The Treasury
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PARKES ACT 2600
AUSTRALIA
Email: fsi@treasury.gov.au
09 March 2014
Dear Sir/Madam

SUBMISSION!–FINANCIAL SYSTEM INQUIRY

## Introduction

The submission represents the views of the author in the author's personal capacity. The submitter has been an employee of ASIC since 2011. The submission written in 2008 has therefore, not been updated, so that no information submitted could be interpreted as having been obtained with regard to employment at ASIC. The submission represents the views of the author in his personal capacity and does not purport to, represent in any manner the views of ASIC. The submitter background includes three decades in investment and retail banking. The submitter has no association with any company involved in any of the ideas presented.

*Presented is a call for the Financial System Inquiry to recommend to the Government to look at assisting in the creation alternative methods of financing such as CPI capital indexed loans and Shared Equity Mortgage for the retail market on mass to achieve current stated aims and policies in a more structured method for less cost than the current inflexible (flat percentage) and discriminatory (low income earners) superannuation guarantee before either the rate needs to be increased or the retirement age increased harming all Australians in the long run.*

Wealth creation lies within the processes of investing rather than what an individual invests in as a society. By taking advantage of three historical financial phenomena; namely the equity risk premia, inflation expectations premia to actual inflation and volatility -dollar cost averaging- Australians can achieve their goals of housing ownership, retirement and time for the important things in life by utilising their mortgage as a resource for the creation of wealth rather than as a liability.

The methods outlined below of investing and saving could assist Australian households and especially the Moderate Income Housing sector to instigate a much more structured approach to wealth creation and assist those less fortunate with Government assistance to obtain housing and self-sufficiency in retirement.

The wealth creation method outlined could replace the current superannuation surcharge at the lower income scale while at the same time increase the flow of funds into funds management and superannuation, alleviate the current saving problem for first homebuyers, broaden home ownership, and create employment in the building and associated sectors of the economy.

The underlying premise is that if there is a risk premia and inflation adjusts for movements in this risk premia over the long term then as a society Australians should get behind a structured process for investment where the end result is more known upfront with less decision making, more likely to occur, less volatile and much less costly than the current system.

Australians can be better financial managers of their own destiny but need the tools, Superloan, Shared Equity Mortgage (SEM), SEM savings and this is where the Government can assist to establish policies allowing us to maximise our savings in a more systematic and more proven method than currently available.

*The relationship between inflation, borrowing costs, and equity returns has followed a constant long term (10 years or more) path during the period 1975-2000. There has been a net equity return (equity risk premia) of between 4.8% to 5.3% after borrowing whether fixed or variable. It is this stable inter-relationship globally and locally, during the past 100 years and across all advanced countries which gives leveraged investors a high chance of successfully achieving wealth creation over a long time frame (10-25 years).* http://faculty.london.edu/edimson/assets/documents/1448.pdf

Anthony (Max) Mackay 09/03/2014

Note: All numbers as at 15/05/2008 but the same principles apply today and can be updated by the reader in the attached model

Housing affordability, savings and superannuation in Australia - a long-term solution.

The Problem

Australian's love real estate. On average Australians, borrow $233,500 to be able to call our residence home. We then spend on average 28% of our income for 8-10 years to pay off the family home. Saving through home-ownership significantly reduces the cost of accommodation in retirement. Conversely, home ownership severely reduces our capacity and will to save for retirement. That is why the Government took charge and implemented the three pillars policy.

- Age Pension
- Superannuation Guarantee
- Voluntary Private Savings.

The system is failing due to the third pillar, private savings. The primary cause of the lack of savings is our fixation with home ownership. Band aid attempts to fix the savings issue such as the allowable $50,000 voluntary contribution, co-contributions, scrapping the superannuation surcharge, spouse contribution, increasing super to 12% and over-above employer contributions have only scratched the surface of the problem.

The primary reason for our fixation with real estate is the capital gains free nature of the family home and negative gearing. The saving rate of Australian households has been declining over time, and in recent years has become negative. The two tax related causes of our savings problem will not be solved, as neither party would implement a policy that results in political suicide.

Property is a tangible asset, it has a warm, fuzzy feeling to it that managed funds, shares and superannuation do not. A solution to voluntary private savings needs to be found to allow the system to cope with the increased ageing population, our love affair with property, and increasing demand for all forms of government transfers.

Many households are now borrowing up to 100% of property valuation and buying later in life. The 15-34 year old brackets ownership has reduced 7% in the last two decades as they stay at home to save for their first property. The link between receiving the pension and home ownership can only increase under the current tax and saving regimes. Australians' hate renting more than they love buying real estate because they see it as dead money.

Australians' already have 70% of private dwellings owned outright or being purchased. A third of these loans secure assets other than the home such as extensions, cars, buy/build another property when they should be securing investments for retirement. Australians have on average 60% equity in their houses. Even the age group up to 35 year olds who have 30 years until retirement are sitting in their homes with over 50% equity earning approximately 7% versus equity returns of 13.5%.

The 45 plus age group have only 15% of their homes value as debt but still have 20 years to retirement and potentially 20 years more to live. They risk their ability to self fund their retirement in comfort and place a burden on the tax system in the form of the age pension. Of the 2.2 million older (greater than 65) Australians only 7% live in non-private dwellings.

