Data Report

Stakeholder requirements for enabling regulatory arrangements for community housing in Australia

FINANCIER'S DATA REPORT

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INTRODUCTION

These data reports describe the responses from each of the seven stakeholder groups investigated in the project. The first five stakeholder groups are 'external' to community housing and their involvement has been seen as potentially important to the further development of the sector. They are financiers, developers, local government, churches and central agencies.

The remaining two groups are the providers and the administrators – the regulated and the regulators. Both of these two groups have a crucial interest in the outcomes to be achieved by regulatory arrangements. Unlike the external stakeholders, however, their interest is two dimensional. That is, it is an interest in both the new opportunities that might be opened up, and in how it will affect their current core business and achievement of social housing outcomes.

Information from the external stakeholders was gathered using semi-structured interviews. The broad questions, and their relationship to the project aims, are in the appendix to this data report. The informants were chosen because they had sufficient familiarity with the community housing sector to be 'information rich'.

Information from the internal stakeholders was gathered using workshops to identify issues and to get some responses to the external stakeholder views. In addition, four interviews with state based community housing peak bodies were conducted (prior to the workshops) for an assessment of:

- the strategic opportunities being limited by current regulatory arrangements; and
- the strategic opportunities that could be pursued through developments and trends in the local environment.

The informants' views have been presented in each of these data reports in six parts:

- The current context in which the informants are becoming engaged with the sector – or for internal stakeholders, pursuing regulatory reform and sector development.
- What might effective measures within the community housing sector enable or in other words the potential and emerging opportunities.
- The preconditions for realising or achieving these opportunities.
- The aspects of regulation that could help meet these preconditions.
- Principles for effective regulation.
- The informants' assessment of how much difference regulation or regulatory tools or elements might make.

In other words, stakeholders believe there is an opportunity for (and are interested in) achieving some outcomes, but they report a number of preconditions for realising these. This is of interest in itself, but in particular, they suggest ways that some of the preconditions might be met with appropriate regulation. (Table 3 in the main report starts to describe the relationships between the opportunities, preconditions and community housing regulation across the stakeholder groups).

This form of presentation has been adopted to provide an explanatory framework through which to understand the views of the informants. It is intended to help understand how the informants are currently engaged with the community housing system – the drivers and limitations on this involvement; what larger benefits might be enabled if there were some changes in the current system; and what role, if any, regulation might play in this. The overall findings of the research are presented in the findings section of main report.

The finance sector and community housing

The current constraint on public investment in social housing or affordable housing has produced considerable interest in the opportunities for private investment – either as equity or debt (See Berry M & Hall J, 2002). The imperative to attract new forms of investment has also been recognised in the current CSHA re-negotiations.

This has been of particular interest for community housing for two reasons[1]. First, the sector is relatively small and it has often been argued that it needs to expand to improve its overall efficiency and maximise its potential contribution to the social housing system. Second, there are some *prima facie* reasons to believe that non-government providers present advantages for utilising private investment. These include the fact that they are outside government borrowing limits, their tenants' eligibility for Commonwealth Rent Assistance, and the more diversified business managed by community housing providers.

Using private finance to fund growth is not a new concept in community housing. It has been used in the past on a large scale by governments (particularly in SA and Victoria) and continues to be used by some individual providers. However, the recent trend has been toward smaller, retail investment and joint venture arrangements and away from systematic, sector-wide borrowings (National Community Housing Forum, 2000).

Recently, on-the-ground initiatives have developed further – particularly in the context of new partnerships and affordable housing initiatives. More importantly, a number of studies have been undertaken to evaluate the effectiveness of these efforts. (Berry M & Hall J, 2001; Berry M & Hall J, 2002)

Effective regulation of community housing has been identified as a possible condition of attracting much larger volumes of private investment (Larkin A, 1998: Brook G KPMG, 2002)[2]. The purpose of this study is to identify how significant a factor this might be and what aspects of regulation might be most important.

