Home Guarantee Scheme Expansion: Implications for First Home Buyers and Lenders Mortgage Insurance

A Lateral Economics report for the Insurance Council of Australia

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LateralEconomics

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Executive Summary

Scope of work

The Insurance Council of Australia (ICA) has commissioned Lateral Economics (LE) to assess the impacts of the Australian Government's proposed Home Guarantee Scheme (HGS) expansion.

Key findings for policy makers

Impact on First Home Buyers (FHBs) and Property Prices

The proposed removal of income caps and significant increases in property price caps would substantially boost demand among FHBs. It is estimated this could increase annual demand by approximately 20,600 to 39,100 buyers (this is 3.8% to 7.1% of annual home sales), potentially driving national property prices up by 3.5% to 6.6% in 2026 and for several years afterwards. This would mean that a home valued today at $800,000 would cost a FHB an additional $28,000 to $52,800.

In specific market segments targeted by FHBs (typically homes below price caps), price impacts can be expected to be even greater—around 5.3% to 9.9%. Remarkably, for the first few years of the expanded HGS, the impact on the price of homes most likely to be bought by first home buyers will in most cases exceed the amount the HGS saves them. This is because the HGS will bring forward demand but the supply of new homes will continue to be inelastic.

Our analysis suggests the bulk of the FHBs assisted by the HGS would buy anyway either in the current year or in a few years' time. Based on 2023-24 HGS data, around nine in ten of borrowers currently assisted by the HGS would have bought anyway, relying on lenders' mortgage insurance or assistance from their parents or some other means of support (see Box 1 below).

Ironically, if one asks who is most likely to be priced out of the market in the upshot of the scheme driving up house prices, it is lower-income first home buyers, who have the lowest capacity to pay.

Implications for Government Finances and Financial Stability

The expanded HGS could impose substantial contingent liabilities on the Australian Government balance sheet. With an average home price of $700,000, guaranteeing

approximately 590,000 mortgages by 2030 could expose the Government to up to $62 billion in contingent liabilities.[1] In a severe property market downturn, this exposure could result in losses of several billion dollars, depending on the default rate and property price falls.

Higher levels of borrowing due to reduced deposit requirements (5% deposits) significantly increase financial risks, particularly among marginal borrowers, potentially exacerbating financial stability risks in economic downturns.

Furthermore, because HGS only guarantees up to 15% of the property price, banks could be exposed to significant losses in the event of a large economic downturn and property market crash. Such losses could also amount to billions of dollars.

Impact on LMI Industry

Since its introduction in 2019, HGS has significantly reduced private LMI demand, with only 1 in 10 FHBs now using LMI, down from levels of 3 in 10 before its introduction. The expanded HGS is expected to reduce annual LMI activity further, potentially leading to significant rise in LMI premiums due to higher fixed costs being spread over fewer policies.

Broader Economic Impacts

The proposed expansion largely benefits borrowers who would have bought homes in any event, with far more modest effects in assisting those who would otherwise not have become homeowners. We estimate that the extension would increase overall home ownership from the current rate of 66.0% to around 67.2%.[2] Furthermore, while the HGS saves FHBs the cost of LMI, this is likely to be offset by higher property prices for the first few years of the HGS expansion, wiping out any improvement in affordability. Hence, there may not be any improvement in the home ownership rate through improved affordability in the next few years.

The current failure to charge users of the HGS a price removes a critical discipline markets impose whereby resources flow to their highest value. Even a subsidised price for the HGS would discourage use where FHBs have alternative sources of funds - for instance from the 'bank of mum and dad'.

[1] The $62 billion potential exposure is calculated by multiplying an estimated 590,000 HGS guarantees by the end of 2030 by the average property value times 15%: 590,000 x $700,000 x 15% = $62 billion.
[2] This is still significantly below the peak home ownership rate of over 72.5% in 1966. Eslake, S. (2024) Australia's Housing Crisis, p. 3.

Box 1 : How first home buyer assistance will actually harm first home buyers

The HGS allows first home buyers to purchase with just a 5% deposit instead of the usual 20% or lenders' mortgage insurance (LMI). This generates obvious 'first round' benefits for first home buyers. But there's a second round effect. It increases the demand to buy houses without increasing housing supply on the market.

- In the first year of the HGS expansion, an additional 20,600 first home buyers enter the market, 18,500 of whom would have purchased later, but bring forward their purchase because of the new scheme.
- This represents 3.7% of all residential property transactions across Australia
- Because the supply of housing is not very sensitive to demand, and because first home buyers are focused on a subset of the market, the price of first homes rises by around 5.3% to 9.9%.
- This compares with the cost of LMI on a 90-95% loan-to-valuation ratio of around 3-4% of the property value.
- For a $700,000 home, by displacing LMI, the FHG saves a first home buyer $21,000—28,000. But because it brings other FHBs into the market it drives the prices of first homes up by $37,100—$69,300 leaving almost all first home buyers behind.

Our analysis suggests that 91% of current HGS users would have bought homes anyway through other means:

- Some would have paid for LMI
- Others had family support ("Bank of mum and dad")
- Others would have delayed purchasing and saved for a larger deposit.

Only about 9% represent genuinely new buyers who wouldn't otherwise have bought.

The costs of the scheme are borne by taxpayers and home buyers (including FHBs even if those costs are offset by the availability of the HGS), while the benefits go almost entirely to existing home owners. Some buyers get priced out - an estimated 3,500 to 6,500 first home buyers could be discouraged by higher prices in the first year of the HGS expansion. Lower-income buyers suffer most as they're most likely to be among those priced out.

If the expanded HGS is costed at LMI-equivalent rates it comes to $0.6-0.7 billion in its first year. This is equivalent to the benefit or avoided cost it confers to FHBs covered by the scheme. However, there is an offsetting cost on all FHBs from higher property prices of $4.7-9.9 billion per annum depending on the extent of the bringing forward of demand and the property price impact. Existing home owners selling their homes receive the largest benefits from the forecast property price increases related to the HGS, valued at $22.2-41.6 billion (noting the buyers of these homes face equivalent additional costs of the same amounts).[3]

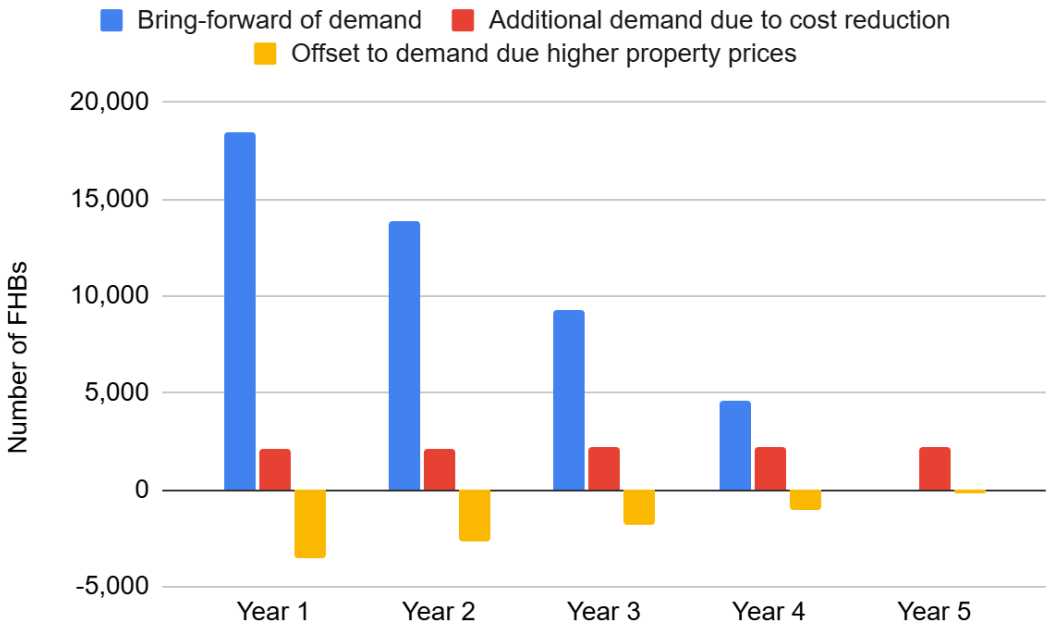
[3] These calculations are presented in Table 6 in section 1.3.

Summary of impacts on FHBs

The economic impact of the HGS expansion comprises the following three effects which are captured in Figure 1. It will:

1. generate a large bring-forward of demand from FHBs who would have bought in any event, but later. This once off effect wears off over time.
2. encourage a much smaller number of FHBs who would not have bought anyway either in the current year or the next several years.
3. discourage some prospective FHBs, expected to be predominantly lower-income households, through its impact on property prices, especially in the short term.

Figure 1. Components of changes in FHB demand for homes



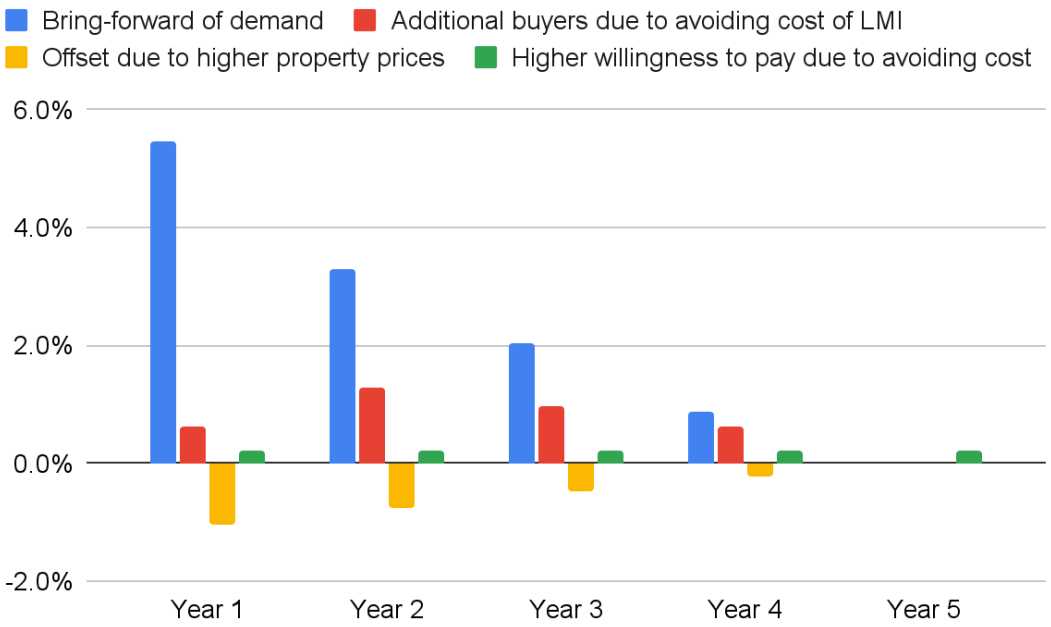
This additional demand generates a temporary large boost in total FHB numbers for several years, before FHB numbers settle down to where they would have been otherwise plus the net effect of the second and third effects above (Table 1). As noted above, most of the demand for additional HGS places is substitution from other ways of securing a home loan either now or in the next few years.

Table 1. Breakdown of FHB numbers by category

Item	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
FHBs						
No reliance on LMI, HGS, or parental guarantee	52,600	32,875	33,427	33,983	34,544	35,109
LMI	12,500	1,875	1,890	1,905	1,920	1,936
Parental guarantee	8,800	1,320	1,331	1,341	1,352	1,363
HGS						
- baseline (existing scheme users)	36,100	36,100	36,100	36,100	36,100	36,100
- substitution from LMI		10,625	10,710	10,796	10,882	10,969
- substitution from parental guarantee		7,480	7,540	7,600	7,661	7,722
- substitution from other means (e.g. savings, parents)		19,725	19,883	20,042	20,202	20,364
- bring forward of demand		18,492	13,869	9,246	4,623	0
- additional demand due to reduction in cost		2,145	2,162	2,179	2,197	2,214
Sub-total of HGS demand		94,567	90,264	85,963	81,665	77,370
Offset to demand due higher property prices		-3,482	-2,667	-1,838	-997	-141
Total FHBs	110,000	127,155	124,245	121,354	118,484	115,636

The bring forward of demand generates substantial property price increases, particularly for properties sought by FHBs as many more FHBs than normal enter the market in the first few years of the HGS expansion (Figure 2). This effect falls away over time, and the much smaller annual increase in FHBs as a result of the policy, comes to predominate and generates a small price increase. As Figure 2 illustrates, the market partly adjusts by some lower-income FHBs being discouraged as prices rise, providing some offset to the ultimate property price increases, with adverse equity implications as noted above.

Figure 2. Percentage point contributions of FHB demand changes to property prices faced by FHBs



Conclusions and recommendations

Good public policy clearly identifies genuine market failures—such as externalities, public goods, or information asymmetries—and equity issues, and addresses them efficiently and effectively. It relies on economic analysis to ensure interventions are proportionate, targeted, and designed to minimise unintended consequences. Effective policy considers how the benefits and costs are distributed across the community.

In its current and proposed expanded forms, we have significant concerns that the HGS breaches the principles of good public policy. It does not address a genuine market failure, as there is an active LMI industry. It does not charge for the support, unlike in the US or NZ, and hence will waste money supporting borrowers who could have found alternative ways to overcome the deposit gap. Furthermore, it is dubious from an equity perspective, as many lower-income FHBs could be disadvantaged as property prices increase as a result of the policy.

Given the wastefulness of the HGS being free, its risks to public finances and its impact on financial stability, the principles of good public policy suggest that the Government should

target the HGS better by making more modest adjustments to income and property price caps.[4] Further, because of the mismatch between the extent to which the HGS scheme could bring forward home purchases and the speed with which additional homes can be built there is a case for delaying the introduction of the scheme, or at least phasing in cap increases and adding an assets test.

The following recommendations would ensure that FHBs had an incentive to use their own or other resources where they could do so at relatively low cost. This would also reduce the competitive disadvantage of LMI vis-a-vis the HGS. The recommendations would also promote transparency and an understanding of the HGS's impacts to inform any future reviews of the scheme.

Recommendation 1

An assets test should be applied to HGS applicants to reduce the extent to which assistance goes to those who do not need it. For the HGS, the asset test would require that the HGS is only available once any available assets of the borrower have been put toward the deposit. The Government could also consider restricting the new property price caps and removal of the income cap to workers in essential services, including nurses, emergency service workers, and teachers.

Recommendation 2

The Treasury should quantify the contingent liability created by the HGS in the "Statement of risks" in the Budget. This is necessary from a transparency perspective, as the HGS is mostly off-budget.

Recommendation 3

There is a strong case for addressing the regulatory disparity that exists between LMI and HGS–specifically, that the APRA risk weighting, which affects the amount of bank capital required, is 35% for loans backed by the HGS compared with 55% for loans backed by LMI. Effectively, this means that HGS users face interest rates equivalent to a loan with an 80% LVR, while LMI users have to face higher interest rates than this. The Government should encourage APRA to deliver a more level playing field.

[4] Housing Australia (2024, p. 18).

