# EXPLANATORY STATEMENT

## Issued by authority of the Minister for Housing, Homelessness and Cities

*Housing Australia Act 2018*

*Housing Australia Investment Mandate Amendment (Delivering on Our 2025 Election Commitment) Direction 2025*

Subsection 12(1) of the *Housing Australia Act 2018* (Act) provides that the Minister may, by legislative instrument, give the Board of Housing Australia directions about the performance of Housing Australia's functions. The Board is subject to the requirements of the Act, the *Housing Australia Investment Mandate Direction 2018* (Investment Mandate), the *Help to Buy Act 2024* and the *Help to Buy Program Directions 2025*.

The Act established Housing Australia to improve housing outcomes for Australians. Housing Australia (previously, the National Housing Finance and Investment Corporation) commenced operation on 30 June 2018. It is a corporate Commonwealth entity in the Treasury portfolio and is governed by an independent board.

Housing Australia improves housing outcomes for Australians through its guarantee, financing and capacity building functions. Housing Australia administers the Home Guarantee Scheme (Scheme) as part of its guarantee function. Housing Australia also operates the Housing Australia Future Fund Facility, the National Housing Accord Facility, the Affordable Housing Bond Aggregator and the National Housing Infrastructure Facility as part of its financing function. Housing Australia also provides support for capacity building of eligible registered community housing providers through its capacity building function. Housing Australia also has other functions conferred by legislation, such as Help to Buy functions under the *Help to Buy Act 2024*.

The Scheme aims to enable first home buyers, single parents or legal guardians with dependants, and other eligible home buyers to access the housing market sooner. The Scheme comprises the First Home Guarantee (FHBG) and the Family Home Guarantee (FHG). The New Home Guarantee (NHG) and Regional First Home Buyer Guarantee (RFHBG) were streams. However, NHG ceased accepting new applications on 1 July 2022 and no new guarantees can be issued under this stream from this time, while RFHBG ceased accepting new applications on 1 October 2025 and no new guarantees can be issued under this stream from this time.

The purpose of the *Housing Australia Investment Mandate Amendment (Delivering on Our 2025 Election Commitment) Direction 2025* (Instrument) is to expand access to the Scheme from 1 October 2025 by removing limits on the number of guarantees that can be issued under FHBG and FHG, removing the income test, and increasing property price caps. The Instrument gives effect to the Government's election commitment to give all first home buyers access to 5 per cent deposits.

Additionally, the Instrument will end RFHBG at the conclusion of 30 September 2025 as this stream of the Scheme will no longer be required from 1 October 2025, when there are no caps on the number of guarantees that can be issued under FHBG and FHG. To ensure that the Government remains informed about uptake of the Scheme, the Instrument also amends the Scheme's reporting requirements to require Housing Australia to report on the uptake of the Scheme in regional and rural Australia. The Instrument also includes application provisions to support the transition to the new operation of the Scheme.

As per the Government's election commitment, targeted consultation was undertaken with key stakeholders. Treasury consulted with representatives and members of the Australian Banking Association, the Customer Owned Banking Association, the Insurance Council of Australia and the Australian Prudential Regulation Authority. Housing Australia was also consulted in the development of the Instrument.

The Instrument is a legislative instrument for the purposes of the *Legislation Act 2003* (Legislation Act). As a direction made by a Minister to a person or body, the Instrument is exempt from sunsetting and from disallowance. The sunsetting exemption is pursuant to paragraph 54(2)(b) of the Legislation Act and item 3 of the table in section 11 of the *Legislation (Exemptions and Other Matters) Regulation 2015* (Legislation Exemptions Regulation). The disallowance exemption is pursuant to section 42 of the Legislation Act and item 2 of the table in section 9 of the Legislation Exemptions Regulation. Accordingly, no statement of compatibility with human rights is required under subsection 9(1) of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

The Instrument is subject to the automatic repeal process under section 48A of the Legislation Act. This section provides that where a legislative instrument only repeals or amends another instrument, without making any application, saving or transitional provisions relating to the amendment or repeal, that instrument is automatically repealed. By virtue of subparagraph 48A(2)(a)(i), the Instrument is automatically repealed on the day after the commencement of the Instrument which results in the amendment of the Investment Mandate.

The Instrument commenced on 1 October 2025.

Details of the Instrument are set out in Attachment A.

The Office of Impact Analysis (OIA) has been consulted (OIA ref: OIA25-09108) and agreed that an Impact Analysis Equivalent is required. The full text of the 2022 Regulatory Impact Statement is freely available to the public via: https://oia.pmc.gov.au/published-impact-analyses-and-reports/home-guarantee-scheme. It is also set out in Attachment B.

The Office of Impact Analysis has agreed to Treasury certifying this previous analysis together with supplementary analysis to form an Impact Analysis Equivalent. The Impact Analysis Equivalent is set out in Attachment C.

The regulatory cost for this measure is estimated to be $5.38 million per year.

**ATTACHMENT A**

## Details of the Housing Australia Investment Mandate Amendment (Delivering on Our 2025 Election Commitment) Direction 2025

Section 1 – Name

This section provides that the name of the instrument is the *Housing Australia Investment Mandate Amendment (Delivering on Our 2025 Election Commitment) Direction 2025* (Instrument).

Section 2 – Commencement

Schedule 1 to the Instrument commenced on 1 October 2025.

Section 3 – Authority

The Instrument is made under the *Housing Australia Act 2018* (the Act).

Section 4 – Schedules

This section provides that each instrument that is specified in the Schedules to this instrument are amended or repealed as set out in the applicable items in the Schedules, and any other item in the Schedules to this instrument has effect according to its terms.

Schedule 1 – Amendments

Legislative references in this attachment are to the *Housing Australia Investment Mandate Direction 2018* (Investment Mandate) unless otherwise stated.

**Removing the limits on the number of guarantees that can be issued each financial year under the First Home Guarantee and the Family Home Guarantee**

Prior to the commencement of the Instrument, the number of guarantees available each year under the First Home Guarantee (FHBG) and Family Home Guarantee (FHG) streams of the Home Guarantee Scheme were capped at 35,000 and 5,000 guarantees respectively.

In brief, the FHBG provides for Housing Australia to issue guarantees in respect of loans where various eligibility criteria are met (see section 29C), including that the loan-to-value ratio is between 80 and 95 per cent. The FHG targets additional guarantees to single borrowers under the loan agreement who will be the only registered owner of the property and the borrower is a single parent or an eligible single legal guardian. Under the FHG, the loan-to-value ratio must between 80 and 98 per cent, there is a single borrower.

Items 1, 2, 10 and 11 of the Instrument implement the Government's election commitment to give all first home buyers access to at least a 5 per cent deposit by removing the limits on the number of guarantees that can be issued under FHBG and FHG.

Items 1 and 2 amend section 28ZF, which is the simplified outline of Part 5A of the Investment Mandate, which provides for the Home Guarantee Scheme (Scheme).

Item 1 removes the reference to Housing Australia being able to issue up to 35,000 guarantees each financial year under FHBG. The effect is that the simplified outline reflects the new policy settings whereby Housing Australia can issue as many guarantees as there are applications by eligible recipients each financial year under FHBG.

Item 2 does the same for FHG by removing the reference to Housing Australia being able to issue up to an additional 5,000 guarantees for each financial year starting 2022-23 and ending 2025-26. Item 2 replaces this text with a reference to Housing Australia being able to issue guarantees for each financial year from 2022-23, again reflecting the new policy settings for FHG.

Item 10 amends section 29I by removing subsections 29I(1) to (12) and replacing these provisions with text that provides that, subject to Part 5A, Housing Australia may issue guarantees under FHBG.

Item 11 does the same for FHG by amending section 29IB to remove subsections 29IB(1) and (2), and replacing these provisions with text that provides that, subject to Part 5A, Housing Australia may issue guarantees under FHG.

The effect of items 10 and 11 is to remove the limit on the number of guarantees that can be issued each financial year under the FHBG and FHG streams of the Scheme.

**Removing the income test**

Prior to the commencement of the Instrument, to be eligible for a guarantee under any of the streams in the Scheme, a person needed to satisfy the income test set out in section 29E. Where there was more than one borrower under the loan agreement, the combined taxable incomes of the borrowers in the previous financial year must not have exceeded $200,000. For a single borrower, their taxable income in the previous financial year must not have exceeded $125,000.

Items 4, 5, 6, 7 and 8 of the Instrument implement the Government's election commitment to remove the cap on income to access the Scheme.

Items 4, 5, 6 and 7 amend section 29D to remove the requirement that a person satisfies the income test from the eligibility requirements for an 'eligible home buyer', 'eligible single parent' and 'eligible single legal guardian'. This is achieved by repealing paragraphs 29D(1)(c), 29D(3)(c) and 29D(3A)(d) as well as making a consequential amendment to paragraph 29D(1)(b) to reflect the removal of the income test eligibility requirement in subsection 29D(1).

Item 8 repeals section 29E, which set out the income test.

The effect of items 4, 5, 6, 7 and 8 is that the income test will no longer apply to assessments of eligibility for the Scheme.

**Increasing property price caps**

Prior to the commencement of the Instrument, to be eligible to receive a guarantee under the Scheme (excluding the New Home Guarantee), among other things, the property that would be the subject of the guarantee was not to exceed the relevant amount set out in the table in subsection 29F(1).

Item 9 amends subsection 29F(1) to increase the property price caps for the majority of the areas listed in the table. The new price caps reflect the median property price in these areas.

The intent for this amendment is to support participants in the Scheme access a greater range of properties in the areas that they want to live, and to reflect growth in dwelling prices since the previous price caps were established.

The amendments are illustrated in the following table:

| **Locality** | **Previous HGS price caps** | **New HGS property price caps** |
|---|---|---|
| NSW – capital city and regional centre | **$900,000** | **$1,500,000** |
| NSW – other | **$750,000** | **$800,000** |
| VIC – capital city and regional centre | **$800,000** | **$950,000** |
| VIC – other | **$650,000** | **$650,000** |
| QLD – capital city and regional centre | **$700,000** | **$1,000,000** |
| QLD – other | **$550,000** | **$700,000** |
| WA – capital city | **$600,000** | **$850,000** |
| WA – other | **$450,000** | **$600,000** |
| SA – capital city | **$600,000** | **$900,000** |
| SA – other | **$450,000** | **$500,000** |
| TAS – capital city | **$600,000** | **$700,000** |
| TAS– other | **$450,000** | **$550,000** |
| ACT | **$750,000** | **$1,000,000** |
| NT | **$600,000** | **$600,000** |
| Jervis Bay Territory and Norfolk Island | **$550,000** | **$550,000** |
| Christmas Island and Cocos (Keeling) Islands | **$400,000** | **$400,000** |

## Operational refinements

To streamline and improve the operation of the Scheme, RFHBG will cease at the conclusion of 30 September 2025 and Housing Australia will be required to report on the uptake of the Scheme in regional and rural Australia from 1 October 2025.

Item 3 amends section 28ZF, which is the simplified outline of Part 5A of the Investment Mandate (which provides for the Scheme), by adding text to the end of the paragraph regarding RFBG that explains RFHBG is closed and that further guarantees cannot be issued under the RFHBG stream. Item 12 operationalises this by amending section 29IBA, which provides for the number of guarantees that can be issued under the RFHBG stream of the Scheme, to add a new subsection 29IBA(9), which provides that Housing Australia must not issue any guarantees under RFHBG on or after 1 October 2025.

These amendments reflect that, from 1 October 2025, RFHBG is closed (like the New Home Guarantee stream of the Scheme). The reason for closing RFHBG is that it is redundant due to there being no limit on the number of guarantees that can be issued under FHBG and FHG each financial year. RFHBG was intended to ensure that people in rural and regional Australia could access the Scheme when there was a limit on the number of guarantees that could be issued under FHBG and FHG each financial year. Given the Instrument removes the limit on the number of guarantees that can be issued each financial year, there is no risk that people in rural and regional Australia will not be able to access the Scheme due to exhaustion of guarantees.

To ensure that the Minister remains informed about the uptake of the Scheme in regional and rural Australia, the Instrument amends section 29L by adding additional reporting requirements for Housing Australia's 6-monthly reports to the Minister.