The Need

Equity in the home needs to be diverted to superannuation and retirement and this is just not happening. Redrawing will become more popular, especially when you see statistics such as the price index for established homes increasing from 100 in 1989-90 to 210 in 2002-03.

Currently the average superannuation payout is around $83,000. It is estimated to rise to around $136,000 in today's dollars by 2020. Today's pension payments and transfers are 3% of GDP or 24 billion. Reducing or eliminating the need for the Government to provide $24 billion annually by doubling the average superannuation payout by 2030 is a goal all Australians would get behind.

The Government cannot change the aspirations of Australians to own their home but it can assist them in the means to manage their earnings in a more effective manner.

It is therefore proposed that the Government instigate a compulsory "Super-loan". The "Super-loan" would be up to the first $50,000 to $100,000 of any current or future household loan secured by property. The method of borrowing for the "Super-loan" is via inflation or consumer price index linked loan. The Government uses this method (capital indexed) of borrowing to show they are serious about fighting inflation, as its own interest costs increase with a rise in inflation. The "Super-loan" which could be instigated by financial institutions would comprise the following:

The Solution-Example

A housing or investment loan where the first $100,000 of the current or new property loan is a superannuation loan. The Superloan uses the same amount of pre-tax dollars that you currently pay under your mortgage or would pay under a new loan.

Repayments are therefore the equivalent of a normal housing loan I.e. $840 monthly interest plus principal based on a rate of 9%.

Based on a 45% tax rate, monthly, this would equate to $1,527 salary.

The interest rate is made up of two components (like fixed and floating loans):

- Firstly, a 10 year fixed real interest rate of 5% is charged monthly which includes the banks credit margin.
- Secondly, a future CPI-consumer price index (inflation expectations 4%) variable component is charged monthly once it is published by the Government.

Each month the following cash flows occur.

Of the $1,527 salary, $758 pre-tax would go to pay the $417 after tax real interest rate charge. The $333 charge for the CPI (4%) will be added to the loan making the outstanding balance $100,333 next month. The $769 remaining salary ($1,527- $758) will be invested in a superannuation fund and will be taxed at 15% leaving $654 for investment. This is $231 more than under the current tax regime for paying nominal interest rates at a 45% tax rate. As an example, the $654 is invested in a split Australian 50% and Global 50% managed fund as superannuation and geared 50% for a total investment of $1308 monthly.

The expected outcomes[1] after 25 years of this method of cash-flow management are the following:

- If you had paid off your house with the $1,527 monthly salary, you would have repaid the $100,000 loan.
- If you had invested the principal payment (interest only loan 45% tax average,4% dividend,9.5% capital growth) you would have $109,641 and if you had geared the principal 50% you would have $182,935. (prior to repaying the original 100,000 loan)
- The super mortgage would end up being $1,120,313 at the end of 25 years (CPI increase inclusive). – 6.12 times today's best-known method of investing for the same salary amount. (Prior to repaying the original $100,000 loan).

The Change Required

The Government needs to implement three changes to solve the growing age pension dilemma:

1) Allow the Superloan account where the managed funds are invested to be the banks security for the super loan in case of default of the total loan.
2) Allow the CPI increase component of the Superloan after 10 years to be repaid via the super account.
3) Allow the monthly dollar cost averaging investment to be geared 30-50% within the superannuation regime. This already happens to some extent via investing superannuation in geared managed funds or highly leveraged companies.

The CPI charge is expected to slowly increase the debt from $100,000 to $148,886 in 10 years and $170,481 at the end of 25 years. Individuals can currently devote $50,000 annually to super

[1] *Based on actual inflation (CPI) equalling expected inflation 4% over 25 years, dividends of 4% and 9.5% annual equity returns. On a rolling 10-year basis the chance of getting 10% equity return is 78% and 100% over 25 years. The equity risk premia has remained between 4.5-5.5% on average between 1970 and 2000. Between 1976 and 2000 the outcome would have been $1.325 million, the 100-year historical averages 4.38% CPI, Real Interest Rate 6%, dividend 3% and equity return 9.85% would have produced $1.16 million over 25 years. Note all amounts and returns are net of the CPI indexing of the Superloan.*

but do not due to the lock up requirement until 65 years. The CPI increase component needs an allowable payout date so that people do not see it being locked up indefinitely.

The cost to the government of this pillar is potentially up to $230 monthly per loan. With 1.6 million loans, this is not insignificant, $4.416 billion annually. The tax on extra earnings on the $230 investment is around $58,777 over the life and the leveraged component of the investment would add another $14,229 tax over the life or $4.67 billion average annually.

In total terms the product costs, the Government the tax benefit upfront, is tax neutral over the life, and creates 1.765 trillion in wealth for Australian households' retirement. The eliminated need for the pension could be up to 19 billion annually based on 1.6 million households at the current $12,042 average Government transfer becoming self-reliant.

