

## **EXPLANATORY STATEMENT**

### **Issued by authority of the Minister for Housing, Minister for Homelessness and Minister for Small Business**

*National Housing Finance and Investment Corporation Act 2018*

*National Housing Finance and Investment Corporation Investment Mandate Amendment  
(Regional First Home Buyer Guarantee) Direction 2022*

Subsection 12(1) of the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Act) provides that the Minister may, by legislative instrument, give the Board of the National Housing Finance and Investment Corporation (NHFIC) directions about the performance of NHFIC's functions.

The NHFIC Act established the NHFIC to improve housing outcomes for Australians. The NHFIC is a corporate Commonwealth entity dedicated to improving housing outcomes and it commenced operation on 1 July 2018.

The NHFIC's functions include, among others, administration of the Government's Home Guarantee Scheme. The Home Guarantee Scheme – which encompasses the First Home Guarantee, the New Home Guarantee and the Family Home Guarantee, aims to enable first home buyers and single parents with dependants to access the housing market sooner. The New Home Guarantee ceased for new applications on 1 July 2022.

The purpose of the *National Housing Finance and Investment Corporation Investment Mandate Amendment (Regional First Home Buyer Guarantee) Direction 2022* (Instrument) is to amend the National Housing Finance and Investment Corporation Investment Mandate Direction 2018 (Investment Mandate) to establish the Regional First Home Buyer Guarantee (RFHBG). This gives effect to the Government's 2022 election commitment to establish the RFHBG.

Over recent years, housing affordability pressures experienced in regional Australia have become more acute relative to capital cities, in part due to internal migration flows associated with the COVID-19 pandemic. The RFHBG is designed to allow eligible first home buyers living in regional Australia to enter the housing market sooner and purchase a home with a deposit of as little as five per cent, subject to the individual's ability to qualify for a mortgage from a participating commercial lender. Applicants will need to meet defined eligibility criteria, including demonstrating that they have lived in the regional area for at least 12 months.

Subject to demand for the RFHBG, NHFIC may issue up to 10,000 guarantees in each of the 2022-23, 2023-24 and 2024-25 financial years to support purchases of dwellings in regional areas by first home buyers. The RFHBG is to commence on 1 October 2022 (or the day after the Instrument is registered if registration occurs after that date) with 10,000 guarantees available for the 2022-23 financial year from commencement.

Consultation on an exposure draft Instrument and the accompanying Explanatory Statement was undertaken from 1 to 5 September 2022 with select stakeholders, including financiers. Six submissions were received. The NHFIC was also consulted on drafts during the development of the Instrument and Explanatory Statement. Some adjustments were made to the Instrument and Explanatory Statement following the consultation with the NHFIC and other stakeholders to clarify the operation of the eligibility requirements for the Regional First Home Buyer Guarantee.

Details of the Instrument are set out in [Attachment A](#).

The Instrument is a legislative instrument for the purposes of the *Legislation Act 2003*. The Instrument is exempt from disallowance under section 42 of the *Legislation Act 2003* as a result of regulations made for the purposes of paragraph 44(2)(b) of that Act. Item 2 of section 9 of the *Legislation (Exemptions and Other Matters) Regulation 2015*, provides for class exemptions from disallowance if the instrument is a direction by the Minister to any person or body. The instrument is a direction from the Minister to the NHFIC, and therefore is exempt from disallowance. This provides the NHFIC with certainty in the administration of its activities and provides assurance to any eligible first home buyers that benefit from the RFHBG.

The Instrument commences on either 1 October 2022 or the day after the instrument is registered on the Federal Register of Legislation (whichever occurs later).

A Regulation Impact Statement is set out in [Attachment B](#).

## **ATTACHMENT A**

### **Details of the National Housing Finance and Investment Corporation Investment Mandate Amendment (Regional First Home Buyer Guarantee) Direction 2022**

#### **Section 1 – Name of the Instrument**

This section provides that the name of the Instrument is the *National Housing Finance and Investment Corporation Investment Mandate Amendment (Regional First Home Buyer Guarantee) Direction 2022* (the Instrument).

#### **Section 2 – Commencement**

This section provides that the Instrument commences on 1 October 2022 (or the day after the Instrument is registered if registration occurs after that date).

#### **Section 3 – Authority**

This section provides that the Instrument is made under the *National Housing Finance and Investment Corporation Act 2018* (the NHFIC Act).

#### **Section 4 – Schedule**

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

#### **Schedule 1 – Amendments**

Legislative references in this attachment are made to the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (Investment Mandate) unless otherwise stated.