Items 13 and 14 provide for the new reporting requirements. Item 13 inserts new paragraphs 29L(1)(cb) and (cc), which require Housing Australia to report to the Minister the number of guarantees issued under the Scheme during a 6-month period and, for the guarantees issued in relation to dwellings in regional areas during that 6-month period, report the number of guarantees issued, the number borrowers, the number of dwellings purchased, and the number of dwellings purchased in each Statistical Level 4 area.

The meaning of 'regional area' in the new paragraph 29L(1)(cc) is provided in existing section 4A of the Investment Mandate. Using this existing definition will support consistency in reporting of the number of guarantees issued in such areas under the RFHBG to date and in the future under the uncapped FHBG and FHG streams.

Item 15 inserts a new subsection 29L(4), which explains how guarantees are to be counted for reporting purposes. The new paragraphs 29L(4)(a) and (b) have the effect that Housing Australia is to allocate guarantees approved by it to the financial year in which the guarantee is approved and that it is to not count guarantees that result from refinancing a home loan that is supported by an existing guarantee.

## Application provisions

Item 16 sets out two new application provisions to support the amendments made by the Instrument.

The first amendment is a new section 44, which provides that the amendments made by the Instrument apply to guarantees issued on or after 1 October 2025. This is given effect by subsection 44(3), which defines the 'commencement day' as the day the Instrument commences, which is 1 October 2025. Subsection 44(2) provides that a guarantee is treated as being issued before the commencement day if it was approved by Housing Australia before the commencement day, even if the arrangement (i.e. home loan) that relates to the guarantee is entered into after the commencement day. Subsection 44(3) provides that a guarantee issued in relation to the refinancing of a home loan that is supported by an existing guarantee is disregarded for the purposes of section 44.

The second amendment is the new section 45, which provides that Housing Australia must include in its report to the Minister the new information required by paragraphs 29L(1)(cb) and (cc) for the 6-month period commencing on or after 1 July 2025.

Sections 44 and 45 ensure that the Minister receives full information regarding the operation of the Scheme during the transition period from the previous operation of the Scheme to the new operation of the Scheme commencing on 1 October 2025.

**ATTACHMENT B**

# Regulation impact statement – Home Guarantee Scheme

# Contents

# Executive summary

For many Australians seeking to enter the housing market, the most significant barrier has become the time it takes to save a sufficient deposit, rather than the ability to service a mortgage. For those wishing to purchase in the near term but are yet to save a sufficient deposit, a private market solution exists in the form of lenders mortgage insurance (LMI). However, LMI adds to the cost of borrowing and can delay access to home ownership for some including first homebuyers, single parents with dependants, older Australians and people living in regional Australia. Moreover, some cohorts of homebuyers are significantly less likely to have the financial capability to enter the housing market even with the provision of LMI.

The expansion of the Home Guarantee Scheme is designed to support earlier access to home ownership for cohorts that may otherwise struggle to gain a foothold in the market in the near term. It builds upon the Commonwealth Government's existing guarantee programs which allow applicants to purchase a home with a deposit of as low as 2 per cent, without the need for LMI.

Since the establishment of the First Home Loan Deposit Scheme (FHLDS), stakeholders have expressed broad support of the Scheme and its objective to assist Australians into home ownership. The expansion of the Home Guarantee Scheme seeks to extend this support to target cohorts.

The need for Australians to invest in their own home is important. For many Australians, home ownership also provides significant social benefits in addition to economic and financial benefits. An increase in places will be required to ensure this goal is achieved.

A key indicator of whether the Scheme has achieved its objectives will be whether it is able to operate alongside a viable and profitable LMI sector that continues to support other first home buyers' access to the market.  Maintaining the viability of the LMI industry is imperative, as it allows potential home buyers that don't qualify for the Scheme to enter the property market sooner than they would otherwise would.

The Office of Best Practice Regulation's (OBPR's) assessment (22-01418) was that the quality of the analysis in the RIS was good practice and therefore sufficient to inform a decision.

# 1. What is the problem you are trying to solve?

The Home Guarantee Scheme supports earlier access to home ownership for cohorts that may otherwise struggle to gain a foothold in the market in the near term – particularly first homebuyers, single parents with dependants and older Australians, while also driving jobs in the residential construction sector. It recognises that for many Australians seeking to enter the housing market, the most significant barrier has become the time it takes to save a sufficient deposit, rather than the ability to service a mortgage. For those wishing to purchase in the near term but that have yet to save a sufficient deposit, a private market solution does exist, in the form of lenders mortgage insurance (LMI). However, LMI can add significantly to the cost of borrowing and this additional cost can delay access to home ownership for some. Furthermore, some cohorts of homebuyers are significantly less likely to have the financial capability to enter the housing market even with the provision of LMI, meaning that a private market solution does not exist for all potential homebuyers.

The Home Guarantee Scheme builds on the Commonwealth Government's existing guarantee programs to support earlier access to home ownership. The FHDLS, which began on 1 January 2020, allows first home buyers to buy a home with a deposit as low as 5 per cent without needing to pay LMI. This scheme has been very successful with practically all the 10,000 places in each financial year being taken up in the first few months of being made available. The New Home Guarantee, which allows for the construction of a new home (or the purchase of a newly built home) with a minimum deposit of 5 per cent without LMI, has supported more than 8,000 first home buyers over the past two financial years. Most recently, the Family Home Guarantee, which supports single parents with dependants to purchase a home with a deposit of as low as 2 per cent, has been taken up by more 1,600 people in the first few months of operation.

The strength of demand for these existing guarantee programs points to ongoing pressure on the ability of first home buyers (and single parent families) to be able to access the "Australian dream" of home ownership. Home ownership is an important pillar of Australian society, with research indicating that home ownership provides a foundation for family and social stability and contributes to improved health and educational outcomes and a productive workforce.[1]

In addition to the social benefits, home ownership generally confers significant economic and financial benefits on Australians. The Retirement Income Review found that "the home is the most important component of voluntary savings and is an important factor influencing retirement outcomes and how people feel about retirement. Retiree homeowners generally have lower housing costs and an asset that can be drawn on in retirement"[2], which generally translates into lower dependence on Government support in retirement. While retiree renters can access Commonwealth Rent Assistance to offset their housing costs, it is often far below the level that would bridge the gap in living standards compared to homeowners.[3]

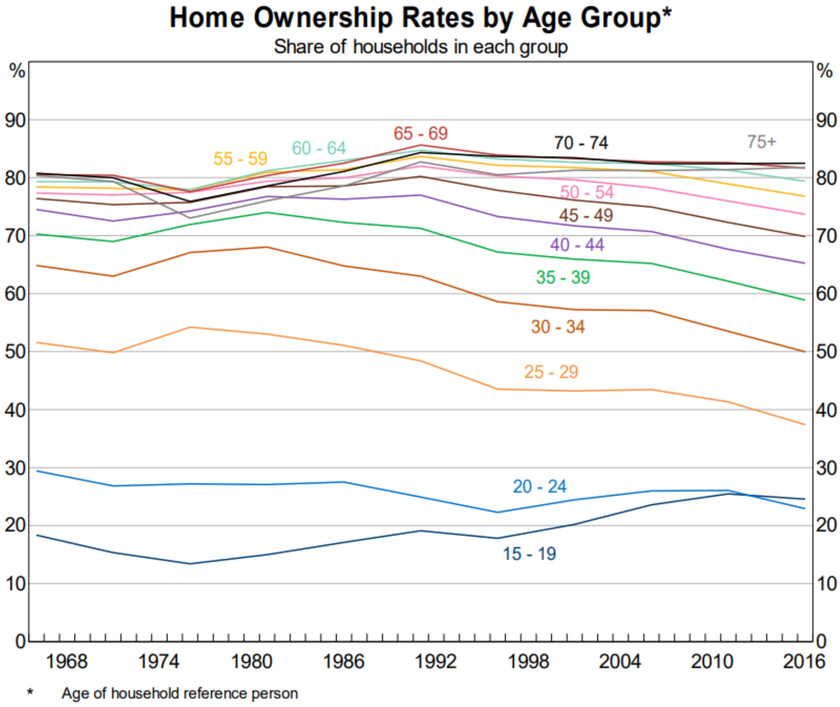
While home ownership is an aspiration for most Australians, it has become more challenging for people to enter the property market. The rate of home ownership in Australia has been falling in recent decades. The proportion of households that own a home has fallen to 66 per cent, down from 70 per cent in 1997-98.[4] Home ownership rates

[1] Productivity Commission (2004), First Home Ownership - Productivity Commission Inquiry Report.
[2] Treasury (2020), Retirement Income Review, page 18 and page 137
[3] Treasury (2020), Retirement Income Review, page 54

have fallen across most age groups since the early 1990s and this trend is most evident among households aged 25 to 49. Concurrently, the number of households renting has increased from approximately one quarter in the late 1990s to over one third in 2018. [5]

Source: RBA

House prices have risen substantially over the past year, from already high levels. National



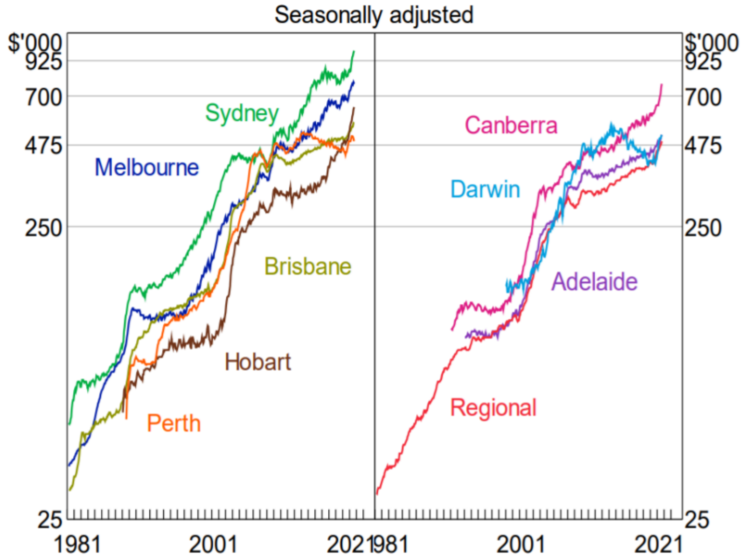

house prices have risen by 22.4 percent over the year to January 2022 with both cities and regional areas experiencing strong price growth. Many factors have been cited for this most recent increase, including the very low interest rate environment, a generally better-than-expected economic recovery from the pandemic, changes in preferences, and the range of stimulus programs put in place by both the Commonwealth and state and territory governments during the pandemic.

[4] Australian Bureau of Statistics (2019), More households renting as home ownership falls.

[5] Reserve Bank of Australia (RBA), *Submission to the Inquiry into Housing Affordability and Supply in Australia*, Australian Parliament House website, Accessed 20/10/2021. https://www.aph.gov.au/Parliamentary_Business/Committees/House/Tax_and_Revenue/Housingaffordability/Submissions

## Median Housing Prices

Seasonally adjusted

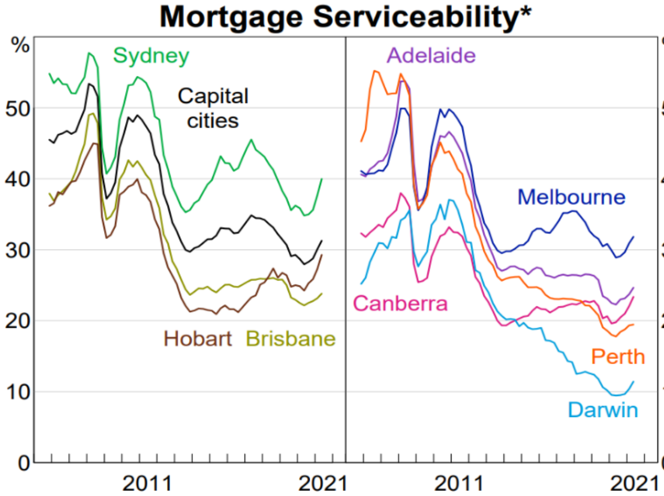



Sources: CoreLogic; RBA

Data on house prices alone however is insufficient to accurately assess the evolution of housing affordability. A commonly cited measure of housing affordability is the ratio of house prices to household incomes. This measure has increased steadily since the early 1980s and has increased particularly rapidly over recent years, rising to an all-time high. Higher house prices relative to income means that, in the absence of other factors, the average home buyer must save for longer to be able to afford a deposit on a home and would need to make higher loan repayments as a proportion of income to service the mortgage.

