
**SUBMISSION
TO
FINANCIAL SYSTEM INQUIRY**

**THE AUSTRALIAN COUNCIL
OF HOUSING SOCIETIES PTY. LTD.**

EXECUTIVE SUMMARY

THE INTERESTS OF CO-OPERATIVE HOUSING SOCIETIES WILL BE AFFECTED BY THE OUTCOME OF THE FINANCIAL SYSTEM INQUIRY.

CO-OPERATIVE HOUSING SOCIETIES ARE PRIMARILY RESIDENTIAL MORTGAGE LENDERS. THEY ARE UNIQUE FINANCIAL INSTITUTIONS, HOWEVER, OFFERING UNIQUE PRODUCTS AND SERVICES TO UNIQUE CLIENTS. THEIR SUPERVISION SHOULD BE CUSTOMIZED AS THEY ARE NOT DEPOSIT TAKING INSTITUTIONS, AND THEIR FACILITIES ARE DIFFERENT.

CO-OPERATIVE HOUSING SOCIETIES HAVE BEEN IMPORTANT HOME LENDING ARMS OF STATE GOVERNMENTS FOR 60 YEARS. THEY SPECIALIZE IN SYMPATHETIC LENDING FOR THOSE MARGINAL INCOME HOUSEHOLDS WHICH CANNOT GAIN ACCESS TO HOUSING FINANCE THROUGH NORMAL HOME LENDING CHANNELS.

THE INDUSTRY WAS NOT SPECIFICALLY CONSIDERED BY THE CAMPBELL COMMITTEE. THE RESULTS OF THAT REPORT HAVE IMPACTED UPON THE INDUSTRY, NONETHELESS. THE INDUSTRY HAS BEEN MORE EFFECTED BY THE FINANCIAL INSTITUTIONS SCHEME.

CO-OPERATIVE HOUSING SOCIETIES ARE NOT PART OF THE SCHEME. SOME STATES HAVE EMPOWERED STATE SUPERVISORY AUTHORITIES TO LOOK AFTER THE INDUSTRY. THE INDUSTRY IS OVER-REGULATED.

IT IS FURTHER CONSTRAINED BY INCREASED COMPETITION, ANCIENT LEGISLATION AND STATE GOVERNMENTS WITHOUT HOUSING POLICIES.

THERE IS A CONTINUING RELEVANT ROLE FOR SOCIETIES AND THEIR ASSOCIATED ENTITIES IF THEY ARE ALLOWED TO CONTINUE TO FOCUS UPON THEIR TRADITIONAL MARKET NICHE OF MARGINAL INCOME HOUSEHOLDS. THEY WISH TO MANAGE OUT EXISTING LOANS ON THEIR BOOKS, AND BE FREED UP TO DO NEW RELEVANT BUSINESS ON OR OFF-BALANCE SHEET.

THE INDUSTRY SEEKS DEREGULATION. IT ACCEPTS THAT SOME SUPERVISION IS NECESSARY FOR CONSUMERS AND OPERATIONS, BUT CONTENDS THAT THIS CAN BE LESS THAN IS PRESENTLY IMPOSED. INDUSTRY WANTS TO REMAIN UNDER STATE CONTROL, BUT NOT UNDER THE CONTROL OF STATE SUPERVISORY AUTHORITIES.

CO-OPERATIVE HOUSING SOCIETIES DESIRE INSTITUTIONAL BASED SUPERVISION WHICH IS CHEAPER, MORE PRACTICAL AND LOCALLY BASED. IT RECOMMENDS AN EXPANDED ROLE FOR INDUSTRY ADVISORY

COMMITTEES AND AUDITORS.

NEW LEGISLATION INCLUDING BROADER TRADING POWERS IS ALSO DESIRABLE.

