

# **Indigenous Home Ownership Program**

Indigenous Business Australia

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Canberra ACT  
3 December 2015

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in Indigenous Business Australia titled *Performance Audit of the Indigenous Home Ownership Program*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, which appears to read 'Grant Hehir', is positioned above the printed name.

Grant Hehir  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

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# Summary

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## Introduction

1. The Indigenous Home Ownership Program (IHOP) has provided housing loans to Indigenous Australians to increase the level of home ownership since 1975.<sup>1</sup> The objective of the program is to facilitate Indigenous Australians into home ownership by addressing barriers such as lower incomes and savings, credit impairment and limited experience with loan repayments. The program is focused on first home buyers who have difficulty obtaining home loan finance from other financial institutions.<sup>2</sup> In remote areas, where there is appropriate tenure for home ownership<sup>3</sup>, the program also seeks to help Indigenous Australians overcome additional barriers to home ownership.<sup>4</sup> The overall success of the program is assessed in terms of increasing the percentage of Indigenous Australians who are home owners.<sup>5</sup>

2. Indigenous Business Australia (IBA) has been responsible for administering the program since 2005. IBA offers basic home loans for purchasing, constructing, renovating and refinancing. The main differences between the loans offered by IBA and mainstream finance loans are a lower deposit requirement, a longer standard loan term and a standard introductory interest rate of 4.5 per cent.<sup>6</sup> IBA also offers an interest rate of 3 per cent and a lower deposit threshold for eligible low income earners.<sup>7</sup> IBA assess loan applications against a set of loan eligibility criteria through a two-stage application process. The value of loans in the IBA portfolio as at June 2015 was \$928.3 million.

## Audit objectives and criteria

3. The objective of the audit was to assess the effectiveness of IBA's management and implementation of the IHOP. To form a conclusion against the audit objective, the ANAO adopted the following high-level audit criteria:

- IBA has management arrangements that support equitable access to IHOP and the achievement of the long-term outcomes of IHOP, including whether clear objectives

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1 In 2012–13, the Australian Government consolidated the Home Ownership Program and Home Ownership on Indigenous Land program into a single Indigenous Home Ownership program (IHOP).

2 Australian Government, *Portfolio Budget Statements 2015-16, Budget Related Paper No. 1.14*, Commonwealth of Australia, Canberra, 2015, p. 150.

3 Tenure refers to the conditions under which land or buildings are held or occupied. Historically, the choice of individual home ownership has not been available for Indigenous Australians living on community-titled land, primarily due to the underlying tenure of the property not providing sufficient security to a lender. Land tenure reforms in some jurisdictions now allow Indigenous Australians living on community-titled land to be able to buy their own home.

4 Australian Government, *Portfolio Budget Statements 2015-16, Budget Related Paper No. 1.14*, Commonwealth of Australia, Canberra, 2015, p. 150.

5 *ibid.*

6 As at November 2015, the advertised standard introductory rate was 4.5 per cent and the advertised IBA home loan rate was 5.25 per cent, see Indigenous Business Australia, *Loan Interest Rates*, available from <http://www.iba.gov.au/home-ownership/iba-housing-loans/loan-interest%20rates/> [accessed on 6 November 2015].

7 Indigenous Business Australia, *Indigenous Home Ownership Program Policy*, August 2015, Canberra, p. 19.

have been established for the program, program activities are consistent with program objectives and directed towards target customers;

- service delivery is responsive to the needs of target customers and loan assessments are undertaken in line with IHOP policy and procedure, supporting the achievement of program outcomes; and
- performance measurement and reporting mechanisms support accurate assessments of progress towards program outcomes, and achieved performance is in line with the Australian Government's expectations.

## Overall conclusion

4. Under IBA's management, from June 2005 to June 2015, IHOP has delivered 4937 loans to Indigenous Australians at an average annual program cost of \$37.8 million.<sup>8</sup> The home loans approved through the program have resulted in a maximum contribution of 11.6 per cent to the increase in the national home ownership participation rate for Aboriginal and Torres Strait Islander people from 2006 to 2011.<sup>9</sup> However, it is not possible to assess how many of these participants would otherwise have been able to access mainstream finance.

5. The ANAO identified that IBA's management of the program has been inefficient and lending does not fully align with the program objective for which IBA is funded. IBA has met its target for first home buyers, which is a particular focus of the program. However, IBA lending is not directed at low income earners who form an important segment of the program's target customers. Also, there is not a strong focus on targeting areas where there is high need for home ownership assistance. Instead, IBA has increasingly approved loans to medium and higher income earners and lower risk customers. As market conditions have changed, the loan products offered by IBA have provided comparatively less benefit to Indigenous customers than products offered by mainstream lenders. IBA also needs to improve its business practices to be more efficient in delivering the program. This includes making the application process more accessible and streamlining how IBA assesses loan applications to avoid duplication and reduce unnecessary burden for applicants.

6. The home loan program was established and designed to meet the barriers to home ownership experienced by Indigenous Australians in 1975. Since this time, the loan product and delivery mechanisms of the program have remained largely unchanged. After 40 years of operation, it is timely for the Australian Government to assess whether a government-funded end-to-end loan program remains the most effective mechanism for supporting Indigenous Australians into home ownership.

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8 This average includes the budget estimate for 2014–15 financial year. A large program expense each year is the result of a decrease in the recorded asset valuations, which represents a loss on IBA investments.

9 Between the 2006 Census and the 2011 Census, the national home ownership participation rate for Aboriginal and Torres Strait Islander people increased from 34.2 per cent to 35.9 per cent. This relates to an increase of 18 104 households where the home was owned outright or with a mortgage where at least one person in the dwelling was Aboriginal or Torres Strait Islander. For the same period, IBA approved 2096 home loans which led to a new home outcome.



## Key findings

7. IBA has management arrangements in place to support equitable access to the program, however IBA does not generally verify that its customers cannot access mainstream finance which is a key loan eligibility criteria and threshold for entry to the program. The current lending activity of the program is not aligned with one of the program's target groups, low income earners. There has also been an increase in the proportion of higher income households receiving loans from IBA. In 2011–12, 52 per cent of loans were to customers earning over 100 per cent of the IBA Income Amount.<sup>10</sup> This percentage increased to 59 per cent in 2012–13 and 57 per cent in 2013–14. However, IBA loans are primarily directed towards first home owners which are also a clear target group for the program.

8. Service delivery through the program is not responsive to customer needs as the expression of interest and loan application process is largely paper-based, time consuming and duplicative. The majority of customers interviewed by ANAO reported difficulties with the process and in particular with aspects of the paperwork required. IBA customers are not able to apply for a loan or access their account information online and after-loan care is generally limited unless a customer falls into arrears. IBA has identified key actions for improving service delivery, by developing and implementing online services, but has not progressed these actions. In addition to the impact on customers, IBA has missed the potential cost savings of streamlining administrative processes and moving to online service delivery.

9. IBA mostly undertakes loan assessments in line with program policy and there is flexibility within assessments to provide for the different circumstances of applicants. In a sample of 100 IBA customer files, where an applicant had submitted an expression of interest between July 2011 and June 2014, the ANAO identified some inconsistent considerations in lending decisions and documentation to support decisions. IBA has put some processes in place to provide greater assurance that lending decisions are accurate and consistent. However, these assurance processes are relatively new.

10. In 2014–15, IBA met two out of three key performance indicators for the program but did not meet either of the program's key deliverables. Further, the number of loans approved by IBA has declined over the last three years. Prior to this, the program mostly met the program's targets for lending levels over the last five years in line with government expectations. IBA reporting overstates the number of loans that have led to new home ownership outcomes against the program's main key deliverable and the income figures reported do not reflect total customer income. For the financial years 2009–10 to 2013–14, out of the 2552 home loans reported by IBA the ANAO identified 80 instances or 3.1 per cent of expended funds that did not directly relate to a new home outcome. Also, when total customer income is considered, over 50 per cent of IBA loans are to households earning over the IBA Income Amount.

11. IBA does not monitor the quality of service delivery or collect information to assess whether the program is meeting the needs of customers. The ANAO also identified some data

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10 The IBA Income Amount is equivalent to the National Average Weekly Male Earnings statistic calculated by the Australian Bureau of Statistics. The IBA Income Amount is adjusted annually in July after reference to the latest available National Average Weekly Male Earnings.

quality issues and limitations in IBA's performance measurement and reporting mechanisms which are likely to be reflected in both internal and external reporting.

12. From 2012–13 to 2013–14, IBA received 116 loan applications from Indigenous Australians living in remote communities designated by IBA as Emerging Markets.<sup>11</sup> Of the applications received, IBA approved 14 loans and 68 grants to support home ownership, with a total value of \$1.37 million. No specific targets were set for home ownership outcomes in Emerging Markets and accordingly it is difficult to determine if this progress is in line with expectations.

13. In recent years, the lending environment has changed, affecting IBA's customer base. These changes include the withdrawal of first home owner support initiatives, increased property prices in some areas and lower mainstream interest rates. IBA considers that these changes have affected the ability of lower income earners in particular to access IBA loans however IBA has not provided evidence of analysis to support this position. In light of these conditions, IBA should evaluate whether it is able to continue to demonstrate to government value for money through the homes program in its current format and whether its current product suite is suited to its target customers and the barriers faced in achieving home ownership.

14. The ANAO has made three recommendations directed at IBA, aimed at aligning program activities with program outcomes, making service delivery more responsive to the needs of IBA customers and increasing the efficiency and effectiveness of IBA's business practices, and improving program performance measurement and reporting. The ANAO has also recommended that the Australian Government assess the delivery mechanism for achieving Indigenous home ownership outcomes.

## Recommendations

### Recommendation No. 1

#### Paragraph 2.15

In order to align program activities with the program outcomes, the ANAO recommends that IBA either:

- (a) identify the current barriers to home ownership; increase lending to lower income earners; change the loan products to better suit lower income earners; or
- (b) provide advice to government to confirm a change in the program's target customers.

**Indigenous Business Australia's response:** *Agreed.*

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11 On 1 August 2015, a new Remote Indigenous Home Loan was introduced which replaced the former Emerging Markets scheme.

**Recommendation  
No. 2**

**Paragraph 2.37**

In order to support continued progress in closing the gap in home ownership outcomes, the ANAO recommends that the Australian Government assess whether a government-run loan program is the most efficient mechanism to support Indigenous home ownership outcomes.

**Indigenous Business Australia's response:** *Noted.*

**Recommendation  
No. 3**

**Paragraph 3.31**

In order to make service delivery more responsive to the needs of target customers and increase the efficiency and effectiveness of business practices, ANAO recommends that IBA:

- (a) streamline the two-stage application process;
- (b) introduce online services including an online application process and online access to account information;
- (c) increase promotional activities;
- (d) process applications electronically and move to an electronic filing system;
- (e) monitor whether adequate after-loan care is provided to customers; and
- (f) identify and manage high risk customers to provide them with adequate after-loan care.

**Indigenous Business Australia's response:** *Agreed.*

**Recommendation  
No. 4**

**Paragraph 4.28**

In order to improve performance reporting, the ANAO recommends that IBA:

- (a) report on the number of loans leading specifically to new home ownership outcomes;
- (b) reduce manual input and analysis of data;
- (c) reduce system data integrity issues;
- (d) produce data to analyse customer trends and program performance over time; and
- (e) seek regular feedback from customers on the services received through the program.

**Indigenous Business Australia's response:** *Agreed.*

## Summary of entity response

15. Indigenous Business Australia's summary response to the proposed report is provided below, while its full response is at Appendix 1.

IBA welcomes the ANAO's audit report recommendations, which are strategically aligned with IBA's future plans for the Indigenous Home Ownership Program. To date the program has made a significant contribution to addressing Indigenous economic disadvantage. Over the course of 40 years IBA has assisted over 16,000 households to enter home ownership, enabling customers to accumulate more than \$2 billion in personal wealth, while successfully growing its home loan portfolio by an average of 6% per annum to its current level of \$943 million.

The ANAO's recommendations support IBA's view that changes are required to meet the multiple challenges the program faces of constrained capital, rising house prices and growing demand. These changes will enable IBA to make greater inroads into closing the gap between Indigenous and non-Indigenous home ownership rates. Through its current work with the Government, IBA is well-placed to develop and implement changes that will improve the efficiency and effectiveness of the program, which will deliver stronger outcomes for Indigenous Australians.

## **Audit Findings**



# 1. Background

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1.1 The Indigenous Home Ownership Program (IHOP) has provided housing loans to Indigenous Australians to increase the level of home ownership since 1975.<sup>12</sup> The objective of the program is to facilitate Indigenous Australians into home ownership by addressing barriers such as lower incomes and savings, credit impairment and limited experience with loan repayments. The program is focused on first home buyers who have difficulty obtaining home loan finance from other financial institutions.<sup>13</sup> In remote areas, where there is appropriate tenure for home ownership<sup>14</sup>, the program also seeks to help Indigenous Australians overcome additional barriers to home ownership.<sup>15</sup> The overall success of the program is assessed in terms of increasing the percentage of Indigenous Australians who are home owners.<sup>16</sup>

1.2 Indigenous Business Australia (IBA) has been responsible for administering the program since 2005. IBA offers basic home loans for purchasing, constructing, renovating and refinancing. The main differences between the loans offered by IBA and mainstream finance loans are a lower deposit requirement, a longer standard loan term and a standard introductory interest rate of 4.5 per cent.<sup>17</sup> IBA also offers an interest rate of 3 per cent and a lower deposit threshold for eligible low income earners.<sup>18</sup>

1.3 The total amount of funds allocated for lending through IHOP in 2014–15 was \$149 million. This amount is a combination of the revenue IBA receives from existing loans, new appropriations and an increase in funding resulting from the consolidation of the Home Ownership on Indigenous Land program into IHOP. As at June 2015, IBA had approved 4937 loans under IHOP with average annual program expenses of \$37.8 million.<sup>19</sup> In addition to the administrative costs of running the program, a large component of the program expenses each year is the valuation decrement which represents a loss on IBA investments.<sup>20</sup> The value of loans

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12 In 2012–13, the Australian Government consolidated the Home Ownership Program and Home Ownership on Indigenous Land programs into a single Indigenous Home Ownership program (IHOP).

13 Australian Government, *Portfolio Budget Statements 2015-16, Budget Related Paper No. 1.14*, Commonwealth of Australia, Canberra, 2015, p. 150.

14 Tenure refers to the conditions under which land or buildings are held or occupied. Historically, the choice of individual home ownership has not been available for Indigenous Australians living on community-titled land, primarily due to the underlying tenure of the property not providing sufficient security to a lender. Land tenure reforms in some jurisdictions now allow Indigenous Australians living on community-titled land to be able to buy their own home.

15 Australian Government, *Portfolio Budget Statements 2015-16, Budget Related Paper No. 1.14*, Commonwealth of Australia, Canberra, 2015, p. 150.

16 *ibid.*

17 As at November 2015, the advertised standard introductory rate was 4.5 per cent and the advertised IBA home loan rate was 5.25 per cent, see Indigenous Business Australia, *Loan Interest Rates*, available from <http://www.iba.gov.au/home-ownership/iba-housing-loans/loan-interest%20rates/> [accessed on 6 November 2015].

18 Indigenous Business Australia, *Indigenous Home Ownership Program Policy*, August 2015, Canberra, 2015, p. 19.

19 This average includes the budget estimate for 2014–15 year.

20 For example, the total expenses in 2014–15 were \$29 093. Of this, the recorded decrease in asset values as a result of valuation, was \$15 161 or 52 per cent.

in the IBA portfolio was \$928.3 million. After accounting for recognising assets at their fair value this was \$636.4 million.

1.4 As the demand for its home loans has historically been in excess of available funding, IBA has implemented a two-stage application process. The first stage of the application process involves an applicant registering an interest in a loan and meeting a minimum set of the loan eligibility criteria. These criteria include: having at least one applicant of Aboriginal and/or Torres Strait Islander descent; not being able to source the required home loan amount or part thereof from a mainstream lender; being able to meet minimum deposit requirements; and having the capacity to meet housing loan repayments. If eligible, the applicant is placed on an expression of interest register.

