

Keystart Housing Scheme Trust —

Mr P. Abetz, Chairman.

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

Mr J. Coles, Chief Executive Officer.

Mr P. Whyte, Acting Director General, Department of Housing.

Mr J. Hubble, Executive Director, Business Services, 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 can be 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, 19 June 2015. 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.

Are there any questions? Member for Cockburn.

Mr F.M. LOGAN: Keystart is an off-budget item that appears on page 860 of the *Budget Statements*, and I will be dealing with a number of questions about Keystart. I refer to division 74, the Housing Authority, and page 848 of the *Budget Statements* that has the heading "Significant Issues Impacting the Agency". There is reference —

Mr D.T. REDMAN: Is the member for Cockburn talking about division 74 or Keystart?

Mr F.M. LOGAN: Bear with me. There are significant issues impacting the agency and there is reference in there to Keystart. Can I just ask, through the minister, why there is no reference at all to the securitisation of Keystart debt anywhere in that division? The minister could turn around and say that that is not the division that covers Keystart —

Mr D.T. REDMAN: I am happy to answer that.

Mr F.M. LOGAN: — but there are references to Keystart in there, but no reference to the securitisation, which I would have thought was a significant issue impacting the agency.

Mr D.T. REDMAN: There have been no savings booked from any of the announced deliberations that government is taking in terms of the sale of assets. The member will remember that in the budget announcements the Treasurer talked about a number of potential asset sales: nothing has been booked as a saving or nothing has been booked as a sale anywhere, and for that reason it will not show up in any of these figures, other than the fact that we are working through due diligence on those and they will all come back to cabinet. So, nothing has been booked until anything happens.

Mr F.M. LOGAN: That is true, minister, but even when there is not an asset sale or an amount of money booked under the significant issues impacting the agency, there is always reference to significant issues and this is one. But by the bye on that issue. Last night we were advised by the Treasurer about some aspects of the securitisation and how it is managed. Can I just ask a few questions about the proposal to securitise the Keystart loan? Who is advising the Department of Housing on the whole process of the securitisation?

Mr D.T. REDMAN: There is a process being worked through that is being led by Treasury and all the relevant agencies in terms of doing a process of due diligence on a number of asset sales or a number of potential asset sales. The notion of securitisation of part of the loan book of Keystart is part of those deliberations. That is happening and being led by Treasury and the Treasurer, and the Economic and Expenditure Reform Committee, of which I am a part, and that is where the lead sits.

Mr F.M. LOGAN: That is not what the Treasurer told us last night.

Mr D.T. REDMAN: What did the Treasurer tell the member last night?

Mr F.M. LOGAN: The Treasurer told us last night that it is being handled by the Department of Housing, and that it is advising Treasury. It would be nice to know exactly who the department has advising it on what could be a multibillion-dollar sell-off of debt.

Mr D.T. REDMAN: I am certain there is going to be some advice that will come from Housing and other relevant authorities, including Keystart as an organisation, but in essence it is a decision that has been managed and taken by Treasury and the EERC, and everything comes back to cabinet. The reason no numbers are here that sit around that is that no outcomes have been booked because we are not going to book any sales or book any outcomes of any changes like that—or asset sales or those deliberations—until it actually comes back to cabinet.

Mr F.M. LOGAN: Let me just explain what the Treasurer said last night, minister; if the minister does not know, maybe his advisers do. The Treasurer told the house last night that the program and securitisation was being managed by the Department of Housing, and that the securitisation was going to occur in tranches of \$10 million per tranche, and that a number of organisations had already expressed interest to the Treasurer about it. When we were talking to the Treasurer about who is advising the government or the Department of Housing on this, he said, “Well, you need to ask that of the Department of Housing.” I am asking the Department of Housing.

Mr D.T. REDMAN: What we have here is a division relating to Keystart, of which the Department of Housing or the chief executive officer of the Department of Housing is the number one shareholder in Keystart. I am going to ask John Coles, as the CEO of Keystart, just to make a couple of comments about some of the work that has been done, but in essence I still stand by the position that the notion of the securitisation or potential due diligence that is being done around the securitisation of Keystart’s loan book is something that has been done, as is my understanding, by Treasury. I am a part of that with the EERC process that we work through as a subcommittee of cabinet, but I will ask John Coles to make a couple of comments to some aspects around this.

Mr J. Coles: The minister is correct in that Treasury is providing the overall coordination of the exercise. But to answer the member’s specific questions, Keystart itself has KPMG consulting from the eastern states, which has had extensive experience in securitisation, providing us with technical advice; there is also further advice from Westpac and the National Australia Bank—two large banks that have had extensive experience in it.

Mr F.M. LOGAN: See, minister, it was not too hard; that is all I was asking.

