

## Mortgage rates: good or bad news?

Last month, when the federal government announced the de-regulation of mortgage interest rates, the news was greeted with two very different sorts of response.

The banks were pleased, but some members of the political left and the welfare sector were concerned.

The banks' response was not surprising; for months they had been quietly campaigning for de-regulation, arguing that there was no other way of preventing the decline in loans for home finance, given the extent to which the rest of the finance system had been de-regulated.

The Government, however, reached a compromise: controls on *existing* mortgages would remain, while borrowers of new mortgages would pay whatever rates the market dictated. This was a purely political decision: the government feared an outcry if the majority of home owners were directly affected. The compromise cost the taxpayer \$150 million in subsidies to the banks.

From the Brotherhood's point of view, none of this was very satisfactory. That \$150 million subsidy, for instance, was a rather regressive example of public expenditure. Taxpayers in general (including tenants and new home buyers) will be paying the banks for the cost of preserving the 13.5% ceiling on existing mortgages — even though most existing home buyers are already better off than most new buyers and nearly all tenants.

If fairness had been the dominant factor in the equation, then the government would have allowed *everyone's* mortgage rate to rise, or found some other way of financing the system.

But it would be unreasonable to blame the government for all this. The fact is that public opinion — or at least the way it is expressed through the media and during election campaigns — makes a rational debate on housing policy extremely difficult.

What is the Brotherhood's position? In general, it is unlikely that

the de-regulation of interest rates will have much effect on low-income people. Those who are already paying off a mortgage will not be affected at all; nor will those who are too poor to raise the deposit to buy a house.

In between, there are those who are on the margin between being able to afford and not being able to afford to buy. The effect on this group of a 2% rise in interest rates is unpredictable. It depends on two factors; the behaviour of house prices and the behaviour of banks and other lenders.

If prices rise faster than incomes, the deposit gap (rather than interest rates) will remain the big barrier.

De-regulation is already having the effect the government hoped for: more money is becoming available for lending in the form of mortgages. This may mean that borrowers will get a more favourable loan "cocktail" (i.e. not have to borrow so much on a personal loan at very high interest rates). But rationing will continue; low-income people will continue to be disadvantaged compared to better-off people.

### Alternative mortgages

New types of mortgages offer the best hope for some low-income buyers. For example, Victoria's

Ministry of Housing is offering two schemes in which repayments can be held to 25% of the family's income over the life of a loan. These arrangements take into account the fact that a family's expenses are likely to be high and its income low during the first few years, compared to a later stage when the children have grown up and the parents' income has risen.

### Conclusion

De-regulating the mortgage interest rate seems to have reversed the decline of funds for home finance. It may therefore improve the access of working couples who would otherwise have just missed out. But as a single measure, it will not improve the chances of those lower down the income scale. For some of them, the best hope would be new types of finance that are adjusted for inflation. Such schemes should be urged on the finance industry by the federal government, following Victoria's example. Merely offering a \$150 million subsidy to the banks will not have any such targeting effect.

Meanwhile, the demand for public housing has far outstretched the supply. A significant and sustained expansion of public housing is the most certain way of assisting low-income people who are bearing the brunt of the housing crisis.