1.5 The second stage involves IBA inviting the applicant to apply for a loan once funding becomes available. Once invited, applicants submit a formal loan application to be assessed against the loan eligibility criteria. The amount that IBA will lend an applicant will depend on a number of factors such as the applicant's income and capacity to meet loan repayments. However, the specific terms and conditions of each loan are not determined until IBA undertakes a full assessment of an applicant's formal loan application against all loan eligibility criteria.

1.6 Applicants who earn a higher income may be required to obtain a split loan by IBA. Split loan arrangements are where customers obtain part of their funds from another lender. If an applicant's combined gross annual income<sup>21</sup> is between 115 and 225 per cent of the IBA Income Amount, IBA requires the applicant to obtain 40 to 80 per cent of loan funds from a mainstream commercial lender.<sup>22</sup> IBA considers it is able to support more applicants by providing split loans, and in some cases reduce the waiting time for an IBA loan. In 2014–15, 105 loans (20 per cent of the total number of loans approved) were funded under a split loan arrangement. In March 2015, IBA introduced temporary changes to lending parameters so that customers earning up to 165 per cent of the IBA Income Amount (equivalent to \$131 452) were to be assessed for a fully funded IBA loan rather than the usual split loan.

1.7 IBA lending officers are located in 12 locations across Australia as well as IBA's national office in Canberra. The role of these officers is to develop and maintain relationships with customers, and provide ongoing loan management and home ownership support. As at August 2015, there were 71 staff allocated directly to the program.

1.8 In 2013–14, 11 per cent of new loans were to customers in remote and very remote areas, with most loans (45 per cent) being made in inner regional areas (see Figure 1.1).

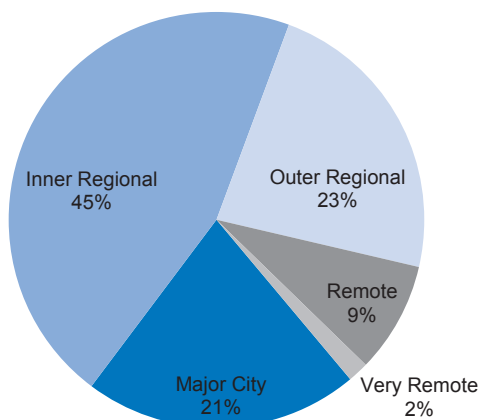
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21 See Chapter 4 in relation to definition of the adjusted combined gross annual income (CGAI). CGAI does not represent the total income of an applicant.

22 Prior to March 2015, customers with a combined gross annual income of between 100 and 225 per cent were required to obtain a split loan.



**Figure 1.1: Indigenous Business Australia loans by geographical classification, 2013–14**



Source: ANAO analysis of IBA data.

### Operational and performance targets

1.9 IBA reports publicly on a range of aspects of IHOP. The key targets and performance indicators measure the success of the program in targeting lending and assistance to customers as appropriate to their circumstances and need, and the facilitation of home ownership in remote Indigenous communities (see Table 1.1 for 2014–15 deliverables and indicators). As noted in *Portfolio Budget Statements 2014–15: Prime Minister and Cabinet Portfolio (Indigenous Business Australia)*, the program's overall success is assessed in terms of increasing the percentage of Indigenous Australians who are home owners, although no target or performance data is included in the Portfolio Budget Statements or Annual Reports in this respect.

**Table 1.1: Program deliverables and key performance indicators for 2014–15**

Target	
<b>Key deliverables</b>	
Number of new home loans	560
Aggregate loans in the portfolio	4505
<b>Key performance indicators</b>	
Percentage of loans to applicants who have an adjusted combined gross annual income of not more than 125% of IBA's income amount	80%
Percentage of loans to applicants who are first home buyers	90%
Number of remote Indigenous communities in which IBA is actively facilitating home ownership opportunities	12

Source: IBA Portfolio Budget Statement 2014–15.

1.10 To support the achievement of the program's key targets and performance indicators, IBA has identified internal operational targets at monthly intervals across the loan administration cycle. These operational targets support measuring progress towards the outcomes of the program, critical success factors to achieving lending targets (for example, applications on hand and number of invitations issued to applicants), the program's budget and administration.

### **Previous reviews and evaluations**

1.11 A number of reviews have been undertaken of IHOP and/or selected aspects of IHOP and the IBA. These are provided at Appendix 3. Issues and areas for improvement identified in these reviews include:

- encouraging borrowing or the transfer of applicants to mainstream lenders;
- standardising procedures for calculating income and determining satisfactory credit checks;
- improving ongoing loan management and customer contact activities (excluding arrears related issues);
- improving online access to more detailed information about IBA's programs and products and the development of an online application process;
- improving data quality to avoid duplicate customer records in IBA's systems;
- better measuring of social and commercial outcomes from IHOP;
- reducing the length of the loan application process and increasing the time available to find a home once loan approval has been granted;
- strengthening the security and protection of customer information; and
- developing greater consistency of processes and decision-making practices in relation to loans.

### **Audit objective, criteria, scope and methodology**

1.12 The objective of the audit was to assess the effectiveness of IBA's management and implementation of the IHOP.

1.13 To form a conclusion against the audit objective, the ANAO adopted the following high-level audit criteria:

- IBA has management arrangements that support equitable access to IHOP and the achievement of the long-term outcomes of IHOP, including whether clear objectives have been established for the program, program activities are consistent with program objectives and directed towards target customers;
- service delivery is responsive to the needs of target customers and loan assessments are undertaken in line with IHOP policy and procedure, supporting the achievement of program outcomes; and
- performance measurement and reporting mechanisms support accurate assessments of progress towards program outcomes, and achieved performance is in line with the Australian Government's expectations.

1.14 The audit examined the program activities since the integration of the Home Ownership on Indigenous Land program into IHOP in July 2012. Where available, data was considered over a longer period.

1.15 The audit methodology included:

- examination of relevant entity documentation, reports, reviews and Cabinet submissions, including program plans, risk management plans, loan guidelines, and data entry and monitoring protocols;
- examination of IBA's correspondence and briefings with the responsible Minister;
- assessment of processes supporting loan assessment and examination of a sample of assessments to determine their consistency against established criteria and processes;
- examination of activities to support outcomes in remote communities;
- analysis of home loan data from IBA;
- interviews with IBA staff and a sample of IBA customers; and
- review of communication received through the citizens' input facility.

1.16 The audit was conducted in accordance with ANAO auditing standards at a cost of \$591 446.

## 2. Program management

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### Areas examined

The ANAO examined whether IBA has management arrangements that support equitable access to the IHOP and the achievement of the long-term outcomes of IHOP. This chapter assesses whether:

- clear objectives have been established for the program, and program activities are consistent with these objectives;
- access to the program is based on clear eligibility criteria and target customers are prioritised for loans in line with program objectives; and
- risks to the achievement of program objectives are identified and managed, including the risk of fraud and conflict of interest.

### Findings

- The program objective is defined differently in different documents. The difference is whether the program assists people who do 'not qualify for mainstream finance' or people who have 'difficulty accessing mainstream finance'. This affects who is approved for a home loan through the program.
- IBA has established eligibility criteria for entry into the program. However, a key threshold of whether a customer is able to access mainstream finance is not tested in most cases at the expression of interest stage when initial eligibility is assessed. However an assessment does occur at the application stage.
- The current lending activity of the program is not aligned with one of the target groups of low income earners. Further, IBA lending activity is moving towards higher income households. This is reflected by data and policy changes to increase income thresholds for loan products.
- The number of ineligible applicants is increasing. Some of the reasons applicants are denied, such as unsatisfactory credit history, tenancy records and insufficient deposits, also reflect the barriers to home ownership the program tries to overcome.
- IBA has a process for prioritising applications; however the criteria used for prioritising customers do not align with the target customer group.
- At the program level, IBA has identified risks but controls are not always implemented. IBA has processes in place for managing the risks of both fraud and conflict of interest. However, IBA does not investigate all allegations of fraud which is inconsistent with IBA and government policy.

### Areas for improvement

The ANAO has made two recommendations. The first is directed to IBA and is aimed at aligning program activities with the program's objectives. The second is directed to the Australian Government and supports a review of IHOP and whether a government-run loan program is the most efficient mechanism to support Indigenous home ownership outcomes.

## Program objectives and activities

2.1 The program was established in 1975 to provide housing loans to Aboriginal and Torres Strait Islander people who would find securing mainstream finance difficult. In 2015, the aim of the program remains to facilitate increased levels of home ownership through affordable housing loans to Indigenous Australians who would generally not qualify for housing finance elsewhere.

2.2 The objective the program is defined differently in different publications. In the 2013–14 Annual Report IBA states that the objective of IHOP is to provide affordable loans to Aboriginal and Torres Strait Islander people, particularly those on lower incomes, and first home buyers who have difficulty obtaining home loan finance from mainstream commercial lenders. The Portfolio Budget Statement refers to both ‘Indigenous Australians who would generally not qualify for housing finance elsewhere’ and people ‘who have difficulty accessing’ mainstream finance. Although both groups can be difficult to define, this difference in language indicates some inconsistency in who might be considered eligible for a home loan through IBA.

2.3 Funds for the administration of IHOP and for loan capital are provided through a mix of government appropriations, interest and loan repayments received. The departmental program expenses are the administrative costs for delivering the program, including activities involved in facilitating home ownership opportunities in remote and Indigenous communities, and the legal, administrative and operating costs associated with undertaking lending and managing IBA’s loan portfolio. A large component of the program expenses each year is the result of a decrease in the recorded asset valuations, which represents a loss on IBA investments.<sup>23</sup> Table 2.1 shows that program expenses have been increasing as have the numbers of loans in the portfolio.

**Table 2.1: Total departmental program expenses against number of approved loans and portfolio over five years**

	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
Total departmental program expenses	\$35.0m	\$57.6m	\$31.9m	\$34.3m	\$37.5m	\$29.1m
Number of approved loans	363	606	404	664	556	517
Number of loans in the portfolio	–	3685	3841	4110	4335	4471

Note: The increase in program expenses in 2010–11 was due to the temporary transfer of \$56 million in unused funds from the Home Ownership on Indigenous Land (HOIL) Program and resulted in additional loan approvals during the year.

Source: IBA annual reports.

### Loans offered by Indigenous Business Australia under the program

2.4 IBA offers basic home loans for purchasing, constructing, renovating and refinancing. The main differences in the loans offered by IBA and mainstream finance loans are the lower deposit requirements and slightly longer standard loan terms of up to 32 years. These terms have not changed substantially in approximately 30 years. IBA does not offer additional products that may

<sup>23</sup> For example, the total expenses in 2014–15 were \$29 093. Of this, the recorded decrease in asset values as a result of valuation was \$15 161 or 52 per cent.

be available through a mainstream lender such as savings accounts, credit cards and offset accounts.

2.5 In 1982, the introductory interest rate for an IBA loan was 5 per cent gradually increasing until the IBA Home Loan Rate was reached. At the time, the standard variable home loan rate offered by banks was 13.5 per cent.<sup>24</sup> In 2015, the IBA standard introductory interest rate as advertised on IBA's website was 4.5 per cent (which can be reduced to 3 per cent for some low income earners) and the IBA Home Loan Rate was 5.25 per cent.<sup>25</sup> IBA's standard introductory interest rate is set at an initial commencing rate for a minimum period of one year and then escalates by 0.5 per cent (or 0.25 per cent for loans in Emerging Markets<sup>26</sup>) each year until it reaches the IBA Home Loan Rate.<sup>27</sup> The IBA Home Loan Rate is benchmarked against the average of the standard variable interest rates of a basket of competitive home loan lenders for owner-occupied properties (Market Rate) rounded (up or down) by up to 0.25 per cent. The rate is to be reviewed when there is a significant independent movement by three of the major banks represented in the basket.<sup>28</sup> In comparison, the average interest rate on variable loans offered by mainstream lenders was 4.5 per cent in 2015. This indicates that the value of an IBA home loan to a customer is less beneficial than when the program began and in some cases may not be concessional.

2.6 IBA does offer a lower deposit threshold and longer loan term than mainstream lenders. In 2015, the standard minimum deposit was \$3000 or 5 per cent of the purchase price. For some low income earners the minimum deposit can be reduced to \$1500.<sup>29</sup> In 1982, the minimum deposit requirements were set at 5 per cent of the purchase price. The standard loan term is 32 years for an IBA loan compared to 30 years with a mainstream lender.<sup>30</sup> This can be increased to 45 years to assist in reducing the amount of monthly repayments.

2.7 In March 2015, in response to the withdrawal of first home owner support initiatives, IBA introduced a new Fee Finance loan product. This allows customers who do not have sufficient savings to borrow the money they need to pay for other costs associated with the purchase of a

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24 Reserve Bank of Australia, *Australian Economic Statistics 1949-1950 to 1996-1997, Occasional Paper No. 8*, RBA, available from <http://www.rba.gov.au/statistics/frequency/occ-paper-8.html>, [accessed July 2015].

25 IBA also offers a 3 per cent standard introductory interest rate and lower deposit threshold for low income earners. As at November 2015, the advertised standard introductory rate was 4.5 per cent and the advertised IBA home loan rate was 5.25 per cent, see Indigenous Business Australia, *Loan Interest Rates*, available from <http://www.iba.gov.au/home-ownership/iba-housing-loans/loan-interest%20rates/> [accessed on 6 November 2015].

26 For customers classified as Emerging Market or Remote Indigenous Home Loans the introductory interest rate is set at an initial commencing interest rate for a minimum period of two years. This can be extended to three years.

27 Indigenous Business Australia, *Indigenous Home Ownership Program Policy*, August 2015, Canberra, 2015, p. 20.

28 *ibid.*, p. 18.

29 Prior to March 2015 a reduced deposit could be applied to those earning under \$35 000. From March 2015 IBA policy changed to allow applicants earning below 70 per cent of the IBA Income Amount (or \$55 767) to access a reduced deposit.

30 Mainstream lender standard loan term is based on the Commonwealth Bank's maximum advertised loan term of 30 years.

home (for example, stamp duty, legal fees and registration costs). The interest rate for this product is the IBA Home Loan Rate with a maximum loan term of 10 years.<sup>31</sup>

## Indigenous Home Ownership Program customers

2.8 IBA's target customers, as noted in the program objective, are Indigenous first home buyers who have difficulty obtaining home loan finance from other financial institutions. The program is also designed to target Indigenous Australians on lower income levels, with limited savings and credit impairments, limited experience with loan repayments and people in designated emerging market communities where IBA is active. IBA has not taken steps to further define or analyse the size or characteristics of its target customers in any detail. The program also seeks to help Indigenous Australians overcome additional barriers to home ownership.

### Eligibility for access to the program

2.9 A key threshold for entry into the program is whether a customer can access mainstream finance. IBA's policy states that an applicant must not be able to source the required housing loan amount from a mainstream lender and that confirmation of this must be provided.<sup>32</sup> IBA's home ownership fact sheet states that applicants should, in the first instance, check if they qualify for a housing loan from another lender.

2.10 In 82 out of 100 files examined by the ANAO, at the expression of interest stage, there was no assessment of whether applicants would be able to obtain the required home loan amount from a mainstream lender. Of the remaining 18 files examined, some had comments about the likelihood of an applicant not being able to access mainstream finance, some applicants from remote areas did not need to meet this criterion and some assessments of this criterion were not located. There was no documentation from a mainstream lender in these files.

2.11 At the application stage, only five out of 64 files examined had comments against this criterion that reflected that the applicants had tried to source the required home loan from a mainstream lender. In a further four of the 64 files, comments indicated that an applicant would be able to access funds through a mainstream lender. In the majority of the remaining 55 files there was evidence that IBA considered whether applicants would be able to access mainstream finance. In the sample, the main factors considered by IBA when assessing this criterion included low income, bad credit history, lack of savings and/or deposit, loan affordability and employment status. However, IBA lending officers are not given any guidance on what factors to consider when making these assessments, or what threshold applicants must satisfy to meet this criterion.

