

Submission to Senate Inquiry
"Effects of the GFC on the Australian Banking Sector"

18th May 2012

**Economics References Committee
PO Box 6100
Parliament House
Canberra, ACT, 2600**

Dear Senators,

Please find attached my submission that relates to how I/my business was treated by Bankwest after it was acquired by the Commonwealth Bank of Australia during the GFC in late 2008.

Introduction:

My name is Frank Galea. I have been a successful property developer for over 30 years.

After coming out of an early retirement I decided to enter the retirement industry. This decision was made after months of investigation into the industry and attending retirement conferences.

Detail:

In 2005 I took an option on a 5 acre site and an adjoining residential property just 200m from Round Corner Shopping Village in the heart of Dural. I gained development approval for a 70 residence retirement resort with a 500 sqm clubhouse, outdoor bowling green, golf putting and chipping green and extensive walkways. In 2006 I decided between 2 retirement village lenders and took out a mortgage with BankWest.

Why I went to BankWest

The retirement industry is a specialised one. There are complex government rules and regulations surrounding the ways retirees buy/rent in a village. Therefore there were only a few lenders that fully understood the industry and who lent according to the risks and rewards offered by the retirement living model.

I was able to narrow it down to 2 lenders and it was simply the fact that I preferred the manager at BankWest that they became my choice of lender.

Nature of the facility

The facility was a draw down facility based on a stage by stage basis.

The first loan was given in September 2006. It was for the purchase of the land and stage 1 of development which was for 7 homes. Further funding for 1 more home was given during the early construction of Stage 1. This was completed at the same time as the other 7 homes making a total of 8 homes in Stage 1.

Funding for

Dates of what happened

The first loan was given in September 2006. It was for the purchase of the land and stage 1 of development which was for 7 homes. Further funding for 1 more home was given during the early construction of Stage 1. This was completed at the same time as the other 7 homes making a total of 8 homes in Stage 1. Construction was complete in October 2008.

Funding for Stage 2 was given in 2009 for a further 5 homes. It had been requested that funding for 12 properties be given. Stage 2b was for a further 7 homes, this was in 2009.

In 2009 I also gained finance for my property, some 25 acres and home in Kemps Creek, under option to Australand for industrial redevelopment.

What the bank did

As I mentioned we have been with Bankwest for approximately 5 years. They have been slow to lend money on a very viable project showing much greater than a 25% developers margin.

We have always met our sales target despite the global financial crises and other market concerns.

On the 14th November 2010 we submitted a loan application to the bank. It was met with verbal approval and a \$200,000 advance to start civil works on 7 homes (6 of those with deposits). The bank then came back and asked for a valuation despite a previous valuation by Nelson Partners only 11 months prior. The valuation was ordered by the bank with CBRE and the value came in some \$7 million less, equating from \$190,000 residual land value per site to just \$50,000 per site. (we are talking prime acreage in the heart of Round Corner, Dural with some mountain views and just 200m from a shopping centre)

The bank then proceeded to tell us we now had an unacceptable LVR and they would send in Ernest and Young for a business analysis, at a cost of \$77,000. (Meanwhile it should be noted that we had a loan facility with the bank for \$13,900,000. At no time in our history with the bank have we ever gone past \$10,500,000 even with the new lending requirements)

Ernest and Young spent some weeks in our business observing and asking for paperwork. They were surprised at how quickly and concisely we delivered this

paperwork and their report came back in very favourable terms. The bank sat and did nothing.

We then formulated a strategy showing the bank that they could loan partial funds and we would secure the remaining funds required for the next stage via another lender. We immediately sourced \$1,000,000 of private funding and he met with the bank telling them his very generous terms and conditions. We then negotiated both through email and via a meeting the terms and conditions of the remaining lending and the bank were in agreement.

It then went to the bank's solicitors to be written into document form for us to take to the other financial institution. Despite a promise of 2 days the document came back 4 days later totally against what had been discussed and agreed upon and hopelessly unworkable.

That was mid 2011 and we had been pressuring the bank for a decision until December 2011. Back in September we took a call from one of the 4 people we have had managing our file (we seem to have a new one every 3 or 4 months) and he told us the bank was liquidating the assets and even told us who the receiver was. But 3 weeks later they rescinded their decision and said no decision was yet to be made but it looked hopeful for funding.

A little while after that they sent in Ernest and Young for a six month review, only they went back and reported no changes. Literally nothing was being done.

So in December 2011 we finally made contact with the bank and they said they were going to liquidate the assets and asked if we could please sell them for the bank. On 23rd December in a meeting with the key manager and Ernst and Young it was decided that BankWest would send in a receiver, being Ernst and Young. Over Christmas BankWest sent their mandatory letters of demand

however the dates given on the letters were already passed when the letters were received.

