

CONFIDENTIAL**CABINET DECISION**

No. 6850

Submission No.: 5863

Title: NEW NORTHERN TERRITORY HOMENORTH LOAN PORTFOLIO
SCHEME

Cabinet approved -

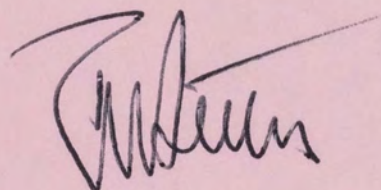
(a) introduction of a new Northern Territory "HomeNorth" Loan Portfolio comprising the following three Schemes:

1. HomeNorth Easy Start
2. HomeNorth Extra Start
3. HomeNorth Sales

as detailed in Attachment A, subject to the Commonwealth under the Commonwealth State Housing Agreement and endorsement by the Treasurer;

(b) that priority be given to drafting the relevant Regulations under the Housing Act; and

(c) that the announcement of the loans portfolio and the implementation date be determined by the Minister for Lands and Housing, once formal approval for the Schemes has been obtained from the Commonwealth Minister for Community Services and Health and operational details finalised.



R. A. SETTER

Secretary to Cabinet.

28 May 1991

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HomeNorth LOAN PORTFOLIO

1. The HomeNorth Loan Portfolio is a new package of home purchase assistance schemes comprising of:
 1. HomeNorth EASY START - A first home ownership low interest scheme
 2. HomeNorth EXTRA START - A second mortgage assistance scheme
 3. HomeNorth SALES - A low interest scheme for sale of Commission dwellings

2. The Portfolio is aimed at the low and middle income groups identified as the prime targets for Government assistance to attain home ownership. The schemes are subject to assessments based on family incomes and contain recoupable elements that will ensure their acceptability under the terms of the CSHA and subsequent funding from the Home Purchase Assistance Account.

3. HomeNorth EASY START
 - 3.1 A first mortgage scheme for first home buyers in the Territory with family incomes ranging between \$300 and \$600 per week.
 - 3.2 The interest rate to be based on level of family income commencing at 5% p.a. with the maximum amount of loan to be \$70,000. Repayments have been scaled at approximately 25% of income.
 - 3.3 Interest rates will subsequently increase by 0.5% per year until they equate to 1% above the Commonwealth Bank housing loan rate.
 - 3.4 The value of the property being purchased/constructed is not to exceed \$100,000.
 - 3.5 A minimum deposit will be required of 5% of the value of the property which may include any form of Government deposit assistance. However, at least \$2000 must be provided from the borrowers own savings.
 - 3.6 A schedule giving the various income levels and interest rates is at Table 1.

3.7 Initial demand for the scheme has been estimated at two levels:

- . Predicted of 160 for first year = \$11.20M
- . High of 222 for first year = \$15.54M

The predicted figure is based on demand for the Interest Subsidy Scheme 1989/90 but deletes two income applicants who would exceed the \$600 per week limit. The high figure uses the ratio of rental households within these income levels and the anticipated market of around 2000 dwellings.

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HomeNorth EXTRA START

- 4.1 EXTRA START addresses those with family incomes ranging between \$601 and \$900 per week by providing a second mortgage loan of up to \$25000. This middle income group who are ineligible for EASY START but are excluded from home purchase due to either insufficient funds to meet the deposit requirements or, because of their level of income, have limited borrowing capacity.
- 4.2 The starting interest rate is income geared and commences at 8.5% p.a for borrowers in the \$601 - \$650 income bracket. The interest rate escalates by 0.5% per year until they reach a maximum of 1% above the Commonwealth Bank house loan rate.
- 4.3 The maximum term of the loan to be 25 years.
- 4.4 The value of the property being purchased or constructed (including land) is not to exceed \$130 000.
- 4.5 Eligibility criteria to be restricted to first home buyers in the Territory.
- 4.6 A schedule outlining the loan available at various income levels is at Table 2.
- 4.7 Borrowers will be expected to provide at least 5% of the value of the property as a deposit. This may include Government Deposit Assistance but at least \$2,000 must be provided from the borrowers own savings.
- 4.8 The scheme has been designed to enable a total borrowing capacity of \$70,000 with combined repayments to both the bank and the Housing Commission of 25% to 30% of income.

5. HomeNorth SALES SCHEME

HomeNorth Sales is a vendor financing scheme, with minimum deposit provisions to assist tenants purchase the home they occupy. The purchaser pays a deposit to the Department and a loan is created for the balance of the purchase price. The Department is both vendor and financier and the transaction does not require the transfer of funds and a "book entry" only is effected.

Details of the financing arrangement are as follows:

- 5.1 the maximum amount of loan will be the market value of the property less the deposit paid;
- 5.2 the minimum deposit will be 5% of the market value of the property. An amount of at least \$2000 must be provided from the purchasers own savings;
- 5.3 the commencing interest rate will be income related as per the attached schedule at Table 3;
- 5.4 interest rates will escalate by 0.5% per year until the maximum of 1% over the Commonwealth Bank home loan rate is reached;
- 5.5 the maximum term of loan will be 45 years;
- 5.6 repayments must not exceed 27.5% of the gross weekly family income;
- 5.7 the loan will be secured by a first mortgage over the property; and
- 5.8 the sale price of the dwelling to be current market value excluding improvements carried out by the tenant.

TABLE 1HomeNorth EASY STARTFIRST MORTGAGE SCHEME

	GROSS WEEKLY INCOME					
	300-350 \$	351-400 \$	401-450 \$	451-500 \$	501-550 \$	551-600 \$
MAX LOAN AMOUNT	70,000	70,000	70,000	70,000	70,000	70,000
STARTING INTEREST						
RATE	5%	6%	7%	8%	9%	10%
INITIAL REPAYMENTS (MTH)	326.21	375.40	426.79	479.94	534.45	590.01
REPAYMENTS AS PERCENTAGE OF INCOME	23.13%	23.07%	23.15%	23.29%	23.47%	23.66%

TABLE 2HomeNorth EXTRA STARTSECOND MORTGAGE LOANS

GROSS WEEKLY INCOME

	601-650	651-700	701-750	751-800	801-850	851-900
	\$	\$	\$	\$	\$	\$
LOAN AMOUNT	25,000	25,000	25,000	25,000	25,000	25,000
COMMENCING INTEREST RATE	8.5%	9.5%	10.5%	11.5%	12.5%	13.5%
REPAYMENTS (MTH)	201.31	218.42	236.05	254.12	272.59	291.41

TABLE 3HomeNorth SALES

SCHEDULE OF COMMENCING INTEREST RATES

GROSS FAMILY WEEKLY INCOME	INTEREST RATE	LOAN PER MONTH \$	REPAYMENT % INCOME	EQUIVALENT HOUSING COMMISSION RENT \$
\$300 - 350	5.0%	333.67	23.58%	329.34
351 - 400	6.0%	381.34	23.51%	390.00
401 - 450	7.0%	433.34	23.63%	450.67
451 - 500	8.0%	489.67	23.76%	481.00
501 - 550	9.0%	546.00	23.92%	481.00
551 - 600	10.0%	602.34	24.13%	481.00
601 - 650	11.0%	658.67	24.30%	481.00
651 - 700	12.0%	715.00	24.48	481.00
701 - 750	13.0%	775.67	24.67%	481.00
751 - 800	14.0%	832.00	24.81%	481.00
801 and over	14.5%	862.34	24.14%	481.00

Interest rates will escalate by 0.5% per year until the maximum is reached which will be 1.0% above the Commonwealth Bank home loan rate.