2.12 By not enforcing the requirement for confirmation to be provided that an applicant cannot source required finance from a mainstream lender, IBA increases the risk that it is lending to applicants that may be able to access housing loans from the mainstream market, which is outside of the program's design.

31 Indigenous Business Australia, *Indigenous Home Ownership Program Policy*, August 2015, Canberra, 2015, p. 15.

32 The need for lower income applicants to provide confirmation from a mainstream lender that it will not provide the required housing loan amount is at the discretion of the delegate.

## Lending to lower income Indigenous Australians

2.13 IBA approved 2552 loans from 2009–10 to 2013–14. Of these 2552 loans, 93 per cent were to first home buyers which are a clear target group for the program. In contrast, Table 2.2 shows that the home loans approved by IBA over this period do not reflect IBA target customers in relation to lower income Indigenous Australians. While there is significant lending activity at the medium income level, the proportion of loans to low income households is only 2.3 per cent. Also, the proportion of loans to higher income households is increasing over time. In 2011–12, 52 per cent of loans were to customers earning over 100 per cent of the IBA Income Amount.<sup>33</sup> This percentage increased to 59 per cent in 2012–13 and 57 per cent in 2013–14.

**Table 2.2: Distribution of IBA loans from 2009–10 to 2013–14 according to income level and bands**

Income level	Weekly income range	Percentage of IBA loans
Very Low	Negative/ Nil income	0.0%
Low	\$1–\$599	2.3%
Medium	\$600–\$1499	51.8%
High	\$1500–\$2999	44.0%
Very High	\$3000 or more	1.9%

Source: ANAO analysis of ABS population data and IBA data.

Note 1: Income includes all non-adjusted income for applicants.

Note 2: The income levels are derived from taking the average low, middle and high average weekly household income, reported by the ABS in 2011–12 *Household Income and Income Distribution, Australia* (cat. no. 6523.0), and situating income ranges around these averages. The income ranges relate to those used by the ABS to report the household income of Indigenous Australians and have been aggregated to correspond with the relevant income levels.

2.14 IBA advised that it would be desirable to have a greater percentage of its home lending to customers with lower incomes. However, for some lower income customers the maximum amount IBA can lend will not be sufficient to enable them to purchase a home. If IBA is no longer able to lend to lower income customers, IBA should consider adjusting its product suite or providing advice to government to confirm this change in program direction (see program risks IBA has identified in paragraph 2.25).

<sup>33</sup> The IBA Income Amount is equivalent to the National Average Weekly Male Earnings statistic calculated by the Australian Bureau of Statistics. The IBA Income Amount is adjusted annually in July after reference to the latest available National Average Weekly Male Earnings.



## Recommendation No.1

2.15 In order to align program activities with the program outcomes, the ANAO recommends that IBA either:

- (a) identify the current barriers to home ownership; increase lending to lower income earners; change the loan products to better suit lower income earners; or
- (b) provide advice to government to confirm a change in the program's target customers.

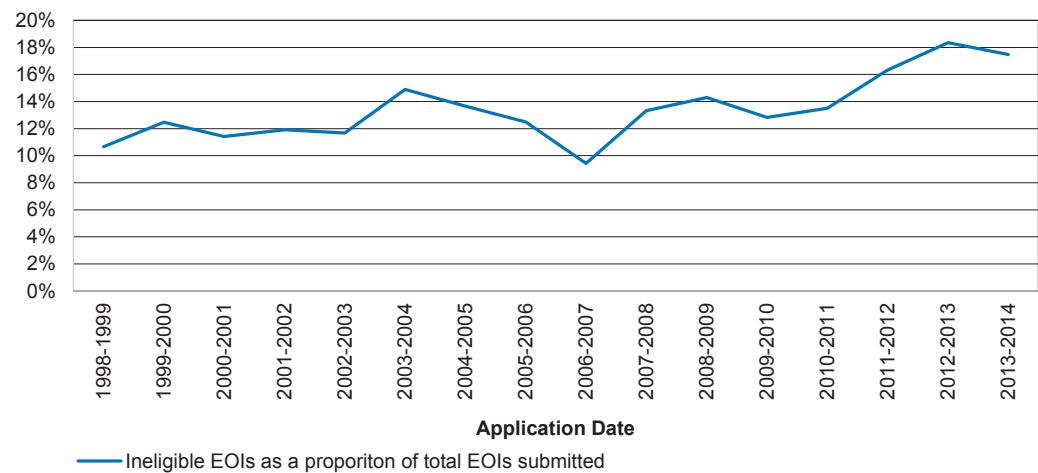
**Indigenous Business Australia's response:** *Agreed.*

2.16 *IBA notes that ANAO has identified the impact that significant shifts in home loan affordability—particularly due to rising house prices and reduced state government assistance—has had on the targeting of IBA home loan assistance. IBA is currently working with Government, through the Department of the Prime Minister and Cabinet, on proposals to refine assistance targeting policies, and is open to further refinement as necessary to ensure that this critical issue is appropriately addressed. IBA's intention is to strengthen income tests, add an asset test, and strenuously implement requirements for customers to show that they have been unable to obtain funding from commercial lenders. Mechanisms to enhance affordable borrowing capacity of customers are also under exploration, particularly the relative effectiveness of the application of concessional interest rates versus provision of upfront grants. IBA will continue efforts to target communities where mainstream lenders are absent (e.g. community-titled land), which will further skew overall targeting toward the lower income bands. IBA has committed to provide Government, through its Minister, with regular reports on the outcomes of its targeting policies, which will improve transparency of the application of assistance and provide opportunity for ongoing refinement of underlying targeting policies. In the event that these measures are not fully successful in re-orienting targeting to lower income segments, IBA will engage with the Government to re-set the program's targeting policy framework that is reflective of structural changes in its customer profile.*

## Ineligible applicants

2.17 From 1998–99 to 2013–14 IBA assessed 3431 expressions of interest as ineligible out of a total of 25 110 expressions of interest received. Further, the number of ineligible assessments per year increased from 113 in 1998–99 to 347 in 2013–14. Figure 2.1 shows ineligible assessments as a proportion of expressions of interest received. Fifty-five per cent of the 3431 expressions of interest deemed as ineligible had no reason recorded in IBA's systems, and a further 32 per cent had 'lending criteria not met' recorded as a reason for being assessed as ineligible. Without recording or analysing the reasons that applicants are being made ineligible IBA is unable to use this information to tailor its program to its target customers.

**Figure 2.1: Expressions of interest assessed as ineligible as a proportion of total expressions of interest received by IBA from 1998–99 to 2013–14**



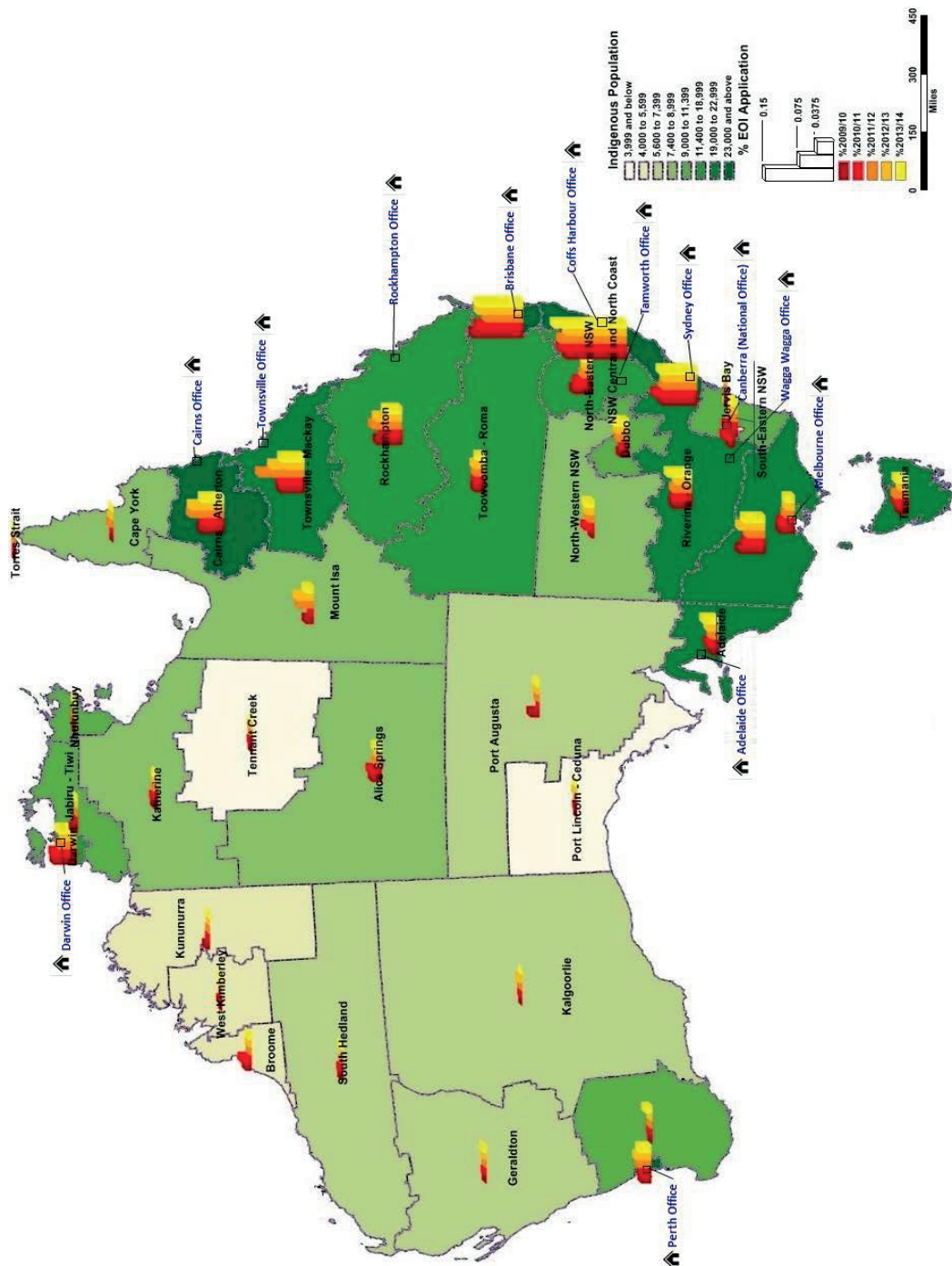
Source: ANAO analysis of IBA data.

**IBA lending activity by location**

2.18 IBA identifies in its Corporate Plan and program policy that service delivery should be aligned with locations of greatest need and realistic opportunity for home ownership. As at the 2011 census, there were 531 039 Indigenous people across Australia located predominantly in Brisbane, NSW Central and North Coast, and Sydney and Wollongong regions.<sup>34</sup> Figure 2.2 and Figure 2.3 show that in general, as expected, there is more program activity in areas of higher Indigenous population. However, the level of activity in some areas does not reflect the density of population.

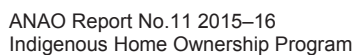
<sup>34</sup> Based on Indigenous Regions (IREG).

Figure 2.2: Percentage of expressions of interest received from 2009–10 to 2013–14 and the number of Indigenous Australians in each region



Source: ANAO analysis of ABS population data and IBA data.

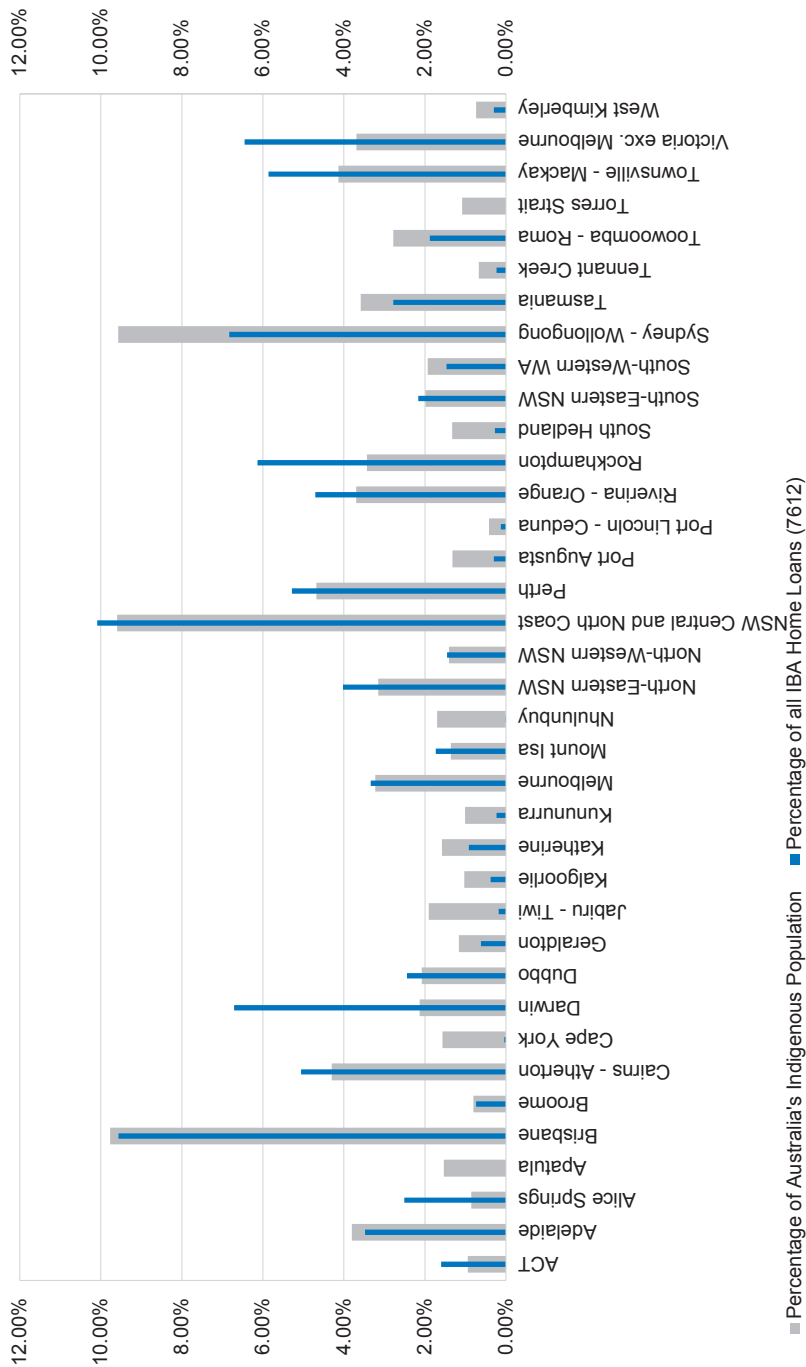
Source: ANAO analysis of ABS population data and IBA data.



2.19 Figure 2.4 shows that there are some areas where IBA lending exceeds the proportion of the Indigenous population, and other areas where lending is significantly lower than the proportion of the Indigenous population. This indicates a pattern of potential underservicing in some locations and overservicing in other locations. For example, while the proportion of loans made in Brisbane closely reflects the proportion of the Indigenous population, in Darwin there is a much higher distribution of loans relative to population share. Conversely, in the Sydney-Wollongong region, there is a much lower proportion of loans relative to population share.

2.20 IBA advised that loan approvals are a result of applications received from eligible applicants and that a range of factors influence the distribution of loans. Such factors could include property prices, an applicant's affordability, consumer debt and differences in government initiatives across jurisdictions. No evidence was provided by IBA of any detailed analysis of results in particular areas to determine the influence of these factors. While the program has traditionally been demand driven, given the changes in the lending environment and customer income levels, there is scope for IBA to take a more proactive approach to analysing the Indigenous population and identifying areas of greatest need and realistic opportunity for home ownership in line with program strategies. At the request of the IBA Board in April 2015, IBA has initiated work to investigate the future demand for the program. This includes engaging a consultant to develop a tool to forecast the immediate, five year, ten year and 20 year trends in demand for the program. This will inform the development of a growth strategy for the program.