On the one hand the government underwriting of default risk is stronger than the industry's, but on the other LMI covers lenders for the full shortfall in the property value compared with the outstanding loan. In contrast, the HGS only covers 15% of the property value, which may be insufficient in some circumstances.[5] Though we have not investigated the matter fully, it is hard to see why loans backed by LMI should not be treated similarly to loans backed by the HGS.

Recommendation 4

As part of its design and planning to commence the scheme by 1 January 2026, the Government should facilitate some simple, independent research into the way in which the introduction of the HGS has influenced the property market, including impacts on lending for residential property, market transaction volumes, and property prices. The research should compare the impacts of the HGS with the expected impacts of alternative policy measures, particularly those on the supply-side of the housing market. It should also consider any market distortions and financial risks to home owners and lenders created by the policy. This kind of analysis should be an integral part of all new developments in public policy.

Recommendation 5

The Australian Government should ensure that there are regular independent reviews and reports on the impact of the HGS on the LMI industry, recognising the importance of LMI in supporting the property market and financial system. An appropriate body to conduct such reviews would be The National Housing Supply and Affordability Council or the Productivity Commission. This report should be contained in or attached to the existing Housing Australia report on its activities to assist FHBs required under section 57A of the Housing Australia Act 2018. Additionally, the existing reporting should be expanded to analyse the impact of the HGS on the property market, particularly on property prices.

Recommendation 6

FHBs newly eligible for the expanded HGS should be charged a fee to use the scheme, though it could be considerably less than LMI, improving affordability for FHBs, while reducing the largest economic welfare costs of the scheme (around the zero price bound) and providing some check on a significant property demand shock. It could also be charged on a delayed basis - say being recovered from repayments after the third year of the mortgage. A charge is desirable to avoid the significant risk associated with uncapped schemes of a blowout in

[5] On LMI, see https://www.qbe.com/lmi/about-lmi/understanding-lmi. Regarding HGS, note that Housing Australia notes "Housing Australia provides a Guarantee to the Participating Lender of up to 15% of the value of a home loan". See https://www.housingaustralia.gov.au/home-guarantee-scheme.

demand, as occurred in tertiary education, for example. This change would encourage borrowers to make other arrangements if they can be easily made, by saving more or getting assistance from their family.

1. Overview of the analysis

1.1. About the HGS

Under the HGS, the Australian Government provides a guarantee to the lender where a borrower with a 5% deposit (or 2% for a single parent) who is a first home buyer (FHB) meets certain eligibility criteria (Table 2). This allows the borrower to avoid paying for lenders' mortgage insurance (LMI). The Government proposes to increase property price caps (i.e. the maximum value of the property that can be guaranteed), remove participant income caps, and uncap the number of available places.[6]

Table 2. HGS parameters for FHBs: Current and proposed

	Current	Proposed
Places (annual)	50k, comprising 35k in core FHG, 10k in Regional First Home Buyer Guarantee (RFHBG), 5k for Family Home Guarantee (FHG) for single parents	Unlimited
Property price caps	Location dependent, e.g. $900k in Sydney and major regional centres, $750k in the rest of NSW, $800k in Melbourne, etc.*	Substantially increased (e.g. NSW capital city and regional centre will have cap of $1.5 million)
Income caps	$125,000 for individuals or $200,000 for joint applicants	None
Minimum deposit	5% (2% for a single parent)	5% (2% for a single parent)

Source: https://www.housingaustralia.gov.au/home-guarantee-scheme and "Labor to deliver 5% deposits for all first home buyers and build 100,000 homes". *For property price caps, see https://anthonyalbanese.com.au/media-centre/labor-to-deliver-5-deposits-for-all-first-home-buyers-and-build-100-000-homes.

The new property price cap increases will be significant–e.g. $1.5 million in Sydney and $1 million in Brisbane and Queensland regional centres. These changes are motivated by a desire to increase home ownership. Far from addressing a 'market failure' as this report shows, they exacerbate that market failure by driving up demand without expanding supply.

[6] See "Labor to deliver 5% deposits for all first home buyers and build 100,000 homes"

1.2. HGS impact to date

HGS has had an adverse impact on private LMI provision since it was introduced in 2020 (as the First Home Loan Deposit Scheme). As of June 2024, HGS has assisted more than 160,000 Australians.[7] In research for the ICA, Deloitte Access Economics found:

> since 2020, there has been a substitution between first home buyers' use of LMI and HGS and as of 2023, LMI is only being used by 1 in 10 first home buyers with 3 in 10 first home buyers using the HGS.[8]

As a result, total LMI activity is significantly below earlier levels, at no more than 15,000 policies per quarter, compared with 20,000 to 30,000 per quarter pre-COVID. '

We estimate (in section 4.2) that around 91% of the beneficiaries of the HGS would have made alternative arrangements if the scheme was not available. Many FHBs had access to sufficient funds to either pay for LMI or avoid it by accumulating a 20% deposit, possibly with assistance from their family.

The income and property price caps for HGS eligibility in many markets dominated the cap on HGS guarantee numbers as a rationing device. Fewer HGS guarantees have been issued than the maximum number provided for in the policy: 36,100 compared with the 50,000 cap in 2023-24 (refer to section 4.1). Because of general price growth since the property price caps were set, only in Greater Melbourne and Darwin does the median sales price for dwellings remain under the cap. For several of the capital city markets, including Sydney, Hobart, and Canberra, the median sales price has exceeded their caps for the entire duration of the HGS. Thus, significant increases in the property price caps could produce a surge in demand for the HGS.

As set out in section 4.1, we estimate that nearly 24,000 or two-thirds of the guarantees issued in 2023-24 displaced LMI. The remainder of around 12,000 is split between FHBs who would have used another means to secure a home loan (i.e. using their own savings or borrowing from their family), and some bringing forward of demand, because saving for a smaller deposit takes less time. We estimate the latter group at around 3,000 borrowers. This is additional property market demand in any year and hence would have an impact on property prices. It

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[7] https://www.housingaustralia.gov.au/media/australian-home-guarantee-scheme-50000-more-places-eligible-home-buyers-1-july

[8] ICA (2024) Lenders' Mortgage Insurance: Supporting Access to Home Ownership, p. 10.

represents additional property market demand of 0.4% of total transactions across Australia and could have put upward pressure on property prices of 0.8%.[9]

To date, the HGS has probably mostly seen substitution from LMI into the HGS, and has not resulted in a large stimulus to property market demand. However, the impacts of an expanded HGS could be more significant.

1.3. Economic impacts of the expanded HGS

Implications for home ownership

The expanded HGS will extend to three distinct groups:

1. FHBs who would have used LMI because they are ineligible for the HGS under current requirements (e.g. income and property price caps) but qualify under the new expanded HGS;
2. FHBs who use other options to secure a home loan, such as borrowing from their family or saving up a 20% deposit themselves, who could rely instead on the expanded HGS; and
3. Prospective FHBs who would have been discouraged from purchasing a home by the cost of LMI pushing the total cost beyond their willingness or ability to pay but who can now use HGS.

Groups 1 and 2 represent a substitution into the HGS of borrowers who would otherwise fund their purchase with LMI or increased deposit. Group 3 represents additional FHBs beyond the level without the expanded HGS.

1. FHBs who would have needed LMI

Based on LMI provider data, the number in the first group can be estimated as those FHBs currently obtaining LMI, around 10,000 to 15,000 FHBs annually. The loss of these FHBs from the LMI market will impact LMI providers but not add additional demand for housing (although it will expand the borrowing capacity of first home buyers by around 1-2% as discussed below).

[9] This is based on PEXA data for the five mainland states: Property Insights | Settlement trends diverged across states in 2024 | PEXA Group. The reported figure of 723,312 was scaled up by approximately 5% to account for Tasmania, ACT, and NT (according to September quarter ABS population data). The calculation assumes an elasticity of supply of 0.5, consistent with Ong ViforJ, R. and Leishman, C. (2023) "The economics of housing supply: Key concepts and issues", NSW Parliamentary Research Service, Research Paper: 2024-07, p. 8.

2. *FHBs with other options taking advantage of HGS*

An additional category of borrowers that would benefit from HGS includes borrowers who, if not for HGS, would:

- Obtain finance to achieve a larger deposit, additional guarantee or collateral from relatives or friends to secure a home loan;
- Use their current savings for a 20% deposit–i.e. some borrowers may choose to use the HGS so they can use their savings for a purpose other than a deposit; or
- Take additional time to save up a 20% deposit–i.e. the HGS could immediately bring forward, from the future, significant demand from FHBs.

This category of potential beneficiaries of HGS is challenging to estimate. It could be substantial. We can gauge the likely impact by considering the following facts:

- Around one-fifth of FHBs relied on their family contributing to their home loan deposits, according to 2025 Mozo survey data.[10]
- Around 8% of FHBs relied on a guarantor in 2025.[11] This has fallen from 15% since 2021, as some of the FHBs who relied on a guarantor would instead use the HGS, which was introduced in its current form in 2022, and even more would use the HGS if it is expanded. Incidentally, this highlights the way HGS is used predominantly by FHBs who would have been able to purchase a house by other means, rather than genuinely additional FHBs.
- Around 45% of FHBs borrowed at LVRs above 80-85%, as of January 2022.[12] Hence, we assume 55% of FHBs have a 20% deposit or would have in the absence of the HGS.
- The average time taken by FHB couples to save up a 20% deposit was around 5 years nationwide, although it was up to nearly 7 years in Sydney.[13]

Based on these facts and reasonable assumptions, we estimate the following additional annual reliance on the HGS from these sources as 53,200 annually in the first year of operation (Table 3). As discussed below, the increase is greatest in the first year because of the significant bringing forward in demand, and HGS demand will fall in the following years from its peak in the first year of the expansion, until it reaches a new equilibrium or normal level, well above the pre-expansion level. One of the 'known unknowns' is the proportion of currently ineligible FHBs

[10] Mozo (2025) Bank of Mum and Dad Report, p. 10.
[11] Ibid.
[12] Determined by visual inspection of Graph 2, p. 57 of Alfonzetti, M. (2022) "Are First Home Buyer Loans More Risky?", RBA Bulletin, March 2022.The data in the chart are grouped in bands including 50-<80, 80-<85, et cetera, and hence it was not possible to determine the share with above 80% LVR.
[13] Domain (2024) First-Home Buyer Report 2024, p. 8.

who will become eligible for the HGS. This is assumed conservatively at 50% for FHBs not currently relying on LMI but at 85% for those currently reliant on LMI, based on an analysis from an LMI provider. The latter group (i.e. FHBs currently reliant on LMI) are expected to have lower incomes on average than other currently ineligible FHBs and will be more likely to purchase a property that is eligible for the HGS. Another critical parameter is the extent to which the scheme pulls forward demand by reducing the amount of deposit needed to purchase a house without LMI from 20% to 5%. We have no way of estimating this, but assume it is a reasonable fraction. Hence, we settled on 25% (or one-in-four) as a reasonable and conservative assumption for the proportion of this group who now rely on the HGS and only save for a 5% deposit.

Table 3. Estimated additional demand for HGS places, first year of expansion

	Item	Value
	Pre-HGS expansion	
A	FHBs borrowing each year	110,000
B	Borrowers benefiting from LMI	12,500
C	Borrowers benefiting from HGS	36,100
D	Remainder (D = A - B - C)	61,400
	Borrowers benefiting from LMI	
E	Percentage now eligible for HGS	85%
F	Substitution into HGS from LMI (F = B x E)	10,625
	Borrowers relying on guarantor	
G	Percentage of all FHBs	8%
H	Number of FHBs relying on guarantor	8,800
I	Percentage who will instead now rely on HGS	85%
J	Substitution into HGS from parental guarantee (J = H x I)	7,480
	Borrowers relying on own savings and/or bank of Mum of Dad	
K	Remainder after existing LMI, HGS and parental guarantee (K = D - H)	52,600
L	Proportion now eligible for HGS	50%
M	Proportion of eligible who choose to use HGS	75%
N	Substitution into HGS (N = K x L x M)	19,725
	Bring forward of demand from the future	
O	Average years to save up 20% deposit	5
P	Years taken to save up 5% deposit (P = O * 5% / 20%)	1.25

Q	Maximum bring forward in demand (Q = K x L x M x (O - P))	73,969
R	Assumed proportion of FHBs who would otherwise save 20% who bring forward their demand	25%
S	Additional HGS demand brought forward (S = Q x R)	18,492
T	***Total additional HGS demand (T = F + J + N + S)***	***56,322***

3. Discouraged prospective FHBs

Estimating the number of discouraged, prospective FHBs who could become FHBs due to the extended HGS requires an assessment of the extent to which the cost of LMI is discouraging FHBs. The 2022 *Regulation Impact Statement* for the HGS used an example of LMI costing $28,000 for a $700,000 property and a 5% deposit–i.e. LMI equal to 4% of the property value.[14] However, based on data from LMI providers, LMI-backed loans typically have less than a 90% LVR, with an average of around 88-89%, and hence the cost of LMI is instead around 1.5% of the property value, based on information from LMI providers and an online LMI fee estimator.[15] For our modelling, we assume the average LMI cost facing previously discouraged FHBs is 3.25%, the midpoint of the 1.5% estimate for an LVR below 90% and the 4% estimate for a 95% LVR.

The impact on demand will depend on the price elasticity of demand for housing. Consistent with empirical evidence, we assume demand for housing is inelastic and assume a price elasticity of demand of -0.6, meaning every 1% increase in price reduces demand by 0.6%.[16]

Considering the expanded HGS will eliminate the need for LMI for the large majority of first home buyers, we estimate that the 3.25% cost reduction will expand demand among FHBs by 2.0%. There are around 110,000 FHBs in Australia each year. An expansion of demand by 2.0% represents around 2,100 people.

