

Home Finance Advisory Committee

Research Report

Report to the Home Finance Advisory
Committee and Keystart

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1.0 Background

In 1998 the Home Finance Advisory Committee (HFAC) identified a lack of documented information about issues and concerns of people who are accessing Homeswest home purchase and finance schemes such as Keystart. A preliminary survey of financial counsellors was developed by Lynda Wennstrom, from the Community Legal and Advocacy Centre in Fremantle, and sent to counsellors with the June 1998 newsletter. The survey was sent to approximately 80 financial counsellors and a very poor response rate of less than 10 was obtained.

In order to gain a clearer view of the issues relating to Homeswest home finance schemes, it was decided to broaden the survey target group to include Community Legal Centres, Migrant Resource Centres, community groups in housing redevelopment areas and welfare organisations. The questions in this second survey were expanded and clarified in some instances to make the responses more meaningful.

The results of these two surveys were analysed and reported by Tracey Summerfield in December 1998. The report made a number of observations about the responses received. It was noted that while the survey responses and comments “may be informative and give indications of possible trends, further information is required to identify them as particular issues or trends because the preliminary survey did not seek to obtain highly specific information”. The report also concluded that the survey responses gave some insights to the experiences of clients and advocates in relation to Keystart loans and safety net negotiations. More specific qualitative and quantitative data collection was found to be necessary in order to conduct a more sophisticated critique of the home purchase and finance schemes.

1.1 Purpose of the Project

A need was identified to build on the work undertaken by Tracey Summerfield and act on some of the recommendations about further data collection and analysis. It was also seen as useful to be able to identify: aspects of the home purchase and finance schemes that are working well; areas where there are problems or gaps; and strategies for improving the programs.

It was decided that the project should focus on the Keystart and Goodstart programs and only provide basic information about the total number of Aboriginal and Access loans. Other areas of interest include; concentration of loans in different areas, regional variations, borrower profile and retailer variations.

2.0 Project Methodology

2.1 Statistical Data Collection and Analysis

- Identify existing demographic and statistical data available from Keystart and retailers.
- Analyse and collate data.

2.2 Telephone Interviews with Financial Counsellors

- Develop a series of questions to be used for telephone interviews with financial counsellors based on the results of the analysis of data collected.
- Select group of financial counsellors to participate in telephone interviews by specifically targeting counsellors in metropolitan and country areas with the highest concentration of Homeswest home finance borrowers.
- Conduct interviews of approximately 30 minutes duration with financial counsellors to obtain quantitative and qualitative information on issues raised in statistical data. A copy of the interview questions will be sent to financial counsellors prior to conducting the interviews.

2.3 Focus Groups with Stakeholders

- Document issues and trends arising from statistical and qualitative data outlined above.
- Discuss issues and strategies for improvements or changes to the home finance schemes as identified.
- Participants in focus groups could include: Keystart customer service personnel, community relations manager, finance retailers, financial counsellors, Shelter and/or HFAC members.

2.4 Report on Findings and Recommendations

- Prepare report for HFAC and Keystart Board based on an analysis of all information from data collection, interviews and focus groups.
- Make recommendations based on results of project.

3.0 Quantitative Data Analysis - Homeswest Home Finance Schemes

The Ministry of Housing offers four main home finance schemes in Western Australia. These schemes are marketed under the names of: Keystart, Goodstart, Aboriginal Home Ownership Scheme and Access Home Loans. This report focuses on Keystart and to a lesser extent, Goodstart.

3.1 Keystart

Keystart was launched by the Western Australian Government on 5 April 1989 as an initiative to provide low deposit home loans to middle and lower income earners. Keystart provides credit foncier loans (ie payments cover both principle and interest) on a low deposit. Keystart offers eligible borrowers a First Homebuyer loan or a Standard loan.

Keystart loans are available through four retailers being:

- Trades and Labor Council of WA Building Society,
- University Building Society,
- Western Homebuyers Building Society, and
- Westland Building Society.

In the past 10 years the Keystart program has financed a total of 31,976 home loans through various schemes. Over the last financial year Keystart approved 5,979 loans to a total value of \$579 million.

The maximum amount that can be borrowed under the Keystart guidelines is 2.6 times the borrower's assessed income. The maximum assessed income of each applicant is \$58,000. Borrowers repay their loans with monthly payments based on the Keystart variable interest rate, which is currently 7% per annum. The maximum amount that can be borrowed is \$150,000 and the maximum term of the loan is 25 years.

Keystart requires that at the time of loan approval the repayments do not exceed 31% of the borrower's assessed income. The borrower's total commitments to the home loan and other loans should not exceed 35% of assessed income. The average Keystart loan amount for the 1998-99 financial year was \$96,844 with the average borrower income being \$37,247.

The Keystart First Homebuyer loan policy requires that a least one member of a couple purchasing a home must be a first home buyer. This policy previously allowed first home buyer status to be given to any couple purchasing their first home as a couple.

The value of the deposit required on Keystart loans varies according to the value of the loan as illustrated below:

Table 1. Loan Deposit Guide

Loans Size	Deposit Required
\$0 - \$120,000	2% of purchase price or \$2,000 whichever is greater for first homebuyers
\$120,001 - \$150,000	5% of purchase price for first home buyers
\$0 - \$150,000	5% of purchase price for all non first home buyers

Data relating to the occupation categories of Keystart borrowers shows a range of occupations consistent with the income criteria for loans. Figure 2 below illustrates the monthly repayments and income required to service different loan amounts.

Table 2. Annual Income and Monthly Repayment Guide - Keystart

Amount of Loan	Monthly Repayment @ 7.00% pa - 25 yrs	Income Required
\$150,000	\$1,061	\$57,700
125,000	884	48,100
100,000	707	38,470
90,000	637	34,620
70,000	495	26,930

Keystart loans are located in 376 postcodes which represents approximately 38% of the total 1000 postcodes in the state. The following table shows the location of the majority of Keystart loans and the corresponding areas covered by financial counselling agencies. The table also shows the number and value of loans and the average age of borrowers.