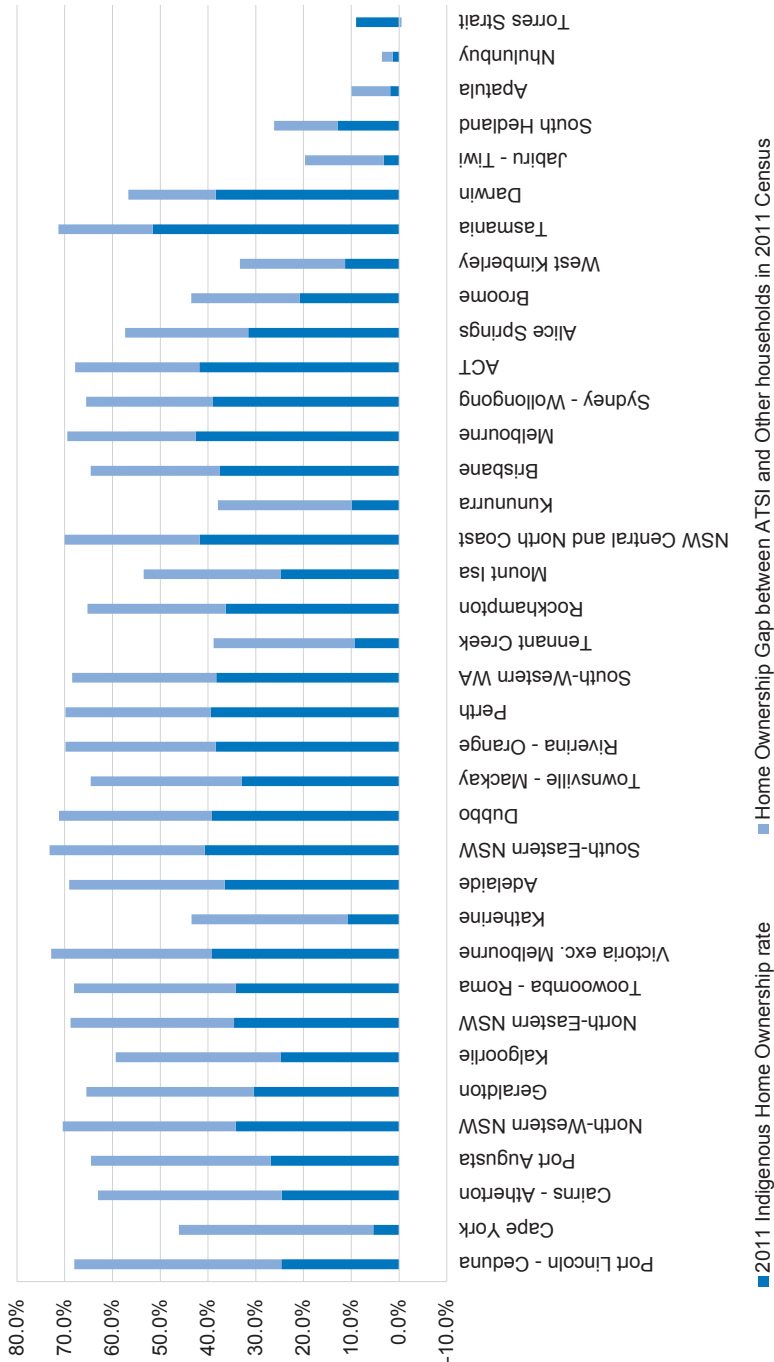
Figure 2.4: Comparison of Australia's Indigenous population to IBA home loans since 1998–99 by percentage



Source: ANAO analysis of ABS population data and IBA data.

2.21 Figure 2.5 sets out a comparison of the Indigenous home ownership participation rate against the non-Indigenous home ownership participation rate to identify areas where the gap in home ownership was highest. The results show that areas with the highest proportion of IBA lending, Brisbane, Sydney and the NSW North Coast, have comparatively smaller gaps in the home ownership rate between the Indigenous and non-Indigenous population. There is scope for IBA to investigate demand in areas where the home ownership gap is highest and potentially look to increase lending activity in these areas.

Figure 2.5: Gap between the Indigenous and the non-Indigenous home ownership participation rate in 2011



Note: Locations are sorted from the largest to smallest gap in the home ownership participation rate. In the Torres Strait, the home ownership rate for Indigenous people is higher than for non-Indigenous people so the value of the gap in this location is negative.

Source: ANAO analysis of ABS Census data 2011.



## Demand for IBA home loans

2.22 IBA uses the expression of interest register as a key indicator of demand for housing loans. In recent years, IBA has seen a decline in demand for its home loans by eligible customers as indicated by zero applicants waiting on the expression of interest register since 30 June 2013. Other indicators of demand include the number of expressions of interest and applications received which have remained relatively stable over recent years (see Table 2.3).

**Table 2.3: Indicators of demand for IHOP**

	2011–12	2012–13	2013–14
Number of expressions of interest received	1948	1907	1986
Number of invitations issued	1064	1128	1097
Number of applications received	858	965	943
Withdrawn applications	260	348	306

Source: ANAO analysis of IBA data.

2.23 In order to meet end of year performance targets, IBA sets periodical targets for key points in the loan process such as enquiries, expressions of interest and applications received. In January 2015, IBA was tracking behind its operational targets for the 2014–15 financial year in relation to the number of applications received and applications on hand indicating a decline in demand. In February 2015, the IBA Board approved temporary changes to lending parameters to increase lending activity. The temporary changes were that customers earning up to 165 per cent of the IBA Income Amount<sup>35</sup> (equivalent to \$131 452) were to be assessed for a fully funded IBA loan rather than the usual split loan and that the standard introductory interest rate was to be reduced to 4 per cent for most customers. The temporary changes were introduced by IBA in response to the economic and housing affordability climate and the reduction in interest rates but evidence was not provided of analysis to support this position. The increase in the income thresholds for IBA applicants indicates a move away from IBA target customers on low to middle incomes. IBA advised that as a result of the temporary measures it was able to meet the budgeted lending amount target for 2014–15 but it did not meet lending key deliverables.

## Prioritisation of eligible applicants

2.24 IBA has a policy of prioritising eligible applicants for loans based on a points system and maintaining a register of applicants who meet a minimum set of the loan eligibility criteria. IBA then allocates each applicant a point score based on the criteria outlined in Table 2.4. The points system has been in place since 1989. ANAO analysis shows that customers with higher point scores had shorter wait times on average than those with low point scores, indicating that the prioritisation system is working as intended. The system of prioritisation used by IBA does not however reflect or weight whether the applicant is a first home buyer, on a low to medium income and/or could not access mainstream finance, in line with the objectives of the program.

<sup>35</sup> See Chapter 4 in relation to definition of the adjusted combined gross annual income (CGAI). CGAI does not represent the total income of an applicant and as such households earning over \$131 452 may also be eligible for a fully funded loan through IBA.

**Table 2.4: Criteria for prioritising the expression of interest register**

Criteria for allocating points	Points
For each Aboriginal or Torres Strait Islander person in the applicant's family.	1
Applicants renting a house from an Indigenous community housing organisation or a state / territory government body.	2
Families paying more than 35 per cent of their total gross income in rent payments.	1
Applicants who meet the minimum deposit / equity requirements excluding first home owners grant.	1
Applicants who meet the minimum deposit / equity requirement plus have an additional deposit amount of \$3000 or more excluding first home owners grant.	1

Source: IBA Indigenous Home Ownership Program Policy, March 2015, p. 16.

## Program risks

2.25 IBA considers that it adopts a conservative approach to risk in relation to its financial affairs, compliance and governance issues and in relation to reputational and operational matters. However, in order to achieve its objectives, IBA identifies that a level of risk must be accepted in delivering its programs. For 2014–15, IBA identified two risks at the program level and associated controls to mitigate these risks. These are outlined in Table 2.5.

**Table 2.5: Key risks and controls for the program in 2014–15**

Key risks	Controls
Home lending products do not address customer affordability and other housing needs.	<ul style="list-style-type: none"> <li>• Monitor new lending across customer segments and housing opportunities.</li> <li>• Monitor key economic indicators to assess impact on home ownership opportunities for Indigenous Australians.</li> <li>• Identify and implement changes to lending practices, products and procedures as required.</li> </ul>
Inability to attract sufficient customers to pursue home ownership under current service delivery model constraints.	<ul style="list-style-type: none"> <li>• Investigate potential areas of under service.</li> <li>• Recruit to vacant network positions.</li> <li>• Explore and implement structural changes to provide resource efficiencies.</li> </ul>

Source: IBA Indigenous Home Ownership Program Business Plan, 2014–15.

2.26 IBA has made changes to its lending practices, products and procedures as a result of tracking behind lending targets for the 2014–15 financial year, as discussed in paragraph 2.23. However, there was limited evidence of analysis and formal monitoring to investigate potential areas of under or overservicing, despite a decrease in demand and an increase in the number of loans to high income households. IBA is currently investigating options to grow the program's lending capacity.

## Credit risk

2.27 Credit risk has been identified by IBA as a major type of risk impacting the program (although this is not specified in the business plan). IBA has identified that it accepts a moderate

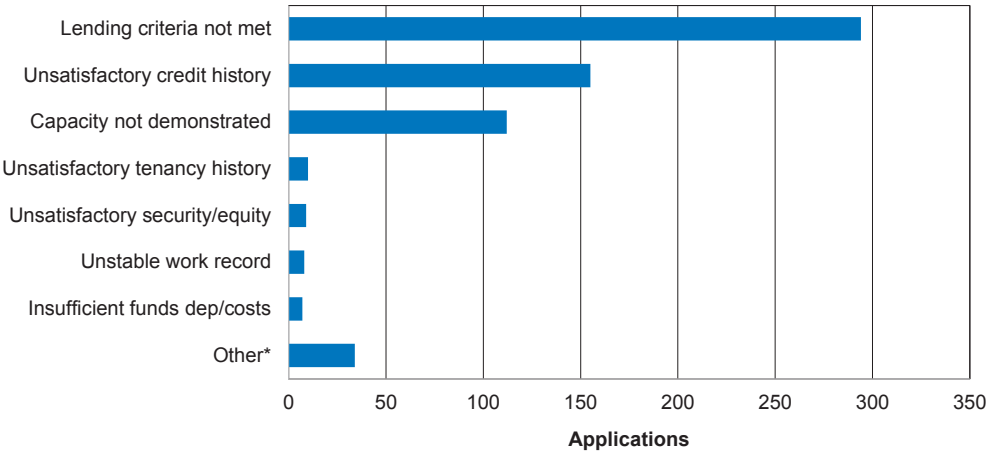
to high risk appetite for its lending programs. The Australian Prudential Regulation Authority identifies that some of the risk limits that a residential mortgage lender should consider include limits relating to:

- serviceability criteria, such as, net income surplus and other debt servicing measures;
- frequency and types of overrides to lending policies; and
- maximum expected or tolerable portfolio default, arrears and write-off rates.<sup>36</sup>

2.28 The credit management risks that IBA accepts can include: loans approved with minimum deposit and savings; loan terms over 32 years; and loans approved with a monthly surplus of less than \$500 after loan repayments. Further, IBA has a higher loan to value ratio than a mainstream lender. IBA attempts to manage this credit risk through the loan approval process where decision-making is delegated to staff at different levels depending on how far outside of the standard IBA lending policy parameters the terms of the loan sit. However, IBA does not track the frequency or factors that cause loans to sit outside policy parameters or flag loans that are approved outside policy for future monitoring. This is discussed further in Chapter 3 as part of loan approvals and arrears management.

2.29 The key factors recorded by IBA for declining loan applications are set out in Figure 2.6. Some of these reasons, such as unsatisfactory credit history, tenancy records and insufficient deposits also reflect some of the risks IBA tries to mitigate and some of the barriers the program tries to overcome.

**Figure 2.6: IBA reasons for declining loan applications**



\* Includes categories: able to obtain external loan; combined repayments exceeds limit; not going to reside in property; and own investment property.

Source: ANAO analysis of decline reasons.

36 While IBA is exempt from the regulatory requirements of the Australian Prudential Regulation Authority in recognition of the high risk profile of IBA’s customer segment, the Prudential Practice guide: APG 223—Residential Mortgage Lending sets out better practice for managing credit risk.

2.30 In delivering IHOP IBA must balance credit risks associated with an applicant not being able to service a loan, against achieving the program's objective of providing loans to applicants who would normally be able to obtain finance through a mainstream lender. However, it is not evident that IBA has undertaken analysis of ineligibility and decline reasons and used this information to inform the Board's development of program policy. While it is reasonable that some customers may not meet IBA requirements, IBA also needs to remain mindful of the barriers the program is attempting to overcome.

## **Fraud control**

2.31 IBA states in its Risk Management Plan and Fraud Control Plan that it has zero appetite for fraud risk and instances of fraud. From 1 July 2011 to 30 March 2014, eight cases of suspected fraud were reported to the IBA Fraud Control Officer (FCO) in relation to IHOP. Three out of four cases examined by the ANAO related to the alleged receipt of a home loan when the person was allegedly not of Aboriginal and Torres Strait Islander descent. In these cases the FCO determined that there was insufficient evidence to conduct an investigation.

2.32 IBA advised the ANAO that IBA has no powers of investigation and cannot compel the production of documents or require responses to questions. This appears to be inconsistent with IBA's Fraud Control Plan and the Commonwealth Fraud Control Framework, which requires entities to investigate and appropriately act upon allegations of fraud, even if considered minor.<sup>37</sup>

2.33 IBA also advised the ANAO that information about Aboriginal and Torres Strait Islander descent, and other personal information is sensitive information under the *Privacy Act 1988* and IBA is required to obtain this information from the customer with their consent. IBA considers that there is a risk that IBA may inadvertently contravene the *Racial Discrimination Act 1975* if it makes additional inquiries about customers. However, IBA already requires customers to consent to IBA collecting and using information about Aboriginality or Torres Strait Islander descent to assess an application for the product or service requested from IBA.

2.34 IBA has changed its processes for confirming Aboriginal and Torres Strait Islander descent in accordance with an IBA Board decision in 2014. The new policy requires that applicants alone will make a legally-binding statutory declaration to demonstrate their Aboriginal or Torres Strait Islander descent rather than also seeking confirmation from an acceptable organisation. This change was considered to be in line with community expectations and reduce red-tape for applicants. IBA also considered that in the event a false declaration was made, IBA actions would likely be limited to removing any interest rate subsidy on the home loan and IBA would not be able to apply an immediate repayment obligation.

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37 Australian Government, *Commonwealth Fraud Control Framework 2014*, Attorney-General's Department, Canberra, 2014, pp. C14–16.

## Managing conflicts of interest

2.35 Prior to assessing loan applications IBA staff are required to consider whether a conflict of interest may exist. If a conflict of interest exists, IBA's procedural instructions state that these transactions must be assessed by another staff member and approved or declined by a delegate who has no conflict of interest. The procedural instructions also require that a declaration of a conflict of interest and subsequent management of the transaction must be recorded by making a note in IBA's systems and placing a copy of the note in an applicant's physical file.

2.36 IBA advised the ANAO that there is no central register for conflict of interest declarations and any conflict is recorded on an applicant's physical file. As such, IBA was not able to readily identify the extent of declared conflicts of interest from 1 July 2011–24 December 2014. Without a central register of conflicts of interest, IBA management has limited visibility over the occurrence and management of declared conflicts of interest.

### Recommendation No.2

2.37 In order to support continued progress in closing the gap in home ownership outcomes, the ANAO recommends that the Australian Government assess whether a government-run loan program is the most efficient mechanism to support Indigenous home ownership outcomes.