### **Establishment of the Regional First Home Buyer Guarantee**

The Regional First Home Buyer Guarantee (RFHBG) helps first home buyers in regional Australia to enter the housing market sooner and attain home ownership. Subject to eligibility requirements, 10,000 guarantees are available from the commencement of the RFHBG to 30 June 2023. Additional 10,000 guarantees will also be available for each of the 2023-24 and 2024-25 financial years.

Under the RFHBG, the National Housing Finance and Investment Corporation (NHFIC) provides a limited, first loss guarantee to lenders in respect of eligible loans of regional first home buyers. It enables an eligible regional first home buyer to purchase a modest home in regional areas with a deposit that is less than the 20 per cent typically required by banks and without needing to obtain lender's mortgage insurance.

## **Regional First Home Buyer Guarantee**

Item 1 of the Instrument inserts a number of definitions into section 4 to support the RFHBG and to improve the clarity of provisions throughout the Investment Mandate. They are:

- Australian Defence Force – the amendments make clear that the term has the same meaning as in the *Defence Act 1903*;
- Australian Statistical Geography Standard (ASGS) – the amendments make clear that the ASGS refers to the version published in July 2016, published by the Australian Bureau of Statistics. This ensures consistency by providing for the NHFIC to administer each of the guarantees under Part 5A by reference to the same version of the ASGS. Further information about the ASGS is available on the Australian Bureau of Statistics’ website: [www.abs.gov.au](http://www.abs.gov.au);
- capital city – the amendments insert a signpost in the definitions section that refers to the definition of capital city under subsection 4A(1);
- regional area – the amendments insert a signpost in the definitions section that refers to the definition of regional area under subsection 4A(3);
- regional centre – the amendments insert a signpost in the definitions section that refers to the definition of regional centre under subsection 4A(2);
- Regional First Home Buyer Guarantee – a guarantee issued under the RFHBG at section 29IBA;
- Reserves – the amendments make clear that the term has the same meaning as in the *Defence Act 1903*; and
- Statistical Area Level 4 area – the amendments make clear that term has the same meaning as in the ASGS.

### **Meaning of regional area**

Items 2 and 7 of the Instrument move the meaning of the terms ‘capital city’ and ‘regional centre’ to the new section 4A to improve the structure of the Investment Mandate by separately providing for defined terms that were previously nested in section 29F.

The amendments also update the definition of ‘capital city’ by including the capital city of the Northern Territory, which was previously not required to be defined.

There is no change to the meaning of ‘regional centre’. They continue to be the following Statistical Area Level 4 areas:

- For New South Wales – Newcastle and Lake Macquarie, and Illawarra;
- For Victoria – Geelong; and

- For Queensland – Gold Coast, and Sunshine Coast.

The amendments further provide for the meaning of the term ‘regional area’ in the new section 4A. Under the definition: Statistical Area Level 4 areas in the States and the Northern Territory are included as regional areas provided the relevant area is not a capital city;

- this excludes all capital cities of the States and the Northern Territory;
- the whole of the Australian Capital Territory is excluded as the whole area is a Statistical Area Level 4 area that does not distinguish the greater capital city area from the rest of the Australian Capital Territory; and
- regional centres identified in the new section 4A and the territories of Jervis Bay Territory, Norfolk Island, Christmas Island and the Cocos (Keeling) Islands are included as regional areas.

Item 3 of the Instrument amends the guide material of Part 5A to describe the Regional First Home Buyer Guarantee.

Items 4, 5 and 6 of the Instrument provide for the core operative provisions of the RFHBG. Generally, the NHFIC may issue guarantees in relation to eligible loans (from eligible lenders) obtained by eligible first home buyers for the purchase of a dwelling in a regional area.

### **Eligible lenders**

The NHFIC must not issue a guarantee to an entity other than an eligible lender. An eligible lender is an entity approved by the NHFIC for the purposes of the RFHBG.

Item 4 of the Instrument updates subsection 29B(2A) to provide that banks may be appointed as eligible lenders under different criteria and processes that NHFIC may establish in relation to the RFHBG.

### **Eligible loans**

The requirements of an eligible loan for the purposes of the RFHBG are that, at the time the loan agreement is entered into (see section 29C):

- the loan is made by an eligible lender;
- there are no more than two borrowers under the loan agreement;
- where there are two borrowers under the loan agreement—each borrower is the spouse or de facto partner of the other borrower;
- at least one borrower under the loan agreement is an eligible regional first home buyer;
- the loan is for the purchase of residential property;

- if the loan relates to the purchase of an interest in land on which a dwelling is not affixed, the loan also relates to the construction of a dwelling on the land (for example, a house and land package);
- the value of the residential property does not exceed the price cap for the area in which the property is located. The applicable price caps for the guarantees under the RFHBG are described below;
- the residential property is to be owner-occupied (unless an exemption applies as described below);
- the loan-to-value ratio is between 80 and 95 per cent;
- the terms of the loan agreement require scheduled payments of the principal of the loan for the full period of the agreement; and
- the loan agreement has a term of no more than 30 years.