Based on the sale of an average Commission dwelling of \$75,000 with a deposit of \$3,750 resulting in a loan of \$71,250 over a term of 45 years.

The percentage of income is based on the mid point of each income range e.g. \$325.

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FOR CABINET

SUBMISSION No: 5863

Title:	NEW NORTHERN TERRITORY HOMENORTH LOAN PORTFOLIO SCHEME
Minister	THE HON. MAX ORTMANN, M.L.A., MINISTER FOR LANDS AND HOUSING
Purpose:	TO INTRODUCE A PORTFOLIO OF TWO LOAN SCHEMES AND A VENDOR SCHEME TO ENCOURAGE HOME OWNERSHIP
Relation to existing policy:	THE INITIATIVES RECOMMENDED ARE CONSISTENT WITH CURRENT POLICY
Timing/ legislative priority:	ASAP
Announcement of decision, tabling, etc:	ASAP
Action required before announcement:	NIL
Staffing implications, numbers and costs, etc:	NIL
Total cost:	AS DETAILED IN THE SUBMISSION

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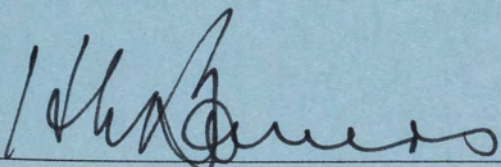
Department/Authority..... DEPARTMENT OF THE CHIEF MINISTER.....

COMMENT ON CABINET SUBMISSION No.

TITLE: NEW NORTHERN TERRITORY HOMENORTH LOAN PORTFOLIO SCHEME.....

COMMENTS:

The Submission is supported.



SIGNED: HUGH BOWERS

DESIGNATION: SECRETARY

DATE: 24 MAY 1991

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CONFIDENTIALDepartment/Authority..... **NORTHERN TERRITORY TREASURY**.....

COMMENT ON CABINET SUBMISSION No.

TITLE: **NEW NORTHERN TERRITORY HOMENORTH LOAN PORTFOLIO**
SCHEME**COMMENTS:**

According to Schedule G, the Submission proposes additional expenditure on home purchase assistance (extra \$16M in 1991/92) which, in terms of the Territory budget (as opposed to Commonwealth acquittals) is effectively to be funded by

- . \$4M reduction in home construction in T & W (presumably the redevelopment program)
- . \$5M sale of additional rental stock
- . \$5M from CSHA related cash balances.
- . \$2M other variations to 1991/92 Forward Estimates.

Thus Cabinet is effectively being asked to approve a different mix of housing expenditure with less emphasis on rental assistance and greater assistance to home ownership.

The Submission does not appear to fetter the Territory Government's discretion because the Territory will always be able to change the level of assistance for home ownership.

In any case, it would appear that if the scheme can operate at the projected levels for several years, it will produce substantial positive cash flows and place future funding for housing (both rental capital and home lending) on a more secure footing.

SIGNED:

N R CONN

DESIGNATION:

UNDER TREASURER

DATE:

23 MAY 1991 **CONFIDENTIAL**

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Department/Authority: LAW

COMMENT ON CABINET SUBMISSION NO.

TITLE: NEW NORTHERN TERRITORY HOMENORTH PORTFOLIO SCHEME

COMMENTS:

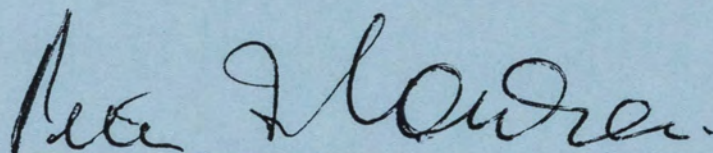
The proposal is dependent on regulations under the Housing Act, and will relate to land governed by that Act.

Should the Housing Act be repealed or amended, it is anticipated further legal resources will be required to determine the future application of such regulations.

Ideally, the proposal should await Cabinet determination on the future of the Housing Act.

LEGAL RESOURCE IMPLICATIONS:

The Submission does not appear to raise any additional legal resource implications at this point in time.



SIGNED: Peter Conran
DESIGNATION: Secretary, Department of Law
DATE: 12 April 1991

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2/4/91

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RECOMMENDATION

1. It is recommended that Cabinet approve:

(a) introduction of a new Northern Territory "HomeNorth" Loan Portfolio comprising the following three Schemes:

1. HomeNorth Easy Start
2. HomeNorth Extra Start
3. HomeNorth Sales

as detailed in Attachment "D", subject to its acceptance by the Commonwealth under the Commonwealth State Housing Agreement and endorsement by the Treasurer.

(b) that priority be given to drafting the relevant Regulations under the Housing Act; and

(c) that the announcement of the loans portfolio and the implementation date be determined by the Minister for Lands and Housing, once formal approval for the Schemes has been obtained from the Commonwealth Minister for Community Services and Health and operational details finalised.

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BACKGROUND

2. The financing of home purchase assistance in the Northern Territory has, under previous Commonwealth State Housing Agreements (CSHA), consisted of a mix of Federal and Territory inputs, the Territory providing the majority of funds.

3. Attachment 'A' indicates the derivation and application of funds under the present CSHA. Home ownership initiatives being funded primarily from revolving principal and interest repayments from past loan schemes via the Home Purchase Assistance Account (HPAA).

4. The Territory has argued for 'partitioning' of the HPAA income stream in order to maximise Government's discretion in application of its returns on past loan investments. The remnant Commonwealth inflows (assessed as 15% by the NT), whilst in decline, can be applied to approved home purchase assistance schemes and, if they are recoupable, create a new platform for home ownership initiatives.

5. As described in the strategy documents "Housing for the 90's", the goal of increasing home ownership in the Northern Territory is complementary to that of reducing the proportions of public rental stock and the transfer of Housing Commission dwellings to private ownership.

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The design and application of appropriate home purchase assistance schemes will heavily influence outcomes towards these ends.

6. The Northern Territory Interest Subsidy Scheme (ISS) and the Home Establishment Grant (HEG) were introduced on 1 December 1988 and have provided the Government's only assistance to first time home buyers since that time.

7. Changes in the real estate market and the economy generally since their introduction have resulted in the need for both the ISS and the HEG to be reviewed.

