

**Shared-equity home-ownership:  
welfare and consumer protection  
issues**

**Shelter Brief 33**

July 2007

*Shared-equity home-ownership: welfare and consumer protection issues*

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First published July 2007.

Shelter Brief 33  
ISSN 1448-7950

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Special thanks to Shelter NSW staff and members for their comments on drafts of this paper.

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HOME OWNERSHIP IN AUSTRALIA has long been important in wealth creation and protection against poverty through low housing costs in later life. While spectacular price growth over the last two decades has contributed to increased wealth for property owners, it has led to equally spectacular falls in housing affordability for first home buyers and income-constrained consumers.

The emergence of shared-equity loans and arrangements has been said to offer finance to a greater range of people on low or limited incomes and to improve affordability. This paper examines the various shared-equity arrangements as they apply in England, the United States of America and Australia and seeks to identify the benefits and issues in these products for lower-income home buyers.

## 1. Background

The proportion of households in Australia that owns their dwelling outright has fallen. The proportion fell from 42 percent in 1994-95 to 35 percent in 2003-04. The proportion of households in Australia that still owed on their mortgage rose from 30 percent in 1994-95 to 35 percent in 2003-2004.<sup>1</sup> Table 1 shows that the proportion of households with a mortgage is higher in Sydney than in the rest of the New South Wales, but less than the whole of Australia.

**Table 1: Households: owners, 2003-2004**

	Owner without a mortgage		Owner with a mortgage	
	Number of households	Percentage of households	Number of households	Percentage of households
Sydney	472,796	31.1	457,506	30.1
Balance of NSW	272,540	28.7	363,034	38.3
NSW	745,336	30.2	820,540	33.2
Australia	2,448,205	32.2	2,478,264	32.6

Source: Australian Bureau of Statistics, 2006 Census, *QuickStats*: New South Wales and Sydney Statistical Division, viewed online on 11 July 2007 at <[www.censusdata.abs.gov.au](http://www.censusdata.abs.gov.au)>

Indigenous households are under-represented in home-ownership: 36 percent are owners or purchasers, compared with 70 percent of non-indigenous households.<sup>2</sup> The low level of Indigenous home ownership follows from lower income levels, geographical factors such as living in rural and remote areas, and land tenure – a number of Indigenous Australians live on land that is ‘inalienable’ freehold and which cannot be put forward as security to lenders.

Home-ownership provides its occupants with long term security of tenure so long as they meet their mortgage repayments. Ownership can provide economic and social benefits over and above those that arise simply from owning an asset.<sup>3</sup>

Home-owners generally enjoy lower housing costs over time. While changes to interest rates can affect home-owners’ mortgage payments in the short term, in the long run they can expect a fall in the proportion of income they spend on housing costs, as inflation erodes the value of the mortgage and the mortgage is eventually paid off. Additionally, home-owners can ‘lock-in’ and insure against potentially large variations in house prices and get a foot on the housing ladder.<sup>4</sup> In Britain<sup>5</sup>, the

United States and Australia home-ownership provides tax advantages: with capital gain on the family home not taxed or preferentially treated and the receipt of value for living mortgage-free in the property (called 'imputed rent') also tax free.

An Australia-wide survey found that people owning their house or paying off a mortgage score higher on a personal wellbeing index than those who are paying rent. However, this may result from a higher proportion of renters being single and not having the assurance of additional financial and emotional resources often provided by a stable partner.<sup>6</sup>

In buying a home, households are increasing their net wealth by paying off a mortgage while also enjoying effectively rent-free accommodation. A person's home will be increasingly necessary as a wealth-creating asset, to cope in an ageing population.

In 2004 the Productivity Commission stated that a house is the most valuable asset that most people acquire in their lifetimes and housing accounts for around two-thirds of all private wealth in Australia.<sup>7</sup> Writing in 2005, Peter Saunders reported that total private wealth has doubled in just seven years to an average of \$250,000 for every man, woman and child in the country. One factor driving this wealth explosion has been a buoyant share market, but of more importance was a housing boom.

Saunders argued that one of the key sociological developments of our time has been the emergence of a division between a majority of families who are accumulating wealth through home-ownership and a marginalized minority who have few assets, little material stake in their society, and no realistic prospect of accumulating wealth or passing it on to their children. Saunders reported the average wealth difference between home-owners and renters in Sydney (2004) was estimated at \$436,000 and he observed that this division is much deeper and enduring than the much debated 'gap' between high and low income groups.<sup>8</sup>

The costs of accessing home-ownership can be prohibitive. The *Sydney Morning Herald* reported in March 2007 that the percentage of borrowers more than 30 days late in making home loan repayments reached an historic high in the December Quarter 2006. A report by Moody's Investor Services states that 'Delinquency rates will rise at a measured pace in 2007'. Moody's Philip Wong stated: '... delinquency rates continue to drift upwards as record indebtedness and recent rate rises continue to put stress on borrowers' ability to service debt.'<sup>9</sup> The *Sun-Herald* reported in September 2006 that the number of NSW homes repossessed because their owners could not meet their mortgages had more than doubled to 4,873 since 2002.<sup>10</sup> Matt Wade, writing in the *Sydney Morning Herald* in June 2007 reported: 'The surge in distress sales in west and south-western Sydney is ... reflected in the number of court applications for property possession, which lenders must receive before repossessing property. Land repossession claims have risen 75 per cent since 2004, Supreme Court figures show.'<sup>11</sup>

Even these high figures may under-estimate the current rate of loan failure. A large private debt collector, *Prushka*, reported about three-quarters of sales forced by bank and non-bank lenders were coordinated with the consent of home owners, meaning they were not recorded in court repossession figures.<sup>12</sup> While some of those whose

houses were repossessed would have been investors, it is not unreasonable to assume that many were owner-occupiers.

Government interventions in the housing market are said to be either ‘supply-side’ (measures that increase the number of affordable houses – public construction, for instance) or ‘demand-side’ (measures that increase consumers’ ability to pay – subsidies to the purchaser/renter, for instance).

Preferential taxation treatment for homeowners is a common feature in the systems of England, the United States of America, Australia and most other industrialised countries.<sup>13</sup>

In England, the government, and to a much lesser degree, the market, have responded to the potential demand from lower income consumers (the ‘intermediate’<sup>14</sup> or ‘sub-prime’<sup>15</sup> market) by developing products to improve households’ immediate purchasing power. These schemes often involve some form of equity sharing to reduce the entry costs; by allowing low to moderate-income households to share ownership of the housing with another entity.

That is, instead of paying the full price, a household pays a portion of the purchase price, with an equity partner paying the difference. The buyer benefits from lower mortgage payments in exchange for sharing any appreciation in the value of their home with another party (either an equity loan provider or a shared owner). By trading some future capital gains for lower upfront financing costs, home-ownership can become more accessible to households on lower incomes. Indeed, in England the government has already assisted more than 80,000 households into home-ownership with shared-equity products since 1997.<sup>16</sup>

In America, the *Tax Reform Act* of 1986 phased out many existing incentives for affordable housing and introduced the Low Income Housing Tax Credit (LIHTC).<sup>17</sup> The LIHTC system requires developments are covered by a Land Use Restriction Agreement which provides either:

- more than 20 percent of the development is rent-capped and occupied by people with incomes less than 50 percent of the local median income, or
- more than 40 percent of the development is rent-capped and occupied by people with incomes less than 60 percent of the local median income.<sup>18</sup>

These restrictions last at least for thirty years. As of 2002, 40 to 50 percent of new multifamily construction has been built under this program.<sup>19</sup> Apart from this government program, relaxation of financial regulations in the early 1980s opened the door to the development of new financial products for the sub-prime market and the expansion of credit for people who would not traditionally have qualified for loans.<sup>20</sup>

In Australia, demand-side policies have been favoured over supply-side policies at a federal government level. Many of the systemic housing benefits through the tax system are not tied to either affordable housing outcomes or people’s income level. One of the limitations of demand-side strategies is that without a balancing increase in supply, the normal rules of supply and demand lead to house price inflation and reduced affordability.

The First Homeowner Grant is a Commonwealth demand-side initiative (administered by state governments) offering eligible first home-buyers a \$7,000 grant. The First Home Plus scheme is a NSW Government initiative which provides exemptions or concessions on transfer duty and mortgage duty for people who are buying or building their first home in New South Wales. The current housing policy mix has not delivered improving affordability and has led to several proposals to address this failure.

The idea of shared equity schemes for home ownership is not new in Australia. They were discussed, for example, by the National Housing Strategy in the early 1990s<sup>21</sup>, which suggested that there was ‘considerable scope for expansion of shared home ownerships schemes’.<sup>22</sup> The Western Australian and Northern Territory governments have been providing shared-equity products for a number of years.

## 2. Innovation in loan products

The number of home loan products in Australia more than doubled after 1996 with innovations that have made finance more accessible for households purchasing a home.<sup>23</sup> These include:

- mortgage insurance to secure low-deposit loans (although mortgage insurance has been a long standing feature of the home loan market, its use has increased significantly);
- high loan-to-valuation ratio loans which allow the borrower to take out a loan to cover all, or nearly all, of the value of the property (despite the extra risk).

Other innovations have reduced the risks and transaction costs of borrowing. For example:

- most of today’s loan products do not penalise borrowers for early or accelerated repayments. Also, there are fewer barriers to loan switching, giving borrowers more scope to take advantage of any interest rate differentials between lending institutions;
- fixed interest loans, which became common in the early 1990s, offer protection against fluctuations in interest rates (although the terms of these loans are short compared with some other countries); and,
- products offering more flexible repayment arrangements that have allowed households to more easily accommodate short-term changes in their capacity to service loans.

Mortgage World Australia<sup>24</sup> lists availability of standard products including:

- Basic variable loan
- Standard variable loan (the most popular type of mortgage)
- Introductory or honeymoon rate loan
- Fixed rate loan
- 100% offset accounts
- All-in-one loans
- Line of credit

Summary features of these products are listed at *Appendix One*.

Innovation has been driven by increased competition among home lenders, made possible by earlier deregulation of the finance sector. The subsequent entry of brokers and non-bank mortgage lenders in the mid-1990s provided an even greater boost to competition.

In reviewing financial arrangements in Britain and Australia, Mike Berry and colleagues<sup>25</sup> point to a lively debate as to how substantial volumes of private finance could be leveraged into affordable housing provision. They argue that Australia might learn from the British experiments in different types of shared-equity arrangements to improve access to owner-occupation:

The challenge ... is to establish simple and transparent arrangements that will encourage private investors or non-profit housing providers to take up their equity shares and to build longer-term equity arrangements.<sup>26</sup>

### **3. Shared-equity schemes**

Ian Winter investigated rental market trends and foreshadowed the growth of intermediate tenures between renting and owning:

This will include shared ownership schemes in which the tenant or first time buyer buys between 25% and 75% of the value or equity in the house with a mortgage, and pays rent on the rest. And we will see shared equity schemes in which the 'ongoing rental income' is swapped by the investor partner (housing association, financial institution) for a share of the capital gains on sale of the property.<sup>27</sup>

Potential demand from households, who cannot afford to buy without some form of assistance, has prompted new products that can improve immediate purchasing power. These often involve some form of equity sharing—where a purchaser benefits from lower mortgage payments in exchange for sharing any appreciation in the value of their home with another party (either an equity loan provider or a shared owner). By trading some future capital gains for lower upfront financing costs, home-ownership can become more accessible to households on lower incomes.<sup>28</sup>

Government-sponsored shared-equity schemes' main target group is low to moderate income households who are unable to afford traditional finance. In most schemes the equity partner is a benefactor – a family member, government partner, social housing body or non-profit institution. Private sector schemes often market to people on limited incomes, but are usually available to any qualifying applicant.

Shared-equity products give property title of two kinds:

- (i) shared ownership as 'tenants-in-common', or
- (ii) the borrower holding full title but there is a mortgage with a reduced rate of interest or no interest payable in return for a share of capital gain on the sale of the property.

As a general rule, those shared ownership schemes being developed and financed by state governments involve shared ownership or tenants-in-common. Private sector shared-equity deals tend more to use a mortgage.

A shared-equity model proposed by Andrew Caplin and Christopher Joye,<sup>29</sup> received considerable publicity when it was promoted by Prime Minister John Howard's Home Ownership Task Force in 2003, and became available in Australia in 2006.