The loan-to-value ratio required for the RFHBG allows an eligible regional first home buyer to be supported where they have a deposit of as little as five per cent of the purchase price of the property, meaning that the guarantee applies to the difference between the deposit and 20 per cent of the property purchase price. In the event of borrower default and sale of the property by the lender, the RFHBG covers the lender if there remains a shortfall amount owed (up to the maximum amount covered by the guarantee, which is not more than the value of 20 per cent of the property purchase price less the deposit amount).

While the RFHBG contemplates eligible regional first home buyers taking out loans with a loan-to-value ratio of up to 95 per cent, in practice – as with all home loans – a lender will only extend a loan of this nature to a borrower who has the capacity to service it.

All lenders are required to adhere to the *National Consumer Credit Protection Act 2009*, which governs the provision of credit, and authorised deposit-taking institutions are subject to requirements set out in prudential standards made under the *Banking Act 1959*. These frameworks include requirements directed toward preventing a credit provider from extending a loan that would result in the consumer facing substantial hardship. This means that credit providers, when undertaking their serviceability assessments to determine a consumer’s borrowing capacity, must consider whether the consumer can repay the loan without going into substantial hardship.

### **Eligible regional first home buyers**

In addition to the requirements for first home buyers under the Investment Mandate (see section 29D), a regional first home buyer is one where the loan is issued in relation to a regional home. Items 5 and 6 of the Instrument insert paragraph 29C(2)(l) and subsection 29C(2AA) to provide that the RFHBG applies only to loans where:

- residential property is located in a ‘regional area’ (as defined in the new subsection 4A(3), explained above) and;

- either of the following are satisfied:
  - at least one borrower under the loan agreement has lived in the regional area or an adjacent regional area throughout the previous 12 months; or
  - if at least one borrower under the loan agreement has lived in the regional area or an adjacent regional area for some part of the previous 12 months, but was unable to live in the regional area or an adjacent regional area in the remaining part of the previous 12 months, it was only because of a posting required in the course of their duties as a member of the Australian Defence Force (ADF), other than as a member of the Reserves.

The term ‘adjacent regional area’ is not defined and is intended to take an ordinary meaning, meaning a regional area with an adjoining or connecting boundary to the regional area in which the residential property is located. An adjacent regional area is only relevant for residential properties located in regional areas in mainland Australia (New South Wales, Victoria, Queensland, Western Australia, South Australia, Northern Territory and Jervis Bay Territory) and Tasmania. An adjacent regional area is not a relevant consideration for residential properties located in the external island territories (Norfolk Island, Christmas Island and the Cocos (Keeling) Islands).

Under paragraph 29K(1)(b), the NHFIC must ensure that residential properties are used as owner-occupied residences. However, the Investment Mandate continues to provide an exemption to enable active ADF members who are first home buyers to be eligible under the RFHBG. The exemption recognises that active ADF members often cannot live at home while they serve abroad or live on base, which can put them in breach of the general requirement to live in their home for as long as the home loan has a guarantee.

### **Price caps under the RFHBG**

An eligible loan may not be issued unless the loan is for the purchase of a dwelling in a regional area of which its value does not exceed the price cap under the RFHBG. Subsection 29F(1) provides for the relevant price caps as follows, noting that the capital cities of the States and the Northern Territory and the Australian Capital Territory are excluded from the RFHBG.

<b>Effective price caps under the RFHBG</b>		
<b>Item</b>	<b>Area</b>	<b>Price cap</b>
1	New South Wales – capital city and regional centre	Capital city: N/A – not eligible Regional centre: \$900,000
2	New South Wales – other	\$750,000
3	Victoria – capital city and regional centre	Capital city: N/A – not eligible

		Regional centre: \$800,000
4	Victoria – other	\$650,000
5	Queensland – capital city and regional centre	Capital city: N/A – not eligible Regional centre: \$700,000
6	Queensland – other	\$550,000
7	Western Australia – capital city	N/A – not eligible
8	Western Australia – other	\$450,000
9	South Australia – capital city	N/A – not eligible
10	South Australia – other	\$450,000
11	Tasmania – capital city	N/A – not eligible
12	Tasmania – other	\$450,000
13	Australian Capital Territory	N/A – not eligible
14	Northern Territory (other than the capital city)	\$600,000
15	Jervis Bay Territory and Norfolk Island	\$550,000
16	Christmas Island and Cocos (Keeling) Islands	\$400,000

### **Limit on the number of guarantees**

Item 10 of the Instrument inserts new section 29IBA, to allow the NHFIC to issue up to 10,000 guarantees under the RFHBG in relation to each of the 2022-23, 2023-24 and 2024-25 financial years. Although, the RFHBG cannot commence any earlier than either 1 October 2022 or the day after the Instrument is registered (whichever occurs later), the NHFIC may still issue 10,000 guarantees for the 2022-23 financial year so long as the instrument commences before the end of the 2022-23 financial year.