The informants

Five informants were interviewed to identify the potential opportunities and preconditions for private financing of community housing. Although the informants had been identified through a referral process designed to ensure that they already had sufficient interest in funding social or affordable housing to provide useful information, they were found from across the spectrum of financial institutions – investment bank (F1), a major high street[3] bank with international operations (F2), a major high street bank with some track record in local lending to community housing organizations (F3), a community bank (F4), and a major financial consultant (F5). [4]

The informants' length of exposure to the community housing sector varied widely. One had been directly involved with a large community housing structure for a number of years. Another said their, "involvement is only short term at this point because we're just dipping our toe in, in terms of trying to understand how it all works, and what are the risks and structures". Two informants also had substantial knowledge or experience of housing associations in the UK and of lending to them.

The current context

The business environment

All informants were involved in developing proposals for debt or equity investment in social housing. F2 had been working with a particular provider on a specific project. Another, F4, "off the back of a [new banking] initiative …[has] a number of key sector participants – the NSW Federation of Housing Associations, but also to the likes of the Aboriginal Land Council, ATSIC, and it has exposed us to other providers such as Home Start". F1, F3 and F5 were responding to anticipated calls from government or working as a consultant to government. Overall, there was a general sense of expectation that private investment in social housing could become a part of their business, but in Australia at least it has not eventuated. However, for F3 it was a very significant part of the bank's international operations.

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[1] See also the Positioning Paper, (Barbato et al, 2002)

[2] This has also been reported by informants from the UK in this study. See Chapter 3 of the Final Report

[3] 'High street banks' are those banks delivering financial services to retail customers. However, their products are not limited to these roles and include major national and international business finance.

[4] Despite this range, there is no suggestion that the informants were therefore representative of the spectrum of finance industry, although their individual views will be informed by that spectrum of experience.

Current limitations

Lack of policy objectives – and roles

One informant (F1) identified the need for government to be clear about its overall policy settings and the roles of each sphere of government. "States have to agree that they want to address their housing issues (the impacts of unaffordability, overcrowding, homelessness, negative savings, key worker problems)". Transport might be the alternative; but housing or transport, "its billions of investment". They added, "Feds must address the supply of funding, states must address the demand for housing – the new stock". This informant went on to note the cost benefit of such intervention should also consider the social benefits in terms of rents if pressure is taken off the bottom end of the rental market by adding a large amount of new affordable housing.

Inadequate returns

Some informants (F1, F4) specifically referred to the initial limitation that returns [both current market and social] are too low. This was one of the major limitations to be overcome with any new product. Other informants largely assumed that any system would be a subsidised one and so did not explicitly draw attention to the underlying limitation on investment in rental housing. However, F1 also argued that alternative source of return on investment – capital gain – was not available if we are hoping for large additions to stock. "Return can't depend on capital gain, because the opportunity for large development [5,000-10,000 units] is in the fringe where there is a lot of land and these are lucky to make 2% real capital gain." While views differed between informants on the possibility of capital gain, other informants (F2, F3) also agreed that the nature of social housing clients means that financing will be based on income stream rather than assets.

Community housing's limitations for investment

The same informant (F1) that noted a general problem with returns, specifically argued that this presented community housing with a limitation if it houses very low income clients. "Because of the nature of the clientele, that's [growth] always going to be difficult. Under current arrangements, without stock transfer or establishment grants community housing organisations couldn't acquire large numbers of stock to rent to that clientele." Similarly, it was argued that the small size of operation was a barrier. "[The bank] would not be interested in investing in community housing organisations managing even up to 1,000 units. The margins are too small." Finally F4 suggested of other stakeholders that, "nobody wants to take a commercial approach".

What might effective measures enable?

Key Points:

Opportunities exists to:

- create a new investment market and respond to unmet need
- develop a range of products – starting at the 'affordable housing' end
- develop the community housing sector
- finance on the basis of stable revenue flows rather than the asset – its an infrastructure opportunity

Creation of an investment market that does not exist – a response to unmet demand

A number of informants pointed to the opportunity to create a market where none currently exists but noted that it is a market that they would like to participate in. "But there is no large scale rental investment in Australia – its dominated by small retail." Some informants also saw this market as driven by a clear social need. "[The bank] can see a huge need and so there must be a way to come in to address the need."

