

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

HOUSING LOANS INSURANCE AMENDMENT BILL 1985

EXPLANATORY MEMORANDUM

(Circulated by authority of the Minister for Housing
and Construction the Hon Stewart West, MP)

OUTLINE

This Bill which will amend the Housing Loans Insurance Act 1965 proposes -

- a) to extend the areas of business activity for the Housing Loans Insurance Corporation to include contracts of insurance in respect of securities traded in the secondary mortgage market.
- b) to extend the range of insurance cover provided by the Corporation to include all mortgage secured loans.
- c) to empower the Corporation to enter agency agreements with other insurers providing insurance cover protecting mortgage repayments of borrowers.
- d) to provide for Ministerial direction of the Corporation in regard to special classes of loans which could contribute to the Government's housing objectives.
- e) to provide for the Corporation to make a new special annual payment to the Commonwealth to place it on an equal commercial footing with other mortgage insurers.
- f) to revise the terms of the Government guarantee of the Corporation.
- g) to provide entitlement to age 55 retirement for the Chairman and Deputy Chairman of the Corporation.

- h) to remove existing restrictions on membership of the Board of the Corporation

The amendments necessary to give effect to these proposals are explained in the notes that follow relating to each of the clauses of the Bill.

FINANCIAL IMPLICATIONS

Operational changes covered in the Bill should increase the Corporation's business volume and its overall profitability. This in turn should mean increased Government revenue by way of taxation and dividend payments. Introduction of the new special payment to place the Corporation on an equal commercial footing with other mortgage insurers (covered by Clause 16 of the Bill) will also add to Government revenue.

Some minor losses may possibly be incurred by the Corporation arising from insurance contracts written by the Corporation in connection with a direction by the Minister under the new Sub-section 17(3C). The Corporation will be required to keep separate account of that business and any losses will be taken into account when determining dividend payments by the Corporation.

Clause 1: Short title

- 1) Formal
- 2) The Principal Act referred to is the Housing
 Loans Insurance Act 1965.

Clause 2: Commencement

Formal

Clause 3: Title

The title of the Act is amended to reflect the fact that
HLIC will be insuring loans for a wider range of purposes.

Clause 4: Interpretation

- a) Omits the definition of "appraised value"
 which is no longer referenced.
- b) Extends the existing definition of "approved
 lender" to include "approved dealers" operating in
 the secondary mortgage market.
- c) Deletes the existing list of defined purposes
 for an "insurable loan" and inserts a new
 definition which -
 - retains the existing arrangement in respect
 of unsecured loans for alteration, improvement
 and extension of dwellings or loans for
 provision of roads, kerbing, guttering etc
 associated with dwellings.

- permits insurance of all loans secured by a mortgage over land, irrespective of the loan purpose.
- d) Introduces a new definition of "negotiable mortgage security" to provide for securities traded in the secondary mortgage market.
- e) Distinguishes between contracts of insurance issued by the Corporation and agency agreements in respect of mortgage repayment insurance for borrowers.

Omits definition of "development of land" which is no longer referenced.

Clause 5: Approved dealers and approved lenders

Provides for a party to be approved as either a lender or an issuer of secondary mortgage securities, or as both. Also provides for the approval to be revoked either in part or in full.

Clause 6: Membership of the Corporation

Gives the two full-time statutory office holders standard age 55 retirement entitlements.

Clause 7: Disqualification from Membership

Removes the existing exclusion of individuals involved in lending for housing from appointment to the Board and other restrictions regarding membership.

Clause 8: Disclosure of interests

Revises the provision relating to disclosure of interests by members of the Board in line with the recommendations of the Bowen Committee on Public Duty and Private Interest.

Clause 9: Corporation to carry on certain
 insurance business

(a)(b) & (c)

Retains existing mortgage insurance powers and introduces power for contracts of insurance in respect of negotiable mortgage securities issued in the secondary mortgage market. (New Sub-sections 17(2), 17(2A) & 17(3A).)

- . Paragraph 17(2)(a) and Sub-section 17(2A) provide for HLIC to offer mortgage insurance in the primary market as at present but for an extended range of insurable loans (as defined in Clause 4(b) of this Bill)
- . Paragraph 17(2)(b) and Sub-section 17(3A) provide for HLIC to offer insurance services in respect of securities traded in the secondary mortgage market

c) Introduces power for HLIC to act as agent for other insurance companies underwriting mortgage repayment insurance for borrowers, in the event of death, sickness, unemployment etc. (New Sub-section 17(3B).)

- c) Introduces power for the Minister to direct the Corporation to enter into insurance of special classes of loans deemed to be of special interest in terms of the Government's housing policies.
- . Sub-section 17(3C) provides the power of Ministerial direction
 - . Sub-section 17(3D) requires prior consultation with HLIC and consideration of its advice
 - . Sub-section 17(3E) requires that all such directions be tabled in Parliament
- d) Defines the primary focus of the Corporation's business as being associated with acquisition or construction of residential accommodation.

Clause 10: Limitations in respect of contracts
 of insurance

Provides power for the Minister to direct the Corporation in respect of classes of securities traded in the secondary mortgage market, in the same way as for existing insurable loans.

Clause 11: Corporation may make payment whether
 or not insured exercised rights

Simplifies the wording of the existing provision concerning

settlement of claims by the Corporation. Also extends it to include claims against contracts of insurance in respect of securities traded in the secondary mortgage market.

Clause 12: Policies of Corporation in conduct
 of its business

Extends the powers of Ministerial direction to include agency contracts for mortgage repayment insurance for borrowers.

Clause 13: Premiums, &c., to be charged by
 Corporation

Provides for assessment of premiums and other charges in respect of a class of loans determined by the Minister to have special interest in terms of the Government's housing policies.

Clause 14: Corporation not obliged to enter
 contract in respect of particular loan

Reserves for the Corporation the decision as to whether or not to enter into any individual agency contract of insurance, in the same way as already applies to the Corporation's other contracts.

Clause 15: Corporation guaranteed by Commonwealth

Amends the wording of the Government guarantee of HLIC in similar terms to amendment made in the Commonwealth

Banks Amendment Act 1984 in respect of the guarantee for that organisation.

Clause 16: Payments to the Commonwealth

Introduces a new special annual payment by the Corporation to place it on an equal footing with other mortgage insurers.

Clause 17: Interim payments

Provides for interim payments to be made in respect of the new special annual payment.

Clause 18: Proper accounts to be kept

Requires the Corporation to keep separate account of receipts and expenditure for contracts where the Minister has determined that a class of loan has special interest in terms of the Government's housing policies.

Clause 19: Annual Report

Provides for all Ministerial determinations to be published in the Corporation's annual report for presentation to Parliament.

Clause 20: Assignment of contracts of insurance

Extends the existing arrangement for assignment of interest in contracts of insurance to include contracts in respect of securities traded in the secondary mortgage market.

Clause 21: Officers' rights

Repeals a provision on the rights of former public

servants, now covered in the Public Service Act.

Clause 22: Regulations

Extends existing provision covering making of regulations to include negotiable mortgage securities issued in the secondary mortgage market.

Clause 23: Transitional

Provides for the Corporation to continue to make payments notwithstanding the revised wording of Section 24.

