

**Keystart Housing Scheme Trust —**

Mr A.P. O’Gorman, Chairman.

Mr W.R. Marmion, Minister for Housing.

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

Mr J.A. Coles, Chief Executive Officer.

Ms K.L. Hammer, Policy Adviser, Department of Housing.

**The CHAIRMAN:** This estimates committee will be reported by Hansard staff, and the daily proof *Hansard* will be published at 9.00 am tomorrow.

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 Chairman’s intention 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. For the purpose of following up the provision of this information, I ask the minister to clearly indicate to the committee which 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 committee clerk by Friday, 11 June 2010 so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. Details in relation to supplementary information have been provided to both members and advisers, and, accordingly, I ask the minister to cooperate with those requirements. 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. Only supplementary information that the minister agrees to provide will be sought by Friday, 11 June 2010.

[Witnesses introduced.]

**The CHAIRMAN:** The member for Rockingham has the call.

**Mr M. McGOWAN:** This is a comprehensive section of the budget!

**Mr W.R. MARMION:** Which page is the member referring to?

**Mr M. McGOWAN:** I am not sure where to start, but I think I will start on page 916, “Keystart Housing Scheme Trust”. Keystart has a forward estimate of \$5.7 million. Where is the rest of the budget needed to operate Keystart and pay the staff who operate Keystart, because it appears that something is missing? I will follow up that question by asking about some of the policy initiatives of the government in relation to Keystart, and perhaps ask some questions about that. Maybe a page has been ripped out of my copy of the *Budget Statements*, or something like that, but it appears something is missing.

**Mr W.R. MARMION:** I think I have the same page. I will have to refer to the chief executive officer of Keystart to provide the detail.

**Mr J.A. Coles:** Keystart is a private company, therefore it does not appear in the consolidated revenue fund budget papers with regard to its general operating costs and its income. That is the reason it is not in the budget, and has not been in the budget at previous times. Its income is internally generated through the interest that it receives from the borrowers, and it pays the interest in the funds that it raises in the capital markets.

**Mr M. McGOWAN:** The minister’s predecessor put in place a number of restrictions, or tightenings, in relation to people being able to access Keystart loans. The justification he used for that was that there was some risk associated with Keystart to government, and therefore he had to tighten up on the number of people obtaining loans; the amount of income they were able to have to obtain a loan; the amount of equity they had to put into the loan; and a few other initiatives of that nature, which reduced the number of people who could access Keystart. Is Keystart a risk to government; and has there been any evidence that it is a risk to government?

**Mr W.R. MARMION:** I will just make some opening comments, and then I will pass it over to the chief executive officer. I think it is fair to say that there has been some restriction, but the loans are still working. I think we have capital of about \$4.1 billion on its operation, so it is still growing. Obviously, I am not an actuary, but I think our interest rates are currently very similar to bank interest rates now, although I know there are probably people who have lower interest rates. The chief executive officer may be able to clarify this, but there is possibly—I am guessing—a slightly increased risk on our loans than bank loans. However, the evidence of those

people who have folded or who are behind in their payments does not indicate that from what I have looked at, but maybe the chief executive officer might be able to elaborate on what I have said.

**Mr J.A. Coles:** I thank the member. As the minister said, at this stage the arrears are still very low for Keystart. The reason for the tightening is that Keystart, for the past two financial years, has been counter-cyclic.

