Defence Service Homes Amendment Bill 1988

Date Introduced: 10 November 1988
House: House of Representatives
Presented by: Hon. Ben Humphreys, M.P., Minister for Veterans' Affairs

Digest of Bill

Purpose
To sell the Defence Service Homes Corporation (DSHC) loans portfolio, and the right to provide future loans, to the Westpac Banking Corporation (Westpac).

Background
The Defence Housing Assistance Program (the Scheme) was established in 1918 to assist Defence Force personnel who had served overseas during the First World War to resettle. The Scheme was subsequently extended to those who served, or who enlisted or were appointed to serve, overseas in later conflicts. In 1972 the Scheme was extended to all members of the Defence Forces who had completed three years full-time service. This qualifying period was increased on 17 August 1977 to six years. As part of the 1985 May Economic Statement, it was announced that persons who join the Defence Forces after 14 May 1985 would not be entitled to benefits under the Scheme. Instead, they would be eligible for a new form of home ownership assistance, under a scheme to be developed. Details of this scheme have yet to be announced, and as such, there is currently no scheme applying to those who joined the Defence Forces after 14 May 1985.

The benefits of the pre-1985 Scheme include a loan at a concessional rate, mortgage management, and home owners insurance cover. Since 1980, the maximum loan has been $25,000. Interest is payable at the rate of 3.75% per annum on the first $12,000, at 7.25% per annum on the portion of a loan between $12,000 and $15,000, and 10% per annum on amounts in excess of $15,000. On the maximum first mortgage, this translates to an overall interest rate of slightly under 7% per annum. Loans are generally repayable over a maximum period of 32 years in monthly instalments. Monthly repayments on a $25,000 loan repaid over the maximum period would be approximately $160, though loans may be repayed at a greater rate.

A loan may be made available to buy a new home; to build a house; to complete a partially built house; to buy land to build a house on; to enlarge a house; to discharge an existing mortgage; and to acquire a position in sanatorium or nursing home. Additional loans may be made, up to an amount equal to the difference between the amount already lent and the maximum loan, for the purchase of essential household item or the provision of essential extra accommodation.
In cases of hardship, loan instalments payable by widows and certain other persons may be reduced. The DSHC may also pay expenses, such as rates and taxes and essential repairs, associated with a widow's home. This form of assistance is repayable with interest. A waiting period of 10 months applies to loans for buying a house.¹

It was also announced in the 1985 May Statement that the loans component of the Scheme would be sold to the private sector. Reasons for this include to remove the 10 month waiting period for a Defence loan, enable access to additional finance, at normal first mortgage rates without additional fees and charges, and to provide mortgage portability.² Under the proposal, the the private sector will provide loans which the Government subsidises. The entitlements of those who already have or are eligible for loans under the existing Scheme will not be affected. The new arrangements were expected to apply from 1 January 1986, though the lack of suitable agreement meant that this did not occur. On the 11 October 1988 the Minister for Finance announced that agreement had been reached with Westpac on the proposed purchase by Westpac, for approximately $1.5 billion, of the existing loan portfolio of the DSHC, and the right to provide new loans.³

Main Provisions

The Defence Service Homes Act 1918 will not apply to people joining the Defence Force after 14 May 1985 (clause 5).

Proposed section 6B, which will be inserted into the Principal Act by clause 9, provides for the transfer of mortgage and similar loans to Westpac.

Proposed Part IV (clauses 24 – 30) authorises the payment of a subsidy to Westpac by the Commonwealth. The subsidy is the difference between the interest payable by the borrower monthly on the outstanding balance and the amount of interest Westpac could have earned had a commercial interest rate applied to the loan. The maximum first mortgage loan that may be subsidised by the Commonwealth will be $25 000.

The interest rate for first mortgage loans will be 6.85% per annum, while that for additional loans will be 10% per annum. Financial relief will be available to a widow or widowed mother of a deceased enlistee, or the wife of an enlistee who is temporarily or permanently insane, through the reduction of loan instalments, payment of rates, taxes, and essential home repairs. The rate of interest on loans for widows relief will be 3.75%. The rate of interest on loans to eligible service personnel for essential household repairs will be 10% (proposed sections 31 – 35).
The maximum term for repayment of a first loan will be 25 years. Other loans will be limited to the balance of the term of the first mortgage loan. The Secretary of the Department of Veterans' Affairs will have a discretion to permit a longer term of repayment in cases where repayments cause financial hardship (proposed section 36(1)).

The insurance portfolio of the DSHC is not among the assets to be sold to the Bank. When the DSHC ceases to exist, the Commonwealth will replace the Corporation as insurer. The new insurance operation will be known as the 'Defence Service Homes Insurance Scheme', and insurance arrangements will continue on the same basis as under the present Scheme (proposed sections 38-38H).

Proposed Schedule 1 contains the terms of the agreement between the Commonwealth and Westpac for the sale of the DSHC loans portfolio and the right to provide future loans. Westpac will pay the Commonwealth $1.39 billion, comprising the face value of the mortgage portfolio and accrued interest as at 31 October 1988, and $100 million for the right to provide new loans (clause 3). Westpac will not be able refuse a loan to an applicant on the grounds of age, sex or marital status, race, colour or religious beliefs, or the amount of money deposited with Westpac (clause 7). Westpac's lending criteria will be, as a general principal, that the amount of repayments should not exceed 25% of the gross income of the applicant. This will be a general rule only and each case will be considered on its merits (proposed Schedule C of Schedule 1).

References
3. Ibid.
For further information, if required, contact the Defence Group.