Table 3. Keystart Customer Statistics

Location - Metro	Number of Loans	Total Loan Amount \$	Borrower Average Age
Balga, Nollamara, Mirrabooka, Alexander Heights, Girraween, Marangaroo, Koondoola, Ballajura, Landsdale, Gngangara, Yokine, Malaga, Noranda	1,993	\$180,100,938	36
Maddington, Thornlie, Gosnells, Martin, Huntingdale	1,451	131,779,383	34
Warnbro, Waikiki, Singleton, Golden Bay, Port Kennedy, Baldivis	1,413	132,348,564	32
Armadale, Kelmscott, Serpentine, Jarrahdale, Westfield	1,247	99,045,907	36
Midland, Mundaring, Bassendean, Stratton, Middle Swan	1,109	102,584,470	32
Merriwa, Clarkson, Mindarie, Quinns Rock, Kinross, Yanchep, Two Rocks	1,080	111,052,714	35
Atwell, Jandakot, Banjup, South Lake, Beelair, Yangebup, Wattleup, Munster, Bibra Lake	721	76,886,353	34
Cannington, Queens Park, Wilson, Beckenham, Welshpool, Willetton, Bentley, Shelley, Riverton, Rossmoyne, Bullcreek	698	68,321,265	34
Mandurah, Dwellingup, Boddington, Keysbrook, Pinjarra, Waroona, Lake Clifton	650	58,199,839	35
Kwinana, Medina	650	49,689,739	33
<i>Sub Total Metro (40 postcodes)</i>	<i>11,012</i>	<i>1,010,009,172</i>	<i>34</i>
- Regional			
Bunbury	385	36,168,436	35
Kalgoorlie, Boulder	314	33,094,874	32
Geraldton	309	25,165,164	36
Albany, Denmark	152	12,908,258	34
Collie, Boyup Brook	110	6,154,368	35
Northam	109	6,269,697	34
<i>Sub Total Regional (16 postcodes)</i>	<i>1,379</i>	<i>119,760,797</i>	<i>34</i>
Total Metropolitan and Regional	12,391	1,129,769,969	
Other postcodes (320 postcodes)	4,926	446,045,578	
State Total (376 postcodes)	17,317	\$1,575,815,547	34

Approximately 80% of Keystart loans are located in metropolitan postcodes (6000 - 6199) with the remaining 20% located in regional areas. This reflects the general population where 73% of people (1,341,914) live in metropolitan areas and 27% (489,485) living in regional areas.

Table 4. Keystart Loan Applications 1998 - 1999

Loan Applications	Applications Scheme to Date	Loans Approved	Approved Scheme to Date
8,877	37,627	5,979	26,400

Table 5. Purpose of Keystart Loans 1998-1999

	Number	Average Value
Construction of home	2,149	\$114,305
Buy established home	3,830	87,047
1st home buyer	5,617	96,919
Other home buyers	362	95,686

3.1.1 Keystart Loan Performance and Difficulties

The Keystart loan scheme seems to perform very well. The information presented in table 6 below shows that the total number of Keystart loans in arrears represents a very small proportion of the total loans. It appears that in difficult circumstances, the majority of borrowers are able to make arrangements to restore payments after a couple of weeks. A very small proportion of the total Keystart borrowers are behind by more than a couple of payments.

Table 6. Keystart Arrears as at October 1999

Period of Arrears (Instalments)	Number of Loans	% of Total Number of Loans	Total Repayments in Arrears
1 month	193	1.07	\$187,991
2 months	64	0.35	109,507
3 months	38	0.21	87,413
4 and over	49	0.27	249,655
<i>Total Arrears</i>	<i>344</i>	<i>1.90</i>	<i>634,566</i>
Safety Net in arrears	25	0.14	49,421
Mortgagee in Possession	136	0.75	714,126
Total	505	2.79	\$1,398,113

3.2 Goodstart Home Loans

Keystart also manages the Goodstart Shared Equity Scheme which was initiated in August 1997. The Goodstart Scheme gives Homeswest tenants and rental applicants on the Homeswest waiting list an opportunity to purchase their own home. Last financial year the Goodstart Scheme approved 294 applications to the value of \$13 million.

Goodstart applicants can purchase a minimum of 50% of the value of their home. Current rental tenants are able to purchase equity in the house they are living in, if the property is for sale. To be eligible to purchase their property, tenants must:

- live in a property that is more than 2 years old,
- live in an area which is not subject to redevelopment,
- live in a property with a separate legal title and
- live in a property that is not required to meet the special needs of Homeswest regions.

Homeswest rental applicants on the waiting list are eligible to purchase a minimum of 50% of the value of a Homeswest property from a list of vacant properties.

No deposit is required for Goodstart loans and the annual interest rate is fixed at 6.5% until the borrower's income exceeds the maximum Homeswest rental eligibility limits. Borrowers income limits are reviewed annually and once the maximum rental income eligibility limit is exceeded the interest rate changes to the Commonwealth Bank standard home loan variable rate. No Goodstart borrower pays more than 25% of their assessed income in repayments, including all rates and building insurance.

Table 7. Annual Income and Fortnightly Repayment Guide - Goodstart

Amount of Loan	Fortnightly Repayment @ 6.5% pa -18 yrs	Income Required
\$71,357	\$305	\$31,720
61,019	268	27,820
48,614	223	23,140
36,208	178	18,460
23,803	133	13,780

The maximum property value is \$150,000 and borrowers can choose to purchase the remaining 50% equity in the home at a later date. The term of Goodstart loans varies according to the income level of borrowers up to a maximum of 25 years.

