Critical Policy - 4
HOME OWNERSHIP

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LEAVING THE PROPERTY BUBBLE WHERE IT IS

The greatest fear facing our federal government is the fear of a bursting property bubble such as the one that has been created over the past 12 years and more. The ramifications would be disastrous for Banks, and recession and unemployment would follow.

And it is because of this (and the fact that many politicians fear losing substantial wealth) that the government has only half-heartedly addressed housing affordability. There is a misplaced belief that the introduction of low cost housing along with removing tax incentives for property investors and halting foreign investment may cause an unprecedented slump which would thrust our nation into economic turmoil. But these are no more than false arguments when the answer is obvious; and they know it.

<u>The Answer</u>

Wanting housing affordability does not have to mean that we want housing prices to fall. It can, and does logically mean that the current value of established Homes which are already owner-occupied or rented can remain exactly where they are in the market place and new Homes can be the subject of affordability which will take the heat out of the established Home market.

And this will work if one; financial (i.e. equity) assistance is given to buyers who wish to buy an established Home and two; more emphasis is placed on affordable housing developments. And these developments should not solely take the form of conventional estate developments no matter how affordable, but should extend to

CBDs and inner suburbs within our cities either by way of refurbishing and maximising the occupancy of existing housing and unit structures or by utilising vacant space above commercial premises and private dwellings. It works.

The Federal Party of Australia's proposed Federal Finance & Development Corporation (FFDC) will be instrumental in achieving what needs to be done to maintain the market at its current level and at the same time develop a second tier of housing which is affordable, innovative housing that will, in time, merge seamlessly into the Australian housing landscape. Please read on.

LIMITING MIGRANT INTAKE

Two significant contributors to our property bubble have been immigration and record-low mortgage interest rates. Naturally, we need to leave interest rates where they are, leaving immigration as the logical target.

But in order not to trigger an immediate market downturn a Federal Party of Australia government's approach to curbing immigration will need to be a balancing act that will see Australian buyers take up the available stock at affordable prices; albeit prices that may need to be offset by Home Deposit Grants where an equitable interest is relinquished. Please read about these Grants further on.

Of course, major developers who are now releasing high-rise apartments onto the market will be forced to pause because of the lack of impending wealthy immigrants who have been their bread and caviar for many years. But this pausing will only be temporary as they adjust their development strategies to cater for other tiers of Home buying and renting.

ELIMINATING BLACK MONEY

A Federal Party of Australia government would immediately legislate the Anti-Money Laundering and Counter Terrorism Financing Act.

It has been almost 12 years now since this law was first drafted. And yet only the first tranche of Anti-Money Laundering (AML) legislation was rolled out in 2007 with the second tranche designed to cast a net over Real Estate Agents, Accounting and Law Firms to follow in 2008.

No Federal Attorney-General's department under a Federal Party of Australia government would ever allow its regulator, AUSTRAC, to defy the condemnation of the global Financial Action Task Force by wilfully stalling AML legislation.

But putting aside that condemnation, it is imperative that Australia rids itself of the image of being a safe haven for black money which is not only untaxed in its country of origin but generated through drug trafficking, prostitution, illegal gambling and even white slavery. And beyond the bad image our nation has been tagged with, it is the damage done to decent, genuine Home buyers that needs to be immediately rectified. Please read 'Criminal Charges'.

<u>Foreign Investment Review Board</u> (FIRB)

There is extreme urgency on the part of a Federal Party of Australia government to redefine the National Interest Test. Because it is this test that has not been observed by the FIRB. In fact, flagrantly bypassed would be a more accurate description of how our FIRB has failed to ensure that the Sovereignty of our nation is maintained. And all because of vested interests which have systematically tainted the objectivity of some of our most powerful decision-makers.

But all of that will change and order will be restored as our foreign ownership laws are dramatically tightened to prevent any further foreign ownership of Australian Homes.

And the tightening of our immigration policies will also contribute significantly to reducing not only the influx of laundered (black) money but reducing the demand on ownership of Australian Homes.