On 30th January Ernst and Young called to say they had been appointed receivers effective from this date.

Impact:

I am 58 years of age and starting all over again. BankWest requested that I sell the property at Kemps Creek to pay down the debt. They agreed to a sale \$400,000 short of the debt. As this was my residence I have had to move out. I have my car worth approximately \$7,000 and the clothes on my back. I am living with some friends and I am in the process of applying for unemployment benefits. The possibilities employment for someone who is illiterate, 58 years old and been self employed for the last 40 years is challenging to say the least. My daughter who was living with me with her 1 year old baby in a part of my residence has had to find a place to live. Friends who had fallen on hard times who were living in another part of the house had to make arrangements to move elsewhere. I have had to terminate the employment of my personal assistance. I have an outstanding debt to my x wife for a property settlement and that is currently unable to be paid.

My businesses are all in administration. This has caused uncertainty and stress among the residents in the retirement resort, many of whom I have become friends with over the time. They purchased into the resort based on my track record, the product I took so long to perfect and the sense of community that I worked so hard to achieve. That is all gone.

There are the prospective residents, some of whom have put down deposits off the plan 4 years ago. They have shared in the excitement of being told the loan has been approved, just waiting on the paperwork; to the bitter disappointment of being told that there are just no answers as to when BankWest will make a decision. Some of these people have such loyalty to me they have put their moving plans on hold for 4 years while they wait for a decision from BankWest.

Conclusion:

The bank failed to do what they are in business to do: lend money.

From day 1 BankWest failed to lend sufficient funds to roll out the stages of development in such a way that stock would be sold and confidence among residents and prospective residents would be high. Confidence in retirees is what equates to sales. The bank also failed to deliver on promises that the clubhouse funding would be forthcoming at the conclusion of Stage 1; that sales targets reached would be sufficient for lending to progress on Stage 3; and on Stage 4 in a desperate bid to trade out of debt, BankWest failed to allow the borrower to gain additional funding from outside sources despite agreeing to the terms and conditions at meetings.