A range of products – mainly starting at the 'affordable housing' end[5]

Informants were considering a diverse range of products.[6] Some related to the vehicles for raising large tranches of funds, some to products for specific markets, one was more focused on a particular project. A number of these were more or less explicitly targeted at moderate, rather than low-income earners. Two informants (F3, F4) were interested in shared equity home ownership products – particularly one targeted to Indigenous communities. At the same time, these products were discussed in terms of their social benefits:

> Building up equity within the home; which ties into a change of wealth creation opportunity for the participants over a period of time…Interestingly our focus in Indigenous home ownership is on engaging the community in this process – the provider of the finance being a community owned enterprise – community responsibility, rather than big banks backing it.

For this informant (F4):

> We've looked at that top end of the market [shared home ownership]. If we can pick up a tier of this business that can be commercialised, then we're at least on our way. We try to resolve the hardest problem first. That enables us to free up some capital to then consider the next market tier, which is purely rental and rent subsidy.

Another informant (F1) was interested in financing vehicles to attract equity investment to, "turn housing into an investment [unit trust] product because housing is so well understood in Australia". Another (F3) was interested in a special purpose vehicle issuing long-term securities. Another informant (F5) was focusing on financing for large mixed tenure developments. Only one informant (F2) reported considering products for lending to social housing providers, based on models like those in the UK.

Development of the community housing sector

Clearly some of these products present limited opportunities for community housing. In some cases, the housing being financed would be owned elsewhere and the potential for community housing is as a management partner in the proposed structures. Others, based on the UK model would see lending directly to community housing providers. However, a number of the informants were interested in supporting the growth of the community housing sector. One informant (F1) described community housing as, "an alternative provider to state-owned agencies …[but] …its also a competitor to public housing leading to improved service quality across the system" and one with a wider range of tenant incomes.

In these respects community housing represented an alternative tenancy manager in any new market for social housing manager. Another informant (F3) had been "involved in some very broad discussion about how the sector should be moved forward". Another (F4) saw that, "our role is to enhance their capacity to create more efficiencies or do their job better — enabling the enablers." Despite this, only one informant (F2) discussed community housing as the primary object of investment in social housing. Others discussed it as a part of wider suite of options.

Focus on revenue flows – stable returns – its an infrastructure opportunity

Three of the informants (F1, F2, F3) explicitly made the point that the main aspect of the potential new business is that it is based on stable income streams. This observation had two sides. The first is that the new business should be seen in the same way as an investment in infrastructure. "Its an infrastructure opportunity – stable revenue flows requiring lower returns." The second is that risk cannot be covered against the asset.[7] "It is never possible for

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[5] 'Affordable housing' in this sense is housing that would be affordable (would cost less than 30% of household income) to households in the bottom 40% of household income. It is therefore targeted to moderate rather than only low income households.

[6] For reasons of commercial confidence, most informants described the products under consideration in broad terms only. In any case, it is not the purpose of this report to describe the options for financing social housing. Rather its purpose is to discover whether there are opportunities that could further the development of community housing, what the preconditions are for realising these opportunities, and to what extent and in what form regulation can help meet these preconditions.

[7] This is a particularly important observation because of the concern by government and community, that the introduction of private finance puts the asset – people's housing – at risk. If the observation from the UK (see Chapter 3) or two of these informants is correct, then this public risk is minimal.

lenders to realise the asset because of the public perceptions … involved in evicting low income tenants; and so this cannot be considered as a way of covering risk…This means that the approach is to treat this as a cash flow lend not an asset lend”.

Although this will be discussed below, it is instructive to understand what makes this approach possible. F2 explained, “If they are the right asset, with rent subsidisation and no tenancy risk, it is acceptable to take the risk against the cash flow. This is particularly so because the demand for the product [tenants on social housing waiting lists] is never likely to fall”.

