

Split Loans - Lender Frequently Asked Questions



Australian Government
Indigenous Business Australia

Changes to the IBA home ownership program:

The Australian Government has announced as part of the 2012 Federal Budget, that the Home Ownership Program (HOP), and the Home Ownership on Indigenous Land (HOIL) program, will be integrated into a single Indigenous Home Ownership program (IHO) on 1 July 2012. This will make the best use of available funding to help meet home ownership demand across Australia.

IBA welcomes the Government's announcement. The decision to integrate the two programs will enhance IBA's capacity to cut housing loan waiting periods and meet the home ownership goals of an increased number of Indigenous Australians wishing to purchase or build a home of their own either in an established or emerging home ownership market on Indigenous land.

IBA will continue to prioritise access for people seeking to move into home ownership on Indigenous land as they become ready and the necessary land tenure and land administration arrangements are progressed by the relevant State and Northern Territory governments.

Further details of the Budget announcement can be obtained at www.budget.gov.au or by contacting the nearest IBA Homes Service Delivery Unit.

Overview

Indigenous Business Australia (IBA) provides a range of housing loan products, to enable eligible Indigenous Australians to purchase their first home (in most cases). IBA's lending products are targeted to customers who, due to low incomes or limited savings, would otherwise be unable to obtain finance from a commercial lender.

The amount of loan funds an IBA customer is able to borrow is based on their income and capacity to repay the loan, and location purchase price limits. Where circumstances allow, IBA requires the customer to obtain some of their loan funds from a commercial lender. In these situations, IBA's Split Loan can be applied to meet the gap between the amount that the customer is able to borrow from the commercial lender and the purchase price.

Frequently asked questions

Who is Indigenous Business Australia?

IBA is a statutory authority of the Australian Government which provides opportunities for Aboriginal and Torres Strait Islander individuals and communities to build assets and wealth. More than 14,000 Indigenous individuals and families have been assisted into home ownership through its Home Ownership Program since 1975.

Why does IBA offer concessional home loans to Indigenous Australians?

In Australia, home ownership provides a foothold for economic participation in the broader economy. IBA home loans provide an entry point into home ownership for Indigenous Australians and the opportunity to build wealth and economic independence.

What is an IBA Split Loan?

IBA's Split Loan is a loan offered to IBA customers who can obtain some of the loan funds required to complete a home purchase from a commercial lender. The IBA Split Loan meets the gap between the amount that the customer is able to borrow from the commercial lender and the purchase price.

The commercial lender's loan will be secured by a first mortgage and IBA's loan will be secured by a second mortgage. As a minimum, the IBA Split Loan should cover the deposit requirements of the first mortgagee and there should be no requirement for the customer to take out mortgage insurance.

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What interest rate is applicable to an IBA Split Loan?

IBA's Split Loans commence at a concessional interest rate of 4 per cent per annum¹ for the first three calendar years which thereafter will increase by 0.5 per cent on 1 January each year until it reaches the standard IBA Home Loan Rate². The following table provides an example of the changes in IBA's Split Loan interest rates:

Date and event	Interest rate
15 November 2010 - IBA split loan advanced	4.00% p.a. fixed ¹
1 January 2014 - interest rate increases by 0.5% after three calendar years	4.50% p.a. variable
1 January 2015 - interest rate increases by 0.5%	5.00% p.a. variable
1 January 2016 - IBA Home Loan Rate reached	5.25% p.a. variable ²

How much can a customer borrow using an IBA Split Loan?

IBA will assess how much it is prepared to lend the customer and how much they are required to source from a commercial lender. The customer should provide you with a copy of the Preliminary Assessment Letter which details this information.

Is it possible for a commercial lender to meet a greater proportion of the loan funding requirements than what is detailed in the Preliminary Assessment Letter?

Yes. The loan amounts in the Preliminary Assessment Letter are based on broad assumptions about how much a customer should obtain from a commercial lender and are subject to IBA's overall affordability assessment. In all cases, the customer is required to obtain as much of the funding for the purchase of the home from the commercial lender, subject to the overall affordability of the proposal and without requiring mortgage insurance.

How can IBA offer home loans at concessional interest rates?

IBA is able to provide loans at concessional interest rates to eligible customers because its new lending is funded by reinvestment of existing loan repayments and occasional capital injections by Government, not from borrowed funding.

How does IBA manage the security risk?

IBA's Split Loan is secured by a second mortgage position. IBA makes prudent financial lending decisions when considering loan applications. IBA assesses the loan applicant's capacity to pay, good character, collateral and capital / assets.

Why is IBA offering Split Loans?

IBA has limited funds and has a long waiting list of eligible applicants seeking home loans. The Split Loan product enables IBA to assist a greater number of customers. 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.

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

2. The IBA Home Loan Rate as at 19 December 2011 is 5.25% p.a. and is subject to change.

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What additional benefits do Split Loans offer to commercial lenders and customers?

IBA housing loans are a basic 'no frills' product designed to enable Indigenous Australians to buy, in most cases, their first home. Commercial lenders are in a position to offer IBA customers other financial products depending on their circumstances (for example, access to redraw facilities, offset accounts and home insurance products).

Will IBA provide aftercare support to Split Loan customers?

Yes. IBA will provide appropriate aftercare support to its customers who enter into a Split Loan with another commercial lender.

Who applies for the First Home Owner Grant?

IBA will apply for the First Home Owner Grant on its customer's behalf.

How does the relationship between the mortgagees work?

IBA will be the second mortgagee in a Split Loan arrangement. This involves entering into a deed of priority agreement which governs the roles and working relationship between the two lenders and the agreed priority to the secured property. IBA has already established acceptable priority agreements with a number of lenders.

Who can I contact in IBA for more information?

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	Customers are invited to apply for a loan and are provided with: <ol style="list-style-type: none"> 1. Letter of invitation 2. Loan application form
	Applicant	Applicants complete loan application form and provide all necessary supporting documentation, including income details, privacy consent etc.
Application	IBA	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	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 sourced from a lender other than IBA
	Applicant	Lodge application 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	Assess application and determine if assistance can be provided on the basis of a 1st mortgage, with IBA as 2nd mortgagee
Pending approval	Applicant	Applicants select home of their choice, and provide copies of contract to both lenders (via agent or legal representative)
	IBA	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* 4. Issue loan approval documentation to applicant
	Other lender	Finalise assessment of application, and provide formal loan approval Obtain any reports necessary under lending requirements* Issue loan approval documentation to applicant
Settlement	IBA	Prepare IBA mortgage documents and initiate a Priority Agreement
	Other lender	Liaise with IBA (or its legal representative) to facilitate the completion of a Priority Agreement Complete internal processes for production and execution of mortgage documents
	Applicant	Sign necessary documentation and return to IBA and the other lender (or their legal representatives)

* Where practical, IBA is willing to share reports with other lender to reduce costs to applicant.