

**Keystart Housing Scheme Trust —**

Ms L.L. Baker, Chair.

Mr P.C. Tinley, Minister for Housing.

Mr G.J. Searle, Director General.

Mr P. Whyte, Assistant Director General, Corporate Operations.

Mr M. Verkuylen, Chief Financial Officer.

Mr S. Ward, Chief of Staff, Minister for Housing.

[Witnesses introduced.]

**The CHAIR:** This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 1 June 2018. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

Member for Carine.

**Mr A. KRSTICEVIC:** Has any consideration been given to changing any of the lending policies, including deposit and savings criteria or the risk premiums, in the way Keystart is currently managed or is going to be managed? Will there be any changes to the policies on deposits, savings criteria or the risk premium?

**Mr P.C. TINLEY:** No. Just to expand on that, I remind members who may not be familiar with Keystart that it is a very successful piece of public policy. It was developed in 1989 and has given out over 100 000 loans and has not cost one dollar of public money in its time. Defaults and arrears under Keystart have been as much as 30 per cent below industry standard. It is widely regarded as a national success story. We have to be very careful that we do not tinker with those things. In my view, Keystart's principal intellectual property is its people—120 FTE managing 14 000 loans. They do an amazing job. I wanted to record that in *Hansard*.

When it comes to changing the parameters, there is imminent flexibility to change the levers in household income. For example, during the boom when credit was going everywhere, it got as high as \$170 000 for a household—a family. It is now around \$130 000 a household, so we are picking up those low-wage earners and giving them an opportunity. The key point I make about Keystart is that when the private sector vacated the low-deposit end of the market due to the requirements of the Australian Prudential Regulation Authority and the amount of money it has to keep against those loans, Keystart is the last of the single-digit deposit lenders at two per cent. Bankwest, which vacated the market a couple of years ago, required a five per cent deposit. We also keep a weather eye on the banking royal commission, which has no end of nasty news. As a result of that royal commission, we can only expect further tightening and controls on the retail end of the market for lending criteria, certainly around financial services. I am sorry that that is a longwinded and general introduction but I think it is really important. I will never miss a chance to spruik Keystart.

**Mr A. KRSTICEVIC:** The minister mentioned the delinquency rate. What is the current delinquency rate on the loans and how is it trending?

**Mr P.C. TINLEY:** I do not necessarily like that term. I talk about arrears—arrears faults. I might ask the financial officer to answer.

**Mr M. Verkuylen:** The current delinquencies have picked up much in line with the rest of the market for Western Australia. That is largely driven by the economic conditions. A key driver for our customers going into arrears and default is unemployment. The current arrears rate is 2.1 per cent of our book.

**Mr P.C. TINLEY:** How does that relate to the rest of the industry sector?

**Mr M. Verkuylen:** Compared with the average for the industry in Western Australia, which is around 2.5 per cent, we are below the industry average.

**Mr A. KRSTICEVIC:** What about the default figure?

**Mr P.C. TINLEY:** Defaults are technically different.

**Mr M. Verkuylen:** When a customer has missed a payment, they are in arrears. When they get to 90 days, typically, that is when we will term it a default but officially it is 90 days.

**Mr A. KRSTICEVIC:** What is the percentage? How many are in default?

**Mr M. Verkuylen:** It is 1.4 per cent.

**Mr A. KRSTICEVIC:** How does that compare with the general market trend at the moment? It is 1.4 per cent. Is that higher or lower compared with the private sector?

**Mr P.C. TINLEY:** Could the member say that again.

**Mr A. KRSTICEVIC:** The default was 1.4 per cent. I am trying to see how that compares with the general market.

**Mr M. Verkuylen:** The percentage of customers who have missed a payment, as I mentioned before, is 2.1 compared with the market of 2.5 per cent. The percentage of customers who are more than 90 days in arrears, which is default, is just under 1.4 compared with the market of 1.5 per cent.

**Mr P.C. TINLEY:** I would like it to trend lower. It is trending with the market but it is certainly still below the market.

**Mr Z.R.F. KIRKUP:** I am keen to understand how long mortgage holders within Keystart are holding onto their mortgage before discharging. It used to be a short period. That was the health of the book. In that case, they were churned through reasonably quickly before they were refinanced and discharged from Keystart. As a result of the softening market, is the minister seeing those mortgages being held longer in Keystart before moving away? What trend is the minister seeing?

**Mr P.C. TINLEY:** I will seek some more detail for the member. It will not surprise him to know that the loan book, as we call it, is trending with the market. People are not building the equity in their loans and if they do not build the equity in their loans, they are not graduating to a retail lender. The other implication is that under the previous government, the securitised \$1.6 billion worth of the loan book, or \$1.3 billion, got taken up. That \$1.3 billion was for some of the best loans in terms of the equity and, more importantly, the risk profile that Keystart was prepared to accept to transfer. As a result, the graduation from that loan book has slowed. Again, the lending criteria in the retail market is pretty stiff. There are a couple of intersecting issues. The securitisation of that book was probably the biggest single step change in restricting that graduation.