8. A Home Ownership Package consisting of three initiatives was submitted to Cabinet in July 1990, however the matter was deferred by Decision No 6553 because of the financial implications associated with Commonwealth's non acceptance of the Package under the Commonwealth State Housing Agreement (CSHA). The initiatives included in the Package are detailed in Attachment "B".

CONSIDERATION OF THE ISSUES

9. The CSHA requires States and Territories to provide home purchase assistance schemes which are acceptable to the Commonwealth.

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Notwithstanding the intent of the Home Purchase Assistance Account (HPAA), funds derived therein may be diverted to capital construction and other indirect funding (off budget borrowing) applied to home ownership initiatives. In the Territory context, it is more appropriate that public housing construction be constrained, that borrowings not be increased and available Commonwealth funding under the HPAA be used to create a meaningful portfolio of home loans.

10. Experience with the ISS scheme has been that:

- . it is poorly targeted in as much as only 20% of participants are low, single income families, compared to 37% single persons and 43% two income earning families.
- . the scheme is no longer appropriate and the number of approvals have dropped from an average of 39 per month in 1988/89 to only 19 per month in 1990/91.

11. The ISS in its present form is not acceptable to the Commonwealth as the funds advanced through the scheme are non recoupable and consequently it does not meet the requirements of the CSHA.

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12. The Commonwealth's subsequent acceptance of the modified ISS scheme was conditional upon it being an integral part of a Package of schemes which were generally recoupable.

13. It is critical that initiatives to encourage home ownership in the Territory are both acceptable under the CSHA and effectively targeted at those most in need.

14. Attachment "C" depicts the relevant targeting of Government assistance based upon the availability and affordability of alternative borrowings from private lending institutions.

15. Consistent with this targeting, a portfolio of new home loans initiatives have been developed which can be positively focussed by Government and which in most respects comply with the requirements of the CSHA. See Attachment "D".

16. Complementary to the home loan initiatives are First Home Ownership Grants. The existing Territory Grants of this nature are not accepted under the CSHA and are therefore financed directly by the Northern Territory. A separate submission provides options for the amalgamation of the Territory Home Establishment Grant with the incoming Commonwealth First Home Ownership Scheme.

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OPTIONS

17. The Options are:

Option 1. Adopt the Home Ownership Package put to Cabinet previously.

- . This would broaden the base of home ownership assistance in the Territory and meet the CSHA requirements. However, retaining the Interest Subsidy Scheme, given its poor performance in its current form and its non-recoupability, is not considered desirable.

Option 2. That the Interest Subsidy Scheme continue in its current form.

- . This is not recommended as the scheme is not operating successfully and does not meet CSHA guidelines.

Option 3. Implement the new HomeNorth Loans Portfolio.

- . This is recommended as the HomeNorth Portfolio has been designed to effectively focus home purchase assistance where it will most benefit

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Territorians and at the same time recognise the potential of higher income earners to borrow from the private market.

The Portfolio also encourages the sale of Commission properties to tenants on the basis of a vendor sales arrangement.

The Portfolio is acceptable under the CSHA except for some aspects of vendor sales, which will require Commonwealth negotiation.

PUBLIC IMPACT OF THE RECOMMENDATIONS

18. The recommended changes should be well received by industry and the community overall in that they will provide additional financial assistance and increase the numbers of persons able to enter home ownership.

FINANCIAL CONSIDERATIONS

19. The net costs of the Schemes will be dependent on a number of factors, including the level of take-up of the Schemes recommended, the level of participation of public tenants in the vendor sales initiatives and, ultimately, the resolution with the Commonwealth of "partitioning" of incomes into the Housing accounts.

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20. The levels of demand for the Schemes have been determined from current and past experience in the level of public participation in home ownership activities in the Territory. Details of the demand analysis are at Attachment 'E'.

21. Attachment 'F' details the financial implications of implementing the HomeNorth portfolio for the predicted level of demand. The primary incomes of the HPAA are assumed to be partitioned 85% in favour of the Territory for the purpose of the analysis.

22. The Schemes will not require financial input from Territory sources, as all expenditures are contained within the financial environments of the CSHA accounts. The redirection of funds from housing construction to home purchase assistance has no net budgetary effect (Refer Attachment G).

23. For predicted levels of demand, the Schemes rely primarily on finances entering the Commonwealth partitioned accounts. That is, returns on home loans and, by transfer from the Rental Capital account, the sale of properties. Under this formula, the discretionary element of inputs from the Territory partitioned incomes are protected, however returns from property sales are required in the early stages of the Schemes.

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24. For higher levels of demand than predicted, and in order to constrain annual expenditures to limits of financing derived from Commonwealth funding sources, quotas on the Schemes would be imposed when and if necessary. This practice applies with schemes operated interstate.

25. In order to further manage the financial inputs required by the Portfolio, cash flow demands have been derived on the basis of a one year delay in the introduction of the second mortgage assistance scheme.

REGULATORY IMPACT

26. Regulations under the Housing Act will be required for the three Schemes.

EMPLOYMENT AND INDUSTRIAL RELATIONS

27. No implications foreseen.

COMMONWEALTH STATE AND LOCAL GOVERNMENT RELATIONS

28. The portfolio is consistent with the provisions of the Commonwealth State Housing Agreement. However, formal approval will be required from the Commonwealth prior to implementation.

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CO-ORDINATION AND CONSULTATION

29. Comments have been sought from the Department of Law, Department of the Chief Minister and the Northern Territory Treasury.

LEGISLATION

30. No new legislation will be required.

PUBLICITY

31. The Minister for Lands and Housing will make appropriate announcements prior to the commencement of the Schemes. Appropriate publicity and brochures will be prepared.