**Indigenous Business Australia's response:** *Noted.*

2.38 *IBA notes the ANAO observation and conclusion that it is timely to review IBA's underlying home lending business model. IBA accepts that its small scale—relative to bank lenders—results in relative operational inefficiencies, higher costs, and restricted product and service range. Further, IBA agrees with the ANAO's view that the current business model may not be sufficient to close the gap in home ownership outcomes, and that a change in business model—that better utilises its capital—is required. IBA is keen to explore alternative business models that allow more efficient use of its capital base through public-private sector arrangements with commercial banks, which could deliver larger numbers of home loans, expanded product range, and improved cost efficiency. IBA is currently working with the Government to explore a new business model with these principles.*

### 3. Service delivery

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#### Areas examined

The ANAO examined whether service delivery is responsive to the needs of target customers and loan assessments are undertaken in line with IHOP policy and procedures, supporting the achievement of program outcomes. This chapter assess whether:

- the loan application process is accessible to target customers;
- IBA has undertaken loan assessments consistently, in line with IBA policy and procedures, and decisions are appropriately recorded; and
- loan aftercare services are effective and are based on identified risks and customer needs to minimise loan default.

#### Findings

- The current design of the application process is duplicative and time consuming.
- IBA has not progressed in moving any aspects of IHOP online despite identifying these as key actions for improving service delivery.
- IBA loan assessments were mostly undertaken in line with IBA policies and procedures, and decisions were recorded appropriately. However, the ANAO identified a number of inconsistent considerations in loan assessments and documentation to support decisions. In some cases, these inconsistencies led to different outcomes for applicants. In other cases, the process was extended as applicants were required to resubmit paperwork.
- The manual processing of paper-based applications requires review to mitigate the risks of error. IBA has implemented some quality assurance measures to mitigate these risks however these are still relatively new.
- IBA does not have a system to identify and track high risk customers to minimise loan default prior to them falling into arrears.
- The current process is time consuming and administratively burdensome. IBA could reduce the cost of the program by reducing the level of administration and introducing online service delivery mechanisms.

#### Area for improvement

The ANAO has made one recommendation aimed at making service delivery more responsive to the needs of IBA customers and increasing the efficiency and effectiveness of IBA's business practices.

### Accessibility of the loan application process

3.1 IBA's two-stage application process involves an applicant registering an interest in a housing loan (expression of interest stage) and then applying for a housing loan (loan application stage). This two-stage process is designed to make an assessment of an applicant's initial eligibility, filtering out applicants that may not be ready for home ownership, and for managing IBA's resources due to limited funding allocations.

3.2 The expression of interest form is eight pages long and requires applicants to fill out information against approximately 68 questions (depending on individual circumstances).<sup>38</sup> Applicants who meet a minimum set of the loan eligibility criteria are put onto the expression of interest register. Applicants will be invited to apply for a housing loan as funds become available. Once invited, applicants submit a formal loan application. The loan application form requires applicants to fill out similar information to the expression of interest form, plus approximately 60 additional questions. Four of the documents required to be submitted at the expression of interest stage are required to be resubmitted at the loan application stage.

3.3 The two-stage application process can be a lengthy and difficult process for Indigenous customers. Thirty-seven of the 51 customers interviewed by the ANAO said that they found the application process medium to hard, with 24 out of 51 requiring some kind of assistance from IBA. The main difficulty customers interviewed by the ANAO encountered was with aspects of the paperwork, including the volume of paperwork.

3.4 IBA's application process is paper-based and applicants are unable to complete any aspect of the process online. IBA stated in its 2012–13 Annual Report that it was reviewing how it could improve customer service delivery through the introduction of online services. However, as at June 2015 IBA had not moved any aspects of service delivery online. The ANAO considers that IBA should prioritise the implementation of contemporary delivery mechanisms and improve service delivery. This is in line with IBA's Corporate Plan and its 2013–15 Information and Communication Strategic Framework.

### **Promotional activities of IHOP to support access by target customers**

3.5 IBA's key promotional activities include the IBA website, advertising, brochures, use of social media, information sessions and media releases. Prior to 2015, IBA has not prioritised undertaking additional marketing and promotion activities. Out of the 51 customers interviewed by the ANAO, 38 (75 per cent) had heard about IHOP through word of mouth, where a family member or friend had previously had a loan through IBA. In addition, more marketing and promotion was the most common change customers interviewed wanted to see to the program. Customers interviewed also reported that they knew many people that were interested in a housing loan but did not know about IBA. IBA has acknowledged that a wider audience of Indigenous Australians may not be aware of the assistance on offer by IBA.

3.6 In March 2015, the IBA Executive approved a Communications Plan for IHOP. This plan includes strategies to attract more customers to IHOP, improve the customer experience and celebrate the 40 year anniversary of IHOP but there are limited new measures to connect with potential customers. As such, there is scope for IBA to increase its promotional activities to make the program more accessible.

### **Expression of interest and loan application assessments**

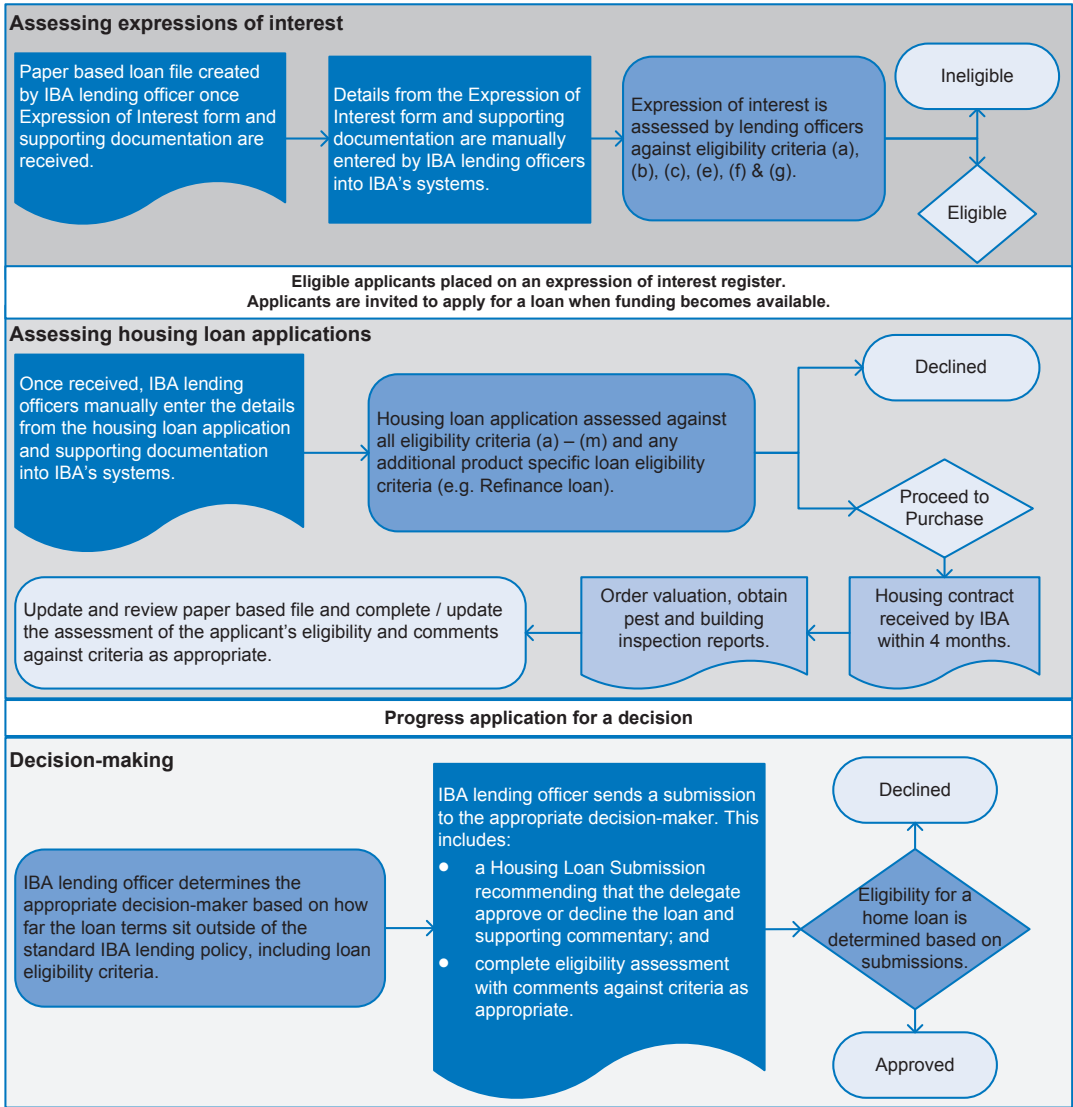
3.7 IBA takes a staged approach to assessing loan applications in line with the application process outlined above. This involves IBA: manually entering applicants' information into IBA's

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38 Not all questions are required to be completed by each applicant—applicants are directed to answer specific questions depending on individual circumstances.

systems; and assessing applicants' expressions of interest against minimum loan eligibility criteria and loan applications against a full set of loan eligibility criteria. The loan application assessment process is set out in Figure 3.1. The loan eligibility criteria IBA uses to assess expressions of interest and loan applications are set out in Table 3.1

**Figure 3.1: Loan application assessment process**



Note: From August 2015, IBA assess applicants' eligibility against loan eligibility criteria (a) to (g).  
Source: ANAO analysis of IBA's Indigenous Home Ownership Program Policy and procedural instructions.



**Table 3.1: Loan eligibility criteria**

Loan eligibility criteria		Criteria to be applied at each stage	
		Expression of interest	Home loan application
(a)	Be of Aboriginal or Torres Strait Islander descent supported by documentation that is acceptable to IBA.	✓	✓
(b)	Not be able to source the required home loan amount or part thereof from a mainstream lender.	✓	✓
(c)	Be able to produce satisfactory evidence that their combined gross annual income (CGAI) is within the income range detailed in the relevant tiers. <sup>39</sup>	✓	✓
(d)	Have a stable work record.	✗	✓
(e)	Be able to contribute a minimum deposit / equity of \$3,000 or 5 per cent of the cost of the home, whichever is the lesser.	✓	✓
(f)	Be able to meet all legal and incidental costs associated with the purchase or construction of the home.	✓	✓
(g)	Have the capacity to meet required housing loan repayments.	✓	✓
(h)	Demonstrate reasonable likelihood of having capacity to meet the loan repayments over the whole term of the loan.	✗	✓
(i)	Not have repayments (proposed housing loan repayments) which exceed 30 per cent of total gross income or combined housing loan and consumer debt repayments which exceed 35 per cent of total gross income.	✗	✓
(j)	Have a demonstrated satisfactory tenancy record, if currently renting a home.	✗	✓
(k)	Have a credit history that is satisfactory to IBA.	✗	✓
(l)	Not already own, or be paying off, a rental or investment property.	✗	✓
(m)	Reside in the property that is the security for the loan upon loan settlement or final loan advance.	✗	✓

Note: From August 2015 IBA assess applicants' eligibility against standard loan eligibility criteria (a) to (g).

Source: IBA, Indigenous Home Ownership Program Policy, March 2015, pp. 10–11.

3.8 To assess whether IBA has undertaken loan assessments in line with IBA's policies and procedures, including loan eligibility criteria, the ANAO undertook a review of a sample of 100 IBA customer files. The sample consisted of files where an applicant had submitted an expression of interest between July 2011 and June 2014. Each file was paper-based and had progressed to a different stage of the application process but not all progressed to an IBA loan.

39 CGAI Tiers are used to calculate the maximum loan amount that IBA will provide and accordingly, the amount that is required to be sourced from another lender.

## Expression of interest assessments

3.9 IBA lending officers make an assessment of a potential customer's eligibility based on the information that an applicant includes on the expression of interest form. The information on the expression of interest form covers details of income and financial commitments such as personal loans, tenancy arrangements, savings, credit cards and debt arrangements. IBA also requires applicants to provide supporting documentation at this stage including:

- confirmation of Aboriginal descent and signed privacy consent;
- proof of income (for example, two recent payslips); and
- evidence of ability to provide the deposit or equity and pay legal and stamp duty costs (for example, a copy of recent bank, building society, and/or credit union statements).

3.10 In the ANAO's sample of IBA customer files, the ANAO found that IBA did not regularly demonstrate that it considered whether applicants could obtain finance from a mainstream lender (see 2.10). The ANAO also found some inconsistencies in how lending officers had applied the procedural instructions in making an initial assessment of potential customers' eligibility. These included:

- discrepancies in what was considered a complete and acceptable Confirmation of Aboriginal Descent form<sup>40</sup>;
- different calculation methods for income, affecting split loan determinations; and
- discrepancies in whether applicants were required to submit verification of income and other supporting documentation.

3.11 In some cases, these inconsistencies led to different outcomes for applicants. In other cases, the process was extended as applicants were required to resubmit information or supporting documentation.

3.12 The ANAO also found that some applicants did not complete sections of the expression of interest form or provide the required supporting documentation and IBA lending officers did not always verify all the information provided by applicants. IBA advised that as the expression of interest assessment is an initial assessment of applicant's eligibility, and not a credit decision, not all information is required to be verified. If IBA is not going to verify the supporting documentation that applicants submit at the expression of interest stage, IBA could consider reducing the burden on applicants by removing the requirement for applicants to provide supporting documentation at the expression of interest stage.

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40 The applications reviewed by the ANAO were provided to IBA prior to 20 June 2014, when customers had to obtain confirmation from an Indigenous organisation. Since 20 June 2014, IBA applicants are required to provide a statutory declaration only.

## Loan application assessments

3.13 Loan application assessments were more comprehensive and supported by verified documentation than expression of interest assessments. However, as with the expression of interest assessments, the ANAO identified a number of inconsistencies in the considerations for different criteria. The main areas of concern included:

- no evidence was provided in the majority of files that IBA had sought any form of confirmation that an applicant was unable to access mainstream funding. While IBA advised that this may be assessed by virtue of the applicant's circumstances, IBA lending officers are not given any guidance on what factors to consider when making these assessments, or what threshold applicants must satisfy to meet this criterion (see paragraph 2.11);
- limited guidance on which factors should be considered when assessing capacity to service a loan, leading to different factors being taken into account by IBA when assessing capacity. Further, there was not always sufficient detail to understand the reasons supporting the assessment of capacity;
- some variation in the amount of living costs considered by IBA. For example, the average living cost for one person is \$469 per month and varies, on average, by \$195 above and below this. This affects affordability determinations as to whether an applicant can afford a loan; and
- no clear benchmark or guidance for what is considered a satisfactory credit history leaving scope for inconsistency in decision-making in these criteria. The ANAO identified 17 out of 64 files where IBA did not obtain all of the information required to assess credit history.

## Decision-making

3.14 At the loan application stage, IBA takes a risk-based approach to determining the appropriate decision-maker. Decisions are delegated to staff at different levels depending on how far an application sits outside of the standard IBA lending policy, including loan eligibility criteria. Delegations are underpinned by IBA Instrument of Delegations and supported by IBA's loan approval system, which alerts a lending officer when a loan term is outside of the standard IBA lending policy (for example, where an applicant's combined housing loan and consumer debt repayments exceed 35 per cent of total gross income). The lending system also has some controls to separate the recommending officer and the approving delegate.

3.15 In the majority of the files assessed by the ANAO: there was some evidence to support decisions made; the reasons for decisions were recorded on files; and 37 out of 43 housing loan submissions were signed by the correct delegate. However, in four cases some minor discrepancies were identified and in two cases the assessor and decision-maker was the same person.

3.16 Where an application for a loan is declined, IBA policy is that the applicant is to be notified of the reasons for declining the application. In the ANAO's sample, eight out of 43 loan applications had been declined. In four of the eight letters sent to applicants IBA identified the reasons for declining the loan. In two of the remaining four files copies of the letters declining the applications were not located. In the remaining two files the letters sent by IBA did not adequately

explain all of the reasons for the decision made. Consequently, the applicants affected by the decision may not fully understand the decision, be given an opportunity to have the decision properly explained and decide whether to exercise their rights of review or appeal.

