

Keystart Housing Scheme Trust —

Mr I.C. Blayney, Chairman.

Mr D.T. Redman, Minister for Regional Development representing the Minister for Housing.

Mr J. Coles, Chief Executive Officer.

Mr P.R. Whyte, Acting Chief Executive Officer, Housing Authority.

[Witnesses introduced.]

The CHAIRMAN: 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 ask 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, 3 June 2016. 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 with the Clerk's office.

I give the call to the member for Cockburn.

Mr F.M. LOGAN: Further in the budget papers there is an indication that dividends were paid into the social housing investment package from Keystart. What were those dividends and how much were they?

Mr D.T. REDMAN: I will pass onto Mr Coles to respond to that.

Mr J. Coles: The dividend paid by Keystart for 2015–16 is \$69 million and the proposed dividend for 2016–17 is \$117 million.

Mr F.M. LOGAN: Of those dividends, how much was actually paid into the social housing investment package?

Mr D.T. REDMAN: I would have thought it was none. I will ask the acting chief executive officer of the Housing Authority to respond.

Mr P.R. Whyte: The social housing investment package in 2016–17 is receiving a special additional dividend from Keystart of, effectively, the difference between the usual dividend, which is \$69 million to \$117 million.

Mr F.M. LOGAN: Sorry?

Mr P.R. Whyte: It is the difference between the regular dividend, which is around \$69 million, and \$117 million.

Mr F.M. LOGAN: Will the difference between \$69 million and \$117 million be paid into the social housing investment package?

Mr P.R. Whyte: Yes.

Mr F.M. LOGAN: Will the selldown of the Keystart loan book impact on the dividends paid from Keystart; and, if so, by how much?

Mr J. Coles: If the selldown occurs, it will have an impact. The exact amount will obviously depend on what we negotiate through that deal. At the moment it is proposed that there be a 40 per cent selling of the book, so we could expect in rough terms that that dividend could reduce between 40 per cent down to 30 per cent. It could reduce by the highest, 40 per cent, but go down to 30 per cent.

Mr F.M. LOGAN: Who will be the recipient of the benefit from the selldown? Where will the money go? Will it go back into Keystart or will it go to the consolidated account?

Mr D.T. REDMAN: I will get Mr Coles to respond if I get something slightly wrong here. There are two potential benefits. One is taking some gross debt off the state books, so potentially there will be a gross debt impact by the selldown. Given there is a \$4.3 billion cap, as I understand it, on borrowings for Keystart now for low-deposit loans, it will allow the government more freedom for Keystart to put more loans out to market. It is a way of taking some gross debt off the books and adding more loans to that market, supporting the housing affordability program without affecting our gross debt.

Mr F.M. LOGAN: I understand that but we are not giving the debt away for free; it is being sold. I am not asking how much we will get; I am asking what will happen to the income we get from the sale.

Mr J. Coles: The member is referring to the fact that if we sell 40 per cent of the book, we receive a premium and is asking: where would that premium go? That would be a matter for Treasury and the Housing Authority to decide.

Mr F.M. LOGAN: Despite Keystart being a standalone body owned by the Housing Authority, the premium from what is basically the loan book of Keystart will not stay with Keystart; it could go back to the consolidated account.

Mr J. Coles: That is right. Keystart has capital adequacy sufficient for its borrowing requirements, so the intention is for there to be negotiations with the Housing Authority about whether that could be used for social housing, but that would be negotiated between the Housing Authority and Treasury. Ideally, we would like to retain it but the capital adequacy requirements for it are such that we would be overcapitalised. It would not be the most effective use of retaining the capital. It could probably be better used in social housing.

Mr B.J. GRYLLS: I refer to page 159 of the *Economic and Fiscal Outlook*, which refers to the government investing \$1.5 billion over the forward estimates into housing. In relation to Keystart, we have had challenges in the Pilbara with very high rents and high housing costs, making it unaffordable. The market has dipped and people think it is affordable now that we are back to normal, but the banks have ratcheted up substantially the deposits they require and, certainly, commercial property development in the Pilbara is unfundable by the banks. We still have market failure even though the market has declined. Can the advisers talk about how Keystart might address those challenges because the market failure has changed to a different area of market failure in the Pilbara?

Mr D.T. REDMAN: Although there has been a significant change or sort of restructure in the market in the Pilbara, in most cases median rents and median house prices are still above the Perth median price. The member's point is right in that, despite a big shift, there is not the same, if you like, normalisation if we want to compare it with the Perth metropolitan area. Mr Coles can reply in respect of the issue raised by the member for Pilbara about the impact on Keystart loans and the market generally.

