

**Keystart Housing Scheme Trust —**

Mr J.M. Francis, Chairman.

Mr T.R. Buswell, Minister for Housing.

Mr J.A. Coles, Chief Executive Officer, Keystart.

Mr G.J. Searle, Director General, Department of Housing.

**The CHAIRMAN:** Member for Willagee.

**Mr P.C. TINLEY:** I refer to “Home Loans” in the service summary on page 675 of the *Budget Statements*. The expenses for delivery of the home loans services estimate came in almost \$72 million under what was allocated in last year’s budget. Is that a result of some budget cuts or an underspend? What are the factors that caused that underspend?

**Mr T.R. BUSWELL:** My understanding is that it is basically because of the decline in transactional activity in Keystart’s home loans. The member is talking about the 2011–12 estimated outcome versus the 2011–12 budget—that is, \$318 million to \$246 million. I have been advised that that is because of the decrease in transactional activity from Keystart.

**Mr P.C. TINLEY:** So is it just the number of loans?

**Mr T.R. BUSWELL:** Yes.

**Mr J.C. KOBELKE:** On the same point referring to “Home Loans” on page 675, 2011–12 was budgeted for \$318 million and the minister estimates that figure will only come in at \$246 million because of the lower number of transactions. It picks up a bit in 2012–13, but in the out years the figure is still sitting below what we would expect for 2012–13. What are some of the factors that are curtailing any expansion in home loans? I know that property values are not increasing at the moment, so is it the fact that property values will flatline, that the level of activity is not expected to increase—because as we all know, we have a huge housing problem—or is it just constraints on what is actually able to be lent? What are the factors that lead to that almost flatlining through the out years?

**Mr T.R. BUSWELL:** That is a good question. Again, we think some of it is transactional, reflecting the nature of the market, really. There are modest increases in those out years. That dollar value is total reflective money that passes through as a loan; the member is right. I imagine that those figures reflect that there is an expectation that the market will not pick up dramatically and that that level of activity will be maintained. The other thing to understand about Keystart—I am just trying to find the numbers so I can share them with members—is that there was a huge bring forward. I do not think people understand the extent to which the federal government first home owner boost, which was a good thing at the time, had—that extra \$14 000 for new homes and \$7 000 for established homes, which took the total amount paid to \$14 000 and \$21 000. It had an enormous impact on Western Australia. We saw that in Keystart, and just to put that in perspective—I am not sure when it initially came in, but let us say it applied in the 2008–09 and 2009–10 financial years—we approved 10 000 loans in those two years.

**Mr P.C. TINLEY:** What years?

**Mr T.R. BUSWELL:** In 2008–09 and 2009–10, 10 000 Keystart loans were approved, which is a massive volume of loans. To put it into perspective, from 1989 to 2005, the first 16 years of Keystart, 30 000 loans in total were approved, therefore in two years —

[9.30 am]

**Mr J.C. KOBELKE:** Can we have the numbers for 2010–11 and those expected for 2012–13, compared with that 10 000?

**Mr T.R. BUSWELL:** No, I do not have the anticipated figures here. What I can tell the member is that, year-to-date, in 2010–11 the number of loans dropped to 526.

**Mr J.C. KOBELKE:** It dropped to 526 from 10 000?

**Mr T.R. BUSWELL:** No, it dropped from 5 000. Loosely, it was 5 500 and it dropped to 526. This year it is at about 400 at the end of April, although there has been a pick-up in applications in the past few months because we changed some of the income settings—obviously income rates are going up and down—and we changed the deposit rate, which went back to two per cent. The other thing is that in 2009–10 the loan book was growing dramatically. It was headed towards \$4.5 billion, which is the cap. We had to adjust some of our settings to try to encourage people who were in Keystart to leave. Again, I do not think that is a bad thing, because we want some churn. Perhaps to put that into perspective, this year 2011–12 to date there has been almost 2 000 discharges out of the back of Keystart. Last year there were about 2 000. In those two busy years, 2008–09 and 2009–10, there

were about 1 400 or 1 500, so discharge levels have been maintained. More often than not, when people discharge out of Keystart, they go to an alternate product.