### **Quality assurance of decisions and lending practices**

3.17 IBA advised that it seeks to mitigate the risk of administrative error through quality assurance measures such as the Network Assurance Review. The Network Assurance Review was introduced in September 2014 and replaced a program of self-audits conducted by individual lending officers. Some issues underlying the introduction of the new process included concerns over risks in the consistency in treatment of applicants and the application process, not following procedures resulting in detriment to customers and improving efficiencies.

3.18 The Network Assurance Review involves assessing 24 newly approved loan files per month against a number of financial and compliance risks identified by IBA. Some of these risks include whether the correct primary and secondary applicant has been used to determine combined gross annual income and whether credit history has been adequately investigated. The results are collated and reported to the General Manager. The goal is to identify trends and potential improvements for IBA business processes. IBA reported that the process is relatively new and there has not been the opportunity to acquire robust amounts of data. IBA anticipates leveraging this report to undertake deeper analysis into areas of potential risk that have been identified and prepare separately an in-depth report on the potential area of risk. Results from the first seven months of the review process show that IBA lending officers' compliance with IBA lending policy and procedures when undertaking loan assessments increased from 85.5 to 91.5 per cent.

### **Timeframes**

3.19 The two-stage application process can be time consuming for both applicants and IBA. Between 2010–11 and 2012–13 the average time taken by IBA to assess an eligible applicant's expression of interest was 16 days. Similarly, the average time taken by IBA to assess an approved applicant's home loan application was 10 days. These timeframes do not take into account the time taken to provide any missing or incomplete information such as the privacy consent form or other documentation and therefore do not reflect the length of the process. They also do not take into account those applicants that may have been made eligible pending the applicant satisfying the necessary requirements for initial eligibility within a specified time period.

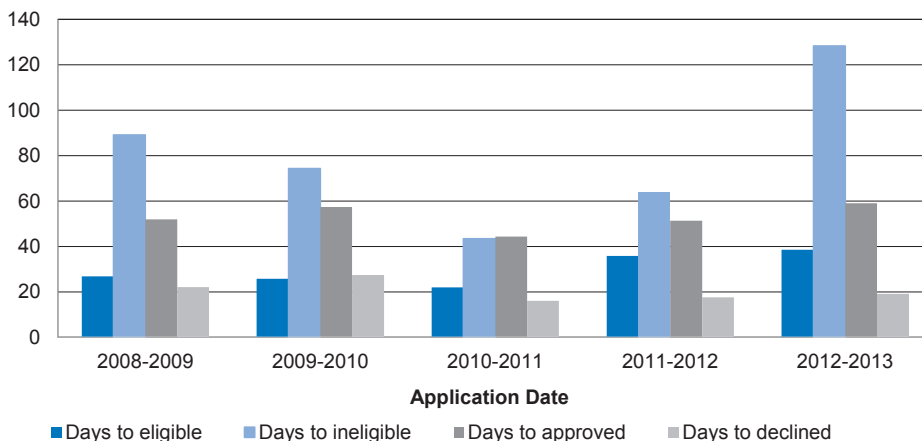
3.20 Figure 3.2 sets out the average number of days from 2008–09 to 2012–13<sup>41</sup> for all the required documentation to be collected from applicants and for IBA to assess: initial eligibility at the expression of interest stage; and whether to approve or decline a loan application at the loan application stage. For the same period, the average number of days eligible applicants spent on

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41 Expressions of interest received in 2013–14 were excluded by the ANAO to reflect that many were still in progress at the time of analysis and this may have distorted the results. Expressions of interest received prior to 2008–09 were excluded due to data quality issues.

the expression of interest register before being invited to apply or withdrawing their application decreased from 399 days in 2008–09 to 42 days in 2012–13.<sup>42</sup>

**Figure 3.2: Expression of interest and loan application assessment timeframes**



Note: Timeframes include requesting additional information from customers and submissions to National Office.

Source: ANAO analysis of IBA data.

3.21 From 2010–11 to 2012–13, the average number of days between applicants submitting an expression of interest and a decision being made about their initial eligibility increased from 38 to 60 days. The average number of days from applicants submitting a housing loan application to a decision being made to approve or decline a loan increased from 48 to 52 days. Streamlining the application process would save both IBA and customers time. Further, there are cost benefits to IBA from reducing the amount of processing time associated with expressions of interest and applications.

## Loan aftercare and arrears management

3.22 IBA considers that its personalised ongoing support for customers operates beyond the normal mandate of a bank or other financial institutions. IBA's procedural instructions set out that once a loan has been settled, borrowers should be provided with ongoing support to assist them:

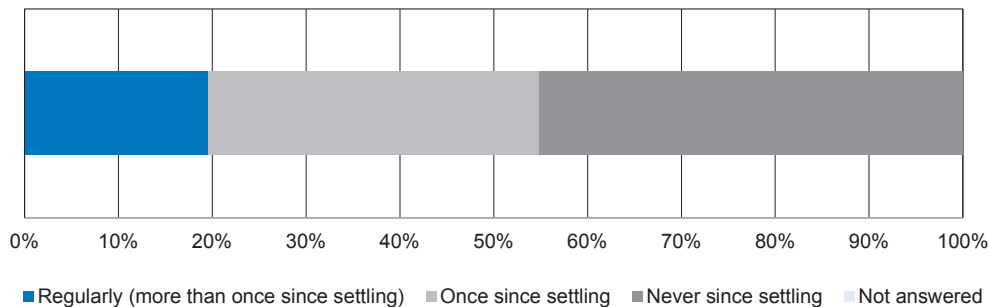
- manage their housing loan and other responsibilities associated with home ownership; and
- continue the positive relationship established with IBA.

3.23 A part of IBA's loan aftercare support is, where practical, arranging to visit a new borrower within the 12 months following loan settlement. Of the 51 customers interviewed by the ANAO, 18 stated that they had heard from IBA once since settling on their loan. Of the customers not

42 The decrease in waiting times in 2010–11 and 2012–13 coincides with capital injections received from the Home Ownership on Indigenous Land program, when it merged with the Indigenous Home Ownership Program. These capital injections resulted in an increase in the number of loans IBA was able to deliver which cleared the expression of interest register.

contacted by IBA since settling, 12 had contacted IBA with regards to an issue with their loan or repayments. The results are shown in Figure 3.3.

**Figure 3.3: IBA contact with customers after loan settlement**



Source: ANAO analysis of customer interviews.

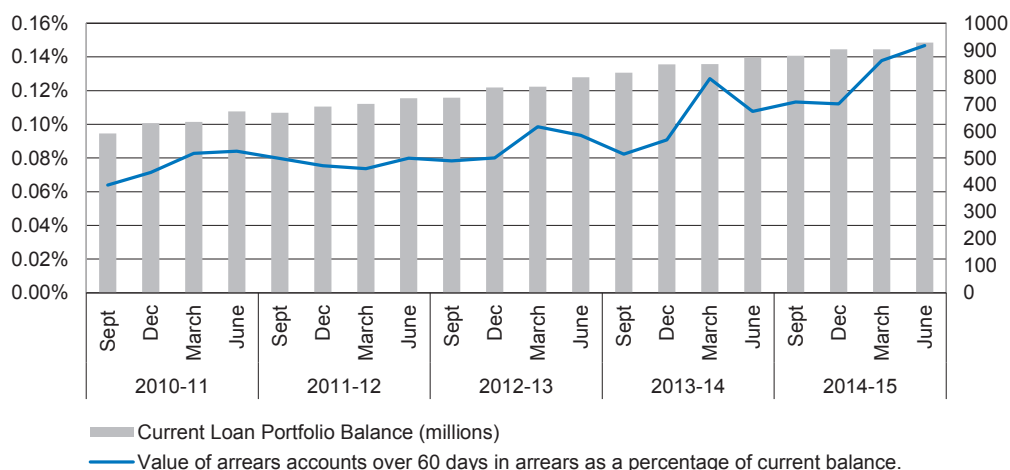
3.24 IBA does not have a system or mechanism for monitoring after-loan care on an ongoing basis. As a consequence, IBA cannot track whether customers are receiving adequate after-loan services. This includes monitoring whether customers’ circumstances have changed, putting them at higher risk of dropping into arrears or defaulting on their loan.

3.25 IBA customers are unable to access any of their loan accounts online. This means that if a customer wants account information outside the routine statement period, they would need to contact IBA and request an account statement which is then mailed to the customer. Customers are therefore unable to monitor and manage their account or access account information on a regular basis.

**IBA’s management of arrears**

3.26 IBA sets itself an internal target to maintain the total value of arrears from accounts over 60 days in arrears below 0.20 per cent of the total of IBA’s loan portfolio balance. At June 2015 IBA was meeting this target (see Figure 3.4). However, the total value of arrears from accounts over 60 days in arrears has doubled between December 2011 and June 2015.

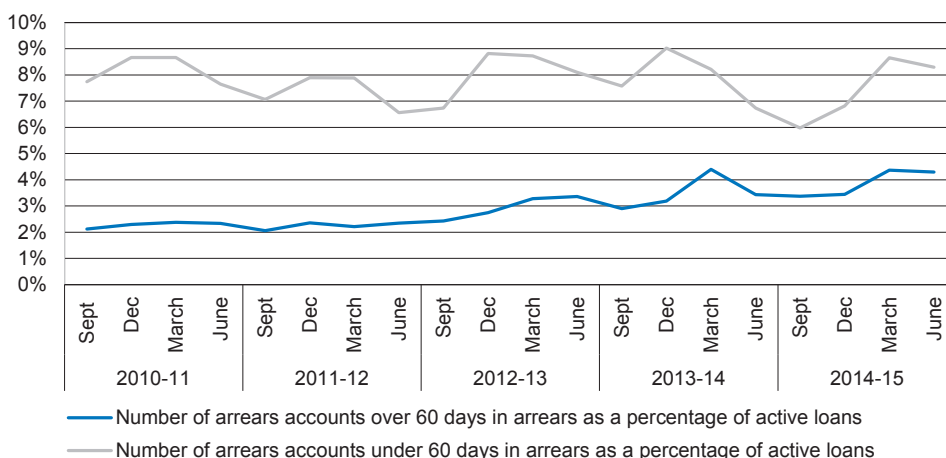
**Figure 3.4: Total value of arrears from accounts over 60 days in arrears as a percentage of IBA's loan portfolio balance, from September 2010 to June 2015**



Source: ANAO analysis of IBA's internal reports from September 2010–June 2015.

3.27 IBA also sets internal targets for the number of accounts over and under 60 days in arrears as a percentage of all active loans in IBA's portfolio. In 2013–14, IBA's target for the number of accounts over 60 days in arrears was 3.5 per cent. In 2014–15 IBA increased this target to 3.75 per cent to reflect changes in the market, such as increased pressure in regional economies. For the same period, the target for the number of accounts under 60 days in arrears was 8.5 per cent. On average, for 2014–15, the number of loan accounts over 60 days in arrears was 3.9 per cent of active loans and the number of loan accounts under 60 days in arrears was 7.4 per cent of active loans (see Figure 3.5).

**Figure 3.5: Number of accounts over and under 60 days in arrears as a percentage of active loans, from September 2010 to June 2015**



Source: ANAO analysis of IBA's internal reports from September 2010–June 2015.

3.28 In 2014–15 IBA met two out of three of its internal targets for arrears. Despite this there has been an overall increase in the number and value of accounts over 60 days in arrears since 2010. Additionally, IBA changed its target for the number of accounts over 60 days in arrears to accommodate for an increase in arrears rates in 2013–14.

3.29 There are likely to be a number of drivers behind the increase in IBA's arrears, including economic factors. However, IBA does not have a way of systematically recording and analysing why customers drop into arrears or processes in place for identifying and tracking customers at higher risk of dropping into arrears. This includes tracking customers that are a higher credit risk, in particular those with loans approved with minimum deposit and low savings, split loans, and loans to low income earners.

3.30 In 2014, a credit management review process was developed by IBA to provide assurance over the management of accounts that are in arrears. This includes managing accounts subject to debt collection action and providing assistance to customers experiencing hardship. Initial results from the credit management review process indicate that approximately 80 per cent of arrears accounts are being managed in line with IBA's arrears policy. This means that IBA has identified issues with the management of arrears accounts in 20 per cent of the arrears accounts reviewed during this process.

### Recommendation No.3

3.31 In order to make service delivery more responsive to the needs of target customers and increase the efficiency and effectiveness of business practices, ANAO recommends that IBA:

- (a) streamline the two-stage application process;
- (b) introduce online services including an online application process and online access to account information;
- (c) increase promotional activities;
- (d) process applications electronically and move to an electronic filing system;
- (e) monitor whether adequate after-loan care is provided to customers; and
- (f) identify and manage high risk customers to provide them with adequate after-loan care.

**Indigenous Business Australia's response:** *Agreed.*

3.32 *New strategies are under development that will bring commercial best practice to loan application processes, including stages of application, on-line capability, and electronic systems. The new approach will also allow additional focus, in terms of monitoring, analysis and intervention, on after-loan care. The new strategy that is under development will also enable IBA to pivot its resources, as suggested by the ANAO, toward its relative strengths including: promotion and loan origination activities, risk assessment, and after-loan care, particularly in arrears management; while sourcing its inefficient loan processing and funding capabilities from cost-efficient expert providers.*



## 4. Performance measurement and reporting

### Areas examined

The ANAO examined the performance measurement and reporting mechanisms that IBA has in place to support accurate assessments of progress towards program outcomes, and whether achieved performance is in line with the Australian Government's expectations. This chapter assesses whether:

- IBA has systems to collect, verify and report data relevant to assessment of program performance;
- progress towards the program objective is regularly monitored and assessed;
- the extent to which the program meets the needs of customers is regularly assessed; and
- performance information reflects progress towards desired outcomes.

### Findings

- The two systems used by IBA to measure and report on performance are designed for business operational purposes. As a consequence, they primarily produce point-in-time data, rather than trends in program performance. The ANAO identified data quality issues and limitations which are likely to be reflected in both internal and external reporting.
- IBA does not monitor the quality of service delivery or collect information to assess whether the program is meeting the needs of customers.
- There has been limited formal evaluation of the program and service delivery.
- Program performance declined in 2014–15 as indicated by IBA not meeting either key deliverable for the program. The number of loans approved has also been declining over the last three years.
- IBA reports on all loans in the IBA loan systems not just loans leading to a new home ownership outcome.
- The IBA target in relation to income has increased to facilitate more lending to higher income customers, which does not align with the program objective. Further, IBA reporting on customer income reports an adjusted customer income figure rather than total customer income.
- IBA's contribution to Indigenous home ownership is limited. From 2006 to 2011, IBA approved 2096 loans leading to a new home outcome against an increase of 18 104 Indigenous households in home ownership. Some of these households may have been able to access mainstream finance indicating IBA's contribution to the home ownership participation rate is a maximum of 11.6 per cent.

### Area for improvement

The ANAO has made one recommendation aimed at improving IBA's performance measurement and reporting.

## IBA systems and data collection

4.1 A significant amount of information is collected by IBA through two loan management applications: the Quote and Application Tracking System (QATS) and the Loans Administration System (LAS). QATS is used to manage and record loan approval processes, including enquiries about IHOP (leads), requests for placement on the expression of interest register, processing loan application invitations, recording application details, assessing the loan application, loan approvals and disbursements. QATS has an interface to LAS. When a loan is settled, information is automatically migrated from QATS to LAS establishing an ongoing loan account. The 'settling' of a loan disbursement in QATS will transfer the amount to LAS as a loan advance and interest will start to accrue from the settlement date. LAS is then used for all subsequent management of loans including interest calculation, recording repayments, arrears and insurance management.

4.2 When a potential customer first contacts IBA, personal information is collected by creating a 'lead' record in the QATS system. These personal details are subsequently available for transfer to the customer's application if the customer registers an expression of interest in a housing loan. At each stage of the application process, the customer's information is entered into the system manually by an IBA staff member based on information provided by the customer. Manual data entry is a time consuming and costly process for organisations.