The results above are not random and simulations on this method of borrowing and investing have succeeded based on 100 year average equity returns,[2] the Japanese stock market collapse[3], and the 1987 and 1989 and 2008 crashes. It is clear inflation, interest rates, and the equity risk premia (difference between borrowing cost and equities return required for investors to invest) are all interwoven to prove repeatedly saving and investing based on a conservative gearing level will simply earn the equity risk premia in the end.

The “Super Loan” combined with the superannuation guarantee, ensures a financially healthy retirement, removing the need to make any other investment decisions. A disciplined diversified investment product wrapped in one loan product will afford Australians more time for the important things in life. The ‘Super-loan” aligns Australians and their Government to reduce inflation [4] and move the focus away from the next consumer purchase to wealth in retirement. Australians need a paradigm shift from paying off their mortgage to getting wealthy through self-

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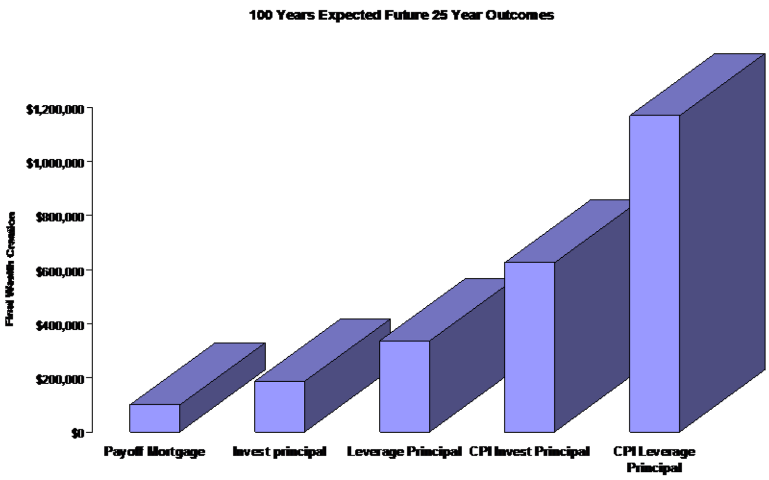
[2] A study by Elroy Dimson, Paul Marsh and Mike Staunton from the London School of Economics has revealed the returns of the risk premia for 15 countries for 100 years. Weighted by the 15 countries market capitalisation in 2000 the annualized risk premia or equity return above the cost of borrowing (bills) has been 7.87%.




[3] The ultimate test of this theory in the modern era would be to see how the processes worked in an economy that could be classified as being in a long term depressed state. To test this example historical simulations were run for the product based on: Japans inflation rates and borrowing costs in 1976 and the Japanese Morgan Stanley Capital Index Growth Index in local currency. A historical simulation entails putting in historical data to see how a model would have performed. If the inputs are put into the model the projected returns are $569,024 for investing the principal repayment rather than paying off the loan and leveraging the investment by 50% with the result $541,506 being remarkably similar. The similarity in the outcomes is remarkable when it is considered that CPI went up to 10% and fell to –7% over the period and the stock market annual returns of positive 79% and negative returns of –43%.

[4] Inflation expectations risk premium has been shown to be approximately 50-60 basis points (.5% to.6%). Reducing this premium by paying for actual inflation, (and not the uncertainty inflation premium) and investing that saving in a high returning managed fund is one of the secrets to achieving wealth over the long term.
That small saving of half a percent or $500 a year, $41.66 a month equals an increase in wealth of around $79,786 at 13.5% on a $100,000 mortgage over 25 years. Current mortgages charge you the nominal rate of interest. You are currently not asked if you want fixed or variable inflation.

sustainability in retirement and paying off their mortgage and the Government is the vehicle to implement such a change.

The Next Step

If this country wants to get ahead it could also combine the Shared Equity Mortgage product to get the individual into the property market with the Superloan. This could work by entering a 80/20 loan, 80% equity 20% shared which translates to paying 80% of the interest and giving up 40% capital growth which would be more than offset by the expected long term capital gains from the Superloan mentioned above. Two major problems are resolved for the individual –entry to the housing market and enough super to retire.

Critiques of this method of borrowing or product have in general missed the point. They focus on the give-up on the capital gain. For example after 25 years at 6.8%, the value of a $400,000 house will be $1.72 million compared to a $500,000 house with 40% give-up on the capital gain $1.397 million. The Shared Equity Mortgage owner has given-up $323,000.

There are a few issues to look at.

- The Shared Equity Mortgage owner may have not been able to afford monthly repayments of $2775 for 100% of the loan as against $2220 for 80%.
- The Shared Equity Mortgage owner has had the benefit and comfort of 25 years of living in a $500,000 home rather than a $400,000 home.
- The Shared Equity Mortgage could have invested the same cash flow in $400,000 of equities at the 13.5% long term average and had $11.6 million rather than a property worth $1.72 million. Alternatively, superannuation at 15% tax could have achieved $15.08 million wealth at 13.5%.
- Is 25 years really an appropriate timeframe to compare when the average home loan changeover in property is 7-8 years?

The real issue is limited resources and how best to invest them. Long-term returns of 7% property, 13.5% shares is the real issue, and if a Shared Equity Mortgage solves the problem of getting into the property market and allows the individuals required lifestyle standard to be achieved then it is a great product as it answers a need.