While the ratio of house prices to incomes has risen sharply, mortgage serviceability has generally improved over recent years. Mortgage serviceability measures the cost of meeting mortgage repayments as a proportion of household income. The substantial decline in interest rates over the past few years has lowered the cost of servicing a typical mortgage, however, the sharp price rises more recently have led to a renewed deterioration in serviceability.

## Mortgage Serviceability*



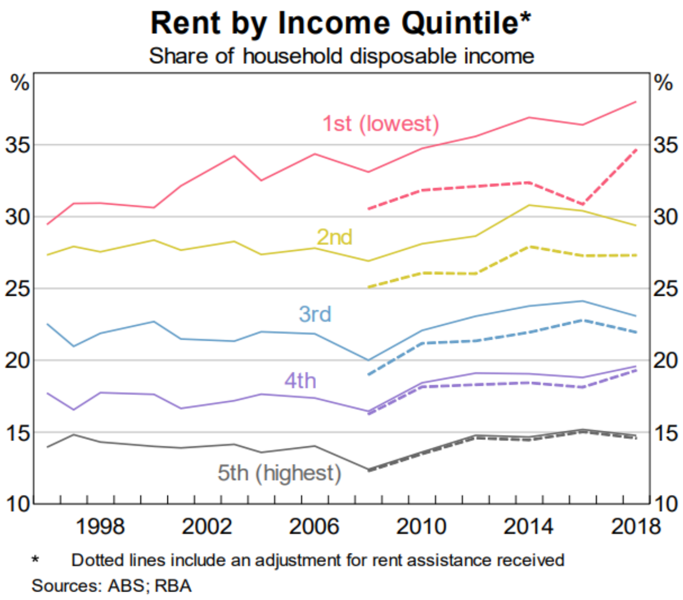

* Percentage of median gross household income needed to service a variable rate mortgage with an 80 per cent loan-to-value ratio for a median priced dwelling

Source: RBA

Nevertheless, the biggest constraint on housing affordability has become the time it takes to save a sufficient deposit, rather than the ability to service a mortgage. As a share of income, the average first home buyer deposit has risen significantly in recent years, from below 70 per cent of average annual household income in 2010 to over 80 per cent in 2021.[6] Consequently, the average time it takes the average first home buyer in capital cities to save a deposit has increased by approximately 25 per cent over the past decade.[7] For many prospective buyers, it takes approximately 10.7 years in capital cities and 9.1 years in regional areas to save for a deposit.[8]

The RBA has found that higher prices and specifically higher deposit hurdles for new home buyers explain the majority of the variation in first home buyer activity over the past few decades. The aforementioned data shows the increase in house prices and their consequential effects on increasing the deposit requirement to enter the property market. This clearly points to the need to address the deposit hurdle for those who are seeking to enter the property market but that do not have a sufficiently high income to save enough for a sizeable deposit, especially when renting at the same time.

High rental costs are also contributing to the difficulty in saving for a sufficient deposit to purchase a home. Over the past decade, rent as a share of household income has risen significantly. Even after adjusting for rent assistance received, households in the lowest income quintile have experienced the most significant increase in rental costs.[9] This places increasing pressure on lower-income households to save enough income for a deposit while enduring the rising income burden of rental costs.




[6] RBA
[7] RBA
[8] ANZ, 2021
[9] RBA

## 2. Why is Government action needed?

The Home Guarantee Scheme assists cohorts of people who face barriers to home ownership owing to high deposit requirements, but are able to meet mortgage serviceability requirements. It should be noted, however, that although the challenge of saving a sufficient deposit is most evidently faced by first home buyers (who typically tend to be younger), the challenge can be just as great for some older Australians, including those who may have previously owned a home.

A private market solution does exist through lenders mortgage insurance (LMI). However, it only partially addresses the problem due to the additional costs it imposes on homebuyers, thereby impacting on affordability. For potential first home buyers seeking to purchase in the near term but that have yet to save a sufficient deposit, commercial lenders will typically require the borrower to purchase LMI. LMI is a form of credit protection insurance that protects a lender from losses in the event of a borrower defaulting on a home loan. Lenders choose whether to purchase LMI when extending credit to borrower, and typically do so if the loan exceeds more than 80 per cent of the value of the property.

LMI is a somewhat peculiar insurance product. While it protects lenders from the risk of financial loss, the cost of the LMI premium is typically paid by the borrower. Moreover, while an LMI contract protects the lender from losses over the life of the mortgage, the premiums are generally paid upfront as a lump sum, rather than in regular periodic payments over the life of the contract (as occurs with most insurance products).[10]

As such, LMI can add significantly to the overall cost of purchasing a home. For a first home buyer purchasing a $700,000 property with a 5 per cent ($35,000) deposit, the typical upfront LMI premium would be almost $28,000.[11] Where an upfront LMI premium is charged, borrowers typically capitalise the premium into their loan amount (i.e. their overall borrowing requirement increases by the size of the LMI premium), which will tend to increase the total amount of interest paid by the borrower. Using the scenario above, if the borrower were to capitalise the LMI premium into the loan and pay down the loan on schedule over a 30-year term, it would increase total repayments by $51,074, including interest charges of $23,074[12].

For prospective home buyers on modest incomes, the additional cost associated with an LMI-supported purchase can be enough to put that purchase out of reach. For some, this may mean saving for a larger deposit over a more extended period to avoid the need to pay LMI altogether, or simply to reduce how much LMI they will have to pay (the size of the LMI premium is mostly a function of the loan-to-valuation ratio).

Stakeholder consultation conducted during the recent Statutory Review of the Operation of the *National Housing Finance and Investment Corporation Act 2018* (the NHFIC Review) indicated that the majority of successful applicants to the FHLDS to date can be characterised as 'accelerated buyers' – those who would have been able to purchase a property, either with the support of LMI or with a 20 per cent deposit, within one or two years. An LMI provider submitted to the NHFIC Review evidence that the FHLDS is also

[10] Note that one provider of LMI in Australia has recently offered a new product that gives the borrower the option to pay the premium in regular instalments.

[11] Based on a 30-year mortgage term for an owner occupier, excluding stamp duty (https://www.genworth.com.au/products/tools/lmi-fee-estimator).

[12] Based on an interest rate of 4.50 per cent, a 30 year loan, a monthly repayment frequency, a monthly fee of $10 and using the moneysmart.gov.au loan calculator.

assisting a proportion of first home buyers that may not have otherwise been able to enter the market – 'genuinely additional buyers'. The submission observed that approximately 12 per cent of successful FHLDS applicants had income levels lower than those that would generally be acceptable for non-scheme loans.

Data compiled by NHFIC from participating lenders, found that the average income of applicants under the FHLDS over the 2020-21 financial year was $69,167 for singles and $115,023 for couples. These averages are appreciably below the income caps that apply under the FHLDS ($125,000 for singles and $200,000 for couples) and suggest that the FHLDS may be genuinely helping those for whom the additional impost of LMI would be a significant barrier to their ability to enter the market.

The public provision of mortgage insurance as a means to assist low to moderate-income earners obtain housing finance is relatively common overseas. Indeed, Australia is relatively unique in having an active private market for LMI, at least since 1997 (when the Commonwealth Government's Housing Loans Insurance Corporation was privatised).[13] For a summary of international examples where governments support the provision of LMI, see Box 13.2 from the Productivity Commission's Inquiry into Competition in the Australian Financial System (reproduced below):

[13] Productivity Commission Inquiry into Competition in the Australian Financial System, June 2018, p369.

Box 13.2 **Internationally, governments often support the provision of LMI**

In **Canada**, mortgage insurance is provided by three institutions: the Canada Mortgage and Housing Corporation (CMHC) (state-owned), Genworth (privately owned) and Canada Guaranty (privately owned). The Government backs 100% of the mortgage insurance obligations of CMHC and 90% of the private insurers' obligations (lenders are expected to meet 10%) (Londerville 2010). The Government guarantee is intended to support access to home ownership for creditworthy buyers and promote stability in the housing market, financial system and economy (DoF (CA) 2016).

In **Hong Kong**, mortgage insurance has been provided by Hong Kong Mortgage Corporation Insurance Ltd, which is wholly-owned by the Hong Kong Government, since 1999. The objectives of the program are to promote home ownership and maintain banking stability (HKMC 2018). Private mortgage insurers (including Arch MI Asia and QBE Asia) also operate in the Hong Kong mortgage insurance market.

In the **Netherlands**, mortgage insurance is administered by the Homeowner Guarantee Fund and backed by a government guarantee, the *Nationale Hypotheek Garantie* (NHG). The NHG is available for mortgages on properties with a maximum value of EUR 245 000 (A$390 000). Mortgages guaranteed by the NHG must meet the criteria for responsible lending and borrowing set by the Netherlands National Institute for Family Finance (NHG (NL) 2017). In 2016, 73% of the housing stock had been bought by private individuals under the price ceiling and financed with an NHG-backed mortgage. However, the share of new mortgages backed by the NHG has been declining as the property value cap has not kept pace with rising house prices.

In the **United Kingdom**, the Government operated a 'help to buy' mortgage guarantee scheme from October 2013 to June 2017. The scheme offered lenders the option to purchase a guarantee on mortgage loans where the borrower had a deposit of 5% to 20%, and was limited to owner-occupied homes with a maximum value of £600 000 ($A1.09m). The guarantee compensated participating mortgage lenders for 95% of net losses suffered in the event of a repossession, down to 80% of the purchase value. Ten lenders participated in the scheme, covering 2.7% of all residential mortgage completions in the UK over that period (HMT (UK) 2017).

In the **United States**, there is a mixed market for mortgage insurance, with the Federal Housing Administration, the Department of Agriculture and the Department of Veterans Affairs having 65% of the market and six private insurers sharing the remaining 35%. The main driver of LMI is the requirement on Fannie Mae and Freddie Mac, the government-sponsored enterprises, to obtain credit enhancement for mortgages with LVRs above 80% (Goodman and Kaul 2017). The federal agencies and private insurers have different conditions and pricing for mortgage insurance.

Through the operation of the FHLDS and, subsequently, the New Home Guarantee and the Family Home Guarantee, the Commonwealth has demonstrated it has the capacity to intervene successfully to support home ownership for those who are able to secure one of the limited number of guarantee places made available under these programs.

As alluded to above, demand for guarantee places in these programs – particularly the FHLDS – has outstripped the available supply. The FHLDS is currently capped at 10,000 guarantees each financial year, and the majority of each financial year's guarantees have been exhausted within the first few months of being made available. Demand for the New Home Guarantee places from first homebuyers has also been strong. While only around half of the available guarantees in 2020-21 were taken up, this reflects, in part, transient factors associated with material and labour shortages in the residential construction industry. The Government has announced that up to 10,000 Family Home Guarantee places will be made available over the four years from 2021-22, and more than 1,600 of those available places have already been taken.

Despite the high level of demand across all the programs, key lending indicators of the FHLDS and associated extensions show that guarantee backed loans are performing well. As at 30 June 2021, 33,000 guarantees had been issued. Of these, no scheme-backed loans had defaulted.[14] Further, through a combination of reduced interest rates and increased savings during the COVID-19 pandemic, mortgage repayments as a share of income dropped for scheme-backed loans fell from a median of 24.5 per cent in 2020-21 to 23 per cent in 2021-22.[14]

Clearly, demand from those seeking to enter the housing market could support an expanded Home Guarantee Scheme. A question that naturally arises is how far should such intervention go? One of the Government's stated design objectives for the FHLDS (and the New Home Guarantee and Family Home Guarantee) is for the scheme to operate alongside a viable and sustainable private market for LMI.