Criminal Charges

A Federal Party of Australia government would immediately instruct the Australian Federal Police (AFP) to set up a Task Force dedicated solely to investigating property vendors who are suspected of selling their properties (i.e. houses, units, flats) to unidentified (or otherwise) international buyers using cash from undisclosed sources irrespective of the vast number of **Abettors and Accessories** (i.e. intermediaries) acting to facilitate the sale of those properties. And the AFP Task Force assigned to this role will not sidestep our politicians or intermediaries such as high-powered Accountants, Lawyers and Real Estate Agents.

The Charge (Example only)

*"Between the fourteenth day of March 2013 and the eighteenth day of July 2013 at Canberra in the Australian Capital Territory, one (**Vendor's name**) did instruct (**Estate Agent's or salesperson's name**) to sell a home at Newcastle in the State of New South Wales knowingly (or otherwise) allowing the Estate Agent and his abettors and accessories to facilitate the introduction of potential international buyers whose funding sources were untraceable and whose buying entities were registered Australian bodies (incorporated or otherwise) with related Australian bank accounts."*

In short, the seller has received laundered (black) money and the charge will be prosecuted in the same (or similar) manner as 'receiving stolen goods'. And this means that even though the vendors can convince a Court that they were unaware of receiving laundered money for the sale of their homes, they are still guilty of 'receiving'. and this is an indictable offence which has no time limitations.

Penalty

In the instance of primary offenders (abettors and accessories), imprisonment for five years plus the forfeiture of all assets acquired with the laundered money used to pay their fees.

In the instance of vendors, the imposing of a fine commencing at $50,000 for each property unlawfully sold plus the forfeiture of all assets acquired with that component of the proceeds of sale which is deemed to have been laundered.

Comments

Vendors of Australian properties who willingly allow international buyers to acquire their properties with laundered money knowing that the influx of this black cash is contributing to the escalating of property prices are not just criminally liable for receiving stolen money but are morally bankrupt.

Try convincing an Australian Court that black money **does not** contain a component of unpaid tax which is rightfully the property of the government of the buyer's home nation. And that is without going into the possible manner in which the money was generated in the first instance (i.e. drug trafficking and prostitution to name just two).

And furthermore, anyone in our nation who would actively seek to prosper at the expense (emotionally and financially) of ordinary Australians by depriving them of their right to own a Home (by selling at escalated prices to high-rolling, overseas buyers with black money) is guilty of violating a Human Right, and one that has always been part of the Australian culture.

REMOVE CGT CONCESSION (Retain Negative Gearing)

As one of the problems contributing to the demand for Australian Homes, a Federal Party of Australia government would remove the existing capital gains tax (CGT) concession of taxing only 50% of that gain.

The entire capital gain produced on the sale of an investment Home (or investment properties generally) would be fully taxable, returning over $4billion per annum in lost revenue to the federal government.

And it is this $4billion that would be used to service a remarkably high return (i.e. **interest rate of 8.5%)** on a series of initial Australian Home Bonds issues totalling $45billion; a staged capital raising program that would see countless Australians owning their own Homes.

And for reasons discussed in 'Fairness of the Negative Gearing Tax Concession' the existing tax relief, which allows taxpayers to offset their losses on an investment Home against their taxable income, will remain in force.

AUSTRALIAN HOME BONDS (Special Issues)

A Federal Party of Australia government would immediately instruct its Australian Office of Financial Management (AOFM) to create and issue a hybrid security (instrument) incorporating the elements of Treasury Bonds and Debentures to be known as Australian Home Bonds. And **$45billion** would be raised in four tranches. These Home Bonds would have Maturity Dates of 10 to 15 years and offer varying Interest Rates commencing around **8.5% per annum** payable as to $4.25 every six months on each $100 Face Value Home Bond.

This first tranche of Home Bonds would be released in stages to not only financial Institutions such as Superannuation Funds, Banks and professional investors but also to the Australian public. And realistically, **$45billion** is only **2.25%** of the **$2.02trillion** sitting within Australia's Super and Pension Funds. Furthermore, we believe that their attractiveness to investors would be four-fold:

<u>One</u> – A Government guaranteed interest rate of 8.5% per annum would be underpinned by the ear-marked $4billion flowing in from the removal of the current CGT concession.

<u>Two</u> – 8.5% per annum is well above the highest coupon interest rate of 5% p.a. paid on Treasury Bonds and in line with the returns on Superannuation and Pension Funds.