AS SOCIETIES DO NOT ACCEPT RETAIL DEPOSITS THEY SHOULD NOT BE SUPERVISED AS DEPOSIT TAKING INSTITUTIONS.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

	Page
1.0 INTRODUCTION	1
1.1 Who is making the submission?	1
1.2 Its Purpose	1
2.0 WHAT ARE CO-OPERATIVE HOUSING SOCIETIES?	2
2.1 They are residential mortgage lenders	2
2.2 They are unique financial institutions	2
2.3 Some history	4
2.4 How do Societies operate?	5
2.5 The Campbell Report	7
2.6 The Financial Institutions Scheme	8
3.0 CURRENT INDUSTRY STATUS	9
3.1 Financial Information	9
3.2 Over-regulated	9
3.3 Decline of Government Support	10
3.4 Increased competition	11
3.5 Other issues	12
4.0 THE FUTURE	13
5.0 WHAT DOES INDUSTRY WANT?	15
5.1 Not to be forgotten	15
5.2 Deregulation	15
5.3 Some supervision is required, but less than at present	15
5.4 To remain under State control	16
5.5 Industry does not want to be supervised by SSA's	16
5.6 A customized new supervisory regime is required	16
5.7 Broader trading powers	18
5.8 A phased exit of governments	18
5.9 More information is necessary	18
6.0 END PIECE	19

ATTACHMENTS

1.0 INTRODUCTION

1.1 Who is making the submission?

This document has been lodged with the Committee of Inquiry by the Secretary of the Australian Council of Housing Societies on behalf of all co-operative housing societies ("CHS's") in Victoria, New South Wales, Queensland and Western Australia. These States represent almost all CHS operations in the country. In Western Australia societies still operate under their traditional title of "terminating building societies".

The national industry speaks with one voice, and the contents of this submission are unanimously supported by all State Associations.

No part of this submission is confidential, and the Committee is authorized to make its contents public.

This document is confined to co-operative housing societies.

1.2 Its purpose

The objectives of industry in lodging this document are as follows.

1. To inform the Committee that it has an interest in the Inquiry and that industry interests will be effected by its recommendations.
2. Request that the Committee be mindful of the industry as it deliberates.
3. To give a thumbnail sketch of what co-operative housing societies do.
4. Specify how the industry has fared in the period since the Campbell Report, as well as current industry trends.
5. Emphasize that co-operative housing societies remain relevant within any future financial system.
6. Advise a preferred supervisory structure.
7. Comment upon selected other matters which are of relevance to the Inquiry.

This submission is intentionally brief.

Industry will be pleased to expand upon it.

- 1 -

2.0 WHAT ARE CO-OPERATIVE HOUSING SOCIETIES?

2.1 They are residential mortgage lenders

CHS's primarily lend money for owner occupied housing including :-

- ◆ new home construction,
- ◆ established dwellings,
- ◆ land for building,

- ◆ maintenance and improvements, and
- ◆ refinancing, especially loans in difficulty.

Societies also:-

- ◆ provide counsel to prospective and established borrowers,
- ◆ specialize in loan workouts where a borrower runs into repayment difficulties,
- ◆ in New South Wales they finance residential investment housing loans, and
- ◆ offer property insurance.

2.2 They are unique financial institutions

CHS's are very different to all other types of financial institutions in Australia.

- ◆ They lend exclusively for housing.
- ◆ Societies operate not for profit.
- ◆ Market focus is upon one very specific subject - "affordable housing" for ordinary Australians, and in particular marginal income households. Terms and conditions of lending are often set by government as part of their social lending agenda.
- ◆ CHS's, and their associated companies, have traditionally and primarily been a conduit for government housing policy firstly, and economic policy secondly (remembering that the building industry is important to State economies).
- ◆ **Their funding is solely wholesale on commercial terms and conditions. They don't have saving/investing members. As they do not accept retail deposits, they are not exposed to liquidity risks that flow from any loss of public confidence. Since they are not a deposit taking institution, they do not require the prudential supervision of such organisations.**

◆ Funding has been primarily from government (via Commonwealth/State Housing Agreements) or through government sponsorship in the private capital markets. Welfare programs have been supplemented by societies accessing on and off balance sheet non government wholesale funds and providing retail housing finance to a broad range of ordinary Australians.

◆ They have been the innovator of many original home lending initiatives in this country during the half century post WWII e.g. securitisation, shared home equity, fixed rate, high/low start loans and very long term loans (30 years plus). They presently carry a large volume of unusual experimental loans.

◆ Their traditional market niche has been low deposit borrowers/high LVR lending.

◆ CHS's have specialized in servicing disadvantaged borrowers and minorities such as women, singles, single parents and migrants. They have been socially responsive by picking up prospective borrowers rejected by other financial institutions.

◆ Historically, they have served country Australia well.

◆ Societies are traditionally "bond" based, focusing their efforts upon particular geographic catchment territories.

