SECTION 4

LEGISLATION ADMINISTERED BY DEFENCE
Defence currently has two home ownership schemes in operation.

The Defence HomeOwner Scheme (DHOS) is administered under the *Defence Force (Home Loans Assistance) Act 1990* (the Act). From 1 July 2008 the Scheme was superseded by the Defence Home Ownership Assistance Scheme (DHOAS). The DHOS closed to new applications from serving ADF members on 30 June 2008, and will close to new applications from former ADF members and other eligible persons on 30 June 2010. The National Australia Bank has agreed to continue as the sole provider for the Scheme.

The DHOAS, was implemented on 1 July 2008 and is administered under the *Defence Home Ownership Assistance Scheme Act 2008* of which the Department of Veterans’ Affairs is the Scheme Administrator.

The Acts for both of these Schemes require that an Annual Report be prepared for the Minister on the administration and operations of the Acts. These annual reports are provided below.
CHAPTER 10  ANNUAL REPORT ON ADMINISTRATION & OPERATION OF THE DEFENCE HOME LOAN SCHEMES

THE DEFENCE HOMEOWNER SCHEME (DEFENCE FORCE (HOME LOANS ASSISTANCE) ACT 1990)

Objectives
The objectives of the DHOS are to:
• attract and retain ADF personnel
• encourage home ownership during service as a cost-effective alternative to rental assistance
• assist in the reintegration of ADF personnel into the community on return to civilian life.

Description
The DHOS is a Government initiative that provides a subsidy on the interest payable on a home loan for members of the ADF. The Scheme is open to permanent ADF members who enlisted between 15 May 1985 and 30 June 2008 and to those permanent ADF members who elected to revoke their entitlement under the Defence Service Homes Scheme in favour of a Defence HomeOwner entitlement. Reserve and Emergency Force personnel who provide efficient part-time service are also eligible for assistance.

The benefits are provided under an agreement between the National Australia Bank and the Commonwealth. Interest subsidy is paid on loans between $10,000 and $80,000. Spouses who are both members of the ADF can apply for a combined subsidised loan of up to $160,000. The subsidy amount is calculated at 40 per cent of the average monthly interest.

Providing a member has an entitlement under the Scheme, the subsidised loans can be transferred from one home to another during service as often as is required, and once within two years of the date of separation from the ADF.

Subsidy Entitlement
The subsidy entitlement period is calculated on the number of completed years of effective full-time service after completion of a five-year qualifying period. The qualifying period for Active Reservists is eight continuous years of efficient service.

For members with recognised operational or war-like service, the qualifying period does not apply and the maximum period of the subsidy may be extended from 20 to 25 years. There are special considerations for re-joining members; widows and widowers; and eligible persons and members discharged as a result of a compensable disability.

Performance for 2008-09
During 2008-09 the Department of Veterans’ Affairs received 230 applications for entitlement certificates and processed 132 applications for loan subsidies. There were 4,176 approved loans current as at 30 June 2009. With the introduction of the DHOAS on 1 July 2008, the DHOS experienced a significant decline in applications for entitlement certificates and loan subsidies.

Members either discharging or transferring to the reserves comprised 41 per cent of the new subsidy applications.
Performance evaluation of the Scheme’s administration

From 1 July 2008 the administration of the Scheme transferred from Defence Housing Australia to the Department of Veterans’ Affairs, who were appointed on completion of a competitive tender process.

The National Australia Bank has met its obligations to the Commonwealth in managing home loans under the Scheme.

No appeals were lodged with the Administrative Appeals Tribunal in 2008-09.

Table 10.1 Applications for payment of subsidy by type of assistance[1]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy a home</td>
<td>744</td>
<td>661</td>
<td>583</td>
<td>366</td>
<td>56</td>
</tr>
<tr>
<td>Re-finance a loan</td>
<td>366</td>
<td>338</td>
<td>294</td>
<td>154</td>
<td>46</td>
</tr>
<tr>
<td>Enlarge a home</td>
<td>2</td>
<td>8</td>
<td>7</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Build a home</td>
<td>156</td>
<td>145</td>
<td>112</td>
<td>75</td>
<td>23</td>
</tr>
<tr>
<td>Renovate a home</td>
<td>33</td>
<td>32</td>
<td>21</td>
<td>14</td>
<td>6</td>
</tr>
</tbody>
</table>

NOTE
1. The figures are taken from the subsidy applications.

Table 10.2 Comparison of activities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications for entitlement received</td>
<td>1,913</td>
<td>1,724</td>
<td>1,526</td>
<td>801</td>
<td>230</td>
</tr>
<tr>
<td>Entitlement certificate issued[1]</td>
<td>1,855</td>
<td>1,674</td>
<td>1,483</td>
<td>770</td>
<td>196</td>
</tr>
<tr>
<td>Applications for entitlement declined/withdrawn</td>
<td>58</td>
<td>50</td>
<td>43</td>
<td>31</td>
<td>34</td>
</tr>
<tr>
<td>Applications for payments of subsidy received</td>
<td>1,301</td>
<td>1,184</td>
<td>1,017</td>
<td>610</td>
<td>132</td>
</tr>
<tr>
<td>Applications for payments of subsidy approved</td>
<td>1,286</td>
<td>1,170</td>
<td>1,001</td>
<td>597</td>
<td>130</td>
</tr>
<tr>
<td>Applications for subsidy declined/withdrawn</td>
<td>15</td>
<td>14</td>
<td>16</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Amount of Commonwealth subsidy paid</td>
<td>$9.3m</td>
<td>$9.9m</td>
<td>$10.6m</td>
<td>$11.5m</td>
<td>$8.5m</td>
</tr>
<tr>
<td>Number of subsidy payees as at 30 June</td>
<td>6,683</td>
<td>6,745</td>
<td>6,665</td>
<td>6,272</td>
<td>4,176</td>
</tr>
</tbody>
</table>

NOTE
1. Entitlement certificates are valid for 12 months.