To assist with loan fees, a payment up to \$1,500 is provided by Homeswest. To help borrowers budget for rates and insurance an amount for these costs is included in the fortnightly repayments. In situations of financial difficulty Homeswest is able to buy back the equity in the property and the borrower may return to rental accommodation.

Table 8. Goodstart Loan Applications 1998 - 1999

Loan Applications	Applications Scheme to Date	Loans Approved	Approved Scheme to Date
632	1,781	294	762

3.3 Aboriginal Home Ownership

The Aboriginal Home Ownership Scheme provides home loans to people of Aboriginal or Torres Strait Island background. Last year 52 loans were approved with a total value of \$5.3 million.

The scheme enables people who cannot afford to borrow the full price of a property to purchase in partnership with the Ministry of Housing. The Ministry will buy up to a 30% share of the value of the home. This portion can be purchased at a later date.

The terms of the Aboriginal Home Ownership Scheme require that borrowers must have a \$1000 deposit. Borrowers are eligible for a cash assistance grant of \$2,500 to meet loan establishment fees, stamp duty and settlement costs. Mortgage payments are calculated so that they do not exceed 23% of gross income and are based on a 30 year term.

3.4 Access Home Loans

During the last financial year the Access Home Loan Scheme approved 73 loans with a total value of \$5.8 million to help people with disabilities buy a home or modify their existing home. The scheme enables people on Disability Support Pensions and their carers in receipt of a pension to purchase a minimum of 50% of the value of a property in conjunction with the Ministry of Housing.

Borrowers need to pay a minimum of \$1,000 deposit and are eligible for a cash assistance grant of \$2,500 to meet the cost of establishment fees, stamp duty and settlement costs. The loans are available for capital works which make private homes more accessible for people with disabilities.

3.5 Assistance Available to Borrowers

The Consumer Credit Code 1996 (WA) enables borrowers of loans dated after 1 November 1996 to apply for changes to their obligations under the loan contract on the grounds of hardship. The grounds for changes to the contract under hardship provisions may include; illness, unemployment or other reasonable cause. The borrower must be able to demonstrate that they will be able to meet the conditions of the variation.

Variations of the loan contract may be achieved by extending the term of the loan or postponing the date of payments without extending the overall term of the loan contract. Borrowers whose loans are in advance may arrange for their monthly payments to cease or be reduced for as long as the loan remains in advance. In some instances borrowers with sufficient loan payments in advance may make a one-off arrangement with Keystart to have housing related water bills or council rates paid by these loan funds.

Borrowers in arrears with their loan payments may make arrangements to pay those arrears in instalments.

3.6 Safety Net Assistance

The Keystart Safety Net Package was introduced to assist borrowers:

- whose financial situation has deteriorated after their loan was obtained,
- who, without assistance, could lose their homes and
- who can not be assisted adequately by other options through reduced payments or renegotiation of other debts.

The general principles of the Keystart Safety Net Package also apply to Goodstart Shared Equity Scheme, Aboriginal Home Ownership Scheme and Access Home Loans. Borrowers who apply for safety net assistance must demonstrate a commitment to maintaining their account despite experiencing financial difficulty. Borrowers may be experiencing financial difficulty as a result of events such as; relationship breakdown, illness, unemployment, or a general lack of adequate income to meet financial commitments.

There are three phases of safety net assistance and borrowers are offered the phase that is best suited to their needs. They do not have to progress through the phases in order. Each phase is designed to keep loan repayments at an acceptable percentage of the borrower's income which is generally in the range of 27 - 31% of assessed income. In this calculation the borrower's other liabilities and ability to pay are taken into consideration. The safety net package is also designed to enable borrowers who have other debts to reduce their total debt repayments. The maximum manageable total debt repayment is generally considered to be 35% of assessed income.

As at October 1999, 267 borrowers had been assisted by the safety net program of whom 15 had reverted to mortgagee in possession. Sixteen had completed the settlement of equity sold to the Ministry of Housing, 165 had reverted to a normal loan and the remaining 71 were being assisted through phase 1 and 2 of the program.

3.6.1 Phase 1 and 2: Reduced Payments for Fixed Times

Phase 1 assistance adjusts the minimum monthly repayments by lowering them through an interest rate reduction for a specified amount of time, usually three to six months. During that period the interest is forgiven and borrowers are not required to repay the additional interest at a later date. Phase 2 assistance also achieves a similar reduction in monthly repayments and is offered for a term up to two years.

Safety net applications are made only after the retailer and borrower have made sure that the borrower can not be assisted adequately by any other options such as reduced payments or renegotiation of other debts. To make an application for safety net assistance, the borrower completes a loan review form which the retailer submits with an explanatory memorandum to Keystart. Keystart will reply to submissions for phase 1 and phase 2 assistance within five working days of their receipt.

3.6.2 Phase 3: Shared Equity

Borrowers are not able to receive phase 3 assistance until they have shown that they are able to make payments at the level which phase 3 would require and are able to save money for the payment of council and water rates at the same time. Phase 3 assistance is provided through the purchase of shared equity in the home by Homeswest in circumstances where the borrower is not likely to be able to repay a loan for purchase of the whole property.

Homeswest will purchase up to 50% of the property at its fair market value as determined by a licensed independent valuer. The amount purchased will be calculated so that the borrower is left with a loan that they can reasonably be expected to repay. In instances where the borrower's financial circumstances improve substantially at a later date, they are able to repurchase Homeswest's share for fair market value at the time of the repurchase.

Phase 3 applications, once completed by the borrower and the retailer, are processed by Keystart within five working days. Following assessment by Keystart, applications are forwarded to the next meeting of the Homeswest Executive for consideration and approval. Applications are then forwarded to the Minister for Housing for final acceptance.