**Mr P.C. TINLEY:** A commercial product.

**Mr T.R. BUSWELL:** Some things were happening in Keystart that we made some policy decisions to alter. One was preventing people, once they had their Keystart loan, from applying for additional funds to do other things, which were generally related to their home. My view is that Keystart is a basic home loan product offered at a low deposit and targeted incomes to get people into the property. That dropped off. We got rid of discharge fees, because we had had discharge fees. We changed some of the other incentives that we have been offering through the brokers, so very little broker trade now comes through Keystart. For a period, in 2009–10 and 2010–11, we had become the product of choice. Again, my view is that the best spot for a person to get their funding, if they can afford it, is through a financial institution, of which there are many, excluding Keystart. If they get stuck and cannot raise a deposit and those other things, we are there to help those people; we are not there to be the product of choice for everybody trying to get a home loan.

**Mr J.C. KOBELKE:** Minister, I am still trying to get a better understanding of why it is flatlining into the future. If we look at budget paper No 3, we see that dwelling investment is anticipated to go up by 7.5 per cent in 2012–13, 4.5 per cent, 2.25 per cent and 2.25 per cent. Treasury is predicting a bit of a pick-up in dwelling investment, but we are not seeing that with home loans. I suspect this goes to the fact, as the minister has just said, that this is targeted at a very specific part of the market and therefore has limitations. I am trying to get a bit of a better understanding. The minister is not predicting that this will grow at the same rate as dwelling investment overall.

**Mr T.R. BUSWELL:** No, I think part of that is that with the Keystart product we think the changes that we have made mean that we will probably be about as busy. There will be this flatlining. Those figures show that there is not an anticipation that Keystart will grow with the general growth in the housing market, because we have changed the nature of the product.

The member can have a look. One of the figures I will try to get my hands on, which I do not have here, is Keystart loans as a percentage of all first home owner grants in the state. It will give a rough feel of our market share for first home owner grants. That has dropped quite substantially, which is probably reflective of some of those policy changes. Again, we get a sense that a lot of the people who would have perhaps had a Keystart loan over this year and maybe the next couple of years, came into the market some time ago under those incentives and picked that up. I might just get Mr Coles to add his perspective.

[9.40 am]

**Mr J.A. Coles:** Just to follow on from that, we were generally doing about 10 or 12 per cent of the market, but, as the minister said, the maximum income at that stage was up to \$170 000. For a first home buyers' scheme to have an income of that level was ridiculous. That was brought back.

**Mr P.C. TINLEY:** That was pre-2008.

**Mr J.A. Coles:** Yes. We are looking at Keystart doing five, six or seven per cent of the market. The figures we are putting there is probably a reasonable percentage of the market.

**Mr T.R. BUSWELL:** I have found the figure I referred to earlier. I know that it is not a perfect figure of market penetration, but the number of Keystart loans as a percentage of first home owner grants is an indicator. In those two boom years, if I can put it that way, 2008–09 and 2009–10, that percentage was at 23 and 24 per cent, which is pretty high. Historically, it has been lower. It dropped quite significantly after that to five per cent or less. We suspect that it will pick up now because of some of the tweaks we have made. As I said, off the back of 2009–10 in particular, we had some issues trying to manage our loan book because it just exploded over that two-year period. Just to give the member an indication, the total value of the loan book in 2007–08 finished at \$1.5 billion. By the end of 2009–10, it was \$4.11 billion.

**Mr P.C. TINLEY:** That would have made them nervous on the terrace—down at Treasury.

**Mr T.R. BUSWELL:** We were talking about that before; we have to try to manage the risk to the state in these things. The Treasurer is always nervous.

**Mr W.J. JOHNSTON:** How many outstanding loans does Keystart have?

**Mr J.A. Coles:** It has about 17 000.

**Mr P.C. TINLEY:** Given that an average loan is 3.4 years, which is a pretty short term compared with the terms of these sorts of investments for private individuals, why are we so fearful of the imposed cap of \$4.5 billion when through the department's levers it can manage the exit arrangements and those sorts of things?

**Mr T.R. BUSWELL:** With every dollar lent, there is a risk. That risk is very low.

**Mr P.C. TINLEY:** That is my point; it is low because of the churn.

**Mr T.R. BUSWELL:** But there is still a risk. Clearly, at some stage we reach a point when we think the risk of a \$4.5 billion loan book in absolute terms is higher than the risk of a \$2 billion loan book. It just follows. One of the best things Keystart does is engage with its customers at the start of the loan and during the life of the loan to help people work through difficult circumstances. There is a risk and clearly there is a view in government that we need to find a balance. We felt that balance was about \$4.5 billion worth of risk. I cannot tell the member what that was, but I can recall the discussions because I was Treasurer at the time, so I was having them with myself.