**Mr M. McGOWAN:** I am sorry; I did not understand that.

**Mr J.A. Coles:** I will explain that. That is where we tend to continue lending, whereas banks are raising their deposit levels and their savings levels. Part of that was caused by the global financial crisis. It was a deliberate strategy by Keystart—it is part of its role—and it has done similar things in earlier times such as in the 1990s, when there were recessions, to assist both the homebuyer and the construction housing industry by lending at more generous arrangements than banks. During the past two financial years, Keystart lent at very low deposits when banks moved their deposits as high as 10 per cent and their savings went to a five per cent requirement for those deposits. It was the judgement of the Keystart board that with the portfolio growing from \$1.5 billion, to, as the minister has indicated, what it will be, at the end of June—\$4.1 billion—that Keystart had done its job in assisting Western Australia during this difficult time. There was evidence that groups such as Police and Nurses Credit Union, Suncorp, ING Finance—other second-tier lenders that also used to be in the market with Keystart but withdrew during the global finance crisis—are now starting to come back into the market. Because Keystart has been well managed in a financial sense over 20 years—having started it I have a fair amount of experience in making sure the scheme is run well—it was the judgement of the company that we pull back in regard to that. We have lifted our deposit rate to six per cent and our savings requirement to three per cent while, at the moment, banks have a 10 per cent deposit rate with a five per cent savings requirement. Therefore, Keystart's rates are still lower than the banks, but we are not lending—I think that is what the member was alluding to—to the levels we were in the past two financial years.

[7.40 pm]

**Mr M. McGOWAN:** I have two questions. Firstly, can the minister provide by way of supplementary information a list of the policy changes that have been initiated to Keystart as they relate to deposit rates, interest rates, the amount of income that a person might have and so on. Secondly, Keystart changed its lending practices so that it lent to a greater degree than banking institutions during the global financial crisis to keep liquidity in the marketplace for people to purchase a home while the banks tightened up. Now that the global financial crisis is to a large degree over and Western Australia is powering ahead again, would it not be appropriate for Keystart to resume its former role as being a lender for those people who might not be able to obtain bank finance?

**Mr W.R. MARMION:** How far back does the member want us to go?

**Mr M. McGOWAN:** The policy changes start in late 2008.

**Mr W.R. MARMION:** There have been changes to only the deposit percentage rates and income limits over that time.

**Mr M. McGOWAN:** I understood that there was also a lift in the interest rate above the Reserve Bank rate. I thought there may have been others apart from that.

**Mr W.R. MARMION:** Perhaps the CEO is able to comment on that.

**Mr J.A. Coles:** In October 2009 the deposit level was increased from two per cent to four per cent. Prior to that Keystart did not require any savings requirements, but in October 2009 we put in place a two per cent savings requirement. In April this year we increased the deposit rate to six per cent and the savings requirement to three per cent. The change in April was moving the income level from \$120 000 down to \$90 000 for families and up to \$70 000 for singles. The average borrower coming to Keystart for families is currently in the \$90 000 range. For singles it was \$65 000, but we shifted it to \$70 000.

**Mr M. McGOWAN:** Is that the totality of the policy changes?

**Mr J.A. Coles:** Yes, in regard to that. We have left the seven per cent cap on debt. They cannot have any more than seven per cent; it has remained the same. With the income level change in April the property value was dropped from \$412 000 to \$400 000, which is the average price for the first home buyer segment of the market.

**Mr W.R. MARMION:** When the member said, “A lender of last resort”, does he mean that we should be making it easier for people who do not have the deposit or income to get low interest loans?

**Mr M. McGOWAN:** I understood that the argument was that during the global financial crisis Keystart expanded its portfolio because the banks pulled back. The banks lifted their deposit rate, therefore Keystart filled the void. Prior to that Keystart was an easier institution than a bank for people to obtain finance from. Now that the global financial crisis is over and Western Australia's growth is picking up with people moving here and the

price of houses continuing to increase, I would think that Keystart could go back to the position it was in prior to global financial crisis.

**Mr W.R. MARMION:** And hence have fewer loans.

**Mr M. McGOWAN:** And hence be a lender that meets the needs of people, perhaps couples, who do not meet those criteria or who might want to buy a house that is valued at slightly more than \$400 000.

**Mr W.R. MARMION:** In other words, lift the criteria.

**Mr M. McGOWAN:** Perhaps even drop the interest rate. As the minister said, Keystart's interest rate is now the same as a bank, whereas historically it was a little bit below banks.

**Mr W.R. MARMION:** If the interest rate is decreased, obviously the portfolio is at higher risk. It is a balancing act. In looking at the overall housing affordability strategy we will certainly have to look at those issues to take the Keystart policy forward. At the moment they are the rules.