The shared-equity model, as proposed by Caplin and Joye, and further developed by Joye in the form of Equity Finance Mortgages, would enable institutional investors to buy into a mixed-value pool of dwellings spread widely across the states and territories. In this model, the private equity investors receive their return in the form of a share in the growing capital value of the dwelling.<sup>30</sup>

In America the term 'shared-equity home-ownership' has taken on a different meaning to that which is applied in England and Australia. This is because government-subsidised housing in the US is 'resale-restricted': owner-occupants of shared-equity housing may not resell their homes for whatever they can get. A limit is placed on the price they can charge and the equity they may keep when the property sells:

Expanding affordability for the present generations of lower-income home-buyers, for example, is balanced against preserving affordability for future generations of lower-income home-buyers.<sup>31</sup>

There is a distinction between 'shared-equity home-ownership' and 'shared equity finance'. In the first case, the subsidy to a prospective homeowner gives the subsidy provider (taxpayers and government) a continuing interest and some influence over the later sale of a 'shared-equity' home. With 'shared equity finance', generally there are no restrictions on the property's resale price and no attempt is made to maintain its affordability for the next generation of home-buyers.

The Commissioner for Fair Trading NSW provides a definition of shared-equity mortgages for the purposes of the Consumer Credit (New South Wales) Act 1995, as follows<sup>32</sup>:

... a shared-equity mortgage is one where:

- the borrower pays reduced interest on the funds during the term of the contract, or, is not required to repay any principal or interest during the life of the loan; and
- security by way of a mortgage is taken over the property; and
- the contract is terminated according to the terms of the contract such as, when the borrower sells the property or elects to repay the principal; and
- the lender is entitled to a percentage of any increase in value of the mortgaged property over the term of the loan.

Effectively, a shared-equity mortgage is one where the consumer gives up the right to some of the capital gain on the property in return for paying reduced, or no interest, on that part of their borrowings.

While part ownership confers *some* of the benefits of full ownership, it also transfers *most* of the risks to the occupier—in terms of maintaining the property and keeping on

top of the mortgage payments. However, part ownership may also reduce households' exposure to negative equity if housing prices fall.<sup>33</sup>

The *Sydney Morning Herald* reported in March 2007 that, in a separate survey of 1,500 potential first home-buyers, around half said that they would consider an equity share deal.<sup>34</sup> The following sections of this paper examine shared-equity schemes that exist or are operating or in development in England, the United States of America and Australia.

### 3.1 England

#### Government schemes

A 2006 report from a government inquiry into shared-equity products, 'Report of the Shared Equity Task Force', found that, in England, the government has already assisted more than 80,000 households into home-ownership with shared-equity products since 1997. In contrast, private sector activity had been much lower. There had been only a small, fragmented market in the provision of equity loans. The government expects over 160,000 households to have been assisted into home-ownership through either private or public shared-equity products by the end of 2010.<sup>35</sup> The Task Force was optimistic about the future of shared-equity.

As shared-equity becomes a more recognised means for large institutions and individuals to invest in residential property, it is anticipated that a secondary market in which equity shares can be traded will develop, and that the pricing of equity loans will become more competitive. The Task Force therefore believes that the market for equity in residential property is set to grow and that an increasing range of private shared-equity products will appear. Increasingly therefore, the government expects that the aspirations of those closest to home-ownership will be met in the market, reducing the need for government support for these groups.<sup>36</sup>

In England, it was estimated that 1.3 million households had incomes too high to qualify for housing benefit (a social security type payment to assist with housing costs), but too low to buy at the lowest decile (one-tenth of the population by income) for 2 and 3 bedroom homes using conventional mortgage financing. Hence the development during the 1980s of an 'intermediate market' for an 'in-between' tenure, called shared ownership.<sup>37</sup>

The Department of Communities and Local Government promotes a number of schemes designed to help people on modest incomes afford to buy a home. These include 'Right to Buy', that allows tenants to buy their council houses at a discount, 'Right to Acquire', that allows some housing association tenants to buy their rented home at a discount, and a 'Cash Incentive Scheme', under which a council will provide a grant to a tenant of social housing wishing to buy a home in the private sector, thus freeing up social housing accommodation for letting by those in housing need.

There is also a new HomeBuy scheme which covers Social HomeBuy, New Build HomeBuy and Open Market HomeBuy. The first two products involve shared ownership and the last provides equity loans.

Social HomeBuy allows social housing tenants to buy their current home either outright or on shared ownership terms with the benefit of a discount. Homes are usually bought on a shared ownership basis with a minimum share of 25 percent of a home. The remainder of the equity is retained by the social landlord, who is able to levy a charge of up to 3 percent of the capital value of their retained equity. When the purchaser comes to sell their home, the social landlord will have the chance to buy the property back at market value or nominate another purchaser.

Under New Build HomeBuy, newly-built homes are sold by community housing associations on shared ownership terms, with a minimum share of 25 percent and a maximum usually of 75 percent. The borrower raises a regular mortgage for the share that they wish to purchase. The housing association retains freehold. The remainder of the equity is held by the housing association, which is able to levy an annual charge of up to 3 percent of the capital value of their equity. Purchasers may buy further shares in their home when they can afford to do so: this is known as ‘staircasing’. When the purchaser wants to sell their home, the housing association may wish to buy it back at market value.

English Partnerships, the national regeneration agency, also operates a shared-equity scheme using public sector land. The scheme is known as the First Time Buyers Initiative. Purchasers must buy at least half of the property and English Partnership will retain the rest. After three years the purchaser will pay a charge to English Partnerships based on a percentage of the equity they don’t own.

The ‘Report of the Shared Equity Task Force’ states that there could be a number of firms interested in investing in acquiring English Partnerships’ retained investment in the First Time Buyer Initiative once the portfolio had achieved a critical size.<sup>38</sup>

A third HomeBuy product is called Open Market HomeBuy. This scheme does not involve shared ownership; rather, it allows buyers to apply for a regular mortgage which is then topped up with equity loans funded by the government and one of four private sector lenders. No deposit is required. The buyer deals with a HomeBuy agent. HomeBuy agents are housing associations providing a ‘one-stop-shop’ for affordable housing options in a given area of England.

It works as follows. The private lender offers a regular mortgage combined with an equity loan of 12.5 percent, alongside a second equity loan of 12.5 percent provided by the government through a HomeBuy agent, usually a housing association. No charge or interest is levied on either of the equity loans for the first 5 years. After 5 years a maximum of 3 percent interest may be charged on the lender’s equity loan. No interest is ever charged on the government’s loan. The lender’s equity loan is repaid at the time of payment of the final instalment of the mortgage or on sale. The HomeBuy agent’s equity loan is repaid on sale of the home. When the equity loans are repaid, the lender and HomeBuy agent share any increase in the property’s value.

The Financial Services Authority (England’s financial watchdog) published a factsheet on Open Market HomeBuy Scheme, which explains how the scheme operates and its pros and cons.<sup>39</sup> The ‘Report of the Shared Equity Task Force’ states that the current Open Market HomeBuy scheme runs to 2007–08, but that the

government will continue to work with its partners to improve the features of the Open Market HomeBuy product range, and in particular, the government will seek to develop an option for households able to purchase around 50–70 percent shares—extending the reach of Open Market HomeBuy to those on lower incomes.

The HomeBuy scheme targets tenants of councils and housing associations and those on the housing register waiting for a council or housing association home to rent, key workers (defined as workers in the public sector in areas where high house prices are affecting recruitment and retention), and first-time buyers who cannot afford to buy their own home and who have been identified as eligible and prioritized for assistance within the region by a regional housing board.

The experience of government-funded schemes has been that households prefer schemes that allow them the flexibility to choose a home on the open market, rather than have their choice constrained to a subset of new-build properties. The Open Market HomeBuy scheme for those who can afford a 75 percent share has been extremely popular and oversubscribed. Take-up of New-Build HomeBuy, offering shares as low as 50 percent, has been more mixed, depending on the location and tenure mix of the site.<sup>40</sup>

Shared ownership also has been promoted as a means of providing security of tenure, choice and support to people with learning difficulties and people with long-term mental health needs. The property is purchased by a housing association, which then sells a portion to the shared owner, who takes out a mortgage with a building society. The Housing Corporation allocates funds to housing associations for such schemes. Some shared owners have capital, through sale of a property, inheritance or trust fund. The shared owner purchases between 25 and 75 percent.<sup>41</sup>

A National Audit Office report into low-cost home-ownership schemes found they were, in general, meeting their objectives and offering value for money.<sup>42</sup> In 2004–05, 15 percent of households helped into home-ownership using government-backed shared-equity products were local council or housing association tenants, and providing that support was significantly cheaper than provision of new rental housing units.<sup>43</sup>

The English government is investing £970 million in the Housing Corporation's Affordable Housing program for 35,000 low cost home-ownership properties.<sup>44</sup>

## **Private sector products**

Private sector activity in shared-equity products has been relatively small. However, the Shared Equity Task Force reports that the market first began to look at innovative ways to address affordability problems for first home-buyers over 30 years ago. These schemes were offered by either financial institutions for use in the open market or by developers and house-builders for particular properties.

An example of a product offered by financial institutions is a 'shared appreciation mortgage'. These have existed in England since the 1980s. They offered the borrower lower or no monthly repayments, but in return the lender receives a share in the increase in the value of the property when the property is sold. This type of product

gave rise to complaints in the 1990s. With the rapid increase in house prices some investors received very large returns, whilst some borrowers found that they were unable to move up the housing ladder to full ownership.<sup>45</sup>

A variation on this product that sought to address this issue was one that capped the potential gain to the lender. An example is Mortgage Express's 'Step Ladder' mortgage. Here a household could borrow 100 percent of the purchase price, but only paid interest on 70 percent, in exchange for a share of the annual increase in property value when the property was sold, or remortgaged, or on the tenth anniversary of the loan, whichever was earlier. The share payable varied according to the amount of the increase, rising to a maximum cap of 5 percent.<sup>46</sup> Another example is the Advantage 'Flexishare' mortgage. A mortgage of at least 65 percent is topped up with a 'Residential Ownership Loan' of up to 30 percent which attracts a charge of 2.99 percent for the lifetime of the loan. When customers repay the loan, they repay it at current open market value. 'Advantage' (the lender) shares in any increase or fall in the value of the customer's property.<sup>47</sup>

Developers and house-builders have offered their own low-cost home-ownership schemes to first home-buyers. However, these have only been on a limited scale and on specific sites, and often in response to slackening sales. Examples included Barratt Homes 'Dream Start'. In mid-2005 Barratt Homes launched a shared-equity scheme for first home-buyers. Customers acquired 100 percent stake in their home, but only paid for 75 percent, with the remaining 25 percent held by Barratt, interest free for up to 10 years or when they sold, whichever came sooner. In total 800 households used this scheme.<sup>48</sup>

The 'Report of the Shared Equity Task Force' explains the relatively small private sector activity in shared-equity products by reference to a number of factors which are summarized in the following paragraphs.

Firstly, there was a lack of understanding in some firms around how to structure and distribute house price risk so that it generates the returns financial institutions expect. This is partly because there is no market in residential property futures and options in which investors can hedge their investments. There is also uncertainty as to the regulatory treatment that would apply.

Secondly, the low volume of activity to date means that firms have little data on consumer behaviours and the likely balance of risks and returns. That is, there is uncertainty about the way households will react when owning a home with shared-equity. Questions that investors need to know include:

- Will this group be more likely to fall behind with mortgage payments than other typical first time buyers?
- How quickly will households taking on shared-equity products staircase up towards 100 percent ownership?

Such issues will affect the returns investors can expect to receive and will also affect the pricing of the products.

The lack of data means that firms have little to inform their decisions and will naturally be cautious. However, the Government has a wealth of data on the

characteristics and behaviours of customers of its products and is committed to publishing such data.<sup>49</sup>

Indeed, drawing on the English experience, it may be necessary for governments to take the lead in initiating such products, so that the private sector can overcome its reluctance to become involved as data is generated showing the viability of such products and helping them to understand how they can reduce risk and so on.

Thirdly, problems that have been associated with Shared Appreciation Mortgages in the past might act as a constraint on the growth of the market. However, since 2004 the Financial Services Authority has taken on responsibility for the regulation of residential mortgages. It sets standards on information that must be disclosed to consumers before, during and after sales. Also, the Financial Services Authority has published a fact sheet on the government's Open Market HomeBuy scheme, which could be adapted to promote understanding of a wider variety of shared-equity products. All of this will help consumers become more informed about the risks and features of different mortgages and go towards addressing the problems thrown up by Shared Appreciation Mortgages.

Fourthly, banks and building societies are required to hold capital against all loans that they have on their books. The amount of capital required for each loan varies depending on how risky the loan is considered to be.

Fifthly, taxation issues need clarification. The English government will issue guidance clarifying what types of activities fall within the tax-exempt ring-fence of a UK Real Estate Investment Trust (similar to an Australian Listed Property Trust). Also, institutional investors will need to know how interest income as opposed to rental income will be treated. Also, financial institutions will be required to pay tax on capital gain they have not yet realized, although the report does not see this as a major issue.

