Firstrata
FINANCE

Firstrata Hybrid Loan

Your Owners Corporation / Body Corporate (OC/BC) is considering borrowing money **(the Total Loan Amount)** using a Firstrata Hybrid Loan facility for the prescribed loan purpose.

This paper details what the Firstrata Hybrid Loan is and how it works.

Owners Information Session

In addition to the details provided in this Explanatory Paper, an Information Session is also being (or may have already been) held, details of which will be provided to you by your Strata Manager.

Overview

The Firstrata Hybrid Loan provides a flexible middle ground by allowing:

a) some owners to pay upfront and PAY NO INTEREST; and
b) the other owners to spread their share of the project cost over the life of a strata loan.

The Firstrata Hybrid Loan comprises:

- A loan to the OC/BC from any lot owners who want to pay upfront their share of the Total Loan Amount (each called a **Self-Funding Owner / SFO**) by way of an SFO Agreement; and
- A loan to the OC/BC from Firstrata for the remainder of the Total Loan Amount.

Regardless of the amount paid upfront by each of the SFOs, the Total Loan Amount remains the same. For example, if the Total Loan Amount is $1,000,000, and the SFO Loan Amount is say $300,000, the Firstrata Loan Amount will be $700,000, whereas if the SFO Loan Amount is say $400,000, the Firstrata Loan Amount will be $600,000.

Firstrata Hybrid Loan Mechanics

- Each SFO pays their SFO Loan Amount into the SFO Trust bank account.
- As and when loan funds are required from your OC/BC, your strata manager submits a Drawdown Notice to Firstrata stipulating how much is required.
- Firstrata will arrange the release of funds from the SFO Trust and from Firstrata for the respective share of the loan drawdown amount. For example if the SFO Loan Amount comprises 40% of the Total Loan Amount, then at each loan drawdown 40% of the drawdown amount will be released from the SFO Trust and the remaining 60% of the drawdown amount will be funded by Firstrata.
- To conform with strata legislation, Loan Levies are charged to all lot owners in accordance with each owner's Lot Entitlement %.
- Each SFO receives an SFO Levies Credit on their levies invoice that offsets the Loan Levies amount charged, the result being the SFO has **NO MORE TO PAY.**
- The SFO Loans amortise on a pro-rata basis with the Firstrata loan such that each SFO Loan reduces down to zero over the same timeframe as the Firstrata loan.

How Much Do I Pay if I Want to Become a Self-Funding Owner

The amount you pay if you want to become a Self-Funding Owner is shown in the formula below:

$$\textbf{SFO Upfront Payment Amount} = \frac{\textbf{Your Lot Entitlements}}{\textbf{Total Lot Entitlements in your OC/BC}} \times \textbf{Total Owners' Cost}$$

The schedule below demonstrates that an owner pays exactly the same amount regardless of whether the OC/BC is registered for GST or not:

PROJECT DETAILS	Owners Corp / Body Corp IS registered for GST	Owners Corp / Body Corp IS NOT registered for GST
Project Costs		
Supplier Invoices (excluding GST)	$1,000,000	$1,000,000
Plus GST on supplier invoices	$100,000	$100,000
Total Project Cost (including GST)	**$1,100,000**	**$1,100,000**
Owners Corp / Body Corp		
Supplier Invoices Paid	$1,100,000	$1,100,000
GST Refund in BAS Returns	$100,000	$0
Owners Corp's / Body Corp's Net Cost	**$1,000,000**	**$1,100,000**
Levies Charged by OC/BC to Owners		
Levies Payable by Owners	$1,000,000	$1,100,000
Plus GST on Levies Invoice	$100,000	$0
Total Owners' Cost	**$1,100,000**	**$1,100,000**
The Total Owners' Cost is the Total Project Cost including GST		

WHERE THE OWNERS CORP / BODY CORP IS REGISTERED FOR GST
- the Total Owners' Cost is different to the Owners Corp's / Body Corp's Cost
- the Owners Corp / Body Corp gets to claim the GST paid to suppliers back from the ATO
- the Owners Corp / Body Corp charges owners GST, which then gets paid to the ATO
- the net result is that the Total Owners' Cost is the same as the Total Project Cost