◆ CHS's are mutual financial institutions. They are run by members for the benefit of members. Directors are voted in by members. Each member only has one share and one vote.

◆ They lend to people, not business.

CHS's are not like anyone else. They are unique institutions offering unique

products/services to unique clients. They operate uniquely. Their supervision should also be unique, therefore.

CHS's or their equivalent do not exist anywhere else in the world bar in the UK in the form of Housing Associations. However, these associations are devoted primarily to providing rental accommodation where tenants can eventually purchase the property. By contrast, Australian societies are mainly focused upon financing individuals directly acquiring accommodation.

- 3 -

2.3 Some History

CHS's have a long and proud history in Australia. They commenced in New South Wales

◆ Port Kembla Co-operative Building Society was established in 1936. By mid 1937 there were some 75 societies in existence in New South Wales with 1,895 borrowers and loans totalling over 5 million pounds. The industry has grown in stature and impact ever since.

In 1989 societies in New South Wales approved in excess of \$1 billion in new loans. In that year they approved amounts equal to one third of their lending since they had commenced over 50 years before.

In 1990 they settled in excess of \$1.2b; the same amount once more in 1991; and \$903m in 1992.

◆ Co-operative housing societies were introduced into Victoria in 1945 following a visit to Sydney where a close and careful analysis of the well

undertaken. The established operations of CHS's in New South Wales was
operative first society incorporated in Victoria was Box Hill (No. 1) Co-
Housing Society Ltd.; it was registered on 15 October 1945.

New South Wales there were already 220 societies which had been
instrumental in the construction of approximately 14,000 homes.

ordinary households which could not gain access through normal home
lending channels. They were the dominant home lenders during the
1940's and 1950's. Since the 1950's CHS's have been the major arm of the
Victorian government in providing home purchase assistance.

◆ Since WWII societies have been introduced to other States
around Australia.

◆ "Co-operative housing societies" were originally called
"terminating building societies". Their initial focus was upon new home building; they
now finance both new and established homes.

◆ Early governments publicly acknowledged that both societies and
governments ran financial risks. Whilst these could and
should be carefully minimized, governments firmly believed that the net cost was still
worth the home ownership benefits which would accrue to both individuals
and the community.

- 4 -

To quote Premier Dunstan in Victoria :

incurred. He " I do not for one minute contend that no losses will be
operative would be an optimist who said that in connection with co-

advances may
would not
housing societies or the Housing Commission, when
be made to the extent of 90% of the security, that losses
arise in certain circumstances. "

be
infinitesimal
as a
" Still, I would like to emphasize that the losses - which will
inevitable in certain circumstances - will, in my view be
in comparison to the benefits conferred on the community
whole."

this context
. Supervision of risks and deficits in societies should be viewed in
Banking standards for lending are irrelevant.

◆ In recent years State home lending programs in New South
Wales, Victoria
and Queensland have run into widely publicised difficulties. With
hindsight,
product parameters have turned out to be wrong. CHS's have
become
involved (e.g. with HOMEFUND) in workouts.

an agent of
been
offering
It is important to recognise that such involvement has been as
governments, not as a principal. Any problems arising have not
caused by co-operatives. Societies at great cost to themselves are
government and borrowers assistance.

2.4 How do societies operate?

◆ They fall under customised State legislation, most of which is
now obsolete
and restrictive. The legislation relevant to CHS's is:

- the Victorian Co-operative Housing Societies Act 1958;
- in New South Wales the Co-operation Act 1923 as
amended.
This is currently being reviewed with the new legislation
envisaged
to mirror the Financial Institutions Scheme where
appropriate;

1974; and

- the Queensland Co-operative Housing Societies Act 1958-
- in Western Australia the Building Societies Act 1976 (as amended).

- 5 -

Legislation in all cases provides for Industry Advisory Committees. These have traditionally played a leading role in industry self supervising itself, The history of CHS's reveals no fallovers which have caused borrowers or government any serious difficulties. Lending has been undertaken with high care and very little call has ever been made upon government insurance provisions.

◆ Societies operate with the support of government guarantees and indemnities. Guarantees apply to wholesale financiers and hard core funding, whilst indemnities have offered societies insurance for loans in excess of 80% LVR . CHS's, in conjunction with government, invented mortgage insurance in Australia. These days industry also extensively employs private sector mortgage insurance for new lending. State governments have stopped issuing new guarantees.

