

Keystart Housing Scheme Trust —

Ms J.M. Freeman, Chair.

Mr P.C. Tinley, Minister for Housing.

Ms M. Andrews, Director General.

Mr I. Kneeshaw, Chief Risk Officer.

Mr T. Fraser, 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 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. The Chair will ensure that as many questions as possible are asked and that both questions and answers are short and to the point. If an adviser needs to answer from the lectern, will they please state their name prior to their answer.

The minister may agree to provide supplementary information to the committee, and I ask the minister to clearly indicate what supplementary information will be provided. Supplementary information should be provided to the principal clerk by Friday, 30 October 2020. 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: How many of the properties that are financed through Keystart are in negative equity at the moment?

Mr P.C. TINLEY: Is there a line item?

Mr A. KRSTICEVIC: No, it is an off budget item.

[4.50 pm]

Mr P.C. TINLEY: Okay, thank you. I will defer to Mr Kneeshaw.

Mr I. Kneeshaw: From Keystart's perspective, negative equity is something that affects the broader industry, it is not something that is specific to Keystart, so all the major banks and financiers out there are affected by negative equity. I would not be able to give a specific number. We do index valuations so we do not actually get true and proper valuations on a property on a regular basis, so I cannot give you an exact number. But what I can say is our current index average loan-to-value ratio across our portfolio is 88.63 per cent, but because that is an average there will be a number of customers that will be in negative equity position. As I said, that is something that has affected the industry since 2015 as the property market has moved against property owners.

Mr A. KRSTICEVIC: What about with mortgage stress, how many are behind in their mortgage payments?

Mr P.C. TINLEY: Define mortgage stress.

Mr A. KRSTICEVIC: Obviously there is a definition of that in terms of income. I suppose let us just work on those who are behind in their repayments.

Mr I. Kneeshaw: From Keystart's perspective, as at the end of September customers who were in arrears by more than one month on their payments, and this will include customers who have been subject to hardship provisions, were about seven per cent of our portfolio.

Mr A. KRSTICEVIC: So in the last 12 months how many properties have actually been repossessed by Keystart?

Mr P.C. TINLEY: So take mortgages in possession?

Mr A. KRSTICEVIC: Yes.

Mr I. Kneeshaw: For the last 12 months I do not have the exact number, but I do have the numbers that have been taken since, and we have not taken repossession of them we have taken possession of the properties since March. So last reported for the minister to the end of June, there were 29 where we received properties back through either a voluntary surrender or a customer had to abandon the property, and since then there have been a further 26. So to the end of September, the last six months, it has only been about 60, and we have not evicted anyone and we have not taken repossession apart from when it has been abandoned by customers.

Mr P.C. TINLEY: What is that as total number of loans out there?

Mr I. Kneeshaw: That is 20 700 loans at the moment, minister.

Mr P.C. TINLEY: And how many have we have taken into possession?

Mr I. Kneeshaw: Sixty.

Mr A. KRSTICEVIC: As part of this COVID relief package, have mortgage repayments for Keystart clients also been frozen?

Mr P.C. TINLEY: No. What we have is a hardship arrangement for clients. The member has to understand that Keystart operates differently than a bank, so it is much more active and it is monitoring the point. It also says the vast majority of people are ahead in their mortgage payments by significant amounts, and what we did put in place was a hardship arrangement where a client could come to us and we could suspend their payments and we could, in certain hardship cases, even extend their loan, so they would repay it over a longer period of time so it is a break. In extreme cases, and I am not sure we have even done this, where we have forgiven some repayments—that has not happened. So that is the sort of treatment that are happening around those sorts of things.

Mr A. KRSTICEVIC: I believe there was a recent announcement about people being able to draw down up to \$100 000 from their Keystart loan to be able to reinvest back into their property. One, how many people have done that and how much roughly on average have people taken out over the portfolio? Secondly, if people are taking out \$100 000 or whatever the figure might happen to be, does Keystart go back and revalue the property to make sure that the loan to value ratio is within the parameters?