Preconditions for achieving these opportunities

Key points:

To realise these opportunities, financiers look for:

- long-term certainty – assurance that government is committed – a framework
- structures to support large tranches of funding
- the ability to use ‘free equity’ to make further growth possible
- support for income streams – through both subsidies and risk management
- tax subsidies
- standards of tenancy management
- community housing organisations with the capacity to participate
- high standards of corporate governance
- a framework to manage the risks – consistent, comparable reporting
- information - to give understanding, confidence and comparability
- assurances on a basic range of risks

Long term certainty – assurance that government is committed – a framework

A number of informants stressed the long-term nature of financing social housing. This meant that the costs and risks have to born over a long period and informants argued that this requires certainty from government, long-term assurances that they want it to work and a framework to support this. One informant called for, “long term certainty from Commonwealth and the states about the development of such models so that the initial set-up costs to putting a lending package in place can be defrayed over, for example, 15 years”. Another said, “the tricky bit is a government assurance that they want it to work and will ensure a robust framework”.

Structures to support large tranches of funding

Informants also stressed that it is essential that financing is sought in large tranches. In one case (F1), this was because structuring an equity investment to deliver stable returns to the investors, means that the bank is interested in 5,000 – 10,000 units. Another informant (F3) stressed the cost of raising funds efficiently. They argued that what is required is “larger models or umbrella models to enable tranches of $50m - $100m to take to the market efficiently”.

Utilise free equity – makes growth possible

While most informants believed that the focus of social housing financing is on stable income streams, informants also stressed that access to effectively free capital is a precondition. This was expressed in a variety of ways, relating to different products. “Residential investment is hard. But its possible to attract debt because the equity partner [government] doesn’t want a return. Equity may be possible in the future.” Or: “We believe we have a way of using housing’s current balance sheet to transfer quite a few houses somewhere else to produce money to create more stock”. Or again: “It’s about the use of capital – the government’s capital funds, and the existing capital portfolios… releasing the public capital to gear against, so the structure is sustainable with the more limited income streams”.

Support for income streams – subsidies and risk management

While most informants argued that social housing financing is based on income streams, they also agreed that government must act to support the income streams. Two informants (F2, F3) (both of whom were discussing debt rather than equity investments) outlined a number of ways that government can provide that support. Both agreed that a rent subsidy is needed to achieve acceptable returns. But the crucial question then is how can the risk on the income stream be reduced to acceptable (and affordable) levels? One informant argued that, "if they are the right assets, with rent subsidisation and no tenancy risk, it is acceptable to take the risk against the cash flow". Another suggested that with a subsidy of at least 20% of the income stream it would then be possible to manage the risk on the income stream, because "this will allow you to get mortgage insurance". But the same informant also argued that the subsidy should be paid directly to the lender (or failing that, to the provider). In part, this is to reduce the risk of arrears and the risk of fluctuations in individual eligibility. But it was also seen as a way to build in a level of government assurance that would in turn reduce the cost of funds – "mainly because this allows the markets to price it at the relevant government rating".

The same informant also argued that funds would be cheaper if government has a stake in the assets "because of low provisioning for bad debts". This implicitly raises the issue of the extent to which government guarantees are needed to open the door to lending. F2 ruled out explicit government guarantees. "It is not possible to get government to stand behind lending to social housing; so the funding risks must be identified and managed another way." This informant went on to identify a different kind of assurance (also noted above): "The tricky bit is a government assurance that they want it to work and will ensure a robust framework for management of the assets and collection of rental". In discussing this issue, both informants proposed forms of government assurance that, while not an explicit (politically unachievable) guarantee on income streams, would reduce the risk to income streams and hence the cost of funds.

Tax subsidies

Other informants identified tax subsidies as an important way to support operations that would otherwise not provide the required rate of return. "So the only way to get investment at 4% real is if the Commonwealth provides tax concessions on housing bonds so it is 4% pre-tax." (F3)

Tenancy management

As discussed above, reducing the tenancy management risk is a key precondition for private investment. This is not only true for lenders, but also for equity investment. One informant (F1) discussed the options for tenancy management –excluding higher risk tenants.