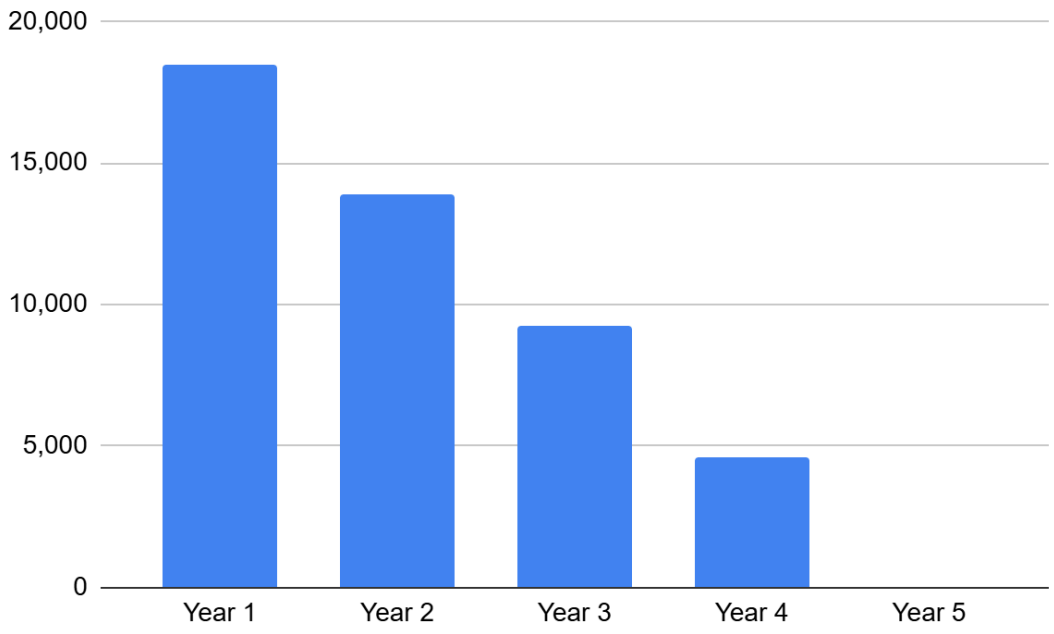
Dynamics of the bring forward of demand

To the extent the HGS brings forward demand, it increases demand in the present and reduces it in the future (with those whose demand has been brought forward no longer purchasing in

[14] Australian Government (2022) Regulation Impact Statement–Home Guarantee Scheme, p. 8.
[15] https://helia.com.au/the-hub/calculators-estimators/lmi-fee-estimator
[16] The price elasticity of demand assumption is an average of the -0.8 elasticity used by Abelson, P. (2016) Housing Costs and Policies with Special Reference to Sydney, Prepared for NSW Treasury, p. 58 and the -0.4 found by Saunders, T. and Tulip, P. (2019) A Model of the Australian Housing Market, RBA Research Discussion Paper
RDP 2019-01, p. 28.

the future). In the first year of the HGS expansion, 2026 on current plans, only demand pull-forward is evident. But in each subsequent year, some purchases that would otherwise have been made in that year will no longer be made (because they have already been pulled forward to an earlier year). Eventually demand shifted into earlier years and demand shifted from the future in the current year will balance out. Our modelling of the year-by-year dynamics of the pull forward of demand reveals that demand will remain elevated for several years, but the additional demand will fall away each year and eventually reach zero (Figure 3). In the modelling, it is assumed that each year the expanded HGS brings forward demand from up to four years in the future. By the fifth year, the shifting of demand into year 5 will balance the shifting of demand out of year 5.

Figure 3. Bring forward of demand following HGS expansion



The fundamental factors that determine how many people want to buy their first home–population growth, household formation rates, income levels, and housing preferences–remain unchanged. There will be some additional buyers each year in the long-run due to the HGS reducing the cost of home ownership, but the factors mentioned previously will be the largest determinants of the number of FHBs in any year.

Summary of impacts on HGS demand and home ownership

The expansion of the HGS will mostly benefit borrowers who would otherwise purchase, either in the current or future years. In the long run, it will only have a modest impact on overall home ownership. It will, however, lead to a large increase in the number of borrowers reliant on the HGS. The total estimated annual impact reveals it could more than double the number of borrowers reliant on the HGS each year (Table 4). Adding the estimated additional annual HGS demand in Table 3 to the current annual HGS take-up of 36,100 gives a demand for around 91,900 HGS guarantees before it declines to around 78,400 in the fifth year of operation (before accounting for any second-round impacts of demand due to property price increases, as discussed below). Hence, in the early years of operation, our estimate is higher than Treasury's reported estimate of "nearly 80,000 after the expansion."[17] However, after the bring-forward in demand is concluded, it is similar to Treasury's estimate.

Table 4. Estimated additional annual HGS demand

Source of additional demand	Year 1	Year 2	Year 3	Year 4	Year 5
Additional demand for HGS places					
Substitution from LMI	10,625	10,710	10,796	10,882	10,969
Substitution from parental guarantee	7,480	7,540	7,600	7,661	7,722
Substitution from reliance on own savings and/or Bank of Mum and Dad	19,725	19,883	20,042	20,202	20,364
Bring forward of demand	18,492	13,869	9,246	4,623	0
Additional demand due to reduction in cost	2,145	2,162	2,179	2,197	2,214
Total	58,467	54,164	49,863	45,565	41,270
Additional demand for property (i.e. not substitution effect)	20,637	16,031	11,426	6,820	2,214

Note: The modelling assumes the underlying FHB population expands by 0.8% annually, consistent with ABS population projections for the prime-FHB cohort (25-44).

[17] Caisley, O. (2025) "Labor proposes to let all first home buyers purchase with 5 per cent deposit", ABC News, 12 April 2025, https://www.abc.net.au/news/2025-04-12/election-2025-labor-five-per-cent-deposits-first-homebuyers/105169984

Implications for the property market

Property price impacts

The HGS expansion will provide some boost to demand and hence, increase property prices. Some property market analysts have speculated this impact could be large, up to 8-15%.[18] We think the impact is less than this, however, the extent of the effect is challenging to estimate. The pathways for increased demand for property include:

1. Previously discouraged prospective FHBs enter the property market; and
2. Some of those still saving for a deposit can now buy with a lower deposit. This brings forward demand.

Previously discouraged prospective FHBs were estimated above to be 2,100 annually, while the bringing forward in demand from the future was estimated at around 18,500 in the first year and would remain significant for a few years after that (refer to Table 4 above). These impacts will result in an additional demand of 20,500 FHBs per annum due to the HGS expansion in the first year. This amounts to 3.7% of the 555,300 total residential property transfers across Australia in 2024 (Table 5).[19]

We also model an additional demand shock arising from the elimination of LMI costs for FHBs. We think this will increase their willingness to pay by around 1.5% of the property price (the approximate avoided cost of LMI — see above). This means an additional total demand shock of 0.2 percentage points. Hence, the total increase in FHB demand for homes arising from the HGS expansion is estimated at approximately 3.7% + 0.2% = 3.9%. Assuming a relatively low supply elasticity of demand of 0.5 and the -0.6 elasticity of demand previously noted, the change can be expected to increase housing prices by 3.5% in the first year of the HGS expansion (Box 2).[20]

[18] Bleby, M. (2025) "House prices to rise up to 15pc under either side's policies", Australian Financial Review, 14 April 2025.
[19] This is based on ABS Total Value of Dwellings March Quarter 2025, Table 2. Median price and number of transfers (capital city and rest of state).
[20] An elasticity of around 0.5 is typically found in Australian studies, as noted in Ong ViforJ, R. and Leishman, C. (2023) "The economics of housing supply: Key concepts and issues", NSW Parliamentary Research Service, Research Paper: 2024-07, p. 8.

Table 5. Property market impact of HGS expansion, first year

		Value
Total market		
A	Property demand shock	20,637
B	Annual transactions	555,300
C	Property demand shock from additional buyers (C = A / B)	3.7%
D	Higher willingness to pay due to avoidance of LMI	1.5%
F	Total additional HGS beneficiaries (substitution & bring-forward)	56,322
G	New FHBs supported by HGS share of market (G = F / B)	10.1%
H	Property demand shock due to higher willingness to pay (H = D x G)	0.2%
I	Total property demand shock	3.9%
J	Elasticity of demand (absolute value)	0.6
K	Elasticity of supply	0.5
L	Property price impact (L = I / (J + K))	3.5%
Market FHBs are competing in		
M	Proportion of all properties FHBs could purchase under HGS	66.7%
N	Property price impact (N = L / M)	5.3%

Box 2 : Estimating the price impact of the demand shock

The price impact is calculated by dividing the percentage demand shock by the sum of the supply elasticity of 0.5 and the absolute value of the demand elasticity (i.e. 0.6); e.g. 3.9% / (0.5 + 0.6) = 3.5%.

This is an appropriate way to estimate the price impact because the denominator (the sum of the supply elasticity and the absolute value of the demand elasticity) represents how responsive the quantities supplied and demanded are to the change in price–and hence how much they both help mitigate the rise in price that is needed to restore supply equilibrium.

When the quantity demanded at the current price increases, the equilibrium quantity can only increase if the quantity supplied responds, and the price needs to increase to induce additional supply. Hence, the price elasticity of supply is relevant. But as the price increases, some demand will be choked off due to the higher prices. Hence, the price elasticity of demand is also relevant.

Consider that in equilibrium the change in the market equilibrium quantity must equal the change in the quantity demanded Qd and the change in the quantity supplied Qs.

$\Delta Q = \Delta Qd = \Delta Qs$ (equation 1)

Consider a shock to the quantity demanded (A). We can estimate the changes in *Qd* and *Qs* as follows, based on a given change in price (ΔP) and the absolute values of the price elasticity of demand *Ed and* the price elasticity of supply *Es* at the current equilibrium quantity *Q*:

$\Delta Qd = A - (\Delta P / P) \times Ed \times Q$ (equation 2)

$\Delta Qs = (\Delta P / P) \times Es \times Q$ (equation 3)

Equation 2 shows how the ultimate change in *Qd* is the demand shock (*A*)less the offsetting reduction in demand that occurs as the price increases (i.e. $(\Delta P / P) \times Ed \times Q$). Equation 3 shows how *Qs* increases as price increases.

Based on the market equilibrium condition in equation 1, we can set equation 2 equal to equation 3 as follows:

$A - (\Delta P / P) \times Ed \times Q = (\Delta P / P) \times Es \times Q$ (equation 4)

We can rearrange equation 4 by first dividing both sides by Q and then solving for $\Delta P / P$, noting that A/Q is our measure of the demand shock:

$\Delta P / P = (A / Q) / (Ed + Es)$ (equation 5)

In other words, the percentage equilibrium price change ($\Delta P / P$) can be estimated by the percentage shock to market demand (A / Q) divided by the sum of the elasticities.

We also consider a plausible scenario in which the bring-forward of demand is much larger, whereby half of the FHBs who previously would have saved for a 20% or higher deposit instead opt to purchase with a 5% deposit and rely on the HGS. This could generate a demand shock of 7.2% and a corresponding price increase of 7.0%.

Hence, we estimate that the HGS expansion could increase property prices by 3.8% to 6.6% in the first year. If it is toward the upper end of this range, then the HGS expansion would wipe out the benefit from removing the cost of LMI for FHBs.

Given a lack of available data, this estimate is for the aggregate property market with the impact being greater in parts of the property market favoured by FHBs, including houses further from CBDs and apartments and townhouses. We attempt to quantify this impact by assuming the demand shock is confined to that part of the property market where median sales prices are under the proposed new higher property price caps. In the absence of publicly available data on the distribution of property sales by value for different regions, we assume that around two-thirds of all properties will remain below the revised caps. This would mean that the property price impact on the segment of the market FHBs are competing in could be around 5.3% to 9.9% in the first year.[21] Such property price increases would fully wipe out any benefit arising from the avoidance of LMI.

As noted above, the boost to FHB demand from the bringing forward of demand from the future falls away over time as the market returns to a new steady state. This means the impact on market prices, in terms of a deviation from what property prices would be all else equal, diminishes over time. Due to the greater ability to spend on a new home owing to the absence of the LMI fee, the HGS expansion will mean slightly higher property prices than otherwise even after the market returns to a new steady state (Table 6).

[21] These impacts are estimated by dividing the previously calculated property price increases under the different scenarios of 2.8% and 5.1% by two-thirds.

Table 6. Property price impact of HGS expansion, percentage point deviation from the baseline rate of growth

Market segment	Year 1	Year 2	Year 3	Year 4	Year 5
Lower bound estimates					
All properties	3.5%	2.7%	1.8%	1.0%	0.1%
FHB market segment	5.3%	4.0%	2.7%	1.5%	0.2%
Upper bound estimates					
All properties	6.6%	5.0%	3.4%	1.8%	0.1%
FHB market segment	9.9%	7.5%	5.0%	2.6%	0.2%

Discouraged buyers

Part of the adjustment of the property market will be on the demand-side, as some FHBs and non-FHBs are discouraged from buying as property price increases. Assuming a price elasticity of demand of -0.6, as above, price increases of 5.3% to 9.9% for FHBs could discourage 3.4% to 6.3% of FHBs, or around 3,500 to 6,500 FHBs in the first year. We expect this will predominantly disadvantage prospective FHBs on lower incomes. The number of discouraged buyers each year declines over time, but is expected to remain significant for several years before reaching a stable level of around 100-200 annually due to the slightly higher property prices.

Summary of impacts on FHBs and home ownership rate

The analysis reveals most of the beneficiaries of the HGS expansion are FHBs who would have purchased anyway in the current year or in a few years time. By reducing the cost of purchasing property by allowing FHBs to secure a home loan, additional FHBs can now afford to purchase a home. However, there is an offsetting impact from higher property prices now discouraging demand from some FHBs. We attempt to quantify the implications of these various effects, and their impacts on the rate of home ownership, in Tables 7a and 7b. In those tables the lower and upper bounds reflect the different assumptions regarding the potential bringing forward of demand outlined above.

Table 7a. Brought forward demand versus genuine new demand from FHBs

		Year 1	Year 2	Year 3	Year 4	Year 5
	Lower bound estimates					
A	Bring-forward of demand	18,492	13,869	9,246	4,623	0
B	Additional demand due to cost reduction	2,145	2,162	2,179	2,197	2,214
C	Offset to demand due higher property prices	-3,482	-2,667	-1,838	-997	-141
D	Total additional FHBs (D = A + B + C)	17,155	13,365	9,587	5,823	2,073
E	Genuine new FHBs in the year (E = B + C)	-1,337	-505	341	1,200	2,073
	Upper bound estimates					
F	Bring-forward of demand	36,984	27,738	18,492	9,246	0
G	Additional demand due to cost reduction	2,145	2,162	2,179	2,197	2,214
H	Offset to demand due higher property prices	-6,524	-4,966	-3,384	-1,776	-141
I	Total new FHBs (I = F + G + H)	32,606	24,934	17,288	9,667	2,073
J	Genuine new FHBs in the year (J = G + H)	-4,379	-2,804	-1,204	421	2,073
	Genuine new FHBs as proportion of FHBs					
K	FHBs in baseline (i.e. no HGS expansion)	110,000	110,880	111,767	112,661	113,562
L	Lower bound (L = E / K)	-1.2%	-0.5%	0.3%	1.1%	1.8%
M	Upper bound (M = J / K)	-4.0%	-2.5%	-1.1%	0.4%	1.8%

Over the long-run, the expected increase in FHBs of observed rate of home ownership by around 1.2 percentage points (Table 7b).

Table 7b. Impact on observed rate of home ownership

		Value
A	Rate of home ownership (2021 Census estimate)	66.0%
B	Long-run increase in FHBs each year	1.8%
C	Percentage point change in long-run (C = B x A)	1.2%
D	Home ownership rate in long-run (D = A + C)	67.2%

The distributional consequences of the HGS appear perverse. The costs of the scheme are borne by taxpayers and home buyers (including FHBs even if those costs are offset by the availability of the HGS), while the benefits go almost entirely to existing home owners. Some buyers get priced out - an estimated 3,500 to 6,500 first home buyers could be discouraged by higher prices in the first year of the expansion. For the first few years of the scheme, more FHBs are discouraged by higher property prices than are encouraged by avoiding the cost of

LMI (refer back to Table 7a). Lower-income buyers are the most likely to be among those priced out. Taking an intergenerational perspective, younger FHBs are disadvantaged while older existing homeowners gain.