Under paragraph 29IBA(7)(a), guarantees issued under the RFHBG in one financial year may instead count towards the number of guarantees issued in a previous financial year. This can occur under two circumstances:



- where a guarantee is offered in one financial year in respect of an eligible loan, but the settlement of the contract in respect of that loan occurs in a later financial year, a guarantee that is issued in the later financial year is taken to be a guarantee issued in the previous financial year; or
- where a guarantee is issued in a financial year and the loan is later refinanced in accordance with subsection 29C(4), the later issuance of a guarantee is not taken to be a guarantee issued in the later financial year.

### **Rollover of guarantees to the next financial year**

Item 10 of the Instrument inserts subsections 29IBA(4), (5), (6) and (8), to allow for the rollover of any guarantees under the RFHBG for a financial year that were not issued to be able to be issued in a later financial year.

These guarantees generally include guarantees that at the end of the financial year have lapsed or expired.

The amendments provide the Minister with the power to determine, in writing, the rollover of any guarantees that were not issued at the end of the financial year. No rollover of guarantees under the RFHBG can occur without the Minister determining the extent of rollover, if any, of the guarantees that were not issued. The power to rollover guarantees is only available to the Minister and cannot be exercised by the NHFIC as part of its administration of the RFHBG. In making the determination, the Minister is required to consider the performance of the RFHBG or any unique circumstances influencing the uptake of guarantees. Rollovers cannot occur in respect of guarantees that were not issued for the 2024-25 financial year under the RFHBG as the RFHBG concludes after that financial year.

Under subsection 29IBA(6), the NHFIC must, in writing, notify the Minister of any guarantees that were not issued for the prior financial year on the 100th day after the end of each financial year, unless the Minister provides otherwise. This notification must include a breakdown of the guarantees that were not issued, the distribution of these guarantees according to whether they were reserved or had lapsed or expired, and any other information requested by the Minister. This allows the Minister to decide whether the discretion should be exercised and if so, the number of guarantees to be rolled over to the following financial year. The Instrument requires a 100-day reporting period because under the scheme rules administered by the NHFIC, guarantees that are offered and reserved will expire after 90 days. In the event that a guarantee is offered on 30 June of a financial year, the NHFIC is able to report on the number guarantees that were issued, expired and lapsed on the 100th day.

Where the Minister exercises the power to rollover any guarantees under the RFHBG for a financial year that were not issued, the operation of paragraph 29IBA(7)(a) does not apply to those guarantees (subsection 29IBA(8)). As explained above, paragraph 29IBA(7)(a) ensures that where a guarantee is offered in one financial year but formally issued in the following year, that guarantee is treated as having been issued in relation to the previous financial year when it was first available to be offered. Once the Minister exercises the power to rollover guarantees under the RFHBG that were not issued, the continued operation of paragraph 29IBA(7)(a) is not required because it would result in a double counting of a guarantee that had

been reserved in the previous financial year and rolled over to the following financial year.

### **Consequential amendments**

Items 8, 9, 11, 12, 13 and 14 make consequential amendments to ensure consistency in the Investment Mandate and application of the RFHBG by the NHFIC. They are:

- subsection 29IA(1) – minor editorial amendment to include the reference to the new section 29IBA (general RFHBG provisions);
- subsection 29IB(1) – minor editorial amendment to include the reference to new section 29IBA (general RFHBG provisions);
- section 29IC – updates to ensure consistency of administration by the NHFIC of the RFHBG and other existing functions;
- subsection 29JA(1) – ensures the RFHBG is one where the NHFIC may make scheme rules to administer the RFHBG;
- paragraph 29K(1)(b) – removal of the reference to the *Defence Act 1903*, as relevant definitions have been inserted into section 4; and
- subsection 29L(2) – ensures consistent reporting requirements of the NHFIC in relation to the RFHBG and other existing functions.

## **Regulation Impact Statement**

### **Background**

This document is an addendum to the ‘Home Guarantee Scheme’ regulation impact statement (RIS) (22-01418).