**Mr W.J. JOHNSTON:** It was a tough negotiation.

**Mr T.R. BUSWELL:** It is not easy. But then again, when we sat back and looked at some of the policy settings, my view was that those policy settings were not right and we should have adjusted them. I do not think the role of government in this space is to be the product of choice. It is certainly to provide a product to assist people who need to be assisted. We made some pretty significant adjustments to income caps. As John said, the maximum income for couples used to be \$170 000. Most people would argue that if a family is making that much, they can probably arrange their own finances, although I do not understand everyone's circumstances. We have subsequently relaxed some of those and the income cap has moved back down; the maximum is now \$110 000 for couples. It is just a matter of using levers. There was a general feeling that that was about the maximum income that government more broadly was comfortable with.

**Mr P.C. TINLEY:** In talking about this risk of the loan book, does the minister have any numbers for the default rate of clients in Keystart versus the market?

**Mr T.R. BUSWELL:** I will ask Mr Coles to answer, but it is low relative to the market.

**Mr J.A. Coles:** To give the member some idea, banks have 1.5 per cent of borrowers more than 30 days in arrears. Keystart has half that.

**Mr P.C. TINLEY:** They are good clients.

**Mr J.A. Coles:** Yes. One of the issues in going to the \$4.5 billion level particularly quickly is that in a financial institution the more quickly the loan book grows, the greater the risk that is brought on.

**The CHAIRMAN:** I would also like to ask a question on this. With Keystart's prerequisites for single and double incomes, what is the maximum income cut-off? Who is it aimed at?

**Mr T.R. BUSWELL:** There is a range of caps. There is a maximum property value, which in the city is \$400 000 and above the twenty-sixth parallel is \$500 000. A minimum deposit is required, which is two per cent. As a result, there are maximum loan values. The maximum loan value is \$392 000 south of the twenty-sixth parallel and \$475 000 above. There are caps on the size of the loan. The other area in which some controls are exercised is people's income. For single applicants, their maximum income can be \$70 000 per annum. For couples or families, their maximum income can be \$110 000 per annum. Applicants also need to show a percentage of genuine savings. Do applicants have to be first home buyers?

**Mr J.A. Coles:** The majority are first home buyers, but applicants do not have to be.

**Mr T.R. BUSWELL:** Most of our customers access the first home owners grant. Another little grant is also available. The big benefit from Keystart for people is, first, the size of the deposit and, second, that there is no mortgage insurance.

**Mr P.C. TINLEY:** The real rate is significant.

**Mr T.R. BUSWELL:** Exactly. Mortgage insurance is now mostly capitalised, so people end up paying interest on insurance.

**The CHAIRMAN:** Does everyone who meets the criteria get approved? What is the approval rate?

**Mr J.A. Coles:** Anyone who meets the criteria gets approved. As the minister alluded to, we also have an education program. About 500 people are on savings programs to reduce their debt to move into the criteria. About another 500 will come through as loans.

**Mr T.R. BUSWELL:** Also, if people have other debts, those debts cannot be more than seven per cent of gross income for singles and eight per cent of gross income for couples. I recently dealt with some people in my electorate who bought a car and lived in a Department of Housing property. The car had just tipped them over the edge. There is some discretion at the margins and that has delivered some fantastic outcomes. These people will look to refinance their automobile so that they can fit the criteria more closely. If they get the money, they go from being an intergenerational tenant of Homeswest to first-time property owners. That is a fantastic story. I

always remember that we went out near the northern suburbs with this young lady. It was covered in the media at the time. It is a really great story; she bought her Homeswest property. I think she works for Keystart now.

**Mr J.A. Coles:** She got a job with us.

**Mr T.R. BUSWELL:** It was brilliant. Her mum had also bought a Homeswest property from John. A former hard-nosed journo at *The West*, Mr Taylor, was not too friendly to this young lady at first. He said, “Who cares if you own your first home?” She said, “Do you own your own home or do you rent? When you rent, you have to be prepared at any time, with notice, to open your door and have someone come into your house to tell you what you are doing in your own home. How do you think that feels?” I will never forget that he shut up quick smart. It was brilliant. Those stories happen all the time.

