



Submission to the Help to Buy Program Directions 2024 and Exposure Draft Explanatory Statement

The National Housing Supply and Affordability Council (the Council) welcomes the opportunity to make a submission to the Help to Buy Program Directions 2024 and Exposure Draft Explanatory Statement.

Background to the Council

The Council provides independent, evidence-based expert advice to Government on housing supply and affordability matters.

The Council builds the evidence base for national housing policy through its research, housing supply and demand forecasts, and by working to improve data availability and quality. The Council also engages with, and learns from, the diverse perspectives of stakeholders who are equally committed to achieving real reform in the housing system.

The Council reports annually to the Minister for Housing on its research and the state of the housing system. The Council's inaugural report 'State of the Housing System 2024' was presented to the Minister on 29 April 2024 and is published on the Council's website (nhsac.gov.au).

Executive summary

The housing crisis in Australia is longstanding, complex and there is no single easy fix. At its heart, this crisis is a difficult problem in need of collective solutions – harnessing all levels of government, the private sector and the community sector.

The Council welcomes the Help to Buy Program as part of the Australian Government's response to the current conditions in the housing system. The program is one of a range of diverse and innovative solutions across the system and is aimed at addressing the significant barriers that low- to moderate-income households face with respect to accessing home ownership.

The Council notes that this program aligns with one of the Council's goals as outlined in the 'State of the Housing System 2024' report, whereby there is fair access to home ownership, or alternative tenures that offer comparable benefits.

This submission to the Help to Buy Program Directions 2024 and Exposure Draft Explanatory Statement focuses on offering suggestions for improving and refining the communication of applicant eligibility, income thresholds, the frequency of reviews and the administration of the program, including insurance and valuation requirements.

The Council submits the following in relation to specific aspects of the program:

Eligible applicants

The Council is pleased to see the program is not restricted to first home buyers or the purchase of new dwellings, and encourages participation across many cohorts who face challenges in accessing, retaining, or re-entering home ownership. For example, the current eligibility requirements may particularly benefit women who experience relationship breakdowns by allowing them to retain their home under section 18.

Income thresholds

The Council acknowledges the difficulties in balancing a targeted program with the right income thresholds. However, there is potential for the current income caps to have the unintended consequence of participants choosing to forego future income opportunities. The Council understands that the current draft requires participants have a maximum income of \$90,000 as a single applicant or \$120,000 as joint applicants for the life of the program at section 8. The Council was pleased to note that section 9 of the exposure draft states that income caps will be indexed annually to the Wage Price Index.

However, the Council is concerned that the current wording within the program directions suggests participants that exceed the income cap are deemed non-compliant. This wording runs the risk of disincentivising participants in the labour market, who may decide to forego job opportunities because it could jeopardise their tenure security.

Frequency of reviews

The Council understands that reviews at least every 5-years were selected to balance maintaining the integrity of the program and Housing Australia's administrative responsibility with the program's objectives. The Council agrees that striking this balance is important and that communicating a strong rationale for the assessment periods, and the circumstances under which these periods are adjusted, is essential.

Administering the program

The Council identifies several potential issues associated with program administration.

The draft program directions would require an enormous investment in monitoring and administering the program throughout the life of the program. This task would largely be performed by Housing Australia and would require a significant increase in workforce with skills different to that of current Housing Australia staff.

The draft program directions outline the roles and responsibilities of Housing Australia as similar to those of banks/financial lenders. Housing Australia is an unregulated entity; it is unlike banks and financial lenders which are regulated by the Australian Prudential Regulation Authority.

This raises complex and serious practical and reputational concerns. Housing Australia may not have the capability to implement this program with the responsibilities outlined in the draft Program Directions and may require significant upskilling to interact with individuals directly. Housing Australia may also hold more discretion and responsibility than is appropriate for an entity of this nature, which creates risks for participants and reputational risk for the Australian Government.

The Council understands that Housing Australia is trying to implement lender processes where feasible and is investigating further regulatory and training requirements that may be needed to perform its role in administering and monitoring the Help to Buy Program. Further work is needed to mitigate the equity and reputational risks associated with administering and monitoring this program. This may include reevaluating the sharing of risk associated with this program and better clarifying these arrangements in the Program Directions.

The Council suggests that specific consideration could be given in the draft legislation that returns (plus capital growth) to the Commonwealth be quarantined for either reinvestment in future Help to Buy Program places and/or investment in other Housing Australia programs, including supplementing Housing Australia Future Fund (HAFF) allocations.

Valuation

The Council suggests reviewing the existing valuation requirements throughout the Help to Buy Program, particularly in relation to calculating the value of home improvements completed by the participant. Valuation practices vary, particularly in regional and rural areas. This issue warrants further investigation to ensure regional and rural participants are not disadvantaged.

In addition, better justification of who is eligible to perform a valuation, the requirements of the valuation process, including the timeframes in which valuations must occur and who bears the cost of these valuations, could better align the program rules to its intended objectives.

The program aims to assist with access to home ownership and on-going affordability. In addition, consideration could be given to assisting access in regional and rural areas where costs tend to be higher through the absence of major builders and the higher transportation costs of labour and materials. As a result, valuations are consistently lower than cost – often by more than 20 per cent. This exacerbates the access challenge facing buyers. Support could be given to buyers facing this dilemma by providing equity to bridge the funding gap created. Buyers could then make up the difference as values increase over time.

The Council notes that section 25 provides detailed discussion regarding the treatment of a reduction in property value for the purposes of the Commonwealth. However, the Council notes that there is no statement or discussion of arrangements and/or provisions for participants impacted by the scenario where prices fall and, as a consequence, these participants find themselves in a negative equity situation, whereby they owe more on their share of the house than their share of its market value. A clear statement on the proposed arrangements as it impacts the participants may strengthen the draft legislation and explanatory statement.

Insurance

The Council suggests the Help to Buy Program further considers the optimal insurance arrangements for the proposed arrangements. The Council understands that the current draft Program Directions require that participants maintain adequate insurance over the life of the program and provide evidence of this each year (Schedule 1, section 11).

The government should further investigate who bears the responsibility for insurance, in addition to risk sharing across the participant, government and lender generally. This may include clarifying the requirement for participants to provide proof of insurance, justifying the participants responsibility for insurance, and the scope of flexibility within this clause.

Further information

The Council is available to provide further details on this submission as required and may be contacted via: enquiries@nhsac.gov.au

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