TIMING

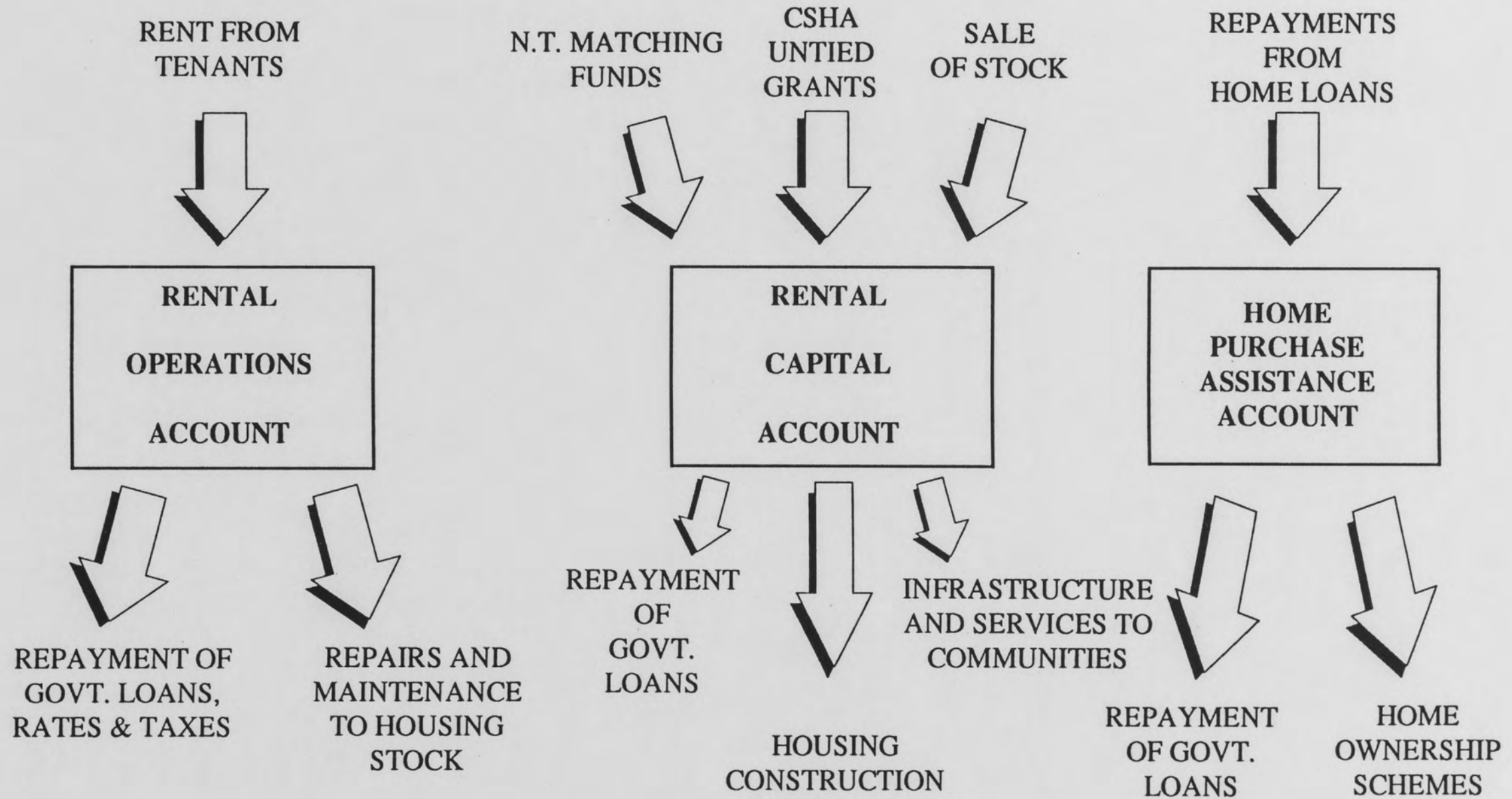
32. Early acceptance by Cabinet is required to allow statutory provisions to be prepared and Commonwealth approval obtained.



MAX ORTMANN

Primary Operating Accounts

Figure 2



NORTHERN TERRITORY HOME OWNERSHIP PACKAGE

1. In July 1990, a Cabinet Submission was put forward recommending a home ownership package of the following three schemes:
 - (i) Northern Territory Progressive Home Ownership Scheme
 - (ii) Revised Northern Territory Interest Subsidy Scheme
 - (iii) Northern Territory Deposit Assistance Scheme
2. Cabinet, by Decision 6553, deferred the submission until further consideration.
3. NT PROGRESSIVE HOME OWNERSHIP SCHEME (NTPHOS)
 - 3.1 The Progressive Home Ownership Scheme allows potential home owners, currently residing in Housing Commission houses, to purchase an affordable equity in their rental home, using private sector finance. The title of the home would be in the names of the purchaser and the Commission as tenants-in-common.
 - 3.2 The Scheme applies to low income groups in public housing who have no other option for home ownership.
 - 3.3 As the Scheme is limited to Housing Commission homes there will be no initial cash outlay on the part of the Government. However, the scheme does entail a buy back guarantee from the Government to the lenders.
 - 3.4 The Departments involvement in processing will be kept to a minimum. The applicant will negotiate with the lender to finance their equity in the purchase. The terms of the loan and deposit required will be at the discretion of the lender.
 - 3.5 In order that the scheme can stimulate sales both from the Commonwealth State Housing Agreement and the NT Government sale price formulae will need to be amended. Both these formulae pose problems in areas such as Palmerston, Alice Springs and Tennant Creek where market value are low and are exceeded by replacement and construction.

- 3.6 Under the terms of the Scheme, the applicant is required to purchase at least 25% of the property valuation. Some revenue will be foregone, as rent will only be paid on the Governments share. However, this will be offset by a capital injection resulting from the purchase of the applicants share.

4. **REVISED NORTHERN TERRITORY INTEREST SUBSIDY SCHEME (NTISS)**

- 4.1 The NT Interest Subsidy Scheme was introduced on 1 December 1988 and provides assistance by a monthly subsidy direct to the borrowers account to reduce the monthly instalment to a more affordable level.
- 4.2 The Scheme has never been accepted by the Commonwealth as complying with the principles of the Commonwealth State Housing Agreement.
- The two major areas of concern to the Commonwealth are the assessment of income (based on main breadwinners income only) and the impact of a non-recoupable subsidy on the Home Purchase Assistance Account (HPAA).
- 4.3 The NT Home Ownership Package has been derived to overcome the Commonwealth objections to NTISS. The package involves three schemes with eligibility criteria based on family income and includes the Deposit Assistance Scheme which involves a recoupable loan.
- 4.4 In the July 1990 Submission, there were three major variations recommended for the NTISS. Firstly was the change to family income assessment but also included additional assistance for applicants with dependent children. Their weekly income to be reduced by \$20 per dependent child to a maximum of \$60 for three or more children.
- 4.5 Secondly, the current amount of subsidy was to be increased in line with the level of interest rates that applied in July 1990 (16.25%). Interest rates have since reduced and this variation is no longer valid. Most borrowers are now negotiating loans at 14.5% which was the original benchmark level of interest.
- 4.6 The third variation was to base the affordability level of the revised subsidy amount on 27.5% of income rather than 30% which was the original criteria for the scheme.