◆ Societies maintain solvency reserves built up over time from yearly operating surpluses.

◆ They are ultra efficient operators and highly cost effective. The industry operates on a 0.3-1% margin which is generally much below that earned by other financial institutions. Low costs are passed on to borrowers.

- ◆ The boards of individual societies appoint a secretary as well as a manager, usually under contract. In practice, individual societies are pooled into "groups" for administrative efficiency.
- ◆ The industry is atomistic, with associations at State and national level. State associations assist with best practice standards.
- ◆ This is usually a face-to-face business with borrowers.
- ◆ Societies have traditionally provided home lending services on behalf of third parties e.g. employers, credit unions and trade unions.
- ◆ Most CHS Groups now operate off-balance sheet agencies for home lending activities to give them stability and continuity.
- ◆ Some government programs exist off balance sheet in both Victoria and New South Wales.
- ◆ Funding of societies and associated operations may be classified under three headings viz.

- 6 -

Tier 1 - Government Funded Housing Programs (including Commonwealth and State Housing Agreement allocations and secondary mortgage market arrangements).

Tier 2 - Government Guaranteed (with or without indemnity).

Tier 3 - Wholesale Non Guaranteed Institutional Borrowings (through banks and other sources).

2.5 The Campbell Report

CHS's were not specifically considered by Campbell's Committee. They have,

however, been impacted by its content and implementation e.g.

◆ Chapter 22 refers to consumer credit and the protection of borrowers.

role in
operative
credit

"The Committee urges the Government to take an active seeking to secure agreement among the States on a co-scheme to achieve uniformity in the regulation of consumer providers." (22.10)

The Committee was concerned at the delay in reaching agreement on uniform legislation 15 years ago; still no legislation exists.

◆ Chapter 37 refers to housing finance.

as an

"There is no justification for retaining interest rate controls instrument of housing or welfare policy." (37.77)

permit a
financial markets
of excess

" A more developed secondary mortgage market would closer integration between housing finance and other and facilitate the transfer of mortgage funds between areas demand and excess supply." (45.280)

State authorities continue to control/influence home loan rates via their power to approve through consultation rates at which monies can be raised.

acted as the
Australia. Such
mortgage
for all

CHS's and management companies associated with them have vehicle for secondary mortgage market developments in funds have been widely applied for social housing. The secondary market has now evolved to the point where such funding is used borrowers.

2.6 The Financial Institutions Scheme

One significant outcome of the Campbell Inquiry was the establishment of a national uniform system of supervision for some NBFIs. This was via the Financial Institutions Scheme. CHS's are not part of it. They remain under State supervision. AFIC did not want them.

Some States, however, have empowered their State Supervisory Authorities (SSA's) under this scheme to also supervise CHS's. As a non DTI, they are incompatible with building societies and credit unions. SSA's have taken on the role of consumer protection for which they are ill suited. Western Australia still utilizes a Registrar.

Supervision by SSA's has proved to be "very mixed". They have been treated as normal financial institutions using irrelevant banking prudential standards. This is not appropriate.

Supervisory practice is not uniform between States. VICFIC is still operating under the cloud of the Pyramid collapse.

CHS's have been regulated more since inception of the FIS whilst banks have been increasingly deregulated.

3.0 CURRENT INDUSTRY STATUS

3.1 Financial Information

It should be noted that current industry data is scarce.

Presently, total assets of the Industry would be about \$3.0 billion. Victoria would represent about \$1 billion of this total on-balance sheet. As at March 1995 the value of the mortgage portfolio in New South Wales was \$390 million on balance sheet; the off-balance sheet portfolio was \$1,187 million.

The industry has contracted in size during recent years due to reasons such as the following.

- ◆ CSHA funding has ended.
- ◆ There are no new State government social lending initiatives and new guarantees have not been available.
- ◆ Existing loans are being paid out in the normal course of time.
- ◆ Refinancing is occurring. However, the shift from public sector funding to private sector funding is a desirable transition.
- ◆ State Housing Authorities are "restructuring" existing home loan programs.
- ◆ Since the State Supervisory Authorities became involved it has been more logical to do business outside the CHS legal structure.

To gain cost efficiencies there has been major rationalisation of the number of societies within groups.