Mr D.T. REDMAN: That is all right!

[3.10 pm]

Mr F.M. LOGAN: On that basis, I want to ask about the consideration and discussion there has been between the Department of Housing as the shareholder that owns Keystart and Treasury, and of course discussion with the minister’s advisers—KPMG and NAB—on a couple of things. For example, what conditions are going to be put on the securitisation of that debt, regardless of whether it is done in tranches of \$10 million or larger or whatever, particularly around interest movements? For example, once the debt has been sold on to another organisation, whichever organisation that will be, what guarantees have the lenders on future interest rate movements? What protections do they have on the loan conditions they have taken out through Keystart? What protections do they have over conditions of foreclosure, for example? The way that Keystart handles foreclosure is probably more lenient and has more empathy than the commercial world. What conditions are going to be built around that so that the lenders are protected following the securitisation?

Mr D.T. REDMAN: I will ask John Coles to make a comment in a second, but I want to stress the point that no decision has been made on securitisation of the loan book of Keystart. Those deliberations have been worked through, including all the elements that the member is talking about and all the things that may well impact on or be important to the decision to do that, if we choose to do that. I will ask John Coles to make a comment about some of the early parameters around any decision, if we take it.

Mr J. Coles: The premises that we are working on in developing this are, firstly, that the interest rate charged to borrowers will be the same as is the current practice, and that is the average of the four major banks. The second requirement, with regard to foreclosures and general policies, are to remain the same for Keystart so, in effect, it will be a private sector funding source. At this stage, the minister is right: until we finalise the negotiations it is still in the detail process, so there is a certain amount of confidentiality with it, but the intent is that Keystart would continue to manage those mortgages and that the same conditions would apply.

Mr F.M. LOGAN: Further to that question, if the loan is off the books of Keystart and is with a private company, it does not mean that Keystart will be managing those loans. It may be possible to negotiate that, but what guarantees are going to be built into that securitisation, which are the very things that Mr Coles just referred to literally guarantee? Otherwise, those lenders are going to be exposed.

Mr D.T. REDMAN: I come back to the point that no decision has been made on this —

Mr F.M. LOGAN: The minister had better go talk to the Treasurer. He should not go and make media statements.

Mr D.T. REDMAN: All the things the member is talking about are very, very relevant in the deliberations we have in making the call to take a certain amount of the loan book off the government's balance sheet and putting it into the private sector. As John Coles mentioned, there are certain parameters around how government still intends to operate and still intends to operate Keystart. It provides a very, very good service out there, as the member well knows, and I think he has been a strong advocate of Keystart, as I have, and still am. There are a number of parameters on which we will go into these deliberations, but no decision has yet been made. The member is pushing for points.

Mr F.M. LOGAN: I understand that, minister, but as the opposition it is not all about the minister; it is about the lenders.

The CHAIRMAN: Member for Cockburn, the minister has the floor.

Mr D.T. REDMAN: I just make the point that no decision has been made and all the questions that the member is asking are very, very relevant to the deliberation and/or potential decision if we were to securitise part of Keystart's loan book.

Mr J. Coles: It is exactly as the minister said: everything so far is looking very sound for all the conditions that will apply, so from our point of view at this stage there are no concerns that there would be any difference.

Mr P.C. TINLEY: The loan book is currently at \$4.5 billion, I think —

Mr D.T. REDMAN: A little less.

Mr P.C. TINLEY: A little less; it is not fully drawn, of course.

Mr D.T. REDMAN: It is \$4.223 billion with a cap of \$5 billion right now.

Mr P.C. TINLEY: Meeting all of our prudential requirements, of course, is embedded in that. How many loans does that represent?

Mr J. Coles: It is 17 000.

Mr P.C. TINLEY: That is 17 000 loans, of which the average loan term is 3.5 or four years.

Mr J. Coles: They stay, on average, about three to 3.5 years with Keystart.

Mr P.C. TINLEY: I acknowledge the minister's point that no decision has been made and that he is working through the detail. It is not referred to in the budget papers anyway, so that provides evidence that this is still in train. Of the \$5 billion facility, has the minister given guidance on how much of the loan book will be securitised?

Mr D.T. REDMAN: No, a decision has not been taken on that. The high-level deliberations are around a part of that loan book. Again, these are not calls that have been made. There are a lot of things to work through, a lot of deliberations to be made and a lot of parameters to work out.

Mr P.C. TINLEY: If the minister is going to work with proponents and is getting advice, he must be working with an assumption-based model. What are the assumptions that the minister is working on at the moment?

Mr D.T. REDMAN: I imagine that all the things the member is talking about are elements of the deliberations that we go through in order to make a decision. This will ultimately come back to cabinet if a decision is made to recommend going down this path, but there are a lot of things to work through and it is potentially a strategy to get a certain amount of debt off the government's loan book.