**Mr J.C. KOBELKE:** I will go back to the discussion we had a moment ago about the \$4.5 billion cap. The minister went to the issues of risk; I do not want to revisit that. Is there also an issue with total borrowings because of the issue with state debt? How are Keystart borrowings reflected in government accounts? Is it reflected under general government of financial entities? How is it reflected in the overall government books?

[9.50 am]

**Mr T.R. BUSWELL:** My understanding is that it is reflected as part of gross debt but not net debt because we are effectively borrowing money to create a mortgage. It is net debt neutral. The cap was not generated by a pressure from net debt; it was simply those other factors that we talked about before.

**Mr W.J. JOHNSTON:** The minister mentioned the shared equity products. Is the state’s equity in those products funded through Keystart?

**Mr T.R. BUSWELL:** No, it is funded through the Housing Authority.

**Mr W.J. JOHNSTON:** Does the department have a target for how much equity it wants in it?

**Mr T.R. BUSWELL:** Historically, there have been a couple of targets but I cannot recall what they are. We can dig those out when we do the Housing Authority. Grahame might know. There are a few different products.

**Mr W.J. JOHNSTON:** Is the department targeting a particular figure for equity? If I need to come to it in the Housing Authority division, I will do that.

**Mr T.R. BUSWELL:** In the latest shared equity package we are targeting up to 2 000 properties. No cap was put on the value of that, but a cap was put on our equity contribution and we knew roughly how much those properties would be in the market for. Grahame can provide some more detail on that.

**Mr G.J. Searle:** There are two shared equity schemes. One is focused around people with disabilities, Indigenous people and single parents, which is a long-running scheme in which the department buys a percentage of the equity. The other more recent shared equity program is about creating equity. The department’s share in most of those properties is 20 per cent and for the balance it is about 30 per cent. In the long-established scheme it is a little more than that; it is up to about 40 per cent.

**Mr J.C. KOBELKE:** Following on from the issue of the how the debt is recorded in the budget, when we were examining the Country Housing Authority, Mr Coles gave an explanation for the interest rates on borrowings as opposed to investments. I want some further clarification on that. Obviously it does not make sense to the uninitiated to borrow money at one rate and invest it at a higher rate. As Mr Coles indicated at the time, the authority was not about to suddenly borrow a lot of money because a bit of money could be made on the side.

**Mr J.A. Coles:** Keystart’s initial money is raised through the Western Australian Treasury Corporation and because of the sovereign backing, it is lent at the best and cheapest price.

**Mr J.C. KOBELKE:** Is it AAA rated?

**Mr J.A. Coles:** Yes.

**Mr J.C. KOBELKE:** When the department invests with a bank rather than another institution, why does the department get a higher interest rate?

**Mr J.A. Coles:** A bank will not have a AAA rating. In fact, most banks are rated A–.

**Mr P.C. TINLEY:** I am pretty sure I know this, but do all the Keystart dividends go to its principal shareholder, which is the Department of Housing, and not to consolidated revenue or any other account?

**Mr G.J. Searle:** The dividend is directly passed to the department and it shows up in the department’s accounts. On occasion it gets netted off by Treasury.

**Mr T.R. BUSWELL:** Grahame! Grahame! Let us understand this: in any one year it is part of the budget discussion around the Housing Authority, and that always has been the case. It is not a windfall gain. In other words, when we present our always excellent cases through the budget process, as every minister does, Treasury is always mindful of what will come into the agency as cash from Keystart, effectively. It is part of the broader discussions around the department's budget.

**Mr P.C. TINLEY:** As a percentage of the department's budget, if that is the right term—help me there—what does the dividend make up?

**Mr T.R. BUSWELL:** As the member may well be aware, about halfway down page 685 of the *Budget Statements* under "Receipts" is a line item for the anticipated dividends. In 2012–13 that is about \$40 million. Of the total —

**Mr J.C. KOBELKE:** Is all that \$40.8 million Keystart money or is anything else lumped in with it?

**Mr G.J. Searle:** It is pretty much all Keystart money.

**Mr T.R. BUSWELL:** I would have to work that out as a percentage.

**Mr J.C. KOBELKE:** I will move away from the percentage. It is interesting that in 2012–13 we are expecting \$40.8 million in dividends from Keystart but in 2015–16 we are expecting \$87 million in dividends from Keystart. Can the minister explain the increase in the dividend?