We find that the fiscal cost of the expanded HGS, if it were costed at LMI-equivalent rates, is $600-700 million in its first year of operation (Table 8a). After five years, it would cost around $430 million annually (Table 8b). This is equivalent to the benefit or avoided cost it confers to FHBs covered by the scheme. However, there is an offsetting cost on all FHBs from higher property prices of $4.7-9.9 billion per annum in the first year of the HGS expansion, depending on the extent of the bringing forward of demand and the property price impact. Existing home owners selling their homes receive the largest benefits from the forecast property price increases related to the HGS, valued at $22.2-41.6 billion (noting the buyers of these homes face equivalent additional costs of the same amounts) in the first year of the HGS expansion. Even after five years, the benefits of the HGS expansion largely go to existing homeowners (Table 8b). In year 5, the gain to existing homeowners is around $870 million while the net gain to FHBs is only around $270 million (comprising a $430 million benefit from the HGS less a cost of $170 million through higher property prices).

Table 8a. Distributional consequences of the HGS expansion, first year impact

		Lower bound	Upper bound
A	Residential property turnover rate	5.6%	5.6%
B	Value of residential property in Australia ($b), ABS estimate	11,366	11,366
C	Assumed property price for FHBs	$700,000	$700,000
D	Unit cost of LMI (average)	$10,500	$10,500
E	Additional FHBs covered by expanded HGS	54,985	70,436
F	Total FHBs	127,155	142,606
G	Property price impacts - total market	3.5%	6.6%
H	Property price impacts - FHB market	5.3%	9.9%
Estimated distributional impacts, annual, $ billion			
I	Fiscal cost (I = D x E)	0.6	0.7
J	Cost to FHBs of higher property prices (J = H x C x F)	4.7	9.9
K	Benefits to home owners selling at higher prices (K = G x B x A)	22.2	41.6

Table 8b. Distributional consequences of the HGS expansion in year 5

		Value
A	Residential property turnover rate	5.6%
B	Value of residential property in Australia ($b), ABS estimate	11,366
C	Assumed property price for FHBs	$700,000
D	Unit cost of LMI (average)	$10,500
E	Additional FHBs covered by expanded HGS	41,270
F	Total FHBs	115,777
G	Property price impacts - total market	0.1%
H	Property price impacts - FHB market	0.2%
Estimated distributional impacts, annual, $ billion		
I	Fiscal cost / savings on LMI for FHBs (I = D x E)	0.43
J	Cost to FHBs of higher property prices (J = H x C x F)	0.17
K	Benefits to home owners selling at higher prices (K = G x B x A)	0.87

Implications for financial stability

The HGS expansion introduces potential risks to Australia's financial stability through three channels:

1. Encouraging higher levels of borrowing among financially vulnerable, marginal borrowers;
2. Increasing property prices for all home purchasers and increasing Australia's already high household debt; and
3. Substituting the HGS which covers only 15% of the property value for LMI which covers the full loss of a lender and requires a higher level of capital backing for home loans it insures compared with the HGS.

Marginal borrowers

With more loans requiring only a 5% deposit, the creditworthiness of borrowers on average can be expected to decline. The more marginal borrowers brought into the system could be disproportionately exposed depending on economic conditions. Rising interest rates to moderate a boom or increased unemployment during a recession could erode borrowers' ability to service their loans, substantially raising default risks. Compounding this issue is the limited nature of the government guarantee under the HGS. Given that it covers at most 15% of the

property's value, this exposes lenders to substantial residual risk. This could strain lenders' balance sheets and reduce their capacity to absorb losses during periods of financial stress.

While available data suggest they have not occurred Australia-wide in the post-war period, property price declines of over 15% have occurred in other countries. For example, in the US, the median sale price fell from a peak of $257,400 in the first quarter of 2007 to a low of $208,400 in the first quarter of 2009, a 19% decline.[22] Further, declines of over 15% have been seen in post-war Australia in sub-sectors of the real estate market - for instance, office property during the early 1990s recession, which fell 40%.[23] The depression of the 1890s also saw an extraordinary collapse in property prices. For example, Melbourne property prices fell 51% from their peak in the late 1880s to the mid-1890s.[24] It could be argued that this historical example is irrelevant to modern Australia. However, large residential property price falls have been seen in local regions subject to economic shocks–particularly regions highly dependent on the mining sector. For example, following the end of the mining boom (circa 2003-04 to 2013-14), central Queensland mining towns experienced big falls in property prices. For example, in Moranbah median property prices fell 66% over the three years to 2015. Across the Isaac local government area which includes Moranbah, median prices fell 27%.[25] Moreover with the world moving into a more multi-polar state in which US dollar primacy may come under strain, large financial discontinuities cannot be ruled out.[26]

Economic history shows that policymakers should not be complacent about financial risks because recent experience has been relatively benign. This is especially the case where government policy contributes to the buildup of financial risks, as it did in the lead-up to the 2008 financial crisis in the US. Leading US macroeconomist John Taylor observed, "The government-sponsored enterprises Fannie Mae and Freddie Mac were encouraged to expand and buy mortgage-backed securities, including those formed with the risky subprime mortgages."[27] Through its HGS expansion, the Australian Government may be similarly encouraging lending to risky borrowers, amplifying financial risks, which will largely be borne by Australian taxpayers.

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[22] https://fred.stlouisfed.org/series/MSPUS
[23] Stapledon, N. (2010) "A History of Housing Prices in Australia 1880-2010", UNSW Australian School of Business Research Paper No. 2010 ECON 18, p. 1.
[24] Ibid.
[25] Ludlow, M. (2017) "Property investors lose 50pc in Qld mining towns", Australian Financial Review, 3 March 2016.
[26] See for instance Dallio, R., 1925. *How Countries Go Broke - The Big Cycle.* or Dallio, R. "It's Too Late: The Changes Are Coming", https://x.com/RayDalio/status/1916967796065423688
[27] Taylor, John B. (2009) "How Government Created the Financial Crisis", https://www.hoover.org/research/how-government-created-financial-crisis.

Higher property prices

The more significant impact for financial stability probably comes from higher property prices. This would entail higher borrowing across all households, not just those taking advantage of the HGS. Australia has the third-highest level of relative household debt in the OECD, at 217% of net disposable income in 2023.[28]

Australian banks, and Authorised Deposit-taking Institutions (ADIs), have $2.3 trillion of loans to residential property owner occupiers and investors on their books.[29] Over time, a 3.5-6.6% increase in property prices resulting from the HGS expansion could see an additional $81-152 billion of exposure (i.e. 3.5-6.6% x $2.3 trillion) of the ADIs to residential property in current dollars, increasing the potential losses they could incur during a significant downturn. It would also require them to set aside additional capital, estimated at $1.4-2.8 billion.[30]

Lower level of coverage

Data from LMI providers reveals that, for LMI claims in recent years, the HGS would have paid only around 39-44% of the claim paid by LMI.[31] This is because the HGS only guarantees up to 15% of the property value, meaning it does not cover the full loss if there is a property price decline greater than 20% (i.e. the FHB's 5% equity plus the 15% guaranteed). As noted above, property price declines of greater than 20% have been experienced in regional areas highly geared to mining sector activity and investment, such as regions in Central Queensland. This estimated payout rate of only 39-44% could be biased downwards because LMI claims in recent years have related to specific localities which have experienced large property price declines, but nonetheless it should raise questions about the risk of substituting the HGS for LMI.

Furthermore, because of the preferential treatment of the HGS under APRA's prudential regulation rules (see section 5.4), lenders may end up holding an inadequate amount of capital given the additional risks associated with the HGS.

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[28] https://www.oecd.org/en/data/indicators/household-debt.html. We are grateful to Saul Eslake for pointing out that the two countries with higher ratios than Australia, Switzerland and the Netherlands, each tax imputed rents on owner-occupied houses, which gives them an incentive not to pay down their mortgages (because interest on those mortgages are an offset to their liability for tax on imputed rent).

[29] APRA Statistics, Monthly authorised deposit-taking institution statistics, March 2025.

[30] This calculation reflects APRA's requirement, discussed in section 4.2, that banks hold capital of at least 8% of risk-weighted assets and assumes a 22% risk weighting, based on the weighted average risk weightings of major lenders such as CBA and NAB.

[31] This is based on analysis provided by two LMI providers.

Assessment

Collectively, these factors could lead to riskier loans within financial institutions, amplifying potential losses during adverse market conditions. If banks are at risk due to the risky loans, then the Government may be liable not just for the HGS component. It may also need to intervene to recapitalise banks that have taken on the additional exposure involved in higher property prices. That said, responsible lending standards will provide some check on additional risk

It would be speculative to forecast what the HGS would mean for financial stability. All we can say is that, in the event lenders are surprised by a large downturn, they would be better off being protected by LMI than HGS, which may prove insufficient to cover their losses–with obvious implications for their stability and solvency.

Implications for LMI premiums

The reduction in overall LMI activity has implications for the costs of providing LMI, given that such a large proportion of operating costs are fixed (an average of 45% based on provider data) in ordinary years (i.e. with low levels of payouts for claims). However, operating costs are low relative to revenue, because significant profits are needed in good years to make up for any large premium payouts in bad years. LE estimates that the 30% reduction in activity associated with the HGS, including its proposed expansion, could result in average costs ultimately increasing by 19%.[32] This is because average fixed costs will increase by around 43% if the volume is 30% lower (i.e. 100 / (100 - 30). Given fixed costs are an estimated 45% of operating costs, this would imply average costs rise 19%, and we expect LMI providers will ultimately attempt to recover these costs through LMI premiums.[33] The extent to which they can recover these costs will depend on market conditions. Any premium increase will affect non-FHBs and FHBs who do not meet the eligibility requirements for HGS–i.e. where they buy a property with a value exceeding the property price cap.

[32] The 30% estimate is based on the observed reduction in activity relative to pre-COVID levels, discussed in section 4.1, and by assuming 85% of those FHBs still using LMI now become eligible for the HGS, as noted above.

[33] That is, 15% is equal to the percentage change in average fixed costs of ((100 / (100 - 30)) - 1) multiplied by the fixed cost share of current costs of 45%. We assume the premium price is proportional to average cost (AC) of premiums which is the sum of the average fixed cost (AFC) and average variable cost (AVC): AC = AFC + AVC.

Implications for market competition

Another impact of shrinkage in the LMI industry is that smaller, particularly regional, lenders would face higher funding costs if LMI is more expensive or unavailable to them. This could reduce competition in the lending market resulting in higher margins. The Australian lending market is already highly concentrated, with the four major banks accounting for around three-quarters of lending for housing.[34]

If regional banks cannot benefit from LMI, this will reduce borrower choice. It also has implications for the support for regional communities from lenders, via the provision of banking services and sponsorship of community facilities and activities. For example, since 2005, Queensland Country Bank has funded Good for Good Community Grants (currently around $3 million annually) which has supported a range of community initiatives, including the Fuel for Schools program which provides nutritious breakfasts to school children across Queensland.[35] Bendigo Bank is another exemplar of a regional bank supporting local communities (Box 3).

[34] Council of Financial Regulators (2024) Review into Small and Medium-sized Banks: An Issues Paper by the Council of Financial Regulators, in consultation with the Australian Competition and Consumer Commission, December 2024, p. 6.

[35] https://www.customerownedbanking.asn.au/creating-lasting-impact-how-three-customer-owned-banks-are-giving-back-to-communities/

Box 3. Bendigo Bank's support for regional communities

Bendigo Bank is recognised for its strong commitment to supporting regional and rural communities across Australia through a variety of grants, scholarships, and community-focused programs.

Community Enterprise Foundation

The Community Enterprise Foundation is Bendigo Bank's philanthropic arm, facilitating a wide range of grants for eligible charities and not-for-profit organisations in regional areas. Grants typically support projects that build social capital, community welfare, environmental sustainability, health, education, and cultural development. Local Community Bank branches often run their own grant programs, supporting projects that directly benefit their communities. For example, the Community Bank Ravenshoe Grants Program offers up to $20,000 for local initiatives, and the Community Bank Albany has committed $150,000 to its Community Impact Grants Program for 2024–25.

Scholarships

Bendigo Bank offers one of Australia's largest private scholarship programs, with a strong focus on supporting regional and rural students. In 2025, the bank awarded more than 320 scholarships, including 12 university scholarships of $6,500 per student per year (for two years) specifically for regional and rural students, as well as TAFE and Indigenous scholarships.

Disaster Recovery and Resilience Support

Bendigo Bank provides targeted grants and funding for communities affected by natural disasters, such as bushfires and floods. For example, the SA Bushfire Recovery Grants Program delivered over $650,000 to support recovery and resilience projects in South Australia's Kangaroo Island and Adelaide Hills, helping rebuild community infrastructure and provide financial counselling to affected families and businesses.[36]

[36] Sources: https://www.bendigobank.com.au/community/foundation/, https://www.bendigobank.com.au/media/bendigo-bank-injects-more-than-$19-million-to-strengthen-communities-across-the-nation/, https://www.bendigobank.com.au/media-centre/bendigo-bank-backs-sa-regions-with-$650000-cash-injection/

Government financial impacts

Balance sheet

With the expanded HGS, the Australian Government becomes the financial risk taker of first resort in the housing market, rather than of last resort as central banking practice and theory suggest. For example, in the UK, HM Treasury does not even countenance the notion that government would be the insurer of first resort (though the Bank of England is the *lender* of last resort), and even recommends that it considers the potential role for private insurance managing risk in the case where it does act as insurer of last resort. HM Treasury advises "The government should focus on addressing market failures and, wherever possible, should aim to support rather than undermine the private sector market."[37] In the case of the HGS, it is unclear what market failure it is addressing given that Australia already had privately provided LMI assisting FHBs.

The HGS brings a significant contingent liability onto the Australian Government's balance sheet. Consider that during the early nineties recession, the share of loans that were non-performing increased to 6% by mid-1992.[38] The incidence of non-performing loans among FHBs was likely much higher.

Furthermore, there is higher risk associated with high LVR loans. For instance, based on APRA data for September quarter 2024, residential property loans with an LVR of 90-95% are nearly 3 times more likely to be non-performing than loans with an LVR of less than 60%.[39] Given the median LVR of loans issued under the Scheme is 95%, the risk of default for HGS loans is higher than compared with loans covered by LMI, where there is typically a broader mix across the 80-95% LVR range.[40]

To quantify the potential balance sheet impact, we need to estimate the maximum liability. At most, the Australian Government is liable for 15% of the property value. If we take an average property price of $700,000 and assume the Government guarantees around 590,000

[37] HM Treasury (2020) Government as insurer of last resort: managing contingent liabilities in the public sector, paragraph 2.28, p. 20, https://assets.publishing.service.gov.uk/media/5e67c54e86650c727b2f46d6/06022020_Government_as_Insurer_of_Last_Resort_report__Final_clean_.pdf

[38] Gizycki, M. and Lowe, P. (2000) "The Australian Financial System in the 1990s", RBA Annual Conference – 2000, https://www.rba.gov.au/publications/confs/2000/gizycki-lowe.html

[39] https://www.apra.gov.au/quarterly-authorised-deposit-taking-institution-statistics

[40] The median LVR for the HGS is reported by Housing Australia (2024, Table 2, p. 20) as 95%.

mortgages by 2030, the total potential liability is $62 billion.[41] In the event of a large recession accompanied by a property market crash, where the Government had to cover 15% of the property value relating to mortgages in default, and 5% of FHBs guaranteed defaulted, the Australian Government would be liable for $3.1 billion.

