

# Media Release

## **\$500m for shared equity mortgages to keep people in their homes**

*Wednesday 3rd December 2008*

Federal Shadow Minister for Housing and Local Government, Scott Morrison, said today the Commonwealth Government should look to invest up to \$500 million of funds allocated for residential mortgage backed securities to support shared equity loans to ensure mortgagees continue to have access to this viable option to reduce their mortgage burden, especially during the global financial crisis.

Mr Morrison told Parliament last night that an allocation of \$500 million from the existing \$8 billion investment in residential mortgage back securities (RMBS) market would boost liquidity and ensure continued competition for housing finance, by supporting the continued availability of shared equity mortgages in Australia.

“This could allow around 5,000 Australian households to instantly cut their monthly mortgage repayments by up to 30% or more (1), or to reduce their upfront home purchase costs by a similar amount. It should also provide the Commonwealth with a higher expected return than it will earn by investing in normal home loans (2),” Mr Morrison said.

“The Rudd/Swan Government has guaranteed all the debt of the big four banks, which now control 90% of the home loan market. They have also committed to investing \$8 billion into the home loans of banks and non-banks, which the Coalition has supported on a bi-partisan basis following the suggestion by the Leader of the Opposition, Malcolm Turnbull.

“The chief long-term investors in shared equity are super funds and they are withdrawing their support from shared equity due to losses in share portfolios and use of their rigid asset-allocation models. This means that because of the global financial crisis, lenders like Bendigo and Adelaide Bank may be forced to withdraw shared equity products from the market, denying Australian households important affordability opportunities.

“It’s time the Rudd Government stood up and assisted the one part of the Australian mortgage market that offers Australian home owners a genuine opportunity to significantly reduce their mortgage costs during times of economic stress.

“With the Government and the OECD now forecasting an increase in unemployment of more than 200,000 people, there will be even further pressure

on those trying to pay off their mortgages. Moving to a shared equity loan is one way to reduce the burden.

“A rise in mortgage default would stress our housing market, which has so far weathered the crisis relatively well. Mortgage arrears for banks are still 40% less than what they were when Labor left office in 1996. The key difference is that unemployment was then at 8.1%.

“Sharp increases in mortgage default caused by rising unemployment, would lead to dumping of housing stock and a fall in house prices.

“The human costs would also be great with families forced to rely on already overcrowded social housing and other Government support. These impacts would not be temporary. For some the impact would be intergenerational.

“For these reasons we must do all we can to keep Australians in their homes during this crisis.

“Rather than paying off interest on an 80% mortgage, a shared equity loan allows, say, a much smaller 60% mortgage combined with a separate 20% loan on which they pay no interest or rent.

“In return the borrower gives the shared equity investor a minority portion of future capital gains, capped at 40%. If the property’s value stagnates, they simply repay the original 20% loan with no interest. If the value declines, the shared equity investor actually wears 20% of the losses.

“Importantly, since the lender has no ownership interest in the property, the borrower has complete control.

“Australia is independently recognised as the global leader in the development of shared equity home loans but there is currently no Federal support for the sector. Gordon Brown’s UK Government has invested over GBP1 billion in shared equity loans distributed by UK banks based on the recommendations of the 2003 Australian Prime Minister’s Home Ownership Task Force, which Malcolm Turnbull chaired.

“The South Australian, Western Australian and now Tasmanian Governments have also invested into shared equity schemes.

“While Federal Housing Minister Tanya Plibersek has previously expressed support for the Commonwealth Government investing in shared equity, she has done absolutely nothing about it.(3)”

Mr Morrison said earmarking \$500m from the \$8b RMBS investment would break the capital drought faced by shared equity funds and should receive immediate

consideration.

*1 Under the Bendigo and Adelaide Bank, if a borrower has a 70% standard mortgage with CBA, they can replace it with a 50% normal interest-bearing Bendigo and Adelaide Bank home loan and a 20% zero interest shared equity loan. In this scenario, the borrower's monthly interest and principal repayments would have fallen by 29%.*

*2 Based on Bendigo and Adelaide Bank data, the returns realised on shared equity loans that have been repaid since their launch in March 2007 have been higher than a standard home loan product.*

*3 In March 2007, Tanya Plibersek was quoted by The Age stating, "A Rudd Labor government will look at a Commonwealth role in shared-equity schemes for Australian home owners... I do believe there is a strong economic rationale for allowing individuals to hold less than 100 per cent equity in their home." Furthermore, Kevin Rudd's New Directions for Affordable Housing policy paper launched prior to the last election explicitly proposed shared equity as one solution to the high cost of housing in Australia.*