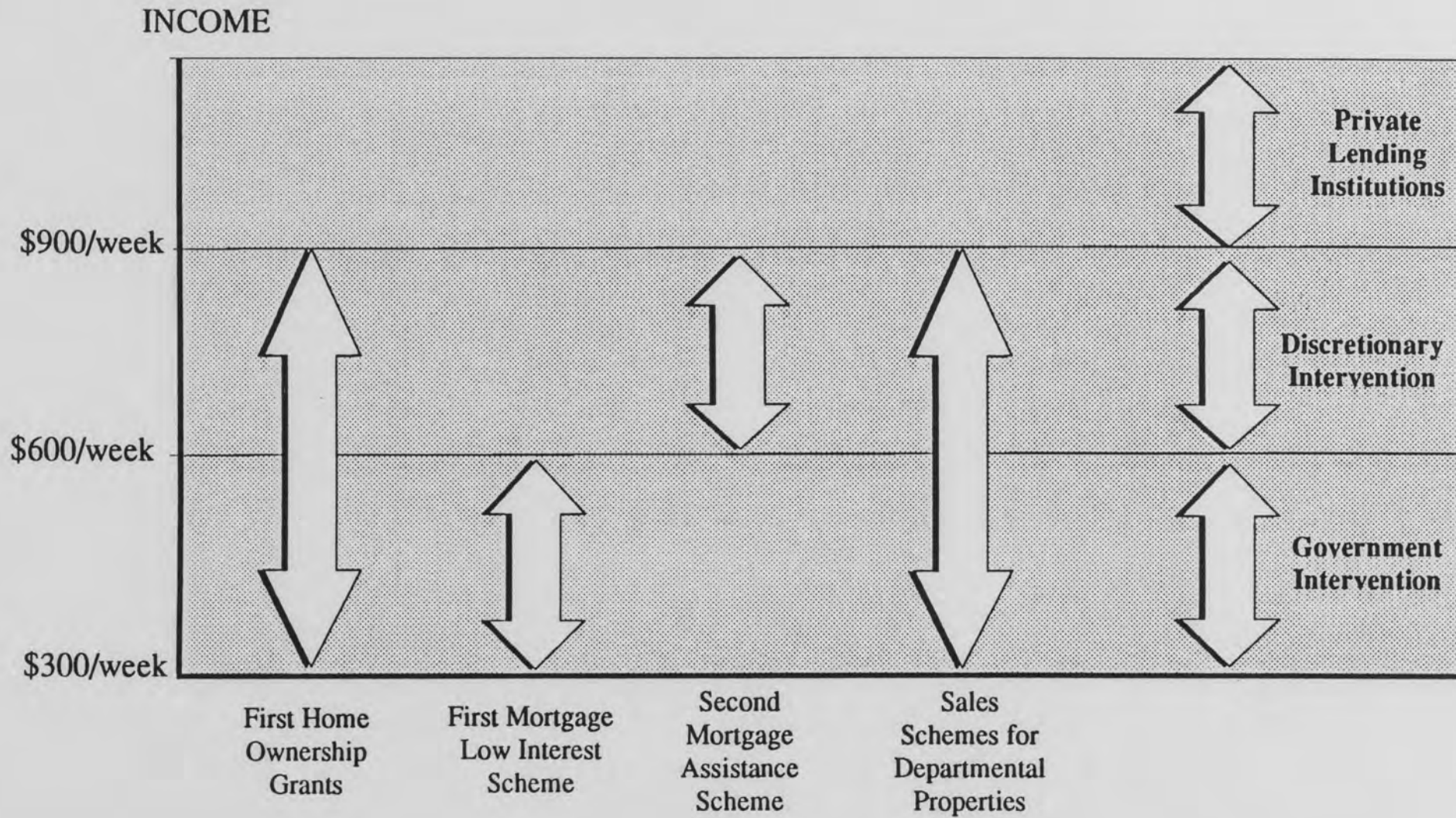
- 4.7 Once the scheme is acceptable within the provisions of the Commonwealth State Housing Agreement, it can be funded from the HPAA. However, in its current form it will continue to be funded through NT Government resources.
- 4.8 The scheme does not embody any recoupable element and hence no revolving funds are created for future and continuing schemes. It is only the banding of the scheme with a recoupable loan scheme that it is accepted as a package under CSHA.

5. **DEPOSIT ASSISTANCE SCHEME (DAS)**

- 5.1 The Deposit Assistance Scheme (DAS) is designed to assist home purchasers who have sufficient income to service at least a \$55,000 loan but have difficulty in accumulating sufficient deposit. With many private lenders this can be up to 20% of the value of the property.
- 5.2 A second mortgage loan will be provided of up to 20% of the value of the property with a limited concessional interest rate. By reducing the risk to the private lender, who will have first mortgage, the amount of deposit required can be reduced. It will also give limited assistance in borrowing capacity to the purchaser.
- 5.3 The loan to be fully recoupable with a maximum term of 25 years. The interest rate to escalate annually until the ceiling rate is reached which will be related to the Commonwealth Bank Home Loan rate.
- 5.4 The scheme is particularly aimed at those above the Interest Subsidy Scheme limit of \$600 per week with a maximum limit at 160% of the NT Average Weekly earnings (currently \$945 per week).
- 5.5 The commencing interest rates will be based on the level of family income:
- | | | |
|---|----------------------|-----------------|
| : | Up to \$700 per week | 11.5% per annum |
| : | \$701 - 800 per week | 12.5% per annum |
| : | \$801 - 160% NTAWME | 13.5% per annum |

Target Areas of Application of Potential Home Ownership Schemes

Figure 6



HomeNorth LOAN PORTFOLIO

1. The HomeNorth Loan Portfolio is a new package of home purchase assistance schemes comprising of:
 1. HomeNorth EASY START - A first home ownership low interest scheme
 2. HomeNorth EXTRA START - A second mortgage assistance scheme
 3. HomeNorth SALES - A low interest scheme for sale of Commission dwellings

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Details of the financing arrangement are as follows:

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- . the maximum term of loan will be 45 years;
- . repayments must not exceed 27.5% of the gross weekly family income;
- . the loan will be secured by a first mortgage over the property; and
- . the sale price of the dwelling to be current market value excluding improvements carried out by the tenant.

TABLE 1HomeNorth EASY STARTFIRST MORTGAGE SCHEME

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	300-350 \$	351-400 \$	401-450 \$	451-500 \$	501-550 \$	551-600 \$
MAX LOAN AMOUNT	70,000	70,000	70,000	70,000	70,000	70,000
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INITIAL REPAYMENTS (MTH)	326.21	375.40	426.79	479.94	534.45	590.01
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TABLE 2HomeNorth EXTRA STARTSECOND MORTGAGE LOANS

GROSS WEEKLY INCOME

	601-650	651-700	701-750	751-800	801-850	851-900
	\$	\$	\$	\$	\$	\$
LOAN AMOUNT	25,000	25,000	25,000	25,000	25,000	25,000
COMMENCING INTEREST ATE	8.5%	9.5%	10.5%	11.5%	12.5%	13.5%
REPAYMENTS (MTH)	201.31	218.42	236.05	254.12	272.59	291.41

TABLE 3HomeNorth SALES

SCHEDULE OF COMMENCING INTEREST RATES

GROSS FAMILY WEEKLY INCOME	INTEREST RATE	LOAN PER MONTH \$	REPAYMENT % INCOME	EQUIVALENT HOUSING COMMISSION RENT \$
\$300 - 350	5.0%	333.67	23.58%	329.34
351 - 400	6.0%	381.34	23.51%	390.00
401 - 450	7.0%	433.34	23.63%	450.67
451 - 500	8.0%	489.67	23.76%	481.00
501 - 550	9.0%	546.00	23.92%	481.00
551 - 600	10.0%	602.34	24.13%	481.00
601 - 650	11.0%	658.67	24.30%	481.00
651 - 700	12.0%	715.00	24.48	481.00
701 - 750	13.0%	775.67	24.67%	481.00
751 - 800	14.0%	832.00	24.81%	481.00
801 and over	14.5%	862.34	24.14%	481.00

Interest rates will escalate by 0.5% per year until the maximum is reached which will be 1.0% above the Commonwealth Bank home loan rate.