In proposing the HGS expansion, the Government may have underappreciated the potential LMI liability. While over the last five years to 2025, total LMI claims amounted to only $300 million, the previous five-year period saw LMI claims of around $1.2 billion.[42]

Although it appears straightforward to quantify the magnitude of the contingent liability associated with the HGS, the Treasury has not attempted to quantify it for the existing HGS to date. It lists the HGS under the heading "Contingent liabilities – unquantifiable".[43] Incidentally, Housing Australia, which administers the HGS, does not need to hold capital as provision for its claims liability, as the payment of claims is covered by the general government, as discussed below.[44]

The risk associated with the HGS adds to a range of other factors, such as Australia's structural budget deficit and significant federal 'off budget' and state government spending that have prompted S&P to warn Australia's AAA credit rating could come under pressure in the future.[45] This would mean higher borrowing costs for the Australian Government and for state governments whose bonds are priced relative to Australian Government bonds. While a downgrade is unlikely in the foreseeable future, there is a risk of a future 'negative watch' qualification to the AAA rating.[46] An expanded HGS makes this more likely, although its contribution would be small relative to other factors.

Budget

The HGS may also have appeal to politicians because its costs are mostly 'off budget'. The scheme is administered by the public financial corporation, Housing Australia and, unless there

[41] The median price for properties where the loan is covered by the HGS is based on analysis of median property prices related to HGS-backed loans in Housing Australia (2024), extrapolated to 2026 based on CoreLogic data on property price growth and assumed property price appreciation of 5% in 2025.
[42] Insurance News (2025) "Labor home plan threatens to kill off LMI market: ICA", Insurance News, https://www.insurancenews.com.au/local/labor-home-loan-plan-threatens-to-kill-off-lmi-market-ica
[43] Australian Government (2025) 2025-26 Budget Paper no. 1, Statement 8: Statement of Risks, p. 245.
[44] Ibid., p. 246.
[45] Eslake, S. (2025) "The two worrying trends revealed in Australia's AAA warning", Australian Financial Review, 30 April 2025, https://www.afr.com/politics/federal/the-two-worrying-trends-revealed-in-australia-s-aaa-warning-20250429-p5lv71.
[46] Moran, E. (2025) "Week In Review – Australia's AAA Credit Rating (30 April 2025)", Fixed Income News Australia, https://www.fixedincomenews.com.au/week-in-review-australias-aaa-credit-rating-30-april-2025/

is a claim against the HGS, there is no budgetary impact. The Australian Government does appear liable to cover any ADI losses for loans backed by the HGS, based on the Budget *Statement of Risks*, which notes, "liabilities under the Scheme are met by a standing appropriation".[47] According to the Department of Finance, standing appropriations "provide for appropriations for ongoing payment arrangements, for circumstances specified in legislation."[48]

The HGS exposes the budget to significant risk in an economic and property market downturn–e.g. the $3.4 billion impact suggested above–but normally will have a negligible impact. At least until 30 June 2024, only one claim for $36,500 had been made against the HGS, in January 2024. This no doubt reflects banks' general ability to recover the mortgage debt by rescheduling it or selling properties in a buoyant property market.

Under an alternative policy approach, whereby the Government fully subsidises LMI for eligible FHBs, the budget would not be subject to billions of dollars of cost in the event of a downturn. If instead of the HGS, the Government decided to fund LMI for 50,000 FHBs annually, and the average cost was $10,500, that would imply additional annual expenses of $525 million. With the HGS, the Government is trading a relatively predictable but significant budgetary cost for a highly uncertain, generally minimal, but possibly large budgetary cost in the future.

LMI industry impacts

LMI providers will experience a decline in activity due to the HGS expansion in the order of 15%. Relative to pre-HGS levels, this is a reduction of 40% in total, with the 15% decline coming on top of a 22-23% reduction seen in LMI activity based on data from providers. In an extreme downturn scenario, their viability could be threatened–i.e. if there is a major property market correction beyond the level the providers have provisioned for. It is possible that an LMI provider leaves the market. We have not attempted to model this, but note the risk. In this scenario, the lack of LMI could significantly impair the ability of non-FHBs and investors to borrow for property.

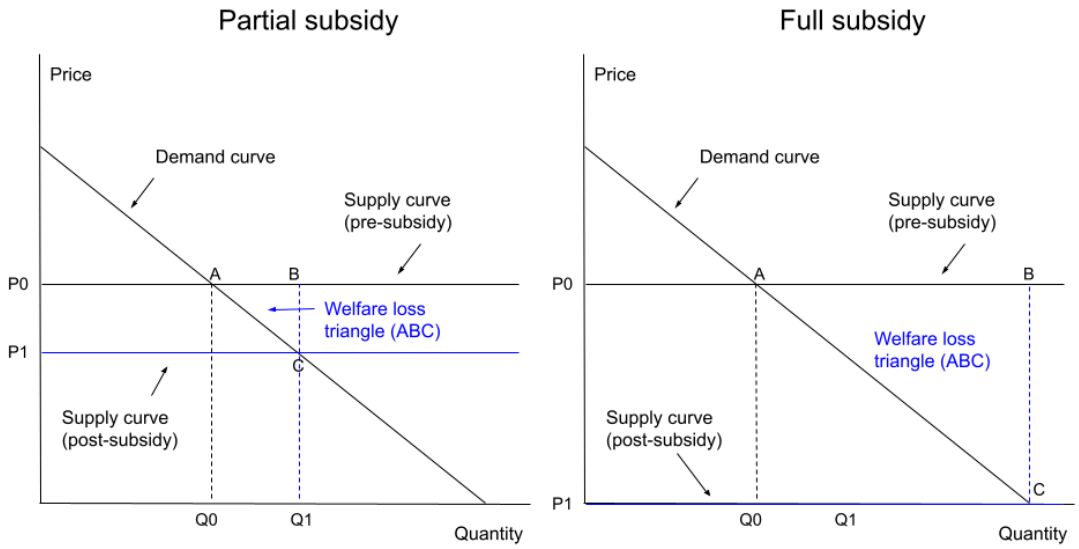
1.4. Economic welfare cost of the HGS

There is an economic welfare cost from a subsidy due to the difference in the value to consumers of the good or service and the cost of producing it.[49] Furthermore, the full economic costs of the subsidy increases with the square of the rate of subsidy, so a full subsidy brings

[47] Ibid.
[48] https://www.finance.gov.au/publications/resource-management-guides/guide-appropriations-rmg-100
[49] Rosen, H. and Gayer, T. (2014) Public Finance, 10th edition, McGraw Hill, p. 336.

many times the welfare loss of a smaller subsidy (Figure 4). For example, a 20% subsidy generates four times the welfare loss of a 10% subsidy.

Figure 4. Economic welfare loss from subsidies



However, the economic cost of a subsidy can be expected to rise particularly sharply where that subsidy drives the price of the good to zero. Prices serve a vital economic function: they ration scarce resources by forcing users to weigh the value of what they consume against its cost to them. When a product is made free, this discipline disappears. Thus, even where users have other alternatives, such as accessing more of their own or their family's savings at little inconvenience to themselves, even a small positive price for the HGS would see them do so. Available for free, they have no such incentive.

Recent perspectives from behavioural economics reinforce the point by showing how zero prices set off psychological biases over and above the rational calculations suggested above. Thus:

> A core psychological explanation for the zero price effect has been the affect heuristic, whereby options that have no downside (no cost) trigger a more positive affective response."[50]

[50] https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/zero-price-effect/

2. The Home Guarantee Scheme

2.1. History of the HGS

The HGS was initially introduced on 1 January 2020 by the Morrison Government under the title First Home Loan Deposit Scheme (FHLDS). Its primary purpose was to enable first-home buyers to enter the housing market sooner by allowing them to purchase homes with deposits as low as 5% without needing to pay LMI. The original scheme was capped at 10,000 guarantees annually, which significantly limited its impact on the private LMI market.

From 1 July 2022, the Albanese Government significantly expanded the HGS. Each year, there were now 35,000 places available under the First Home Guarantee.[51] Furthermore, the Government's expansion also introduced targeted measures, such as the Family Home Guarantee (5,000 places annually from 1 July 2022), specifically for single-parent families and the Regional First Home Buyer Guarantee (10,000 places annually from 1 October 2022) for buyers in rural and regional areas. Hence, the Government increased the number of available guarantees each financial year, first to 40,000 per year from 1 July 2022 and to 50,000 from 1 October 2022.

Eligibility for the HGS primarily includes first home buyers, single-parent families, and regional home buyers, with applicants required to meet criteria related to property price caps, household income limits, residency, and property ownership history. Typically, first home buyers can secure guarantees with as little as a 5% deposit, while single-parent families can access guarantees with deposits as low as 2% under certain conditions.

[51] On the commencement dates, see https://ministers.treasury.gov.au/ministers/julie-collins-2022/media-releases/expansion-home-guarantee-scheme and https://ministers.treasury.gov.au/ministers/julie-collins-2022/media-releases/more-10000-helped-home-ownership-regional-australia.

2.2. Characteristics of beneficiaries

Guarantees issued

In 2023-24, around 36,100 new households were guaranteed by the HGS, accounting for one-third of FHBs.[52] Of these 22,400, were joint borrowers and 13,700 were single borrowers.[53] According to Housing Australia:

> "In 2023–24, the typical profile of a First Home Guarantee recipient was a household where the primary borrower was in their early 30s, with a median income of around $85,000 for single borrowers and $134,000 for joint borrowers. The median purchase price under First Home Guarantee was around $482,000 for single borrowers and $624,000 for joint borrowers."[54]

Incidentally, that means that for the median single borrower, mortgage repayments will absorb 39% of their income, compared with 25% for joint borrowers, assuming both purchase a property with the median value with a 5% downpayment, 6% interest rate, and 30-year loan. For single borrowers, depending on their income, many could be in housing stress—i.e. where housing costs account for more than 30% of household income for the bottom 40% of households.[55] ABS income distribution data suggest that at the 40th percentile, gross household income is around $87,000 in 2024.[56]

Places taken up versus guarantees issued

In 2023-24, as reported by Housing Australia, "of the 43,800 places taken up, Housing Australia has issued 36,100 guarantees to help eligible home buyers enter the home ownership market sooner."[57] The difference between the "places taken up" and the "guarantees issued" is due to the two-step process of the Scheme:

1. A "place taken up" occurs when a home buyer's eligibility is confirmed by a participating lender and they obtain finance pre-approval while searching for a property.

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[52] Housing Australia (2024) Improving housing outcomes for Australians: Home Guarantee Scheme Trends and Insights Report 2023-24, p. 5.
[53] Ibid., p. 9.
[54] Ibid., p. 8.
[55] Understanding the 30:40 indicator of housing affordability stress | AHURI
[56] Based on the 2019-20 estimate from the ABS Household Income and Wealth publication, Table 1.2 Gross household income. The 2019-20 was adjusted to 2024-25 dollars by inflating it by the change in average ordinary weekly earnings between November 2019 and November 2024.
[57] Housing Australia (2024, p. 5).

2. A "guarantee issued" happens only after the buyer signs a contract of sale and receives unconditional finance approval for a specific property.[58]

Not all buyers who secure a Scheme place will ultimately purchase a home within the financial year. Some may not find a suitable property, may not proceed with a purchase, or may not meet the final lending or contractual requirements.

2.2. Proposed expansion of the HGS

During the 2025 election campaign, the Government committed to "give all first home buyers access to 5 per cent deposits."[59] It will remove the 50,000 cap on places, remove income caps, and significantly increase property price caps, possibly to levels that encourage the broad availability of the HGS consistent with its election promise (Table 9).

Table 9. HGS parameters for FHBs: Current and proposed

	Current	Proposed
Places (annual)	50k, comprising 35k in core FHG, 10k in Regional First Home Buyer Guarantee (RFHBG), 5k for Family Home Guarantee (FHG) for single parents	Unlimited
Property price caps	Location dependent, e.g. $900k in Sydney and major regional centres, $750k in the rest of NSW, $800k in Melbourne, etc.*	Substantially increased (e.g. NSW capital city and regional centre will have cap of $1.5 million)
Income caps	$125,000 for individuals or $200,000 for joint applicants	None
Minimum deposit	5% (2% for single parents)	5% (2% for single parents)

Source: Housing Australia and https://alp.org.au/news/labor-to-deliver-5-deposits-for-all-first-home-buyers-and-build-100-000-homes/ and https://anthonyalbanese.com.au/media-centre/labor-to-deliver-5-deposits-for-all-first-home-buyers-and-build-100-000-homes.

[58] See https://www.commbank.com.au/content/dam/commbank-assets/home-buying/home-loans/docs/fhb-scheme-information-guide.pdf, p. 27.
[59] https://alp.org.au/news/labor-to-deliver-5-deposits-for-all-first-home-buyers-and-build-100-000-homes/

3. Overview of LMI in Australia

3.1. What is LMI?

Protection for the lender, not the borrower

LMI is a form of insurance designed to protect lenders, typically banks or financial institutions, against the risk of borrowers defaulting on home loans. It helps prospective homebuyers qualify for home loans. It is generally required when homebuyers borrow more than 80% of the property's value—that is, when their deposit is less than 20%. Although LMI is paid for by the borrower, the policy safeguards the lender, not the individual borrower.

Eligibility for LMI is contingent upon meeting both the lender's home loan criteria and the mortgage insurer's assessment requirements, with acceptable borrowers including individuals, companies, and trusts meeting specific criteria. Notably, certain professionals such as doctors and accountants, may qualify for LMI discounts or waivers. Additionally, the HGS provides a pathway for eligible first-home buyers to access property financing with lower deposits, potentially bypassing the need for LMI altogether.

The cost of LMI

The cost of LMI depends on the LVR, and can range from 1-5% of the home loan amount, with the cost closer to the upper end for very high LVR loans (e.g. with 5% deposit).[60] For an $800,000 property purchased with a 5% deposit, LMI is estimated to be over $35,000.[61] The Australian Government's 2022 Regulation Impact Statement for the HGS presented an example of LMI costing $28,000 for a $700,000 property purchased with a 5% deposit.[62]

LMI is typically a one-off fee, payable upfront or added to the loan balance, subsequently increasing the total loan amount and interest paid over the loan's duration. In the latter case, spreading the cost over the life of the loan can be viewed as offsetting the cost of LMI against the accruing benefits of home ownership including savings on rent and property price appreciation. While LMI does not protect the borrower from foreclosure, it enables individuals with smaller deposits to enter the housing market earlier by providing lenders the confidence to offer higher loan-to-value ratio loans.

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[60] https://www.money.com.au/home-loans/lenders-mortgage-insurance

[61] Ibid.

[62] Australian Government (2022) Regulation Impact Statement–Home Guarantee Scheme, p. 8. Note that Deloitte Access Economics (2019, p. xiii) reported that "A typical LMI premium is equivalent to 0.5% to 2.5% of the amount borrowed", but this is significantly below the other estimates available, and the source of the estimate is unclear.