Mr P.C. TINLEY: That has been a longstanding arrangement which Keystart has had which was a surprise to me at the time, when there was an existing program that we sort of relaunched, if we want to put it another way, to allow people to drawdown where they have equity. So the valuations in basically in the equity component that they have they would redraw and they can actually service the additional money, so I want to make it very clear that the creditworthiness, if you like, or the capacity for the client to actually service the additional payments has to be there. So that is very standard. In terms of the numbers that have taken it up, I am not sure. Does Mr Kneeshaw have any of those?

Mr I. Kneeshaw: Not to hand, I am sorry.

Mr A. KRSTICEVIC: When people do draw down, is there a market valuation of the property done at that point in time of them wanting to drawdown against that asset?

Mr P.C. TINLEY: The answer is yes. It will be a desktop valuation that they will identify. The equity comes from the valuation, not just of course from the investment of the individual and their payments, but also they will do a desktop. If that triggers a concern of any kind, then they will do an additional investigation on it to make sure that there is an appropriate spend or leverage on the property.

Mr A. KRSTICEVIC: Is that desktop valuation done by a licensed valuer?

Mr P.C. TINLEY: I defer to Mr Kneeshaw.

Mr I. Kneeshaw: Yes, we would use a licensed valuer.

Mr M. HUGHES: My question was about how Keystart has responded to the financial challenges faced by customers in relation to COVID-19. I think the minister has probably adequately answered that, unless he has something else to add? I would be interested if he has.

The CHAIR: Member for Kalamunda, just ask your question.

Mr M. HUGHES: Does the minister have anything to the response he made to the member for Carine with respect to the way Keystart has responded to the financial challenges felt by many of its customers?

Mr P.C. TINLEY: This might be interesting for the member for Carine as well. There was a range of things put in place to make sure we could respond to any hardships so we bolstered the team internally, on the risk side, or what is the term—anyway, the crew, the financial fitness crew, and they are very, very good at working with the clients. So additionally to that put into the arrangements where they could defer repayments where they are in hardship, and again they worked with us on that. We put in free financial counselling as well on top of that so they can get independent counselling to ensure they have a really good understanding of where they are at and they can make decisions. One of the biggest challenges they had was where the mortgages fell into risk, it was around employment; people fell out of employment but they had no knowledge of how they would be coming back into employment. I am very proud of the agency for being able to work with those to actually identify where they can come back into the employment market and at what rate, including adjustments to their repayments if they picked up part-time or casual work. So the whole objective is to keep the house going.

The member for Carine referred to negative equity. I want to make the point that the idea of Keystart is to get people into a home, not to make an investment. Ideally, the two act in the great Australian tradition of providing a long-term wealth vehicle, so looking at negative equity in a particular period must be taken in context of the overall life of the asset and what its return is. It is typically seven to 10 years in Australia that we have seen a doubling of house prices. These things come and go with the various challenges of the cycle. We have all lived through that ourselves,

potentially with home ownership, so this is no different. The concept of negative equity only becomes a significant challenge if it cannot be serviced or they go to sell the property.

Mr A. KRSTICEVIC: In terms of the interest rate charged by Keystart, has the minister given any consideration to reviewing how that rate is calculated or determined? I know it works on something to do with average of the banks et cetera, but it is quite a high rate relative to where everything else is sitting at the moment, and obviously these are some of the most vulnerable people potentially in terms of financially where they find themselves to get one of these loans, so has the minister given any consideration to reviewing the rate on Keystart loans?

Mr P.C. TINLEY: We did. The average of the big four is the one that is used. The challenge was—it is still just an average—that the big four did not move as one, as they do. Typically, they move up and down on the cash rate. I will make this point, that when somebody comes into Keystart, they pay two per cent of a deposit. They also do not attract lender's mortgage insurance, and they typically qualify for a first home owner's grant and the aggregate effect of that actually extends to about a five-year discount on what they would have paid if they had gone and done it on the open commercial market. The other point is we need to provide an incentive for them to come off the book. We are not a bank that wants to keep a customer for life; we want to get them out and into the retail market. So having an incentive to move to a better rate at that four or five-year mark is really important.

Mr A. KRSTICEVIC: So how many have come off the book in the last 12 months?

Mr P.C. TINLEY: I do not know.

The CHAIR: That completes the examination of the Keystart Housing Scheme Trust. Thank you very much.

[5.00 pm]