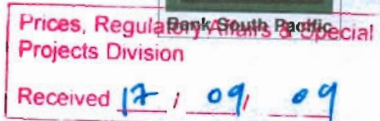




# Bank South Pacific

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Credit  
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Papua New Guinea  
Telephone: 322 9878  
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Administration - Credit

14 September 2009

Mr Thomas Abe,  
Commissioner & CEO  
Independent Consumer and Competition Commissioner  
PO Box 6394  
Boroko  
National Capital District  
Papua New Guinea

Dear Mr Abe,

## Housing Industry Review

We to your letter 11 August 2009 seeking comment from various stakeholders in regard to issues identified by ICCC in its Issues Paper of 12 August 2009.

Bank of South Pacific Limited is the largest provider of finance for housing in PNG, and therefore has experience from a lenders perspective of issues confronting the industry. As an employer of in excess of 2,000 employees in PNG, the bank also has an interest in the outcome of the reports given the impact that suitable housing has on the productivity of its staff.

Comment in regard to each of the issues detailed in your Executive Summary is provided below:-

Issue 1 – Terms of reference to permit a broad review of all issues and areas affecting the housing industry should include a review of the capacity of the service providers such as PNG Power, water and sewerage authorities, and Telikom, as well as planning authorities to meet the development requirements associated with land development throughout the country.

Issue 2 – No comment

Issue 3 - Demand for affordable housing in PNG continues to exceed supply. Factors affecting supply include availability of suitable land, infrastructure development costs (e.g. roads,

curbing, channeling, sewerage, water, power and telephone), house construction costs, all of which impact on ultimate affordability for the average wage earner.

Issue 4 – No comment

Issue 5 – The release of suitable land for development is critical. The shortage of land will continue to be the most significant impediment to supply in the country.

Issue 6 – The cost and financial structure of housing loans in PNG is competitive. Housing loan interest rates at BSP are 8.20% which is 2.75% below the commercial benchmark rate of 10.95%. In real terms this is a product that provides minimal returns to BSP. Loan equity rates are 20% for Nasfund and Nambawan Super members. Equity rates below these levels can lead to loan repayment problems when interest rates increase, as was the experience in the USA with the sub prime loan crisis. Loan terms of 25 years are similar to terms for housing loans in developed countries.

Issue 7 – Demand for housing will increase substantially over the next decade as urban drift continues and the economy develops. The prospect of the LNG project in Port Moresby will place enormous strains on housing cost and availability in the next 5 years, with the potential for a drastic reduction in housing prices post project completion.

Issue 8 – The time to complete a standard house purchase transaction in PNG is much longer than would be expected in developed markets. Factors that affect this transaction period include:-

There is no standard contract documentation in PNG, which would generally be expected to include a subject to finance clause. This results in purchasers being unwilling to execute contracts until finance is approved by which time the property may have been sold to another party, or conversely a contract is executed without finance in place with the contract subsequently being cancelled or rescinded.

**Lands title office does not operate efficiently** with lands title searches being difficult to obtain in a timely manner. Electronic search capacity is not available and the mortgage registration process is such that clear title is in doubt.

Water and electricity connections for new housing developments with service suppliers at times not able to meet demand.

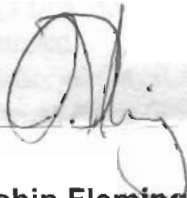
Local authorities are extremely slow in providing occupation certificates which delay final settlement to purchase for houses under construction, and which frustrates home buyers.

Broad infrastructure planning. New housing developments can stretch the supporting road and services infrastructure capacity. The housing developments at 9 mile in Port Moresby are an example where traffic bottle necks and delays are experienced on a daily basis.

To counter affordability issues consideration should be given to **double or triple** deductibility for tax for employers who **provide** either housing **allowances** and suspensory loans to their employees to **assist** with loan repayments and equity contributions.

Restrictions on borrowing against superannuation contributions by members for housing should be reviewed.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Robin Fleming', is written over a horizontal line. The signature is cursive and somewhat stylized.

**Robin Fleming**  
**General Manager Credit & Risk**