3.2. History of LMI in Australia

LMI was first introduced in Australia in 1965 with the establishment of the Housing Loans Insurance Corporation (HLIC), a government-backed entity designed to encourage home ownership by mitigating risks for lenders. In the early 1990s, the Australian government privatised HLIC, opening the market to private insurers. Since privatisation, LMI has become a critical component of Australia's mortgage lending landscape, enabling lenders to safely offer loans at higher LVRs. This development has significantly benefited first-home buyers and borrowers with limited savings, facilitating earlier entry into the property market.

The contemporary Australian LMI market is predominantly serviced by several key providers, notably Helia (formerly Genworth Financial), QBE LMI, and Arch LMI. Helia, publicly listed on the Australian Stock Exchange, maintains a substantial share of the market, while QBE LMI, part of the global QBE Insurance Group, similarly holds a significant presence. More recently, Arch LMI, a subsidiary of the global insurer Arch Capital Group, entered the market, increasing competition and offering lenders additional choices for mortgage insurance. Collectively, these providers compete on criteria such as premium pricing, coverage, and service levels, enhancing the flexibility available to lenders in managing their mortgage-related risks.

3.3. Who benefits from LMI?

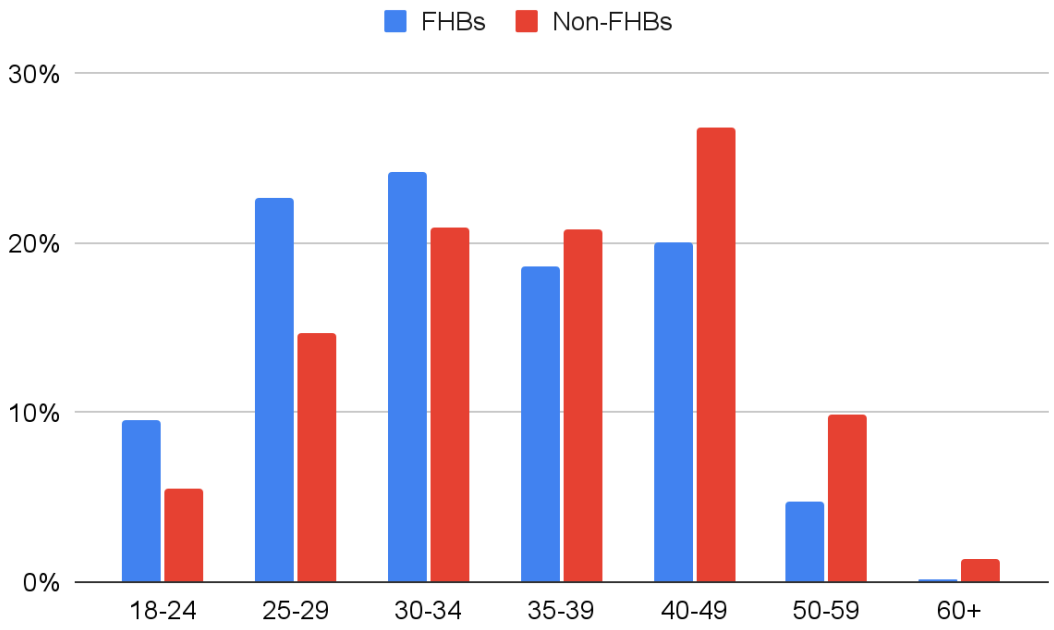
LMI provides significant benefits to a diverse range of Australian borrowers by providing an alternative to accumulating substantial home deposits. Particular beneficiaries include:

- FHBs with insufficient savings for a traditional 20% deposit, enabling quicker entry into the housing market;
- Borrowers in lower socioeconomic or regional areas, providing access to home ownership despite difficulties in saving large deposits;
- Self-employed or casual workers with irregular incomes, who rely on LMI to navigate deposit gaps due to inconsistent savings patterns;
- Moderate-income earners capable of making mortgage repayments but struggling to save substantial deposits amidst rising property prices; and
- Investors wishing to increase their leverage above the level that would otherwise be possible.

Data from LMI providers reveals that borrowers relying on LMI are typically in the younger age brackets (Figure 5), at least compared with non-first home buyers, which will include many

investors. The median age of FHBs relying on LMI is in the 30-34 age range. This is similar to the average age of 34 for first home buyers reported by Australian lenders.[63]

Figure 5. Borrowers relying on LMI by age group, 2024



Source: LMI providers. Note: this figure is based on data from two out of three providers only due to many missing observations from one provider.

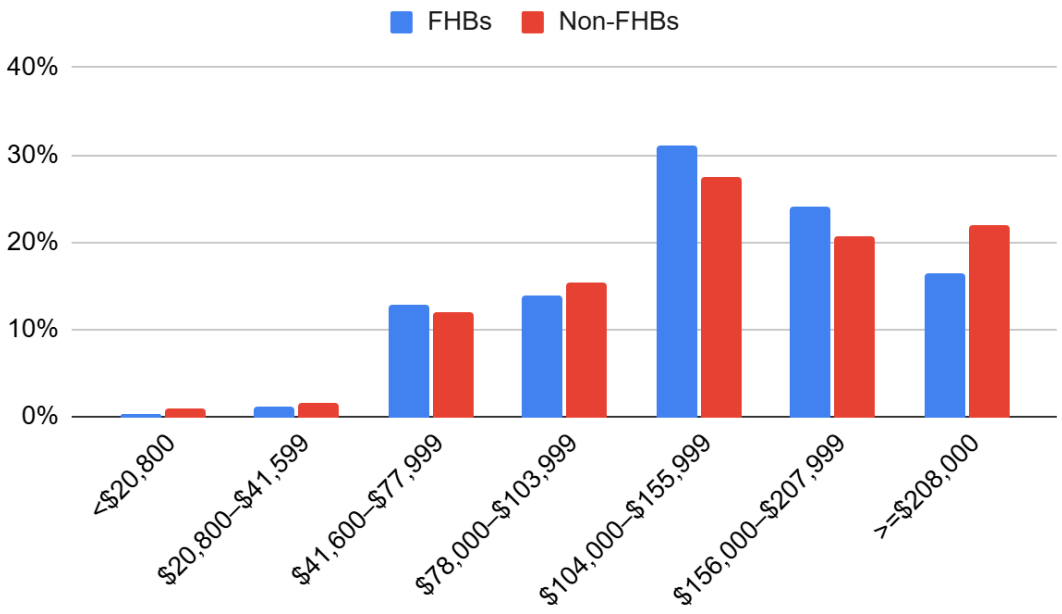
FHBs typically have lower gross household incomes than other borrowers relying on LMI (Figure 6). The median gross household income is within the range of $104,000–$155,999. These figures contain a mixture of households of different sizes. Single people account for around 40% of FHBs overall.[64] They also account for around the same percentage (38%) of successful applicants for the HGS, and are expected to comprise around two-in-five households relying on LMI.[65]

[63] Baird, L. (2024) "What the average first home buyer looks like (according to the banks)", Australian Financial Review, 30 December 2024, https://www.afr.com/companies/financial-services/what-the-average-first-home-buyer-looks-like-according-to-the-banks-20241106-p5kobk

[64] https://www.commbank.com.au/articles/newsroom/2024/09/home-buyers-shift-strategies.html

[65] https://www.housingaustralia.gov.au/research-data-analytics/hgs-trends-and-insights-report-2023-24, p. 9.

Figure 6. Borrowers relying on LMI by gross household income, 2024



Source: LMI providers. Note: this figure is based on data from two out of three providers only due to many missing observations from one provider.

3.4. LMI claims incidence

The incidence of LMI claims in Australia fluctuates significantly over time, primarily driven by broader economic cycles, shifts in property markets, and movements in interest rates. During periods of economic downturn, characterised by rising unemployment rates and declining property values, the rate of borrower defaults—and consequently LMI claims—typically increases. This pattern was notably evident during events such as the Global Financial Crisis and its aftermath, where mortgage stress escalated sharply. Conversely, in times of economic growth and robust property market performance, the incidence of LMI claims tends to decline, as borrowers face fewer financial difficulties, and property prices rise, reducing the likelihood of defaults. Thus, the cyclical nature of economic conditions and housing markets is a key determinant of LMI claims frequency and severity.

In Australia, in times of economic stability, such as the mid-2000s prior to the GFC, the LMI annual claim frequency has been negligible — less than 0.1%. However, in more turbulent times the claims frequency has been higher, reaching 0.5-.0.6% for 90%+ LVR loans at times in the 1990s and 0.2-0.3% in the GFC and the following years (2008 to 2013).[66]

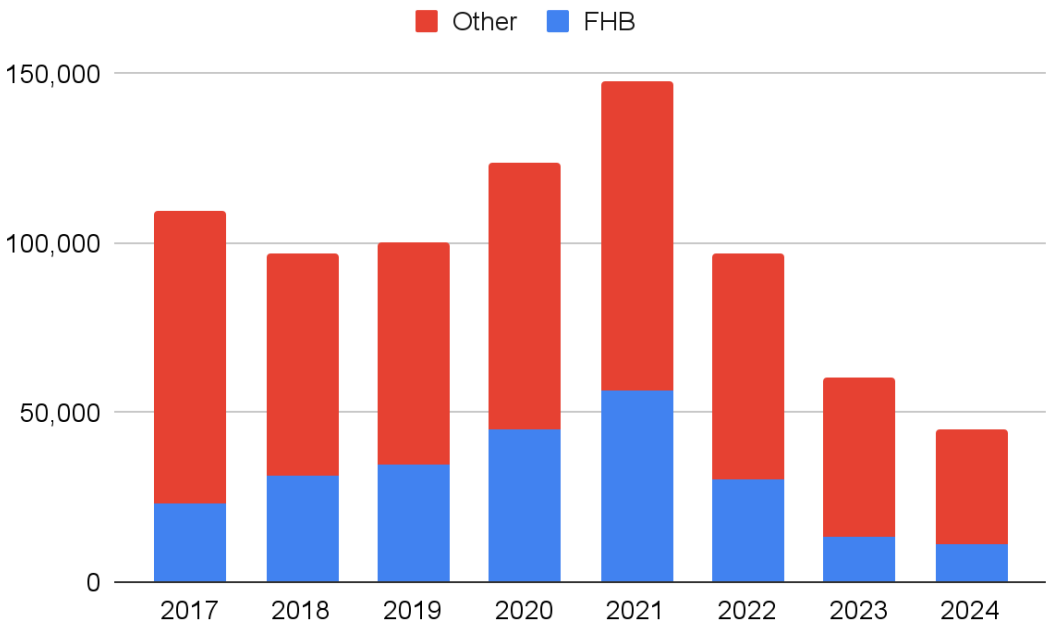
[66] Deloitte Access Economics (2019, p. 33).

4. Impacts of the existing HGS on FHB borrowing and LMI

4.1. LMI activity

To examine the impacts of the HGS on LMI activity and FHB lending, we first examine LMI activity. LMI activity fluctuates with the level of overall borrowing, which depends on population growth, interest rates, and general economic conditions (Figure 7). Activity surged as interest rates fell during the COVID period, but has fallen back since then.

Figure 7. LMI activity among major LMI providers



Source: Three largest LMI providers, comprising the bulk of the market.

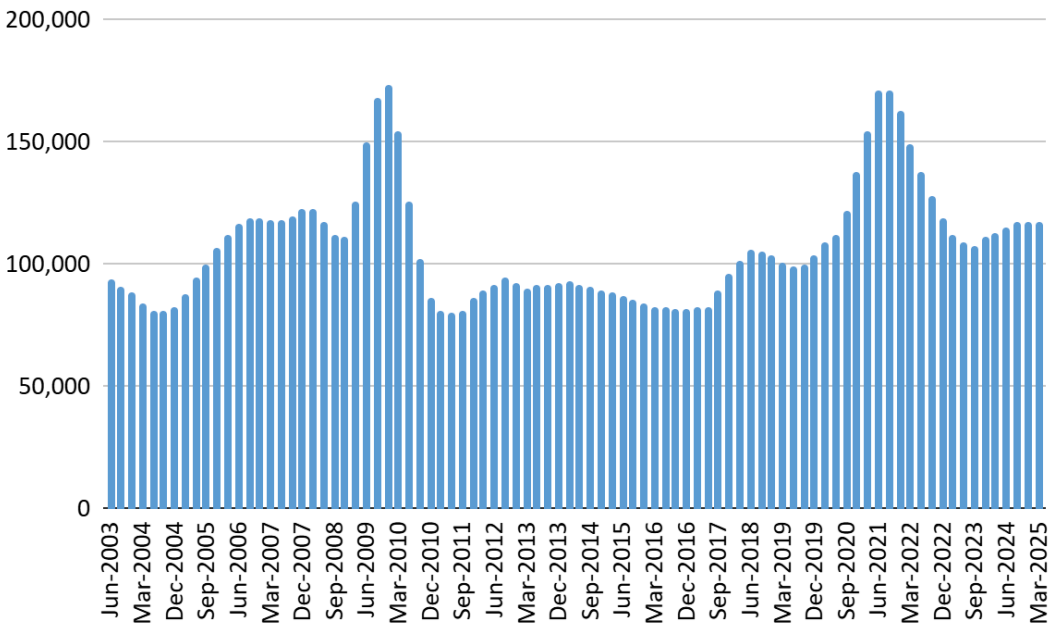
The HGS has significantly reduced the number of FHBs needing LMI, particularly since the expansion of the HGS from 1 July 2022 to 40,000 places, and from 1 July 2024 to 50,000 places (refer to section 2.3). In 2019, before the pandemic and HGS expansion, around 3 in 10 FHBs required LMI, but now only 1 in 10 require LMI, and that will fall to even lower levels with the HGS expansion, depending on the property price caps.[67] Now, around 10,000 to 15,000 FHBs annually rely on LMI, but previously levels in the range of 30,000 to 50,000 were observed.

[67] ICA (2024, p. 10).

4.2. Lending to FHBs

To get a sense of the impact of the HGS, we need to examine total lending to FHBs. Total home loans for FHBs annually in Australia fluctuate between 100,000 and 120,000 (Figure 8), with higher values during times of generous FHB grants (i.e. during and in the aftermath of the 2008 financial crisis) or other stimulus measures (i.e., the COVID-19 pandemic). We discuss the likely property market impacts of grants to FHBs in section 5.1.

Figure 8. New loan commitments to owner-occupier FHBs, Australia, four-quarter moving sum



Source: ABS Lending Indicators, Australia.

4.3. Estimation of impacts

In this subsection, we attempt to break down HGS take-up. We take the reported 2023-24 figure of 36,100 HGS guarantees as the impact of the current HGS scheme, and we attempt to break down this figure into several categories to help us assess the impact on property market demand.

Categories of HGS-backed borrowers

Categories of FHBs making use of the HGS currently include:

1. FHBs who would otherwise have used LMI but who now rely on the HGS;

2. FHBs who, in the the current year, would otherwise use a different method to secure a home loan, including:
    a. have a relative act as guarantor;
    b. use their own savings to fund a 20% deposit;
3. FHBs who would not otherwise have purchased in the current year, including:
    a. FHBs who bring forward their demand for a property because they can purchase with a 5% deposit;
    b. Prospective FHBs who were discouraged from purchasing a home due to the cost of LMI pushing the total cost beyond their willingness or ability to pay.

