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02 AUG 2017
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COMMITTEE SUPPORT

A.C.T. LEGISLATIVE ASSEMBLY
COMMITTEE OFFICE
SUBMISSION NUMBER 3
DATE AUTH'D FOR PUBLICATION 30/8/17

A submission to the Standing Committee on Planning and Urban Renewal Inquiry into Housing.

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White Label Personal Clouds researches the application of Complex Adaptive Systems technology to solve challenging real-world problems. One such problem is the provision of housing to everyone in a community. With Complex Adaptive Systems technology communities can set conflicting objectives and establish an IT process that iterates to a near optimal solution. Providing affordable housing has conflicting goals of buyers and lenders. Buyers want to pay what they can afford while lenders want to get a high safe return on investment at some indeterminate future time.

This submission outlines how investors can get a high safe return on investment. At the same time the ACT Community can ensure there are no involuntary homeless or involuntary renters in the ACT. It shows how to change public housing policy to one of affordable housing for all. Some people may wish to remain in publicly owned housing, but all should have the opportunity of owning a home, and all should have the security of tenancy over the place they live.

Why Housing is Unaffordable

Housing has become unaffordable because the price of land has increased at a compound rate of over 9% for the last 20 years. There is more than enough housing stock in the ACT to house everyone, and the building industry can meet expected demand. The ACT has a leasehold system, but the price paid for housing and hence land is outside the control of the ACT government. The willingness of lenders to lend for existing homes sets the price of housing. The price of land comes from the increase in the price of housing, not the other way around.

Bank loans are the primary source of funds for housing in the ACT. They are the main source of funds as Banks are permitted to create new money when they make loans. Banks do not lend existing money, but through the fractional reserve system, Banks create new money to lend. The alternative to Banks creating money for loans is to lend existing money and for governments to create new money as and when needed. Creating new money tokens costs zero. The Bank cost of protecting new money they create is the cost of Bank interest.

If we only lend existing money or newly created government money we reduce the cost of loans by the cost of Bank interest. The government pays for law enforcement to protect the money it creates.

Changing the way we make Loans

Changing the way we make loans turns out to be remarkably easy but it takes political will to do it.

When we take out a Bank Loan of new money we buy the money, then we purchase the home. If instead of buying money we rent money and pay it back when the use of the money generated income. Doing this eliminates the cost of buying the money. We still pay rent on the money, but the rent goes directly to the savers of money. Removing the cost of buying money typically halves the cost of home ownership.

We use Banks for loans because having many loans through a Bank reduces risk. The cost of interest is the cost of reducing the risk of non-repayment of loans. Unfortunately, most of the risk comes from the creation of new money, not from the non-repayment of loans. If we use government money, the government who created the money pays to protect it.

To make housing affordable needs savers to lend existing money and to get repayments when the money earns more money and not before. If we share the savings between savers and buyers, we turn housing into an affordable product that offers a high return to savers.

Crowd Lending is the name of the technology for a Community to work as a community to provide loans to others in the same Community.

The ACT government can assist the ACT community of savers to use some of their savings to finance other ACT residents to buy their homes. The Banks could do the same, but they would make less profit from lending money, so they don't do it. If however, the ACT government helped the ACT community to lend money at a lower cost the Banks would be under competitive pressure to reduce the cost of Bank Loans.

Citizens of the ACT have over 35 billion dollars in superannuation funds that increase by 300 million each year. Financial advisors expect superannuation savings to earn an inflation adjusted 2.4% per year. By eliminating Bank interest and lending directly to buyers of homes, a community can give a 6% inflation adjusted safe annuity on superannuation savings. The ACT Community collectively has the resources to eliminate homelessness and make housing affordable for all in the community.

Cooperative Lending as an alternative to Bank lending

Mutual Credit groups or multi-lateral barter schemes attempt to do Crowd Lending. These systems do not scale because of the technology they use. Mutual Societies and Credit Unions use the same technology as Banks and so are not Crowd Lending.

Cooperative Lending is where the Community keeps their money in Banks but organise themselves to make loans between the Cooperative and individuals in the Cooperative or Community.

Community Housing in the ACT could turn itself into a Cooperative Lending group where instead of supplying houses to people it provides loans for people to purchase housing. Any person or organisation could join the Cooperative as a Lender, but only people in the ACT who have difficulty purchasing a home on the open market can join as buyers. Community Housing tenants who agree would become members, and turn their current tenancy arrangements into loans with conditions determined by the Community Housing Coop. The amount of a loan could be the value of the home at the time of occupancy adjusted for monetary inflation. Each tenant who agreed would hold the title to the home so securing their tenancy.

Buyers could repay their housing loans with 30% of their income or 5% of the initial loan amount whichever is the lowest. If a buyer moves from their home, they take with them the proportion of the value of the home they have paid to use to help buy another property that also becomes part of the Cooperative.

Investors would be any person or organisation who wanted an annuity of 6% inflation adjusted paid at any time in the future over an agreed number of years. The ACT Government is an investor and will receive an annuity payment financed from the sale of the existing properties. In other words, the ACT Government has a way of getting back the money from its investment in public housing. It can use the returns to reduce its other debt or to fund other investments or more houses for Community Housing.

Click here for spreadsheets to model both investors and buyers.

Summary

Members of any community can work together in Cooperatives to fund housing for all with Crowd Lending. The government can give a lead and turn the existing Community Housing Stock into a money earning asset for the ACT Government by slowly selling existing housing stock to tenants. The approach will immediately strengthen the ACT government finances and will provide a model for other community investment without the need for the government to go into debt.

Any ACT resident who is homeless or who is struggling to buy a home can join the Community Housing Coop and buy a home. Private superannuation savings can fund the purchase of new homes for the Community Housing Coop and give investors a high return secure annuity investment.
1st August 2017