<u>Three</u> – All Home Bonds will be listed on the Australian Securities Exchange.
<u>Four</u> – The $45billion raised will be applied to Home Deposit Grants secured by an

equitable interest in Australian Homes; 1st mortgages secured by Australian Homes; and secured by Home and Land packages developed within numerous affordable housing programs (for rental and buying) Australia-wide.

In time, Home Bonds will have re-invigorated the self-esteem associated with Home Ownership; a Dream which had been badly damaged for many years through the mismanagement of successive governments and the greed of those within.

Footnote: Irrespective of Home Bonds being a hybrid of Treasury Bonds and Debentures, all further tranches of Home Bonds **may** offer interest rates commensurate with the **lower yields** of Treasury Bonds. But one thing for sure, a Federal Party of Australia government will have created enormous momentum through its first staged capital offering of $45billion.

FEDERAL FINANCE & DEVELOPMENT CORPORATION

A Federal Party of Australia government would immediately incorporate Federal Finance & Development Corporation (FFDC). And it will be this **not-for-profit** corporate entity that will receive capital raised through the issue of Australian Home Bonds.

Role of the FFDC

The role of the FFDC will be to administer and fund the activities of four Government Business Enterprises (GBEs), three of which will be directly responsible for ensuring that Australian Citizens and Permanent Residents (only) are afforded the right to own a Home.

These GBEs which are more fully explained later, are:

1. A subsidiary of the FFDC will be established to vet applications for Home Deposit Grants and to apply these Grants to successful applicants.

2. A second subsidiary of the FFDC will be that of Mortgagee offering low deposit Home Loans.

3. The third subsidiary will be solely responsible for the development of affordable housing for buying and rent throughout Australia.

4. And a smaller fourth subsidiary of the FFDC will be confined solely to low interest consumer finance. For example, white goods, furnishings, home office equipment, etc. That is, the financing of all essentials a Home owner (and particularly a first Home owner) would need to get started.

And although the FFDC will be focused primarily on looking after the interests of Australian Home buyers and tenants it will need to produce returns on its allocated funds which will, in turn, provide security and returns for Australian Home Bonds holders.

Home Deposit Grants (Equitable Interest)

This particular aspect of our Home Ownership policy solves the problem of ‘A Deposit Too Far’ and also the problem of asking parents (if any) to guarantee the Home buyer’s mortgage by using the equity in their own Home.

A Home Deposit Grant would be offered to an approved Home buyer needing to increase the deposit in order to attract an affordable Home loan from a Bank or other Financial Institution. In this instance the Home buyer's individual or joint income would be insufficient to service the extent of the loan required. Otherwise a Low Deposit Home Loan would be offered instead.

And in some cases the Home Deposit Grant would be needed to overcome the obstacle of stamp duty, mortgage insurance and legal fees.

However, this Home Deposit Grant would then entitle the Federal Finance & Development Corporation (FFDC) to hold a corresponding equitable interest in that Home.

For example, irrespective of the amount of deposit money being placed by the Home buyer, if the FFDC was called on to advance further monies by way of a Home Deposit Grant equal to a maximum of 10% of the buying price then the FFDC would hold an equitable interest in the Home of 20% of that buying price. And on the sale of that Home, 20% of the net proceeds of sale would be paid to the FFDC. To explain further:

Terms and Conditions

1. Only Australian Citizens and Permanent Residents will be eligible to apply for a Home Deposit Grant.

2. An applicant will not own another property.

3. Home Deposit Grants will not be approved for Home buyers who are wishing solely to upgrade to a more prestigious Home. All applications will be vetted heavily in this regard.

4. The subject Home must be for the Home buyer's personal occupancy only.

5. The maximum Home buying price will be $1,000,000.

6. The maximum Home Deposit Grant will be 10% of the buying price.

7. Title will be held 100% in the name of the Home buyer.

8. The FFDC's maximum equitable interest will be 20% and noted on the Mortgage.

9. Home buyers will have the right to roll their Home Deposit Grants into a substitute Home subject to making a fresh application.

10. Home owners would have the right to pay out their Home Deposit Grants at any time based on the current market value of the Home.

Double Equity Holding

We need all Home buyers to understand the reason why the FFDC would hold an equitable interest in a Home equal to twice the Home Deposit Grant. (Naturally, this double equity holding would be the subject of legislation.)