Mr P.C. TINLEY: I understand the motivation, but eventually, minister, somebody is going to pay. We cannot hand this over, or any part thereof, to a profit-motivated private institution and insert a profit motive into the delivery of this service without it costing someone. Can the minister tell me who?

Mr D.T. REDMAN: The intent is not to compromise Keystart and its role. The intent is to ensure that all the significant good public outcomes that Keystart delivers continue: a low deposit loan facility, average interest rates of the four banks and a whole range of parameters that sit around people who are in an unfortunate situation and are unable to access housing loans. The intent is not to compromise that. Again, we are working through the deliberative process in order to see and scope out the capacity to take a certain amount of that off the government's loan book and therefore have a positive net debt influence.

Mr P.C. TINLEY: Just to press the point, there is going to be a cost for that service. Who is paying that cost?

Mr D.T. REDMAN: I am not aware of the aspects the member for Willagee is talking about. All I can say is that no decision has been made. All the points that he and others have made about the potential risks or issues that may sit around securitising part of the loan book are parts of the deliberative process.

Ms J.M. FREEMAN: The minister will remember that quite a bit of the loan books of other organisations came over to Keystart, including the TLC Community Credit Union. A number of others also got funds through the Department of Housing. Are the long-term loans that have come from other areas part of the loan book that the government is looking to securitise or sell off? Is the minister going to tell the lenders that their debt or their loans are being sold off?

Mr J. Coles: The member is referring to the early loans of terminating building societies. The majority of those loans have now pretty much been discharged from Keystart because they go back 10 or 15 years. There is only a small residual level there and the proposal at this stage would be for the more social side not to be part of that consideration.

Ms J.M. FREEMAN: The more social side would not be part of that, so the shared equities would not be either, just the broader loans. Will the minister tell the clients who have loans with Keystart that their debts are being sold off?

Mr D.T. REDMAN: No decision on this has been made and, as I said, the government is still committed to the outcomes that Keystart delivers. Even under the current process, in which we take the average interest rates of the four banks and all the other parameters, from time to time the government puts in place parameter changes. In fact, there are some current parameter changes for caps on prices and caps on wages that change the access of different parts of the marketplace into Keystart loans, so the government has that capacity or right at any point in time. As I say, we are working through a deliberative process. It is complex. Once we get to the end of that, a decision might or might not be taken.

[3.20 pm]

Mr F.M. LOGAN: It is all right for the minister to say that no decision has been made, but once the decision is made by the Economic and Expenditure Reform Committee and cabinet, will the minister then advise the lenders? Let me remind the minister that they are lenders. There is a contract between them and Keystart. They are entitled to be informed. If this were a private bank, the private bank would inform the lenders of what will possibly happen to their loans. A private bank would keep those lenders informed better than the minister and this government. This is not the minister's money. People have borrowed from the government and they are entitled to be informed. Once that decision is made, that will be it. All they will be informed about is what has happened to their loan. When will they be able to have a say? That is the reason we are raising it; they do not have an opportunity to raise it.

Mr D.T. REDMAN: The member for Cockburn is being presumptuous about a decision, but quite rightly, and that is why we are having this debate. Government has certainly signalled its intent to consider the potential to privatise part of the loan book.

Mr F.M. LOGAN: And when will the customers get informed?

Mr D.T. REDMAN: It is certainly not the intent—I have highlighted this twice already—to compromise the very good social values that Keystart provides and the work it does in providing opportunities to a very disadvantaged part of our society. I will ask John Coles to make a couple of comments about any sort of contractual responsibilities and history in that regard.

Mr J. Coles: Securitisation is a normal process that banks do all the time. If the member reads *The Australian Financial Review*, he will see that it goes on regularly. The process in that is that in every mortgage that is written, the lender per se can assign those loans to another funding source. It legally can do that, and that is a standard mortgage arrangement, because banks do it quite regularly. With regard to the Keystart side, we would provide the same due diligence as banks and everyone else. As the minister said, if the proposal is put forward and it can meet all the requirements of continuation of the same conditions, people will be advised personally of that process through our networks.

Ms J.M. FREEMAN: Mr Coles has just said how it is and that all the banks do this. I sat on a superannuation board during the subprime collateralised debt obligation issue. How does this differ from the subprime market in which a whole bunch of loans were bundled up and sold to a financier that could not sustain it because the bottom fell out of the market?