4.3 The QATS and LAS system are business operational systems to support transaction processing with minimal back-end reporting, meaning that they are focused on business processes and current data. IBA extracts a point-in-time snapshot of IHOP data from these systems that provides information in relation to the number of expressions of interest and applications, applicants and loan terms.

4.4 There are two main controls in QATS designed to preserve the accuracy of recording customers and their application history. These controls require IBA staff to:

- at the point of enquiry, check whether the potential customer has been previously entered into the system; and
- on the creation of a new loan, run a Customer Exposure Report to identify any previous loans the customer has had with IBA.

4.5 ANAO tests of the 2009 to 2014 customer data indicate that some of these controls are not operating effectively. One of these tests identified IBA customers that had not been assigned a unique identifier in line with IBA procedures. Using a combination of the customer's First Name, Last Name and Suburb, the test identified 216 customers who have had multiple loans through IBA. Of the 216 customers with multiple loans, ANAO identified that 44 had more than one customer identifier, including one customer with three loans and three different unique identifiers. This test only provides an indication of the number of instances where this occurs. This creates a risk that IBA may not be able to obtain a complete history of a customer's financial interactions with IBA and is not able to accurately identify the number of people who have received multiple loans through IBA. IBA recognises that there are instances of there being duplicate customer records created in the system.

4.6 Further tests identified application records for customers who had recent applications already in the system, indicating duplicate records at the application stage. Tests also identified 148 records where an applicant had a date of birth either in the future, or under the age of 16.

However, most of these 148 records were created prior to 2006 indicating the quality of data has improved in this area. These examples point to some data integrity issues that may affect the quality of IBA's reporting.

### **Internal performance reporting and monitoring**

4.7 IBA has identified a number of key performance indicators and supporting targets that contribute to the achievement of IBA's objectives. These indicators and targets are set out across the lending cycle and cover program promotion, invitation cycle, loan origination, portfolio risk and efficiency, lending systems, transaction processing and reporting, and lending decisions.

4.8 Data to produce internal reports on performance is derived directly from IBA's QATS and LAS systems using custom data extracts. From these systems, monthly reports are prepared for the General Manager Homes, the Chief Executive Officer and the Chief Operating Officer with differing levels of detail. Reports are provided to the Executive for each IBA location and at a program level.

4.9 Although the extracts produced meet IBA's requirements for current reporting, the data derived cannot be used to perform historical or in-depth analysis of the program. Analysis of this kind would enable IBA to identify anomalies and trends relating to customers and program performance over time. ANAO observed that due to its current systems and reporting environment IBA is not in a position to be able to produce this level of analysis.

### **Program evaluation and review**

4.10 IHOP has been in operation since 1975 and managed by IBA since 2005. IBA systems contain data dating back to 1999. No formal evaluation has been undertaken of the program while the program has been under IBA's management.

4.11 IBA has undertaken two internal reviews relating to IHOP, these are:

- Internal Review of the Cost Effectiveness Assessment of IBA's Home Ownership Program, October 2010; and
- Internal Review of the Perceptions of Home Ownership among IBA Home Loan Clients, January 2008.

4.12 IBA reported in its 2012–13 and 2013–14 annual reports that a number of reviews and evaluations had been conducted in relation to IHOP. Specifically, both annual reports have referred to a pilot of a new service delivery model that commenced in 2013. However, IBA advised the ANAO that a planned evaluation of the customer service delivery pilot was not completed due to the lack of staff availability.

4.13 The 2012–13 IBA Annual Report refers to a review on how IBA delivers its loans to ensure it can continue to effectively administer IHOP, and mentions the review will be the basis for improving customer service by introducing new contemporary service delivery channels, including online services. The outcome of this review was to adopt a revised branch structure including the creation of a new team focused on developing online service models. However, IBA has not moved any aspects of IHOP service delivery online.

4.14 In April 2015, the IBA Board initiated a growth strategy for the program linked to potentially revised delivery models. This strategy is currently under development.

## Monitoring the quality of service delivery

4.15 IBA's current monitoring arrangements do not include considering the quality of service delivery that is provided to IBA customers. There is no mechanism in place to routinely collect feedback from IBA customers. Without feedback from customers, it is difficult to assess whether the program is meeting the needs of customers and service delivery standards.

4.16 During fieldwork the ANAO interviewed 51 IBA customers about their experience with IBA and IHOP. Overall, customers were mostly positive about their experiences however a number of areas for improvement were suggested. These included:

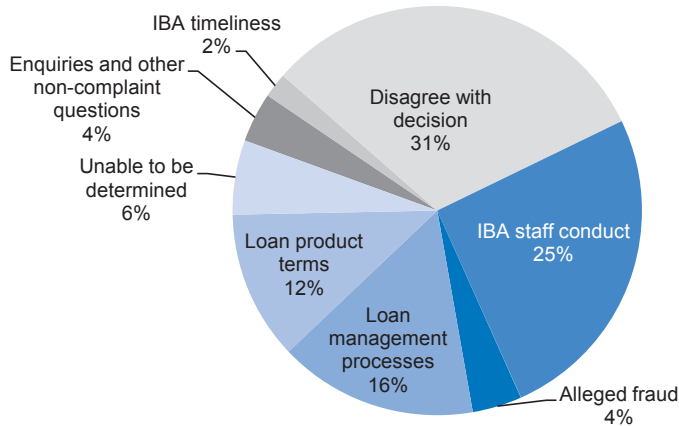
- more promotion of the program;
- more face to face service delivery;
- greater flexibility within IBA products for changing circumstances;
- improved after-loan care; and
- more program targeting towards young people.

## Complaints monitoring and management

4.17 Customers' rights and responsibilities with respect to making complaints are set out in IBA's Customer Service Charter. This charter is available on IBA's website and is sent out with information about applying for a loan. However, 35 out of the 51 customers interviewed by the ANAO advised that they were not aware of the process for making a complaint or had not been provided with information on how to make a complaint.

4.18 IBA sets out instructions on handling complaints in its internal *Chief Executive Instructions*. Despite IBA policy requiring that all complaints are to be recorded, IBA advised that complaints taken verbally at the IBA shopfront or via phone would not always be recorded if they were resolved at the initial point of contact. Eighteen out of 51 customers interviewed by ANAO, said that if they had to make a complaint they would do this directly through a staff member. This indicates that a number of complaints are likely to be raised, at least initially, at the point of contact level. The ANAO also identified inconsistencies in how complaints have been documented over time.

4.19 IBA advised that the complaints handling register is not analysed or used to provide information on systemic problems and does not provide insight into whether the complaints handling policy was working. The ANAO analysed the 51 complaints recorded in the IBA complaints register between June 2013–December 2014 and found that most complaints related to IBA customers disagreeing with a decision, staff conduct or the loan management processes. These are set out in Figure 4.1. In most cases, IBA had documented the approach it had taken to resolve the complaint.

**Figure 4.1: ANAO analysis of complaints recorded in IBA's complaints register**

Note: The complaints relating to alleged fraud were also recorded in IBA's fraud register.

Source: ANAO analysis of IBA's complaints register.

## Public reporting on program performance

4.20 IBA reports on two key deliverables and three key performance indicators in its annual report each year. IBA's reporting against the desired deliverables and indicators, from 2011–12 to 2014–15, is detailed in Table 4.1. The increase in the targets for new loans in 2012–13 was due to the Australian Government's decision to merge IHOP with the Home Ownership on Indigenous Land program from 1 July 2012. In 2014–15, IBA did not meet either of its key deliverables and met only two out of three key performance indicators. Further, IBA approved less home loans than the previous two years.

**Table 4.1: Performance information from 2011–12 to 2014–15**

		2014–15			2013–14			2012–13			2011–12		
		Target	Result	Met	Target	Result	Met	Target	Result	Met	Target	Result	Met
<b>Expenses</b>													
Total departmental program expenses		\$49m	\$29.1m		\$52m	\$37.5m		\$74m	\$34.3m		\$45m	\$31.9m	
<b>Key deliverables</b>													
Number of new home loans		560	517	✖	560	556	✖	645	664	✓	400	404	✓
Aggregate loans in the portfolio		4505	4471	✖	4325	4335	✓	4095	4110	✓	3670	3841	✓
<b>Key performance indicators</b>													
Percentage of loans to applicants who have an adjusted combined gross annual income of not more than 125% of IBA's income amount		80%	79.7%	✖	80%	82.9%	✓	85%	81.9%	✖	80%	86.9%	✓
Percentage of loans to applicants who are first home buyers		90%	90.7%	✓	90%	91.4%	✓	90%	93.5%	✓	85%	93.1%	✓
Number of remote Indigenous communities in which IBA is actively facilitating home ownership opportunities		12	12	✓	10	14	✓	10	12	✓	N/A	10	N/A

Note: IBA advised that IBA is able to meet its loan targets without expending the total funds because of loan amounts that are committed but not expended. This occurs when a loan is approved in one financial year, but the actual expenditure of the committed funds occurs on settlement of the land which could be up to a month after the commitment and if a house is being constructed further time delays will occur before all funding is drawn down. This is dependent upon the individual circumstances and the contractual provisions of the purchase.

Source: IBA Portfolio Budget Statements and annual reports.

4.21 It was estimated that the merging of IHOP with the Home Ownership on Indigenous Land program in 2012 would enable IBA to provide approximately 275 more loans in 2012–13, and an additional 270 loans over the following three years. Against a base target of 400 home loans in 2011–12, the revised home loan target would have been 675 in 2012–13 against which IBA achieved 664 loans. Although performance was meant to continue to increase from 2012–13, both the target and result decreased by nearly 100 loans in 2013–14 and by a further 39 loans in 2014–15.

4.22 IBA has increased the number of new home loan deliverables for future years. The number of new home loans increases from an estimated actual 520 in 2014–15 to 574 in 2015–16 and 630 in 2018–19. This increase reflects policy changes by IBA to address affordability issues and anticipated increased lending in Emerging Markets. IBA has also included a new deliverable of total IHOP capital base to reflect growth in the portfolio which is consistent with projected increases in the number of new home loans.

4.23 For 2015–16, IBA's target in relation to income will be changed from the number of loans to applicants who have an adjusted combined gross annual income of not more than 125 per cent of IBA's Income Amount<sup>43</sup> to the number of loans to applicants who have an adjusted combined gross annual income of not more than 140 per cent of IBA's Income Amount. This effectively lowers the target for IBA and means that IBA is able to facilitate more loans to people earning a higher income. The reason given by IBA for this increase is to reflect affordability issues and assist more applicants in metropolitan areas to overcome affordability issues.

4.24 IBA reports on the number of all new loans created in its loans system rather than the number of new loans leading to a new home ownership outcome. For the financial years 2009–10 to 2013–14, out of all home loans reported by IBA the ANAO identified 80 out of 2552 instances or 3.1 per cent of expended funds that did not directly relate to a new home outcome. This includes 16 instances of purchase/construction loans with expended funds under \$1000 and a further 10 under \$25 000. There were also 21 refinances/property settlements, 31 renovation loans and two land purchases. This will also affect other figures reported in the annual report including the number of Indigenous households that IBA has assisted, the number of Aboriginal and Torres Strait Islander people housed, average income levels, average loan amounts and home loan locations. IBA could be more transparent when reporting these figures in its annual report.

4.25 IBA reports the number of loans to applicants who have an adjusted combined gross annual income of 125 per cent of IBA's Income Amount. However, the adjusted income figure reported by IBA excludes 50 per cent of the secondary income earner's salary and some other income, for example, in some cases overtime. When total customer income is considered, over 50 per cent of IBA loans are to households earning over the IBA Income Amount and 37.1 per cent of loans are to households earning over 120 per cent of the IBA Income Amount. This means that if total customer income is considered, IBA would not be meeting the income targets.

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43 The IBA Income Amount is equivalent to the National Average Weekly Male Earnings statistic calculated by the Australian Bureau of Statistics. The IBA Income Amount is used as a threshold for product eligibility. The IBA Income Amount is adjusted annually in July after reference to the latest available National Average Weekly Male Earnings. This increased to 140 per cent in the 2015–16 Portfolio Budget Statement.

4.26 IBA also reports against the number of remote communities where IBA is actively facilitating home loans. This figure does not provide an indication of performance or outcomes in relation to home ownership in remote communities. Active facilitation is not defined and can include activities such as a visit to a remote community.

4.27 IBA assesses the program's success in terms of the increase in the percentage of Indigenous Australians who are home owners. Between the 2006 Census and the 2011 Census, the national home ownership participation rate for Aboriginal and Torres Strait Islander people increased from 34.2 per cent to 35.9 per cent. This relates to an increase of 18 104 households where the home was owned outright or with a mortgage where at least one person in the dwelling was Aboriginal or Torres Strait Islander. For the same period, IBA approved 2096 home loans which led to a new home outcome which is equivalent to 11.6 per cent of the increase. While the IBA loans have contributed to the participation rate it is not possible to assess how many of the participants would otherwise have been able to access mainstream finance as in most cases IBA does not ask for applicants to provide confirmation from a mainstream lender that they are unable to get a loan (see paragraphs 2.10 and 2.11). IBA considers that other factors may also have influenced the increase in the participation rate such as the increase in the number of Indigenous households and changes in household formation.

#### **Recommendation No.4**

4.28 In order to improve performance reporting, the ANAO recommends that IBA:

- (a) report on the number of loans leading specifically to new home ownership outcomes;
- (b) reduce manual input and analysis of data;
- (c) reduce system data integrity issues;
- (d) produce data to analyse customer trends and program performance over time; and
- (e) seek regular feedback from customers on the services received through the program

**Indigenous Business Australia's response:** *Agreed.*

4.29 *Indigenous Business Australia agreed, specifically:*

- (a) *IBA will develop improved key performance measures that link loans to home ownership outcomes;*
- (b) *IBA's proposed new strategy will be an automated process with electronic data for analysis. IBA will continue to reduce manual input and data analysis to improve integrity of its reporting systems;*
- (c) *All identified data integrity issues will be rectified as a matter of urgency.*
- (d) *IBA's reporting capabilities will be enhanced to include customer trends and performance over time, as suggested by ANAO;*
- (e) *IBA will undertake to seek feedback from its customers on a structured basis to allow continuous improvement and progress the quality of products and service to its customers.*



## 5. Emerging Markets

### Areas examined

The ANAO examined the progress made by IBA to deliver home loans to Indigenous Australians located in designated Emerging Markets and the progress made in achieving home ownership in remote communities since 2012 when Emerging Markets became part of the broader Indigenous Home Ownership Program.

### Findings

- From 2012–13 to 2013–14, IBA:
  - received 116 loan applications in Emerging Markets;
  - approved 14 loans—one in the Tiwi Islands and 13 in the community of Hope Vale; and
  - approved 68 grants to support home ownership with a total value of \$1.37 million.
- No specific targets were set for home ownership outcomes in Emerging Markets and accordingly it is difficult to determine if this progress is in line with expectations.
- A key performance indicator for IBA is the number of remote Indigenous communities in which it is actively facilitating home ownership opportunities. However, this target does not specifically relate to the Emerging Markets scheme and does not provide an indication of home ownership outcomes achieved in these areas.

### Home ownership on Indigenous land

5.1 Indigenous owned or controlled land comprises 16 per cent of Australia's total land mass. Of this land, 97.9 per cent is in very remote areas. A large proportion of this land is community-titled land.<sup>44</sup> Community-titled land is land granted to, or held by or on behalf of Indigenous traditional owners or communities.<sup>45</sup>

5.2 Historically, the choice of individual home ownership has not been available for Indigenous Australians living on community-titled inalienable land. This was primarily due to the underlying tenure of the land not providing sufficient security for housing loan lenders. Land tenure reforms in some jurisdictions have enabled Indigenous Australians living on community-titled land to be able to buy their own home rather than being constrained to continue renting social or community housing.<sup>46</sup>

### Previous initiatives to increase home ownership on community-titled land

5.3 The Home Ownership on Indigenous Land (HOIL) program was established in 2005 to increase home ownership on Indigenous community-titled land. HOIL was initially jointly

44 Steering Committee for the Review of Government Service Provision 2014, *Overcoming Indigenous Disadvantage: Key Indicators 2014*, Productivity Commission, Canberra, p. 2603.