**Mr M. Verkuylen:** Historically, the average time it has taken for a loan to migrate to a traditional source of funding has been five years. With the depressed economic conditions and prices, it takes about seven years at the moment.

**Mr P.C. TINLEY:** So a two-year increase.

**Mr Z.R.F. KIRKUP:** That is not unsubstantial, considering that they typically moved away very quickly.

**Mr P.C. TINLEY:** In a small market like Western Australia with 2.6 million people, we do not need much—either net migration or economic activity—to move it countercyclical to any other jurisdiction. That is the nature of our resource base.

**Mr Z.R.F. KIRKUP:** Does the minister know the net present value of the book at the moment?

[9.50 pm]

**Mr P.C. TINLEY:** It is in the order of \$4 billion, but I will get the accurate figure.

**Mr M. Verkuylen:** The current loan balance is about \$3.8 billion and in addition to that there is about \$1 billion that is currently funded by the Bendigo and Adelaide Bank.

**Mr Z.R.F. KIRKUP:** Securitised.

**Mr M. Verkuylen:** Yes, securitised.

**Mr Z.R.F. KIRKUP:** Does the minister have a figure for the total amount in default?

**Mr P.C. TINLEY:** Total number of loans?

**Mr Z.R.F. KIRKUP:** Of value.

**Mr P.C. TINLEY:** There is a condition of a loan that would be in default, so the value of that default is the default itself, not the total loan.

**Mr Z.R.F. KIRKUP:** That is the mortgage standing —

**Mr P.C. TINLEY:** The net value of that.

**Extract from Hansard**

[ASSEMBLY ESTIMATES COMMITTEE A — Thursday, 24 May 2018]

p458b-462a

Chair; Mr Tony Krsticevic; Mr Peter Tinley; Mr Zak Kirkup; Mr Terry Redman

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**Mr Z.R.F. KIRKUP:** Sorry, minister, my apologies; it is late in the evening. For a mortgage that is in default—the entire value of that mortgage—what is the quantum in arrears within that book?

**Mr P.C. TINLEY:** I want to be clear, and Mr Verkuylen might clarify it for us: if somebody is in default on their loan —

**Mr Z.R.F. KIRKUP:** That default or their whole mortgage?

**Mr P.C. TINLEY:** — they are in default on that amount. That might cause a breach and all of those sorts of things that happen with it, but to be accurate the total value of the default is just those payments that are in default.

**Mr Z.R.F. KIRKUP:** Just that 90 days-plus that they are behind?

**Mr P.C. TINLEY:** Yes.

**Mr D.T. REDMAN:** There is \$3.8 billion on the Keystart book and another \$1 billion that is securitised. Historically, that has come off what was a \$5 billion cap on the government book. What is the cap on the government borrowing component of Keystart's book now?

**Mr P.C. TINLEY:** There is no cap. It is just what the Western Australian Treasury Corporation will allow a person to get.

**Mr D.T. REDMAN:** That is the cap. I thought it was \$5 billion before. The discussions that we had were about using securitisation as a strategy of getting more loans; that is, taking the government component up to \$5 billion and a securitised component above that. I am wondering whether the minister has simply used that as a strategy to get a certain amount of borrowings off the government balance sheet versus using it as a strategy to get more loans for the market.

**Mr P.C. TINLEY:** I would not want to verbal the policy of the previous government in relation to this, but if I understand it correctly the ambition of the securitisation was, effectively, to reduce gross state debt. In doing so, I think the unintended consequence was to cause a stagnation in the book. That is debatable. The idea was that we could grow out the loan book for more throughput. We are currently capping it at \$4.37 billion.

**Mr D.T. REDMAN:** The cap is \$4.37 billion?

**Mr P.C. TINLEY:** Yes.

**Mr D.T. REDMAN:** With \$3.8 billion on there now?

**Mr P.C. TINLEY:** We are close.

**Mr D.T. REDMAN:** Can the minister give us some appreciation of the demand and the demand he predicts over the forward estimates?

**Mr P.C. TINLEY:** I will seek some advice, but, as a preamble to a fuller answer, it is something that I am acutely focused on. It is around things like the Metronet investment. We will have a time-phased introduction of the Metronet product, the Brabhams and the other urban regenerations, with a weather eye on Treasury's view on revenue risk. It is always focused on that. One of the key components of addressing that is ensuring we have a healthy loan book and a healthy Keystart low-deposit lender to provide for projects like the Brabhams, for example, which has 25 per cent of first home owners' money.