Indeed, the 'Report of the Shared Equity Task Force' states that there is no evidence that taxation has been a significant barrier to the development of the shared-equity market.<sup>50</sup> The Task Force was confident that market provision is set to expand significantly over the next four years and that this growth has been facilitated by the work undertaken by government to develop its own shared-equity products.<sup>51</sup>

It is anticipated that a secondary market in which equity shares can be traded will develop, and that the pricing of equity loans will become more competitive. Increasingly therefore, the government expects that the aspirations of those closest to home-ownership will be met in the market, reducing the need for government support for these groups.<sup>52</sup>

## **3.2 United States of America**

### **Government schemes**

In America, the concept of shared-equity is applied to housing constructed with the use of government subsidies.<sup>53</sup> The 'equity share' is expressed by the provider of financial assistance being able to place conditions on the re-sale of housing and the

amount of capital gain that is available to be pocketed by the homeowner. The equity share is a social obligation and the equity partner is the community at large. The return to the equity investor is received as a continuing stock of affordably priced housing units. The community investment is preserved for future generations by restraining the capital growth and profit that can be extracted by an owner and in some instances requiring resale back to a community housing provider at an agreed affordable price.

In a review of models of shared-equity homeownership, John Davis identifies deed-restricted housing, community land trusts and limited equity cooperatives as the main models in America.<sup>54</sup>

Deed-restricted housing covers all types of housing but is exclusively for owner-occupants. Beyond an initial subsidy, affordability for this housing is maintained into the future by the attachment of a restrictive deed to the property title or mortgage. The owners of deed-restricted housing have secure title to and exclusive use of their property but are prevented from using it for anything other than their principal residence. At the point where such an owner wants to sell the property, the restrictive deed requires the sale to be to a person from a defined pool of income-eligible buyers for a formula-determined price; not the maximum that a market will bear.

One major issue thrown up by this model is that of monitoring and enforcing the restrictive deeds. Davis reports that where there has been an assumption that these covenants will be 'self-enforcing' (i.e. enforced by the purchasing party to a contract) the result is often the circumventing of the deeds and the loss of affordable units to the windfall gain of the current occupant. This is particularly seen as a problem in condominiums (equivalent to strata scheme in Australia) where the members of a condominium board have little interest in enforcing the affordability of the project's resale-restricted units, but stand to gain personally from rising prices. Increasingly governmental sponsors of these schemes are turning to non-profit organisations to ensure compliance with restrictive covenants.

While restrictive covenants have been used in America since colonial times, the last few decades has seen more extensive use: as public funders have sought to protect the affordability that their investment has purchased. A significant promoter of this expansion has been the increasing use of inclusionary zoning and other regulations to promote creation of affordable housing stock.

While inclusionary programs vary greatly across the country in terms of the affordable unit yield for different projects and the degree to which conditions on developers are compulsory or voluntary, the unifying feature of this type of affordable housing is that properties must be made and kept affordable for households at defined levels of income over time, regardless of changes in occupants or owners.

Davis reports that there is no proper accounting and monitoring of the number of deed-restricted units in America,<sup>55</sup> but he estimates that there may be anywhere from 30,000 to 50,000 such units in New Jersey and California alone and anything from 100,000 to 300,000 units of affordable deed-restricted housing country-wide.

A major selling point of this style of housing is that the owner-occupant has all the rights and obligations of ownership and freedom about the way they maintain the property. The restriction is really limited to the issue of re-sale price. Because of the relative familiarity of deed-restricted housing, the low administrative cost of 'self-enforcing' deeds and the proliferation of public programs targeting developers, Davis predicts that deed-restricted housing will be the fastest growing component of American affordable housing for many years to come.<sup>56</sup>

An alternative model is Community Land Trusts (CLTs) – which use a dual ownership model where one party (CLT) owns the land and the homeowner owns their home but rents the land it sits on. The rights and obligations in CLTs are similar to those in the deed-restricted model, but the mechanisms for achieving the preservation of affordability are different. The aims of preserving affordability are managed through the terms of the ground lease rather than a restrictive deed.

Leases typically run for 99 years and are renewable and inheritable and grant exclusive rights to occupy the land on which a home is located. The owner of the land is usually a non-profit, community-based organisation and the owner of the building is an individual or household homeowner. In multi-unit developments the non-profit organisation may also own the common infrastructure of a building or site and sell units in a manner similar to Australian strata scheme.

The rights of a homeowner are secured through possession of a deed for a building and a long-term lease for the underlying land. Similar to deed-restricted housing, absentee ownership is prohibited. The CLT has rights to approve major capital improvements and to force repairs if necessary.

The CLT lease also contains provisions to maintain affordability through a resale formula and a first purchase option for the CLT that will restrict the windfall gain to any individual owner. Unlike deed-restricted housing, the terms of the affordability protection are the responsibility of the CLT to enforce.

From very small beginnings in the middle of last century, CLT growth has been promoted by activists seeking to protect residents from rising house prices and by government programs that encourage deed-restricted housing, housing trusts or inclusionary zoning, especially where the programs insist on permanent affordability. By 2006 there were 162 non-profit organisations operating as CLTs in the United States, with a further 45 in development, and somewhere between 5,000 and 10,000 units of affordable housing had been generated in this way.<sup>57</sup>

The third major form of shared-equity housing is in cooperative arrangements. Cooperative housing is owned by an incorporated group whose shareholders are made up of the occupants of the housing. In America more than 1.2 million families of all income levels live in homes owned and operated through cooperative associations.<sup>58</sup> There are three main types of cooperative:

1. Market-rate cooperative – rights to occupy a unit of housing are purchased in shares in the cooperative. The price of shares is purely determined by what the market will pay and there is no attempt to ensure continuing affordability.

2. Limited equity cooperative - rights to occupy a unit of housing are purchased in shares in the cooperative. The price of shares is controlled by a resale formula imposed by the cooperative that limits capital gain.
3. Leasing or zero equity cooperative - rights to occupy a unit of housing are purchased in shares in the cooperative. The price of shares is controlled by the cooperative and there is no growth in the value of shares – owners resell shares for essentially the same price they paid. Often, a leasing cooperative corporation leases their property from an outside investor (often a nonprofit corporation that is set up specifically for this purpose).

While cooperative members do not hold individual title to their home, they are shareholders of the cooperative and have voting rights. The member's exclusive right to a unit of accommodation is secured by a lease from the cooperative. In the case of limited or zero equity cooperatives, the restrictive covenant on the amount of capital gain to be taken by a cooperative member is embedded in the contract for purchase of cooperative shares and in the by-laws of the cooperative.<sup>59</sup>

Almost all co-ops charge residents a monthly fee, which varies from co-op to co-op. The charges cover the member's share of operating and maintaining the cooperative, which can include blanket mortgage payments, property taxes, management fees, maintenance costs, insurance premiums, utilities, and contributions to reserve funds.

The (US) National Association of Housing Cooperatives calculates that of nearly 1.2 million co-op units, about 765,000 are in market-rate co-ops and 425,000 are in limited or zero equity co-ops. Davis notes that this figure, compiled several years ago, may underestimate the number of limited equity co-ops due to omission of co-ops developed with new program funds, co-ops developed with private financing, and co-ops developed in mobile home parks.<sup>60</sup>

### **Private sector products**

As in England, the American private sector take-up of shared-equity has been subdued and for many of the same reasons cited above. In addition, the American secondary mortgage market is dominated by government sponsored companies (Fannie Mae and Freddie Mac) who exert a dampening influence on the returns that can be extracted.

The Federal National Mortgage Association (Fannie Mae) is a government-sponsored, privately-owned corporation authorized to make loans and loan guarantees. It started as a government agency in 1938 as part of Franklin Roosevelt's 'New Deal' and promotes home ownership by increasing the supply of money available for lending. It does this by recycling the loans – selling them (with guarantees) to investors, who buy them for the secure returns and Fannie Mae charges a fee on the way through.<sup>61</sup>

In 1968, Fannie Mae was converted into a private corporation and the US Congress chartered Federal Home Loan Mortgage Corporation (Freddie Mac) as a private corporation to compete in this same market.<sup>62</sup>

The secondary mortgage market is said to reduce borrowing costs by increasing the funds available and by replacing higher risk premiums for marginal borrowers with

the Fannie Mae or Freddie Mac guarantee – even though it is not a government-backed guarantee.

Shared-equity products have also been hampered because American state government regulations restrict the interest that can be charged on loans.<sup>63</sup> Instead, the American market has seen the rapid rise of various ‘innovative products’ for the subprime market and their enthusiastic promotion by (fee-earning) brokers and financial advisers.

Regulatory changes in the 1980s preempted state regulatory interest rate caps and gave preferential tax treatment to mortgages as compared to consumer loans.<sup>64</sup> From the 1990s, the growth of subprime lending has been dramatic – growing in value from \$65 billion in 1995 to \$332 billion in 2003.<sup>65</sup> Of private sector efforts to address the needs of marginal borrowers, Chomsisingphet and Pennington-Cross, writing for the Federal Reserve Bank of St. Louis *Review*, say ‘Of course, this expanded access comes with a price: at its simplest, subprime lending can be described as high-cost lending.’<sup>66</sup>

High risk as well, as the reported ‘meltdown’ of the subprime mortgage market attests. Federal Reserve Board Chairman, Ben Bernanke, while maintaining belief that ‘in the long run, markets are better than regulators at allocating credit’<sup>67</sup> acknowledges that subprime borrowers face higher costs of borrowing and are more likely to default than prime borrowers. He reports estimates that serious delinquencies (loan in foreclosure or over ninety days in arrears) rose sharply in 2006 and recently stood at 11 percent, about double the recent low seen in mid-2005.<sup>68</sup> The Center for Responsible Lending estimates that twenty percent of the loans originated since 2005 will end in foreclosure.<sup>69</sup> At least 25 subprime lenders have exited the business, declared bankruptcy, announced significant losses, or put themselves up for sale in the early part of 2007.<sup>70</sup>

The depth of the failure of this market in America is evidenced by large institutions’ recent failure to sell out of their investments in subprime mortgage backed securities. *The New York Times* reports the housing market’s problems appear to be worsening, as evidenced by the near collapse of two *Bear Stearns* hedge funds that invested in complex securities backed by subprime mortgages. Other financial firms have also experienced mortgage-related pain, large losses are being realised on investments and there is a growing glut of unsold homes in markets across the country.<sup>71</sup>

### **3.3 Australia**

#### **Government schemes**

In Australia, shared-equity models are being promoted in both the public and the private sector. They are gathering momentum as state and territory governments grapple with declining home-ownership and affordability.

Government-sponsored schemes have been operating for a number of years in Western Australia and Northern Territory, where the governments both hold equity and fund mortgages. Shared-equity schemes, or variations on them, on various scales, have been announced in New South Wales, South Australia, Victoria and Australian

Capital Territory. The Tasmanian government is currently examining a proposal for a shared-equity product that will allow public housing tenants and others who meet the eligibility criteria for public housing to buy a government-owned house.<sup>72</sup> At least two statutory bodies in New South Wales have stated that they intend to market shared-equity schemes, but a wider government-sponsored shared-equity scheme in New South Wales appears slower to develop than anticipated.

The South Australian Affordable Housing Trust is currently considering a Shared Equity Loan for South Australia.<sup>73</sup> As at July 2007, no product has been developed though interest is continuing.

Government sponsored shared-equity products are summarized below.

Keystart is a section of the Department of Housing and Works in Western Australia. It provides low-deposit and low-cost loans to people on low incomes. The main product is 'GoodStart Shared Equity Loan Scheme', which allows eligible Homeswest tenants to purchase from 70 to 100 percent equity in their current property. It also allows people on the waiting list to purchase 70 percent or more in an ex-rental Homeswest home. An applicant must provide a deposit of \$2,000 or 2 percent (whichever is greater) and may use the First Home-owners' Grant if eligible to cover this. Shared-equity loans are available also under the Aboriginal Home-ownership Scheme and Access Home Loans (for people with disabilities). The Sole Parent Family Home Loan Assistance allows for the Department of Housing and Works to purchase equity in an applicant's home where there has been a relationship breakdown or loss of a partner, resulting in loss of income and inability to service the current home loan.<sup>74</sup>

In February 2007 the Western Australian government announced a new shared-equity product worth \$300 million over three years that targets new home-buyers on *low to moderate* incomes. The scheme is called First Start Shared Equity Home Loan Scheme.<sup>75</sup> It is based on the Department of Housing and Works purchasing a share in a property and then providing the home-buyer with a Keystart low-deposit loan to purchase the remaining share. Maximum property values at present stand at \$365,000.