This addendum provides analysis of the incremental regulatory impacts associated with the ‘Regional First Home Buyer Guarantee’ (previously announced as the Regional First Home Buyer Support Scheme). The previous Government’s Regional Home Guarantee was agreed in the 2022-23 Budget but had not yet been enacted at the calling of the 2022 Federal Election. The Regional First Home Buyer Guarantee is an election commitment of the Labor Government.

The ‘Home Guarantee Scheme’ RIS was assessed by the Office of Best Practice Regulation (OPBR) in March 2022 and provides analysis of the regulatory impacts associated with a similar Regional Home Guarantee. Both the Regional Home Guarantee and the Regional First Home Buyer Guarantee seek to assist regional homebuyers to purchase a home sooner and with a smaller deposit. However, there are minor policy differences between the schemes, namely non-first homebuyer eligibility and property type eligibility. Drawing on the existing analysis in the ‘Home Guarantee Scheme’ RIS, and in meeting the OBPR’s regulatory impact analysis requirements, this addendum will consider the regulatory impacts associated with these differentials only.

#### **Regional Home Guarantee.**

The proposed Regional Home Guarantee was limited to new homes in eligible regional areas only, and included both existing regional first home buyers and first home buyers not currently living in regional areas. Eligibility would have allowed some buyers who have previously owned property but hadn’t done so for at least three years.

<b>Name</b>	<b>Cohort</b>	<b>Income &amp; price caps</b>	<b>Property type</b>	<b>Minimum deposit</b>	<b>Number of Guarantees per FY<sup>1</sup></b>
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<sup>1</sup> Unused guarantees from each financial year may be eligible for roll over into the subsequent financial year.

Regional Home Guarantee	FHBs and some non-FHBs. No restrictions on current address.	Consistent with HGS	New homes in regional areas, including regional centres	5 per cent	10,000, to 2024-25.
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By offering guarantees to applicants not living in regional areas, including those who may not be first home buyers, the Regional Home Guarantee would likely have had the effect of encouraging the movement of city residents to regional areas. In addition, limiting guarantees to new homes only would likely have the effect of increasing demand for new construction relative to demand for existing dwellings.

While some first home buyers in regional areas may have benefited from the Regional Home Guarantee, previously scheduled to commence on 1 October 2022, it was not a program primarily targeted at first home buyers. Rather, it was a program open to all buyer types that was designed to facilitate additional dwelling construction in regional areas. As a result, regional first homebuyers would have needed to compete with other buyers for support under the scheme and would have been limited to purchases of new homes only.

Had it been implemented, the Regional Home Guarantee would have had the effect of driving substantial additional demand for new dwelling construction in regional areas during a period when the regional construction sector is already facing substantial cost pressures and capacity constraints. Treasury stakeholder consultation and analysis of Australian Bureau of Statistics (ABS) data suggest that building material costs are rising significantly and the pipeline of work for housing construction is at record levels. There were around 103,000 detached houses under construction as at March 2022 - a new record. This compares to a typical number of around 60,000 prior to the pandemic.<sup>2</sup> Owing to capacity constraints amid a record pipeline of work, house construction input prices have risen by 17.3 per cent through the year to the June quarter 2022.<sup>3</sup>

The Regional Home Guarantee would also have further encouraged the flow of population from the capital cities to the regions, again putting additional pressure on regional infrastructure and prices.

The Office of Best Practice Regulation's (OBPR's) assessment (OBPR22-02423) was that the quality of the analysis in the RIS was adequate to inform a decision.

<sup>2</sup> ABS, Building Activity

<sup>3</sup> ABS, Producer Price Index

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

Housing markets in regional Australia have become increasingly unaffordable for first home buyers in recent years. A combination of low interest rates and strong population growth have resulted in rapid growth in prices for existing dwellings, while high demand, labour shortages and supply chain constraints have put pressure on the construction sector.

Over the past year, there has been an increase in net internal migration to the regions, which has placed upward pressure on house prices. The net flow of capital city residents moving to the regions is at historic levels, with 49,000 city dwellers moving to the regions in the year to June 2021, more than three times the pre-pandemic level of 15,000 in 2019.<sup>4</sup> As people shift to remote working, there is an expectation of higher future population growth in the regions.

House prices have risen substantially over the past year, from already high levels, and regional areas have experienced particularly significant growth. Over the year to June 2022, regional housing prices grew by 19.9 per cent, compared to 8.7 per cent in combined capital cities.<sup>5</sup>

The impact of recent increases in house prices in regional Australia is not felt equally by all households. Affordability has not significantly worsened for homebuyers who already own property as these households have benefitted from recent increases in dwelling prices and can draw on this existing equity when looking to move or upgrade. These households have also benefited from the historically low interest rates in recent years.