Some selected available statistics have been attached at the end of this submission.

3.2 Over-regulated

The transfer of societies to SSA's has been a backward step for the movement in Australia. We make the following observations about them.

◆ They do not understand CHS's. They have difficulty in accepting marginal income households as borrowers; they do not understand co-operative lending philosophy; they do not care about mutuality.

◆ There is a propensity to merge CHS's supervision with that of building societies and credit unions even though those sectors are very different.

- 9 -

◆ Relationships have been particularly strained in Victoria which was until recently the major State for on-balance sheet lending.

Industry has been required to consolidate and even hand back reserves to a level of 1% of assets. The industry continues to disagree with this philosophy.

◆ SSA's are a vehicle for government to pass on to societies and their borrowing members supervision costs for social lending programs.

Supervision costs vary between States. In NSW, societies until recently have paid nothing; the State government has funded them. This may soon change.

In Victoria, costs are prohibitive. During 1996-97 the average supervisor is costing industry \$76,750 in salary and about \$80,000 including cars. There are almost six staff budgeted for in an industry which has shrunk to less than a dozen significant groups. Since costs are passed on to borrowers, a

shrinking number of members is carrying the supervisory cost burden.

In Victoria the CHS levy per member has increased from \$18 per head in 1993-94 to \$21.50 in 1994-95 and \$30 in 1995-96, and is expected to be in the order of \$36 - \$38 in 1996/97. Due to declining membership of societies the levy per member is projected to rapidly reach prohibitive levels over the next few years.

◆ Industry believes that the style of supervision by SSA's is a recipe for extinction.

3.3 Decline of Government Support

There is a trend for the Commonwealth and State governments to abandon their housing finance programs except for aboriginal support, shared home equity schemes and other politically acceptable roles involving minimum commitment.

This is occurring for reasons such as the following :-

◆ As the public is increasingly well housed, State governments are giving housing a lower priority, in spite of rapidly growing waiting lists.

◆ Given the growing number of financiers and supply of money in the private sector, government believes the private sector will also look after many public housing needs.

◆ Governments had their fingers badly burned by running secondary mortgage market and fixed rate lending programs. There is now an over-reaction.

◆ They have little money of their own, and the Federal government is also radically altering and winding back the CSHA.

◆ State governments are worried by the impact of the Uniform Credit Code and in particular their liabilities for lending via third parties.

◆ Victoria is still suffering from post-Pyramid syndrome, even though the collapse of the Farrow Corporation did not have any adverse effect upon the industry.

◆ Also important is the fact that State governments have no strong housing policies. CHS's are implementers of such policies; in so far as they don't exist, there is a limited role for societies as arms of government.

◆ There is discomfort with secretary/managers charging for administrative services.

◆ They are not looking to increase liabilities through the issue of any further indemnities. There is a desire to remove current exposure as soon as possible.

3.4 Increased competition

Societies are yet to adjust to the increased level of competition in the housing finance markets. The excess supply of money flooding the market is more the outcome of changing demographic conditions than Campbell Report impact.

◆ The banks have recently been aggressively absorbing every bit of business they can get their hands upon including marginal borrowers. They are likely to reduce lending as the home lending market reaches saturation and business lending increases.

◆ Credit unions have entered lending for housing in a big way and also have a natural empathy with marginal income households.

◆ Independent mortgage managers have been active. They have operated unconstrained whilst CHS's are hobbled by unreasonable supervision.

Mortgage originators are not new. They have been around for a long time in the form of CHS's which also borrow wholesale. CHS's operate on half their income margin. However, whereas CHS's are confined to a public sector role and are supervised, mortgage originators can harvest any business and have no financial supervision. This is hardly equitable.

Since bank deregulation, most specialist financial institutions have not been required. The industry believes that it is an exception.

- 11 -

3.5 Other issues

◆ At present, there is no reason to form any new societies. Secretary/managers do not want to confront the above difficulties. Instead, they are setting up companies to do business off-balance sheet. Some societies are switching existing business from regulated societies to companies. Others are leaving the industry; some "giving away" their societies to do so.

◆ The industry is probably experiencing its highest ever level of operational standards and behaviour. Recent events have purged the industry of its weakest operators.

◆ Non uniformity of supervision between States compounds the difficulties experienced by industry to operate nationally. For instance, differing administrative, prudential and reporting obligations prohibit efficiencies being obtained by doing these things uniformly around the land.