An applicant must provide a deposit of \$2,000 or 2 percent (whichever is greater) and may use the First Home-owners' Grant and Homebuyers Assistance Fund grant,<sup>76</sup> if eligible, to cover this. The Department will purchase up to 40 percent of the property for families with incomes under \$60,000, and up to 30 percent for couples with incomes under \$50,000 or singles with incomes under \$35,000. The Scheme covers the whole state and aims to assist 1,000 households a year for the next three years. Of the 1,000 loans in the first year, 500 will be targeted to purchasers of affordable homes supplied through the Department and 500 will be used to purchase house and land packages or established homes from the private sector.

Those purchased through the Department will come from its New Living Scheme, which is an urban renewal program in metropolitan Perth, where old public housing stock is being renovated and offered for sale at modest prices to former public housing tenants and to home-owners.<sup>77</sup> New rental homes are then provided in other areas to bring about a better spread of public housing. Home-buyers will purchase the Department's share of the property as their finance permits.

The minimum equity for increasing a share in the property is 5 percent, and there will be an incentive for borrowers to own as much of the property as soon as possible, with stamp duty concessions applying on shares being purchased within 10 years of the initial purchase. The home-buyer will also be credited with any capital improvements made to the property since the initial purchase. The Department does not charge rent or interest on the proportion of the property that it co-owns, but the home-buyer pays all outgoings, such as rates and maintenance. The property can be sold at any time, but the Department has the first option to purchase the property.

The Western Australian Minister for Housing has stated that within one month of the announcement there had been 2,500 registrations of interest in the scheme. The Real Estate Institute of Australia has criticized the First Start scheme stating that it 'was very narrowly targeted and there would be few home-buyers who would meet the qualification criteria. House prices in Perth had risen so much that there were few properties that met the \$365,000 threshold, which was almost \$100,000 below the city's median house price.'<sup>78</sup> This criticism is partly misconceived given that in the first year of the scheme 500 of 1000 loans will be for the purchase of affordable homes supplied through the Department.

The Northern Territory government operates a 'HomeNorth Xtra Shared Equity Loan' which allows eligible persons to purchase between 70 and 99 percent of a property, with the Territory Housing (the Territory government's social housing agency) purchasing the remainder. An applicant must provide a minimum deposit of 2 percent of the price they are paying for the share. The loan can be used to buy a dwelling or contract a builder to construct a new home. No rent is charged for the rest of the property, but the applicant is required to pay all repairs, maintenance, insurance, council rates and so on. The applicant can purchase Territory Housing's share when their circumstances improve. They must purchase the remaining Territory Housing share once the loan is repaid. If the property is sold with Territory Housing still holding equity, its share (based on a current valuation) is paid out at the time of settlement.

On 30 January 2007 the South Australian Minister for Housing announced a 'shared appreciation' product to be delivered through the state government lender, HomeStart Finance, from March 2007. It is being called 'Breakthrough loan'. The Minister's media release states that the product is available for first home-buyers. It will assist people to upgrade their home where they currently cannot afford to do so and assist those to remain in their home following family breakdown or loss or reduction in income. Prospective home-buyers will take out a standard HomeStart Home Loan but then increase their borrowing power by up to 35 percent without increasing monthly loan repayments. They will share a portion of the home's capital gain with HomeStart when the property is sold. Where a customer's Breakthrough Loan is 20 percent of the total amount borrowed, the maximum share paid to HomeStart is 28 percent. Where it is 35 percent, the maximum share paid to HomeStart is 49 percent. It is expected to assist about 500 households a year.<sup>79</sup> Borrowers may purchase Housing SA houses that are being sold under the government's 'Affordable Homes Program' with the shared appreciation product.<sup>80</sup>

Victoria has announced a shared-equity scheme on a small scale. It is called the OwnHome ballot scheme. Ten houses on Melbourne public housing estates will be

offered by ballot to eligible families earning between \$54,000 and \$60,000 per year. The buyer will take out a loan for 75 percent of the purchase price and the state government's development corporation, VicUrban, will have a second mortgage on the remaining quarter share. The buyer can purchase VicUrban's quarter share at a later stage if they wish.<sup>81</sup>

On 12 April 2007 the Chief Minister of the Australian Capital Territory announced his government's 'Housing Affordability Action Plan'. As part of this plan, Housing ACT will offer shared-equity purchases to eligible tenants with household incomes of more than \$50,000 a year. Also, non-profit providers will be encouraged to participate in shared-equity schemes. Community Housing Canberra will offer eligible tenants the opportunity to purchase their property through a shared-equity scheme. The government will also seek expressions of interest from non-profit organizations to offer shared-equity schemes for other members of the community.<sup>82</sup>

There has not been the same degree of activity in New South Wales, though the government indicated it would introduce a shared-equity scheme some 5 years ago. On 14 February 2002 the then Minister for Housing, Andrew Refshauge, announced a proposed 'shared-equity' scheme that would allow public housing tenants to enter into financial arrangements to purchase a portion of their property. In September 2002 the NSW Department of Housing released an information paper on this shared-equity proposal. It can be summarised as follows:<sup>83</sup>

- The scheme would be open to all public housing and HomeFund tenants who cannot afford to buy their property outright, but subject to their home being available for sale. Potential buyers would be required to raise finance for the purchase of their property share from a private lender.
- The Department had an option of developing a register of properties the Department would like to sell when they become vacant, so that tenants who cannot purchase their existing homes would have the opportunity to buy another public housing dwelling.
- Buyers would initially purchase 75 percent of their property. Buyers and the Department would own the property jointly as tenants-in-common. The buyers would enter into a lease agreement with the Department for the remaining share of their property. Buyers would pay all maintenance costs, insurance and council and water rates on the property *in lieu of rent* on the 25 percent owned by the Department. The buyers would require written approval from the Department to add improvements to their property.
- If buyers carried out improvements (with a minimum threshold value of \$5,000) after entering the scheme, and they wanted to increase their equity or sell, another valuation would be undertaken so that the value added to the property by improvements can be credited to them.
- The Department would not charge rent, but if buyers did not buy out the Department's remaining 25 percent share once they had discharged their first mortgage, the Department would charge an ongoing occupation fee.
- Buyers could purchase their remaining 25 percent portion at any time.
- If buyers failed to maintain their property, the Department would be able to undertake the maintenance and to charge buyers for the cost.

- The Department's policy on succession of tenancy would apply where other household members wished to take over the buyer's share if the buyer died or left the property.
- Buyers would be able to sell their property at any time.

A limitation on the above proposal was that it was not available to a wider group than those currently eligible for or living in public housing. This has important consequences in New South Wales because of the targeting of public housing to the most needy which has created a new class of forgotten people: those too poor for home-ownership and 'too rich' for public housing.

The Department of Housing's annual report for 2003-04 referred to the development of a 'Shared Home-ownership Scheme' as a way to allow tenants in public housing to purchase a share of the home they currently rent. It stated that introduction of the scheme was delayed in 2003-04 due to the difficulties in securing the participation of lending schemes and that the Department was exploring alternative options to address access to loans under the scheme.<sup>84</sup> There was no reference to the scheme in the annual reports in 2004-05 and 2005-06.

Nevertheless, two statutory bodies in New South Wales are considering shared-equity models. The Redfern-Waterloo Built Environment Plan in Stage 2 plans to develop proposals for affordable housing, including a shared-equity model of home-ownership. No details are provided.<sup>85</sup>

In 2004 the *Sydney Morning Herald* reported that Landcom was trialling a new shared-equity scheme under which welfare agencies or investors would be approached to take a half stake in homes reserved for low income households. This proposal did not proceed though Landcom continues to explore possible pilot programs. Landcom reports in its annual report for 2006 that it has been investigating a shared-equity model for moderate income households (defined as those earning between \$47,000 to \$71,000 per year using 2006 figures), in partnership with the Commonwealth Bank of Australia. It states that the feasibility of this model will depend on the finance product being fair and equitable to the moderate income home-owner, whilst also being financially attractive to institutional investors.<sup>86</sup>

Except for a shared-equity product that targets people with disability, any proposal for a generally available government-sponsored shared-equity scheme in New South Wales appears to have lapsed. While initiatives for disability-specific shared-equity products are small and will not lead to a generally available product, the impact on individual families can be large. In evaluating models of shared-equity ownership for the NSW Department of Housing, Marilyn Alt and Elizabeth Rowe found that evaluation of such schemes in the UK show positive effects on individual quality of life including choice and security, personal motivation and independence and in terms of enjoying some of the less tangible benefits of home ownership<sup>87</sup>. However, the NSW Centre for Affordable Housing has targeted the need for a more general and viable shared-equity model as a priority.<sup>88</sup>

The NSW government's main initiative appears to be through the newly formed Affordable Housing Innovations Fund (AHIF). In March 2007, this fund was

launched with plans for funding of nearly \$50 million over four years. The fund will have:

- \$39.4m for projects that involve providers bringing both debt and equity to projects for which they will own title:
  - \$3.4m for Debt Equity Round 1
  - \$6m for Debt Equity Round 2
  - \$8m for AHIF 2007-08
  - \$10m for AHIF 2008-09
  - \$12m for AHIF 2009-10
- \$10.4m for 70 affordable housing units at St Marys.

Of particular relevance to this paper is Debt Equity Rounds that will be administered through the Centre for Affordable Housing. 'Debt Equity' is the label applied to this instance of a shared-equity scheme. The equity partners in this model are the government and a (non-profit) community housing provider and the shared-equity properties are rented out to income-qualified individuals and families.

In each project, the Centre and the community housing provider will contribute equity funds and the community housing group will secure debt finance from a private financial institution. These funds will be used to purchase or develop several units of affordable housing in an area of housing need in NSW. Upon completion the units will be owned and managed by the community housing provider as affordable housing, with guarantees that the housing stock will remain 'affordable' in perpetuity.

In the first round of funding, this program funded two community housing groups as follows:

- Shoalhaven Community Housing Scheme received funding of \$1.7 million, contributed equity of \$637,000 and raised debt of \$500,000 to build 12 units of affordable housing.
- Community Housing Ltd and Willoughby Council and the Association to Resource Cooperative Housing received funding of \$1.7 million, contributed equity of \$3.2 million and raised debt of \$2.5 million to build 28 units of affordable housing.

The NSW Minister for Housing addressed parliament on the issue of the Affordable Housing Innovations Fund and said:

The debt equity model stretches the Government dollar further, by requiring contributions from the not for profit and private sectors. For example under the first round of funding, a total of \$3.4 million was allocated to two projects – one in Nowra and one in Artarmon. These projects are expected to yield 40 dwellings for affordable housing. Had the Government used the \$3.4 million to buy or develop social housing itself, only 12 properties would have been delivered.

It also provides the opportunity for other organisations with an interest in affordable housing, such as local government, to partner with the community housing sector to deliver affordable housing projects. For example, Willoughby City Council is a partner in the Artarmon debt equity project. It is providing land for the project as a way of increasing the supply of housing for low to moderate income families in the area.

These projects are designed to be financially sustainable so that they do not require an ongoing subsidy and to achieve better affordable housing outcomes than could be achieved if Government was to invest this money on its own.<sup>89</sup>

Funding under this program replicates some of the strengths of the American tax credits scheme, in that it attracts additional money to funding affordable housing construction and it delivers affordability in perpetuity for a one-off public subsidy.

### **Private sector products**

Shared equity arrangements relying on the private sector are still very new and largely untested.

The simplest type of shared ownership is where people come together to jointly purchase property. In April 2006 an organization called PodProperty was established in Sydney to assist friends, flatmates or partners to purchase a home using a legal relationship between co-owners known as ‘tenancy in common’<sup>90</sup>. Although this is a relatively common legal arrangement, what makes PodProperty different is that it has established a business around it, with the specific objectives of providing finance, conveyancing, legally binding co-ownership agreements and help finding property for groups of collective buyers who are unable to afford property on their own. It targets first home buyers (and also real estate investors and holiday-home buyers). It provides advice and assistance and arranges finance at no cost. They charge for conveyancing, legal advice and putting in place a co-ownership agreement.<sup>91</sup>

As previously noted, a model proposed by Caplin and Joye achieved considerable publicity when it was championed by John Howard’s 2003 Home-ownership Task Force.<sup>92</sup> Under their proposal, ‘when you purchase a home you will own all of the decision-making rights free and unencumbered, just as in traditional markets. But you will not however, need to single-handedly bear the burden of the vast financial responsibilities inherent in owner-occupation. Instead a passive institutional ‘partner’ will assume a share of this in exchange for a fraction of the ultimate sale proceeds.’<sup>93</sup>

This model allows a household to buy its house in partnership with another investor. Equity would be shared and the household would only have to contribute a deposit and borrow to finance its share. Under this arrangement, the householder is the managing partner and the investor the sleeping partner. The former decides when to sell, to whom and for what price. The householder also decides on how the property is maintained, renovated and used. The sleeping partner ‘wakes up’ only when the dwelling is sold in order to receive its agreed share of the sale proceeds. The household saves on housing costs each year, because the sleeping partner foregoes any ongoing rental payment on its share in favour of receiving all its return at the end, when the house is sold. In effect, the investor is swapping rental income for a share of the realized capital value of the dwelling.<sup>94</sup> It should also be noted that these arrangements require that the occupier covers costs (rates, taxes, maintenance and repairs etc.) for 100 percent of the property for the term of the loan.

