

Submission on behalf of the Community Housing Industry

Inquiry into the National Housing Finance Intermediary Corporation

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Contact:

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Clause	Comment
Clause 2. Commencement	<p>We understood the mandate was to be tabled in Parliament (although not as a disallowable instrument); please satisfy our curiosity about the reference in the draft IM to registration of the IM, rather than tabling.</p>
Clause 4. Definitions	<p>The description of ‘Registered community housing providers in the Explanatory Memorandum is too narrow, vis, ‘...are registered with State and Territory governments to provide accommodation services for social housing and manage public housing on behalf of those governments. Providers also own their own stock of housing, which they offer to tenants with modest incomes at below-market rents.’</p> <p>We suggest adjusting the description in the Explanatory Memorandum to reflect that used on the website of the National Regulatory Scheme for Community Housing – that is, that registered providers of community housing ‘. . . includes social and affordable housing, indigenous community housing providers (ICHOs) and other specialist housing providers’. The key issue is that they are registered.</p>
Clause 10. Commercial approach	<p>While we understand the general intent of this clause, much of the reason for introducing the AHBA is precisely because the community housing projects which will be funded are <i>not</i> commercial. By definition, build to rent product for lower income tenants will have much tighter margins than ‘market build to rent’ products. Projects which would fail a standard commerciality test may nonetheless be sound investments for a community housing organisation which is not seeking to make a profit, or which is less vulnerable to the cycle of the housing market because it measures its return over several decades rather than over the short term.</p>
Clause 11. AHBA initial reserve	<p>The capacity to allocate up to \$150 million to provide a warehousing facility is welcomed. We understand the government’s desire to have these funds returned to government, as soon as practicable, however we question whether the target date of 2023 is achievable.</p> <p>If the AHBA needs to accumulate a buffer of the same scale before 2023 for its ongoing warehousing operations,</p>

	<p>then it will presumably do this though a surcharge on borrowers and via the return on investing all or part of this initial reserve over the next five years. If CHOs borrow \$500m through the AHBA over each of the next five years, a 6% surcharge on all borrowing would be needed at accumulate \$150m by the end of year 5. This would effectively preclude borrowing through the AHBA. Even if the returns from investing the funds for various periods were to reduce the surcharge to 2% (plus the Commonwealth’s cost of borrowing), using the AHBA would be unlikely to stack up.</p> <p>We would welcome the opportunity to discuss the proposed borrowing cost structure with you, together with any modelling which has been undertaken of how the warehousing facility could be repaid to government.</p>
<p>Clause 15. Limits on grants and capacity building contracts</p>	<p>We believe that the proposed \$1.5m limit on the capacity building contracts will prove insufficient to meet its objective. We appreciate that capacity building was not initially a core component of the NHFIC and welcome its later inclusion. We also understand that these funds are drawn from the allocation first set aside for infrastructure grants. However, the amount proposed is quite small in comparison to the broader aim of generating CHO borrowing of more than \$1 billion over the next five years.</p> <p>We would welcome the opportunity to work with Treasury to confirm the likely demand for services and develop some guidelines for allocating this pool of funding. We suggest this component of the NHFIC’s activity be monitored closely over the first few years of operation to assess both take up and the effectiveness of advice provided.</p>
<p>Clause 16 (2). Eligibility for loans</p>	<p>We would welcome the opportunity to review the proposed eligibility criteria which must be satisfied by registered community housing providers, or classes of providers, under sub-clause 16(2).</p>
<p>Clause 17. Financing mechanism</p>	<p>The requirement that security for any loan be ‘<i>at least commensurate with existing security arrangements with Commercial Financiers</i>’ is problematic in two respects. First, it is unclear why the AHBA would seek to impose security requirement which are <i>more</i> rigorous than those required by Commercial Financiers. Second, it is unclear what exactly is meant by this clause. We suggest that</p>

	<p>either the IM be expanded to provide further guidance on the type of security which will be sought, or more detailed policy guidance on this aspect be prepared over the next few months.</p>
<p>Clause 19. Matters to be considered</p>	<p>We would welcome further policy detail on the matters canvassed in this clause, for example, on how credit-worthiness of applicants will be assessed, what boundaries may be set in relation to the purpose of the loan, and how the factors listed in clause 19 will be weighted in considering applications for borrowing.</p> <p>In relation to sub-clause 19(c), the other relevant factor is the <i>terms</i> on which private finance is available.</p> <p>In relation to sub-clause 19 (g), we agree that it is important to know how the AHBA-sourced finance will complement, leverage or support other government initiatives, however we would be concerned if this sub-clause were used to preclude financing of a stand-alone project which does not also involve other government contribution or activity.</p>
<p>Clause 21. Risk level</p>	<p>We would welcome the opportunity to be involved in developing the investment risk evaluation process (sub-clause 21(b)). We suggest that it would be useful to document the sector-wide history of defaults/absence of defaults over the past decade to assist in calculating a realistic risk profile of the sector. Specifically, this may help develop an appropriate risk evaluation process for the community housing operators' build-to-hold product, which will be quite different from a build-to-sell product with its well-documented construction risk. (The absence of good data to evaluate risk of buy-to-hold product is not just a community housing issue but has also been raised by developers looking to raise funds to build to rent in Australia)</p>
<p>Clause 26. Concessions</p>	<p>Sub-clause (3), which proposes contract terms to ensure that the NHIF doesn't extend greater concessions than necessary, does not appear to add anything to sub-clause (2) which limits the concessions 'to the minimum required. ...'</p>
<p>Clause 32. Transparency</p>	<p>This clause should also set out the NHFIC's reporting requirements in relation to the AHBA, including the total amount of borrowing sought, the borrowers, terms, and</p>

	amounts involved. In relation to reporting on the NHIF, we suggest that both successful and unsuccessful bids be reported on, in the interests of transparency.
Clause 34. Guaranteed liabilities	We suggest lifting the guarantee cap to \$3 billion as a way of signalling to the investor market the Government's strong commitment to both the NHIF and the AHBA borrowings.