



Frequently Asked Questions Split Loan for Lenders

Overview

Indigenous Business Australia (IBA) offers concessional housing loans to enable Indigenous Australians to purchase their first affordable family home. To ensure that IBA's limited housing loan funds are targeted to those Indigenous Australians who are otherwise unable to source funds from commercial lenders, IBA places a limit on the loan amount that an IBA client can borrow based on the capacity to repay the loan and location of the property to be purchased.

Frequently Asked Questions

Q Who is Indigenous Business Australia?

A IBA is a statutory authority of the Australian Government within the Families, Housing, Community Services and Indigenous Affairs Portfolio and is governed by the *Aboriginal and Torres Strait Islander Act 2005* (Cth). IBA plays an important role in creating opportunities for Aboriginal and Torres Strait Islander individuals and communities to build assets and wealth. IBA's Home Ownership Program is an enduring and successful program which has assisted over 13,800 Indigenous individuals and families into home ownership since 1975.

Q Why does IBA offer concessional home loans to Indigenous Australians?

A In Australia, home ownership is recognised as a foothold for economic participation in the broader economy. IBA provides an entry point into home ownership for Indigenous Australians who would not otherwise be eligible for housing loans from a commercial lender. The provision of housing loans by IBA enables greater numbers of Indigenous Australians to achieve home ownership and take up the opportunity to build wealth and economic independence.

Q What is the IBA split loan?

A An IBA split loan is a housing loan where an IBA client is required to source some of the loan funds required to complete a home purchase from a commercial lender. The remainder of the loan funds will be sourced from IBA.

The commercial lender's housing loan to the IBA client will be secured by a first mortgage whilst IBA's loan for the remainder of the loan funds will be secured by a second mortgage. By allowing the commercial lender to be the first mortgagee there will be no need for the commercial lender to require the IBA client to provide it with mortgage insurance. IBA does not require its clients to take out mortgage insurance.

IBA's split loans are set at a fixed rate of 4% p.a.¹ for the first three calendar years which thereafter will increase by 0.5% annually on the 1st of January until it reaches the IBA Home Loan Rate.²

Q How will a lender know the amount of loan funds the IBA client requires to complete the home purchase?

A IBA will assess how much it is prepared to lend the client and how much the client is required to source from a commercial lender. The IBA client should provide you a copy of the IBA Preliminary Assessment Letter which details the amount he/she is required to source from you.

1. This rate is effective from 1 July 2009 and is subject to change.

2. The IBA Home Loan Rate as at 15 October is 4.25% p.a. and is subject to change.

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Australian Government
Indigenous Business Australia

Q Is it possible for a lender to lend the IBA client more than what is outlined in the Preliminary Assessment Letter?

A The Preliminary Assessment Letter specifies the upper limit of what IBA is prepared to lend a client. A part of IBA's loan application process includes the making of general assumptions about how much commercial lenders would be prepared to lend a particular IBA client. If your specific lending assessment identifies that the IBA client can borrow more of the required funds from you, then we would encourage the IBA client to pursue the higher amount provided it doesn't involve him/her taking out mortgage insurance.

Q How can IBA offer home loans at concessional interest rates?

A IBA is established by the Australian Government to among other things assist and enhance self management and economic self sufficiency of Indigenous Australians. IBA is able to provide loans at concessional interest rates to eligible clients because its new lending is funded by reinvestment of existing loan repayments and occasional capital injections by Government, not from borrowed funding.

Q How does IBA manage the security risk?

A IBA manages its security risk by implementing and complying with rigorous loan application processes which involves a high degree of due diligence in order to ensure that its clients are able to service the loan they require. IBA provides appropriate aftercare service post settlement of the loan.

Q Are you asking us to take on a higher level of security risk too?

A No, IBA is shouldering a higher level of security risk in these transactions as the second mortgagee. IBA makes prudent financial lending decisions when considering loan applications from its client. Just like you, we assess the loan applicant's capacity to pay, good character, collateral and capital / assets.

