Australia's Housing Loans Insurance Corporation

By P. M. Barlett

HOUSING Loans Insurance Corporation (HLIC) was established by the Australian Parliament under the Housing Loans Insurance Act in 1965. The Corporation has been operating continuously since that time. HLIC was created against the background of a growing 'deposit gap' for home loans. With persistent inflation, albeit a much lower level than was to be experienced by Australia and other countries a decade later, home seekers found it increasingly difficult to save the substantial deposits — up to one-third or more of purchase price — then sought by lenders.

In the absence of private mortgage insurance — later introduced to Australia — and with the successful models of government mortgage insurance programmes in the US and Canada, the Australian government established HLIC as means of inducing lenders to make housing loans on lower deposits than previously was the case.

HLIC insures lenders against losses on loans secured by mortgage, principally housing loans but, in more recent years, loans for the purchase, construction or refinancing of non-residential buildings also. Under 1985 amendments to its charter, the Corporation is empowered to insure approved dealers in the secondary mortgage market against losses on mortgage loans directly or indirectly relating to instruments to be traded on the market.

The Corporation operates as a business undertaking in competition with other insurers. It is the largest mortgage insurer in Australia. HLIC's affairs are controlled by a board of five directors appointed by the Australian government, of whom the chairman and deputy chairman are full-time and serve as managing director and deputy managing director respectively.

HLIC is guaranteed by the Australian government but is self-financing from its insurance premiums and investment earnings. It services capital and is liable for Federal, State and local taxes.

In general terms, a standard HLIC insurance contract covers a lender against loss of principal, interest and other moneys which may be charged to the loan account under the mortgage, such as general insurance premiums, costs of repairs, selling and legal expenses. The cover enables

'Loans outside normal limits'

lenders to make loans above conventional loan-to-valuation ratios without risk of loss. HLIC insurance also assists lenders to make loans which fall outside normal lending limits because of the location, age or type of construction of the property.

When an insured loan falls irretrievably into arrears, the normal course is for the lender to sell the property and claim on HLIC for any shortfall between the debt outstanding and net sale proceeds. HLIC does not limit the amount of loss with residential loans but with larger commercial loans claims for losses are generally limited to 20% of the amount of the loan. The insurance contract also provides for HLIC to acquire mortgages in certain circumstances.

Premiums for standard cover are charged once only at the time the insurance contract issues. Premium rates for home ownership loans range from 0.1% to 1.4% of the loan amount, but higher rates apply to residential investment and other commercial loans.

With the recent development of a secondary mortgage market in Australia, HLIC now provides pool insurance as well as its standard cover. Pool insurance covers pools of mortgages that serve as collateral to secondary market securities.

Under pool cover, losses on individual loans in the pool are made good without limit if the borrower falls into arrears and the property is sold by the lender. Loans of higher loan/value ratio (generally those above 70% of valuation) may be pooled only if they carry standard mortgage insurance (either from HLIC or one of the three private mortgage insurers operating in Australia). To this extent, HLIC pool cover is a duplication of primary cover. However, special features of the pool cover provide for HLIC to take over loans in arrears in certain circumstances and to make good to the pool manager arrears of loan repayments on pooled loans up to defined limits.

Premiums for pool insurance are charged quarterly or six monthly and can range up to 0.1% pa of the total size of the pool.

The basic purpose of the housing loans insurance scheme was said on its introduction to be, 'to assist people to obtain as a single loan and at a reasonable rate of interest the money they need and can afford to borrow to build or buy a home'. HLIC believes that it has been successful in this primary aim of widening Australians' opportunities for home ownership.