> Do we take those tenants who don't have mental problems and avoid those who create a disturbance or have severe problems that require other support? As a financier we have nothing we can provide. So the question then is, is it enough for us to just partner with a very good maintenance operator; or do we need to partner with someone to manage the 'human tenancy' aspect, I could contract it back to Housing. But will I have changed anything? The answer is probably 'no'. Do I look for another partner?

The same informant went on to argue that if tenants requiring more intensive management were housed, the additional cost should be separately subsidised.

Community housing organisations with the capacity to participate

It has already been noted that financiers see funds being provided in large tranches. They also argued that if community housing providers were to secure private investment (or to be a partner in privately financed structures), they would need to develop more robust structures. Three informants (F1, F3, F5) focused on the scale of operations. "How will the banks consider the credit worthiness of a small organisation if it is trying to do a large deal? It will have to be backed by someone who can see it through." Two informants (F1, F5) talked of organisations needing to manage at least 1,000 units. Another (F3) talked of the need for larger models or umbrella models. As well as the capacity to participate in large scale financing, informants noted the relationship between scale and performance, "the larger, the better capacity for risk management and developing a model to get the right outcomes… economies of scale enable higher level of professional management".

Corporate governance

A number of the informants (F1, F3, F4) also stressed the need for corporate governance if CHOs are to be privately financed. This included the skill set of boards, long-term business planning and financial modeling, or contingency planning. "The more active a role you want to play, the more you've got to convince us of your ability to play that role, and also convince us of what happens if it doesn't go according to plan." Another observed, "it's still surprising how many [community initiatives broadly] aren't properly incorporated, have no corporate governance framework or no real benchmarks".

A framework to manage the risks – consistent, comparable reporting on financial capacity

It has already been noted above that some informants saw a 'framework' to ensure that the key elements of the business are conducted in a way that will limit risks as a form of government assurance to financiers. As another (F3) said, "If the reporting requirements are right, and management quality is right; they start to outweigh those issues [risks and barriers]". A number of informants (F2, F3, F4) focused on the capacity of a 'framework' to provide information – particularly on the financial structure of both organisations and programs:

> It makes me comfortable in the lending profile because I know there's legislative framework which they operate under …I know the structure of their income streams, and what it will look like in the coming years. Those elements create an attraction in terms of a lending proposal or from an investor point of view.

And another: "…consistent reporting [even across different jurisdictions] to get comparative data and analysis, which is paramount for assessing the ability of that sector to repay".

Information – understanding, confidence and comparability

In general informants saw the need for more information about CHOs. Information was seen to serve a number of different purposes, from selection of partners – "I don't know how we'd pick between them because I don't think we know much about them" – to building confidence within the financial community – "there should be uniform reporting requirements from this sector … if the level of comfort is going to be there or gained over time, it will be much easier if there is some direct ability to compare". Such information could then become the basis for benchmarking. Another informant also argued that information about the performance of the industry "can lead to respect for it – to be seen as credible – by financiers". Two informants (F2, F3) argued that this is a government role. One "would look for a centralised body that co-ordinates information. Government could provide a leadership role to co-ordinate it all." Another argued that, "it has to come back to a state-based requirement, endorsed by CPAs, or the association's equivalent".

Assurances on a range of risks

The need for assurance on the key risks of asset management and tenancy management has already been noted above. However, informants identified a list of aspects of the business (or systems) around which they would seek assurances.

- *Rental income stream* – this included three areas of risk: rent collection, subsidy risks (such as access to Rent Assistance), and vacancies.
- *Tenancy management* – this included tenant selection (for some informants this included 'screening' or 'sifting'), evictions, and subsidisation of higher risk tenants.
- *Asset management* – including procurement standards, inspections, maintenance standards.
- *Solvency* – financial performance standards, "financial resources", capacity to manage to the cost benchmarks required by financing structures, probity.

- *Sustainability* – long-term capacity (20-30 year), and "the government willingness to replace an under-performing management".
- *Human resources* – the "calibre of the people in the group" and a, "core skill set in the areas of financial management, tenancy management, asset management".

In effect, these comprise the criteria against which regulatory performance management will need to be assessed if they are to meet the preconditions of financiers.