A better comparison is to see how a combined Shared Equity Mortgage and a product such as the Superloan compare to simply owning your house 100%. With the same repayment as a normal housing loan, a $100,000 Superloan would produce an estimated net return of $806,039. On top of this the owner would have a $265,023 capital gain on the property. Alternatively, the house owner could have bought an $80,000 house for a $353,364 gain after 25 years.

A $1,071,062 gain on the Superloan with a Shared Equity Mortgage far outweighs the $353,364 on 100% ownership on an $80,000 property investment with 100% capital gain. Critics would say this is based on equity returns of 13.5%. The answer is yes but their criticisms of the Shared Equity Mortgage are based on historical property returns continuing in the future-the same assumption as the Superloan. The decision really just comes back to expectations of future returns for risk and actual rather than expected inflation.

Savings

While the investor market in Shared Equity Mortgages may be currently somewhat limited, the Government could assist in the growth of the product by creating a savings vehicle for those looking to save for entry to the property market. The Government has an interest to move ownership from primary residence to investors as they receive capital gains tax on the primary residence. In the example below the Government receives $88,162 on a $297,575 house in 25 years, an effective 26.3% return on the investor’s investment annually.

The 20-35 year old sector, (less than 120% average weekly earnings) could have a special savings account that allows their money to be invested from salary at 15% tax rate like superannuation in the Shared Equity Mortgage to allow them capital protection of 40% against appreciation of housing while they save with up to 30% more money.

The outcome after 10 years at 6.8% (property long term capital gain) for $1,000 of pre-tax salary at 30% tax on salary and earnings against 15% on salary only is the difference between $1,114

(5.92%) and $2,432 (24.7% annual return) of wealth creation. Invested in a shared equity mortgage the return on savings would be $4356 or 52.2% (For every $1000 saved pre-tax the benefit is protection from $3356 of house price increase over ten years).

The Government should look to implement a house saving scheme based on the shared equity mortgage to offset the growing housing affordability crises. The capital gains tax benefit to the Government per $100,000 Shared Equity Mortgage could be used to more than offset the loss on tax from such an account. The 2008 home saving scheme ($850 per $5000 annually) is a step in the right direction although it is not self-funding putting a burden on the tax system.

A final Step –The Housing Crises
Housing affordability has become a serious issue over the last 15 years. Owners and purchasers under 35 have deteriorated. Waiting list for public housing is over 250,000, and over 1 million Australian receive rent assistance. Poverty is defined as 50% of average disposable income and equates to 2 million Australians according to ACOSS. Moderate Income Housing (MIH) is housing and/or financing products that are affordable to households on moderate incomes, i.e. a combined household income of $52,000 to $79,000, May 2007. First homebuyers with a mortgage had an average household income of $80,288 in 2005-06, 18% higher than the average for all households. This statistic alone shows that MIH entry have severe barriers to entry currently.

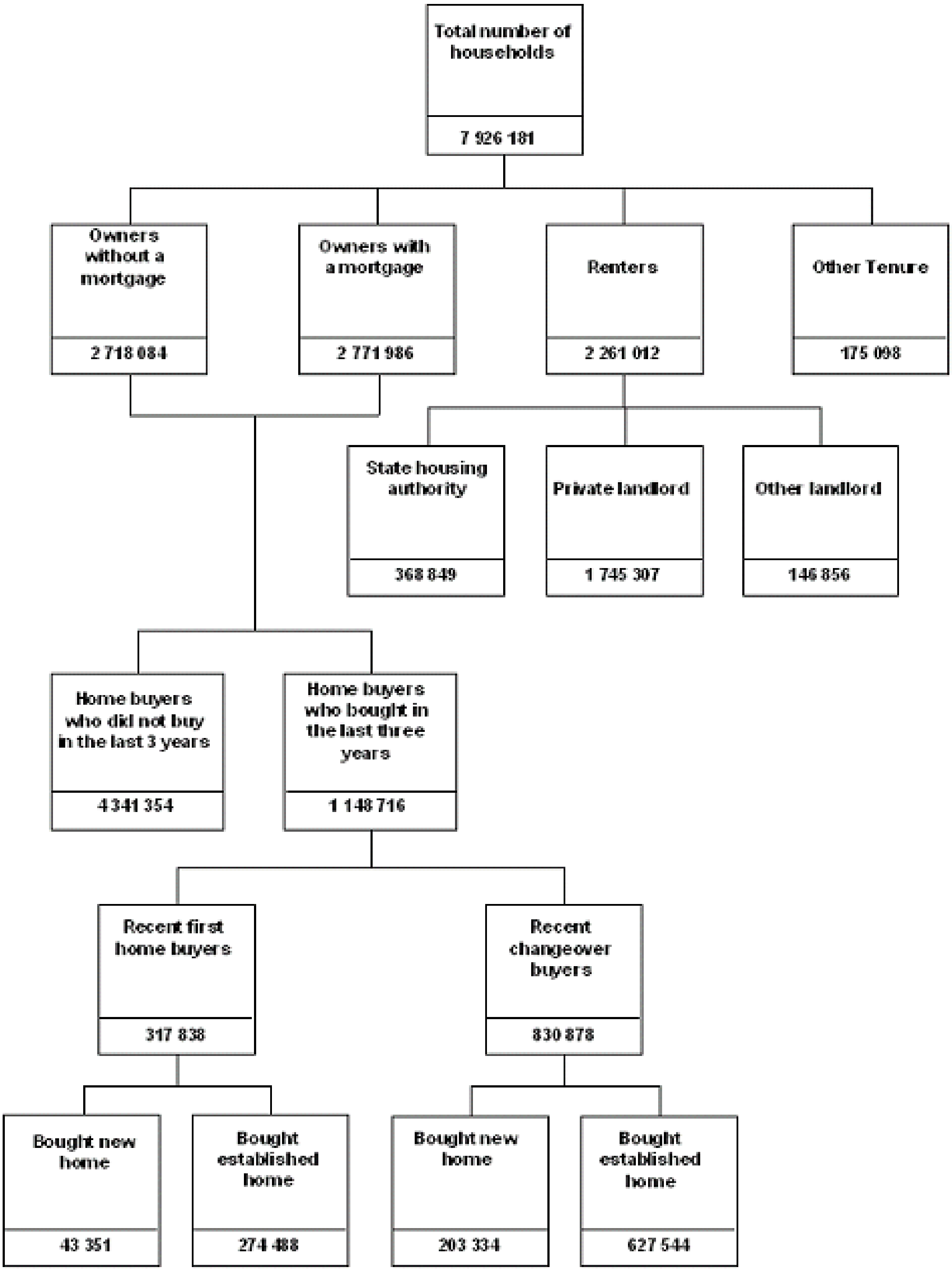
To alleviate the burden of the MIH on the Governments property assistance schemes, should, be a goal for all Australians. If the MIH sector can be fixed through better cash flow management then funds are freed for those in poverty needing public housing, - $40 billion worth of dwellings, although it is estimated that for every $1 of Government outlay could result in $5 of housing.