INDIVIDUAL OWNER'S COST (example)	Owners Corp / Body Corp IS registered for GST	Owners Corp / Body Corp IS NOT registered for GST
Owner's Lot/Unit Entitlements %	*2,0%*	*2,0%*
Levies Payable by Owner	$20,000	$22,000
Plus GST on Levies Invoice	$2,000	$0
Owner's Share of Total Owners' Cost	**$22,000**	**$22,000**
SFO Upfront Payment Amount	**$22,000**	**$22,000**

Levies Invoices Example

Below are indicative levies invoices for two lot/unit owners, Jane Lin and Mo Ibrahim, both lot/unit owners having the same Lot Entitlement % (or Unit Entitlement %). Jane is an SFO and Mo is not, so Jane receives an SFO Levies Credit **(shown in red below)** and Mo does not.

SELF-FUNDING OWNER (SFO)						
Ms Jane Lin						Tax Invoice 12345
Jane's address					Due Date	1 July 2025
Levies for the period	1 July 2025 - 30 September 2025					
Strata Plan Number	SP12345					
Address	45 Smith Street, Urbanville, This State, 1234					
Lot Number	101					
Invoice Summary						
	Amt		*GST*	*Total*		
Administration Levies	$	1,000.00	$ 100.00	1,100.00		
Sinking Fund Levies	$	500.00	$ 50.00	550.00		
Loan Levies	$	3,000.00	$ 300.00	3,300.00		
Total Levies Payable (inc GST)					**$**	**4,950.00**
Less SFO Levies Credit					$	3,300.00
Net Amount Owing (inc GST)					**$**	**1,650.00**

NON-SFO						
Mr Mo Ibrahim						Tax Invoice 12346
Mo's address					Due Date	1 July 2025
Levies for the period	1 July 2025 - 30 September 2025					
Strata Plan Number	SP12345					
Address	45 Smith Street, Urbanville, This State, 1234					
Lot Number	102					
Invoice Summary						
	Amt		*GST*	*Total*		
Administration Levies	$	1,000.00	$ 100.00	1,100.00		
Sinking Fund Levies	$	500.00	$ 50.00	550.00		
Loan Levies	$	3,000.00	$ 300.00	3,300.00		
Total Levies Payable (inc GST)					**$**	**4,950.00**

Upfront Payments made to SFO Trust

An SFO Trust has been created for the purpose of collecting upfront payments from each SFO.

A copy of the SFO Trust is included as Appendix A to the SFO Agreement, the key points being:

- The beneficiaries of the SFO Trust are the SFOs, such that each SFO has a legal right to their share of the monies that are in the SFO Trust.

- The Custodian of the SFO Trust is Perpetual Corporate Trust **(www.perpetual.com.au),** meaning that Perpetual operates the Trust bank account, authorising all outbound payments.

- Firstrata is the Trustee, administering all activities of the SFO Trust including issuing Trust Receipts, daily reconciliations, co-ordinating the annual external audit, releasing funds to the Borrower when required, and paying monies to SFOs if and where applicable.

- The SFOs may earn interest on the balance of their funds in the SFO Trust.

Each time the OC/BC strata manager issues a drawdown notice to Firstrata, Firstrata will arrange the release of the required amount of SFO funds from the SFO Trust to the Borrower.

If the Borrower does not require the entire SFO loan amount, Firstrata will arrange the return of any unused funds from the SFO Trust along with any interest that may have been earned to each SFO.

Firstrata Manages the SFO Loans

Each of the SFO loans will be managed by Firstrata, which will:

a) Manage the preparation, execution and storage of loan documents.
b) Manage the loan ledger.
c) Manage all cashflows associated with the loan, including being Trustee of the Trust.
d) Manage the provision of information to/from the Strata Manager.

There are NO ongoing fees associated with the management of the SFO loans.

There is an upfront Establishment Fee payable by the OC/BC of 0.50% of the Total Loan Amount, to cover the upfront costs in preparing loan and associated documents and the ongoing management over the life of the loans.

Working Capital Facility

An additional feature of the Hybrid Loan is a Working Capital Facility.

The key features of this facility are as follows:

- The facility can be used to cover cash shortfalls arising from the non-payment of loan levies by one or more owners (i.e. non-SFO owners).