What aspects of regulation could help meet these preconditions?

Key points:

- Implied assurances on income streams through legislation and policy could replace the need for government guarantees
- Registration/accreditation and tiered registration provides basic information on which organisations government will support
- Accreditation as a quality system is less important to financiers
- Co-regulation – with industry peaks – provides extra certainty about resourcing
- Performance management is fundamental to track lending structures and provide a long-term government commitment to remedial action
- Regulators' findings must be available to financiers
- Dual reporting – to lenders & regulators – is inevitable but can be complementary

Guarantee vs implied assurances through legislation and policy

A question that has already begun to emerge in the above discussion is the extent to which a regulatory framework can be an alternative to the government guarantees that financiers would prefer, but that most recognised would not be forthcoming. One informant (F3) argued for a phased process with explicit guarantees initially "to help set precedents and a track record. On this basis lenders can build up comfort with the structures around housing models and rely on the tacit support they provide". However, he also argued that implied guarantees could be sufficient, "if they are very public statements relating to the future around that implied support. Legislation would be better. But a very clear bipartisan agreement would do".

Registration/accreditation and tiered registration

Informants commented on the option of registering or accrediting organisations and particularly providing different levels (tiers) of registration to reflect different capacities. Some informants were supportive of tiered registration, with F3 noting that it was relevant, "in so far as economies of scale affect the cost of administering the loan". Another informant (F2) argued that, "the main issue is what the consequences would be if an organisation lost accreditation. Lenders would expect government to replace it with an equally accredited group [or for government to take on the management themselves]". This point reflects the benefit of regulation identified in Chapter 3 by financiers in the UK. Another informant (F1) was less enthusiastic; arguing that registration and regulatory tiering would be helpful to inform choices of partners.

> But choosing a partner is judgement, which means it's not a tick the box exercise …I'd sit down with you for discussions, look at your organisation and your due diligence or that of the regulatory body. It may add weight, but it's not enough on its own. We'd absolutely do our own due diligence. …It's the skills of the person who brought the deal in, and their team that we want, not community housing organisation 'A' per se. It's what you bring to it.

Accreditation as a quality system

Informants were less interested in quality assurance or improvement systems. F3 argued that "quality management would come back to how they're reporting". F1, who expressed reservations about registration above, also expressed reservations about quality systems saying "those sorts of things tend to stifle innovation in an organisation. [We are] persuaded by the individual not QA."

Co-regulation – peak role

One informant (F4) discussed accreditation enthusiastically, but as a form of co-regulation – principally driven by an industry peak, simultaneously delivering strong commercial support, and underpinned by government legislation.

> Using the Pharmacy Guild as an example. You've got a peak body with a commercial arm, which drives insurance and financial services products, everybody is a member. The peak says this an accreditation program banner, and groups underneath …are run and report in a very commercial approach. But it makes me comfortable in the lending profile because I know there's a legislative framework which they operate under, I know the structure of their income streams, and what it will look like in the coming years. Those elements create an attraction in terms of a lending proposal or from an investor point of view.

Performance management to track lending structure and provide a long-term government commitment to remedial action

A number of informants saw the establishment of a reporting framework that monitors performance and enables remedial intervention as a priority in the regulatory arrangements. Information and assurance about the remedial actions was identified as crucial by a number of informants. This "provid[es] certainty about … how they will operate – what government will and won't do to support this at certain levels". It is important that the focus for these informants was on reporting on the financial projections. "Reporting to ensure that approved lending structure – over a period of time – is tracking as it has been projected, and to identify when it is not, and the remedial action being taken to address this. … Knowing there would be intervention is clearly helpful." Another stressed the long-term nature of such performance management and intervention arrangements. " To be useful, this would require government to commit to it for the long-term – 10-25 years." However, as seen above, F1 was less convinced. "Regulatory processes to alert stakeholders and opportunities to bring in responses which can help that organisation stay afloat, would be helpful, but I'd be disappointed if we hadn't picked it up ourselves."