Based on the sale of an average Commission dwelling of \$75,000 with a deposit of \$3,750 resulting in a loan of \$71,250 over a term of 45 years.

The percentage of income is based on the mid point of each income range e.g. \$325.

Home Loan Demand Analysis

The level of demand which forms the basis of anticipated expenditure under the loan schemes has been predicted on the basis of comparison with the performance of a similar scheme operated previously in the Territory from 1984 to 1987.

The highest level of demand expected under the proposed schemes has been determined on the basis of assuming all eligible households currently in the Territory will participate proportionately in the scheme.

Year of comparison - 1985/86

Scheme of comparison - NT Home Purchase Assistance Scheme

Relevant 1985/1986 data:

Total NTHC loans = 560

% NTHC participation = 44% of total number

Total transactions = 1273

Number of NTHC sales = 292 (vendor sales)

Population growth = 5,900 persons

Number of NTHC borrowers (\$300 - \$600 p.w.) = 340

Number of NTHC borrowers (\$600 - \$900 p.w.) = 219

Relevant 1991/92 data:

Total number of transactions = 1,950

Total NTHC sales = 250 (vendor sales)

Population growth = 2,370 persons

Estimated NTHC participation = 45%

PREDICTED DEMAND METHODOLOGY

The total number of Home Ownership transactions during 1991/92 will increase by an estimated 350 over 1990/91 as a result on the vendor sales and Home Loan initiatives.

The total number of transactions need to be "corrected" to take account of the following factors:

- . The reduction in the population growth differential between 1985/86 and 1991/92. This is reflective of the number of new households seeking accommodation.

- The proportion of persons who would be eligible for assistance under the family income criteria of the schemes proposed.

$$\text{DEMAND} = \text{Total Trans.} \times \text{Pop. Ratio} \times \text{Ratio of Target Gp. Trans.}$$

$$1991/92-1982/83$$

FIRST MORTGAGE

$$\text{DEMAND} = 45\% \times (1950+250+100) \times 2370/5900 \times 340/560$$

$$= 252$$

SECOND MORTGAGE

$$\text{DEMAND} = 45\% \times (1950+250+100) \times 2370/5900 \times 219/560$$

$$= 163$$

HIGH LEVEL FOR FIRST & SECOND MORTGAGE SCHEMES.

The 1988/89 Household Expenditure Survey was used to determine the number of households under the relevant income groups.

- Household \$300-600 - 7000 = 17.5%
- Income \$601-900 - 7500 = 19.0%

- Total households in the NT - 40,000.

Estimated total dwelling sales in the NT for a year is approximately 2000 based on the statistics from the Valuer General's office.

- Level of demand based on sales in the ratio of households at income levels.

$$\begin{array}{l} \$300-600 \quad 17.5\% \text{ of } 2000 = 350 \\ \$601-900 \quad 19.0\% \text{ of } 2000 = 380 \end{array}$$

- Delete vendor sales estimated at 171 at a ratio of = \$300-600 = 75% = 128
\$601-900 = 25% = 43

$$\begin{array}{l} \$300-600 \quad 350-128 = 222 \\ \$601-900 \quad 380-43 = 337 \end{array}$$

$$\begin{array}{r} \hline 730 \quad 171 \quad 559 \\ \hline \end{array}$$

- The vendor sales figure of 171 has been used as sales over this figure are considered new demand generated by the terms of the scheme and should not be included in this calculation.

FINANCIAL ASPECTSHomeNorth LOAN PORTFOLIOHomeNorth Portfolio - Predicted Demand Scenario

1. The full financial implications of implementing the HomeNorth Loan Portfolio, over a ten year period, are reflected in Schedule 1.
2. Primarily the cash flows represented are related to the operation of the Home Purchase Assistance Account (HPAA), and the following assumptions apply:
 - . A partitioning of historical loan assets is based on 15%, 85% proportions Commonwealth and Northern Territory respectively.
 - . On this basis, an opening balance of \$4.19M is generated.
 - . Income from Principal and Interest (preceding loans) and Mortgage Discharges, are partitioned.
 - . Principal and Interest derived from the new loan schemes are recouped entirely to the HPAA.
 - . Transfers from the Rental Capital Account (RCA) may be up to a maximum of 50% of the Northern Territory matching component.
3. Whilst the partitioning negotiations with the Commonwealth are incomplete with regard to the Rental Capital Account, a likely outcome is of the order of 50% each Commonwealth/NT.

For the purposes of the financial analysis the following has been assumed:

- . Proceeds from vendor sales are returned partitioned to the RCA, and their application to home loan activities, via the HPAA, is assumed where required.
- . Proceeds from any other sales of current assets would be appropriately partitioned to the RCA and be available for transfer if required.
- . Vendor sales proceeds transferred to HPAA are considered outside 50% Northern Territory matching limitations.

4. The projected levels of transfer to home purchase assistance, if required, would diminish the current forecast Capital Works Programs for housing and other CSHA eligible activities by the following amounts :

1991/92	\$4.00M
1992/93	\$6.63M
1993/94	\$7.09M
1994/95	\$7.60M
1995/96	\$8.12M
1996/97	\$8.70M
1997/98	\$9.30M
1998/99	\$9.96M
1999/00	\$10.65M

Ostensibly this equates to reduced levels of Housing Construction and Aboriginal Essential Services works executed by PAWA and DTW, in favour of home ownership schemes. Options exist beyond 1995/96 to reverse this situation depending on housing demand.

Appropriate adjustments to Draft Capital Works Programs would be required for the 1991/92 budget considerations in the first instance..

5. In order to manage the initial investment period of the Schemes, when outlays are not balanced by adequate levels of recoupment from loans, the introduction of the Second Mortgage Scheme has been delayed by one year.
6. In conjunction with this strategy, the discretionary funds derived to the Territory are maximised providing for application to works priorities decided by Government.

HomeNorth Portfolio - High Demand Scenario

7. Schedule 2 presents a high demand scenario which identifies the limits of potential financial exposure to Government without applying control mechanisms.

In the absence of imposed take up controls on the Schemes a net cost to Government of discretionary funds would result in the early periods of the Schemes life. Albeit followed by established periods of net return to Government.

These discretionary funds, are those in fact generated by the Loans portfolio itself, in the form of vendor sales partitioned to the NT.

The proposed management strategy is to constrain the Schemes, independent of demand, to within the annual financial limitations of the funding sources, thereby eliminating any additional inputs by the Territory. This will effectively be achieved if necessary by the imposition of quotas, as is practiced by other States.

