



Insurance Council  
of Australia

# News release

## Home Guarantee expansion will inflate prices, harm those it aims to help

The Federal Government's plan to dramatically expand the Home Guarantee Scheme (HGS) will increase house prices, make it harder for lower income earners to enter the housing market, and have a negligible impact on home ownership rates, according to new analysis released by the Insurance Council of Australia (ICA) today.

Analysis of the Government's policy by independent economic consultancy Lateral Economics has estimated that the expansion will cause house prices to rise by up to 10 per cent in the first year in the housing market of greatest interest for most first home buyers by bringing forward existing demand in Australia's already stressed housing market.

The highest price increases will be seen in homes up to the HGS property price caps, which will be as high as \$1.5 million in some cities, given this is where the increased demand will be concentrated.

Moreover, the analysis has found that the increase in house prices as a result of the expanded HGS is expected to far outstrip any savings from foregoing Lenders Mortgage Insurance (LMI).

On a \$700,000 home, the HGS will save a first home buyer \$21,000 to 28,000 in foregone LMI but will drive up the price of the home up by \$37,100 to \$69,300, leaving the first home buyer behind by \$16,100 to \$41,300.

While the expansion of the HGS is expected to bring forward up to 40,000 first home buyers in additional demand, it will generally benefit those who already intended to buy a home using other means (i.e. support from parents or saving a higher deposit) and harm those who the HGS was originally designed to help.

Due to the increased house prices, it is estimated by Lateral that the expansion of the scheme will price out up to 6,500 lower-income prospective buyers in the first year alone.

Because the scheme will mostly benefit those who already intend to buy homes, rather than help out those who otherwise would not buy a home, it is expected that the home ownership rate would only increase from the current rate of 66 per cent to 67.2 per cent over five years.

The ICA is calling for the HGS to have comprehensive safeguards including asset testing for recipients, transparent risk reporting, independent assessments and reviews, and is fair, accountable, and targeted to those most in need.

The Lateral Economics report is available [here](#).

Quotes attributable to ICA CEO Andrew Hall:

While well intentioned, the Lateral Economics modelling makes clear that many first home buyers will be worse off under this plan, at least in the first few years of the expansion.

It is a concern that an outcome of the expansion will be price increases greater than what people would have paid in LMI.

The insurance industry accepts the government will play a role in first home buyer schemes, but these schemes should be effectively targeted to support people who genuinely need it.

**Note for media: Nicholas Gruen, CEO Lateral Economics, is available for media interviews. Contact Sophie Johnston, 0409 085 870.**

**Key statistics from the Lateral Economics Analysis:**

- Lateral Economics estimate that the proposed expansion will drive up national property prices by 3.5 per cent to 6.6 per cent. – 9.9 per cent in some specific markets (i.e. those preferred by first home buyers under the HGS price caps)
- Demand for the HGS is expected to increase by 20,600-39,100 (equal to 3.8-7.1% annual home sales)
- 3,500-6,500 lower income prospective home buyers who would benefit most from the scheme will be priced out in the first year alone
- It is estimated the expansion will have minimal impact on the home ownership rate, increasing from the current rate of 66 per cent to 67.2 percent.

**Summary of recommendations by the Lateral Economics report:**

1. Ensure fairness by applying an assets test to HGS recipients
2. Provide transparency by including contingent liability created by the HGS in the Statement of Risks
3. Ensure equitable treatment by leveling the APRA risk weighting between an HGS-backed loan and an LMI-backed loan
4. Ensure probity by undertaking an independent assessment ahead of introduction
5. Provide appropriate governance by baking in regular, independent reviews
6. Support those most at need by introducing a scaled fee for the scheme