

25 July 2025

Ms Suh Mian Ng
a/g Assistant Secretary
Housing Finance Branch
Treasury

Via email: homeownershippolicy@treasury.gov.au

Dear Ms Ng

Home Guarantee Scheme Expansion – Targeted Consultation

The Customer Owned Banking Association (COBA) welcomes the opportunity to provide a submission to Treasury's targeted consultation on the Home Guarantee Scheme (HGS) expansion.

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over \$185 billion in assets and is the fifth largest holder of household deposits. Customer-owned banks (i.e. mutual banks) account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

With our long-standing commitment to first home buyers, the customer-owned banking sector welcomes the Government's focus on housing affordability and accessibility.

Key points

Given the removal of income caps and unlimited places, we expect there to be significant demand for the HGS product from Australians.

More than half of the customer-owned banking sector is not currently on the HGS panel. To promote equitable competition in the lending market, customer-owned banks of all sizes must be granted fair access to the HGS panel to allow them to write HGS loans.

HGS requirements and restrictions need to better suit an expanded scheme given – with more proportionate panel access, audit, and compliance requirements for smaller banks. By not doing so, this will severely impact competition, choice and diversity in the banking market.

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Key points (continued)

Lender's mortgage insurance (LMI) is important for smaller lenders to write competitively priced high loan-to-value ratio loans for customers who are not eligible for the HGS. Absent LMI, our sector will become increasingly reliant on currently small scale and yet-to-be-designed deposit gap alternatives.

Given the uncertainty around such alternatives, smaller lenders must be able to access some form of LMI into the future to ensure they can compete against self-insuring major banks.

The government guarantee backing HGS loans differs from LMI, which introduces additional risks for banks offering HGS loans.

Adjustments to prudential expectations, particularly around high-LVR lending, will allow smaller banks to fully participate in offering the HGS.

Impacts on the banking sector

Housing accounts for 94% of the customer-owned banking sector's lending, with a significant portion dedicated to first-home buyer mortgages. Some COBA members report these constitute approximately 20% of their lending.

As the HGS becomes available to all Australian first home buyers without income caps or limits on places, HGS loans are expected to comprise a significantly larger proportion of bank lending and structurally alter the home lending market.

As a result, all banks of all sizes must be granted fair access to the HGS panel to allow them to write HGS loans. We expect that the vast majority of first home buyers will seek a HGS loan, meaning that banks unable to offer this loan will not be able to effectively compete for first home buyers – a critical market segment for future growth. More equitable access to the HGS would encourage a more dynamic banking landscape, ultimately benefiting consumers through increased choice and competitive housing finance options.

Operation of the lender panel

Despite housing forming the core business for the customer-owned banking sector, more than half of mutual banks and credit unions – 29 institutions in total – are currently excluded from the HGS panel. Among these are customer-owned banks based in regional and rural Australia, as well as those specialising in serving essential frontline workers like teachers, nurses, and police – many of whom are expected to use the HGS to enter the property market for the first time.

We urge the Government to open the lending panel to all customer-owned banks and implement more proportionate panel access, audit, and compliance requirements for smaller banks. Equitable access to the panel would recognise the vital role these lenders provide in competition and consumer choice in the home lending market.

Impacts on the lender's mortgage insurance (LMI) sector

Smaller lenders currently use private LMI providers to offer competitive loans to high-LVR borrowers, especially for non-first home buyers who don't have access to government support schemes. Without easily accessible LMI, smaller lenders would be unable to offer competitive high-LVR loans, putting

them at a significant disadvantage compared to the major banks who are able to self-insure their LMI needs.

The Government must ensure that smaller lenders will be able to access some form of LMI into the future to allow for effective ongoing competition against the major banks in non-first home buyer market segments. More broadly, as it stands, LMI providers may have to increase the price on LMI to continue to offer these products. This could result in higher costs for HGS-ineligible high-LVR home buyers.

Uncertainty of guarantee

The government guarantee backing HGS loans differs from LMI, which introduces additional risks for banks offering HGS loans.

Banks face the risk of the HGS guarantee ceasing due to borrower actions, which most commonly occurs when a borrower rents out their property, voiding the owner-occupied condition of the guarantee. For some professions, such as teachers or police, this may be more common due to the need to relocate for work as their careers progress and renting out their homes in the meantime.

In any case, this leaves the bank solely responsible for the entire high-LVR loan, without the protection of the HGS guarantee or an LMI policy, even when it has acted appropriately under the scheme. This is a significant concern for customer-owned banks and substantially limits the protection the scheme offers. In a housing market downturn, this could result in lenders facing losses in the event of a borrower default.

A detailed response to the consultation questions can be found in **Appendix A**. We request that Appendix A remain confidential and not for publication.

Appendix B outlines COBA members excluded from the HGS.

Thank you for the opportunity to provide a submission. We look forward to working closely with the Treasury on the design and implementation of the expanded HGS. If you wish to discuss any aspect of this submission, please contact Alexander Woloszyn, Policy Manager (awoloszyn@coba.asn.au).

Yours sincerely



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