Modified Schemes - Option 1

8. The financial projections for proceeding with Option 1, referred in the body of the submission, are detailed in Schedule 3.

This scenario reflects a continuation of a modified Interest Subsidy Scheme, a Progressive Home Ownership Scheme and a Deposit Assistance Scheme as detailed in Attachment 'B' of this Submission.

Financing of these Schemes can generally be contained within the Home Purchase Assistance Account without significant reliance on transfers across from the Rental Capital Account.

The continuing non-recoupable nature of the Interest Subsidy Scheme, fundamentally a direct Government Grant, negates the emerging returns, with time, of the Deposit Assistance Scheme.

Whilst no Northern Territory financial inputs are attracted, neither are substantial returns delivered from the total loans package.

Summary

9. Given the above scenarios and acknowledging the variances in the level of transfer in supporting finances from the Rental Capital activity to home ownership, a net effect for the Northern Territory can be developed. The potential net gains over time are summarised in Schedule 4. The increased exposure of the high demand case will not in practice be realised due to the control mechanisms addressed above suppressing "take-up" in the critical years.

NTHC HOME PURCHASE ASSISTANCE ACCOUNTCASH FLOW ANALYSISPROJECTED DEMAND - 9/5/912nd Mortgage Delayed 1 year

	1990/91 \$M	1991/92 \$M	1992/93 \$M	1993/94 \$M	1994/95 \$M	1995/96 \$M	1996/97 \$M	1997/98 \$M	1998/99 \$M	1990/00 \$M
<u>INPUTS TO ACCOUNT</u>										
OPENING BALANCE	4.19	9.44	6.68	1.34	-1.61	-1.34	0.86	3.97	11.21	22.94
P+I IN OLD LOANS	4.40	3.85	3.16	2.81	2.53	2.26	2.00	1.76	1.49	1.20
MORTGAGE DISCHARGE	4.91	4.42	4.30	4.25	4.09	3.73	3.14	3.13	3.10	3.10
P + I IN NEW LOANS	0	1.34	3.29	5.44	7.79	10.27	12.88	15.59	18.41	21.34
TRANSFERS FROM RCA (CSHA)	0	6.54	8.38	9.54	10.83	12.23	13.80	15.54	17.47	19.52
ADDITIONAL NT INPUT (VENDOR SALES)	0	2.53	1.75	2.45	3.23	2.12	0	0	0	0
TOTAL INPUTS	13.50	28.12	27.56	25.83	26.87	29.27	32.72	39.99	51.68	68.06
<u>OUTPUTS FROM ACCOUNT</u>										
P+I OUT	2.98	2.98	2.98	2.98	2.98	2.98	2.98	2.98	2.98	2.98
MORTGAGE RE ADV.	.86	.58	.58	.58	.58	.58	.58	.58	.58	.58
ADMIN COSTS	.22	.24	.25	.27	.29	.31	.33	.36	.36	.39
LOAN ADVANCES	0	17.64	22.41	23.61	24.36	24.61	24.86	24.86	24.86	24.86
TOTAL OUTPUTS	4.06	21.44	26.22	27.44	28.21	28.41	28.75	28.78	28.78	28.81
CLOSING BALANCE	9.44	6.68	1.34	-1.61	-1.34	0.86	3.97	11.21	22.94	39.25

RENTAL CAPITAL ACCOUNT (SELECTIVE INPUTS)

REVENUE FROM VENDOR SALES (RCA - CSHA/NT)										
- DEPOSITS	0	1.00	.73	.78	.84	.89	.96	1.02	1.10	1.17
- REPAYMENTS	0	1.57	2.77	4.12	5.64	7.34	9.24	11.46	13.92	16.57
TOTAL	0	2.57	3.50	4.90	6.47	8.23	10.20	12.48	15.02	17.74
Assume all available for transfer to RCA										
REVENUE FROM SALE OF CARINYA FLATS (RCA - CSHA/NT)										
	0	2.50	0	0	0	0	0	0	0	0
N.T. MATCHING COMPONENT (RCA - CSHA)										
	0	4.00	6.63	7.09	7.60	8.12	8.70	9.30	9.96	10.65
TOTAL	0	9.07	10.13	11.99	14.07	16.35	18.90	21.78	24.98	28.39
TRANSFER TO HPAA	0	9.07	10.13	11.99	14.07	14.35	13.80	15.54	17.47	19.52
DISCRETIONARY FUNDS NT	0	0	0	0	0	2.00	5.10	6.24	7.51	8.87

NTHC HOME PURCHASE ASSISTANCE ACCOUNTCASH FLOW ANALYSISHIGH DEMAND - 9/5/91

2nd Mortgage Delayed 1 year

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1990/00
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<u>INPUTS TO ACCOUNT</u>										
OPENING BALANCE	4.19	9.44	8.62	1.21	-3.46	-4.58	-1.48	0.92	7.86	19.63
P+I IN OLD LOANS	4.40	3.85	3.16	2.81	2.53	2.26	2.00	1.76	1.49	1.20
MORTGAGE DISCHARGE	4.91	4.42	4.30	4.25	4.09	3.73	3.14	3.13	3.10	3.10
P + I IN NEW LOANS	0	1.18	3.47	5.97	8.66	11.49	14.46	17.54	20.74	24.05
TRANSFERS FROM RCA (CSHA)	0	6.54	8.38	9.54	10.83	12.23	13.80	15.54	17.47	19.52
ADDITIONAL NT INPUT	0	2.53	1.75	2.45	3.23	4.12	0	0	0	0
TOTAL INPUTS	13.50	27.96	29.68	26.23	25.88	29.25	31.92	38.89	50.66	67.50
<u>OUTPUTS FROM ACCOUNT</u>										
P+I OUT	2.98	2.98	2.98	2.98	2.98	2.98	2.98	2.98	2.98	2.98
MORTGAGE RE ADV.	.86	.58	.58	.58	.58	.58	.58	.58	.58	.58
ADMIN COSTS	.22	.24	.25	.27	.29	.31	.33	.36	.36	.39
LOAN ADVANCES	0	15.54	24.66	25.86	26.61	26.86	27.11	27.11	27.11	27.11
TOTAL OUTPUTS	4.06	19.34	28.47	29.69	30.46	30.73	31.00	31.03	31.03	31.06
CLOSING BALANCE	9.44	8.62	1.21	-3.46	-4.58	-1.48	0.92	7.86	19.63	36.44

RENTAL CAPITAL ACCOUNT (SELECTIVE INPUTS)