Because of the role that LMI plays in supporting home ownership generally, consultations during the NHFIC Review argued that failure in the private LMI market could adversely impact home ownership. The withdrawal of one or more private LMI providers from Australia could lead to pressure for Government support on a much larger scale. A scenario under which the Commonwealth effectively displaces a large portion of the mortgage insurance sector would represent a transfer of that risk from the private to public sector.

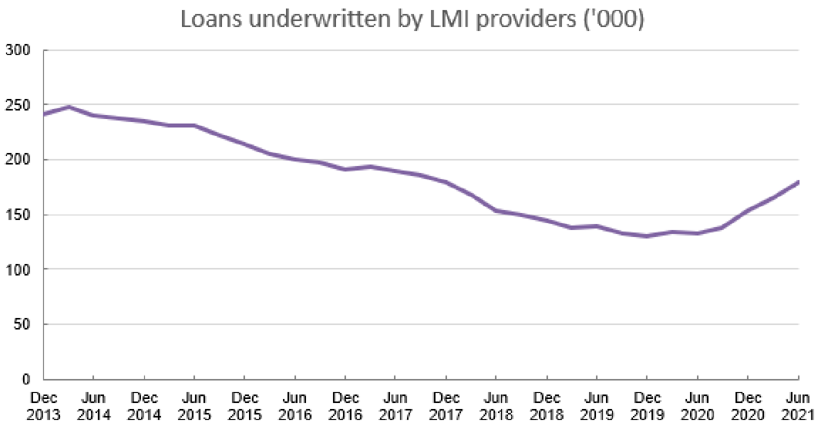
Given this, an informed understanding of the capacity of the LMI sector to accommodate the Government's intervention in the market should continue to be a key input into any consideration of changes to the scheme, including any consideration of an expansion in its size or scope.

**Capacity of the LMI sector to accommodate an expanded Home Guarantee Scheme**

The FHLDS is supporting 10,000 first home purchases a year. The New Home Guarantee is supporting another 10,000 first home purchases in 2021-22 and the Family Home Guarantee will support up to 10,000 guarantees in total over four years from 2021-22. Even when aggregated, this is a relatively small proportion of the total first home buyer market each year (typically just over 100,000 per year)[15] and an even smaller proportion of the average of 465,000 property transfers every year.

Data from APRA's quarterly general insurance statistics indicates that approximately 179,000 new loans were underwritten by LMI providers in 2020-21. The current guarantee schemes therefore represent a relatively small share of what would be covered by the LMI sector (assuming all scheme places are taken up and all would have otherwise used LMI).

[14] First Home Loan Deposit Scheme and New Home Guarantee Trends & Insights Report 2020–21
[15] To note, the Family Home Guarantee is not limited to first home buyers.




Source: APRA

On the evidence available, it is likely that a proportion of the FHLDS and NHG guarantee places issued under these schemes could displace business that otherwise would have gone to the LMI sector. Using the estimate cited above, approximately 12 per cent of successful FHLDS applicants had income levels lower than what would generally be acceptable for non-scheme loans, meaning 88 per cent of scheme supported loans could have been eligible for LMI. As such, on the current size of the guarantee programs (in aggregate, around 22,500 each financial year), we estimate the Home Guarantee Scheme could represent around 15 per cent of the average number of loans supported by LMI each year.

In contrast, the Family Home Guarantee and the proposed Mature Home Guarantee, represent cohorts that are significantly less likely to have the financial capability to enter the housing market. For these cohorts, a far greater percentage would likely be ineligible for a non-scheme loan with LMI, with many instead remaining long-term renters, including in the social and affordable housing sector. Consequently, these cohorts gaining access to scheme places are less likely to negatively impact the LMI sector, as they would have been unlikely to have used it.

However, across each of the schemes, just because a recipient is eligible for a non-scheme loan using LMI, does not mean they would have used it. Some borrowers may have simply waited until they had a sufficient deposit, not enter the housing market at all, or pursued alternative forms of financing their deposit, such as a borrowing from their relatives.

Previous consultations with LMI providers, including through the NHFIC Review, have suggested that it is difficult to determine the full impact of these schemes on the LMI sector at this point in time. Because the schemes mostly bring forward demand from future years it will likely take some time to flow through on LMI providers' business. Moreover, the past two years have been seen unprecedented and exceptional economic circumstances brought about by the COVID-19 pandemic and the sector has benefited from much stronger than expected cyclical conditions in the housing market.

From a prudential perspective the LMI sector is robust. APRA conducted several stress test exercises with four active lenders mortgage insurers in the second half of 2020.[16] The results of these stress tests indicate that they are well-positioned to withstand a very severe economic downturn. Specifically, the results indicate that despite significant losses of

[16] APRA, Stress testing insurers during COVID-19: results and key learnings.

capital under a severe economic downturn, the LMI industry as a whole remained above their minimum capital requirements, while still meeting their commitments to policyholders. However, APRA did find that the resilience of some LMIs was challenged under the severe downturn scenarios (where there are very high mortgage default rates due to a significant economic shock), with some insurers falling below their minimum capital requirements before using management actions to respond to the stress.

Commercially, the LMI sector has recovered quickly from the impact of the COVID-19 downturn. Loss provisions made early in the pandemic proved to be overly pessimistic, as Australia's unemployment rate and housing prices, two variables closely linked to LMI claims, improved more quickly than anticipated by insurers. Likewise, rising house prices have driven higher LMI premiums, which has supported underwriting revenue. The strong recovery following the impact of COVID-19 can be seen in the recent performance of Genworth, one of the largest LMI providers in the country. Genworth has seen a sustained increase in number of premiums underwritten in the first half of 2021 and has reported a net profit of $76.4 million as of 30 June 2021.

While prudentially the Australian LMI sector is robust and currently profitable, there remains a risk that independent LMI providers could leave the market based on their assessment of long-term commercial viability. This will depend on both the impact of government policy and the economic outlook, including house prices. Nevertheless, events over the past year indicate that the Australian LMI sector remains attractive to investors. For instance, Genworth LMI was sold off from its US parent company to a diverse range of institutional investors, and likewise, Arch, recently purchased Westpac LMI.

**Potential impact on the housing market and house prices of an expanded Home Guarantee Scheme**

While there is no direct cash payment involved, the Home Guarantee Scheme effectively operates to increase the purchasing capacity of qualified prospective buyers, akin to the more widely used first home buyer grants. By way of example, for a first home buyer purchasing a $500,000 home with a $25,000 deposit (five per cent), the typical LMI premium would be around $14,800. If the need to obtain LMI is removed, this $14,800 can theoretically be added to the buyer's spending capacity, meaning that their budget for a home might be increased by $14,800.

Policies that increase the purchasing capacity of buyers can have the effect of pushing up house prices. Assistance to first home buyers that simply brings forward or adds to demand without a corresponding increase in supply is likely to result in an increase in house prices which largely cancels out any positive benefit to first home buyers (with most of the benefits ultimately accruing to vendors – those who already own property or to developers and builders of property).

It is difficult to isolate the impact of this relatively small scheme from the impact of other government initiatives (such as the HomeBuilder program, the First Home Super Saver Scheme, first homeowner grants, and various state and territory stamp duty exemptions and discounts) and within the context of broader macro and micro influences on the housing market. However, the targeted nature of the program and the limits on the number of guarantees per year suggests the aggregate impact on prices is very modest.

## 3. What policy options are you considering?

Three policy options are considered:

- **Option 1**: The status quo (no change to the existing guarantee schemes).
- **Option 2**: Increasing the annual allocation of places for first home buyers, a new Regional Home Guarantee and Mature Home Guarantee, with a total of 50,000 guarantee places available each year.
- **Option 3**: As per Option 2, however where the total number of guarantees available each year is limited to 30,000 places.

In addition, section 5 discusses policy options raised by stakeholders and how these have been incorporated into decision making.

**Option 1**

Under Option 1, the existing schemes would continue to operate as below:

| **Name** | **Cohort** | **Income cap Single/Couple** | **Price Cap** (To be reviewed for 1 July 2022) | **Property type** | **Minimum deposit** | **Number of Guarantees** | **Major/Non-major lender split** |
|---|---|---|---|---|---|---|---|
| First Home Loan Deposit Scheme (FHLDS) | First home buyers | $125k/$200k | Existing | New & established | 5 per cent | 10,000 per annum, ongoing | 50 per cent of guarantees reserved for non-major bank lenders |
| Family Home Guarantee | Single parents | $125k | Existing | New & established | 2 per cent | 10,000 over four years from 2021-22 | No restriction |
| New Home Guarantee | First home buyers | $125k/$200k | Existing | New only | 5 per cent | 10,000 in 2021-22 | 50 per cent of guarantees reserved for non-major bank lenders |

**Option 2**

Expand the existing schemes including:

- an increased annual allocation of 30,000 places for first home buyers under a rebranded FHLDS (the First Home Guarantee); and
- a new Regional Home Guarantee and Mature Home Guarantee that would operate with the existing New Home Guarantee and Family Home Guarantees terminating in 2024-25, with a total available pool of 20,000 guarantee places each year.

The Home Guarantee Scheme would operate as below:

| Name | Cohort | Income cap Single/Couple | Price Cap (To be reviewed for 1 July 2022) | Property type | Minimum deposit | Number of Guarantees per FY[17] | Major/Non-major lender split |
|---|---|---|---|---|---|---|---|
| First Home Guarantee (FHG) (rebrand of FHLDS) | First home buyers (FHBs) | $125k/$200k | Existing | New & established | 5 per cent | 30,000 (rollover possible into next FY) | 50 per cent of guarantees to be reserved for non-major bank lenders |
| Family Home Guarantee | Single parents | $125k | Consistent with FHG | New & established | 2 per cent | No individual caps, subject to overall cap of 20,000 across all four guarantees (rollover possible into next FY non-FHG pool) | No restrictions |
| New Home Guarantee | FHBs | $125k/$200k | Existing, higher than FHG | New only | 5 per cent | | |
| Regional Home Guarantee | FHBs and Non-FHBs in regional areas, including regional centres | $125k/$200k | Consistent with NHG | New only and for homes in in regional areas | 5 per cent | | |
| Mature Home Guarantee | FHBs and Non-FHBs aged 50 years and over | $125k/$200k (relaxed couple / partner requirements) | Consistent with FHG | New & established | 5 per cent | | |

All other policy design parameters, such as the operation of the guarantee, treatment of construction loans, administrative mechanisms and participating panel of lenders will remain the same, as outlined in the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (the Investment Mandate).

[17] Unused guarantees from each financial year will be eligible for roll over into the subsequent financial year, with FHG places rolling over into a FHG pool and places from the other four guarantees rolling over into a separate, combined pool.

**Option 3**

As per option 2, but caps the total available guarantee places to 30,000 each year. The First Home Guarantee would be capped at 20,000 places per year while the remaining pool would be capped at 10,000 per year.

| Name | Cohort | Income cap Single/Couple | Price Cap (To be reviewed for 1 July 2022) | Property type | Minimum deposit | Number of Guarantees per FY[18] | Major/Non-major lender split |
|---|---|---|---|---|---|---|---|
| First Home Guarantee (FHG) (rebrand of FHLDS) | First home buyers (FHBs) | $125k/$200k | Existing | New & established | 5 per cent | 20,000 (rollover possible into next FY) | 50 per cent of guarantees to be reserved for non-major bank lenders |
| Family Home Guarantee | Single parents | $125k | Consistent with FHG | New & established | 2 per cent | No individual caps, subject to overall cap of 10,000 across all four guarantees (rollover possible into next FY non-FHG pool) | No restrictions |
| New Home Guarantee | FHBs | $125k/$200k | Existing, higher than FHG | New only | 5 per cent | | |
| Regional Home Guarantee | FHBs and Non-FHBs in regional areas, including regional centres | $125k/$200k | Consistent with NHG | New only and for homes in in regional areas | 5 per cent | | |
| Mature Home Guarantee | FHBs and Non-FHBs aged 50 years and over | $125k/$200k (relaxed couple / partner requirements) | Consistent with FHG | New & established | 5 per cent | | |

[18] Unused guarantees from each financial year will be eligible for roll over into the subsequent financial year, with FHG places rolling over into a FHG pool and places from the other four guarantees rolling over into a separate, combined pool.