Answer

The money being advanced to the Home buyer will be in the Home producing no interest for an indeterminable number of years; in fact, for as many years as the Home owner wishes to remain in the Home and not sell. And yet, this money has come from the FFDC through capital raised by an issue of Australian Home Bonds which will need to attract yields of over 8.5% per annum.

Suffice it to say that a Home Deposit Grant is a quasi non-interest bearing loan with no fixed maturity date. Or put another way, it is a temporary capital contribution that needs to generate a return. But it is not a free ride for those who want to take advantage of it, and so it also needs to be a deterrent; hence, the double equity holding by the FFDC.

But of major significance is the fact that genuine Australians who would previously have been locked out of the housing market will now be able to buy in; and in time, shake off the necessity for the federal government's equity involvement through the FFDC.

First Home Buyers

In the event that a first Home buyer decides to apply for a Home Deposit Grant for an established Home (not newly constructed) then the First Home Buyer's Grant normally offered by the relevant State government may no longer be available.

Providing for Interest Rate Rises

Our main aim is to ensure that the housing market continues to plateau for a number of years giving Home buyers the opportunity to catch up and re-enter the market when incomes are not only higher but through the effluxion of time deposits have also been accumulated.

And if we combine a stable market plus deposits saved and higher incomes with a prohibition on foreign investment, black money and curbed immigration we will have a property market back in the hands of the Australian workforce.

But there is one contingency that we would need to prepare ourselves for and that is the distinct and historical possibility of a hike in interest rates. Because even with all the influences in our favour there is one undeniable fact, and that is that debt to equity ratios in many instances are dangerously high; some around 98:2 and that is without relying on parental support. With parents' Homes being used as added security finance companies have been prepared to lend up to and in excess of 100% of the value of the Home.

However, it is to be recognised that such high debt, irrespective of the size of any equity, needs to be serviced. And that is all manageable (barely in many instances) for as long as interest rates hold.

Unfortunately, our all-time record low interest rates would only have to rise 0.5% to place tens of thousands of Home owners in a highly stressful situation. And if we move to 7% per annum we would see over 40% of Home owners suffering extreme financial pressure and the corresponding foreclosures that automatically come with it.

And 2008 interest rates of over 9% per annum would see an even greater number of bankruptcies than we did in the late 1980s and early 90s. Foreclosures would cripple Home owners and destroy the retirement years of parents who had offered their own Homes as added Security.

Our Protection Plan

Under these circumstances a Federal Party of Australia government would make provision to offer relief in this manner:

1. The terms of Home loans that have been made by our Federal Finance & Development Corporation (FFDC) would be extended to ensure that monthly repayments remained the same no matter how high interest rates soared.

   For instance, a Home loan that was originally taken out at 5.5% p.a. over a term of 25 years may require us to extend that term to 30 years (or more) if interest rates hit 7%. And that term would **contract** as interest rates dropped. But again, the monthly repayments would remain the same.

2. In extreme cases Home owners under severe interest rate stress may opt to relinquish equity in their Homes by accepting a cash injection to lower the principal originally borrowed thereby keeping their monthly repayment as is. And the amount of equity held by the FFDC would be the same as Home Deposit Grants.

3. All Home lending institutions would be encouraged (forced) to take similar, if not identical measures, other than holding equity within the Homes over which they hold first mortgages.

Low Deposit Home Loans

There are many combinations of principal and interest (P&I) Home loans that would be offered to Home buyers by the Home loan division of the FFDC, particularly where buyers have the income (combined or individual) to service an exceptionally large loan.

And the debt to equity ratio could be as extreme as 95:5 and still be acceptable by our Home lending division. Naturally, there are other considerations such as why the borrower has such a low deposit and why one of our Home Deposit Grants is unacceptable under the circumstances.

Of course, parents who have solid equity in their own Homes will often guarantee the Home loans taken out by their children. But standing on your own two feet is very much a part of our Home Ownership policy and very much the way it was before the invasion of international buyers.

A Federal Party of Australia government will introduce the most innovative equity participation and lending practices through its Home Deposit Grants and Low Deposit Home Loans ever offered by a federal government.

AFFORDABLE ESTATE AND HOUSING DEVELOPMENTS

There is a perception that ‘Housing Affordability’ is a term distinct from ‘Affordable Housing’, but separating the two is impossible. An affordable Home may still be one that is situated in prestigious surrounds and capable of being bought by an Australian working couple if the price is accommodated by the right financing.