To make their proposal more attractive to financial institutions, Caplin and Joye proposed the establishment of a secondary market in real estate equity. The equity instrument created for the investor can be securitized, that is, bundled up and bought and sold by investors. Caplin and Joye envisaged the creation of special-purpose

vehicles which they termed ‘partnership real estate funds’. These can be traded and continuously valued in the secondary market. Investors are not locked into a partnership with an individual household for life. They can buy a tradable share in the future returns of many individual dwellings, spread across housing markets. This reduces the risks borne by the investor.<sup>95</sup> They argued that demand for these assets would stem from the diversification benefits of holding real estate, because financial institutions are continuously searching for new categories for investment, particularly those with return patterns that differ from stocks and bonds.<sup>96</sup>

The Productivity Commission states that ‘shared-equity’ arrangements address the need to reduce deposit or repayment requirements to allow people on lower incomes to enter home-ownership.<sup>97</sup> Nevertheless they believe that whether or not the Caplin-Joye shared-equity proposal would be attractive to borrowers and lenders is uncertain. They cite a number of uncertainties around this product:<sup>98</sup>

- Notwithstanding the lower cost of market entry, many potential borrowers would shun an arrangement where they only received a proportion of the proceeds when the house was subsequently sold.
- As equity investors, lenders would want to purchase homes in areas offering highest returns, which in recent years have typically been in more expensive suburbs. Low income home-buyers would typically be looking to purchase in cheaper suburbs.
- Although lenders would become an equity partner in the house, that would be without the control over the management of the property.

Ultimately, the general ‘test’ of viability is whether the home lending market can develop products which are attractive to both borrowers (particularly low income households) and lenders.

Joye is now a principal of Rismark International, which in March 2006 announced plans for an ‘equity finance mortgage’ (EFM) product which works as follows.<sup>99</sup> The equity lender would lend the borrower a percentage, say 20 percent, of the purchase price. The borrower would pay no interest on this amount, but on sale of the property, the equity lender would take up to 40 percent of the capital gain on the home. The home loan borrower will be liable for 20 percent of any depreciation on the value of the home. Because the equity lender would not receive any benefit until the property is sold – a decision of the borrower – then such loans would be bundled together into pools of shared appreciation mortgages which would spread the risks over a large number of properties. These shared appreciation mortgages would be traded with the expectation that institutional investors such as superannuation funds would buy in order to diversify as it would give them access to a new asset class which is bigger than the share market and the bond market. *The Australian* newspaper reported that Rismark intends to raise \$200 million for this product, with a Melbourne company already investing \$25 million.<sup>100</sup> Rismark reported that a number of large Australian banks have signed up ‘to originate EFMs under their own brands alongside their existing suites of mortgage products’<sup>101</sup>.

Rismark states that demand for equity finance mortgages is expected from three groups: first time home-buyers, existing home-owners who wish to refinance their existing mortgage arrangements and reduce their ongoing mortgage repayments or

upgrade their house, and the asset-rich income-poor elderly wanting to access an equity release mechanism as an alternative to reverse mortgage products.<sup>102</sup>

The *Sydney Morning Herald*<sup>103</sup> reported that Adelaide Bank and its partner Rismark International launched Australia's first shared-equity mortgage on 13 March 2007. Under the scheme, borrowers can choose between using the equity finance mortgage to fund 10, 15 or 20 percent of their home's value. In each case they give up twice that share of future appreciation (or equal to that share of any capital losses) as a substitute for a traditional interest rate.<sup>104</sup> The home-buyer must have a 5 percent deposit and the remainder of the purchase price – up to 75 percent - is funded by a conventional home loan. Under the scheme, the equity finance mortgage lender never owns the borrower's property: the borrower always retains 100 percent legal equity ownership and title to their home. The equity finance mortgage can be repaid in full by the borrower at any time. The product would target first-time buyers lacking the full finances for entry into the home-owner market. But it will also be available to second-time buyers who want to purchase a more expensive property, or existing borrowers who refinance to reduce their monthly loan repayments. In effect, the 'equity finance mortgages' can be used by borrowers to buy homes that are up to 25 percent more expensive than they might have been able to afford using a traditional home loan.

Rismark reports being poised to launch a new unit trust called the Rismark Active Property Trust.<sup>105</sup> Money invested in this trust will be lent to equity finance mortgage borrowers. Investors will buy units in the trust. Returns will be linked to the future capital values of the residential properties. Because a borrower of an equity finance mortgage may not sell their home for many years (and because they make no interest payments nor capital repayments), investors in the Rismark Active Property Trust will have to wait for some years before returns begin to flow through.

To address the issue of liquidity – that is, how to give money back to investors who want to redeem their investments before money starts flowing back into the trust, Simon Hoyle in the *Sydney Morning Herald*<sup>106</sup> reports that the most likely option is to list the trust on the Australian Stock Exchange, so units in the trust are traded between buyers and sellers in the same way that shares are traded. Rismark believes that investing in residential property via the Rismark Active Property Trust has advantages over investing directly in residential property: investors get exposure to a diversified portfolio of residential properties and do not have to meet any of the costs that go along with direct property investment, such as rates, repairs, tax and so on. Tony Cole of Mercer Investment Consulting is quoted as saying he expects investment in equity finance mortgages to be attractive to institutional investors, including major superannuation funds. He argues that returns from residential property are expected to remain strong but, additionally, investment in residential real estate can reduce the overall risk – or volatility of returns – in an investor's portfolio.

Landcom's interest in shared equity models involves private sector partners.<sup>107</sup> Under one scheme, Australand had agreed to quarantine 5 percent of two new release areas – Greenway Park in Liverpool and Second Ponds Creek, near Rouse Hill – for shared-equity housing. The investor and the part-owner-occupier will be tenants-in-common. The investor will be obliged to stick with a deal for 10 years or some other set period and be motivated by likely capital gains.

In June 2005, Affiance announced a ‘shared appreciation’ home loan product where borrowers who take out the loan will have to share a percentage of any capital gain with an investment trust that will share the ownership of the home.<sup>108</sup> Affiance now trades as Firstfolio, but they are yet to list a ‘shared appreciation’ home loan on their website (as at May 2007). Inquiries with Firstfolio reveal that they are still interested and intend developing a shared-equity product, but that the lack of relevant data and experience is making the development period for the product longer than expected.<sup>109</sup>

On 19 November 2006 the *Sun-Herald*<sup>110</sup> reported that the Johnson Property Group was launching its own shared-equity product called ‘Johnson First Home Scheme’. Eligible first home-buyers will be able to purchase 50 percent of a house and land package in one of Johnson’s residential development subdivisions through normal financial arrangements. The other 50 percent will remain owned by Johnson. After five years, they have another 10 years to pay the other half back to Johnson interest-free. The company will guarantee a buyback plan if a home-buyer defaults in the first twelve months. Johnson is establishing a charity to fund the scheme which will receive 1 percent of its net land sales. Johnson will trial its scheme initially on subdivisions in the Lake Macquarie and Lower Hunter regions.

In early 2007 the *Sydney Morning Herald*<sup>111</sup> reported that Australand Property Group and St George Bank had teamed up to offer a shared-equity scheme targeted at low-income earners. Under the scheme, a house will be jointly owned by the purchaser and an equity partner. The equity partner is expected to be a relative or friend. When the property is sold the capital gain is shared. The term of the co-ownership is ten years, although this can be varied by mutual consent. At the end of the term the property would be sold or a new arrangement would be agreed between the purchaser and the equity partner. The plan will be rolled out at Australand’s Greenway Views development at West Hoxton and at Braemont Estate at Kellyville. St George Bank stresses that, unlike some of the shared-equity arrangements being promoted, their co-ownership plan gives the purchaser their full share of any future capital gains.

The *Sydney Morning Herald*, also reported in early 2007 that Wizard Home Loans and ING Direct are expected to market equity finance mortgages.<sup>112</sup>

While the development of shared-equity products has been slow in Australia, the concept enjoys bi-partisan political support. The Federal Liberal party expressed strong support for the concept through the Prime Minister’s 2003 Home-ownership Task Force and it has been identified as an option for promoting housing affordability by the federal Labor Party.<sup>113</sup>

## 4. Welfare and consumer protection issues

### 4.1 Consumer perspective

For consumers, the (usually) biggest investment in their lives also brings the greatest risks. Annette Sampson reports equity finance mortgages can have wide-ranging consequences, not all of which can be easily foreseen. Where appreciation is high, they can be expensive and they are more complex than standard home loan borrowings. Their terms and conditions can also be more restrictive.<sup>114</sup>

The preceding review of international schemes confirms that shared-equity schemes can have wide-ranging consequences. The welfare and consumer outcomes of any proposal are affected by the following factors:

<b>FACTOR</b>	<b>EFFECT</b>
1. <i>Who promotes the scheme?</i>	Whether government, non-profit or private sector. If private, does the government grant concessions/subsidies to assist in the uptake of the schemes, and to whom?
2. <i>Who provides the finance?</i>	Whether mortgage is private or provided by government or a housing association, or a mix of these, and the role/fees of intermediaries and brokers will impact consumer costs.
3. <i>Who owns the property?</i>	Whether equity partners share ownership of the property as 'tenants-in-common', or as mortgagee/mortgagor and whether the partner shares in capital growth/costs will influence the benefits to the purchaser.
4. <i>What happens on sale of property?</i>	Whether a partner has rights to dictate sale price limits or buy it back and whether the partner shares in capital growth/costs will influence the benefits to the purchaser.
5. <i>Who is targeted?</i>	Whether it is very low income applicants, key workers, first home-owners, moderate income households, retirees or a broader range of groups will affect risk characteristics for loans.
6. <i>Can borrowers increase equity to 100 percent?</i>	Whether the purchaser has the ability to increase (or decrease) equity in the property over time will affect the economics of loans and possibilities of becoming sole owner.
7. <i>Is rent paid on the shared portion of the property?</i>	Some schemes charge a rental component, but if this is set too high, the purchaser is in the same situation as if they were paying 100 percent equity. Where rent is paid, is there sharing of maintenance costs, insurance, council rates, water rates, etc.?
8. <i>Is the scheme generally available or restricted?</i>	General availability gives flexibility to buy in favourable markets, while more restrictive programs may come with greater equity partner subsidy or discount.
9. <i>What happens if the value of the home falls?</i>	Some schemes share falls in value, others don't. While some observers believe in ever-increasing asset values, vulnerable consumers need to be mindful of risks when prices fall.

Annette Sampson gives the example of ‘Jimmy’ who buys a \$400,000 house by paying a 5 percent deposit of \$20,000, a standard home loan of \$300,000 at an interest rate of 7.8 percent over 25 years and an Equity Finance Mortgage of \$80,000. He sells his house later for \$600,000. He is required to give up \$80,000 of the \$200,000 increase as well as repaying the equity finance mortgage. This amounts to 100 percent interest over the period of the equity finance mortgage.

Steve Keen, of the University of Western Sydney, says that under most circumstances the borrower would come out worse under an equity finance mortgage compared with a standard mortgage.<sup>115</sup> Keen provides the example of someone who takes out a standard loan of \$400,000 to buy a home, whilst another uses equity finance to borrow a higher sum of \$500,000. At the end of a 25-year term and, assuming a ‘stab-in-the-dark’ rise of 6.8 percent a year rise in house prices, the mortgage holder has actually \$418,000 less than the buyer of the cheaper home. Nick Coates of Australian Consumers Association, states that, unlike a conventional mortgage, you don’t know what you are going to pay in 20 years’ time because you don’t know what house prices are going to do.<sup>116</sup>

At the end of the loan term, whilst the standard mortgage holder has paid off their debt, the equity finance mortgage borrower must find the funds to repay the bank for the part of the house that has been on standby, plus profits, by either refinancing or selling up.<sup>117</sup>

John Collett warns potential borrowers of equity finance mortgages that even with modest capital gains they are better off with a standard mortgage.<sup>118</sup> Collett refers to calculations performed by Dennis Orrock of InfoChoice. Orrock gives the example of a \$550,000 house with a 25-year mortgage and an interest rate of 7.5 percent. He further assumes interest saved on the mortgage is invested at 6 percent. If the house price grows by 5 percent per year, after five years a home-buyer with an equity finance mortgage will be about \$15,000 worse off and after ten years will be about \$31,000 worse off.