- The facility can be used to cover any gap between the Total Loan Amount (which by design is the ex-GST exclusive amount) and the total value of the GST-inclusive supplier payments, in situations where the OC/BC experiences a temporary delay in receiving GST refunds from its BAS returns.

- The facility limit is 10% of the Total Loan Amount.

- The interest rate on the Working Capital Facility is the same as the interest rate on the main Firstrata loan.

- The facility balance is to be repaid when the overdue loan levies are received or when the GST refund is received.

There is an annual fee of 1% of the facility limit, and there is an administration fee of $100 per draw.

Documents

The three key documents included with this Explanatory Paper are the:

1. Firstrata Loan Contract, containing details of the loan between Firstrata and the OC/BC.

2. Self-Funding Owner Agreement (SFO Agreement), which contains four key parts:
   a) The terms of the loan from the SFOs to the OC/BC.
   b) The way the SFO loans and the Firstrata loan to the OC/BC work together.
   c) How Loan Levies and the offsetting SFO Levies Credits work.
   d) The ongoing services that Firstrata provides in managing the SFO loans.

3. Working Capital Facility Contract

Process

Below is a diagrammatic depiction of **the process involved in drawing down an Firstrata Hybrid Loan**, noting that the timings are indicative only.

Phase	Motions & Loan Docs	Information Session	General Meeting	Loan Application & Assessment	SFO Document Execution	SFO Funds Transfer	Loan Drawdown
Details	Letter with Motions & loan templates	Firstrata rep explains the Hybrid Loan	Voting conducted to approve Motions	Credit & Responsible Lending assessment	SFO's register and execute docs on portal	*Call Notice* issued to SFOs with amount, due date, BPAY details	*Drawdown Notice* sent by strata manager to Firstrata
Timing	Available within 24 hours of request from strata mgr	At or before General Meeting	Typically, 2-3 weeks after papers sent to owners	Within 3 days of strata mgr providing all required info	Committee initiates ~ 1 month before funds required	Committee determines, generally 1-2 weeks	Typically, within 5 business days of receipt of Drawdown Notice

Firstrata is a digital end-to-end business, all documents are issued and executed electronically, so if you wish to become an SFO you will need to have access to an email address.

Becoming an SFO

Approximately one month before loan funds are required, Firstrata will provide your strata manager with an SFO Instructions Letter to be sent to all owners that provides details on what you need to do to become an SFO, which includes:

Click on the link in the letter and **register your details.**

Digitally execute the SFO Agreement that is emailed to you.

Pay the amount stipulated in the Call Notice that will contain the amount, due date and BPAY details.

FAQs

GENERAL

What is the benefit of a Hybrid Loan?

The Hybrid Loan allows some owners to pay their share of a project cost as a lump sum, avoiding paying interest on a loan, whilst other owners pay their share of a project cost over the life of the loan.

Briefly, how does it work for the OC/BC?

The OC/BC borrows money from Firstrata and from SFOs of an amount required to fund the loan purpose, typically for project works.
The total loan levies charged are based on the Total Loan Amount, and those owners who do not pay upfront are required to pay the loan levies whilst those owners who pay upfront (the SFOs) are not required to pay the loan levies because of the SFO Levies Credit they receive.

Can the OC/BC repay the loan early if it wants to?

If the interest rate on the Firstrata loan is variable the loans can be repaid early without penalty.

Is the interest rate fixed or variable?

The interest rate is variable.

Can the OC/BC use more than one Hybrid Loan or Standard Loan for different project components?

There is a limit of one Hybrid Loan per OC/BC at any one time, but multiple Standard Loans can be utilised in conjunction with a Hybrid Loan.

Does the Strata Manager receive commission?

Firstrata does not pay commissions or provide other benefits to strata management firms or individual strata managers as compensation for this loan being provided.

Can an allowance for variations be included in the amount borrowed?

Yes, Firstrata typically includes a contingency allowance for variations and unforeseen expenses that may arise during the project works.

Can the Hybrid Loan be used as a line of credit?

The Hybrid Loan is an amortising loan product, not a come-and-go line of credit facility, albeit it allows for multiple progress draws.

If there are many owners that want to pay up front, does that affect anything?

There is no limit to the number of SFOs, subject to Firstrata's minimum loan size thresholds.

If we don't need the full loan amount, what happens with the Firstrata loan?