REVENUE FROM VENDOR SALES (RCA - CSHA/NT)										
- DEPOSITS	0	1.00	.73	.78	.84	.89	.96	1.02	1.10	1.17
- REPAYMENTS	0	1.57	2.77	4.12	5.64	7.34	9.24	11.46	13.92	16.57
TOTAL	0	2.57	3.50	4.90	6.47	8.23	10.20	12.48	15.02	17.74
REVENUE FROM SALE OF CARINYA FLATS (RCA - CSHA/NT)										
	0	2.50	0	0	0	0	0	0	0	0
N.T. MATCHING COMPONENT (RCA - CSHA)										
	0	4.00	6.63	7.09	7.60	8.12	8.70	9.30	9.96	10.65
TOTAL RCA	0	9.07	10.13	11.99	14.07	16.35	18.90	15.54	17.47	19.52
TRANSFER TO HPAA	0	9.07	10.13	11.99	14.07	16.35	13.80	15.54	17.47	19.52
DISCRETIONARY 1 S NT										
	0	0	0	0	0	0	5.10	6.24	7.51	8.87

NTIC HOME PURCHASE ASSISTANCE ACCOUNT
CASH FLOW ANALYSIS

MODIFIED SCHEMES - OPTION 1.
1990/91 1991/92 1992/93 1993/94 1994/95 1995/96 1996/97 1997/98 1998/99 1999/00

INPUTS TO ACCOUNT - \$ MILLIONS

OPENING BALANCE	\$4.19	\$9.44	\$9.12	\$7.83	\$5.83	\$3.20	\$0.00	\$0.00	\$0.09	\$0.09
P+I IN OLD LOANS	\$4.40	\$3.85	\$3.16	\$2.81	\$2.53	\$2.26	\$2.00	\$1.76	\$1.49	\$1.20
MORT. DISCHARGE	\$4.91	\$4.42	\$4.30	\$4.25	\$4.09	\$3.73	\$3.14	\$3.13	\$3.10	\$3.10
P+I IN DEP ASSIST SCHEME	\$0.00	\$0.36	\$1.06	\$1.78	\$2.48	\$3.19	\$3.91	\$4.61	\$5.32	\$6.03
TRANSFERS FROM RENT CAP ACCT	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.03	\$3.87	\$3.87	\$3.57	\$3.29
TOTAL INPUTS	\$13.50	\$18.07	\$17.64	\$16.67	\$14.93	\$12.41	\$12.92	\$13.37	\$13.57	\$13.71

OUTPUTS FROM ACCOUNT - \$ MILLIONS

P+I OUT	\$2.98	\$2.98	\$2.98	\$2.98	\$2.98	\$2.98	\$2.98	\$2.98	\$2.98	\$2.98
MORTGAGE RE ADV.	\$0.86	\$0.58	\$0.58	\$0.58	\$0.58	\$0.58	\$0.58	\$0.58	\$0.58	\$0.58
ADMIN COSTS	\$0.22	\$0.24	\$0.25	\$0.27	\$0.29	\$0.31	\$0.33	\$0.36	\$0.36	\$0.39
DEP ASSIST SCHEME	\$0.00	\$4.80	\$4.80	\$4.80	\$4.80	\$4.80	\$4.80	\$4.80	\$4.80	\$4.80
INT SUB. SCHEME	\$0.00	\$0.35	\$1.20	\$2.21	\$3.08	\$3.74	\$4.23	\$4.56	\$4.76	\$4.87
TOTAL OUTPUTS	\$4.06	\$8.95	\$9.81	\$10.84	\$11.73	\$12.41	\$12.92	\$13.28	\$13.48	\$13.62
CLOSING BALANCE	\$9.44	\$9.12	\$7.83	\$5.83	\$3.20	\$0.00	\$0.00	\$0.09	\$0.09	\$0.09

HOME PURCHASE ASSISTANCE OPTIONS
SCENARIO OUTCOMES FOR NT

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1990/00
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<u>HOMENORTH</u>										
<u>PROJECTED DEMAND</u>										
(2nd Mortgage delayed 1 year)										
NT INPUTS (VENDOR SALES)	0	2.53	1.75	2.45	3.23	2.12	0	0	0	0
DERIVED TO NT	0	0	0	0	0	2.00	5.10	6.24	7.51	8.87
NET GAIN TO NT	0	-2.53	-1.75	-2.45	-3.23	-0.12	5.10	6.24	7.10	8.87
<u>HOMENORTH</u>										
<u>HIGH DEMAND</u>										
(2nd Mortgage delayed 1 year)										
NT INPUTS	0	2.53	1.75	2.45	3.23	4.12	0	0	0	0
DERIVED TO NT	0	0	0	0	0	0	5.10	6.24	7.51	8.87
NET GAIN TO NT	0	-2.53	-1.75	-2.45	-3.23	-4.12	5.10	6.24	7.51	8.87
<u>MODIFIED SCHEMES</u>										
<u>OPTION 1</u>										
NT INPUTS (ISS)	0	0.35	1.20	2.21	3.08	3.74	4.23	4.56	4.76	4.87
DERIVED TO NT	0	1.40	0.15	0.15	0.19	0.20	0.21	0.22	0.22	0.22 *
NET GAIN TO NT	0	1.05	-1.05	-2.06	-2.89	-3.54	-4.02	-4.34	-4.54	-4.65

* Allowing \$300,000 in total per annum for Progressive Home Ownership

[HCO]/000374

LOAN SCHEME BUDGETARY EFFECTS

Under the provision of the CSHA, the Northern Territory currently applies \$13.26M in matching funds into the Rental Capital Account (RCA). Of this, up to 50% may be alternatively directed to Home Purchase Assistance.

The general flow of funds, inflows and outputs, is depicted in Attachment A of the submission.

As these funds revolve within the two CSHA accounts, their alternative applications do not influence the net result on the Territory.

The proposed transfer in 1991/92 of \$4.0M to Home Purchase Assistance can be, and for the purposes of this exercise has been, assumed to be funded from a reduction in the Construction/Management program within the Construction Agency Activity under the DTW budget.

These effects are shown below for the NT Housing Commission Forward Estimates for 1991/92 and incorporate all financial implications of the implemented LoansNorth Portfolio.

<u>SOURCE</u>	1991/92 CURRENT (\$000)	VARIATION (\$000)	1991/92 PROPOSED (\$000)
<u>Consolidated Fund</u>			
Appropriations (by reduction to housing construction)	65628	4000	69628
<u>Territory Authority Funds</u>			
Rent	41532	-	41532
Sale of Assets	679	5070	5749
Miscellaneous	373	-	373
Interest Received	3200	650	3850
Principal Received	5300	460	5760
Opening Balance	8576	864	9440
Less Closing Balance	- 12030	5350	- 6680
	<u>47630</u>	<u>12394</u>	<u>60024</u>
<u>APPLICATION</u>			
<u>Expenditure by Activity</u>			
Aboriginal Housing & Infrastructure	31423	-	31423
Rental Operations	24528	-	24528
Home Purchase Assistance	10900	16394	27294
Debt Servicing	46407	-	46407
	<u>113258</u>	<u>16394</u>	<u>129652</u>
<u>Expenditure by Source of Funds</u>			
Consolidated Fund Appropriation	65628	4000	69628
Territory Authority Funds	<u>47630</u>	<u>12394</u>	<u>60024</u>
	<u>113258</u>	<u>16394</u>	<u>129652</u>