The current superannuation guarantee is an impediment for the MIH because it takes away scarce resources from their first need for housing. The $5000 earns approximately $500 a year when it could go toward $7000 of capital gains annually. While self-sustainability in retirement is an issue, the first and foremost issue is housing (somewhere to live).

The Superloan and Shared Equity Mortgage can solve both problems it just needs better cash flow management than the current trend of throwing lump sums, (super, future fund, education fund, infrastructure fund, housing savings account, matched $1,500 super, first home owners grant). Australians need to be better financial managers of our own destiny but we also need the tools, Superloan, Shared Equity Mortgage (SEM), SEM savings and this is where the Government can assist.

The Government currently spends upward of $4 billion on housing assistance (20% on first homeowner grant, 2 billion on Rent Assistance, and 1.5 billion on Public Housing). It is quoted that up to 750,000 Australians are in mortgage stress. It could be easily, argued that a greater number (2.3 million renters) are more stressed from not owning there home and are often severely stressed by their inability to enter the market. These individuals would be happy to pay 35% of their salary to have mortgage stress, defined as 30% of salary.

Household Characteristics-Source ABS



The Answer

Most attempted answers to the housing crises to date have focussed on Governments increasing spending rather than Governments re-thinking different rules for different tax brackets to solve the housing affordability crises. Current tax savings and superannuation rules simply do not go far enough in positively discriminating for different groups in society.

The answer provided here involves four steps for those who earn 80-120% of average weekly earnings at the time of purchasing a house.

1. The creation of a Shared Equity Mortgage saving scheme for the deposit on a house
2. The exemption from the superannuation guarantee
3. The replacement of the superannuation guarantee with a compulsory Superloan component of the loan (35%)
4. Entry to the property market via a shared equity mortgage 80%/20%interest/40%capital gain give-up

We will begin with step 3 as steps 1, 2 and 4 flows from its basic premise that individuals currently do not have the best means available to manage their salary for wealth creation.

The method of borrowing for the “Superloan” is via inflation or consumer price index (capital indexed) linked loan. Based on $73,592 of the mortgage being a Superloan the expected final outcome for the Superloan as previously described would end up being $709,235 at the end of 25 years- based on a 4% CPI,5% Real Interest Rate ,9% Variable Rate, 3.5% dividend, 10% equity capital growth, and 4.5% equity premia. The Superloan amount is based on 35% of the actual loan of $210,262 and replaces the current 10% superannuation guarantee as the means for wealth creation.

The current superannuation guarantee is freed up for paying the interest on the loan, -step 2. The effective investment in superannuation through the Superloan is $5340 annually pre-tax which is geared for a $9,072 after tax investment verses the superannuation guarantee which would have been $5501 pre-tax based on the salary of $55,016 ($4,675 after tax). The Superloan allows an increased mortgage to allow entry to the market but still makes the same superannuation investment.

The fourth step is that the total loan is a Shared Equity Mortgage product to get the individual into the property market combined with the Superloan. This works by entering an 80/20 loan, 80% equity 20% shared which translates to paying 80% of the interest and giving up 40% capital growth, which would be more than offset by the long-term capital gains from the Superloan. In this manner two problems are resolved –entry to the housing market and enough super to retire on. Cash flow is freed up by not having to pay 20% of the interest on the value of the property.