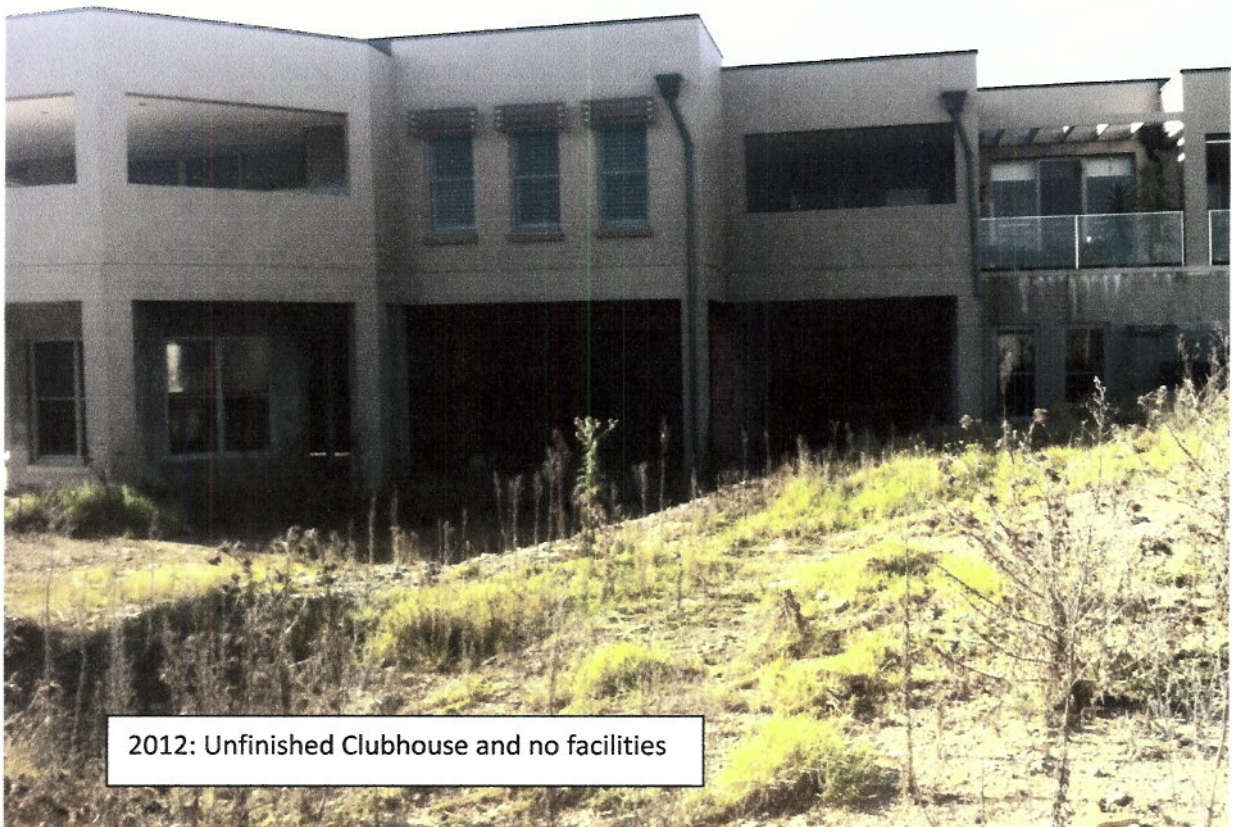
Yours Faithfully,

Frank Galea
Previous owner of
Oak Tree Dural Lifestyle Resort

Oak Tree Dural Lifestyle Resort: Finished Clubhouse & Facilities. Due for completion 2009



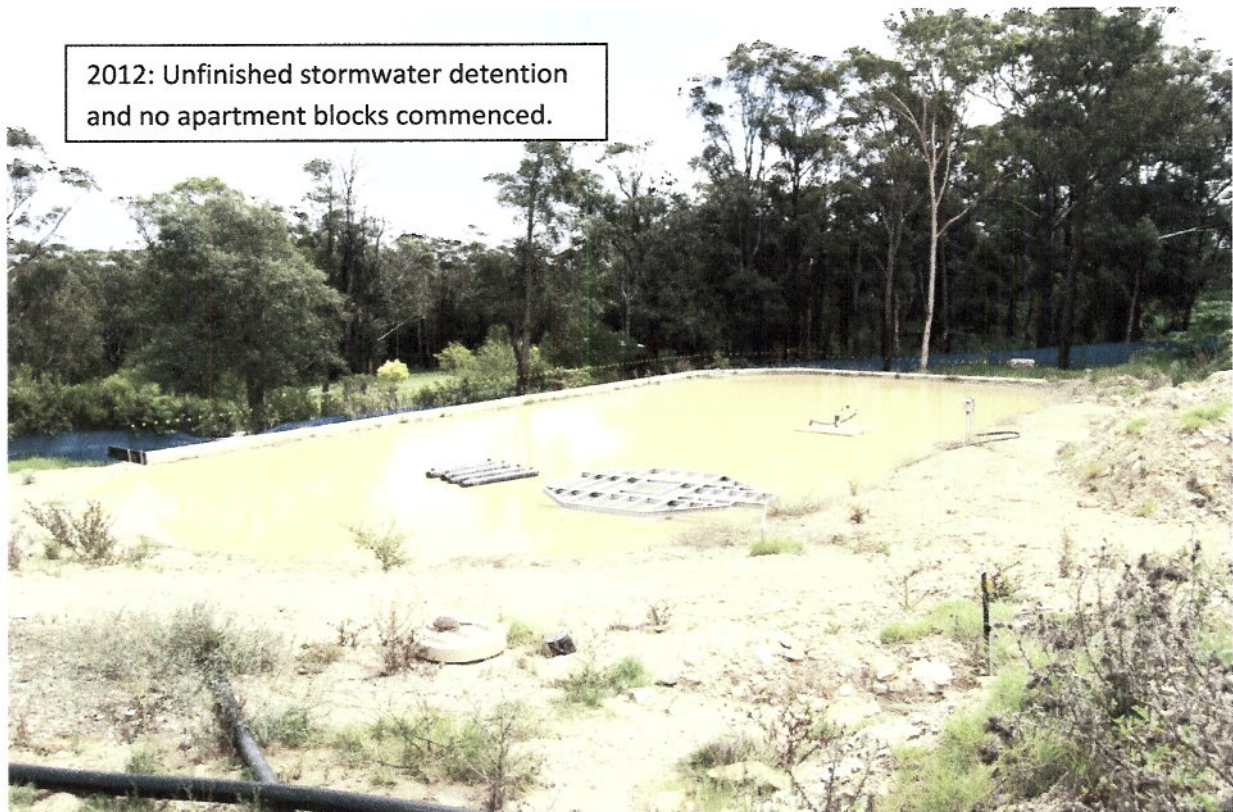
2012: Unfinished Clubhouse and no facilities



Artist impression of completed apartments and beautified stormwater detention. Due for completion 2011/12.



2012: Unfinished stormwater detention and no apartment blocks commenced.



A completed single level home in Stage 1



2011: Civil works completed in Stage 3 ready for slab. These people have been waiting for a home similar to above for 4 years.