Phase 3 applicants are given immediate relief in the form of reduced interest rates pending the approval of their submission and preparation of legal documents. Once the shared equity arrangement is in place the interest rate charged on the loan reverts to the Keystart variable interest rate.

3.7 Financial Counselling

A financial counsellor provides information, options, support and advocacy for individuals, families and groups of consumers and can explore, develop and implement strategies for redressing credit issues. Financial counsellors can provide borrowers with information on ways to deal with financial problems and advise them of the rules and laws relating to bills and debts. Borrowers can be assisted to make arrangements with creditors and shown how to plan expenditure, organise a budget and live within their limited incomes.

Borrowers can benefit from independent financial counselling at many stages of their personal financial histories. They benefit especially when they are experiencing financial difficulties which bring them to apply for assistance from their home loan providers.

Retailers and Keystart will refer borrowers to a financial counsellor in their locality if they experience financial difficulty during the loan. Borrowers are commonly referred to a financial counsellor when they experience financial difficulty caused by secondary debts taken out after obtaining a home loan.

Submissions made by the financial counsellor to the retailer will be carefully considered and the counsellor will be informed in writing of the terms and conditions of any safety net assistance offered to their client.

4.0 Qualitative Data Analysis - Interviews With Financial Counsellors

Telephone interviews of approximately 30 minutes duration were conducted with 15 financial counsellors who work in areas with the highest number of Keystart borrowers as shown in table 3. The interviews were designed to seek their views on Homeswest home finance schemes. A copy of the interview questions can be found in Appendix A.

4.1 Background on Home Finance Schemes

Financial counsellors were asked to rate their own level of understanding of the various Homeswest home finance schemes. The following table summarises their responses.

Table 9. Financial Counsellor's Level of Knowledge of Home Finance Schemes

	very poor	poor	average	good	very good
Keystart		3	5	6	1
Goodstart		3	9	3	
Aboriginal	1	7	6	1	
Access	1	6	6	2	

The group of financial counsellors felt comfortable with their level of knowledge of the various home finance schemes and did not think it necessary to know more about the schemes until they had more clients with problems in those areas. Many financial counsellors indicated that they were aware of where to source additional information on home finance schemes if it was needed.

Financial counsellors rated their knowledge of Keystart and Goodstart higher than their knowledge of Aboriginal Home Ownership and Access Home Loan schemes. The major reason given for this difference was their exposure to these programs at conferences and training as well as through their work. The counsellors who rated their knowledge of Keystart and Goodstart as good to very good tended to be those who worked in areas with greater numbers of Keystart loans.

All of the 15 financial counsellors surveyed indicated that they have clients with Keystart loans on their files. The actual number of current clients with Keystart loans ranged from 1 to 57 and is discussed in section 4.3 of this report.

4.1.1 Typical Profile of Clients with Keystart Loans

The majority of financial counsellors indicated that their typical Keystart clients were young families with children on low incomes. Some identified the average age as 20-30 years while others identified the 30-40 years age group as most typical. Sole parents were also mentioned as typical Keystart clients and this was usually women remaining in the house after a relationship breakdown.

A range of income profiles were noted from single income to two incomes and included both Centrelink pensions and benefits as well as wages and salaries.

4.1.2 Keystart Scheme Performance

Ten of the 15 respondents thought that the Keystart scheme generally performed well for their clients. A common comment was that it allowed people on low incomes to purchase their own home. A further four financial counsellors thought that the scheme performance was average for their clients.

Two financial counsellors, both of whom work in the fast growing southern Perth suburbs, thought that the scheme performed poorly for the clients that they see. It was noted that they generally saw clients when they experienced difficulty with their loans. Reasons given for their perceived poor performance of the scheme included;

- clients have no savings for when things are not going so well,
- clients do not have enough information about their financial obligations as a borrower prior to taking out their loan,
- lending criteria includes a proportion of overtime and 100% of child support which are often not consistent forms of income,
- poor assessment by retailers or sales staff, and
- aggressive marketing which may be based on commissions.

4.2 Keystart Application and Assessment Process

Generally financial counsellors involved in the survey had few comments about the Keystart application and assessment process. Many indicated that they were not involved at the application stage and did not have any knowledge of the process unless specifically mentioned by the client. Financial counsellors generally did not discuss the application and assessment process with clients as the loan application was often made several years before the client sought the assistance of the financial counsellor.

On reflection of the client's situation at the time of the loan application, the respondents made the following comments:

- lending criteria is overgenerous,
- loans are very quick and easy to obtain which doesn't give the borrower time for second thoughts,
- clients made no provision for additional expenses such as land and water rates,
- some clients were told to downgrade their car and consolidate debts to obtain the loan which leaves no options to consolidate these debts later if problems arise,
- could consider a lower percentage of income in loan application,
- aggressive marketing of homes by home sellers,
- marketing of houses in areas where values have not increased in five years,
- advertising by builders and retailers draws people in and they get caught up in the excitement of owning their own home,
- advertising promises that they will not pay more than rent, and
- lack of information up front about what borrowers can do if they fall behind with payments.

4.3 Client Difficulties

Information about the number of clients who were experiencing problems with their Keystart loans were difficult to obtain. Financial counsellors do not keep detailed statistics on individual client debts and mortgages. In most instances, financial counsellors provided the number of clients that they were currently working with who had a Keystart loan. Other financial counsellors gave the number of clients over a three or six month period. Where possible the numbers have been given for clients in the previous three months which for most counsellors would be considered current files.