Mr J. Coles: This is different in the sense that in that prime market, they continued to sell the mortgages on. We are talking about moving to a special purpose vehicle and Keystart would still manage the loans on its behalf, so the manager of the loans would still be Keystart. This will not move mortgages further on. It will go to a special

purpose vehicle that meets the requirements of the government to make sure that the borrowers are looked after, and part of that requirement is that Keystart remain as the manager. The people who would provide funding for that are likely to be superannuation funds, banks and investors that have no interest in managing them; they are just providing a different funding source from the government. That is why they require Keystart to continue to manage them. In that way, we can ensure that we provide the appropriate service to clients.

Ms J.M. FREEMAN: When I sat on the Westscheme board, we got into the subprime market and we were told that it was great, it was AAA rated and we could trust it. We were told the same thing: if we invested in it, these people would continue to manage it and there was a mix of loans but they were protected and not many foreclosed but those who did would be offset by those who did not. However, there was an interest rate return for the superannuation company. These people took it on because it had a huge interest rate return. What will be the return for those banks or whoever takes on the securitisation of these loans? What will be in it for them?

Mr D.T. REDMAN: I just want to highlight through the Chair that no decision has been taken. It is presumptuous to respond to this question about whether government chooses to go down this path and what it may well agree to in securitising part of the loan book.

Mr F.M. LOGAN: It is a fair question. The minister needs to answer it.

Mr D.T. REDMAN: It is not a fair question about a decision that has not been taken.

Ms J.M. FREEMAN: The minister might want to know for his own decision-making—he has his advisers next to him—what is in it for those people who will take the loans. There has to be something in it for them; that is why superannuation companies took them in the subprime market. That is why Westscheme and organisations such as that took those loans. The people who lost were the beneficiaries of those superannuation schemes. What I need to know is what is in it for them. I get what is in it for Keystart, because it will get some more money for development, and I get what is in it for government, because it will get it off the government's loan book. What will be in it for the people these mortgages will be sold to?

Mr D.T. REDMAN: Just before I ask John to respond, since we came to government we have taken the loan book of Keystart from \$1.25 billion in 2006–07 to \$4.2 billion now. This government has significantly supported people in a disadvantaged situation.

Ms J.M. FREEMAN: And I would like to continue to do that, minister.

Mr D.T. REDMAN: I could run a slightly loose argument around how committed the Labor government was in the last part of its term.

Ms J.M. FREEMAN: And I could tell the minister that I helped to set up Keystart, as could Mr Coles.

Mr D.T. REDMAN: I will ask John Coles to respond to some of the elements of that question.

Mr J. Coles: Obviously, I was around when it was set up and some members were there. I would hope that they would not think that I, with my character and integrity, would do anything for borrowers that would not ensure Keystart long term.

Ms J.M. FREEMAN: And Mr Coles knows that I do not think that, because I was there. I was part of these people selling this to us and what happened, so please tell us.

Mr J. Coles: As we have said, we have set overall parameters for this process, and obviously there is a return for investors. That is only commonsense. The parameters and assumptions we are building in to develop all this to take to the Treasurer, as the minister said, to be discussed with Treasury and then to be taken to the government subcommittee will ensure that, from the borrower's point of view, the rate stays at the average of the four banks. In that regard, the borrower will not lose out. The level of returns for Keystart under both sides of politics has been substantial, so there is a sufficient barrier for those returns to make sure that the interest rate for borrowers stays at the average of the four banks.

Ms J.M. FREEMAN: That is my question. It is not about the borrowers; it is about how to protect state government money.

Mr D.T. REDMAN: I make the comment that the whole premise of Keystart is to set up an arrangement that is attractive for people who do not have advantage in the community in order to access loans at a particular rate. There is no point in changing that to the extent that people do not come in the door and use the facility. We might as well not have Keystart. I have made the point that the government is absolutely committed to Keystart. We are working through a deliberative process and all the points that have been raised here will be part of those discussions.

Mr F.M. LOGAN: My understanding is that Keystart has two mortgage rates, one of which is grandfathered before 2009; is that correct? What will happen to those?

Extract from *Hansard*

[ASSEMBLY ESTIMATES COMMITTEE A — Wednesday, 10 June 2015]

p255b-260a

Mr Peter Abetz; Mr Fran Logan; Mr Terry Redman; Mr Peter Tinley; Ms Janine Freeman

Mr J. Coles: It has two rates. Those that came in before October 2009 are at 4.60 per cent and those since then are at 5.38 per cent. In the securitisation of mortgages, basically we are looking for a funding source for future lending. A certain number of mortgages will go over there and the rate of their loan will be at that rate, but it will move only with the average of the four banks. That is the assumption we are working on.

[3.30 pm]

Mr F.M. LOGAN: Will the conditions change for those people who grandfathered their mortgages prior to 2009?

Mr J. Coles: The intent of putting this proposition to government is not to harm any Keystart borrowers.