But at lower growth rates over fairly short time periods home-buyers with an equity finance mortgage will be ahead. If the house price grows by 3 percent per year, after five years a home-buyer with an equity finance mortgage will be about \$12,000 better off and after ten years will be about \$34,000 better off. Collett states that clearly where home-buyers experience price falls, they are better off with an equity finance mortgage where the partner shares the loss. He sums up by stating that anyone expecting to do a better than average growth rate of around 4 percent may be better off sticking with the standard mortgage. Also, the higher the interest rate paid on the mortgage, the less there will be in net capital gains and the more favourable to the home-buyer the equity finance mortgage becomes. Nevertheless it will benefit those struggling to enter the property market as it boosts their buying power by up to 25 percent.

Australia is experiencing both record levels of household indebtedness and housing unaffordability. The idea of again extending more debt to weaker borrowers to buy historically expensive assets as a solution, challenges orthodox thinking. Shared-equity schemes’ variable outcomes, complex alternative arrangements and the

potential vulnerability of targeted consumers, underlines the need for transparency in the arrangements for shared-equity programs. Consumers will need to be able to easily compare products and identify costs and risks to participate as informed consumers and share equally in risk management.

Since January of 2000, Fannie Mae has had a ‘Mortgage Consumer Bill of Rights’ which recognises these issues and says a consumer has:

- the right to have access to mortgage credit,
- the right to the lowest-cost mortgage for which the consumer can qualify,
- the right to know the true cost of a mortgage,
- the right to be free of regulatory burden, and
- the right to know what is behind a lender's mortgage decision.<sup>119</sup>

## 4.2 Social policy perspective

A concern of critics of shared-equity schemes is that if there was a reasonable take up of them, it would push up prices in the short term because of the rise in demand. Adelaide Bank expects equity finance mortgages to account for 10 to 20 percent of its new lending over the next two years. Carlos Castillo of Commonwealth Securities Limited said that if other banks took up the product and it became widespread leading to a greater demand for properties, then a likely effect would be increases in house prices.<sup>120</sup>

Rather than increasing affordability and keeping house prices where they are, house prices might just ratchet up by the amount of the benefit that comes from this type of product. A similar criticism is made by Alia McMullen, who again quotes Steve Keen, who argues that if the product becomes very popular it will make houses more expensive at the lower end of the market: a widespread uptake of such loans would actually add to house price growth due to the rise in the amount of money available to home-buyers and such an effect would work in contrast to the idea of an equity finance mortgage making housing more affordable for those at the bottom end of the market.<sup>121</sup>

In England, the Shared Equity Task Force found that the impact of their schemes on house price inflation is only small ... low cost home-ownership schemes have a significant impact in addressing housing affordability for the individuals benefiting directly from the schemes. The report argues that while there will be an impact from this assistance on overall house price inflation (to the potential detriment of those households not being assisted) the actual effect will be small given the overall size of the housing market and the many other factors that impact on it.<sup>122</sup>

Concerns around the relative returns to borrower and investor seem to be more fundamental to many private sector models. The validity of these concerns is confirmed by proponents of these schemes themselves. In their initial report, Caplin and Joye acknowledge that if the repayment of the equity-investors’ loans is taken to be interest payments, their scheme would be illegal in many American states because of usury laws that set maximum allowable interest rates.<sup>123</sup> The obvious weakness in for-profit models is that the extracted fees and investor returns reduce the long-term affordability of the loans and home-buyer returns.

Additionally, there are the higher risks inherent in extending large loans to people who do not meet traditional loan requirements. While the social objective of expanding access to home ownership might be worthy, failed programs can devastate individual families, bankrupt lenders and depress property values in affected neighbourhoods.

A 2007 study by the Woodstock Institute, a US non-profit community development research group, shows that even a single foreclosure has a negative impact on a neighbourhood. Houses within an eighth mile of that foreclosure immediately lose one percent or more of their value.

The report also notes ‘a clustering of foreclosures around low-income and minority communities,’ where residents often have little job security, little financial savvy, low creditworthiness, and few borrowing options.<sup>124</sup>

While the current wave of bankruptcies in the American subprime market is a salutary warning, there are similar lessons from the Australian experience. The NSW HomeFund program of the 1980s was an early effort at addressing the low income housing market with government involvement. Loans had low upfront costs that ballooned on the assumption that borrowers were going to experience significant income growth each year. After being enthusiastically promoted by then Housing Minister, Joe Schipp, the inherent weakness of the scheme revealed itself and by 1993 a commission of inquiry had reported and a rescue package was organised. The *HomeFund Restructuring Bill* 1993 provided a \$340 million rescue package taken from the accumulated surplus funds of the Rental Bond Board, the Real Estate Services Council and the Building Services Corporation, together with the existing resources of the Home Purchase Assistance Fund. Over 25,000 borrowers were covered by the Bill.<sup>125</sup>

In their investigation of housing policy effectiveness in preserving affordable homeownership opportunities over time, Rick Jacobus and Jeffrey Lubell<sup>126</sup> identify four main categories of policy response in America:

1. **Subsidy forgiveness**  
One-time buyer assistance (grants and/or preferential loans) with no obligation to repay. Australian First Homeowners Grant, for example.
2. **Subsidy recapture**  
Temporary assistance such as ‘silent second mortgage’ which requires no payments until sale or earlier nominated time. Interest can either be foregone or just deferred.
3. **Shared appreciation**  
Loans requiring no payments until sale or earlier nominated time. The loan principal and portion of capital growth over the life of the loan are paid in lieu of interest.
4. **Subsidy retention**  
One-time public investment to make designated homes affordable and controls on resale price to ensure continuing affordability.

Elements of the range of shared housing options discussed in this paper accord with the shared appreciation and subsidy retention categories above. Jacobus and Lubell suggest it is not whether to promote individual wealth creation or preserving house affordability, but how to strike an appropriate balance between these two goals. They offer the following analysis<sup>127</sup> of the strengths and weaknesses of the four approaches:

### Subsidy forgiveness:

Advantages	Disadvantages	Consider when ...
<ul style="list-style-type: none"> <li>• Maximises individual asset-accumulation</li> <li>• Relatively simple to administer</li> <li>• Easier to market than more restrictive models</li> </ul>	<ul style="list-style-type: none"> <li>• New subsidy needed for each new applicant</li> <li>• As home prices rise, so does the assistance required</li> <li>• Large grants may become hard to justify and lose public support</li> </ul>	<ul style="list-style-type: none"> <li>• Subsidy levels per buyer are low</li> <li>• Retaining affordability over time is not a major concern</li> <li>• Buyers need inducement to take a difficult property</li> </ul>

### Subsidy recapture:

Advantages	Disadvantages	Consider when ...
<ul style="list-style-type: none"> <li>• Funds can be re-used for future applicants</li> <li>• Homeowners don't take scarce public funds with them when they move</li> <li>• Homeowners earn equity in a rising market</li> <li>• Relatively simple to administer</li> </ul>	<ul style="list-style-type: none"> <li>• As prices rise, recaptured funds may not meet future demand</li> <li>• Without increases in funding, programs will serve fewer people</li> <li>• Does not ensure continued affordability in a particular neighbourhood</li> <li>• Requires ongoing administration to recycle funds</li> </ul>	<ul style="list-style-type: none"> <li>• Subsidy amounts are modest</li> <li>• The jurisdiction can afford to supplement funding</li> <li>• Home prices are not expected to rise substantially</li> <li>• The market offers adequate supply of affordable homes for re-investment of funds</li> </ul>

### Shared appreciation:

Advantages	Disadvantages	Consider when ...
<ul style="list-style-type: none"> <li>• Does a better job of preserving the buying power of public funds</li> <li>• Home price appreciation is shared among all the financial contributors</li> <li>• Do not tie the subsidy to a single home – giving flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• In a rising market funding top-ups may be required</li> <li>• Home sales at market value does not ensure ongoing affordability in a particular neighbourhood</li> </ul>	<ul style="list-style-type: none"> <li>• There is concern about rising prices but the jurisdiction can top-up funding as required</li> <li>• Choice of where to live is more important than ongoing affordability in a particular neighbourhood</li> </ul>

## Subsidy retention:

Advantages	Disadvantages	Consider when ...
<ul style="list-style-type: none"> <li>• One-time subsidy ensures ongoing affordability</li> <li>• Homeowners can earn significant equity</li> <li>• Retains mixed-income character of neighbourhoods going through rapid price rises</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term affordability requirements need ongoing administration</li> <li>• Homeowners typically get less total equity than under other models</li> </ul>	<ul style="list-style-type: none"> <li>• Subsidy amounts are high and prices may increase faster than incomes</li> <li>• Preservation of a stock of affordable units is the key goal</li> <li>• Funds may not be available to re-subsidise at resale</li> <li>• Limited future development opportunities make it difficult to re-invest recaptured funds</li> </ul>

Given current Australian concerns with inflated prices and loss of affordable stock over time, the shared appreciation and subsidy retention models offer greatest hope of permanently impacting on home affordability. The accord between these models and models of shared-equity should give support to the development of shared-equity as a major initiative in affordable housing provision in Australia.

Grieve and others researched government home-ownership schemes in Australia<sup>128</sup> to develop analytical tools that will assist make decisions about the best way to help income-targeted recipients achieve and maintain home-ownership. Their research points to the dominance of the direction of price movements as a factor in mortgage failures:

Where there have been mortgage possessions; they were very often found among clusters of clients of assisted mortgages in specific metropolitan or regional locations characterised by stagnant or declining property values. By contrast, where there were clusters of assisted mortgages in areas experiencing rapidly rising values ... there were very few, if any possessions.<sup>129</sup>

Grieve and others found that while the majority of income-targeted homeownership assistance have benefited enormously, not all homeownership opportunities deliver the assumed benefits of independence, personal pride and the means to accumulate and distribute wealth. Some people are buying into a potential poverty trap. The authors point to specific mitigation strategies to support struggling program participants, such as reduced mortgage payments for a set time or re-purchase of some of the equity (loan liability). They highlighted a number of strategies that can assist, including independent advice, close monitoring and early intervention, and improved data systems.<sup>130</sup>

## 5. Discussion

The role of home ownership in wealth creation in Australia is widely accepted. One effect of the growth of home ownership in Australia during the 1950s and 1960s was to spread its benefits more widely throughout society, thus making Australia a more egalitarian society than comparable countries. However, writers such as Hugh Stretton believe that financial deregulation has undermined the equalising effect of the growth of working class home ownership.<sup>131</sup> Housing affordability issues are now placing ownership outside the reach of many young people, families and low-income renters.

Shared equity schemes have operated in various jurisdictions for some time and have successfully assisted individuals and families into home ownership. Shared equity is one product that may give individuals and families, who fail the eligibility test for a more narrowly targeted public housing sector and who have difficulty buying into home ownership, the ability to access home ownership.

However, the variability of outcomes from shared equity products makes the particular features of any scheme and the prevailing housing market conditions, important in analysing the potential benefits and risks. Products reviewed above vary in terms of the risks and returns to the home-buyer and share-investor and in terms of how subsidies and affordability are preserved for future applicants.

Shared equity products are more viable in keeping costs down if a government instrumentality promotes the scheme and takes part ownership of the property. Market sponsored schemes, although giving access to people who would otherwise not get on the ladder to home ownership, may be very expensive in the long term compared to traditional forms of financing, especially if Australia experiences another round of house price inflation.

Shared equity products also vary in the extent to which they contribute to a permanent stock of affordable housing. In developing future products, Australian authorities might look to the models in England and the United States of America for useful ideas on subsidy and affordability preservation.

Evaluation of proposed models might consider the degree to which subsidies and capital returns are retained by the low-income home buyer, retained by the community in the form of affordable housing stock or retained by institutional investors in the form of dividends.