There is no penalty for not using the full loan amount. The strata manager should contact Firstrata when no further loan funds are required, and appropriate arrangements can be made to commence principal and interest repayments to repay the loan over the remainder of the loan term.

What happens if the OC/BC receives a windfall gain?

If the OC/BC receives funds from sources other than from owner levies, whether arising from proceeds of insurance recovery, successful litigation, government grants or for any other reason, if these funds are to be utilised to repay debt then the repayment is applied to ALL loans in equal proportions, e.g. if 25% of Firstrata's loan balance is being repaid early, then each of the SFOs has 25% of its loan balance repaid at the same time.

If we don't need the full loan amount, what happens with the SFO loans?

If the full amount is not required, any surplus funds residing in the SFO Trust account will be returned to the SFO to a bank account nominated by each SFO.

SFO SPECIFICS

An SFO pays their proportion up front, so does this mean they will not have an increase in strata fees - that is, no additional costs / payments?

Each SFO will be charged Loan Levies to pay for their proportion of the loan repayments, but these levies charged will be offset by the SFO Levies Credits each SFO is allocated.
There are no additional costs or payments for SFOs pertaining to loan repayments.

Are SFOs responsible for the interest on the Firstrata Loan?

All lot owners are legally responsible for all loan repayments made by the OC/BC. The general commercial effect of the Hybrid Loan is such that the proceeds from the loan levies paid by the non-SFOs are utilised to meet the Firstrata loan repayments.

How and when do the SFOs pay their money, and how do they know how much to pay?

After executing the SFO Agreement, each SFO will be issued with a Call Notice document that stipulates the amount due, the BPAY details for the SFO Trust and the due date.
The due date for payment will be as determined by the Committee and/or Strata Manager.

What is the SFO Trust and why is it used?

The SFO Trust is utilised to provide greater protection of funds for SFOs and to simplify the administration activities for the Strata Manager.
SFOs pay their money into the SFO Trust that is administered by Firstrata, and where the SFOs are the beneficiaries of this Trust, i.e. the SFOs have legal claim to their monies in this Trust, and where Perpetual controls the SFO Trust bank account.
Funds received into the Trust from the SFOs are released to the OC/BC when Firstrata receives a Drawdown Notice from the OC/BC.

Can an SFO sell their apartment with the SFO loan attached so that the incoming purchaser only needs to pay normal levies?

Yes, the SFO Agreement provides for the automatic assignment of the benefits of the SFO Loan to the incoming purchaser, meaning the incoming purchaser does not need to pay loan levies.

Can an incoming purchaser be an SFO?

The opportunity to become an SFO only exists for those owners when the Hybrid Loan is established.

What happens to an SFO if there are significant defaults on the loan by non-SFO owners?

There are two distinct relationships: the first between Firstrata and the OC/BC, the second between the OC/BC and the owners.
The non-SFOs do not default on the loan per se, rather their obligation is to pay levies to the OC/BC which, on occasion, may not be paid on time.
If a significant number of non-SFOs have levies arrears, this could result in the OC/BC having a shortage of cash with which to repay the Firstrata loan.
The working capital facility can be utilised to cover this temporary cash shortage whilst the OC/BC takes action to recover the outstanding levies, noting that the process to recover outstanding loan levies is no different to the process to recover outstanding administration levies or sinking fund levies.
If the OC/BC does default on the loan repayments to Firstrata, Firstrata has the right to enforce the loan agreement with the OC/BC, which may include accelerating the action by the OC/BC to recover outstanding levies from non-SFOs along with raising additional levies from all owners to cover the cash shortfall.

LEVIES

Do all lot/unit owners pay levies in respect of the loan?

All lot/unit owners are charged Loan Levies by the OC/BC in accordance with the lot/unit owner's percentage share of the OC/BC.
SFOs are charged Loan Levies in accordance with their lot/unit entitlement percentage, but these levies are offset by the SFO Levies Credits allocated to them in accordance with the terms of the SFO Agreement.
Non-SFOs are charged Loan Levies in accordance with their lot/unit entitlement percentage and must pay these levies in the normal stipulated timeframe.