First home buyers, however, face increasing difficulties entering the housing market – particularly those that are priced out of capital city markets and those on low incomes already living in the regions. Not only are high house prices necessitating higher average loan amounts, the time taken for prospective first home buyers to save a typical deposit has also increased. Further compounding this problem is an increase in rents in regional areas which reduces the disposable income households have available for saving for a deposit. National advertised rents have risen by 17.2 per cent since March 2020, with advertised rents in regions (up 24.3 per cent) outpaced capitals (up 14.8 per cent).<sup>6</sup> First home buyers in regional Australia face a high and rising deposit hurdle – requiring on average 10.5 years to save for a deposit.<sup>7</sup>

For regional Australians wishing to purchase in the near term but who 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 homeownership 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.

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<sup>4</sup> Treasury, Centre for Population estimates

<sup>5</sup> Treasury, based on CoreLogic data

<sup>6</sup> Treasury, based on CoreLogic data

<sup>7</sup> Treasury calculation, based on CoreLogic data

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.<sup>8</sup> 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<sup>9</sup>.

For prospective homebuyers 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).

Support through the First Home Guarantee program will address the deposit hurdle problem faced by many first home buyers in regional Australia. However, despite a recent increase in available places to 35,000 per year, the speed with which each year's available allocation of First Home Loan Deposit Scheme places has been exhausted suggests there is a large unmet demand for places.<sup>10</sup> As a consequence, it is likely that the First Home Guarantee will be over-subscribed, and many eligible first home buyers in regional areas are likely to miss out on support.

Increasing the number of places available under the First Home Guarantee would lower the likelihood of first homebuyers in regional areas missing out on support. However, this scheme is available to both city and regional first home buyers, which means ensuring access for eligible first homebuyers in regional areas would require a much larger increase in the total number of available places than required for regional applicants alone.

## 2. Why is Government action needed?

As outlined above, regional housing markets are becoming less affordable, particularly for first homebuyers on low incomes. While LMI offers a private market solution to prospective first homebuyers with relatively small deposits, it can add significantly to the cost of borrowing, delay access to homeownership for some, and is not accessible to all potential homebuyers.

The Commonwealth Government, through its operation of the First Home Loan Deposit Scheme (FHLDS), the New Home Guarantee, and the Family Home Guarantee, has demonstrated it has the capacity to intervene successfully to support homeownership for those who are able to secure one of the limited number of

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<sup>8</sup> Based on a 30-year mortgage term for an owner occupier, excluding stamp duty (<https://www.genworth.com.au/products/tools/lmi-fee-estimator>).

<sup>9</sup> 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.

<sup>10</sup> For further detail on demand for the First Home Loan Deposit Scheme, see the Report of the Statutory Review of the Operation of the *National Housing Finance and Investment Corporation Act 2018*

guarantee places made available under these programs. For more information on the schemes' performance and strong demand, see the 'Home Guarantee Scheme' RIS.

Despite the high level of demand across all the programs, key lending indicators show that guarantee backed loans are performing well. As at 31 May 2022, 43,704 guarantees had been issued. Of these, no scheme-backed loans had defaulted, though this pre-dates the recent interest rate increases.<sup>11</sup> 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 from a median of 24.5 per cent in 2020-21 to 23 per cent in 2021-22.<sup>14</sup>

### 3. What policy options are you considering?

Implementing the Regional First Home Buyer Guarantee is an election commitment of the Government. As such, the two options considered: are maintaining the status quo by continuing to operate the existing Home Guarantee Scheme (**Option 1**); or implementing the Regional First Home Buyer Guarantee (**Option 2**).

The RIS considered for the expansion of the Home Guarantee Scheme, including the proposed Regional Home Guarantee, provided the foundation for this Addendum RIS. The Addendum RIS puts forward the option of the proposed Regional First Home Buyer Guarantee, which involves somewhat different parameters from the previously proposed Regional Home Guarantee.

The main differences between the Regional Home Guarantee and Regional First Home Buyer Guarantee is that the Regional First Home Buyer Guarantee will: require a local residency test, limit eligibility to First Home Buyers only, and allow both new and existing property types.

Regulatory costs to individuals, lenders and brokers are expected to be almost identical between the Regional Home Guarantee and Regional First Home Buyer Guarantee. The original proposal in the Home Guarantee Scheme Regulation Impact Statement, included aggregated costs across the whole three part proposal. And as the regulatory costs of the Regional Home Guarantee and Regional First Home Buyer Guarantee is expected to be almost identical, regulatory costs are not further considered in this Addendum Regulatory Impact Statement.