◆ As societies carry government lending programs, their supervision costs as well as those for working out failed lending programs should be naturally carried by government. Transferring such costs to borrowers effectively amounts to government imposing taxes upon disadvantaged borrowers.

4.0 THE FUTURE

We have no doubt that there is a continuing relevant role for CHS's and their associated entities. Industry believes that it can successfully survive if it is just allowed to focus upon market forces rather than unnecessary supervision.

◆ **Existing business maintenance**

CHS's are keen to protect and manage the remaining on balance sheet business which the industry retains. The current decline in business needs to be managed very carefully. A declining industry means that a smaller number of societies and members have to carry a bigger supervisory burden.

◆ **Societies will fill the void created by the departure of State governments from housing**

CHS's are very well placed to replace government in the area of housing. As

State governments privatize and pull back to hard core operations they are likely to off-load existing business which they manage. CHS's (on their own, or jointly with third parties if necessary) are well positioned to take over some of this. This includes housing finance waiting lists for which the industry is prepared to create new lending products.

◆ **The future for CHS's continues to lie in servicing marginal income households**

Australian borrowers need CHS's. Many Australian households are becoming relatively poorer and are finding housing more difficult to afford. Young people are not marrying, marrying later, finding traditional employment scarce, commonly experiencing marriage breakup and for various other reasons struggling to afford shelter. Meeting the need to finance shelter for such people is natural to CHS's. Marginal income households already represent about 40% of total households in Australia and their share is increasing.

◆ **Continuing to act as an arm of government on a fee for service basis**

Societies believe that State governments will "outplace" many functions, and if they can prove themselves relevant government will allow them to perform services under contract.

Societies also believe their State governments will subsidize and sponsor certain initiatives. For example, "loan fallover centres" specializing in the workout of troubled home loans might warrant such support.

Government will also want to continue to use CHS's as a vehicle to introduce

housing. other housing initiatives e.g. financing smaller, more affordable
building is a Given the origins of CHS's as "building societies", social
natural role for them.

It is highly likely also that government will want to use CHS's to
counteract the highly cyclical behaviour of other private sector lenders. In
particular, in as much as this effects marginal income households.

◆ **Technology is not a threat to CHS's**

Technology doesn't render societies obsolete. There are things
like financial counselling which cannot be done by a machine. CHS's try to
help finance households rejected by machines into a house.

Industry will increasingly use technology to improve its
administrative efficiency e.g. reporting to authorities and common loans
administration perhaps on a national basis.

Industry recognizes that it now cannot rely solely upon government for
its future. It recognizes that it must take its own initiatives and plan its own future.
If necessary, it recognizes that its future might lie outside existing CHS legislation.

5.0 WHAT DOES INDUSTRY WANT ?

5.1 Not to be forgotten

The Committee should remember, as it formulates its recommendations, that co-operative housing societies already exist and can play a new significant role in Australia's housing markets. They still represent the interests of many home borrowers.

5.2 Deregulation

The industry agrees with the Campbell conclusion that :
"the most effective way to organize economic activity is through a competitive market system which is subject to a minimum of regulation and government intervention."

CHS's want to be unfettered to get on with their traditional role.

5.3 Some supervision is required, but less than at present.

The industry accepts that some types of supervision are essential e.g.

- ◆ functional supervision to protect borrowers,
- ◆ operational supervision to protect government and member interests, and
- ◆ competitive supervision to ensure that societies are permitted to compete fairly in the marketplace.

Functional supervision primarily consists of proper disclosure to existing and prospective borrowers. Borrowers are fairly well looked after already. Under the new Consumer Credit Code they will be even better served. Actually, the new consumer protection legislation is excessive. Borrower interests have probably

already been taken too far and should be wound back. Excessive consumerism adversely affects marginal income households the most.

Customized codes of ethical conduct need to be built up by societies themselves to cater for unique consumer issues pertaining to the industry e.g. how should prospective, new and long established members be treated differently? To whom do existing reserves belong, and how might they be used ?

Compliance with the requirements of government sponsored funding programs is necessary. Societies manage public monies, guarantees, and indemnities.

- 15 -

The position of borrowers must not be jeopardized in the event of a society becoming insolvent. To avoid insolvency, first class asset and business risk management systems continue to be required.

