

**Senate Finance and Public Administration Legislation Committee**  
**ANSWERS TO QUESTIONS ON NOTICE**  
Additional Budget Estimates Hearings 8-12 February 2016

Prime Minister and Cabinet Portfolio

**Department/Agency: Indigenous Business Australia**  
**Topic: ANAO Audit**

**Senator: Senator Moore**

**Question reference number: PM81**

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**Question:**

**Senator MOORE:** I have a lot of questions about the particular issues that the audit raised, but I am aware of the time. Rather than go through this now, can we get a formal response? I would like more details than we have on the public record now about the four recommendations that the audit put up and the way that you have gone through with us now about how you then went back and had that discussion. Where it is possible, I want to ask about were mainstream finance accessibility and, also, low-income earners, which was the particular comment that perhaps the IBA loan record was focused on people at the middle and high levels rather than low-income earners. In your opening statement you began to address the importance of that element. The original expectation of IBA was that this was going to be for people who were on a low income and could not access finance. So, could we get something back from you on that particular statement from the audit. Next, targeting of areas where there is a high need for home ownership assistance. How exactly do you do that? One of the expectations was that the IBA would be focusing on where there was a high need home ownership assistance. I am wanting to know how you define that. Then, when you had the audit recommendation how did you then justify it. If they said that you should be looking at areas of high need, how have justified that to the audit? Also, IBA reporting overstates the number of loans that have led to a new home ownership outcome, and income figures reported do not reflect total customer intake, which is a fairly direct comment.

**Mr Fry:** I am happy to come back in writing, but if I could address the last one.

**Answer:**

The responses to this question are grouped under the following six headings:

**ANAO Audit Recommendations**

IBA supports the strategic nature of the ANAO's recommendations which highlight some of the challenges that IBA faces in delivering the Indigenous Home Ownership Program. In its discussions with the ANAO, IBA conveyed some of the differences between delivering a home ownership program, which has a focus on achieving targeted outcomes, and lending

undertaken by commercial financial institutions. Some of these differences are outlined below:

- IBA lends at the margins of affordability and provides loans to customers with lower incomes and minimal deposits. Banks lend to customers that meet very strict loan affordability, deposit and security valuation parameters.
- IBA provides specialist resources to service the long term intensive effort required to establish a viable lending presence and to build trust with customers across dispersed geographic locations, whereas banks increasingly use third party mortgage brokers and predominantly lend to customers in metropolitan and inner city areas.
- IBA staff take considerable time in assessing customers to formulate an individual loan-based strategy to achieve home ownership outcomes. Banks generally rely on automated credit scoring or parameter based risk assessment processes in assessing a customer's eligibility for a loan.

IBA recognises that having a more flexible approach to its lending, tailored to the individual, is necessary to provide customers with a better opportunity to achieve their home ownership aspirations, can lead to some inconsistencies in decision making. IBA also acknowledges that its small scale relative to commercial home lenders results in relative operational inefficiencies, higher costs, and a restricted product and service range compared to those offered through the commercial sector.

IBA believes that providing introductory concessional home loan finance continues to be an effective mechanism for supporting home ownership, particularly given IBA's broader objectives of promoting self-sufficiency and economic independence for Indigenous Australians. IBA continually monitors the housing market and adjusts its policies to provide an affordable loan that is appropriate to the customer's circumstances, while not creating undue financial hardship.

IBA is investigating alternative business models that allow more efficient use of its capital base, utilise capital and resources more efficiency, deliver modern banking products and services relevant to its customers, and expand IBA's capacity to assist Indigenous Australians into home ownership.

#### Mainstream Finance Accessibility

The Indigenous Home Ownership Program provides an entry point into home ownership for Indigenous Australians who have the capacity to service a home loan but do not have the capacity to save the required deposit or meet the loan assessment requirements of commercial home lenders.

Before an applicant is able to obtain an IBA housing loan, IBA will determine if the applicant can purchase their home by obtaining the required loan amount from another lender. This is primarily based on the applicant's income, and savings.

Where IBA can determine that an applicant is not able to obtain the full loan amount required to purchase their home from another lender, IBA may provide a loan for all or part of the funds required for the purchase of the home. IBA has set maximum loan amounts based on the customer's income, with those on higher incomes required to obtain part of their funds from another lender wherever possible.

In the majority of cases IBA staff are able to determine if the customer would be able to qualify for commercial home loan finance based on IBA's understanding of banks' current lending criteria. In other cases IBA may require the customer to provide evidence of the unsuccessful outcome of their loan application with a commercial lender.

In the formal loan assessment stage the customer's ability (or inability) to access a loan from another lender is documented, as part of IBA's online criteria based decision making process, for review by the applicable delegate prior to the approval of a loan.