To get the savings needed to pay the deposit on a house the Government could look to set up the first step. It has just provided a first homeowner saving scheme where a $5,000 saving will be rebated with an $850 (17%) payment. A Shared Equity Mortgage saving scheme with a guaranteed 5% return on the 50% leveraged account gives the investor a 10% guaranteed return. Should property return above 5% during the period of saving the Government would bear no cost.

In turn, the Government would invest in Shared Equity Mortgages for low income earners receiving the capital gain on 40% of the value over time (Government risk being that the return is below 5% against long term 7-8% expected property returns). In this example, the shared equity deposit would earn 22.3% annually based on 6% annual property appreciation. The savings and earnings could be taxed at 15% to assist in speeding up the requirement for a deposit and it could be limited to those earning less than 120% of the average wage with a maximum timeframe for investment of 3-5 years.

A salary earner on $55,016 investing 12.25% of salary (35% of 35% of salary leaving $240 a week for rent without rental assistance which could be up to $50 a week-the ABS reported renters paid an average $193 a week) , could save $447 a month resulting in a deposit of $18,247 ($14,033 current system) after 3 years. On top of this, they would have 3 years of $850 payments for the $5,000 housing scheme and $7,000 first homeowners’ grant and no stamp duty to pay. The total deposit after 3 years would be $27,798.

The solution
To work through an example:
A salary earner on $55,016 is currently taxed $9,454 plus tax on super for a net salary of $40,060. Instead, the worker puts $6,739.44 of salary into the savings account for 3 years[5], taxed at 15% to save $27,798, FHOG [6] inclusive for a deposit on a house. (Pays $1,010 less tax annually).
**Based on an interest rate of 9% and 35% of salary paid to housing the worker could normally afford an interest only loan of $155,785.**

Because the borrower takes out a shared equity mortgage, they do not pay 20% of the interest effectively giving the worker a rate of 7.01% (inclusive of deposit). Because they will take out a Superloan in at least $73,592 (35%), they have an exemption from the superannuation 10% guarantee and has $3,851 at 30% tax to pay interest, an effective interest rate reduction of 1.83%.

The net rate is 5.18%. Now because they are taking out a Shared Equity Mortgage and the Government will receive approximately 1.6% of house value present value of new taxes annually on the capital gain from the investor they are given a discount of .5% as a subsidy (only for income earners less than 120% of the average salary).

The 1.1% extra (1.6% minus discount .5%) the Government receives could go towards removing the poverty gap of dwellings of 200,000 (40 billion) homes. This loan alone would provide a net $50,000 to the Government in 25 years. If 778,000 MIH loans were implemented the poverty housing gap could be wiped out within 25 years.

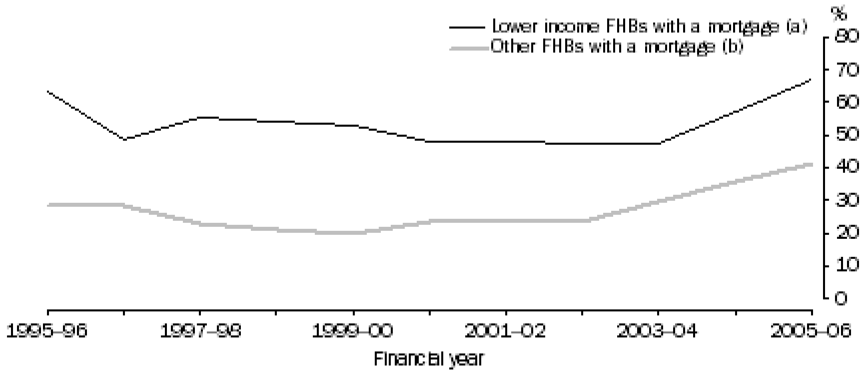
Because the Superloan is principal plus interest and not just interest, only he needs to find another $95 monthly for the investment (principal payment that is capitalized under a CPI loan and invested).

The 9% rate is based on a margin above cost of funds of approximately 1.25%. Because the Government or pass through loan for the banks have a product that is 10-25 years they allow a life discount (not a one year discount) of .55% (.4% on whole loan) ,or $95 monthly. The fees over 10 years from the Superloan equate to $12,500 against a traditional mortgage being approximately $3,000 so the discount should not be an issue for either the Government or the banks. The interest rate is now 4.28% rather than 9% under current arrangements.

The living allowance is $2,170 or 65% of after tax salary monthly as it is currently and the borrower has $14,021 (35% of after tax salary) available annually to pay interest on his house. Low-income first homebuyers with an average mortgage of $260,000 have monthly ex-housing income of $1,300 against the average $3,466.

[5] Updated Information: A first home saver account can only be used when you are saving to buy or build your first home. Each year the government will make a 17% contribution on the first $6,000 you deposit each year. This means that if you deposit $6,000 in one financial year, you will receive $1,020 from the government.
[6] See:http://www.firsthome.gov.au/ Amounts now vary state to state and territory.

Proportion of FHB with a mortgage that spend more than 30% of gross income in housing costs. (Source ABS)




(a) Lower income households are those containing the 30% of people with equivalised disposable household income between the 10th and 40th percentiles.
(b) Excludes households with nil or negative total income.