Reporting to financiers – reports by the regulator

One informant (F3) raised the issue (again seen in the discussion of the UK) of the regulator's relationship to lenders. In this instance, a precondition for effectiveness is the capacity to provide information to the lenders. "But, it's an issue of timing here. How quick is it going to be reported? Knowing who the lender is, the contact point. All those sorts of things would have to be part of a robust system so that immediate advice (is available), and (what) corrective measures have been taken"

Dual reporting – to lenders and regulators

This raises the issue of whether regulation would simply duplicate the reporting against loans that would be required by the lenders in any case. And if so, would regulatory reporting add value? A number of informants noted that 'lenders' would be requiring reporting themselves. F3 dealt with this at some length. "Reporting regulatory arrangements should be developed together by industry and government, despite some different specific requirements." The two reasons for a dual system were first, economies of scale – particularly in the initial establishment of a market, and the capacity of government to intervene before a lender has to take action.

> This may help provide necessary economies of scale for administering covenants. It's hard to put operating covenants in place with nominal lending, because it's hard to administer, there's no clarity from one year to the next. Covenants put in place where there are some serious economies of scale are much easier, and usually need fewer covenants ...There could be operating covenants with two triggers: one for the lender as a breach of covenant so therefore the lender has the opportunity to take action, and the regulatory body has the opportunity to correct before the lender has to.

However, F1 was less convinced about the relative advantage of government regulation and observed that, "an investment bank doesn't have the strong reporting relationship with its partners as the lending institutions. But they welcome the presence of the banks. … [I] would prefer the bank to a regulator, because the bank is likely to be more rigorous".

Principles for effective regulation

Key points:

- A national approach will be more efficient
- Effective intervention is the touchstone of effective regulation
- Information exchange between government and lenders is required

Informants did not directly consider principles for regulation. But a number of principles seem implicit in a number of the comments made.

A national approach will be more efficient

> "It would be good to have the federal government behind it. This is mainly an issue for the bigger banks rather than the small ones. But creating a market will be far quicker once you have national standards".

Effective intervention

The effectiveness of performance reporting is that it enables and provides government assurance of remedial action.

Parallel reporting by government and lenders

Parallel reporting which will require information exchange between government and lenders.

How much difference would such regulatory elements make?

Key points:

- Regulation can reduce the cost of funds
- Assurance and information are need to create a market
- Views vary on the overall importance of regulation from 'helpful' to 'essential'

Cost of funds

A number of informants suggested that an effective regulatory framework could affect the costs of funds. This is consistent with the experience and research in the UK. However, there were two different views about the mechanism leading to reduced prices. One informant (F2) argued that the effect is on the *availability* of funds. With more players, competition will drive down the cost of funds. "Right now pricing is not the issue. Once there are more participants, volume will affect pricing as a competitive issue." Indeed, this informant argued that, "from the [bank's] point of view, it is best to be in a sector where there are more lenders. Banks are like sheep once everyone is in, but no-one wants to be first. …What would regulation provide to a lender? Are they beneficial? – to create the comfort that leads to further opportunities".

However, other informants (F3, F4) saw a direct link. One was not prepared to put a figure on the effect of regulation. But another suggested that "this could reduce the cost of lending by around 0.75–0.50%". This informant expressed somewhat different views about the effect of competition. "With clear statements it would be treated with similar classes of acquisition, and competition would play little part in the cost of funds. Without them it would be important."

Creating a market

Perhaps the broadest view was that the assurance created would meet one of the preconditions for increasing the volume of lending and thereby creating a market. "This is a 'corporatisation' of the service providers in terms of a framework that will provide comfort and increased risk mitigation capability. …These elements would certainly increase the volume of lending". And, "there should be wider knowledge of what would happen. The more comfort, more opportunities, more possibilities, more likelihood".

How important are the assurance/ regulatory issues we have been discussing?

In general, there was a clear view that regulation would play a significant role in creating a new market for social housing finance. The assessments of how significant varied from "essential" to "possibly", but with balance clearly in the former camp.