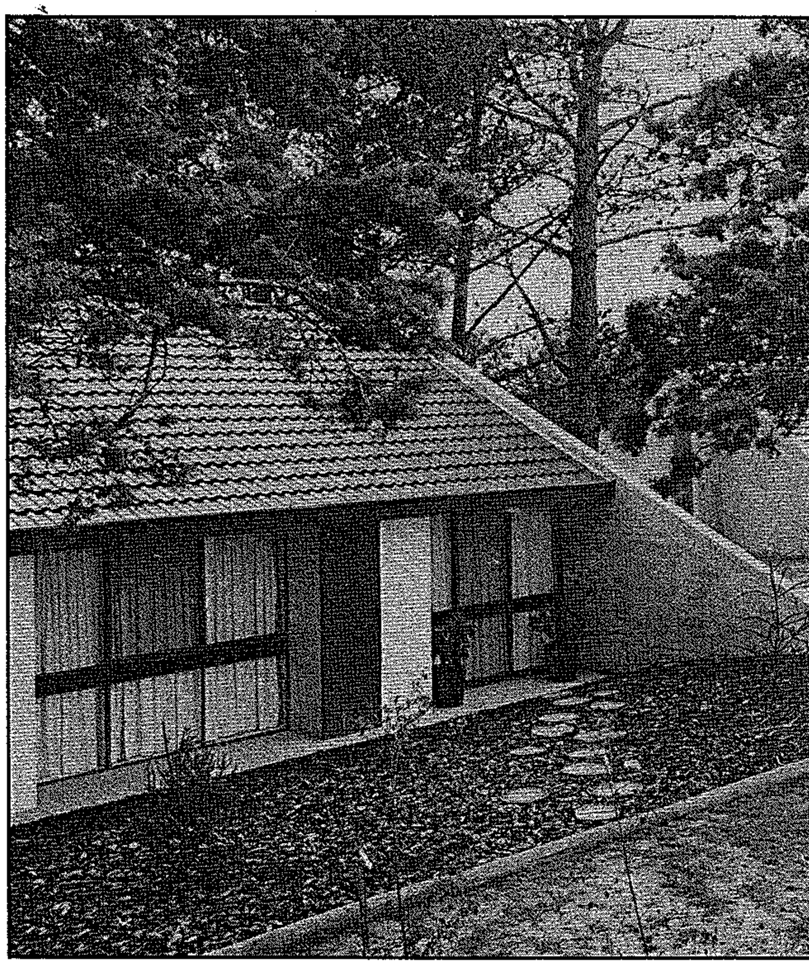
Statistics of loans insured tell part of this story — over 800,000 loans insured since HLIC's inception — but the true measure of the achievement lies in current lending practices in Australia compared with those in use by lenders at the time of the Corporation's establishment.

The major improvement has been in the proportion of valuation that lenders are prepared to advance as part of a standard home loan. Housing loans in the mid 1960s were generally limited to 66% of valuation for existing houses and 75% for new houses, but today, loans to 90% or 95% of valuation are available from most lenders when funds are readily available and continue to be the normal lending mode for many lenders, even in times of financial stringency.

Loan term, too, has lengthened greatly in recent years — on HLIC-insured loans from 20 years for houses and 15 years for condominium units in 1965-66 to 25 years for both houses and condominium units currently. For borrowers, this lengthening of term can often be of greater benefit in arranging a loan than a reduction in the amount of deposit sought by a lender.

With mortgage insurance, lenders also no longer distinguish between types of homes in setting their loan conditions or favour newer properties against older properties and houses against condominium units. Now they will also lend readily against properties in country areas and remoter centres that once would have been regarded as outside the scope of normal lending. HLIC has actively encouraged this spread of lending.

A further significant change in lending standards under HLIC mortgage insurance has been the relaxation of the once rigid rule that only a maximum of 25% of a borrower's income could be committed to home loan repayments. Nowadays, home-loan repayments in Australia typically can represent one third or more of income.



More than one in five Australian homes currently being purchased — like this one near Canberra — are the subject of an HLIC-insured loan.

More than one in five houses currently being purchased in Australia is the subject of an HLIC-insured loan. The proportions vary by States ranging from about one third in the smallest State, Tasmania, to one sixth in Victoria. These differences are accounted for in part by the relative importance of permanent building societies' lending in each of the States.

Building societies have traditionally been the strongest supporters of mortgage insurance in Australia and over the 22 years of HLIC's operations have accounted for 80% of its business. In some States such as Victoria, however, building societies historically have been held to a smaller share of the lending market by the operations of large locally-based State banks. ■

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