Note: Survey not run in 1998–99, 2001–02 or 2004–05. Values have been interpolated for these years.

*Source: Data available on request, Survey of Income and Housing.*

Based on a house purchased for $297,575, with 80% under the shared equity mortgage being $238,060 and after the deposit of $27,798 the homeowner would have a loan of $210,262. The interest on this annually would be $18,924 less the exempt super $3,851 less the Government rebate $1,051 for a total interest cost of $14,021 annually.

***The ability of the worker to buy a house has now moved from a property value of $155,785 to $297,575.***

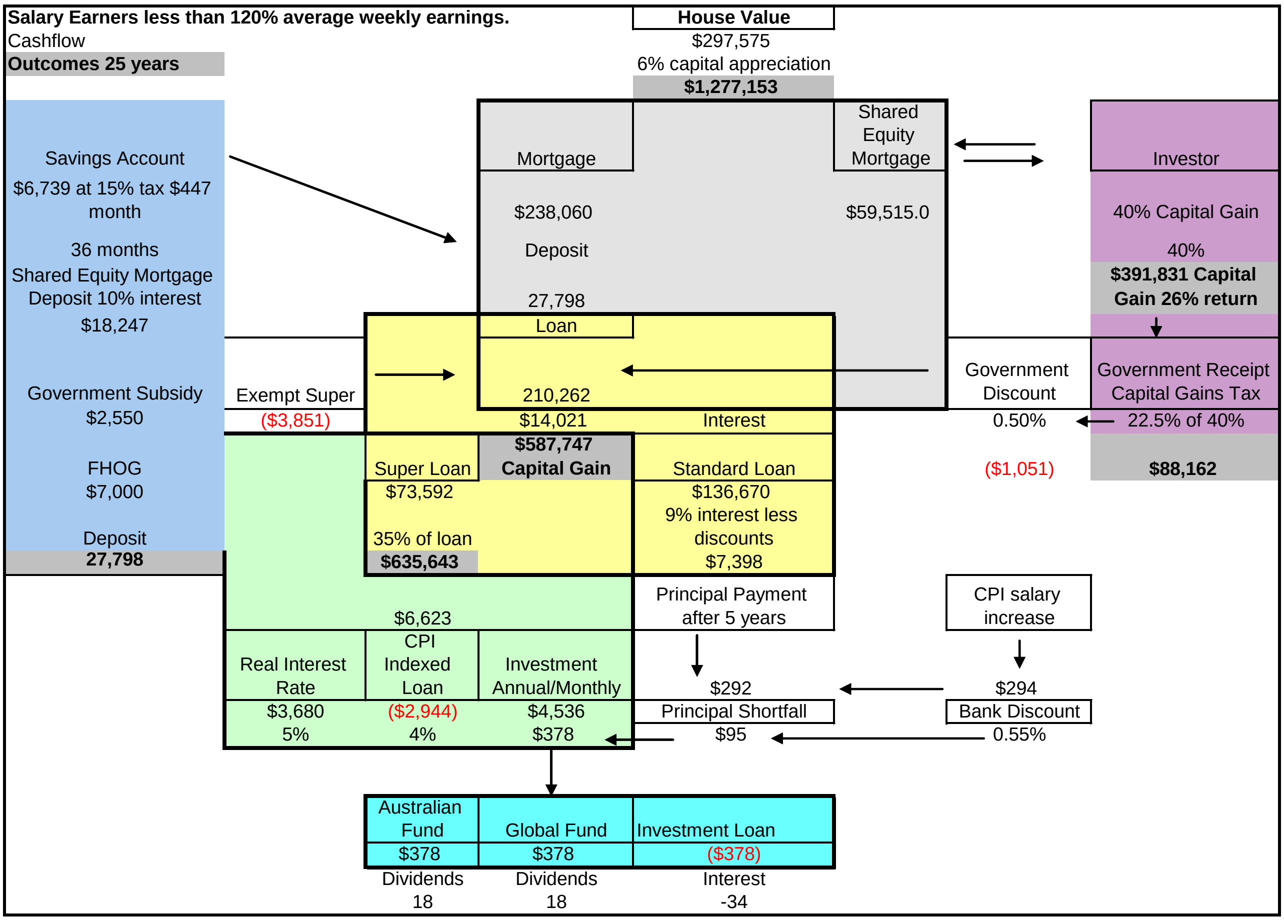
The property value based on a 6% annual return is projected to be worth $1,277,153 at the end of 25 years. The 40% capital gain give-up is $391,831 and the 60% retained capital gain is $587,747.
The original shares in the property remain i.e. $238,060 for the owner and $59,515 for the investor.

The benefit of the Superloan after 25 years is expected to be $709,235 minus the loan $73,592 for a net return of $635,643 for retirement. The Government may want to limit gearing to 50% (50 cents for every dollar invested and guarantee MIH super for 5 years until the investment has grown large enough to offset early stock market falls. In this case, there would still be around $425,000 super rather than a $73,592 mortgage paid off.