Table 10. Clients With Keystart Loans

refers to suburbs listed in full in table 3	Total Clients	Total Keystart Borrowers in the Area	Clients Seeking Help Who Have a Keystart Loans **	Total Clients With Keystart Loans as % of Keystart Borrowers
Balga	102	1993	10	0.5
Gosnells Maddington	70	1451	3	0.2
Warnbro, Waikiki	*88	1413	16	1.1
Armadale Kelmscott	*66	1247	5	0.5
Midland	*66	1109	6	0.5
Merriwa, Clarkson	112	1080	45	4.2
Atwell, Jandakot	*30	721	8	1.1
Cannington	90	698	1	0.1
Mandurah	173	650	4	0.6
Medina, Kwinana	60	650	figures not	available
Bunbury	182	385	5	1.2
Kalgoorlie, Boulder	240	314	24	7.6
Geraldton	356	309	12	3.8
Albany		152	figures not	available
Collie	*50	110	6	5.4
Northam	67	109	5	4.6

* denotes part time service.

** these figures may included clients presenting to a financial counsellor who identify their Keystart loan as a problem and/or those who identify a range of issues.

Some of the special circumstances for different areas included:

- land values in Merriwa Clarkson have not increased significantly in the past five years,
- Atwell, Jandakot areas are new suburbs with many young families on two incomes. Some social problems are due to the lack of variation in the population and community / recreational facilities. Many clients in this area have home loans with banks.
- variability in employment and downturn in the mining industry have meant that many Kalgoorlie people have had difficulty getting bank home loans and Keystart loans are becoming more popular, and
- high client load in Geraldton and Kalgoorlie may be due to the inclusion of welfare and para-legal work for which there is no other service.

It can be concluded from the surveys that financial counsellors in the metropolitan area were seeing a very small proportion of the overall Keystart borrowers in the various areas. It was further noted by many financial counsellors that the majority of clients with Keystart loans were seeking assistance with issues other than their home loan. In most cases clients seemed to be experiencing difficulty with a number of debts and the home loan was just one of many. Borrowers experiencing problems with their Keystart loan only, represented a very small percentage of the total borrower population.

No reasons were given for the higher proportion of Keystart borrowers seeking assistance from financial counsellors in country locations. This may warrant further investigation.

4.3.1 Causes of Client Financial Difficulty

The most common circumstances that lead to the client experiencing difficulty with their loan were unemployment and relationship breakdown. This finding supports information currently held by Keystart regarding the cause of difficulties among borrowers. Other causes of difficulty listed by financial counsellors included:

- reduced income - one partner ceasing work; decrease in overtime; loss of bonuses etc,
- overcommitment - other debts accrued after the loan taken out including land and water rates, credit cards, store cards etc, (some financial counsellors suggested many clients could afford these expenses at the time of incurring them but a change in circumstances such as unemployment meant that they were now unable to afford them)
- poor loan assessment - some borrowers could not afford the loan and other living expenses at the time the loan was taken out, and
- illness.

Many financial counsellors observed that their client's financial difficulty was rarely related solely to their Keystart loan. In most cases, counsellors noted that the fact that the client's home loan was part of the Keystart scheme was not relevant in their overall dealings with clients. The financial counsellors indicated that client difficulties were usually related to a change in circumstances and were exasperated by the fact that they were on a low income and had no savings to call upon in times of need.

4.3.2 Avoiding Client Difficulties

Financial counsellors concluded that there was very little that could be done to help clients to avoid difficulties as a result of unemployment or relationship breakdown. These situations were thought to be generally unavoidable.

The suggestions for avoiding circumstances that lead to loan difficulties included:

- inform borrowers about financial counselling services when the loans was taken out,
- inform borrowers of the need to budget for land and water rates,
- less aggressive marketing,
- retailers could perhaps be encouraged to do a 'what if' analysis with borrowers (eg. what if income is reduced, interest rates rise etc),
- inform borrowers that they will lose rent assistance and that concessions on rates will not apply if they are deferred,
- do not include child support and overtime in income assessment.

4.4 Mortgage Renegotiation

Clients generally sought assistance from the financial counsellor when they either:

- fell behind with several loan payments,
- received a letter of demand from the retailer,
- their financial situation deteriorated to such an extent that they received a summons or other notification of legal action.

There was a general consensus among the respondents that clients sought assistance at a late stage but that they often still had options available to them. There was agreement that the financial counsellor would be of greater assistance to clients if help was sought earlier. Pride and lack of awareness of help available were noted as common reasons why clients sought help at a late stage.

There did not seem to be a common source of referral to financial counselling agencies. Clients were referred from the following sources:

- self, friend or family member (word of mouth),
- retailer,
- other creditors,
- emergency relief agency, and
- Centrelink.

4.4.1 Typical Profile of Clients Seeking Renegotiation

The typical profile of clients seeking assistance with mortgage renegotiation seemed to be indicative of the general Keystart clients. Young families with children and sole parents were the main groups of clients seeking help with mortgage renegotiation although a wide variation of client profiles were noted. Most financial counsellors suggested that clients seeking help with mortgage renegotiation had experienced a change in circumstances.

4.4.2 Outcomes of Mortgage Renegotiation

It was noted that many clients were not aware of the options available to them when they sought help from a financial counsellor. However, the most common outcomes that clients did request were:

- inclusion of land and water rates into the loan,
- reduced payments,
- payment of arrears in instalments, and
- stopping the sale of the house.

Financial counsellors involved in the survey generally felt that they were able to achieve these outcomes fairly successfully. It was suggested by several financial counsellors that clients seemed to have an overwhelming desire to maintain possession of their house. They pointed out that in some instances this was an illogical or unrealistic expectation and that the sale of the house would greatly improve the financial situation of some clients. This was particularly relevant to single parents remaining in the house and making all of the payments following a relationship breakdown.

Two financial counsellors indicated that they had successfully renegotiated Keystart loans for single female clients and had experienced a great deal of difficulty negotiating on behalf of single men in similar circumstances.

No significant issues were raised by financial counsellors regarding mortgage renegotiation as this forms part of their everyday work. Keystart loan negotiations were reported to be treated in the same way as all other secured debts.