Operational costs

The Department of Veterans’ Affairs is paid an annual management fee and service delivery fees for its administration of both the DHOAS and the DHOS. The operational costs for the DHOS are reported on page 144 in conjunction with administration costs for the DHOAS.
THE DEFENCE HOME OWNERSHIP ASSISTANCE SCHEME (DEFENCE HOME OWNERSHIP ASSISTANCE SCHEME ACT 2008)

Objectives
The objectives of the DHOAS are to:
- attract and retain ADF personnel
- encourage home ownership during service as a cost-effective alternative to rental assistance
- assist in the reintegration of ADF personnel into the community on return to civilian life.

The Scheme provides progressively higher levels of benefits to ADF personnel as an incentive to remain in effective service. It is designed to respond to market conditions in the housing and home finance sectors by providing eligible members with benefits that will assist them to afford home ownership in the current housing market.

Description
The DHOAS is a Government initiative that provides a subsidy on the interest payable on a home loan for eligible members of the ADF. The scheme is open to current and former ADF members who have been in effective service on or after 1 July 2008. Members are eligible for the loan subsidy on completion of the relevant qualifying period and on accrual of a service credit.

As the Scheme Administrator, the Department of Veterans’ Affairs is responsible for assessing member applications, issuing subsidy certificates to eligible members, and depositing subsidy payments into DHOAS home loan accounts.

Three appointed Home Loan Providers have the exclusive right to offer members DHOAS home loans. They are Australian Defence Credit Union, Defence Force Credit Union and the National Australia Bank.

Subsidy Entitlement
There is a three-tier system of subsidised loan limits that determine the amount of subsidy assistance members receive. The longer a member serves, the higher their subsidy tier level.

The subsidy entitlement period is calculated on the number of completed years of effective service in either the Permanent Forces or the Reserve Forces. This period does not include the qualifying period of four consecutive years of service for Permanent members, and eight consecutive years of effective service for members of the Reserve Forces.

The maximum period of entitlement to the Scheme is 20 years for members who have not performed war-like service; and up to 25 years for members who have performed war-like service.

There are special considerations for re-joining members, surviving partners of deceased members, and eligible persons and members discharged as a result of a compensable condition. Members’ use of previous Defence home loan subsidy schemes is taken into account in assessing an entitlement under the DHOAS.
CHAPTER 10 ANNUAL REPORT ON ADMINISTRATION & OPERATION OF THE DEFENCE HOME LOAN SCHEMES

Performance for 2008-09
The Scheme commenced with exceptionally high levels of interest from members. Department of Veterans’ Affairs was overwhelmed with applications for Subsidy Certificates in the first months of operation, and significant numbers of applications continue to be received each month.

In 2008-09, a total of 14,276 members were issued Subsidy Certificates, of which 6,989 received subsidy assistance. A total of $22.2m was spent in subsidy payments.

DHOAS roadshows were conducted at ADF establishments throughout Australia to inform members about the new scheme and provide members with the opportunity to make enquiries and meet with representatives from Defence, the Department of Veterans’ Affairs and the three home loan providers. The roadshows were conducted over a period of three months and consisted of 97 DHOAS presentations which were attended by an audience of over 9,000 ADF members.

At the time of applying for a subsidy certificate, 62 per cent of DHOAS applicants indicated that the Scheme would influence their decision to remain in the ADF in the future, while 48 per cent of applicants indicated that the Scheme was a key factor in their choosing to remain in the ADF.

In 2008-09, amendments to the DHOAS Act were passed in the Defence Legislation Amendment Act (No. 1) 2009, to correct a number of unintended outcomes and improve administration of the scheme. The amendments covered the eligibility and entitlement of some rejoining members, criteria for issue of a subsidy certificate, conditions on the lump sum payment option, calculation of loan capital for multi-party loans, and delegation of the power to give notice of reviewable decisions.

Performance evaluation of the Scheme’s administration
The Department of Veterans’ Affairs has met its obligations to the Commonwealth under the Act and has provided effective service to the Scheme and members of the ADF. Defence is satisfied with the Department of Veterans’ Affairs performance in administering the Scheme. There were also no appeals lodged with the Administrative Appeals Tribunal.

Table 10.3 Comparison of Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications for subsidy certificates registered</td>
<td>14,852</td>
</tr>
<tr>
<td>Subsidy certificates issued</td>
<td>14,276</td>
</tr>
<tr>
<td>Applications for subsidy certificate declined/withdrawn</td>
<td>576</td>
</tr>
<tr>
<td>Number of subsidy payees as at 30 June 2009</td>
<td>6,989</td>
</tr>
<tr>
<td>Conditional rejections</td>
<td>80</td>
</tr>
<tr>
<td>Amount of Commonwealth subsidy paid</td>
<td>$22.23m</td>
</tr>
</tbody>
</table>

NOTE
1. Subsidy certificates are valid for 12 months.

Operational Costs
The Department of Veterans’ Affairs is paid an annual management fee and service delivery fees for its administration of both the DHOAS and the DHOS. Total administration fees amounted to $5.9m (excluding GST) during 2008-09, including $86,517 to participate in the DHOAS promotional roadshows.

Defence received a total of $3.3m in remuneration in respect of DHOAS loans from the three home loan providers.