45 *ibid.*, p. 2401.

46 *ibid.*

administered by IBA and the then Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA). Under the HOIL program, from 2007–08 to 2011–12, IBA and FaHCSIA delivered 17 home loans in remote Indigenous communities. The 17 loans were for homes located in two communities in the Tiwi Islands and Stuart Park in Darwin. The ANAO's Audit Report No.23 2010–11 *Home Ownership on Indigenous Land* reported that in the first four years, HOIL's implementation of activities was slow. This was largely due to delays in planned amendments to land rights legislation to provide suitable leasing options, delays by authorities in establishing land leasing processes following legislative changes, the hesitancy of communities to use new leasing options and the existence of native title over much Indigenous land.<sup>47</sup>

## Emerging Markets scheme

5.4 The Australian Government decided to merge the HOIL program with the IHOP in 2012. After the programs were merged, IBA established the Emerging Markets component of IHOP to progress the focus on home ownership in remote areas. On 1 August 2015, a new Remote Indigenous Home Loan was introduced which replaced the former Emerging Markets scheme.<sup>48</sup>

5.5 Emerging Markets are discrete Indigenous communities and associated localities where no commercial housing market currently exists. These will mostly be locations where land title is held communally. IBA has selected sites for the implementation of IHOP in remote areas where IBA has assessed that there are good prospects for successful home ownership outcomes.

5.6 IBA was to develop an implementation plan as a part of implementing the Emerging Markets component of IHOP. When the ANAO requested this implementation plan, IBA advised that it is not aware of a formal plan apart from an internal administrative plan to implement changes within existing systems and processes. An implementation plan would likely have set out targets and timeframes against which progress could be tracked.

## Assistance provided to Emerging Markets customers

5.7 In order to be eligible for loans under the Emerging Markets scheme, IBA assesses customers against a slightly different set of criteria than the standard home loan discussed in Chapter 3. Customers in Emerging Markets are not required to:

- prove they cannot source the loan amount from a mainstream lender;
- demonstrate that their income is within the standard IHOP income range;
- obtain a split loan;
- provide a deposit greater than \$1000 (if using the Matched Savings Grant, otherwise a deposit of only \$2000 is required); and
- meet legal or incidental costs to do with the home purchase (as these may come entirely from grant funds).

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47 Audit Report No.23 2010–11, *Home Ownership on Indigenous Land*, pp. 18–19.

48 Indigenous Business Australia, *Indigenous Home Ownership Program Policy*, August 2015, Canberra, 2015, p. 26.

5.8 The additional requirements for customers in Emerging Markets include that they must:

- live in an approved zone designated by IBA as an Emerging Market;
- meet an additional financial literacy requirement;
- have a succession plan in place in case of default or sale, so that the property is on-sellable and ideally under the ownership of nominated community members;
- appoint a project manager prior to constructing a house; and
- not borrow more than \$400 000 without special approval.

5.9 IBA also offers a range of additional financial support for customers in Emerging Markets to assist in home affordability. This includes grant funding up to a maximum of \$39 000.<sup>49</sup> The grants available to customers in Emerging Markets are outlined in Table 5.1. The number and value of grants that IBA has approved for Emerging Market customers are outlined in Table 5.2. On the 1 August 2015, a new Remote Indigenous Home Buyer Grant replaced the former Co-payment and Matched Savings Grants.

**Table 5.1: Types of grants available to customers in Emerging Markets**

Emerging Markets—Additional Funding Support
<p><b>Loan establishment and support costs—up to \$13 000</b></p> <ul style="list-style-type: none"> <li>• Extensive range of options funds can be spent on, including costs of a community wide nature.</li> <li>• Establishment costs greater than \$13 000 may form part of the loan amount if loan still meets other conditions.</li> <li>• Establishment costs incurred where applicants do not proceed – IBA will meet costs (as a risk management measure).</li> </ul>
<p><b>Co-Payment Grant—up to \$25 000</b></p> <ul style="list-style-type: none"> <li>• Only for applicants with CGAI less than \$80 000, and property value greater than \$100 000.</li> <li>• Grant is a per cent of property value by CGAI, ranging between six per cent and 10 per cent.</li> <li>• Property value includes proposed renovations/construction.</li> <li>• Paid not as a lump sum, but by equal six-monthly instalments over 10 years, on 30 June and 31 December.</li> <li>• Grant funds cannot be redrawn by borrower.</li> <li>• If borrowers pay out the loan before 10 years, they get no more instalments.</li> <li>• New instalments can be withheld if borrowers are in default (as an incentive to not default).</li> <li>• If property is sold by either party within 10 years, this grant must be partially or fully repaid.</li> </ul>
<p><b>Good Renters Discount—up to \$50 000</b></p> <ul style="list-style-type: none"> <li>• Ceased by the Australian Government effective 1 July 2014.</li> <li>• For home purchasers with 'good rental history'.</li> <li>• Was worth 20 per cent of property value, to a maximum of \$50 000.</li> <li>• If property sold within 5 years, this grant must be repaid by 20 per cent for each year outstanding.</li> </ul>

49 Prior to the discontinuation of the Good Renters Discount on 1 July 2014, borrowers in Emerging Markets were eligible to receive a combination of grants worth up to \$89 000 (not including the First Home Owners Grant).

## Emerging Markets—Additional Funding Support

### Matched Savings Scheme—up to \$1000

- A grant of \$1000 to those who have completed the 'Money Management Program' and have saved \$1000 for home ownership.
- Can be used to fund deposit.

Source: IBA Indigenous Home Ownership Program Policy, March 2015.

**Table 5.2: Number and value of grants approved by IBA for Emerging Market Customers from 2012–13 to 2013–14**

	2012-2013		2013-2014		2014-2015		Totals	
	No.	Sum of Approved Amount	No.	Sum of Approved Amount	No.	Sum of Approved Amount	Total	Total Approved Amount
Establishment Costs Grants	–	–	20	\$260 000	3	\$39 000	23	\$299 000
Co-Payment Grant	1	\$21 000	11	\$239 000	–	–	12	\$260 000
Good Renters Discount	1	\$50 000	13	\$616 000	3	\$131 000	17	\$797 000
Matched Savings Grants	1	\$1 000	12	\$12 000	3	\$3 000	16	\$16 000
<b>Totals</b>	<b>3</b>	<b>\$72 000</b>	<b>56</b>	<b>\$1 127 000</b>	<b>9</b>	<b>\$173 000</b>	<b>68</b>	<b>\$1 372 000</b>

Source: ANAO analysis of IBA data.

5.10 IBA also provides additional support through the loan application process. ANAO observed that this support can involve meeting with potential customers in Emerging Markets and assisting these customers to complete the application form and collect the necessary documents. ANAO also observed that IBA has in some cases provided one on one support post-loan through assisting customers with aspects of the building and construction process.

## Progress in achieving home ownership in Emerging Markets

5.11 From 2012–13 to 2013–14, IBA received 116 expressions of interest from customers in Emerging Markets. As at June 2015, out of these 116 applications, 14 had progressed to an approved home loan, 17 were in progress, 75 had lapsed or were withdrawn and 10 were ineligible or declined. The reasons recorded by IBA for determining applications in Emerging Markets ineligible or declining them included:

- capacity not demonstrated;
- unsatisfactory credit history; and
- previous home owner criteria not met.

5.12 Of the 14 approved loans, 13 were approved in the community of Hope Vale. This is slightly lower than the five years of the HOIL program, which led to 17 approved home loans on Indigenous land. The total number of loans approved for Emerging Markets by locality is shown in Table 5.3.

**Table 5.3: Total number of loans approved for HOIL and Emerging Markets**

Locality	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	Totals
	HOIL					Emerging Markets		
Bathurst Island	–	1	1	–	–	–	–	2
Hope Vale	–	–	–	–	–	1	12	13
Nguiu	–	6	4	1	2	1	–	14
Stuart Park	1	–	–	–	–	–	–	1
Township of Nguu	–	1	–	–	–	–	–	1
<b>Total</b>	<b>1</b>	<b>8</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>12</b>	<b>31</b>

Source: ANAO analysis of IBA data.

5.13 IBA reports against the number of remote communities in which it is actively facilitating home ownership as a key performance indicator of its work in remote communities. In 2012–13 IBA reported that it was actively facilitating home ownership in 12 remote Indigenous communities.<sup>50</sup> This increased to 14 in 2013–14, and IBA plans gradual increases in future years.<sup>51</sup> IBA reported that it met its target for 2013–14 by undertaking more than 50 visits to the 14 remote communities. Of these 14 remote communities visited, eight were designated by IBA as Emerging Market communities.<sup>52</sup>

5.14 IBA does not define what ‘actively facilitating’ means in its reporting, nor does it distinguish between remote communities and Emerging Market communities. IBA advised that there is no requirement to report on the separate components of the Emerging Markets scheme and that setting targets has the potential to mislead and give a false sense of what may be accomplished. IBA’s reason for this is that they are the lender and the state and territories, and individual communities are the key drivers to make housing available for sale to tenants in communities. However, without IBA having separate targets for Emerging Markets it is difficult for IBA to understand and therefore monitor and report on whether its activities in Emerging Markets are leading to outcomes.

50 Indigenous Business Australia, *2012–13 Annual Report*, IBA, Canberra, 2013, p. 47.

51 Indigenous Business Australia, *2013–14 Annual Report*, IBA, Canberra, 2014, p. 55.

52 Emerging Market communities include: Hope Vale, Yarrabah and Palm Island in Queensland; and Wurrumiyanga, Milikapiti, Angurugu, Umbakumba and Milyakburra in the Northern Territory.

## Delays in achieving home ownership outcomes in Emerging Markets

5.15 IBA has not established dedicated home ownership targets for the Emerging Markets component of IHOP. As such, it is difficult to assess if this component of the program is meeting expectations. However, in the initial three years of the Emerging Markets scheme only limited progress has been made.

5.16 In February 2015, IBA reported to the IBA Board on the progress made in Emerging Markets. Some of the issues with progressing loan applications in Emerging Markets reported by IBA included:

- in Yarrabah, nine loan applications remain in abeyance until residential land surveys and associated development approvals for properties are finalised;
- in Palm Island, 12 residents have lodged expressions of interest application for 99 year home ownership leases, which require assessment by the land council; and
- in the Tiwi Islands and Groote Eylandt, 11 community members have been assessed as eligible and will progress once a sale to public housing tenanted properties have been finalised, property valuation and condition assessment reports have been arranged, and contracts of sale on the properties have been issued.

5.17 The Emerging Markets component of IHOP is implemented by two staff members within the Network Administration section of Homes. These staff members are also responsible for other tasks in relation to network administration.<sup>53</sup> Given the additional support required by customers in Emerging Markets, this may limit the communities and customers that IBA can meaningfully engage with. IBA considers that the resourcing is appropriate to the demand.

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Grant Hehir  
Auditor-General

Canberra ACT  
3 December 2015

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53 In addition to working in emerging markets, staff in the network administration area are also responsible for:

- managing changes to customer service delivery arrangements;
- allocating lending budgets;
- providing business operational guidance and direction to the network;
- coordinating workflow redistribution arrangements as necessary;
- participating in state and regional service delivery forums;
- developing and maintaining lending relationships;
- establishing preferred provider panels; and
- developing and coordinating promotion and marketing plan and materials.

## **Appendices**





## Appendix 1 Entity response



**Australian Government**  
**Indigenous Business Australia**

20 November 2015

Mr Andrew Huey  
Acting Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Mr Huey

**Performance Audit of Indigenous Home Ownership Program**

Thank you for providing me with a copy of the ANAO's proposed audit report on IBA's Indigenous Home Ownership Program.

IBA welcomes the report's recommendations and supports their strategic nature, which are consistent with the new direction the IBA Board has set for the program.

While the current business model has made a significant contribution to addressing Indigenous home ownership aspirations and overcoming economic disadvantage, IBA agrees with the thrust of the ANAO recommendations that new and innovative approaches may now be required to close the gap in home ownership outcomes for lower income Indigenous Australians.

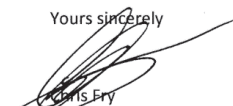
Over the course of 40 years this IBA program has assisted over 16,000 households to enter home ownership, enabling these customers to accumulate more than \$2 billion in personal wealth, while successfully growing the home loan portfolio by an average of 6% per annum to its current level of \$943 million.

IBA is investigating ways to better configure the program to meet the multiple challenges of constrained capital, rising house prices and growing demand from a young Indigenous population. These are significant challenges and IBA looks forward to continuing its work with Government to address them.

IBA is committed to adopting the recommendations detailed in the report so as to achieve a more efficient and effective program that will allow it to better utilise capital, target resources, and expand its home lending capacity.

I have provided a detailed response to the ANAO recommendations in Attachment A.

Yours sincerely

  
Chris Fry  
Chief Executive Officer

ANAO Note: Attachment A, IBA's detailed response to each recommendation referenced in IBA's letter, has been included in the body of the report following the relevant recommendation.



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## Appendix 2    Glossary

Combined gross annual income	The sum of: the total gross income of the primary applicant; 50 per cent of the total gross income of the secondary applicant; and other assessable income.
Delegate	A person authorised to exercise power or perform a function in accordance with IBA's Instrument of Delegation.
Emerging Markets	Discrete Indigenous communities and associated localities where no commercial housing market currently exists. These will mostly be locations where land title is held communally.
Expression of interest	Where an applicant registers an interest in a housing loan with IBA and IBA makes an initial assessment of their eligibility against a minimum set of the loan eligibility criteria.
Expression of interest register	A register of applicants that meet a minimum set of the loan eligibility criteria required to be eligible to apply for a housing loan.
Indigenous community-titled land	Land granted to, or held by or on behalf of, Indigenous traditional owners or communities.
IBA Home Loan Rate	Reference interest rate for owner-occupied housing loans. IBA benchmarks this against the average of the standard variable interest rate from mainstream home loan lenders for owner-occupied properties, rounded up or down by up to 0.25 per cent.
IBA Income Amount	IBA equivalent to the National Average Weekly Male Earnings statistic calculated by the Australian Bureau of Statistics. The IBA Income Amount is adjusted annually.
Lead	Personal information collected when a potential applicant first contacts IBA. A unique identifier is assigned to this record.
Loans Administration System	The system that interfaces with QATS and is used to manage loans, this includes interest calculation, recording repayments, arrears and insurance management.
Loan eligibility criteria	The standard loan eligibility criteria and other relevant conditions that applicants need to satisfy to be considered for an IBA housing loan.
National Average Weekly Male Earnings	The National Average Weekly Earnings for full time males, calculated by the Australian Bureau of Statistics on a biannual basis.
Outside policy parameters	Where a loan application does not fully meet standard policy yet is consistent with the program strategies and if not considered could deny the opportunity for home ownership.
Quote and Application Tracking System	The system used to manage and record loan approval processes including leads, requests for placement, processing invitations, recording application details, assessing the loan, loan approvals and disbursements.
Total gross income	Income from wage / salary, or Centrelink benefits and other assessable income.

## Appendix 3      Previous reviews and evaluations of IHOP

Previous reviews and evaluations of the Indigenous Home Ownership Program include:

- External Review of the Indigenous Land Corporation and IBA, February 2014;
- Report of the Independent Review of Governance Framework Processes in IBA, August 2012;
- ANAO Audit Report No. 23 2010–11 *Home Ownership on Indigenous Land Program*;
- Internal Review of the Cost Effectiveness Assessment of IBA's Home Ownership Program, October 2010;
- Internal Review of the Perceptions of Home Ownership Among IBA Home Loan Customers, January 2008; and
- ANAO Audit Report No. 53 2004–05 *Home Ownership Programme*.