4.5 Safety Net Assistance

Ten of the 15 financial counsellors felt comfortable with their level of knowledge of safety net assistance available to clients. These financial counsellors with the exception of one all worked in metropolitan agencies. The financial counsellors dealing with the most Keystart clients made the following observations about safety net assistance:

- in many cases the financial counsellor had a greater understanding of the phases of safety net assistance than the retailers and
- different retailers have a different understanding of the safety net system.

The five financial counsellors who did not feel comfortable with their level of knowledge of safety net assistance noted that they had rarely, if ever, dealt with the safety net scheme. Several reasons for this could be suggested including:

- Keystart staff and retailers not passing on details of safety net,
- financial counsellors had not had clients experiencing difficulty with their Keystart loan such that safety net assistance was necessary, or
- financial counsellors undertaking general mortgage renegotiation with retailers and not being aware that they may in fact be using the safety net provisions (ie use the system but not aware of the name 'safety net').

4.5.1 Typical Profile of Clients Seeking Safety Net Assistance

Very few financial counsellors had dealt with the safety net system and as a result there were no significant differences in the typical profile of clients seeking safety net assistance. Safety net applicants tended to be the same types of clients as the general Keystart borrowers.

The circumstances that lead to the client seeking safety net assistance were also the same as previously mentioned in questions relating to client difficulties an mortgage renegotiation.

4.5.2 Awareness of Safety Net Assistance

Only one financial counsellor indicated that some clients were aware of safety net assistance before seeking help. These clients were referred by one retailer and it was thought that this may be as a result of the counsellors good working relations with that retailer.

All other respondents clearly indicated that they had told the client about the safety net assistance. It was the experience of this group of financial counsellors that neither the retailers nor Keystart had provided clients with information on safety net assistance.

4.5.3 Issues Relating to Safety Net Assistance

Comments from financial counsellors suggested that they were negotiating reduced payments for a fixed time on all types of secured and unsecured debts as part of their everyday work. Many did not make a connection between this informal system and the more formal terms of phase one and two of the safety net assistance scheme. Few were clearly able to distinguish safety net negotiations from general negotiations on behalf of the client.

The outcomes achieved for clients in relation to safety net were very similar to those sought in general mortgage negotiations being reduced payments and inclusion of land and water rates into the loan. This supports the previous suggestions that many financial counsellors do not distinguish their general mortgage negotiations from phase one and two of the safety net scheme.

Only two financial counsellors mentioned the shared equity provisions of the safety net scheme. It was noted that many clients did not have a great deal of equity in their house and other options such as the sale of the house, consolidation of other debts or sale of other assets were more common options available to clients. One financial counsellor noted that the shared equity phase of the safety net scheme was viewed suspiciously by a client as they did not fully understand the implication and the role of Keystart/Homeswest in the shared equity scheme.

Other comments from financial counsellors regarding the safety net scheme included:

- most applications for safety net have worked well,
- retailers regard the safety net scheme as a privilege and offer it at a very late stage (if at all) which is often too late for clients,
- safety net application process takes too long,
- retailers/Keystart do not write back to financial counsellors to inform them of the outcome of safety net application,
- some retailers offer the phases of safety net from one to three and not necessarily what is most suited to the client situation, and
- safety net policy and applications are treated differently by different retailers.

4.6 Communication With Keystart and Retailers

The majority of financial counsellors indicated that they currently received information about Keystart home finance schemes from the Financial Counsellors Resource Project or Financial Counsellors Association of Western Australia. Three financial counsellors noted Shelter WA as a source of information about Keystart while a further three said that they did not receive any information about Keystart. Two of these three were counsellors working in country agencies.

There was a great deal of variation from the respondents about the information they would like to receive about Keystart home finance schemes. The responses ranged from; no information to everything available. The majority of financial counsellors expressed an interest in receiving information about changes to the Keystart scheme and policies as they occurred.

Several counsellors noted that basic information about the Keystart scheme suitable to give to clients would be useful. Two experienced financial counsellors working in areas with the highest number of Keystart borrowers thought that the Keystart policy manual and formulas used to calculate reduced payments would be useful.

4.6.1 Information Via Internet

Only five of the 15 financial counsellors involved in the survey currently use the Internet in their work. Three of these five thought that they would find it useful to have information available on the Internet. Seven counsellors have the reason for their lack of access to the Internet as a lack of funding to connect and maintain access. A further three suggested that the Internet was a time waster and would not be useful in their work.

4.6.2 Working Relationship With Keystart and Retailers

The majority of financial counsellors described their working relationship with Keystart as good. Responses included:

- no complaints,
- satisfactory,
- don't deal with them much,
- takes time and effort to establish a good working relationship, and
- excellent.

Four financial counsellors indicated that they did not have a working relationship with Keystart at all. These counsellors had between one and six clients with Keystart loans. Three of the four were based in country agencies.

The descriptions of the working relationship with retailers ranged from none to very good. Comments about retailers seemed to be related to individual staff working for the different retailers. Other comments about the working relationship with retailers included:

- takes time to develop rapport with staff,
- depends on who you deal with,
- some staff can be a bit judgemental and
- relationship has improved over the last 18 months.

One counsellor indicated that in her experience, retailers generally did not tell clients that help was available until it was too late. This counsellor also mentioned that both herself and clients were confronted with the comment "we sympathise but can't help" from some retailers which was frustrating.

4.7 Major Issues Relating to Home Purchase Schemes

The most frequently mentioned issue relating to Keystart home finance schemes was that of land and water rates. Financial counsellors thought that borrowers did not allow for these expenses and were often several years behind in payments. Some counsellors suggested that a system such as Goodstart where these expenses were included in loan payments would be a useful option for some borrowers.

