SECTION 4
Legislation
Administered by Defence
CHAPTER 8

ANNUAL REPORT ON ADMINISTRATION AND OPERATION ON THE DEFENCE HOME LOANS SCHEMES

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 by the Scheme Administrator, the Department of Veterans’ Affairs (DVA). Section 39 of the Act requires that an annual report be prepared for the Minister on the administration and operation of the Act. The annual report is set out below.

From 1 July 2008 the Scheme was superseded by the Defence Home Ownership Assistance Scheme (DHOAS). The DHOS closed to new applications from serving Australian Defence Force (ADF) members on 30 June 2008, and closed to new applications from former ADF members and other eligible persons on 30 June 2010. Subsidy continues to be paid to existing clients and the National Australia Bank has agreed to continue as sole provider for the Scheme.

The DHOAS commenced on 1 July 2008 and is administered under the Defence Home Ownership Assistance Scheme Act 2008 by the DVA, the Scheme Administrator. While there is no statutory reporting requirement with respect to the DHOAS, an annual report is provided below for completeness and comparison with the DHOS.
THE DEFENCE HOMEOWNER SCHEME
(DEFENCE FORCE (HOME LOANS ASSISTANCE) ACT 1990)

Objectives
The objectives of the DHOS were 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
DHOS provides a subsidy on the interest payable on home loans from $10,000 to $80,000 (held by clients who applied prior to 30 June 2010). The benefits are provided under an agreement between the National Australia Bank and the Commonwealth. The subsidy amount is calculated at 40 per cent of the average monthly interest on the loan.

Prior to its closure, the Scheme was available to permanent ADF members who enlisted between 15 May 1985 and 30 June 2008, and to permanent ADF members who elected to revoke their entitlement under the Defence Service Homes Scheme in favour of a DHOS entitlement. Reserves and Emergency Force personnel who provided efficient part-time service were also eligible for assistance. In limited circumstances, certain members who had an enduring eligibility for the Scheme and did not access their entitlement prior to the 30 June closure may apply for a similar benefit (a subsidised loan of up to $80,000) under the new DHOAS.

Subsidy Benefit
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 Reservists is eight continuous years of effective 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 of eligible persons and members discharged as a result of a compensable disability.

Performance for 2010-11
During 2010-11, the DVA received two applications for entitlement certificates, both declined, and processed 46 applications for loan subsidies. There were 2,564 approved loans current as at 30 June 2011. Since the introduction of the DHOAS on 1 July 2008, there has been a significant decline in applications for entitlement certificates and loan subsidies.
CHAPTER 8 ANNUAL REPORT ON ADMINISTRATION AND OPERATION ON THE DEFENCE HOME LOANS SCHEMES

Performance evaluation of the scheme's administration
Defence is satisfied with DVA's performance in administering the Scheme. The National Australia Bank has met its obligations to the Commonwealth under the Act and has provided an effective service to the scheme.

There were no appeals lodged with the Administrative Appeals Tribunal.

Table 8.1 Applications for Payment of Subsidy by Type of Assistance[1]

<table>
<thead>
<tr>
<th>Activity</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy a home</td>
<td>583</td>
<td>366</td>
<td>56</td>
<td>32</td>
<td>15</td>
</tr>
<tr>
<td>Re-finance a loan</td>
<td>294</td>
<td>154</td>
<td>46</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Enlarge a home</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Build a home</td>
<td>112</td>
<td>75</td>
<td>23</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Renovate a home</td>
<td>21</td>
<td>14</td>
<td>6</td>
<td>7</td>
<td>4</td>
</tr>
</tbody>
</table>