Categories 1 and 2 represent FHBs substituting HGS for other options they would otherwise choose. Thus, they do not represent additional property demand. On the other hand, FHBs in category 3 are additional to the population of FHBs that would exist without the HGS. This generates additional demand for property and finance.

Quantification

Our estimates of the relative size of the different categories and the logic behind the quantification is set out in Table 10. These estimates should be treated as indicative. We have the most confidence in category 1, based on the LMI provider data, and lesser confidence in the split between categories 2 and 3, given the range of factors determining lending including interest rates.

Table 10. Breakdown of demand for current HGS (i.e. before proposed expansion)

Category	Estimate	Justification
1. FHBs who would otherwise use LMI in the current year	23,900	Difference between the average numbers of FHBs using LMI in 2019 and in 2024.
2. FHBs who would have used another option to avoid LMI in the current year	9,200	Determined as a residual.
3. FHBs who would not otherwise have purchased in the current year	3,000	Difference between total FHB lending in 2024 and lending in 2019 (scaled up to account for population growth since then) and discounted by 50% due to other factors which may have affected lending. .
Total	**36,100**	Reported number of guarantees issued by Housing Australia in 2023-24.

4.4. Why have guarantees issues fallen short of total places?

Guarantees issued (36,100 in 2023-24) have been far below total places allowed for under the cap (50,000). This suggests that the current eligibility criteria for the HGS are exerting a strong influence in preventing wider take-up. This suggests that an expansion of the scheme may lead to a significant increase in demand for places, depending on the ultimate property price caps. We now consider the impact of current eligibility requirements.

Income caps

As noted above, the income caps for the HGS are up to:

- $125,000 taxable income per year for individuals; and
- $200,000 combined taxable income per year for joint applicants (including couples, friends, siblings, or family members).

These income caps are relatively generous and will cover a significant proportion of FHBs, given available data on the distribution of incomes in Australia (Table 11). At least three-quarters of FHBs are probably already eligible based on these figures, and considering that FHBs are typically younger and earlier in their careers than non-FHBs and will have lower incomes on average.

Table 11. Distribution of income in Australia

	Full-time workers
10th percentile	$57,201
20th percentile	$65,179
Median	$90,416
80th percentile	$135,050
90th percentile	$169,151

Source: Grattan's 2025 Budget cheat sheet: How much do Australians earn?

Hence, we estimate that removing the income cap could increase eligibility for the HGS by around one-third (i.e. an additional one quarter on top of the three-quarters already eligible).

Property price caps

The property price caps have likely had a large impact on eligibility for the scheme (Table 12). This is especially the case for Greater Sydney, where the median dwelling price has exceeded the $900,000 cap since May 2021, and now sits at $1.16 million.[68] They have also been much

[68] CoreLogic median sales price data, 3-month averages, available via Macrobond.

lower than median prices in some other capitals. Greater Brisbane's median price has exceeded the cap since November 2023, Greater Perth's since January 2024, Greater Adelaide's since December 2022, Greater Hobart's since July 2021, and Canberra's since October 2021. Greater Melbourne and Darwin are the only capitals where the median sales price remains below the cap.

Table 12. HGS property price caps, current and proposed

	Capital city & regional centre		Rest of state	
State	Current	Proposed	Current	Proposed
NSW	$900,000	$1,500,000	$750,000	$800,000
VIC	$800,000	$950,000	$650,000	$650,000
QLD	$700,000	$1,000,000	$550,000	$700,000
WA	$600,000	$850,000	$450,000	$600,000
SA	$600,000	$900,000	$450,000	$500,000
TAS	$600,000	$700,000	$450,000	$550,000
ACT	$750,000	$1,000,000	$750,000	$1,000,000
NT	$600,000	$600,000	$600,000	$600,000

Source: Housing Australia Property Price Caps and https://anthonyalbanese.com.au/media-centre/labor-to-deliver-5-deposits-for-all-first-home-buyers-and-build-100-000-homes.

The disparity between the property price caps and median sales prices, particularly in Sydney, means that in many regions it is difficult for FHBs to find suitable properties. The share of HGS guarantees will be lower in these regions than in other regions. To illustrate, in 2023-24, there were only 5,194 First Home Guarantees granted in Sydney compared with 7,525 in Melbourne, despite Greater Sydney having a larger population: 5.6 million versus 5.4 million.[69]

The current property price caps likely confines the appeal of the HGS to FHBs who are comfortable living in new estates significant distances from CBDs, and reduces the attractiveness of the HGS to buyers seeking more expensive properties closer to CBDs.

[69] ABS data reported by .id.

5. Policy issues

5.1. Policies to promote home ownership

Historical context on housing policy in Australia

The HGS can be viewed as one of several Australian policy measures that stimulate housing demand. The First Home Owners Grant (FHOG) and similar demand-side policies have contributed to rising house prices, although they are not the sole drivers. Other factors, notably population growth, low interest rates, and constrained housing supply, have also played significant roles, meaning caution is necessary to avoid the *post hoc ergo propter hoc* (after this, therefore because of this) fallacy. Nevertheless, the evidence consistently shows a strong association between these grants and increases in housing prices.

Prominent economist Saul Eslake has been especially critical of such policies, arguing they significantly amplify housing affordability problems rather than alleviate them.[70] He emphasises that grants increase homebuyers' purchasing power without stimulating an adequate increase in housing supply. As a result, much of the benefit flows directly to sellers and developers through inflated prices. Eslake contends that rather than raising homeownership rates, these policies have historically resulted in less affordable housing and declining homeownership among younger Australians.

Expert opinion is that, despite their well-intentioned political popularity, demand-side subsidies like the FHOG ultimately exacerbate housing affordability issues. As AHURI researchers have noted:

> "While assistance of these kinds has the capacity to enhance access to home ownership at the margin, there is a strong expert consensus that such help contributes little to enhancing affordability and, despite their attractive simplicity, such schemes are hard to justify in terms of value for money."[71]

A more effective policy response would focus on supply-side measures to directly address structural shortages and accommodate factors such as population growth, which play crucial roles in shaping housing market dynamics.

[70] Eslake, S. (2024) Australia's housing crisis: Submission to the People's Commission into the Australian Housing Crisis, pp. 29-31.
[71] Pawson, H. et al. (2022) "Assisting first homebuyers: an international policy review", AHURI, p. 33.

International experience and lessons learned

At its inception in 1965 (refer to section 3.5), LMI in Australia was designed to be a targeted approach by government to boost home ownership by reducing the financial risks associated with high LVR lending by banks and other lenders. This initiative was broadly similar to several international attempts to promote home ownership.

United States

In the US, government-supported mortgage insurance dates back to the Great Depression with the establishment of the Federal Housing Administration (FHA) in 1934.[72] The FHA was designed to stimulate housing demand by insuring mortgages, thus enabling borrowers to purchase homes with substantially lower deposits—typically as little as 3.5%.[73] The FHA charges mortgage insurance premiums in two ways: an upfront premium paid at closing (currently 1.75% of the loan amount), and an ongoing annual premium divided into monthly instalments added to the borrower's regular mortgage payments, where the premium depends on the loan term, LVR, and amount borrowed.[74] These fees protect lenders against default risk associated with FHA-insured loans.

Complementing this were Government-Sponsored Enterprises (GSEs) such as Fannie Mae and Freddie Mac, institutions that purchase insured mortgages from lenders, thereby providing crucial liquidity to the housing finance market.[75] The US approach has been problematic. The GSEs were subject to significant criticism at the time of the 2008 financial crisis. Leading US macroeconomist John Taylor observed, "The government-sponsored enterprises Fannie Mae and Freddie Mac were encouraged to expand and buy mortgage-backed securities, including those formed with the risky subprime mortgages."[76] Through their actions, Taylor argued, they contributed to the buildup of risk in the financial system that ultimately led to the 2007 sub-prime crisis and 2008 financial crisis.

The US Government's approach to supporting home buyers now includes leveraging private capital through GSE's Credit Risk Transfer programs.[77] Initiated after the 2008 financial crisis, these programs shift some of the mortgage credit risk away from the government—and by extension, taxpayers—to private investors, such as hedge funds, insurers, and institutional

[72] https://www.hud.gov/aboutus/fhahistory
[73] https://www.hud.gov/helping-americans/loans
[74] https://www.bankrate.com/mortgages/fha-mortgage-insurance-guide/#how-much
[75] https://www.fanniemae.com/about-us/what-we-do
[76] Taylor, John B. (2009) "How Government Created the Financial Crisis", https://www.hoover.org/research/how-government-created-financial-crisis.
[77] For example, see https://capitalmarkets.fanniemae.com/credit-risk-transfer

investors. By compensating private investors with higher yields for assuming potential mortgage default risks, these programs not only enhance liquidity and stability in the housing market, thereby facilitating affordable mortgage access for first home buyers, but also protect taxpayers from bearing the full cost of potential market downturns.

Canada

Canada adopted a similar but mandatory approach following World War II, establishing the government-owned Canada Mortgage and Housing Corporation (CMHC) in 1946. Mortgage insurance is compulsory for any residential mortgage exceeding 80% loan-to-value ratio, similar to Australia's LMI model in mitigating lenders' risks and facilitating lower deposit requirements for borrowers.[78] Private sector competitors to CMHC include Sagen (formerly Genworth Financial) and Canada Guaranty.

United Kingdom

The UK Government's Mortgage Guarantee Scheme was a policy initiative designed to increase access to home ownership for individuals who could only afford a small deposit, typically 5% of a property's value.[79] It is similar to the HGS in that it guarantees mortgages and is free for the borrower. The scheme was first introduced in 2013 as part of the broader Help to Buy package and later relaunched in April 2021, running until June 2025. The scheme appears to have had only a minor impact, with only 53,300 mortgages guaranteed over the period April 2021 to December 2024. The relatively low take-up rate, relative to the level of HGS activity in Australia (refer to section 2.2), was related to the significant availability of high LVR loans by lenders anyway and competition from the Government's shared equity scheme.[80]

New Zealand

In New Zealand, the First Home Loan involves government underwriting of low-deposit mortgages (as little as 5%), similar in purpose to Australia's LMI. It is limited to FHBs and, unlike the HGS, charges a premium, increasing from 0.5% to 1.2% of the loan value from 1 July 2025.[81] This premium increase is designed to avoid the cost to the NZ budget of underwriting the scheme.[82]

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[78] https://begininsurance.ca/en/blog/what-is-mortgage-insurance-a-complete-guide-2025

[79] https://assets.publishing.service.gov.uk/media/5a7c0a8eed915d01ba1cac46/help_to_buy_mortgage_guarantee_scheme_outline.pdf

[80] https://www.yourmoney.com/mortgages/disappointing-uptake-of-governments-5-deposit-mortgage-scheme/ https://assets.publishing.service.gov.uk/media/603cf9ece90e07055e595008/210301_Budget_Supplementary_Doc_-_mortgage_guarantee_scheme.pdf, p. 7.

[81] https://kaingaora.govt.nz/en_NZ/home-ownership/first-home-loan/

[82] https://www.1news.co.nz/2025/05/27/new-cost-for-first-home-buyers-with-changes-to-first-home-loan/

Assessment

Lessons from the review of Australian and international policy approaches include:

- governments of Anglophone countries have intervened to promote high LVR loans to FHBs, although the UK experience suggests it is unclear whether such intervention is required;
- other Anglophone countries offer variations of Australia's FHG, although with some stark differences–notably the US and NZ schemes charge a premium to the borrower and the US now recognises the benefits of shifting risk off the government balance sheet and on to private sector balance sheets via Credit Risk Transfer; and
- there is a risk that demand-side policies like the HGS contribute to higher property prices, suggesting that demand should be significantly limited by strict eligibility or constrained by a premium fee.

Australia's transition from an initially government-established LMI to a private market distinguishes its approach in the Anglosphere by utilising private capital without explicit government guarantees.

5.2. Financial stability

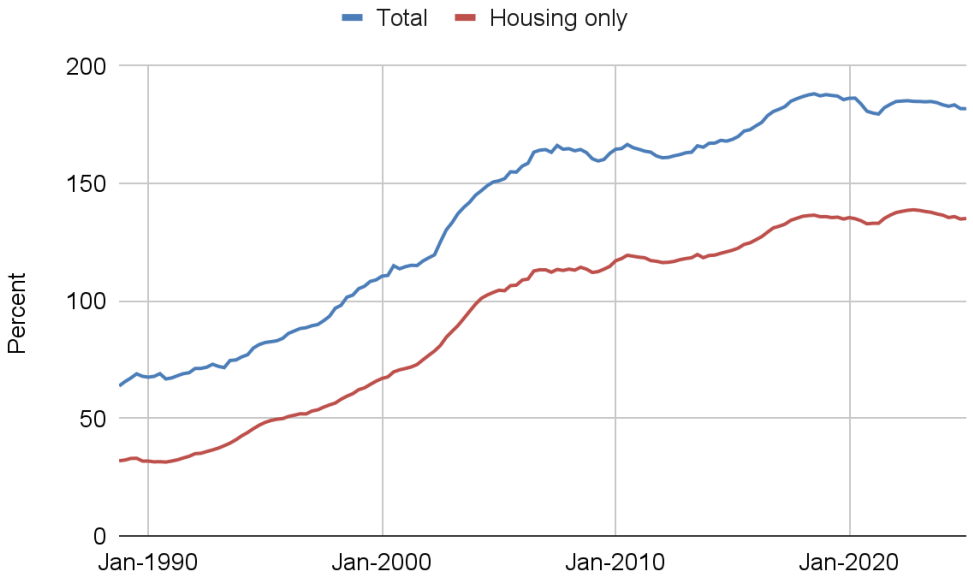
Household debt in Australia

How Highly Leveraged are Australian Households?

Australian households remain among the most highly leveraged globally. In December 2024, household debt was 182% of disposable income, a level close to historical highs (Figure 9). Mortgage debt is the most significant component, representing approximately 135% of disposable income. By December 2022, average household debt reached $261,500, with the national total amounting to $2.66 trillion.[83]

[83] ABS, 5204055011 Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2021-22, Table 3.11. Household (excluding non-profit institutions serving households) Income, Consumption and Wealth, per household, by household distributional indicator, $, current prices, 2021-22.

