HOUSING LOANS INSURANCE AMENDMENT BILL 1985

Date Introduced: 17 April 1985
House: House of Representatives
Presented by: Hon. Stewart West, M.P., Minister for Housing and Construction

Short Digest of Bill

Purpose

To allow the Housing Loans Insurance Corporation to insure pools of mortgages offered on the secondary mortgage market; to extend the range of mortgage loans that may be insured; to act as an agent for insurance underwriters; and to allow the Minister to direct that certain loans be insured.

Background

The Housing Loans Insurance Corporation (HLIC) was established by the Housing Loans Insurance Act 1965 (the Principal Act) to insure lenders against losses on housing loans. Such insurance allows loans to be made where there would otherwise be unacceptable risks of default, for example, when the loan to valuation ratio is very high.

The Principal Act was amended in 1977 to place the HLIC on a more equal footing with private competitors. The HLIC’s exemption from tax was removed and it was to offer a reasonable return on capital to the Commonwealth. Between 1977 and 30 June 1984, total assets rose from $22.7m to $67.9m and net profits increased from $1.69m to $5.38m. In this period the HLIC paid $18.9m in income tax and returned $14.4m in dividends to the Commonwealth.[1]

The Fraser Government proposed the sale of HLIC, but the Hawke Government resolved to retain HLIC as a public enterprise.

The Principal Act was again amended in September 1983 to allow the HLIC to insure loans for the purchase, construction, re-financing or improvement of commercial buildings. As yet the insurance of commercial loans is only a minor part of the HLIC's operations, commercial loans to a value of $125m[2] being insured out of a total value of loans insured of $2,669m in the 1983-84 financial year.[3]
The current amendments to the Principal Act are partly the result of the growth of the secondary mortgage market, where mortgages are traded by the mortgagee and third persons not involved in the original transaction. The Report of the Review Group on the Australian Financial System (the Martin Report), delivered in December 1983, concluded that a secondary mortgage market "could be particularly valuable in attracting funds for housing from non-traditional sources". This view was adopted by the Minister when announcing the changes contained in this Bill to the 21st Annual Conference of the Australian Association of Permanent Building Societies on 27 March 1985. The Minister stated "the secondary mortgage market has a great potential to attract new funds into housing".

The HUC has become involved in the debate surrounding the establishment of a secondary mortgage market due to the need to provide some form of insurance on such mortgages so they represent a reasonable risk. The Martin Committee recommended that the HUC's function be extended to cover the secondary mortgage market and that:

"While the mortgage insurance function of HLIC contributes to a reduction in the risks attached to mortgages, and thereby to their marketability, a conflict of interest situation would arise if HLIC were also to be involved in trading in mortgages or mortgage-backed securities. As the Campbell Committee noted, there would be excessive concentration of risk, with HLIC carrying not only the insurance liabilities but also the risks associated with holding mortgages".

Outline

Most changes are affected by alterations to the definition of insurable loans in section 4 of the Principal Act, and by amendments to section 17 which details the types of business of the HLIC.

Main Provisions

The Bill will come into force on a day or days fixed by Proclamation (clause 2).

The HLIC's ability to insure mortgages traded on the secondary mortgage market is established by amendments to sections 4 and 17(2) of the Principal Act effected by clauses 4 and 9 respectively. These amendments will allow the HLIC to insure a single mortgage or groups of mortgages held by an approved dealer.
The HLIC's operations are also extended by a change in the definition of 'insurable loans', contained in section 4 of the Principal Act (clause 4). This will allow the HLIC to insure all loans secured by mortgage. At present the HLIC may insure such loans only if they are for a purpose contained in the definition of 'insurable loans'.

The Minister will be given power to direct that the HLIC insure loans made to further the government's housing policy by new sub-sections 17(3C), (3D) and (3E) (clause 9). These provisions will require the Minister to seek and consider advice from the HLIC before making a direction to insure and require the tabling in Parliament of any direction. By an amendment to section 26 of the Principal Act, the Minister may, after consultation with the HLIC, determine the premium and charges applicable to insurance offered under Ministerial direction (clause 13).

The HLIC will be able to act as agent for other insurance companies engaged in the underwriting of mortgage repayment insurance for borrowers (new section 17(3B); clause 9).

To place the HLIC on an equal footing with private insurers, it will be required to make annual payments to the government as determined by the Minister, having regard to any advice offered by the HLIC, losses made due to Ministerial direction, reinsurance costs and the amount of business transacted (clause 16).

For further information, if required, contact:

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References

2. Ibid., p.9.
3. Ibid., pp.4 and 5.