Other issues raised by financial counsellors included:

- lack of information at the time the loan was taken out about what to do in the event of financial difficulty,
- explanation of borrowers obligations such as land and water rates,
- more stringent loan assessment,
- overzealous house sellers/ aggressive marketing,
- borrowers purchasing houses in areas that are slow to appreciate in value, loans are too quick and easy to obtain, no time for second thoughts,
- overcommitment after the loan was taken out and
- over-emphasis on home ownership.

The majority of counsellors indicated that the strength of the Keystart home finance schemes was also the greatest weakness. The fact that the schemes allow people on low incomes to purchase their own home with a low deposit was seen by many financial counsellors as both good and potentially bad. Borrowers on a low income found it very difficult to cope with loan repayments and general living expenses following a change of circumstances such as unemployment or relationship breakdown. Very often these people have no savings to call upon in times of need.

Some financial counsellors predicted a rise in the number of borrowers seeking assistance if home loan interest rates were to rise. It was thought that many borrowers were barely managing to cover loan repayments, other debts and general living expenses at the moment and a rise in interest rates would add additional pressure to these families.

4.7.1 Strategies For Improvement

The group of financial counsellors did not have many suggestions of ways to improve the likely success of Keystart loans for three main reasons:

- this group dealt with a relatively small group of Keystart clients,
- problems experienced by clients were not usually directly related to their loan and were more complex, and
- unemployment and relationship breakdown were the major causes of problems and these are very difficult issues to tackle.

The following suggestions of strategies to improve Keystart loans were made:

- kits available to borrowers setting out in plain language details of Keystart loans and financial obligations,
- general education of borrowers as to their financial obligations (ie explanation of the cost differences between renting and buying a home,
- six monthly reviews of borrowers,
- tighter lending criteria especially in regard to income assessment,
- financial counsellors in country areas may need more support in dealing with clients with Keystart loans,
- encourage diversity of age ranges in new housing development instead of huge developments of young families with little community or recreations facilities,
- training for retailer staff in mediation and customer relations,
- retailer to conduct loan application assessment not home seller if this is not already the case, and
- less aggressive selling of houses to people on low incomes by real estate agents.

5.0 Summary of Findings and Recommendations

The following is a brief summary of the findings of the research findings and corresponding recommendations. The recommendations were made following a focus group discussion of the draft report with key stakeholders including representatives from Keystart, Shelter, retailers, community organisations and financial counsellors.

5.1 Home Finance Schemes

- The majority of financial counsellors have limited experience of the Keystart home finance schemes however, many indicated that they were aware of where to find information if it was required. In general the financial counsellors who knew more about Keystart were satisfied that the schemes work well for people on low incomes.
- Financial counsellors see a very low proportion of the total borrowers in their area.
- Financial counsellors in country areas seem to be seeing a higher proportion of borrowers with Keystart loans.
- People on low incomes experience difficulty with their loans following a change in circumstances such as unemployment or relationship breakdown. They rarely are able to accumulate savings for use in times of crisis.

Recommendations

Further investigation be conducted into the reasons why financial counsellors in country areas seem to be seeing a higher proportion of borrowers with Keystart loans.

Give consideration to Keystart and retailers providing more support and information about Keystart home finance schemes to financial counsellors in country areas.

5.2 Client Difficulties and Loan Negotiations

- Many clients sought assistance from financial counsellors for issues other than a specific problem with their home loan. The home loan was often one of many debts for clients.
- Financial counsellors felt that they were successfully renegotiating loans on behalf of clients informally or using the Consumer Credit Code 1996 (WA).

Recommendations

Consideration be given to raising financial counsellor's awareness of the safety net scheme and the differences between the Consumer Credit Code and safety net process.

Financial counsellors be informed of any changes to the safety net scheme.

Financial counsellors be informed of the benefits to clients of using the safety net scheme rather than the Consumer Credit Code.

5.3 Safety Net Assistance

- Very few financial counsellors have used the safety net scheme to assist clients.
- Those financial counsellors who had used the safety net scheme were concerned about a lack of uniformity in the application of safety net policy among retailers.
- Financial counsellors were not informed of the safety net application outcome.
- Safety net assistance often offered too late.

Recommendations

Recommend that Keystart and retailers take safety net negotiations to the end of all possibilities for the benefit of clients

Retailers meet with financial counsellors to discuss safety net policies and procedures as there seems to be a need to take some of the subjectivity out of current arrangements and standardise procedures.

Information about safety net policies and procedures be made available to financial counsellors following above meeting.

Financial counsellors to be informed of the outcome of safety net applications by telephone or letter. A copy of the letter sent to the borrower/client would be sufficient.

Retailers to refer borrowers to financial counsellors earlier.

Financial counsellors to work on their public image in an attempt to have borrowers seek timely assistance following a referral from retailers.

5.4 Communication With Keystart and Retailers

- Assistance to clients would be more appropriate and timely if referrals were made to the financial counsellor at an earlier stage.
- Financial counsellors involved in the surveys were generally happy about the working relationship they had with both Keystart and retailer staff.

Recommendations

see above recommendations.

5.5 Information to Borrowers

- There appears to be a need to provide potential borrowers with information that is:
 - written in plain English,
 - perhaps in brochure format,
 - informs them that they may lose rent assistance and concessions on rates will not apply if deferred,
 - financial obligations associated with home ownership as opposed to renting,
 - what options are available if they fall behind in payments,
 - information about financial counselling services.

Recommendations

Recommend that Shelter WA work with financial counsellors to produce and distribute an information sheet to provide information to borrowers in an attempt to have them think about their financial responsibilities prior to taking out a loan.

Information sheet to include information listed in section 5.5 above as well as an explanation of joint and several liability and co-borrower obligations.

Information sheet to be enclosed with other notes sent to people who make telephone or email enquiries about Keystart loans. Information on borrower obligations could also be included on Keystart web page.

Ministry of Fair Trading to be considered as a possible agency to distribute the above mentioned information sheet.

