Housing

Assistance. Although the statistics in this report are dated, many of the arguments put forward are still relevant. Also enclosed is our recent submission to the State Treasurer for the re-introduction of the State Government Guarantee to Co-operative Housing Societies. This was rejected.

6. The Solution

Having stated our case for being the ideal vehicle for delivering regulated housing programs to low income earners we submit herewith parameters which will assist first home buyers or builders who need help rather than those who want help. In order to assist this group: a) Place a maximum purchase price of \$300,000 (Victoria) to be indexed annually to 75% of the median house price. If building this figure would apply to the cost of house and land.

- b) Allow the maximum loan to be up to 95% of the maximum purchase price or independent valuation, whichever is the lower.
- c) Limit the living areas of such homes to less than 180 square metres.
- d) Limit the combined salaries (again indexed) to \$80,000 (combined family income)
- c) Rebate up to \$5,000 of stamp duty payable on transfer of land. (this rebate could be offset by increasing the duty payable on investment properties) to First Home Buyers who meet the above criteria.

Conclusion

The initiatives contained in this submission could create no further expense or exposure to Government yet could be of great importance in providing Housing Finance to those who in the present housing climate will never own their home.

We are confident that if the above incentives were directed at those First Home Buyers who purchase or build homes within the above parameters there would be a realistic market available to both purchasers and vendors. Those who wish to exceed these parameters could receive assistance to a lesser degree, but are arguably not in need of assistance.

B F Blight

CEO

Housing Societies Mortgage Managers Association Inc

Attachments:

- a) Submission made to Senate Community Affairs References Committee - April 1997
- b) Request to Treasurer of Victoria to re-activate Government Guarantees and Indemnities - November 2002
- c) Keystart Housing Scheme Trust
 - Annual Financial Report - 30 June 2002