**Mr T.R. BUSWELL:** I will get Mr Searle to reflect on that.

**Mr G.J. Searle:** What has happened is that the size of Keystart's book has grown and the amount it has had to allocate to its prudential fund has been significant. In the past couple of years a significant amount of Keystart's profits have been directed to its prudential fund rather than the department. What is now happening is we expect the size of the book to remain constant so that the percentage drops away and the profit that can be returned to the department as a dividend increases relatively. Although the profit does not move much, the dividend increases because the department does not have to add to the prudential requirement.

**Mr P.C. TINLEY:** In the last financial year, how much of the dividend stayed in the department and how much was netted off?

**Mr G.J. Searle:** It all stayed in the department.

**Mr P.C. TINLEY:** In the financial year prior to that —

**Mr T.R. BUSWELL:** I think we need to clarify the question. Is the question about the profit of Keystart and the share between the prudential reserve and Keystart?

**Mr P.C. TINLEY:** No.

**Mr T.R. BUSWELL:** The entirety of the dividend that is paid comes across to the department.

**Mr P.C. TINLEY:** Did it go nowhere else but to the department in the last financial year?

**Mr T.R. BUSWELL:** No. The department owns Keystart, and Keystart pays its dividend to the department. When we go through our budget machinations, as all governments do, we report on our sources of income as part of that process. The Department of Housing gets income from land development activities, rents and a range of other things. That is all put into the pot as we work through what will be allocated to our construction program and other things.

**Mr P.C. TINLEY:** So it is not that any of the Keystart dividends go out of the Department of Housing, but less public money comes in?

**Mr T.R. BUSWELL:** Not necessarily. A number of variables affect the flow of cash into the Department of Housing. The Keystart dividend is one variable and the policy decisions of government are another, such as our decision this year to provide \$130 million over two years for additional social housing schemes. Those types of decisions are made on an annual basis, depending on the other flows, to a degree.

**Mr J.C. KOBELKE:** I refer to the dividends from Keystart to the Department of Housing on page 685. That figure has grown exponentially because in 2010–11 the dividend was \$25 million and it is heading out to \$87 million in 2015–16, which is over three times that amount. I am trying to get a better understanding of why there has been such huge growth in the dividend and to what extent the increased interest rate has been a driver of the increased dividend.

**Mr T.R. BUSWELL:** I will get Mr Coles to provide some advice, but when the member refers to the interest rate, I am not entirely sure what he is referring to.

**Mr J.C. KOBELKE:** The increase in the differential.

**Mr T.R. BUSWELL:** A policy decision was made in October 2009, when it was applied, for Keystart's interest rate to reflect market interest rates. Until October 2009, there had been a drift in Keystart's interest rate below what would be called the average interest rate of the four major banks. That drift started in about late 2007. My view—this was a policy decision—was that the government was not there to be a market leader in interest rates. Our benefit to people wanting to obtain finance was that they did not have to pay mortgage insurance, and the low deposits required. So the interest rate was stepped up, but it was only for people who took out the loan from that time. In other words, at the moment Keystart offers two rates of interest: there is an interest rate for people who obtained the loan prior to October 2009 —

[10.00 am]

**Mr J.C. KOBELKE:** Minister, I interrupt because we are running out of time. My question specifically is: to what extent has that big increase been driven by that adjustment in interest rates that the minister has explained?

**Mr T.R. BUSWELL:** The point I was trying to make is that of the total value of loans made, 74 per cent are for pre-October 2009 loans. The balance, therefore—26 per cent—is for loans made post-October 2009. Mr Coles may have something else to add.

**Mr J.A. Coles:** The major reason for the increase in the debit ends is the large lending that happened in 2009–10. Nearly 50 per cent of that was for new construction, and we have a drawdown of the loan amount only as the house is built, which could take up to 12 months. So it was really not until 2010–11 that we actually started to get the revenue and interest from those loan drawdowns, and we went from a \$1.5 billion portfolio to \$3.5 billion.