**Mr M. McGOWAN:** Does the minister not propose to take the criteria back to where it was?

**Mr W.R. MARMION:** I think the member is right. We should look at how Keystart fits into the mix of the overall housing affordability strategy. We have to work out a strategy to address the housing affordability for those people who cannot access the housing market.

**Mr M. McGOWAN:** In my last question I go back to what the former Minister for Housing said; that is, that because of the size of Keystart's portfolio it is to some degree a risk to government. Is that the case? Is it a risk to the finances of the state?

**Mr W.R. MARMION:** The only way I can answer that is that it is a fact that we do not have foreclosures. The statistics show that our clients are meeting their repayments. Our indicators are, perhaps, better than the banking sector.

**Mr M. McGOWAN:** Therefore, the answer is no, it is not the case.

**Mr W.R. MARMION:** A risk is a risk. It is not black and white. The indicators are that from historical records the risk is less than banks, although one might not think that.

**Mr M. McGOWAN:** It is a great institution. I did not realise that Mr Coles had been there for 22 years. It is amazing. He must have been a boy genius.

**Mr J.A. Coles:** I was very young then.

**Mr M. McGOWAN:** Yes, he was a very young banker. Keystart has been a great institution. I was wondering whether it would go back to where it was so it could assist more people than it is currently.

**Mr W.R. MARMION:** I will ask the director general to comment on what direction he thinks it will take.

**Mr G. J. Searle:** I agree that Keystart has been a wonderful thing. This system was set up in a range of states and this is the only one that has survived at the level it has. The Department of Housing is preparing a detailed housing affordability strategy and Keystart plays a prominent role in that. The member indicated that the previous minister had some concerns. The previous minister was also Treasurer. He gets advice from Treasury as well as from housing. As director general I am confident that Keystart poses no risk to the state's finances. It is well managed. It has a capital adequacy fund, but its role needs to be seen as part of a whole-of-government state affordable housing strategy. From our point of view Keystart certainly has an important role to play in that.

**Mr M. McGOWAN:** How does Keystart play a role in affordable housing if its interest rate is the same as that of an ordinary financial institution; that is, a bank?

[7.50 pm]

**Mr W.R. MARMION:** I refer that question to the director general.

**Mr G. J. Searle:** Markets follow money. The limits that Keystart has on its housing value create a demand in a segment of the market that is currently under-represented. We have adequate stock in the four by two housing range in the market in Western Australia. There is a lack of supply in the lower end of the market in the smaller, more compact homes. If Keystart is focused on that smaller, more compact end of the market in the first home market, it will help stimulate supply in that market and, therefore, help an overall state affordable housing strategy. The other component to that is the relationship, potentially, between Keystart and community housing providers. The community housing providers tend to be a bit problematic for the banks because they are not the normal commercial businesses that they lend to. We have discussions with the minister about the potential for Keystart to help fund the growth of the community housing organisation through debt provision through more years. Therefore, we think there seriously is a role for Keystart in a state affordable housing strategy.

**Mr W.J. JOHNSTON:** The director general made a comment about the capital adequacy ratio for Keystart. Does that compare with banks? Does Keystart apply regular financial standards? How does Keystart operate in that regard?

**Mr W.R. MARMION:** Good question, perhaps the chief executive officer can answer.

**Mr J.A. Coles:** Keystart is not regulated under Australian Prudential Regulation Authority guidelines but it follows the same principles, so we insure a range, between six to eight per cent, of our risk-weighted portfolio and have always followed that. Keystart has sufficient capital adequacy under those requirements.

**Mr W.J. JOHNSTON:** Has the government contributed to that capital or has it been able to generate its own resources?

**Mr J.A. Coles:** Keystart has never received a dollar from the government.

**The CHAIRMAN:** Any further questions, members?

**Mr M. McGOWAN:** Can Keystart give me a loan?

**Mr W.R. MARMION:** It has to be a cheap house.

**The CHAIRMAN:** Members, there are no more questions. That completes the examination of Keystart Housing Scheme Trust. The next authority for discussion is Horizon Power and that is not scheduled until 8.00 pm, so we will suspend the meeting until then.

*Meeting suspended from 7.52 to 8.02 pm*