## Appendix one: Typical home loan products

### Basic variable loan

- Low interest rate (lower than a standard variable loan) no frills loan
- Rate is variable so it moves in line with Reserve Bank changes
- Limited features (e.g. usually no access to offset facilities & more expensive redraw if at all)
- Most allow extra repayments
- Most have terms of 25 or 30 years

### Standard variable loan (the *most popular type of mortgage*)

- A higher interest rate than a basic variable home loan
- Interest rates can move up or down which will cause your repayments to increase or decrease with the move
- It is more flexible than a basic variable mortgage thus allowing you to make extra repayments without penalty as well as offering other features
- Most have terms of 25 or 30 years

### Introductory or honeymoon rate loan

- Offers a low interest rate usually for the 1st year of the loan. The rate may be fixed, variable or capped
- Once the honeymoon period is finished the interest rate usually reverts to the institutions standard variable rate
- The initial low rate offers a chance for you to reduce the principal quickly by making extra repayments
- Can be a disadvantage if the honeymoon rate is fixed and the standard variable rate decreases during the period
- An offset facility can usually be used in conjunction with this loan
- Most banks charge penalties if you discharge these types of mortgages within 3 to 4 years

### Fixed rate loan

- Allows you to fix your interest rate, and thus your repayments, for up to 10 years
- Once the fixed rate period is finished the rate will usually revert to the institutions standard variable rate unless you decide to rollover to another fixed term
- This is a good loan to be in if rates are rising but if rates are falling you could be out of pocket by thousands of dollars

### 100% offset accounts

- This is a separate transaction account which is attached to your mortgage
- The money in the offset account is deducted from the loan balance before interest is calculated. This effectively means that your savings are earning interest at the same interest rate as the home loan.
- The offset account is much like a normal savings account (i.e. usually offers ATM access and a cheque book)
- Available on most banks standard variable and introductory rate mortgages

### All-in-one loans

- This is effectively a transaction account and home loan combined

- Allows you to directly credit your salary to the account and withdraw your funds via ATM's, EFTPOS, credit card or cheque book, as you need it.
- An All in One mortgage enables you to decrease your interest expense by keeping your funds in the account for as long as possible
- The interest rate may be higher or you may be charged a monthly access fee for the privilege

#### Line of credit

- Similar to an All in One loan, except that you can draw down on the loan at any time up to the prearranged credit limit
- This loan has no set term
- A higher interest rate is usually paid for a line of credit
- Good for investment purposes
- A disadvantage is that it is possible for undisciplined borrowers to reduce the equity they have built up in their home

Source: Mortgage World Australia, online at [www.mortgageworldaustralia.com.au/loan\\_advice/loan\\_types.htm](http://www.mortgageworldaustralia.com.au/loan_advice/loan_types.htm), viewed 19 March 2007.

## Endnotes

<sup>1</sup> Australian Bureau of Statistics, 'Housing occupancy and costs', Australia, 2003-2004 catalogue no. 4130.0.55.001 13 March 2006.

<sup>2</sup> The data are for Aboriginals and Torres Strait Islanders, not Aboriginals, for New South Wales and from 2001. The source of the proportion of Indigenous people in New South Wales in the home-ownership tenure is the Department of Family and Community Services, 'Indigenous homelessness: national homelessness strategy consultation paper', prepared for the Commonwealth Advisory Committee on Homelessness, May 2005.

<sup>3</sup> H M Treasury and Communities and Local Government, *Report of the Shared Equity Task Force*, December 2006, p.10.

<sup>4</sup> H M Treasury and Communities and Local Government, p.3.

<sup>5</sup> H M Treasury and Communities and Local Government, p.11.

<sup>6</sup> Australian Unity Wellbeing Index, 'Home-ownership & wellbeing information sheet', February 2007. Based on Australian Unity Wellbeing Index, survey 16, report 16, October 2006.

<sup>7</sup> Productivity Commission Inquiry Report, *First home ownership*, no. 28, March 2004, p. xiii.

<sup>8</sup> Peter Saunders, 'After the house price boom. Is this the end of the Australian dream?', *Policy*, vol. 21 no. 1, p. 3.

<sup>9</sup> Matt Wade, 'Late-paid mortgages show pain in suburbs', *Sydney Morning Herald*, 9 March 2007, p. 3.

<sup>10</sup> NSW Supreme Court figures show that the number of homes repossessed in the twelve months to 31 March 2006 was 4873. This compared to 2189 in 2002. See 'Homes lost as interest rates bite', *The Sun-Herald*, 10 September 2006, p. 1.

<sup>11</sup> Matt Wade, 'Boom times. bad times', *Sydney Morning Herald*, 30 June 2007 viewed on 16 July 2007 at < smh.com.au/text/articles/2007/06/29/1182624165415.html>.

<sup>12</sup> Anthony Klan, 'True rate of home defaults hidden', *The Australian*, 16 May 2007.

<sup>13</sup> John F. McDonald, 'Tax treatment of residences: An international comparison', *Illinois Real Estate Letter*, Winter/Spring 1994, p. 8.

In 2004, the Australian Productivity Commission analysed tax treatments across comparable countries and found:

Tax treatment of owner-occupied and investment housing across countries

	Owner-occupied housing		Investment housing		
	Interest deductibility	Capital gains tax	Negative gearing	Depreciation allowances	Capital gains tax (a)
Australia	No	No	Yes	Yes	Discount
Canada	No	No	Restricted	Yes	Discount
France	No	No	Restricted	Yes	Discount
Germany	No	No after 2 years	Restricted	Yes	Discount
Netherlands	Yes	No	No	No	Discount
New Zealand	No	No	Yes	Yes	No (b)
Britain	No	No	No	No	Yes
USA	Yes	No after 2 years	Restricted	Yes	Yes

Source: Productivity Commission, *First Home Ownership*, Melbourne, 2004, p 85. (a) Discount means less than 100% of the capital gain is taxed. (b) Except for depreciation clawback.

<sup>14</sup> The report of the Shared Equity Task Force defines 'intermediate market' as follows: (i) broad definition – those households of working age who are unable to purchase a lower quartile house price for two or three bedroom dwellings: (ii) narrow definition – the proportion of working age households that can pay a social rent without the assistance of Housing Benefit but who cannot purchase a lower decile priced two or three bedroom dwelling. See H M Treasury and Communities and Local Government, *Report of the Shared Equity Task Force*, December 2006, pp.22-23.

<sup>15</sup> Sub-prime borrowers are defined as those borrowers who score lower on credit-assessment tools. The term originated in and is most used in the United States.

<sup>16</sup> H M Treasury and Communities and Local Government, pp. 4 - 7.

<sup>17</sup> Tax credits are more attractive than tax deductions because they give a dollar for dollar reduction in federal tax payable rather than a discount at the marginal rate.

<sup>18</sup> Land Use Restriction Agreements provide either more than 20% of the development is rent-capped and occupied by people with incomes less than 50% of the local median income, or more than 40% of the development is rent-capped and occupied by people with incomes less than 60% of the local median income.

<sup>19</sup> 'Low income housing tax credit' viewed on 2 July 2007 at <<http://www.lonypics.co.uk/new/100A9aaaCvaC.htm>>.

<sup>20</sup> Souphala Chomisengphet and Anthony Pennington-Cross, 'The evolution of the subprime mortgage market', Federal Reserve Bank of St. Louis *Review*, January/February 2006, vol. 88, no. 1, p. 38.

<sup>21</sup> National Housing Strategy, *Financing Australian housing: the issues*, Issues Paper no. 3, Canberra, 1991, p.20; National Housing Strategy, *Housing choice: reducing the barriers*, Issues Paper no. 6, Canberra, 1992, p.93.

<sup>22</sup> National Housing Strategy, *National housing strategy: agenda for action*, Canberra, 1992, p.32.

<sup>23</sup> The discussion that follows is from Productivity Commission Inquiry Report, *First home ownership*, No. 28, March 2004, pp.46-47.

<sup>24</sup> Mortgage World Australia, viewed 19 March 2007 online at <[www.mortgageworldaustralia.com.au/loan\\_advice/loan\\_types.htm](http://www.mortgageworldaustralia.com.au/loan_advice/loan_types.htm)>.

<sup>25</sup> Mike Berry, Christine Whitehead, Peter Williams and Judith Yates, *Financing affordable housing: A critical comparative review of the United Kingdom and Australia*, Australian Housing and Urban Research Institute, November 2004, p. vi.

<sup>26</sup> Mike Berry, Christine Whitehead, Peter Williams and Judith Yates, p. x.

<sup>27</sup> Ian Winter, *Housing futures: Likely trends in the rental market*, Keynote address to Residential Tenancies Conference, October 2005, p.20.

<sup>28</sup> H M Treasury and Communities and Local Government, p.4.

<sup>29</sup> Andrew Caplin and Christopher Joye, *A proposal for global housing finance reform*, The Menzies Research Centre, 2002.

<sup>30</sup> Mike Berry, Christine Whitehead, Peter Williams and Judith Yates, p vi.

<sup>31</sup> John Emmeus Davis, *Shared equity home-ownership*, National Housing Institute, Montclair NJ, 2006, pp. 4-6.

<sup>32</sup> NSW Office of Fair Trading, *Statement of regulatory intent and compliance policy*, 31 May 2006, viewed on 16 January 2007 at

<<http://www.fairtrading.nsw.gov.au/pdfs/corporate/creditstatementofregulatoryintent.pdf>>.

<sup>33</sup> H M Treasury and Communities and Local Government, p.32.

<sup>34</sup> Jessica Irvine, 'New home sales slump reflects rates struggle', *Sydney Morning Herald*, 28 March 2007, p 9.

<sup>35</sup> H M Treasury and Communities and Local Government, pp.4,7,33.

<sup>36</sup> H M Treasury and Communities and Local Government, p.6.

<sup>37</sup> Department of Communities and Local Government, 'Evaluation of the low cost home-ownership programme', September 2002, viewed on 25 September 2006 at <<http://www.communities.gov.uk>>.

<sup>38</sup> H M Treasury and Communities and Local Government, p. 48.

<sup>39</sup> Financial Services Authority, 'Open Market HomeBuy Scheme', Factsheet, September 2006.

<sup>40</sup> H M Treasury and Communities and Local Government, p. 32.

<sup>41</sup> Marian Elgar and Tony Evans, 'Own home: An evaluation of Advance's home-ownership scheme', Advance Housing and Support, 2004.

<sup>42</sup> National Audit Office, 'A foot on the ladder: Low cost home-ownership assistance', 2006.

<sup>43</sup> H M Treasury and Communities and Local Government, p. 30.

<sup>44</sup> See Department of Communities and Local Government press release dated 2 October 2006. The Housing Corporation is the English government agency that funds and regulates social housing in that country.

<sup>45</sup> HM Treasury and Communities and Local Government, p.25.

<sup>46</sup> HM Treasury and Communities and Local Government, p.26.

<sup>47</sup> HM Treasury and Communities and Local Government, p.26.

<sup>48</sup> HM Treasury and Communities and Local Government, p.26.

<sup>49</sup> HM Treasury and Communities and Local Government, p.36.

<sup>50</sup> HM Treasury and Communities and Local Government, .5.

<sup>51</sup> HM Treasury and Communities and Local Government, p.41.

<sup>52</sup> HM Treasury and Communities and Local Government, p.43.

<sup>53</sup> See for example Rick Jacobus and Jeffrey Lubell, *Preservation of affordable homeownership: A continuum of strategies*, Center for Housing Policy, 2007 pp5-7. The authors include both shared appreciation loans and subsidy retention programs as 'shared equity ownership' because the benefits of

price inflation are shared between the public entity providing the subsidy and the individual homebuyer assisted with that subsidy.

<sup>54</sup> John Emmeus Davis, p 13.

<sup>55</sup> John Emmeus Davis, pp 16-18.

<sup>56</sup> John Emmeus Davis, p 18.

<sup>57</sup> John Emmeus Davis, p 22.

<sup>58</sup> National Association of Housing Cooperatives Viewed on 22 June 2007 at <[http://www.coophousing.org/about\\_nahc.shtml](http://www.coophousing.org/about_nahc.shtml)>.

<sup>59</sup> John Emmeus Davis, pp 23-25.

<sup>60</sup> John Emmeus Davis, p 27 and Footnote 62, p. 121.

<sup>61</sup> Viewed on 6 July 2007 at <[http://en.wikipedia.org/wiki/Federal\\_National\\_Mortgage\\_Association](http://en.wikipedia.org/wiki/Federal_National_Mortgage_Association)>.

<sup>62</sup> Viewed on 6 July 2007 at <[http://en.wikipedia.org/wiki/Freddie\\_Mac](http://en.wikipedia.org/wiki/Freddie_Mac)>.

<sup>63</sup> Andrew Caplin and Christopher Joye, p. 187.

<sup>64</sup> Souphala Chomisengphet and Anthony Pennington-Cross, at p. 37 report that many factors have contributed to the growth of subprime lending. Most fundamentally, it became legal, The ability to charge high rates and fees to borrowers was not possible until the *Depository Institutions Deregulation and Monetary Control Act* (DIDMCA) was adopted in 1980. It preempted state interest rate caps. *The Alternative Mortgage Transaction Parity Act* (AMTPA) in 1982 permitted the use of variable interest rates and balloon payments. *The Tax Reform Act* of 1986 (TRA) increased the demand for mortgage debt because it prohibited the deduction of interest on consumer loans, yet allowed interest deductions on mortgages for a primary residence as well as one additional home.