## 4. What is the likely net benefit of each option?

**Option 1**

Under the status quo option, the existing guarantee schemes would support a path into home ownership for around 22,500 individuals or couples in the 2021-22 financial year, falling to around 12,500 in subsequent financial years upon expiry of the temporary New Home Guarantee.

This would continue to represent a relatively small share of annual first home buyer activity and a small share of overall mortgage lending. As such the associated impact on dwelling prices (at least at the aggregate level) and activity in the residential property market is likely to remain relatively minimal. At such a small scale, there is a high likelihood the guarantee schemes would continue to operate alongside a viable and sustainable private LMI sector. There are no additional regulatory costs or savings associated with this option.

While mortgage serviceability remains low, the rate of house price appreciation over the past year in particular has further increased the required deposit for prospective homeowners. Without additional government support to shorten the time taken to save for a deposit, it will take longer for people to enter home ownership or require people to pay more with LMI.

**Option 2**

Option 2 entertains an increase in the size and scope of the Government's policy intervention. The option would increase the total number of guarantees available each financial year to 50,000, from around 22,500 available in the current financial year. Further, the introduction of the Regional Home Guarantee and Mature Home Guarantee would expand the scope of the existing guarantee programs to include the additional cohorts of non-first home buyers in regional areas and older non-first home buyers.

This would provide support to a larger number of Australians seeking to enter the housing market. The associated impact on dwelling prices and activity in the residential property market is likely to be more significant. As discussed above, the available evidence indicates that the FHLDS (and New Home Guarantee) has mostly had the effect of bringing forward demand that would have otherwise occurred over the next one to two years. Gauging the impact on dwelling prices is inherently challenging given the difficulty in disaggregating the numerous competing forces exerted on the housing market (for example, population growth, interest rates, housing supply, consumer preferences, household incomes, economic activity, and government support), however a bring forward may have an impact on aggregate dwelling prices and the pattern of market activity.

As discussed in section 2, the bring forward of demand for home buyers utilising the HGS can impact house prices. This is because, in the absence of a supply response, increased demand will elicit a price response. However, the impact on house prices from the HGS is expected to be, at most, modest. The NHFIC Review was not able to determine if the existing FHLDS has had any significant price impact and notes that the scheme is small in size in the context of the overall housing market. Even a doubling of guaranteed places available would not represent a very large portion of the total number property transactions each year (approximately 465,000 per year). Furthermore, the effects of other drivers of housing prices cannot be disaggregated from that of a scheme which only supports a relatively small number of property purchases.

As discussed in section 2, evidence presented to the NHFIC Review indicates that around 88 per cent of successful FHLDS applicants could have been eligible for LMI. Assuming that the entirety of these eligible applicants access the HGS rather than LMI, an increase in the number of guarantees available to 50,000 per year could represent around 25 per cent of the average number of loans supported by LMI each year. It is important to note, however, that the Family Home Guarantee and the proposed Mature Home Guarantee supports cohorts that are significantly less likely to be able to enter the housing market even with the support of traditional LMI products.

Moreover, while an expanded HGS could represent around 25 per cent of the *number* of LMI-supported loans each year, the property price caps for the HGS mean that the average loan size for scheme-supported loans is likely to be lower than the average loan size for LMI-supported loans. For a given Loan-to-value ratio (LVR), LMI premiums are typically charged as an increasing function of the loan size. As such, the expected impact on LMI sector revenues is likely to be less than is implied by simply comparing the number of scheme-supported loans to the number of LMI-supported loans in a given year. For example, a 95 per cent LVR loan to purchase a property with a value of $1,000,000 (above the highest property price cap) would attract an LMI premium of just over $44,000. By contrast, a 95 per cent LVR loan to purchase a property with a value of $500,000 would attract an LMI premium of just under $15,000.[19]

The analysis presented above suggests the LMI sector should be able to accommodate an expansion in the size of the Government's guarantee programs. Nevertheless, there remains a risk that further Government expansion into the mortgage insurance sector impacts the sector's profitability to the extent that a LMI market participant exits the market. In that eventuality, the price of LMI contracts may increase and/or some lenders may instead increase the price of loans for high LVR lending as a substitute for an LMI policy (some lenders already do this for loans with a LVR of up to 85 per cent). This risk should be assessed in the context of the current financial strength of the LMI market which has robust prudential standards and increasing profitability.

Borrowers entering the housing market (both those supported by the HGS and those who are not) are exposed to the possibility of a decline in prices, an increase in repayments and/or a change in personal circumstances (including a reduction in household income). An important mitigant to this risk is the existing responsible lending obligations on providers of credit and the prudential standards that apply to authorised deposit-taking institutions. Commercial lenders must satisfy themselves that the borrower is able to make home loan repayments in a wide variety of scenarios, including an increase in interest rates, regardless of the source of their deposit or whether their loan is backed by some form of guarantee or insurance cover. This indicates the risks stemming from borrowers supported by the HGS can be expected to be no greater than for those who choose to enter the market through an LMI-supported loan.

Although the HGS does not involve Government cash payments, the guarantees represent a liability for the Government in the event of a default, if there is a shortfall between the

[19] Based on a 30-year mortgage term for an owner occupier, excluding stamp duty. See: https://www.genworth.com.au/products/tools/lmi-fee-estimator.

property sale price and the loan outstanding. The current FHLDS scheme has not experienced any defaults to date and the number of distressed loans (in arrears) is extremely low. Based on the experience of the existing scheme, the thorough assessment that lenders must undertake on potential borrowers and that the broad parameters of the HGS remain the same, the expanded scheme is not expected to result in a significantly higher rate of default than the current FHLDS scheme and is very unlikely to represent a significant financial risk to the Commonwealth.

Infrastructure associated with the existing guarantee programs is easily scalable to accommodate the increased allocation of guarantees, so that additional regulatory and administrative burden on NHFIC and panel lenders is likely to be minimal. Further, applications to the guarantee schemes are built into loan applications and would not significantly increase time involved for applicants.

*Methodology used to estimate regulatory costs to individuals – Option 2*

Under Option 2, regulatory costs to individuals come from the additional time it takes individuals to understand the requirements of the guarantee schemes.

Based on the range of industry estimates gathered through desktop research, the following assumptions were made to determine the regulatory costs to individuals under Option 2:

- An increase in available guarantee places each year as outlined in section 3 above.
- Individuals spend 1 additional hour to understand the requirements of the guarantee schemes.
- Using the Office of Best Practice Regulation estimate for individual costs at $32.00 per hour.

The total estimated average regulatory costs to individuals under Option 2 is $0.808 million per year.

*Methodology used to estimate regulatory costs to lenders and brokers – Option 2*

Under Option 2, regulatory costs to lenders and brokers come from the additional time it takes to educate front-line lenders and brokers on the requirements of the new guarantee schemes, system updates, ongoing administrative costs to lenders through processing additional loans, and costs associated with processing estimated defaults on additional loans.

The following assumptions were made to estimate the regulatory costs associated with the education of front-line lenders and brokers, including system updates:

- Total of 1937 branches of major lenders
    - 16 hours of additional training across 8 employees per branch
- Total of 480 branches of other lenders
    - 6 hours of additional training across three employees per branch
- Total of 16,968 mortgage brokers (Mortgage & Finance Association of Australia)
- Total of 27 approved lenders participating in the schemes
- 10 additional hours for each lender to update systems
- Using the Office of Best Practice Regulation estimate for business costs at $73.05 per hour

Estimated average regulatory costs associated with the education of front-line lenders and brokers, including systems updates, is $0.981 million per year.

The following additional assumptions were made to estimate the regulatory costs associated with ongoing administrative costs to lenders through processing additional loans:

- Additional two hours for a lender to process a guarantee loan
- Additional hour for a lender to conduct reporting of new loans under new guarantees over 12 months (1 hour per month over 12 months, in accordance with NHFIC's monthly reporting requirements)

Estimated average regulatory costs associated with ongoing administrative costs to lenders through processing additional loans is $3.713 million per year.

The following additional assumptions were made to estimate the regulatory costs associated with processing defaults on additional loans:

- Default claim rate of 2 per cent (based on actuarial modelling of the scheme)
- Additional 5 hours for a lender to process default

Estimated average regulatory costs associated with processing defaults on additional loans is $0.184 million per year.

The total estimated average regulatory costs to lenders and brokers is $4.878 million per year.

| Average annual regulatory costs (from business as usual) | | | | |
|---|---|---|---|---|
| Change in costs ($ million) | Business | Community organisations | Individuals | Total change in cost |
| Total, by sector | $4.88 | $0 | $0.81 | $5.69 |

**Option 3**

This option would support a smaller cohort of Australians into home ownership than Option 2. It would provide broadly the same degree of support currently provided under existing schemes, albeit on an ongoing basis (the New Home Guarantee is currently scheduled to expire at the end of the current financial year). As such, Option 3 would not represent a significant increase in the degree of support for home ownership than is currently in place.

The associated risks of this option and impacts on the LMI sector and the housing market are commensurately lower than for Option 2. Specifically:

- A scheme of 30,000 places each year would be equivalent to around 17 per cent of the private LMI market (by number of loans). This is a much smaller impact on the LMI market than Option 2 and would be associated with a lower risk of a significantly adverse impact on the ongoing viability of the market. This further reduces the risk of any possible flow on effects from a smaller LMI market such as higher insurance premiums.
- As previously discussed, the impact of the scheme on house prices is difficult to disaggregate from other influences on the market, however considering the fundamental theory that an increase in demand will increase prices, all other factors being held constant, Option 3 presents a lower potential increase in price noting that regardless of which option is chosen the effect of the guarantee scheme on prices is likely to be small.
- Similar to Option 2, given the existing financial experience with the current FHLDS scheme and lenders' responsible lending obligations, the risk of default and therefore the realisation of the Government's liabilities under the guarantee scheme is modest.

| *Methodology used to estimate regulatory costs to individuals – Option 3* |
|---|
| All assumptions and methodologies remain the same as under Option 2, with the only difference being the smaller number of guarantee places available each year as outlined in section 3 above. |
| The total estimated average regulatory costs to individuals under Option 3 is $0.392 million per year. |

*Methodology used to estimate regulatory costs to lenders and brokers- Option 3*

All assumptions and methodologies remain the same as under Option 2, with the exception of the additional assumptions listed above.

Estimated average regulatory costs to educate front-line lenders and brokers, including systems updates, is $0.981 million per year.

Estimated average regulatory costs associated with ongoing administrative costs to lenders through processing additional loans is $1.813 million per year.

Estimated average regulatory costs associated with processing defaults on additional loans is $0.089 million per year.

The total estimated average regulatory costs to lenders and brokers is $2.884 million per year.

| **Average annual regulatory costs (from business as usual)** | | | | |
|---|---|---|---|---|
| Change in costs ($ million) | Business | Community organisations | Individuals | Total change in cost |
| Total, by sector | $2.88 | $0 | $0.39 | $3.28 |

## 5. Who did you consult and how did you incorporate their feedback?

Various consultations have taken place since the start of the FHLDS program to understand the viewpoints of the main stakeholders affected by the program.

The consultation process undertaken as part of the recently completed NHFIC Review comprehensively assessed the impacts of the FHLDS. The Review itself and the feedback provided to the Review by LMI providers and lenders provides a suitable foundation for an assessment of stakeholder views on government guarantee schemes.

Some LMI providers found that the FHLDS appears to allow borrowers to purchase a property approximately one to two years earlier than they otherwise would have. Their analysis found that likely in excess of 75 per cent of FHLDS participants would have been eligible to borrow for a property without the support of the scheme within 12 to 30 months of their FHLDS-assisted purchase. This suggests that the majority of beneficiaries of the FHLDS are ‘accelerated buyers’ – those who would have been able to purchase a property, either with the support of LMI or with a full 20 per cent deposit, one to two years later, and is consistent with the widespread view heard by the Review. This feedback suggests that the scheme is operating as intended however concerns were raised that the scheme could have an impact on the LMI sector. Analysis undertaken in sections 2 and 4 has shown that although the existing scheme and its proposed expansion is likely to reduce the demand for LMI products, the size of the scheme’s expansion is unlikely to substantially affect the viability of the LMI sector.