For more information on regulatory costs please see the Home Guarantee Scheme Regulation Impact Statement.

#### **Option 1:** The status quo

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

<b>Name</b>	<b>Cohort</b>	<b>Income &amp; price caps</b>	<b>Property type</b>	<b>Minimum deposit</b>	<b>Number of Guarantees per FY<sup>12</sup></b>

<sup>11</sup> First Home Loan Deposit Scheme and New Home Guarantee Trends & Insights Report 2020–21

<sup>12</sup> Unused guarantees from each financial year may be eligible for roll over into the subsequent financial year.

First Home Guarantee	First home buyers	Income caps: \$125k/\$200k Price caps: existing	New & established	5 per cent	10,000 per annum, ongoing
Family Home Guarantee	Single parents	Income cap: \$125k Price caps: existing	New & established	2 per cent	10,000 over four years from 2021-22

While these schemes assist homebuyers on moderate to higher incomes (income caps of \$125,000 for singles and \$200,000 for couples apply) to overcome the deposit hurdle, they do not address the serviceability hurdle – applicants still need to have sufficient means to service a high loan-to-valuation ratio loan.

**Option 2:** The Regional First Home Buyer Guarantee.

Under Option 2, the Regional First Home Buyer Guarantee would be implemented in place of the Regional Home Guarantee.

Name	Cohort	Income & price caps	Property type	Minimum deposit	Number of Guarantees per FY <sup>13</sup>
Regional First Home Buyer Guarantee	FHBs that have been living in regional Australia for at least 12 months.	Consistent with HGS	New <i>and</i> existing homes in regional areas	5 per cent	10,000, to 2024-25
Regional Home Guarantee	FHBs and some non-FHBs. No restrictions on current address.	Consistent with HGS	New homes in regional areas, including regional centres	5 per cent	10,000, to 2024-25.

The Regional First Home Buyer Guarantee (RFHBSS) builds upon the Commonwealth Government's existing Home Guarantee Scheme programs to support earlier access to homeownership for first home buyers in regional Australia.

Guarantees under the Regional First Home Buyer Guarantee would be able to be used to purchase both new and existing dwellings in regional areas but would only be available to first home buyers who can demonstrate they have lived in a regional area for at least the past 12 months.

<sup>13</sup> Unused guarantees from each financial year may be eligible for roll over into the subsequent financial year.



The proposed eligibility criteria effectively make the Regional First Home Buyer Guarantee an extension of the larger First Home Guarantee scheme. Given the First Home Guarantee is expected to be oversubscribed, this would have the effect of ensuring that first home buyers in regional areas have access to an additional reserve of guaranteed places, should places under the First Home Guarantee be exhausted.

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

### **Option 1 Status Quo**

Under the status quo, the existing guarantee schemes would support some households into homeownership. This would continue to represent a relatively small share of annual first home buyer activity and a small share of overall mortgage lending. There are no additional regulatory costs or savings associated with this option.

As above, regional housing markets are becoming less affordable and LMI can add significantly to the cost of purchasing a home. Without additional government support, first homebuyers in regional Australia who miss out on accessing the First Home Guarantee will have to wait longer to enter the market or will have to pay more with LMI.

### **Option 2 Regional First Home Buyer Guarantee**

Option 2 implements the parameters of the Regional First Home Buyer Guarantee. This would result in the 10,000 funded places being made available exclusively to first home buyers who are existing regional residents and expanding property eligibility to include existing homes. All other parameters are consistent with Option 1.

The objectives of this policy include:

- Supporting prospective homebuyers in regional areas into homeownership; and
- Targeting support to only those that are residents of the region in which they are intending to purchase.

#### *Effect of confining eligibility to first home buyers*

Dwelling prices have increased significantly in regional areas in recent years, posing a significant barrier for first home buyers to access the market.<sup>14</sup> By limiting access to home guarantees under this program to first home buyers, this option ensures that support is effectively targeted to the cohort most in need of assistance.

#### *Effect of confining eligibility to buyers who have lived in regional areas for at least 12 months*

The 12-month residency requirement ensures that support under the program will not have the unintended consequence of encouraging a further increase in population flows between capital cities to regions already facing infrastructure constraints and rapid price rises due to increased demand. It also ensures that support remains targeted to the cohort most in need of assistance.

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<sup>14</sup> Over the year to June 2022, regional housing prices grew by 19.9 per cent (Treasury, based on CoreLogic data).

The requirement to provide evidence of 12-months residency is unlikely to impose a material additional regulatory burden on the applicant or lender, as similar information already needs to be provided by borrowers when applying for finance.