**Mr D.T. REDMAN:** With some capacity to soak that up.

**Mr P.C. TINLEY:** Yes. Mr Verkuylen, do you have anything to add to that?

**Mr M. Verkuylen:** For 2018–19, we forecast that we will approve 2 567 loans worth approximately \$865 million. That will be funded through the increase—that is \$4.371 billion—but also through the repayments that are received as well as discharges from existing customers. Those funds will be recycled for new —

**Mr D.T. REDMAN:** Is that a net figure?

**Mr M. Verkuylen:** The figure of \$865 million is gross.

**Mr D.T. REDMAN:** What is the net increase in the book, because people are coming off the book?

**Mr P.C. TINLEY:** Is the member talking about post-throughput—how many people graduate out of the book?

**Mr D.T. REDMAN:** Yes.

**Mr M. Verkuylen:** The net figure is \$415 million.

**Mr P.C. TINLEY:** I think the member is on an area of particular concern around the loan book in making sure that we are keeping up on that ceiling. Getting that throughput is vital to keeping it healthy.

**Mr D.T. REDMAN:** I refer to service summary 19, “Home Loans”, on page 435 of budget paper No 2. Note 1 under “Explanation of Significant Movements” states that there are some changes in the market interest rate assumptions. Can the minister give us an idea of what he is predicting? Is he using the average of the four main banks? Can the minister give us an idea of what assumptions he is seeing moving across the forward estimates?

**Mr P.C. TINLEY:** The member is right. For the benefit of members who are not familiar with the area, we take the average of the big four banks under the national policy of four banks—four plus two—and apply the average of that. The reason we do that is it is in the middle of the market. We give people an incentive, when they build the equity in their loan, to actually graduate. If we are the lowest cost provider of funds, they are never leaving! None of us would. That is the rationale behind that. I might defer again to Michael.

**Mr M. Verkuylen:** The assumptions are that rates will go up towards the end of 2018–19. As we have seen more recently, the cost of funding, which we source via the Housing Authority through Communities and ultimately the Western Australian Treasury Corp, the benchmark interest rate, the BBSW—the bank bill swap rate—has increased. That has resulted in our costs of funds ultimately increasing. As the minister mentioned, our lending rate is locked in at the average of the standard variable rate of the big four banks. Effectively the margin is squeezed as a result.

**Mr D.T. REDMAN:** I am running on memory here: Keystart puts a dividend back to government of something like \$50 million a year. What is the prediction over the forward estimates of that? I think there is some reference to that at page 435, which gives me the impression that that is increasing.

**Mr P.C. TINLEY:** I hope it is increasing! While I find the page, there was a significant dividend hit commensurate with the securitisation of the loan book, which was an obvious knock-on effect. That has had its own impact. Here we go—it is looking good! Prior to that securitisation, the loan book generated a dividend to the Housing Authority, which is its sole shareholder, in the order of \$90 million. In 2017–18, it was \$63 million; in 2018–19, it will be \$70 million; in 2019–20, it will be \$77 million; in 2020–21, it will be \$80 million; and in 2021–22, it will be \$93 million. Yes, it is trending up. It is assumption based in a couple of areas, like all forward estimates.

**Mr D.T. REDMAN:** Can the minister give us some understanding of the drivers contributing to that trending up? Is there any change in what, in government trading enterprise terms, would be dividend ratio or outside decision-making in terms of parameters, or is it simply a product of current trends?

**Mr P.C. TINLEY:** It will be the market and the nature of the loans. I will again ask Mr Verkuylen.

**Mr M. Verkuylen:** With the loan book increasing, we earn a margin on that. Actually, as the loan book increases, so does our net profit or surplus.

**Mr P.C. TINLEY:** The point that might not have fully come out in the numbers, because it is deeper in the numbers, is the securitisation of \$1.3 billion did not end our involvement with those loans. We still do the management of those loans. As they transfer and graduate over to the Bendigo and Adelaide Bank we will have a reduction in the operating cost because it is obviously creating that sort of circumstance. Although it is off the loan book in terms of debt, we have not quite outsourced the whole lot.

**Mr Z.R.F. KIRKUP:** Once we get past the default period and Keystart initiates repossession action, I am keen to understand for the last couple of financial years how many repossessions have been initiated, if the minister has those figures to hand?

**Mr P.C. TINLEY:** No, we do not have that here. I am happy to supply it to the member by way of supplementary information.

**Mr Z.R.F. KIRKUP:** That is repossessions for the last three years initiated by Keystart.

**Mr P.C. TINLEY:** Yes, mortgagee sales over the last three financial years.

[*Supplementary Information No A42.*]

**The CHAIR:** That completes the examination of Keystart.