[7.10 pm]

Mr J. Coles: My valuation advisers say there has been up to a 40 per cent drop in prices in both Karratha and Port Hedland. That is making housing more affordable in those two areas and they are falling within the range of the Keystart loan borrowing requirements, so Keystart would be expected to provide more support in those areas.

Mr B.J. GRYLLS: Further to that question, it has not happened previously but, as I said, any commercial development requires funding from banks to proceed. The banks have essentially said, "It's too difficult; we're not going there." Has Keystart considered any roles in commercial projects? Essentially, there is stagnation in the market when developments still need to happen; there is still development happening in the commercial property market of Perth. Even though the commercial property vacancy rate in St Georges Terrace is at 24 per cent, we do not have the same opportunity at the moment to take advantage of the lower costs of building in the Pilbara.

Mr J. Coles: Keystart's credit licence enables it to lend to owner-occupiers only for home loans. If we were to provide lending for commercial properties, we would have to apply for extension of that credit licence.

Mr F.M. LOGAN: Coming back to the expression of interest process for the 40 per cent sale of the Keystart loan book, six respondents have been shortlisted for the EOI process. I am not asking who these people are, because obviously the commercial negotiation process is still underway, but of those six, how many are banks or other financial institutions, or overseas companies? This is not commercial-in-confidence.

Mr D.T. REDMAN: I will just make a couple of statements. The public expression of interest was released and closed on 30 March. Shortlisted respondents have been selected following an evaluation process and they will now move into the information memorandum stage. The transactions and respondents are now in a commercial-in-confidence phase until the completion of the transaction. The project is on track to be completed before the second half of this year.

Mr J. Coles: For the member's benefit, we are in the information memorandum stage and that will close on Monday, so from those six we will be in a position to know how many have responded to the detailed information memorandum.

Mr F.M. LOGAN: The question I put to the minister was: of those—I am not asking him to name them at all, obviously, because of the ongoing discussions—how many are banks or financial institutions, other financial institutions or overseas companies?

Mr J. Coles: I guess the concern would be that highlighting which are banks and which are other financial institutions would provide some insight for those that are competing about whom they are likely to be competing against, bearing in mind that there are four major banks and three significant regional banks, and the rest are either credit unions or financial institutions. That information would provide some insight into them.

Mr F.M. LOGAN: Further to that, at what stage would the minister be in a position to provide that information, given that there is a shortlist of six respondents? I accept what Mr Coles has said about the information memorandum stage closing next week that is in, it is accepted by either Keystart or the government. At what stage is the minister able to provide that information? Once they are in the process, they are in the process; no-one else can get in.

Mr J. Coles: We would obviously short-list that number. Depending on the number of respondents, we may still want to keep that information confidential until we get down to the preferred bidder, just so that the bidders do not have intelligence about each other. Ultimately, there will be full disclosure at the end of August when the preferred bidder is finalised.

Mr F.M. LOGAN: Further to that question, the reason I asked is that it should be public information that may be of concern to the public, or at least certainly of concern to the clients of Keystart, particularly if it is an overseas buyer.

Mr D.T. REDMAN: I am sure the member would appreciate the sensitivity when we are talking about the scale of these sorts of transactions.

Mr F.M. LOGAN: Sure; that is the reason I did not ask for their names.

Mr D.T. REDMAN: In a commercial marketplace, a little bit of intelligence can be a very, very powerful tool, so I think the member will appreciate that the response from Mr Coles is conservative and needs to be, given the nature of this process. I am sure that, as the minister works through it, a judgement will be made about public commentary, as one would expect. That probably will be once we get to the preferred bidder stage, in the final stages of due diligence.

Mr F.M. LOGAN: For existing clients of the loan book that is being sold off, particularly those who are grandfathered before 2009, what safeguards are there for those who joined with a different contract or had a loan out on a different contract before 2009, and what guarantees are there for the post-2009 borrowers that the average interest rate of the four major banks is going to be the rate setting into the future, particularly if the loan is on-sold? As the minister knows, debt flies around the world very quickly, and there is no guarantee that the debt on the Keystart book would not be on-sold and on-sold and on-sold.

Mr J. Coles: That is a good question from the member. That is why these negotiations will require whoever takes this agreement to meet the conditions of the current interest rate setting, which is the average of the four banks' standard variable interest rates. The negotiations include that the differential between the rates for those the member is referring to, prior to October 2009 and after, is maintained so that the future increases are similar to what happens now, which is that it is just the increase of the four standard variable rates.