Member interests may also be effected in a great variety of other ways e.g. management contracts and inter-group transactions. These interests need to be generally overseen.

The unregulated activities of independent mortgage managers and insurance companies are of concern, as they should be required to maintain reserves at least equivalent to CHS's. In their present form, they encourage State governments to ignore traditional operators like CHS's.

As CHS's do not take in retail deposits, the industry rejects traditional supervision applying to a DTI.

5.4 To remain under State control

Societies are local financial institutions. They serve local communities. They do not wish to go under Federal control, much less a super regulator.

5.5 Industry does not want to be supervised by SSA's

It does not wish to be brought into the Financial Institutions Scheme. It does not wish to be supervised by SSA's, and in the case of Victoria desires that the degree of regulation be reduced.

If the Financial Institutions Scheme ends, SSA's could still remain as the vehicle for State governments to supervise miscellaneous organisations like CHS's. This is also unpalatable.

5.6 A customized new supervisory regime is required

This would include :

- ◆ new legislation for existing CHS operations,
- ◆ institutional based supervision, and
- ◆ a cheaper, more practical, locally based supervisory administration.

Industry prefers specific new legislation of its own. If this is not possible, then it should be allowed to transfer its operations to a different legal jurisdiction such as the Companies Code. Perhaps specific provision could be made for it to operate there.

- 16 -

Accepting that uniform national legislation is difficult to achieve, and flexibly maintain, industry is satisfied to envisage States evolving their own individual legislation. Existing new draft New South Wales legislation could be used as a guide. It proposes that a Standards Committee be established to take on the role of an Advisory Committee with expanded powers to undertake such functions as registration of societies, approval of mergers, etc.

Industry believes that its supervision would be more efficiently handled by

expanding the role of Industry Advisory Committees supported by external auditors.

◆ Committees have traditionally already been responsible for protecting public interests (e.g. government guarantees and indemnities) and borrower interests (by recommending operational policy and practice to government and industry).

State governments can appoint their members and be represented.

Their functions would include:

- submitting to the Minister model rules and regulations,
- specifying ways of improving societies' operations (e.g. setting new accounting standards for such things as loans presently based on unpaid shares drawn down, determining management responsibilities on how to conduct a CHS in a sound and prudent manner and groups),
- expediting the easier merger of smaller societies and
- funding of societies,
- indemnity and guarantee issues, and
- establishing a registration system for auditors as well as receiving/acting upon their reports.

Functions could be outsourced.

◆ Auditors could look after compliance, based on legislation and standards approved by the Industry Advisory Committee. They would be a key component of any new supervisory process, and already have an expanded role in proposed New South Wales legislation.

Regardless of the supervisory system, modifications to existing legislation are critical. For instance, to protect borrowers, it is necessary to remove their unlimited liability for the obligations of the society. Legislation needs to also specifically provide for what happens if a society has unfunded liabilities. Legislation needs to permit societies to more simply amalgamate.

5.7 Broader trading powers

Societies are presently straight-jacketed. To survive, they need greater freedom to creatively diversify their facilities to market needs. This might include :

- providing or managing houses to be kept available for letting;
- funding residential investment and rental property for use by marginal income households;
- refinancing vendor terms;
- supplying hostel accommodation;
- purchasing property on shared ownership;
- trading interstate; and
- for efficiency, being permitted to combine into groups CHS and non CHS operations.

Broader funding as well as asset powers are desirable. For example, access to SGC holdings of borrowers to recycle at no profit their own resources, minimize gearing and make housing more affordable.

5.8 A phased exit of governments

State governments at present will want to retain CHS supervision to protect their exposure from guarantees and indemnities issued. Societies should be permitted to sensibly operate whilst governments wind down their exposure.

5.9 More information is necessary

Too little data is presently available for efficient management of the industry. The

Australian Bureau of Statistics no longer produces statistics. The SSA's and ABS

still collect data from the industry, but don't efficiently publish it.

SSA's should be

more liberal in releasing intelligence collected from industry back to industry.

- 18 -

6.0 END PIECE

The banking and finance world is becoming more internationalized. Co-operative

housing societies, however, will remain very much "grass roots" organisations very

simply focused upon Australians trying to fund basic shelter.

There are major social implications in the impact which the Committee of Inquiry

may have upon the operations and the survival of CHS's.

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