One LMI provider has suggested that consideration be given to supporting an alternative proposal whereby LMI premiums are tax deductible for first home buyers. This would result in a smaller benefit to eligible home buyers than a government guarantee as the value of the tax deduction is limited to the marginal tax rate of the purchaser. The impact of this on the LMI sector would likely be positive, as the proposal would lower the cost of LMI for all eligible borrowers and could increase demand for LMI from prospective borrowers who would otherwise fund their purchase without the need for LMI (for example, through a family guarantee or larger savings). However, many of the benefits will likely flow to those on higher marginal tax rates, compared to low- and middle-income earners who have been identified as needing the most assistance in section 1. Although a tax deduction is a smaller benefit to the individual than a guarantee, the proposal implies that a larger cohort would be able to access the scheme as no limits are proposed to the number of applicants. Such an uncapped scheme would increase the financial risk to Government. Therefore, this proposal is considered to be less effective at supporting home buyers to enter the market sooner than that of a government guarantee scheme.

Further, additional funding would be required for the Australian Taxation Office to establish and administer such a program. It is anticipated the administration costs to establish the appropriate systems and reporting infrastructure would be high, given there are currently no capabilities to capture this information under existing systems. Additional costs would also be required to establish appropriate measures to minimise integrity risks to the program, noting that some integrity risk is likely to remain with such a program. The Review found that more and better data is needed to fully evaluate the behavioural impacts of the FHLDS. While initial data positively points towards the effectiveness of the program, the FHLDS scheme rules were recently expanded to include behavioural questions for first home buyers to answer as part of a questionnaire. Furthermore, the Review recommended that there would be merit in considering whether expanded Government home deposit guarantees could be more precisely targeted to those that most need the assistance. The Home Guarantee Scheme seeks to provide targeted support for cohorts in most need including regional home buyers, older Australians and single parents with dependants.

Banks have provided favourable feedback on the FHLDS and are supportive of the scheme and its recent expansions. The Commonwealth Bank of Australia has outlined that the FHLDS and its subsequent expansion has been effective in helping increase purchasing activity amongst first home buyers across the country. This has resulted in positive flow on effects into other parts of the economy such as the construction industry. The National Bank of Australia has also reflected similar positive feedback regarding the Scheme.

Furthermore, the *National Housing Finance and Investment Corporation Act 2018* requires that a review of NHFIC’s activities to assist home buyers to enter the market is undertaken every 12 months. These reviews would consider stakeholder's views and would inform decision making around the Scheme.

## 6. What is the best option from those you have considered?

Given the difficulties that many Australians face in securing a deposit in a market with increasing house prices and low interest rates, a key objective with a proposed policy is to ensure that Australians are able to comfortably settle in their homes sooner or less expensively than would otherwise be possible in the absence of Government support.

Given the uptake of FHLDS places in previous years and the positive reviews from some stakeholders, the expansion of the FHLDS is an appropriate way of encouraging home ownership. This effectively rectifies the ever-increasing deposit hurdle faced by many prospective home buyers, in an environment where house prices have increasingly become unaffordable for many.

Further, given the recommendation in the NHFIC review of targeting places in times when the guarantee schemes are further expanded, specific objectives are targeted with the Regional Home Guarantee, Mature Home Guarantee and the New Home Guarantee.

The need for Australians to invest in their own home is important, especially with all the associated benefits of home ownership. An increase in places will be required to ensure this goal is achieved and is why Option 2 is preferred.

A key indicator of whether the Scheme has achieved its objectives will be whether the Scheme is able to operate alongside a viable and profitable LMI industry that continues to support other first home buyers access to the market.  Maintaining the viability of the LMI industry is imperative, as it allows potential home buyers that don't qualify for the Scheme to enter the property market sooner than they would otherwise would.

The decision on whether to adopt this policy is to be made by Government and will be informed by this Regulation Impact Statement two-pass process.

## 7. How will you implement and evaluate your chosen option?

### Implementation

Given that the Scheme is an expansion of an existing program, implementation challenges should be minimal as Treasury and the delivering agency, NHFIC, have the necessary experience to effectively manage the roll out of new guarantees.

One implementation consideration is ensuring that the price caps do not become a limitation for access to the Scheme.

Guarantees under the Scheme will align with the price caps offered under the FHLDS or NHG, as outlined below.

| Region | FHLDS & Family Home Guarantee Price Cap | New Home Guarantee Price Cap |
|---|---|---|
| NSW - capital city, regional centres (Newcastle, Lake Macquarie & Illawarra) | $800,000 | $950,000 |

| | | |
|---|---|---|
| NSW – other | $600,000 | $600,000 |
| VIC – capital city, regional centre (Geelong) | $700,000 | $850,000 |
| VIC – other | $500,000 | $550,000 |
| QLD – capital city, regional centres (Gold Coast & Sunshine Coast) | $600,000 | $650,000 |
| QLD – other | $450,000 | $500,000 |
| WA – capital city | $500,000 | $550,000 |
| WA – other | $400,000 | $400,000 |
| SA – capital city | $500,000 | $550,000 |
| SA – other | $350,000 | $400,000 |
| TAS – capital city | $500,000 | $550,000 |
| TAS – other | $400,000 | $400,000 |
| ACT | $500,000 | $600,000 |
| Northern Territory | $500,000 | $550,000 |
| Jervis Bay Territory & Norfolk Island | $550,000 | $600,000 |
| Christmas Island & Cocos (Keeling) Island | $400,000 | $400,000 |

Property price caps have been set so that only modest properties in regional towns and capital cities can be purchased. Recent data on purchases under the Scheme indicates that most applicants are purchasing a property that is comfortably under the price cap, often around 75-90 per cent relative to the price cap. Regular monitoring of the purchase price to price cap ratio will ensure that the cap remain fit for purpose.

It is anticipated that the current loan and guarantee application process will continue, and the guarantees will be offered by the participating panel of lenders. Lenders' processes may need to be upscaled to account for the extra places, however, this would not be expected to be intensive.

While the intention is to have the proposed Scheme commence as soon as possible, timing of necessary legislative amendments, and therefore the commencement date of the Scheme, is subject to the Government's legislative agenda.

**Evaluation**

NHFIC releases a comprehensive annual review of the existing FHLDS program (and associated extensions) which details the performance of the program, providing data on the applicants utilising the guarantees and the properties purchased under the scheme. This data provides a valuable information base through which a detailed analysis of the program can be undertaken.

Furthermore, as previously mentioned, the *National Housing Finance and Investment Corporation Act 2018* requires that a review of NHFIC's activities to assist home buyers to enter the market is undertaken every 12 months. These reviews are a useful formal tool to evaluate the effectiveness of the Scheme and would be used to inform further decision making on the Scheme and its operation.

<u>**ATTACHMENT C**</u>

**Home Guarantee Scheme Expansion –**

***Supplementary Analysis***

# Introduction

## Government Commitment

This Impact Analysis has been prepared by the Department of the Treasury to inform the Government's decision to implement the 5% deposits for all first home buyers election commitment. Under the commitment, announced on 13 April 2025, all first home buyers will be able to access 5 per cent deposits through an expanded Home Guarantee Scheme (HGS). There will be no caps on how many people can apply and no limit on how much an applicant, or their partner, can earn. Property price caps will also increase and are provided at Appendix A. The Government has committed to industry consultation to support implementation.

## About this Supplementary Analysis

An Impact Analysis is required when a policy proposal or action of government, with an expectation of compliance, would result in a more than minor change in behaviour or impact for people, businesses or community organisations.

The Office of Impact Analysis has assessed that the Government's commitment to expand the HGS will have more than a minor impact.

In special cases where a comprehensive review has already been undertaken, an Impact Analysis Equivalent is able to meet the requirement for an Impact Analysis. Given an Impact Analysis has been completed to support an earlier government decision to expand the HGS (as published <u>here</u>), the Office of Impact Analysis has agreed to Treasury certifying this previous analysis together with supplementary analysis to form an Impact Analysis Equivalent.

To ensure the impacts of this commitment's specific parameters are considered, this supplementary analysis will consider:

- impacts on lenders mortgage insurance (LMI) providers;
- impacts on small and regional banks; and
- impacts on low-income buyers.

## Market conditions have made it challenging for many Australians to achieve home ownership

Home ownership rates have been falling in Australia over recent decades. While a variety of factors, including changing societal attitudes and norms, have impacted home ownership rates, the relative affordability of housing has fallen substantially over the past 4 decades. Strong and sustained increases in housing prices, particularly compared to growth in incomes, have made both saving for a deposit and servicing a mortgage significantly more challenging. Between 1994 and 2021, rates of home ownership declined from 71.4 per cent to 66.3 per cent.[20]

The factors contributing to strong and sustained increases in housing prices are well documented and include declining nominal interest rates, financial liberalisation, higher rates of population growth and rising incomes. Housing price growth has, on average, significantly exceeded income growth. As a result, the ratio of both housing prices and household debt to household disposable incomes has increased substantially in Australia over recent decades (Figure 1.1).

**Figure 1.1: Housing prices and household debt to income**

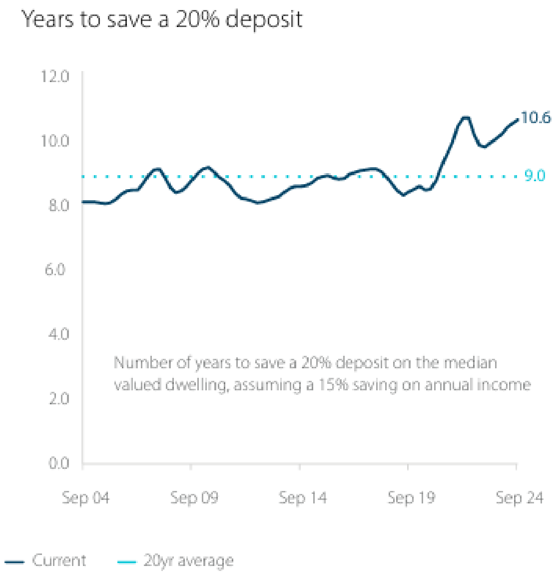

### A high deposit hurdle

As a result of rising housing price to income ratios, the 'deposit hurdle' – the challenge of accumulating a sufficiently-sized deposit to purchase a home (and to support a home loan application) – has grown significantly (Figure 1.2). The average time needed for a median household to save a 20 per cent deposit remains at elevated levels, with the national figure currently at 10.6 years as of September 2024. This has fallen from a post-Covid peak of 11.4 years in the March quarter 2022 but remains well above the average of the past two decades (9.0 years) and has been increasing over recent quarters.[21]

[20] Australian Bureau of Statistics, Survey of Income and Housing, https://www.abs.gov.au/statistics/people/housing/housing-census/latest-release.

[21] ANZ – CoreLogic (2024), https://www.anz.com.au/content/dam/anzcomau/bluenotes/documents/ANZ_CoreLogic_%20Housing_Affordability%20Report_November-2024.pdf.

