Media release

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Parents shouldn't shoulder the housing affordability burden

The CEO of a Government-backed lender which helps one in eight South Australian first home buyers into ownership has questioned the need for parents to have to provide financial assistance to help their children buy a home.

The call comes on the back of comments from Reserve Bank of Australia (RBA) Governor Glenn Stevens that more parents may be forced to financially assist their children into home ownership because of the growing affordability crisis.

Mr Stevens added that in doing so, parents may find they don't have the wealth in retirement that they had planned.

CEO of HomeStart Finance, John Oliver, said not only is it likely that parents would experience reduced levels of wealth, but also risked losing everything when helping children to buy a home through products such as guarantor loans.

He also questioned why more wasn't being done by State and Federal governments to implement proven models of home ownership, such as Government backed home finance models in place in South Australia (HomeStart) and Western Australia (Keystart), or allowing young people to access superannuation for a home deposit.

"Parents are risking their personal financial security by backing their children into home ownership," he said.

"If there is a change of circumstances and a child can't make repayments, it is the parents' assets that are on the line for the portion they have guaranteed. This could mean the lender will allocate some of the parent's income to repaying the debt, or in the worst case scenario, the parents could lose the family home.

"The credit rating of parents will also be affected which may cause problems if they need to apply for a loan themselves, and worse still, they may not be able to use their own home as security when taking another loan.

"We know that most parents will do whatever they can to help their children into home ownership, but too many parents are doing so through guarantor loans and risking their future financial security."

Mr Oliver said some mainstream lenders were now recognising the risks of guarantor loans, implementing measures which limit the leverage amount available in the family home so it doesn't exceed 70% of the value of the property, capping the loan amount at 107% of the property price (including stamp duty and transaction fees) and reducing the maximum amount of the guarantee to 50% or less of the value of the property being provided security for.

Mr Oliver also called on Federal or State governments to consider replicating successful government-owned home loan models already in operation in South Australia and Western Australia to ease the burden for young home buyers.

Recent figures released as part of the HILDA survey by the Melbourne Institute showed the two states where government backed home loan programs are in place – South Australia and Western Australia – have the highest owner occupier rates in the nation.

HomeStart makes home ownership a reality for more South Australians in more ways. We are a statutory authority that reports to the Minister for Housing and Urban Development. We were created in 1989 and since then have helped over 66,500 households into home ownership.

Mr Oliver said HomeStart Finance had assisted one in eight first home buyers into home ownership in South Australia through innovative home loans such as low deposit loans and shared equity products which enable home buyers to borrow more money.

“The housing affordability crisis shouldn’t be a burden that parents have to shoulder for their children, but instead, Governments should be looking to implement measures that directly address the issues home buyers are facing.

“Since HomeStart was established in 1989, it has helped almost 70,000 South Australians into ownership,” he said.

“Many of these households wouldn’t have been in a position to obtain finance from a mainstream home loan provider at the time of buying a home. Whether through a lack of savings to put towards upfront costs such as the deposit, or not being able to borrow a sufficient amount of money, HomeStart has been able to offer solutions to these barriers.

“This ensures there is a healthy home buyer cycle that has a good balance of first home buyers and ‘upgraders’, who transition from their first home to their next home within a few years, clearing a pathway for first home buyers to enter the market. In many Australian markets, this home buyer cycle is broken.

“HomeStart fills a space in the market that isn’t being addressed by mainstream lenders, who have in place lending criteria targeted at a very specific segment of the market.”

Mr Oliver also urged Governments to consider other programs that have been successfully implemented overseas to help first home buyers, such as using superannuation to fund a home deposit, based on the successful Canadian Home Buyer’s Plan.

The idea was put forward by HomeStart in its submission to the Senate Inquiry into Affordable Housing in 2014, and later mooted by then Treasurer Joe Hockey.

HomeStart was invited to present to the Senate Committee to expand on its submission and also discuss the potential replication of the HomeStart model in other Australian States and Territories.

The Canadian Home Buyers’ Plan enables first homebuyers to withdraw up to $25,000 from their superannuation for the purpose of using it for a deposit on a house, which then has to be replenished over the next 15 years.

“We believe there are some great models in place overseas that appear to be helping other countries overcome some of the issues confronting first home buyers - the Canadian Home Buyers’ Plan is one of them,” he said.

“It is ironic that a household in difficulty with their mortgage has the option to access superannuation to clear arrears, whereas a first home buyer in an otherwise good financial condition cannot temporarily access their super for a deposit and then replenish those funds over an extended period as occurs in Canada.”