And it is the utilisation of capital raised through our proposed tranches of Home Bonds that will ensure affordability for Home buyers irrespective of where they stand on the socio-economic scale.

<u>Addressing Housing Affordability</u>

Under a Federal Party of Australia government our Federal Finance & Development Corporation (FFDC) would be directly responsible for the development of all federal housing developments.

However, no development would be formulated or implemented without the collaborative cooperation of State and Local government bodies (e.g. Community Housing Providers). And it is this existing infrastructure that would be vitally needed to reach the needs of Australian tenants (i.e. future owners) and Home buyers.

And in the same way that we would not be reinventing wheels (i.e. duplicating available resources) we would not be spending a cent on researching or developing housing programs, of any description, while there are (right now) some of the most definitively examined and prepared solutions to Housing affordability that any federal government could ask for.

We are now referring to the 78 submissions to Treasury in December 2016. Each of them addressing every aspect of housing affordability; submissions from State and Local government bodies and Housing Providers (including Charities) who have a grass roots appreciation of the needs of Australians. And we would encourage readers to access:

http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/CFFR-Affordable-Housing-Working-Group/

Please click on the green button titled “View Submissions”, then scroll through the 69 submissions (9 of the 78 are unpublished) to appreciate how Australia’s greatest social problem can be fixed.

<u>The Difference</u>

This is the umpteenth time over many decades that submissions have been canvassed to address housing affordability and the answers have been laid out as they have once again.

But the game goes on and successive federal governments have had the satisfaction of fooling the public into believing they care. And yet, little happens.

A Federal Party of Australia government – through its innovative Home Bonds – would change all of that, and keep Home Ownership on our Critical Policy list at all times by ensuring that the very best of the above submissions are heeded and acted upon.

<u>Another Tier of Rental Housing</u>

With approximately half of all potential Home buyers now locked out of the market because of unaffordable Homes, the need for affordable rental accommodation has heightened; and particularly for those lower earners who need ease of access to their places of work.

However, there are too few affordable rental properties on the market and those that exist are usually on the city fringes where proximity to workplaces makes daily commuting a nightmare.

But what about the scattered, individual undeveloped allotments from the fringes to the CBD, or the vacant offices above commercial premises or the ability to construct flats above these premises. It is a fragmented approach but one that has worked and is still working in major cities like London, UK.

In short, the bottle may appear to be packed with pebbles but the amount of sand it can accommodate is almost endless.

A Federal Party of Australia government would immediately implement a low rental development scheme throughout major cities in its quest to bring the workforce closer to business premises and away from the often debilitating act of commuting and its associated expense.

Our Response to Homelessness

Again, we will refer to the 78 submissions from State governments, Councils, Not-for-profits, and generally organisations involved in needing to provide housing. These participants in the newly-formed 'Affordable Housing Workshop Group' thoroughly examined a broad range of problems and came up with their individual views on solving the housing crisis of unaffordability.

But it was the submission from the St Vincent de Paul Society in relation to Australia's 100,000 homeless that attracted the attention of The Federal Party of Australia. Accordingly, at the risk of exhausting our resources trying to cover ground already covered we will stay with their submission which would need $10billion over nine years to ensure that 100% of Australia's homeless are housed.

This St Vincent de Paul submission which exclusively addresses homelessness can be accessed online:

http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/CFFR-Affordable-Housing-Working-Group/

Please click on the green button titled "View Submissions", then scroll down to St. Vincent de Paul Society.

Low Interest Consumer Finance

As earlier mentioned under the heading of 'Federal Finance & Development Corporation (FFDC)' there will be a fourth but much smaller GBE established to cater for the consumer financing needs of Home buyers.

This division of the FFDC will ensure that it does not unduly compete with conventional retailing practices; and accordingly will offer credit facilities at exceptionally low interest rates only to those Home buyers (in particular first Home buyers) who qualify.

There would also be strict limits on all **FFDC Consumer Credit Cards** as to financial limits and also the limit of consumer items a cardholder would be entitled to buy. Naturally, such items would embrace only the essentials needed to 'set up house' such as white goods, furnishings, computer equipment, and child care necessities.