The original total loan was $210,262, of which the Superloan was $73,592, and standard loan of $136,670. The standard loan is paid down from 5 years onwards for 20 years out of salary adjustments. A 1.25% salary increase for 5 years would be $294 monthly pre-tax against $292 pre-tax to pay off the loan over 20 years. The Government receives $88,162, approximately 1.6% annually of the house value in capital gains tax.

After 10 years based on 6%, property price increase the homeowner has a capital gain at $141,000 and $44,000 at 13.5% on the Superloan for a total gain of $185,000 verses $89,190 under current super arrangements at 13.5% return.

The homeowner is paying $923 for interest monthly against a traditional mortgage of $2,232 monthly.




Australian Working Together

It is time for Australians to focus on self-sustainability in retirement, the right to home ownership for ALL families, and the urgent need to alleviate housing poverty in our society.

The Superloan based on approximately $75,000 eliminates the need for the pension for an individual after 25 years. Those above 120% of the average wage who have a loan greater than $75,000 and can afford the super guarantee at 10% should also be required to top up their super through a Superloan to ease the pubic purse in the future.

The alternative at some stage is to increase the super guarantee to 15% but as mentioned above this merely reduces borrowing power for scarce resources and reduces returns. This would vastly increase funds available for housing in the poverty category.

Those on 80-120% of the average wage should be provided the means to establish a Shared Equity Mortgage saving scheme, a Superloan and a Shared Equity Mortgage. They should be exempted from the Superannuation Guarantee until they move into the higher wage bracket, greater than 125% of average weekly earnings.

The funds flowing from the capital gains tax on the Shared Equity Mortgage should be targeted at affordable housing for those defined as being in poverty.

The schemes above are self-funding over time and merely require the Government to change a few superannuation rules for different areas of the tax system. The Government could establish the programme and tender it out to banks at a later date or get the banks involved from inception.
There are no barriers to this product as Superannuation funds seeing 26% annual average returns for delaying capital returns will jump at the chance to invest (i.e. they give up 40 basis point return for 2% annually in the future on part of their portfolio) as will first time home owner savers. It will clearly be a new asset class and the Government could establish benchmarks by issuing CPI bonds to fund lending to the product at inception.

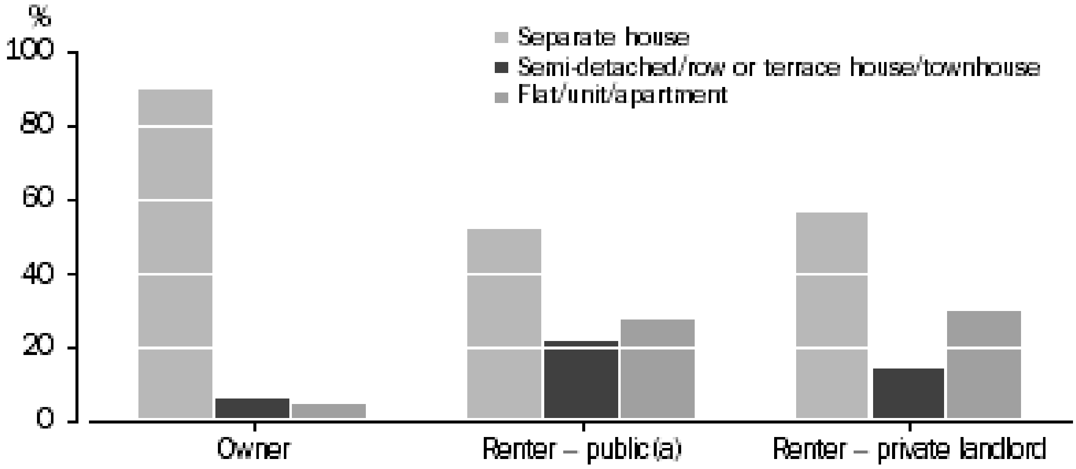
The property target market $235,000 to $350,000 should not be inflationary for housing as there is little available in this market now. It is really a new asset class within the property sector-new housing $235,000 to $350,000.

Clearly, there will be demand for tradesmen and product but the Government could manage the supply of the product for 5 years via controlling the flow allowed under this product for itself or banks.

The Government needs to focus on housing affordability and with the assistance of local councils and state governments move developers away from the top end of the market to the MIH market on mass rather than the current micro ad-hoc projects being established.

*Australia's preference for a freestanding house on its own block of land is most evident among homeowners. Of the 5.4 million households that owned their home in 2003-04, 90% lived in separate houses (graph 8.7). Over a half (55%) of all renter households lived in separate houses; 29% lived in flats, units or apartments; and 15% lived in semi-detached dwellings.*

8.7 OWNER AND RENTER HOUSEHOLDS, By dwelling type — 2003–04




(a) Renting from a state or territory housing authority.

*Source: Housing Occupancy and Costs, Australia, 2003–04 (4130.0.55.001).*

The Government will effectively be creating a two-tiered interest rate sensitivity market assisting the RBA in its management of the economy, as one sector will be sensitive to the equity risk premia and the other sector to nominal interest rates. Australians can afford more debt at the right end of the spectrum-the low earnings end. The public purse will be increased dramatically over time as wealth creation through the Superloan is taxed on earnings and capital gains flow from the primary residence.

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