**Figure 1.2: Years required to save a 20 per cent deposit**




Source: CoreLogic, ANZ

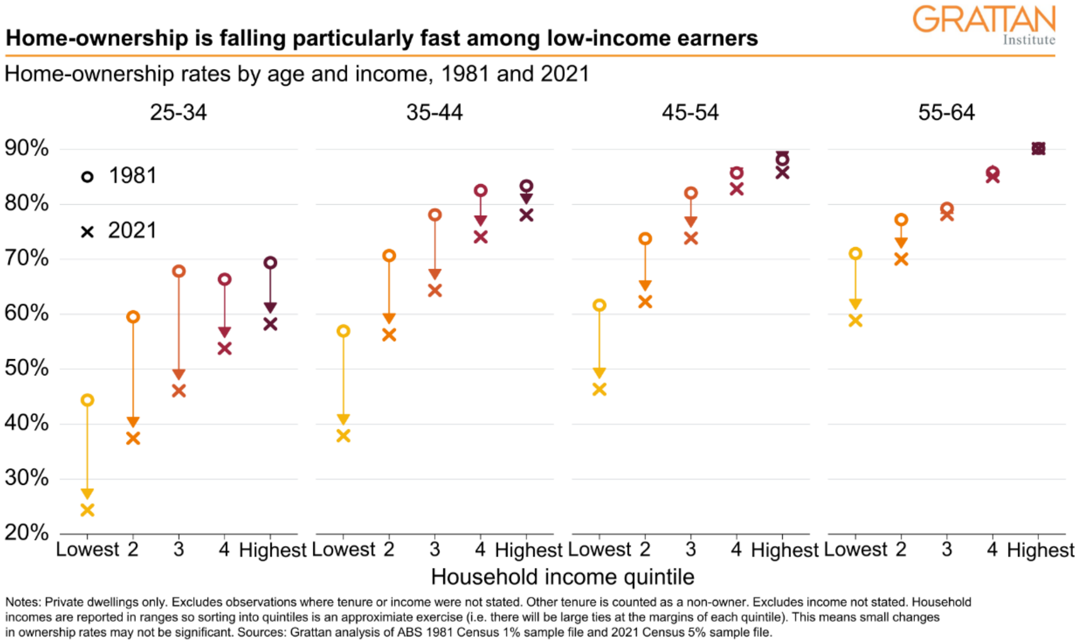
**A broad range of households, particularly younger cohorts, face challenges in saving a deposit**

There have been considerable falls in home ownership rates across most working-age groups. Between 1981 and 2021, home ownership rates for households aged 25-34 fell from 62 per cent to 44 per cent, including a fall of 10 percentage points for households in the top income quintile of this age cohort. In contrast, among those aged 45-54 and 55-64, rates of home ownership among the top two income quintiles have remained largely unchanged.[22] While declining rates of home ownership are an acute problem for low- and middle-income households, declining affordability has impacted the ability of even those with relatively high incomes to purchase a home.

While home ownership rates have fallen across age groups, the substantial reductions in rates for all income quintiles among younger cohorts demonstrates that achieving home ownership is no longer a challenge solely for low-income earners but extends to a significant portion of young Australians.

[22] Australian Bureau of Statistics, Survey of Income and Housing, https://www.abs.gov.au/statistics/people/housing/housing-census/latest-release.

**Figure 1.3: Home ownership rates by age and income, 1981 and 2021**




Source: Grattan Institute

Given the significant affordability challenges, increasing numbers of young Australians are relying on family support to purchase a dwelling. In 2025, 17 per cent of first home buyers said they received financial support from parents, compared to 11 per cent in 2022.[23] Where family members are unable to provide direct financial assistance, they may instead agree to act as a guarantor. This allows individuals to purchase a property with a deposit of less than 20 per cent without being required to obtain LMI.

This results in individuals who are able to secure this form of financial support from family members being significantly advantaged over those who are not. In the absence of Government intervention, this would result in a significant divergence in housing outcomes even among Australians with similar income levels.

*The Home Guarantee Scheme has been effective in supporting Australians into home ownership*

The Government's HGS assists individuals into home ownership by providing a government guarantee of up to 15 per cent (or 18 per cent for the Family Home Guarantee). This allows individuals to purchase a home with a deposit of as low as 5 per cent (or 2 per cent for the Family Home Guarantee), without being required to pay for LMI. The HGS has supported approximately 237,000 Australians into home ownership since the scheme was launched.

As previously noted, the average time needed to save a 20 per cent deposit has increased substantially to 10.6 years as of September 2024, compared to the long-run average of 9.0 years. For many young Australians, this represents a significant hurdle in achieving home ownership. By reducing the required deposit to only 5 per cent, HGS will significantly

[23] First Home Buyer Report 2025, https://cdn.finder.com.au/finder-au/wp-uploads/2025/06/Finder-First-Home-Buyer-Report-2025.pdf?_gl=1*13hou9f*_gcl_au*MTM1NTIyMDE4MS4xNzUxNjEwODA1.

reduce the time needed to save for a deposit, improving the likelihood that participants will be able to purchase a dwelling.

While aspiring first home buyers without access to HGS can purchase a dwelling with a deposit of less than 20 per cent, they will typically be required to obtain LMI coverage to do so. For many first home buyers the cost involved can be prohibitive. For example, for an individual seeking to purchase an $800,000 property with a 5 per cent deposit of $40,000, an upfront LMI premium could be up to $32,000.[24] In many cases, this additional cost can push home ownership out of reach or delay it by many years.

*An expanded Home Guarantee Scheme will support more Australians into home ownership, reflecting changed market conditions and demand*

The existing Home Guarantee Scheme offers a maximum of 50,000 places each financial year, with the First Home Guarantee offering 35,000 places, the Regional First Home Buyer Guarantee offering 10,000 places and the Family Home Guarantee providing 5,000 places each financial year. However, both the First Home Guarantee and Regional Home Buyer Guarantee streams are likely to be almost fully subscribed over the 2024-25 financial year, an increase from approximately 95 per cent subscription for these two streams combined in 2023-24 and approximately 67 per cent subscription for these streams combined in 2022-23.[25] This means that it is likely that if demand for the scheme continues to increase, eligible Australians will be unable to access the support of the HGS, to enable them to enter home ownership sooner, unless the caps on places are increased or removed.

Currently, to be eligible for the scheme, applicants must have a taxable income that does not exceed $125,000 for individuals or a combined $200,000 for joint applicants. The distribution of HGS participants' income levels has shifted increasingly closer to the income caps over time. Over the 2023-24 financial year approximately 26 per cent of single participants and 23 per cent of joint participants had incomes of between 80 per cent and 100 per cent of the income caps, compared with 18 per cent and 15 per cent respectively in 2022-23. The existing income caps have remained unchanged since the scheme was established in 2020, while house prices and wages have both increased over this period. As noted above, given the increasing affordability challenges facing even high-income young Australians, it is likely individuals earning above the existing income caps would benefit from support through HGS.

Finally, under the scheme, the purchase price of a property must not exceed the relevant price cap for the area within which the property is located (current price caps are provided at Appendix A). However, significant price growth since the price caps were established has begun to limit the ability of participants to purchase an appropriate property for their circumstances, limiting choice under the scheme and potentially concentrating any demand impacts at the lower end of the property market. In 2023-24, approximately 47 per cent of purchases were valued at the equivalent of least 80 per cent of the current price cap in the relevant area, an increase from 34 per cent in 2022-23. This has been driven particularly by significant increases in prices in South Australia, Western Australia and Tasmania over the past 3 years. It is likely that this issue will be exacerbated, combined with an increasing

[24] Helia LMI Fee Estimator, https://helia.com.au/the-hub/calculators-estimators/lmi-fee-estimator.

[25] Housing Australia, Home Guarantee Scheme Trends and Insights Report 2023-24, https://www.housingaustralia.gov.au/research-data-analytics/hgs-trends-and-insights-report-2023-24.
Housing Australia, Home Guarantee Scheme Trends and Insights Report 2022-23, https://www.housingaustralia.gov.au/research-data-analytics/hgs-trends-and-insights-report-2022-23.

number of properties becoming ineligible under the scheme, if the price caps are not updated to reflect market conditions.

While the existing HGS program has been successful in supporting low- and middle-income earners into home ownership, falls in levels of home ownership across all income quintiles demonstrates the ongoing challenges Australians face securing a first home. Expanding Government support through HGS to all first home buyers will allow more individuals to achieve home ownership sooner, significantly reduce the time required to save a deposit, reduce the additional costs associated with obtaining LMI coverage, and level the playing field between those who are able to access support from family members and those who are not.

**Lenders mortgage insurance industry – Impacts and implications**

LMI is a form of credit protection insurance that protects a lender from losses in the event of borrower default on a home loan. Under prudential standards, where a borrower's deposit is less than 20 per cent of the property value, lenders are required to either obtain LMI, paid for by the borrower, or carry additional capital to cover the higher risk associated with issuing a high loan-to-value ratio (LVR) loan. The additional capital held increases borrowing costs and is generally passed on to the borrower through higher interest rates.

While LMI offers protection to the lender over the life of the mortgage, the premiums are generally paid by the borrower upfront as a lump sum which is often then capitalised into the total value of a mortgage, rather than in regular periodic payments over the life of the contract (as occurs with most insurance products). As such, this can add significantly to the overall cost of purchasing a home. Further detail on LMI is included in the earlier HGS impact analysis.

The Home Guarantee Scheme supports eligible home buyers to purchase a home without paying for LMI, enabling them to enter home ownership sooner at a lower cost with a lower deposit. In the event of a default, where the lender exercises its rights under the loan agreement to sell the property, if there is a shortfall in the sale proceeds of the property, the guarantee applies and the shortfall becomes payable to the lender. However, in contrast to LMI, coverage provided by the guarantee ceases once the LVR of the HGS-backed loan falls below 80 per cent.

*Overview of the LMI market*

Private LMI providers in Australia have experienced a slowing in the LMI market, particularly in recent years. During the interest rate tightening cycle of 2022 to 2024, new LMI policies written decreased substantially, with the Insurance Council of Australia noting that LMI gross written premiums declined by 39 per cent between 2019 and 2023.[26] This indicates the sector has, and continues to, experience slowing growth. While changes to the Home Guarantee Scheme may have contributed to this, there are also other contributing factors including rising interest rates for much of the period, tightening of serviceability criteria and an increasing number of banks waiving serviceability requirements across a range of professions.

[26] Insurance Council of Australia Submission to Treasury on the proposed expansion of HGS

**Impact of an expanded Home Guarantee Scheme on the LMI market**

Given the cost of LMI to borrowers, Treasury would expect a larger portion of first home buyers to use HGS to support their purchase of a home, in place of LMI. As noted by the Insurance Council of Australia in their submission to Treasury on the proposed expansion, between 10,000 and 15,000 first home buyers make use of LMI each year.[27]

As HGS is only available to first home buyers, investors and non-first home buyers would continue to generate demand for LMI products in the market. For private LMI providers, the ongoing level of demand for their products, particularly from first home buyers, would likely be a key consideration in the commercial attractiveness of the Australian market. While ultimately it is a commercial decision for private LMI providers, the HGS changes have the potential to result in future consolidation of the industry in Australia.

The extent of any potential consolidation in the LMI sector may give rise to possible impacts on those borrowers who are ineligible to access HGS (generally, investors and non-first home buyers). If LMI was difficult to obtain, fewer lenders may offer high LVR loans and those that continue to do so would likely incur additional costs because of the higher capital requirements for the loan. Consequently, they could choose to pass on those costs to borrowers through higher interest rates. This would make it more difficult or costly for borrowers who are ineligible for HGS to obtain finance to support their purchase.

Smaller lenders could also be disproportionately affected by LMI sector consolidation. This is discussed in the section below on the competition implications for small and regional banks.

**Increasing Government exposure to the housing market**

To date, the HGS portfolio has performed above industry standards, with lower hardship and arrears rates than the general market. Approximately 1.0 per cent of the HGS portfolio is accessing hardship support, and 0.3 per cent of the portfolio is in arrears. This is in comparison with over 0.5 per cent of the general population of first home buyers in arrears and over 2 per cent of other high-LVR borrowers in arrears in early 2024.[28] Since the scheme began in 2020, the Commonwealth has provided approximately 155,000 guarantees. Of these, 5 guarantees have been paid out so far, at a total cost of $240,673. It is difficult to ascertain why the HGS portfolio has typically outperformed the market with respect to hardship and arrears. While it is expected that claims would increase under an expanded scheme, particularly in the event conditions in the housing market deteriorate, previous HGS trends may still provide some positive indication of potential future HGS portfolio performance under an expanded scheme.

Giving all first home buyers access to 5 per cent deposits by expanding HGS may also impact the housing market. High LVR lending is typically associated with higher arrears rates in downturns. Low-deposit lending incrementally increases household indebtedness and the potential for negative equity for some purchasers. It also lowers the behavioural impact on creditworthiness of requiring borrowers to save a meaningful deposit. Taken

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[27] Insurance Council of Australia Submission to Treasury on the proposed expansion of HGS

[28] Reserve Bank of Australia, Recent Drivers of Housing Loan Arrears, https://www.rba.gov.au/publications/bulletin/2024/jul/pdf/recent-drivers-of-housing-loan-arrears.pdf; Reserve Bank of Australia, Financial Stability Review, https://www.rba.gov.au/publications/fsr/2024/sep/resilience-of-australian-households-and-businesses.html.

together, these factors have the potential to also amplify the Government's exposure to the housing market.