- "It is essential that it happens. If you don't create a robust environment and a framework that any financier can get involved in, it won't happen. The way it is now we won't go any further. To date our involvement has been more of a 'community service obligation'." (F2)
- "Very much so - all of them [regulatory tools]." (F4)
- "There should be some regulatory arrangements, because it would add a lot of comfort." (F3)
- "Possibly, the presence of a regulator might help bring in the banks, but there are other 'deal breakers'. …But what's the experience of a regulator? They're always six months behind. By the time they're involved I think generally the horse has bolted. APRA didn't manage to intervene in time in HIH. So, the answer is yes, it would be helpful. Is it persuasive? I don't think so." (F1)

Summary

The findings from across all stakeholders interviewed are presented in the final report. However, some general conclusions can be drawn from the finance sector responses. There is a consistent interest in creating new market for social housing investment. Some of the major barriers, such as the lack of a policy direction, the need for subsidies or the development of new larger tenancy management vehicles, cannot be resolved through regulation. However, if resolved, the policy parameters can be effectively embodied in legislation. Creating a robust framework is seen as a condition of creating an effective market. Financing in this market will be against the income streams and not the assets. The security of these income streams is therefore a crucial precondition. While government guarantees would be preferred, an alternative is a clear public policy framework and assurance that capacity of providers to sustain their financing arrangements will be managed, with effective intervention where necessary. This means that there is value in a registration system, with robust information on capacity and record. However, an effective performance management framework is essential, as long as it provides information to lenders and intervention by government when needed. Lenders will still require their own monitoring arrangements. If these are in place, it is possible that lenders will enter to build a strong market and that the regulatory arrangements will directly or indirectly bring down the cost of funds.

APPENDIX: PROJECT AIMS & CORRESPONDING RESEARCH ELEMENTS

<table>
<tr><th colspan="2">Stakeholder requirements for enabling regulatory arrangements for community housing in Australia (60118)</th></tr>
<tr><th>Project Aims</th><th>Research elements (including interview questions)</th></tr>
<tr><td>To identify the outcomes looked for from a community housing regulatory system by external stakeholders - private financiers, local government, developers, church partners and central agencies</td><td>External stakeholder interviews
1. What is your current involvement with community housing or what do you understand about the sector?
2. What opportunities does the community housing sector present?
3. What are the barriers to expanding these opportunities? (prioritise importance)
4. How could these barriers be overcome? (if ways of overcoming the barriers relate to regulation, discuss for more detail on the types of mechanisms that would be useful)
5. If the barriers you have identified could be overcome in the ways we have discussed what would it change in your dealings with the community housing sector? (ie: how would it impact on the risk assessment?)
6. How would these types of changes affect the costs of expanding your opportunities within the community housing sector?
(n.b. questions modified for central agencies)</td></tr>
<tr><td>To identify the limitations of current arrangements and the enhanced capacity of community housing providers that might flow from improved regulatory arrangements</td><td>Peak interviews
1. What are the new developments in your jurisdiction in relation to regulatory arrangements? Or, what are the emerging trends?
2. What are the strategic directions/opportunities for the sector in your state that might be affected by regulatory arrangements?
3. What are the difficulties or limitations that have arisen from current regulatory arrangements?
4. What are the difficulties or limitations that have been identified with respect to the new developments or emerging trends?
5. What are the strategic opportunities that could be opened up for the sector from new developments or trends, as they are now or if they were modified? What are the policy implications?
6. What are the strategic directions for the sector now?

Literature review
Workshops
Analysis and final report</td></tr>
<tr><td>To identify the criteria for regulatory arrangements that would optimise the flexibility and efficiency of providers as well as robust and transparent accountability</td><td>Literature review
Workshops
Analysis and final report</td></tr>
<tr><td>To identify the aspects of the operations of UK and other international community housing regulatory systems that provide similar benefits to those being sought by the above stakeholders and to assess their applicability to the Australian context</td><td>International literature review
International interviews (mainly finance sector)
Analysis and final report</td></tr>
<tr><td>To familiarise administrators and providers with the findings and test their applicability in the existing community housing systems - including Indigenous housing</td><td>Joint findings seminars</td></tr>
</table>

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