Q Why is IBA seeking to work with commercial lenders to offer split loans?

A IBA does not have unlimited lending capital and has a long waiting list of applicants assessed as eligible for its housing loan product. A percentage of these IBA clients would be considered acceptable to commercial lenders but for their limited savings. Additionally, IBA is keen to work closely with the private sector and local community groups to build economic independence and home ownership among Indigenous Australians.

Q What are some of the benefits to commercial lenders and customers with split loans?

A Commercial lenders are in a position to assist IBA clients with their day to day financial needs (for example, redraw accounts and home insurance products). IBA housing loans are a basic "no frills" product designed to enable Indigenous Australians to buy their first home. Generally, commercial lenders offer home loan products that have more features and benefits than an IBA housing loan.

Q Will IBA provide aftercare support to split loan clients?

A IBA will provide appropriate aftercare support to its clients who enter into a split loan with another commercial lender.

Q Who applies for the First Home Owner's Grant (FHOG)?

A IBA will apply for the FHOG on its client's behalf.



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Q How does the relationship between the mortgagees work?

A IBA is prepared to be the second mortgagee in a split loan arrangement. This will normally involve the two lenders entering into a deed of priority governing their respective priorities as lenders each against the other and matters following from their agreed priority to the secured property. IBA has already established acceptable priority agreements with a number of lenders.

Q Who can I contact in IBA to provide more information?

A Contact details for your local IBA home lending staff are detailed in the Preliminary Assessment Letter, or you can call 1800 107 107* (select option 1).



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Split loan process

Stage	Who's responsible	Action required
Invitation	IBA	<ul style="list-style-type: none"> • Clients are invited to apply for a loan and are provided with: <ol style="list-style-type: none"> 1. Letter of invite 2. Loan application form
	Applicant	<ul style="list-style-type: none"> • Applicants complete loan application form and provide all necessary supporting documentation, including income details, privacy consent etc.
Application	IBA	<ul style="list-style-type: none"> • Upon receipt, IBA Lending Officer assesses application to determine what assistance can be provided. • The IBA Lending Officer will determine if the Applicant's financial situation is such that they are eligible for full or partial funding from IBA
Proceed to Purchase	IBA	<ul style="list-style-type: none"> • If eligible for assistance, Applicants are provided with formal notification of the conditions upon which any IBA loan offer may be made, including the requirement that some funds will be required to be sought from a lender other than IBA
	Applicant	<ul style="list-style-type: none"> • Application to be lodged with a lender other than IBA to secure the balance of funds required to purchase their home • Make preliminary enquiries to engage legal representation
	Other lender	<ul style="list-style-type: none"> • Assess application and determine if assistance can be provided on the basis of a 1st mortgage, with IBA as 2nd mortgagee
Pending approval	Applicant	<ul style="list-style-type: none"> • Applicants select home of their choice, and provide copies of contract to both lenders (via agent or legal representative)
	IBA	<ul style="list-style-type: none"> • Finalise assessment of application, and provide formal loan approval • As part of the loan approval process, IBA will: <ol style="list-style-type: none"> 1. Process First Home Owner Grant application 2. Obtain a Valuation report satisfactory to IBA ** 3. Obtain Pest and Building reports satisfactory to IBA ** • Issue loan approval documentation to Applicant
	Other lender	<ul style="list-style-type: none"> • Finalise assessment of application, and provide formal loan approval • Obtain any reports necessary under lending requirements ** • Issue loan approval documentation to Applicant <p><i>** Where practical, IBA is willing to share reports with other lender to reduce costs to Applicant</i></p>
Settlement	IBA	<ul style="list-style-type: none"> • Liaise with other lender to establish Priority Agreement • Instruct Australian Government Solicitor to prepare IBA mortgage documents
	Other lender	<ul style="list-style-type: none"> • Liaise with IBA to establish Priority Agreement • Complete internal processes for production and execution of mortgage documents
	Applicant	<ul style="list-style-type: none"> • Sign necessary documentation and return to lenders (via legal representative)