The current arrangements provide an appropriate balance between ensuring funding is directed to applicants based on eligibility and reducing red tape for IBA customers and other financial institutions.

#### Targeting - Low Income Earners

The Indigenous Home Ownership Program provides affordable loans to Aboriginal and Indigenous Australians who have difficulty accessing commercial home loan finance. The program is primarily focused on assisting customers overcome financial barriers, such as lower incomes, low savings and deposits and credit impairment.

IBA's policy settings seek to assist customers on lower incomes to purchase a home where practical, taking into account their financial circumstances. In assisting these customers IBA needs to ensure its lending policies and practices accord with responsible lending principles. In some cases a customer's financial circumstances are such that they would not be capable of meeting the upfront costs and ongoing repayment of a loan that would be sufficient to purchase a home in the area they are living. Where it is practical for some of these customers to purchase a home in a less expensive location IBA provides them with an indication of the loan amount they could borrow.

In recent years, the delivery of the program has been impacted by changes to the Australian housing market. Higher property prices and associated increased borrowing requirements, along with the withdrawal of first home buyer incentives by State and Territory governments, have adversely impacted on Indigenous Australians and their ability to purchase a home. These current affordability issues mean that low income earners are being squeezed out of the home ownership market.

The IBA Board has been responding to these changes through amending its policy settings for low income earners. This has included increasing the income threshold for customers to be able to access a reduced commencing interest rate of 3% to \$56,000 pa and providing even lower commencing interest rate of 2% to customers with incomes up to \$35,000 pa living in remote areas. Indigenous people living in remote locations or who are moving from these locations to take up employment can also access additional support to meet the initial purchase costs.

While it is desirable to encourage and support all Indigenous Australians to pursue their aspirations for home ownership in closing the gap, IBA recognises that not all have capacity or are ready to meet the obligations for home ownership.

#### Targeting Areas of High Need

IBA's lending network and home ownership promotion is designed to support Indigenous people living across Australia to pursue home ownership where there are realistic opportunities, with a specific focus on first home buyers living in regional and remote areas.

Over 90% of IBA's new housing loans are to first home buyers. This compares to lending to first home buyers by banks of approximately 15%. IBA's first home buyer customers in 2015

had on average a deposit of only \$7,733, being on average 2.15% of the average purchase price. This is significantly below the minimum amount required by banks, which is typically 20% (without mortgage lenders insurance).

More than 75% of IBA's new housing loans were to customers purchasing homes in regional and remote areas, with nearly 10% approved in areas classified as remote or very remote. This compares to banks which provide less than 35% of its lending to people living outside metropolitan or inner city areas.

The geographic distribution of IBA's lending is impacted by various local factors that affect the demand for housing loans or where there are realistic opportunities for home ownership. These factors include the competitiveness of the housing market and property prices, land tenure arrangements, access to employment and income, availability of affordable housing and access to social housing.

The program seeks to address areas of high need by directing funding to applicants based on their financial and housing circumstances, family composition and to those living in designated remote locations. Where there is excess demand for home loans, priority is given to applicants based on factors such as number of Indigenous people housed, whether the household is currently renting from an Indigenous housing organisation or a State / Territory government (noting the high pressure on these services), the level of savings available and where a high portion of income is currently being applied to rent. IBA actively encourages Indigenous Australians living in remote areas to pursue home ownership where there is appropriate land tenure. This includes providing home ownership information sessions in these communities.

#### New home ownership outcomes

The ANAO believed that IBA may have inadvertently overstated its new home ownership outcomes.

IBA reports on the total number of loans approved, with a specific performance indicator for loans to first home buyers. In its 2014-15 Annual Report IBA reported that it approved a total of 517 loans of which 469 (91%) were to first home buyers.

In addition, IBA approved 40 (8%) loans to previous home owners entering back into home ownership and 8 loans (1%) were made to support existing home owners remain in home ownership by refinancing their loan or making essential improvements or repairs to their home.

In future, IBA will provide an additional indicator to highlight the number of loans that support new home ownership outcomes. This would include loans to first home buyers and previous home owners re-entering the home ownership market. IBA believes this additional information will provide the clarity sought by the ANAO.

#### Customer Income

A number of IBA's policy settings are determined by reference to the customer's income and consequently their capacity to repay their housing loan. Historically, an adjusted income calculation has been used for determining their eligibility for certain housing loan concessions. For joint applicants, the adjusted income calculation took into account 100% of the main income earner's income and 50% of the secondary income earner's income, plus any other assessable income.

Recognising the changing home ownership aspirations and attitudes, and changes in the composition of family incomes, IBA will amend this method of calculating income for

eligibility and reporting purposes to reflect the applicant's total income (including income earned by both applicants).