Mr F.M. LOGAN: Thank you, Mr Coles. Minister, what guarantees are there? I accept what Mr Coles said, which is that the two different interest rates will be written into the contract as part of the whole sale process of the loan book, but what guarantee is there that that will remain as it is if those loans are on-sold? We can guarantee that they will be on-sold.

Mr J. Coles: The agreement would be with the preferred bidder. If the preferred bidder wanted to refinance further, the requirements would still have to be met, and those arrangements would be with us. As the member is inferring, sometimes those sorts of groups may want to look at other forms of finance, but the agreement is with us; they cannot do an on-assignment of those loans under the agreement we have set up with them. If they looked at other financing options, they would still be stuck to this seven-year arrangement, which is over the life span of our loans. The agreement is with us and they must meet that requirement.

[7.20 pm]

Mr F.M. LOGAN: I would like a further clarification on that for *Hansard* and the house. Will the successful tenderer for the contract for that tranche of the loan book be bound to deal only with Keystart and the government should they wish to then dispose of that loan? Can they not on-sell that loan?

Mr J. Coles: That is correct. That is a critical aspect in these negotiations and why they are complex and sensitive. That is a requirement that is built in, if we are going to meet those conditions.

Mr F.M. LOGAN: Is it correct that the length of that sum is seven years?

Mr J. Coles: Yes; the arrangement is for seven years. The reason is that most Keystart borrowers have refinanced to a bank within three to five years. At that stage, the majority of those loans would have run down over a seven-year period.

Mr D.A. TEMPLEMAN: I refer to Keystart on page 788. I raise the disturbing concern about Ms Martino Mirco, whose house that is financed by Keystart was burnt down in the Yarloop fires at the beginning of this year and she is still required to continue to pay the department for the loan. Why has the department put additional pressure on Ms Mirco, given what has occurred in her circumstances; and what is the department doing to rectify the situation given the stress that that has caused her and her family since the loss of their home?

Mr J. Coles: In checking the records, we have made 40 attempts towards the estate. Without divulging too much confidential information about a client, because we are subject to the Privacy Act as a credit lender, in general terms we have made over 40 attempts, I have been advised, to work out an arrangement at this stage with the estate. The person responsible for the estate, the administrator of the estate, indicated they wished to continue paying the loan. We are prepared to sit down and talk with that person and resolve something. I can support Keystart's record over many years, and I am sure members sitting here know that Keystart goes to great extremes to assist people. We cannot help everyone all the time, but if that person, as we have requested, comes and talks with us, we will look at a resolution that we believe is fair.

Mr D.A. TEMPLEMAN: Mr Coles is saying that Keystart has made 40 attempts to contact the administrator.

Mr J. Coles: Yes, with the person we have been dealing with. I have been advised, and I have looked at the file, that we have made over 40 attempts either through phone or calling, requesting the person to come in. Our bottom line is that if that person is prepared to contact Keystart and sit down with us, we will assist them.

Mr M.P. MURRAY: I refer to page 784. The bottom line of the second dot point refers to the targeted renewal and redevelopment of existing public housing sites. My question revolves around the deplorable state of many of the houses in Collie.

Mr D.T. REDMAN: Can I just call the member to account. This is Keystart, not the housing division.

Mr M.P. MURRAY: I am sorry. I have jumped the gun.

The CHAIRMAN: I use the Chair's prerogative to ask a question. Assuming I have a Keystart loan and the debt is sold off, does my loan continue to be serviced by Keystart?

Mr J. Coles: For this to work, the whole arrangement is built around having no impact on the borrower; in fact, they still deal with Keystart under all the conditions, including the person they deal with. In effect, these private sector groups are providing the finance.

Mr F.M. LOGAN: Does the minister know how many defaults there are on current loans since 1 July 2015?

Mr D.T. REDMAN: How many defaults on Keystart loans? Does the member mean how many people are in default?

Mr F.M. LOGAN: Yes.

Mr J. Coles: That is in mortgage in possession. I am going from memory here; there are about 22.

Mr D.T. REDMAN: Over how many loans is that?

Mr J. Coles: It is over 17 000 loans, so it is very low.

Mr D.T. REDMAN: It is 22 defaults over 17 000 loans.

Mr F.M. LOGAN: I have a further question on the process of the sale of that tranche of loans. Will that lead to staff cuts, through a reduced volume of work?

Mr J. Coles: No, because we will still be managing the loans.

The CHAIRMAN: That completes the examination of Keystart.

[7.30 pm]