<sup>65</sup> Souphala Chomisengphet and Anthony Pennington-Cross, p 37.

<sup>66</sup> Souphala Chomisengphet and Anthony Pennington-Cross, p 38.

<sup>67</sup> Bernard S. Bernanke, Remarks at the Federal Reserve Bank of Chicago's 43<sup>rd</sup> Annual Conference on Bank Structure and Competition, Chicago, May 17, 2007, p 7 of 7, viewed online on 27 May 2007 at <<http://www.federalreserve.gov/boarddocs/Speeches/2007/20070517/default.htm>>.

<sup>68</sup> Bernard S. Bernanke, p 2 of 7.

<sup>69</sup> Center for Responsible Lending quoted in Tony Favro, 'US subprime mortgage crisis hurts individuals and whole families,' *City Mayors Finance*, viewed online on 27 May 2007 at <<http://www.citymayors.com/finance/us-subprime.html>>.

<sup>70</sup> Mara Der Hovanesian and Matthew Goldstein, 'The mortgage mess spreads,' *Business Week*, viewed online on 27 May 2007 at <[http://www.businessweek.com/print/investor/content/mar2007/pi20070307\\_505304.htm](http://www.businessweek.com/print/investor/content/mar2007/pi20070307_505304.htm)>.

<sup>71</sup> Vikas Bajaj, "A strong quarter, a shaky foundation", *New York Times*, July 8 2007 viewed online on 8 July 2007 at <<http://www.nytimes.com/2007/07/08/business/mutfund/08lede.html>>.

<sup>72</sup> Information on 18 January 2007 provided by John Phillips of Tassie Home Loans. As at June 2007, this proposal is still in the process of being considered by the Tasmanian Cabinet.

<sup>73</sup> South Australian Department of Families and Communities, 'Shared Equity' Fact Sheet, November 2006, viewed on 16 January 2007 at <[http://www.familiesandcommunities.sa.gov.au/DesktopModules/SAHT\\_DNN2\\_Documents/Download/633045384689687500/Shared%20Equity.pdf](http://www.familiesandcommunities.sa.gov.au/DesktopModules/SAHT_DNN2_Documents/Download/633045384689687500/Shared%20Equity.pdf)>.

<sup>74</sup> Shelter WA, 'Keystart Home Loan Schemes', Information Sheet, no. 26, 2005.

<sup>75</sup> Press release and brochure viewed on 6 March 2007 at <<http://www.keystart.com.au/key/home.htm>>.

<sup>76</sup> First Home-buyers Assistance Fund is administered by the WA Real Estate and Business Agents Supervisory Board and provides certain first home-buyers with a grant of up to \$2,000 to cover incidental expenses when they purchase an established or partially built home through a licensed real estate agent.

<sup>77</sup> The Department of Housing and Works is a major builder, home financier and land developer in Western Australia with assets worth more than \$5 billion.

<sup>78</sup> Mark Phillips, 'Shared equity a key to ownership', *Australian Financial Review*, 9 March 2007, p.69.

<sup>79</sup> Media release dated 30 January 2007 entitled 'New loan offers home affordability breakthrough' viewed at <<http://www.ministers.sa.gov.au/news.php?id=1197&print=1>> on 27 March 2007.

<sup>80</sup> Media release dated 15 March 2007 entitled 'Affordable homes program to address housing trust viability' viewed at <<http://www.premier.sa.gov.au/news.php?id=1379>> on 27 March 2007.

<sup>81</sup> 'Housing Affordability Initiative Launched', Media release dated 13 February 2007 viewed at <<http://www.vicurban.com/cs/Satellite?c=VArticle&cid=1171403616657&pagename=VicUrban%2FLayout&pid=1147912434946>> on 30 March 2007; Mark Phillips, 'Super funds find a new home in housing market', *Australian Financial Review*, 8 March 2007, pp 1,50,51; Mark Colvin, 'States

experiment with new housing finance model', Radio National, 14 February 2007, viewed at <<http://www.abc.net.au/pm/content/2007/s1848035.htm>> on 20 March 2007.

<sup>82</sup> Viewed on 13 April 2007 at <[http://www.actaffordablehousing.com.au/resources/pdfs/shared\\_equity\\_FS.pdf](http://www.actaffordablehousing.com.au/resources/pdfs/shared_equity_FS.pdf)>.

<sup>83</sup> Department of Housing, 'Information Paper on Shared Ownership', 25 September 2002.

<sup>84</sup> NSW Department of Housing, *Annual Report 2003-04*, p. 29.

<sup>85</sup> Redfern-Waterloo Authority, *Redfern-Waterloo Built Environment Plan (Stage One)*, August 2006, p.47.

<sup>86</sup> Landcom, *Annual Report for 2006*, pp. 37, 44.

<sup>87</sup> Merilyn Alt and Elizabeth Rowe, *Shared equity models for people with a disability – final report*, NSW Department of Housing, October 2006, p. v.

<sup>88</sup> Viewed on 29 January 2007 at <[www.housing.nsw.gov.au/Centre+For+Affordable+Housing/Affordable+Home+Purchase/Shared+Equity.htm](http://www.housing.nsw.gov.au/Centre+For+Affordable+Housing/Affordable+Home+Purchase/Shared+Equity.htm)>.

<sup>89</sup> Matt Brown, (Minister for Housing) *NSW Parliamentary Hansard*, Legislative Assembly, 6<sup>th</sup> June 2007, available online at <[www.parliament.nsw.gov.au/prod/PARLMENT/hansArt.nsf/V3Key/LA20070606017](http://www.parliament.nsw.gov.au/prod/PARLMENT/hansArt.nsf/V3Key/LA20070606017)>.

<sup>90</sup> Tenancy in common can be defined this way: *tenancy in common*: n. title to property (usually real property, but it can apply to personal property) held by two or more persons, in which each has an 'undivided interest' in the property and all have an equal right to use the property, even if the percentage of interests are not equal or the living spaces are different sizes. Unlike 'joint tenancy', there is no 'right of survivorship' if one of the *tenants in common* dies, and each interest may be separately sold, mortgaged or willed to another. Thus, unlike a joint tenancy interest, which passes automatically to the survivor, upon the death of a tenant in common there must be a probate (court supervised administration) of the estate of the deceased to transfer the interest (ownership) in the tenancy in common. (From <<http://dictionary.law.com/default2.asp?selected=2103&bold=|||>> viewed on 29 March 2007.)

<sup>91</sup> From <<http://www.podproperty.com.au>> viewed on 29 March 2007.

<sup>92</sup> Anna Fenech, 'Zero rate home loan has a capital catch', *The Australian*, 21 March 2006.

<sup>93</sup> Andrew Caplin and Christopher Joye, p.5.

<sup>94</sup> Summarised from Mike Berry, Christine Whitehead, Peter Williams and Judith Yates, *Financing affordable housing: A critical comparative review of the United Kingdom and Australia*, Australian Housing and Urban Research Institute, November 2004, p. 61.

<sup>95</sup> Mike Berry, Christine Whitehead, Peter Williams and Judith Yates, p. 61.

<sup>96</sup> Caplin and Joye, pp. 10-13.

<sup>97</sup> Productivity Commission Inquiry Report, p.223.

<sup>98</sup> Productivity Commission Inquiry Report, p.224.

<sup>99</sup> Rismark has established a website that provides comprehensive information on equity finance mortgages. This is at <[www.efm.info](http://www.efm.info)>.

<sup>100</sup> Maurice Dunlevy, 'Shared equity home loan fund a family affair', *Australian*, 18 October 2006.

<sup>101</sup> Website at <<http://www.rismark.com.au>>, viewed 21 September 2006.

<sup>102</sup> *Investor Weekly*, issue 528, p.3.

<sup>103</sup> Matt Wade, 'Equity trade-off for bigger home loans', *Sydney Morning Herald*, 14 March 2007, p. 3.

<sup>104</sup> Annette Sampson, 'Banks want to share equity, not move in', *Sydney Morning Herald*, 17-18 March 2007, p. 50.

<sup>105</sup> Simon Hoyle, 'Patience rewarded in home stretch', *Sydney Morning Herald*, 24-25 March 2007, p. 47.

<sup>106</sup> Simon Hoyle, p. 47.

<sup>107</sup> Darren Goodsir, 'The great house lottery – but only for low earners', *Sydney Morning Herald*, 26 June 2004, viewed on 16 March 2007 at <<http://www.smh.com.au/articles/2004/06/25/1088144980573.html?from=storylhs>>

<sup>108</sup> 'Shared equity loans cuts rate to four percent', 17 June 2005, online at <<http://www.infochoice.com.au/banking/news/nonconforming/>>, viewed 25 September 2006.

<sup>109</sup> Phone conversation with George Secca of Firstfolio, 18 May 2007.

<sup>110</sup> Alex Mitchell, 'Tycoon's plan to help young buy homes', *Sun-Herald*, 19 November 2006, p. 16; viewed on <<http://www.seven.com.au/todaytonight/story/?id=30279>> and <<http://www.johnsonpropertygroup.com.au/page/default.asp>>.

- <sup>111</sup> 'Australand, St George launch equity deal', *Sydney Morning Herald*, 13 March 2007 viewed at <<http://www.smh.com.au/news/Business/Australand-St-George-launch-equity-deal/2007/03/13/1173722460444.html>> on 16 March 2007.
- <sup>112</sup> Simon Hoyle, p. 47.
- <sup>113</sup> Matt Wade, 'Housing cost dim appeal of bright city lights', *Sydney Morning Herald*, 12 March 2007, p. 3.
- <sup>114</sup> Annette Sampson, 'Banks want to share equity, not move in', *Sydney Morning Herald*, 17-18 March 2007, p. 50.
- <sup>115</sup> Alia McMullen, 'Shared equity loans expensive way to buy', viewed on 12 April 2007 at <<http://www.news.com.au/business/story/0,23636,21474393-31037,00.html>>.
- <sup>116</sup> Alia McMullen, viewed on 12 April 2007 at <<http://www.news.com.au/business/story/0,23636,21474393-31037,00.html>>.
- <sup>117</sup> Alia McMullen, viewed on 12 April 2007 at <<http://www.news.com.au/business/story/0,23636,21474393-31037,00.html>>.
- <sup>118</sup> John Collett, 'Equity loan not equal for all', *Sydney Morning Herald Money*, 4 April 2007, p. 8.
- <sup>119</sup> Federal National Mortgage Association website, viewed on 8 July 2007 at <<http://www.fanniemae.com/initiatives/consumerrights.jhtml?p=Initiatives>>
- <sup>120</sup> Cameron England, 'Shared loan may up home costs', *Daily Telegraph*, 14 March 2007 viewed on 16 March 2007 at <<http://www.news.com.au/dailytelegraph/story/0,22049,21379255-5001024,00.html>>.
- <sup>121</sup> Alia McMullen, viewed on 12 April 2007 at <<http://www.news.com.au/business/story/0,23636,21474393-31037,00.html>>.
- <sup>122</sup> HM Treasury and Communities and Local Government, p.31.
- <sup>123</sup> Andrew Caplin and Christopher Joye, p. 187.
- <sup>124</sup> Tony Favro, 'US subprime mortgage crisis hurts individuals and whole communities', *City Mayors Finance*, 14 April 2007, viewed online at <<http://www.citymayors.com/finance/us-subprime.html>>.
- <sup>125</sup> For a detailed exposition of the rescue package, see the Minister's Second Reading Speech: Ms Machin (Port Macquarie - Minister for Consumer Affairs, Minister Assisting the Minister for Roads, and Minister Assisting the Minister for Transport) *NSW Parliamentary Hansard*, Legislative Assembly, 14<sup>th</sup> December 1993, [11.15am]: available online at <<http://www.anzacatt.org.au/prod/PARLMENT/hansArt.nsf/V3Key/LA19931214023>>
- <sup>126</sup> Rick Jacobus and Jeffrey Lubell, *Preservation of affordable homeownership: A continuum of strategies*, Center for Housing Policy, 2007.
- <sup>127</sup> Collated from Rick Jacobus and Jeffrey Lubell, pp. 8-22.
- <sup>128</sup> Shane Grieve and others, *Falling through the net? A risk management model for home ownership schemes*, Australian Housing and Urban Research Institute, 2005.
- <sup>129</sup> Shane Grieve and others, p. ii.
- <sup>130</sup> Shane Grieve and others, pp.22-24.
- <sup>131</sup> Chris Paris, *Housing Australia*, MacMillan, 1993, p.75, and Hugh Stretton, *Australia Fair*, UNSW Press, 2005.