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

Table 8.2 Comparison of Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications for entitlement Certificate received</td>
<td>1,526</td>
<td>801</td>
<td>230</td>
<td>193</td>
<td>2</td>
</tr>
<tr>
<td>Entitlement certificate issued[1]</td>
<td>1,483</td>
<td>770</td>
<td>196</td>
<td>146</td>
<td>0</td>
</tr>
<tr>
<td>Applications for entitlement certificate declined/withdrawn</td>
<td>43</td>
<td>31</td>
<td>34</td>
<td>47</td>
<td>2</td>
</tr>
<tr>
<td>Applications for payments of subsidy received</td>
<td>1,017</td>
<td>610</td>
<td>132</td>
<td>58</td>
<td>46</td>
</tr>
<tr>
<td>Applications for payments of subsidy approved</td>
<td>1,001</td>
<td>597</td>
<td>130</td>
<td>57</td>
<td>46</td>
</tr>
<tr>
<td>Applications for subsidy declined/withdrawn</td>
<td>16</td>
<td>13</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Amount of Commonwealth subsidy paid</td>
<td>$10.6m</td>
<td>$11.5m</td>
<td>$8.1m</td>
<td>$4.3m</td>
<td>$4.3m</td>
</tr>
<tr>
<td>Number of subsidy payees as at 30 June</td>
<td>6,665</td>
<td>6,272</td>
<td>4,176</td>
<td>3,172</td>
<td>2,564</td>
</tr>
</tbody>
</table>

Note
1. Entitlement certificates are valid for 12 months.

Operational Costs
The DVA is paid an annual management and service delivery fees for its administration of both the DHOS and DHOAS. The Operation Costs of the DHOS are reported as part of the administration of the DHOAS.
THE 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 in the ADF on or after 1 July 2008. Members are eligible for the loan subsidy on completion of the relevant qualifying period and accrual of a service credit.

The DVA, as the Scheme Administrator, is responsible for assessing member applications, issuing subsidy certificates to eligible members, and processing subsidy payments.

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 Benefit
There is a three tier system of subsidised loan limits that determines the amount of subsidy assistance members receive. The longer a member serves, the higher the member's subsidy tier level.

The subsidy benefit period is calculated on the number of completed years of effective service in either the Permanent or Reserve Forces, on completion of a qualifying period. The qualifying period is four consecutive years of service for Permanent members and eight consecutive years of effective service for Reserves.

The maximum period of entitlement is 20 years for members who have not performed warlike service; and up to 25 years for members who have performed warlike service.

There are special considerations for re-joining members, surviving partners of deceased members, 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 a benefit under the DHOAS.
Performance for 2010-11

Performance evaluation of the scheme’s administration

The scheme continues to attract a high level of interest from members. In 2010-2011, a total of 6,774 applications were registered and 6,522 members received subsidy certificates. In their applications, 3,676 or 55 per cent of the applicants indicated that the Scheme was an influence on their decision to remain in the ADF and 2,969, or 44 per cent indicated it was a key factor in encouraging them to remain in the ADF.

As at 30 June 2011, a total of 13,259 members were receiving subsidy assistance. The value of the subsidy assistance for 2010-11 was $65.97 million. The total amount paid in subsidy assistance since the commencement of the Scheme is $131.4 million.

Performance evaluation of the scheme’s administration

The DVA met its obligations to the Commonwealth under the Act and has provided effective service to the Scheme. Defence is satisfied with DVA’s performance in the administration of the scheme.

During the financial year 2010-11 there were four external reviews of a decision lodged with the Administrative Appeals Tribunal.

Table 8.3 Comparison of activities[1]

<table>
<thead>
<tr>
<th>Activity</th>
<th>2008-2009</th>
<th>2009-2010</th>
<th>2010-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications for subsidy certificates registered</td>
<td>14,852</td>
<td>7,238</td>
<td>6,774</td>
</tr>
<tr>
<td>Subsidy certificate issued</td>
<td>14,276</td>
<td>6,899</td>
<td>6,522</td>
</tr>
<tr>
<td>Applications for subsidy certificate declined/withdrawn</td>
<td>576</td>
<td>339</td>
<td>252</td>
</tr>
<tr>
<td>Number of subsidy payees as at 30 June</td>
<td>6,989</td>
<td>10,367</td>
<td>13,259</td>
</tr>
<tr>
<td>Conditional rejections</td>
<td>80</td>
<td>43</td>
<td>39</td>
</tr>
<tr>
<td>Amount of Commonwealth subsidy paid</td>
<td>$22.23m</td>
<td>$43.17m</td>
<td>$65.97m</td>
</tr>
</tbody>
</table>

Note

1. Subsidy Certificates are valid for 12 months.

Operational Costs

The DVA is paid an annual management and service delivery fee for its administration of both the DHOAS and the DHOS. The total administration costs amounted to $4.2 million (excluding GST) during 2010-11.

Defence received a total of $8.8 million in remuneration during 2010-11 from the three Home Loan Providers.