**Small and regional banks – competition implications**

A diverse and competitive banking sector is critical to ensuring Australians can access finance, particularly mortgage finance, at competitive rates. Small and regional lenders play a central role in supporting diversity and competition in the sector.

For many lenders, attracting first home buyers is critical to their business as it typically enables lenders to acquire and build long-term relationships with new customers.[29] This occurs both through the initial long-term lending involved in mortgage finance, but also through other relationships which may result from this initial interaction. The expansion of the HGS is likely to result in a larger proportion of the first home buyer market participating in and entering into mortgages via the scheme. Consequently, for many small and regional lenders, participation in the HGS panel will become critical to enabling them to compete in the first home buyer segment of the market.

**Impacts on small and regional banks due to potential LMI industry consolidation/exit**

With an expected larger proportion of first home buyers accessing high LVR loans through HGS, smaller lenders could be disproportionately affected by LMI sector consolidation given their heavier reliance (than larger lenders) on LMI to support them to offer high LVR loans and competitive rates. Major lenders generally have greater capacity to 'self-insure' high LVR loans (demonstrated by the LMI waivers offered to selected professions by some lenders) as they have greater access to capital. They may also have greater ability to charge the borrower a premium directly to absorb the additional credit risk of high LVR lending.

For small and regional banks, who typically have more limited options to access additional capital, LMI facilitates their ability to offer high LVR lending by:

- reducing the amount of capital they are required to hold against high LVR loans, making them more commercially attractive – the Australian Prudential Regulation Authority's (APRA) capital requirements are lower for high LVR loans with LMI cover
- enabling lenders to securitise these loans, which takes the loans off their balance sheets and enables them to reallocate the capital they would have otherwise been required to hold against these loans – loans covered by HGS cannot be securitised.

An active LMI market may, therefore, help to support the competitiveness of smaller lenders and competition in the banking sector more broadly. Access to the LMI market will be important for low-deposit customers who cannot access HGS (for example, prospective buyers who have purchased a home in the previous 10 years).

**Impacts on small and regional banks' risk exposures**

HGS backed loans pose different risks to those covered by LMI so switching to a higher proportion of HGS backed loans may have implications for small and regional banks' risk

[29] Customer Owned Banking Association Submission to Treasury on the proposed expansion of HGS

exposures. Small and regional banks have noted that when they lend using HGS rather than LMI, they bear the risk of the HGS guarantee being invalidated due to borrower actions beyond their control. This can leave the bank unexpectedly without HGS coverage on high LVR loans, which is a risk they do not face when offering LMI backed loans. While very few claims made under HGS have been subject to this issue, it presents a risk to small and regional banks if offering more HGS-backed loans.

Additionally, LMI is structured to cover a loan through its lifecycle until it is repaid, whereas HGS coverage ceases when a loan falls below 80 per cent LVR (i.e. HGS covers up to 15 per cent, or 18 per cent for the Family Home Guarantee, of the value of the loan). However, the strength of the Government's standing as a guarantor is reflected in APRA's capital settings, which require lenders to hold less capital against HGS backed loans than LMI backed loans. This preferential capital treatment could incentivise small and regional lenders to offer more HGS-backed loans.

**Enabling small and regional bank participation in HGS**

Small and regional banks are significant contributors to competition in the banking sector, so it is important that they continue to be supported to participate in HGS. As part of the implementation process for the expansion of HGS, Housing Australia will consider approaches to expanding the current panel of lenders. Small and regional lenders who are not currently part of the lender panel will have the opportunity to become participants in the scheme, assisting to ameliorate competition concerns that may arise in relation to lender access to the panel.

**Impacts on low- to middle- income home buyers**

The support provided by HGS has two key impacts for home buyers. First, it increases the purchasing capacity of eligible applicants by allowing individuals to avoid the cost of purchasing LMI. Second, it enables households to bring forward their purchase and enter the property market sooner. As a result, the support provided by HGS may lead to an increase in demand for housing.

Policies that increase demand for housing without a corresponding increase in supply can put upward pressure on housing prices, impacting affordability. The ability of many low- and middle-income earners to enter the market is heavily dependent on broader housing affordability. As such, policy interventions that harm housing affordability can be counterproductive for these Australians, including some who may currently be eligible for HGS.

As noted previously, the high LVR lending supported by HGS will incrementally increase household indebtedness and increase the potential for negative equity for some purchasers. However, this impact will be mitigated to some extent by the need for participants to secure a mortgage from a lender and therefore satisfy all the ordinary requirements involved in obtaining finance.

**Overall demand impacts are expected to be limited**

While the expansion of HGS is likely to place some upward pressure on demand for housing, it is expected that these impacts will be relatively modest. The existing scheme supported approximately 45,000 eligible home buyers in 2024-25, this represents approximately 40 per cent of the around 110,000 annual first home buyers.[30] While the additional support provided by the expansion of HGS will increase the size of this market, it is unlikely to be of sufficient scale to represent more than a small proportion of the 555,000 residential property transactions that occurred in Australia in 2024.[31]

Additionally, as has been noted, the existing scheme income and property price caps were set at levels which would concentrate any price impacts at the entry level segment of the property market. Removing the existing scheme income caps and substantially increasing the property price caps is likely to dilute the impact of the increased demand, spreading it across a broader segment of the market.

**Uncapping the scheme ensures access remains possible for all low and middle income first home buyers**

As has previously been noted, the existing FHBG and RFHBG streams of HGS are likely to be fully (or almost fully) subscribed for the 2024-25 financial year, with approximately 95 per cent of places in both streams having been allocated in 2023-24.[32] In the absence of an increase in the maximum number of places available under the scheme it is likely that some eligible Australians would be unable to access support in the 2025-26 financial year. The removal of the cap on places allows all eligible Australians to receive support, ensuring that individuals who are eligible for the existing scheme are not displaced by individuals who will become eligible under the expanded scheme.

## Consultation

**Treasury undertook targeted consultation with key stakeholders including from the banking and LMI sectors, and the Australia Prudential Regulation Authority. 5 meetings were held and 7 written submissions received from stakeholders, including 4 confidential submissions. Treasury sought stakeholder views on:**

- the potential impact of the expansion of HGS on the LMI industry, and particularly demand for LMI products amongst first home buyers;
- the potential impact on competition in the banking sector if certain lenders were excluded from the HGS lender panel;
- the potential impact on low and middle income first home buyers of the expansion of the scheme.

During this consultation process, stakeholders noted particular concerns relating to:

- the impacts on the LMI sector, particularly relating to the impact of a reduction in gross written premiums from first home buyer;
- the potential impacts on small lenders of the expansion of the scheme where lenders are not included in the HGS lender panel; and

[30] Australian Bureau of Statistics, Lending Indicators, https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release.
[31] Australian Bureau of Statistics, Total Value of Dwellings, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/total-value-dwellings/latest-release.
[32] Housing Australia, Home Guarantee Scheme Trends and Insights Report 2023-24, https://www.housingaustralia.gov.au/research-data-analytics/hgs-trends-and-insights-report-2023-24.

- the potential impact on demand in the housing market of additional first home buyers purchasing a dwelling.

Stakeholders also noted the importance of maintaining a competitive banking sector and first home buyer lending market, including for small and regional lenders.

The Government has noted these concerns raised by stakeholders, which have informed the implementation of the Home Guarantee Scheme expansion election commitment.

**Estimated Regulatory Cost of HGS Expansion**

*Methodology used to estimate annual regulatory costs to individuals*

Under the HGS expansion option, regulatory costs to individuals come from the additional time it takes individuals to understand the requirements of the guarantee schemes.

Based on industry estimates and experience with the existing scheme, the following assumptions were made to determine the regulatory costs to individuals under the HGS expansion options:

- Individuals spend 1 additional hour to understand the requirements of the guarantee schemes.
- Using the Office of Impact Analysis estimate for individual costs at $37.00 per hour.

The total estimated average regulatory costs to individuals under the HGS expansion option will be dependent on the extent of uptake of the expanded scheme. While it is not possible to determine the exact size of this uptake, if all existing first home buyers made use of the scheme the total regulatory cost to individuals would be approximately $2.405 million. A more realistic estimate of uptake numbers would lead to an estimate of approximately $0.925 million in additional regulatory costs for individuals.

*Methodology used to estimate annual regulatory costs to businesses*

The following assumptions were made to estimate the regulatory costs associated with ongoing administrative costs to lenders through processing additional loans:

- Additional two hours for a lender to process an additional guarantee loan
- Using the Office of Impact Analysis estimate for business costs at $85.17 per hour.

Estimated average regulatory costs associated with ongoing administrative costs to lenders through processing additional loans is $4.286 million per year.

The following additional assumptions were made to estimate the regulatory costs associated with processing defaults on additional loans:

- Default claim rate of 2 per cent (based on actuarial modelling of the scheme, noting the existing scheme has had substantially lower default rates)
- Additional 5 hours for a lender to process default.

Estimated average regulatory costs associated with processing defaults on additional loans is $0.213 million per year.

This results in a total estimated average regulatory cost to lenders and brokers of $4.499 million per year.

Treasury notes that while the 2022 Home Guarantee Scheme Impact Analysis included the cost of the additional time it would take to educate front-line lenders and brokers and update systems, given the expanded scheme does not differ significantly from an operational perspective, this supplementary impact analysis does not consider these costs to be material.

| **Average annual regulatory costs (from business as usual)** | | | | |
|---|---|---|---|---|
| Change in costs ($ million) | Business | Community organisations | Individuals | Total change in cost |
| Total, by sector | $4.45 | $0 | $0.93 | $5.38 |

## Conclusion

In an environment of increasing housing prices, falling home ownership rates across all income quintiles among young Australians, and the available scheme places for the 2024-2025 financial year close to fully utilised (for all streams excluding the Family Home Guarantee), the expansion of the HGS is an appropriate way of encouraging home ownership. Providing expanded Government support through HGS will allow more individuals to achieve home ownership sooner, significantly reduce the time required to save a deposit, reduce the additional costs associated with obtaining LMI coverage, and level the playing field between those who are able to access support from family members and those who are not.

However, it is worth noting that the HGS expansion may potentially lead to consolidation in the LMI industry, potentially making accessing high LVR loans for those ineligible for HGS more expensive, and reducing competition within the banking sector. The LMI industry is expected to continue to be viable and all eligible first home buyers will be able to access the HGS as an alternative. Housing Australia will also work to expand their lender panel, enabling more small and regional lenders to offer HGS backed loans.

While the expansion of HGS is likely to have some impact on demand for housing, it is expected that these impacts will be relatively modest and the removal of existing scheme income caps and increases to property price caps will dilute any price impacts at the lower end of the property market.

**Appendix A**

*New Property Price Caps*

The price caps will be increased to reflect changes in the median house price in each locality. The price cap on the value of residential property for a HGS supported loan will be as follows:

| Locality | Current HGS property price caps | New HGS property price caps |
|---|---|---|
| NSW – capital city and regional centre | $900,000 | $1,500,000 |
| NSW – other | $750,000 | $800,000 |
| VIC – capital city and regional centre | $800,000 | $950,000 |
| VIC – other | $650,000 | $650,000 |
| QLD – capital city and regional centre | $700,000 | $1,000,000 |
| QLD – other | $550,000 | $700,000 |
| WA – capital city | $600,000 | $850,000 |
| WA – other | $450,000 | $600,000 |
| SA – capital city | $600,000 | $900,000 |
| SA – other | $450,000 | $500,000 |
| TAS – capital city | $600,000 | $700,000 |
| TAS– other | $450,000 | $550,000 |
| ACT | $750,000 | $1,000,000 |
| NT | $600,000 | $600,000 |
| Jervis Bay Territory and Norfolk Island | $550,000 | $550,000 |
| Christmas Island and Cocos (Keeling) Islands | $400,000 | $400,000 |