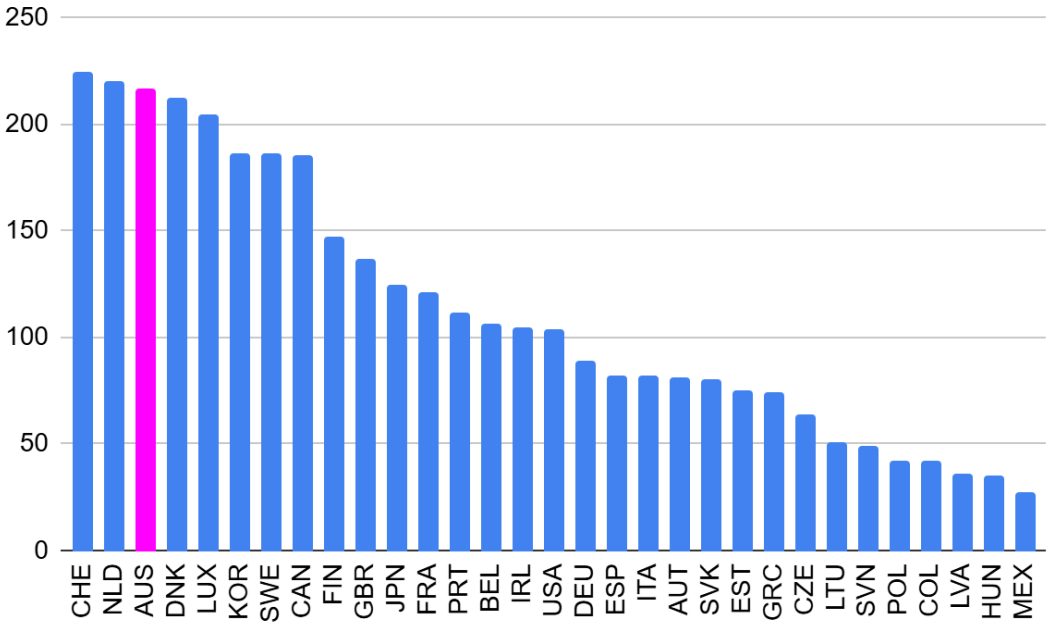
Figure 9. Household debt to annual gross household disposable income ratio



Source: RBA, statistical tables, E2 Household Finances – Selected Ratios.

Australia currently ranks third among OECD countries for household debt, behind Switzerland and the Netherlands, with debt equating to 211% of net disposable income (Figure 10).

Figure 10. Household debt to annual net household disposable income ratio, 2023



Source: OECD, https://www.oecd.org/en/data/indicators/household-debt.html

Risks and Vulnerabilities from high household debt

The elevated household leverage levels heighten vulnerability to economic shocks, particularly increases in interest rates or unemployment. Highly leveraged, lower-income households are especially susceptible to falling into arrears, with their arrears rates remaining above pre-pandemic levels, though recently stabilising.[84]

Fortunately, the Australian financial system is currently sound, and this will help it weather the risk coming from additional leverage induced by the HGS expansion. In its recent *Financial Stability Review*, the RBA notes that, despite high aggregate debt, most households are managing repayments effectively due to strong labour market conditions and prudent lending practices.[85] Arrears rates are low. There are signs of stress from business insolvencies, but the RBA concludes the risks are "contained".[86] The RBA concluded that most borrowers would likely maintain their debt repayments even in adverse scenarios.

Research from the RBA indicates that Australia's high household debt levels primarily reflect structural factors such as higher household incomes, historically lower interest rates, and financial liberalisation rather than inherently risky borrowing behaviours.[87] Australian banks typically maintain moderate loan-to-valuation ratios and adhere to rigorous lending standards, effectively mitigating systemic risks.

High household debt poses risks beyond defaults or bank stability. Elevated indebtedness can suppress consumer spending even in non-crisis periods, as highly leveraged households often reduce their expenditure more significantly during economic downturns—a phenomenon known as the 'debt overhang effect'.[88] This effect can amplify the severity of economic slowdowns. Thus, the primary concern associated with high household debt in Australia is not necessarily widespread bank failures but rather a potential exacerbation of consumer caution during economic downturns. Households with high leverage may reduce their spending significantly if faced with income shocks or financial uncertainty, potentially resulting in deeper economic contractions.

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[84] RBA (2025) Financial Stability Review – April 2025, 2. Resilience of Australian Households and Businesses, https://www.rba.gov.au/publications/fsr/2025/apr/resilience-of-australian-households-and-businesses.html

[85] Ibid.

[86] Ibid.

[87] Kearns, J., Major, M. and Norman, D. (2020) "How Risky is Australian Household Debt?", RBA Research Discussion Paper 2020-05.

[88] Price, F., Beckers, B. and La Cava, G. (2019) "The Effect of Mortgage Debt on Consumer Spending: Evidence from Household-level Data", RBA Research Discussion Paper 2019-06.

Financial stability risks of HGS expansion

Particularly given Australia's high household debt (refer to section 5.3), the expansion of the HGS introduces potential risks to Australia's financial stability, primarily by encouraging higher levels of borrowing among financially vulnerable, marginal borrowers. With broader eligibility criteria and the availability of loans requiring very low deposits—often resulting in LVRs of 95% or more—the scheme may unintentionally encourage individuals who have limited financial buffers to take on significant mortgage debt.

These marginal borrowers could be disproportionately exposed during economic downturns. Events such as rising interest rates, increased unemployment, or falling property values could quickly erode borrowers' ability to service their loans, substantially raising default risks. Compounding this issue is the limited nature of the government guarantee, typically covering just 15% of the property's value, leaving lenders exposed to substantial residual risk. Such exposure could strain lenders' balance sheets and reduce their capacity to absorb losses during a large property market crash.

Collectively, these factors could lead to a concentration of riskier loans within financial institutions, amplifying potential losses during adverse market conditions. Therefore, while the HGS expansion aims to enhance housing affordability, it must be carefully managed through cautious lending practices and targeted eligibility criteria to minimise systemic risks.

While it is not possible to offer precise quantification of the effect, by encouraging additional marginal buyers into the property market and increasing house prices, will increase the financial exposure of households and add risk to the financial system. Moreover, its intended policy effect will be modest, diluted as it will be with these unintended side-effects.

5.3. Market competition

LMI plays a valuable role in fostering competition within Australia's mortgage lending market by allowing smaller banks, regional lenders, and non-bank institutions to compete more effectively against larger banks. Smaller and regional banks, such as the Bank of Queensland, Bendigo Bank, and Suncorp Bank, typically face constraints due to their relatively limited balance sheets and geographic concentrations. These banks rely on LMI to mitigate risk, particularly in lending against high LVRs, enabling them to offer competitive home loans to a broader range of borrowers, including those in regional and rural areas.

Furthermore, LMI also supports non-bank lenders, such as Pepper Money and Liberty Financial, by facilitating their participation in the residential mortgage-backed securities (RMBS)

market. Non-bank lenders depend on RMBS as a crucial source of funding, and the inclusion of LMI within RMBS structures enhances investor confidence by providing additional protection against borrower defaults. This dynamic helps sustain competition in the mortgage lending sector by ensuring non-bank lenders can offer attractive mortgage products, creating greater choice and potentially better loan terms for Australian home buyers.

In an extreme scenario where LMI is eliminated or unavailable for a period, which is a small risk associated with the HGS expansion, the lack of LMI to support mortgage lending by small lenders could increase their funding costs and further disadvantage them relative to larger lenders.

5.4. Prudential regulation by APRA

Capital requirements

The Australian Prudential Regulation Authority (APRA) is responsible for financial stability in Australia. One way it does this is ensuring authorised deposit-taking institutions (ADIs), i.e. banks and non-bank lenders, back lending with sufficient capital so that the banks do not end up with negative equity, with liabilities in excess of assets. Hence, as the RBA notes, "APRA requires all locally incorporated banks to hold total capital of at least 8 per cent of their risk-weighted assets."[89]

Background on risk weighting

The Australian Prudential Regulation Authority (APRA) applies risk weights to residential mortgages to determine the amount of regulatory capital banks must hold to safeguard against potential losses. Under APRA's capital adequacy framework, banks assign risk weights to different categories of loans, reflecting the probability of borrower default and the potential severity of losses in a downturn.

Residential mortgages generally attract lower risk weights compared to commercial or unsecured loans, due to historically lower default rates and the presence of secured collateral. APRA's risk-weighting approach depends significantly on factors such as the loan-to-value ratio (LVR) and borrower credit quality. Mortgages with lower LVRs—indicating greater borrower equity—typically receive lower risk weights. Conversely, higher LVR mortgages, reflecting higher leverage and potential risk, require banks to hold more capital (Table 13).

[89] Gorajek, A. and Turner, G. (2010) "Australian Bank Capital and the Regulatory Framework", RBA Bulletin September 2010, p. 46.

Table 13. APRA risk weights for residential lending

		LVR (%)						
		≤ 50	50.01 - 60	60.01 - 70	70.01 - 80	80.01 - 90	90.01 - 100	> 100
Owner-occupied principal-and-interest	LMI	20	25	30	35	40	55	70
	No LMI					50	70	85
Other standard residential property	LMI	25	30	40	45	50	70	85
	No LMI					65	85	105

Source: Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk, p. 13.

In 2023, APRA implemented adjustments to risk-weight calculations under the Basel III reforms, shifting towards greater risk sensitivity.[90] For instance, owner-occupied loans with LVRs of 60% or less attract a minimal risk weight of approximately 20%, while those exceeding 80% can be weighted at 50% or higher. Additionally, APRA may adjust weights based on loan characteristics, such as interest-only repayment structures, investor status, or borrower affordability assessments.

This risk-based capital approach ensures banks maintain adequate financial buffers proportional to the underlying risk, enhancing financial stability by aligning capital holdings closely with potential loan defaults and market downturn scenarios.

LMI versus HGS

Under APRA's Prudential Standard APS 112, the risk weight for residential property exposure backed by the HGS is 35%.[91] This is significantly lower than the risk weight for loans of comparable LVR backed by LMI. For instance, a 95% LVR loan to an owner occupier relying on LMI has a risk weight of 55%, meaning the lender has to set aside 57% more capital, an additional cost that lenders will attempt to pass on to borrowers relying on LMI compared with the HGS. This is despite LMI covering the full shortfall in the proceeds of properties defaulted on, rather than only 15% of the property value, as is the case for the HGS. This regulatory disparity ought to be corrected by APRA.

International comparison

Under APRA rules, LMI enhances credit which means that less capital needs to be held. However the credit enhancement arising from LMI in Australia falls well short of the level in comparative countries, particularly the US. Under US bank capital rules, a Fannie

[90] Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk | APRA
[91] APRA (2023, p. 13).

Mae-guaranteed mortgage typically receives a 20% risk weight, compared to a 50% risk weight for most residential mortgages that are not government-guaranteed in the US, and to the significantly higher risk weights applied to loans backed by LMI in Australia (e.g. 40% for a 80-90% LVR, as noted in Table 11).[92] This means the capital a lender must hold against the loan is reduced by more than half.

In terms of the capital required to be held, in Australia, a 90-95% LVR loan receives approximately a 21% benefit from LMI protection under APRA capital rules, but under the capital framework applying to the US GSE's the benefit is around 57%.[93]

[92] See https://www.fdic.gov/news/inactive-financial-institution-letters/2012/fil12027.html and https://www.investopedia.com/terms/c/capitalrequirement.asp.
[93] Calculation by an LMI provider that was verified by Lateral Economics.

5. Conclusions and recommendations

Good public policy clearly identifies genuine market failures—such as externalities, public goods, or information asymmetries—and equity issues, and addresses them efficiently and effectively. It relies on economic analysis to ensure interventions are proportionate, targeted, and designed to minimise unintended consequences. Effective policy considers how the benefits and costs are distributed across the community.

In its current and proposed expanded forms, we have significant concerns that the HGS breaches the principles of good public policy. It does not address a genuine market failure, as there is an active LMI industry. It does not charge for the support, unlike in the US or NZ, and hence will waste money supporting borrowers who could have found alternative ways to overcome the deposit gap. Furthermore, it is dubious from an equity perspective, as many lower-income FHBs could be disadvantaged as property prices increase as a result of the policy.

Given the wastefulness of the HGS being free, its risks to public finances and its impact on financial stability, the principles of good public policy suggest that the Government should target the HGS better by making more modest adjustments to income and property price caps.[94] Further, because of the mismatch between the extent to which the HGS scheme could bring forward home purchases and the speed with which additional homes can be built there is a case for delaying the introduction of the scheme, or at least phasing in cap increases and adding an assets test.

The following recommendations would ensure that FHBs had an incentive to use their own or other resources where they could do so at relatively low cost. This would also reduce the competitive disadvantage of LMI vis-a-vis the HGS. The recommendations would also promote transparency and an understanding of the HGS's impacts to inform any future reviews of the scheme.

Recommendation 1

An assets test should be applied to HGS applicants to reduce the extent to which assistance goes to those who do not need it. For the HGS, the asset test would require that the HGS is only available once any available assets of the borrower have been put toward the deposit. The

[94] Housing Australia (2024, p. 18).

Government could also consider restricting the new property price caps and removal of the income cap to workers in essential services, including nurses, emergency service workers, and teachers.

Recommendation 2

The Treasury should quantify the contingent liability created by the HGS in the "Statement of risks" in the Budget. This is necessary from a transparency perspective, as the HGS is mostly off-budget.

Recommendation 3

There is a strong case for addressing the regulatory disparity that exists between LMI and HGS–specifically, that the APRA risk weighting, which affects the amount of bank capital required, is 35% for loans backed by the HGS compared with 55% for loans backed by LMI. Effectively, this means that HGS users face interest rates equivalent to a loan with an 80% LVR, while LMI users have to face higher interest rates than this. The Government should encourage APRA to deliver a more level playing field.

On the one hand the government underwriting of default risk is stronger than the industry's, but on the other LMI covers lenders for the full shortfall in the property value compared with the outstanding loan. In contrast, the HGS only covers 15% of the property value, which may be insufficient in some circumstances.[95] Though we have not investigated the matter fully, it is hard to see why loans backed by LMI should not be treated similarly to loans backed by the HGS.

Recommendation 4

As part of its design and planning to commence the scheme by 1 January 2026, the Government should facilitate some simple, independent research into the way in which the introduction of the HGS has influenced the property market, including impacts on lending for residential property, market transaction volumes, and property prices. The research should compare the impacts of the HGS with the expected impacts of alternative policy measures, particularly those on the supply-side of the housing market. It should also consider any market distortions and financial risks to home owners and lenders created by the policy. This kind of analysis should be an integral part of all new developments in public policy.

[95] On LMI, see https://www.qbe.com/lmi/about-lmi/understanding-lmi. Regarding HGS, note that Housing Australia notes "Housing Australia provides a Guarantee to the Participating Lender of up to 15% of the value of a home loan". See https://www.housingaustralia.gov.au/home-guarantee-scheme.

Recommendation 5

The Australian Government should ensure that there are regular independent reviews and reports on the impact of the HGS on the LMI industry, recognising the importance of LMI in supporting the property market and financial system. An appropriate body to conduct such reviews would be The National Housing Supply and Affordability Council or the Productivity Commission. This report should be contained in or attached to the existing Housing Australia report on its activities to assist FHBs required under section 57A of the Housing Australia Act 2018. Additionally, the existing reporting should be expanded to analyse the impact of the HGS on the property market, particularly on property prices.

Recommendation 6

FHBs newly eligible for the expanded HGS should be charged a fee to use the scheme, though it could be considerably less than LMI, improving affordability for FHBs, while reducing the largest economic welfare costs of the scheme (around the zero price bound) and providing some check on a significant property demand shock. It could also be charged on a delayed basis - say being recovered from repayments after the third year of the mortgage. A charge is desirable to avoid the significant risk associated with uncapped schemes of a blowout in demand, as occurred in tertiary education, for example. This change would encourage borrowers to make other arrangements if they can be easily made, by saving more or getting assistance from their family.