Key stakeholders including those participating in the focus group discussion be asked to provide input into what would be useful information to include on the information sheet.

5.6 Structure of Loans

- Many financial counsellors involved in the survey questioned the level of child support and overtime that was assessed as income in loan applications as these were not considered reliable forms of income.
- Financial counsellors suggested that borrowers be given the option to include payment towards land and water rates in loan payments as with the Goodstart loan scheme.

Recommendations

Keystart to monitor loan accounts for which overtime and child maintenance have been part of the assessed income.

Recommend that the idea of providing borrowers with the option of including a payment towards land and water rates in loan payments as with Goodstart scheme be discussed further.

5.7 Aggressive Marketing

- Financial counsellors involved in the survey expressed concern about the aggressive marketing of homes and home loan packages by builders and agents.

Recommendation

Recommend that counter information be provided where possible.

5.8 Consolidation of Debts at Time Loan Taken Out

- The consolidation of debts so as to meet loan criteria by lowering monthly payments was recognised as removing that option from a later stage of the loan. At the same time it was acknowledged that reducing monthly commitments was often helpful to the borrower.

Recommendation

Recommend that information about debt consolidation be included in information sheet produced by Shelter WA.

5.9 Properties Not Increasing in Value

- Borrowers who fall behind in payments in the first couple of years of their loan are likely to find themselves in a situation of negative equity especially in areas such as Armadale.

Recommendation

Recommend that information about loan payments in the early part of home loan and static land values be included in information sheet produced by Shelter WA.

5.10 Six Monthly Review of Borrowers

- Financial counsellors suggested that some borrowers would benefit from a six monthly review of their account by retailers to address any problems as early as possible.

Recommendation

Recommend that a six monthly mailing of account statement and information brochures is adequate for the majority of customers and a labour intensive review is not necessary.

5.11 Train Retailers in Mediation/Customer Relations

- Financial counsellors suggested that staff of some retailers were judgemental in their attitude towards clients. It was further noted that some letters sent to borrowers came across as rude or aggressive.

Recommendation

Training of retailer staff in customer relations and mediation was agreed to be worthwhile and consideration should be given to conducting this training as soon as possible.

Appendix A

Financial Counsellor Interview Questions

The following questions relate to Homeswest Home Finance Schemes including Keystart home loans and Goodstart Shared Equity Scheme. As the Keystart scheme has the largest number of loans we are particularly interested in information on this scheme. If you have information on Goodstart please clarify this in your responses.

Homeswest Home Finance Schemes

1. How would you rate your level of understanding of Keystart home loan schemes?
very poor poor average good very good
2. How would you rate your level of understanding of the Goodstart Shared Equity Scheme?
very poor poor average good very good
3. How would you rate your level of understanding of the Aboriginal Home Ownership Scheme?
very poor poor average good very good
4. How would you rate your level of understanding of the Access Home Loans?
very poor poor average good very good
5. Do you have clients with Keystart loans on you files? **Yes/No**
6. Describe the typical profile of your clients using the Keystart loan scheme?
7. In your opinion how is the Keystart scheme performing for the clients that you see?
very poor poor average good very good
Why?

Application and Assessment Process

8. Comment on your clients' experience with the Keystart application and assessment process.
9. Comment on your clients' experience with Keystart retailers. (Trades and Labor Council Building Society, University Building Society, Western Homebuyers Building Society and Westland Building Society)

10. Can you identify any trends, issues or concerns with the loan application and assessment process?

Client Difficulties

11. Please identify the following from your total client group;
- _____ number of clients with Keystart loans,
 - _____ number of clients with Keystart loans that are seeking assistance with other issues,
 - _____ number of clients experiencing problems with their Keystart loan.
12. Describe some of the most common circumstances that lead to the client experiencing difficulty with their Keystart loan.
13. Could any of these circumstances have been avoided? If so suggest how.

Mortgage Renegotiation

14. At what stage do clients generally seek assistance from a financial counselling service?
15. Comment on the timing of this first contact. Was it appropriate, too late, etc?
16. Did the client seek help of their own accord or were they referred? If referred, indicate source of the referral.
17. Describe the typical profile of clients seeking assistance in renegotiating their Keystart loan.
18. In what circumstances are clients requiring assistance with loan renegotiation?
19. What outcomes have clients requested regarding loan renegotiation?

20. What outcomes have you been able to achieve for clients?
21. Identify any issues relating to renegotiation.

Safety Net

22. Are you comfortable with your level of knowledge of the safety net assistance available to clients? **Yes/No**
If no, why not?
23. Describe the typical profile of clients seeking safety net assistance.
24. Describe the circumstances that lead to clients seeking safety net assistance?
25. Were clients aware of safety net assistance before seeking your help? If so, where did they receive information about safety net assistance?
26. What outcomes have been achieved for clients?
27. In your opinion were the outcomes achieved; reasonable, timely and appropriate?
28. Can you identify any trends relating to client circumstances and outcomes you are able to achieve?
29. Describe any issues, trends or problems with safety net assistance.

Communication with Keystart

30. What information do you currently receive about Keystart home loans?
31. What information would you like to receive about Keystart home loans?
32. If information was available via the Internet to assist you in dealing with Keystart issues, would you use it? If not, please explain why?
33. Do you currently use the Internet in your work? If not, please give reasons as to why not?
34. Describe your working relationship with Keystart staff.
35. Describe your working relationship with Keystart retailers? (Trades and Labor Council Building Society, University Building Society, Western Homebuyers Building Society and Westland Building Society).

Conclusions

36. List the major issues relating to home purchase schemes based on your experience.
37. In your opinion what makes Keystart home loans successful / not successful?
38. Can you identify any strategies to improve the likely success of Keystart loans?
39. Would you be interested/willing to participate in a focus group discussion on these issues in the near future?