#### *Effect of expanding eligibility to include existing homes*

Expanding eligibility to include existing homes will have the effect of reducing demand for new dwellings and increasing demand for existing dwellings relative to Option 1.

Long-term housing affordability relies on the provision of new supply. As such, measures that encourage new dwelling supply will generally deliver a net benefit for homebuyers in the long term. However, capacity constraints and labour shortages in the construction sector (see discussion in Section 2) mean that any measure that increases demand for new dwellings in the current environment may not meaningfully increase overall supply. Rather, bringing forward demand for new dwellings when construction capacity is fully utilised may only result in price increases for all buyers.

Measures that increase demand for existing housing will result in some increase in prices for established dwellings. As a result, expanding eligibility to established dwellings may have a small effect on established dwelling prices. However, as the number of available places is small relative to the overall stock of established dwellings, the size of this impact is likely to be extremely small. Moreover, by splitting demand between existing and new dwellings, the impacts of the scheme on demand and prices will be spread across existing and new dwellings, further mitigating the potential impact on aggregate dwelling prices.

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

Given the minor policy differences considered in this regulatory analysis, being first home buyer and property type eligibility, the scope of consultation in preparing this addendum has been limited.

However, consultation has taken place with the National Housing Finance and Investment Corporation (NHFIC) on the design and implementation of the Regional First Home Buyer Guarantee and this feedback has been incorporated in this analysis to the extent it relates to first home buyer and property type eligibility.

Additionally, the consultation process undertaken as part of the recently completed NHFIC Review comprehensively assessed the impacts of the FHLDS and NHFIC's activities to support first home buyers. 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.

For more information on consultation relating to LMI, please see 'Home Guarantee Scheme' RIS.

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

Given the difficulties that many households in regional Australia face in securing a deposit in a market with high house prices and rising interest rates, a key objective of the policy is to ensure that regional Australians are able to buy their own home sooner

than would otherwise be possible in the absence of Government support. This is consistent with the Government's objective of supporting those in regional Australia into homeownership.

Given the high demand for Home Guarantee Scheme places in previous years, the annual allocation of First Home Guarantee places is likely to be exhausted each year. As such, confining scheme eligibility to regional first home buyers is an appropriate way of encouraging homeownership amongst those living in regional Australia facing significant difficulty entering the market. This will assist in overcoming the deposit hurdle faced by many prospective regional first home buyers, in an environment where house prices have increasingly become unaffordable for many.

Due to the current supply chain constraints in the construction sector, and particularly in the regional construction sector, expanding property type eligibility to include existing dwellings will ensure demand is more evenly distributed in the housing market and avoid exacerbating current pressures.

For these reasons, compared to the status quo, the preferred option is Option 2, implementing the Regional First Home Buyer Guarantee (as distinct from the previous Government's proposal to introduce the Regional Home Guarantee).

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

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

### **Implementation**

Given that the Regional First Home Buyer Guarantee will operate alongside the existing low deposit guarantee schemes, implementation challenges should be minimal as the administering agency, NHFIC, and the existing panel of participating commercial lenders have the necessary experience to effectively manage the roll out of the new scheme.<sup>15</sup>

The current loan and guarantee application process will continue, and the guarantees will be offered by the participating panel of lenders.

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 homebuyers that don't qualify for the Scheme to enter the property market sooner than they would otherwise would.

It is anticipated the Regional First Home Buyer Guarantee will commence late-2022, subject to necessary amendments to the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*.

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<sup>15</sup> Note, price caps which apply to the FHLDS (and will apply to the Regional First Home Buyer Support Scheme), will update from 1 July 2022.

## Evaluation

Building on data collection and analysis practices for the existing Home Guarantee Schemes, observed outcomes for the Regional First Home Buyer Guarantee will be evaluated against, but not be limited to, the following:

- Supporting up to 10,000 regional first homebuyer purchases each year;
- Feedback gathered from participants indicating that they would not have been able to enter the market, or enter at a much later date, in the absence of the scheme;
- The scheme's impact on different target cohorts, including key workers and mature women;
- The scheme is able to operate alongside a viable private market for LMI; and
- The credit performance of loans written under the scheme evolves in line with comparable non-scheme-backed loans.

NHFIC releases a comprehensive annual review of the existing FHLDS program (and associated extensions), provided in the annual Trends and Insights Report 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 can be undertaken for program evaluation and design, as well as informing other program and policy purposes. This includes analysis of the impact of the schemes on different target cohorts, such as single parents, mature women and long-term renters. It is anticipated the Regional First Home Buyer Guarantee will be included in this annual review.

Further, section 57A of the *National Housing Finance and Investment Corporation Act 2018* requires that the Minister must cause a review of NHFIC's activities to assist homebuyers 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.