What happens if the approved Loan Levies differ from the actual repayments (e.g. if interest rates change)

Firstrata keeps a ledger of all levies charged and all loan repayments, allowing it to automatically calculate any difference that may arise during the year. During the final year of the loan term, or earlier if requested by the Committee and/or Strata Manager, Firstrata will calculate the levies to meet the expected loan repayments in the final year plus/minus any difference between the previously approved Loan Levies and actual loan repayments up to that date.

Can levies that need to be raised to repay the loan be adjusted to smooth out year on year variability e.g., higher levies during the initial Interest Only period?

Levies associated with the loan must be struck at an amount equal to the expected loan repayments to be made by the OC/BC, which once the loan is fully drawn will be consistent for each quarter thereafter.

How do we know what the levies amount should be?

Firstrata will calculate the total Loan Levies based on the expected loan repayments, taking into consideration the Firstrata interest rate and loan term, Firstrata Loan Amount and Total Loan Amount, and, if it is a progress drawdown loan, taking into consideration an estimate of the timing and amount of loan drawdowns during the first year.

Who looks after the Loan Levies?

Firstrata calculates the Loan Levies and provides these to the Strata Manager for the owners to approve and for the strata manager to load into the strata software system.
The Loan Levies are included on the same (typically quarterly) levies invoice as the Admin Levies and Sinking Fund / Maintenance / Capital Works Levies.
If a non-SFO doesn't pay its Loan Levies on time, the Strata Manager can and will take action to recover the outstanding Loan Levies in just the same manner as the Strata Manager would take action to recover any outstanding Admin Levies and/or Sinking Fund / Maintenance / Capital Works Levies.

What happens if a lot/unit owner does not pay its Loan Levies?

If any lot/unit owner is late in paying its levies, regardless of whether the levies are Administration Levies, Sinking Fund Levies or Loan Levies, the OC/BC has many remedies available to it, including but not limited to charging interest on overdue amounts, taking enforcement action to recover the debt and if required ultimately seeking a judgment from to the court to take possession and seek to have the lot/unit owner's apartment sold, from which the outstanding levies are recovered from the sale proceeds.
The Working Capital Facility offered by Firstrata can provide additional short-term funding to the OC/BC to cover any cash shortfalls arising from Loan Levies not being paid on time.

INTEREST & FEES

Does Firstrata charge/receive interest on the loans provided by the SFOs?
Firstrata does not charge nor receive any interest on the loans from the SFOs to the OC/BC.

What happens if the interest rate changes, will SFOs have to pay increased levies?

Any change in interest rate on the Firstrata loan will have no commercial impact on the SFOs. Each SFO will continue to receive an SFO Levies Credit that offsets the Loan Levies amount they are charged.

What fees apply to the Working Capital facility?

An annual fee of 1% of the facility amount applies, and a fee of $100 per drawdown is payable.

Is there compound interest?

Interest is charged to the OC/BC loan account each month, and to the extent that the loan repayment is made at or before the scheduled time, then no compound interest will be applicable.

What fees apply to a hybrid loan?

There is an Establishment Fee of 0.50% of the Total Loan Amount. This fee reflects the time and cost in establishing the SFO loans and managing the SFO loans over the full loan term.
If an early repayment of the loans occurs and funds are returned to SFOs by way of payment to an SFO's nominated bank account, a fee of $100 per SFO applies.

What fees apply to the SFO Trust?

Firstrata charges the SFO Trust a trustee fee of 1.30% per annum of the bank balance in the SFO Trust. This fee covers Firstrata's cost of operating the Trust, including the calculation and disbursement if applicable of interest to each of the SFOs. Additionally, an administration fee of 0.20% per annum of the bank balance in the SFO Trust is charged to cover all the external costs of operating the Trust e.g. audit fees, custodian fees etc. These fees are not paid by the OC/BC.

TAXATION

What are the tax consequences of the hybrid loan product?

Each lot/unit owner should speak to his or her tax advisor about its specific circumstances, as Firstrata cannot provide tax advice.

If I am an SFO and earn interest on my funds in the SFO Trust, will this be taxable?

Any interest that may be earned by an SFO on the balance of their funds in the SFO Trust may be paid to each SFO as a distribution of the SFO Trust.
Each lot/unit owner should speak to his or her tax advisor about its specific circumstances, as Firstrata cannot provide tax advice.

LEGAL

Can any owner be an SFO?

Yes, unless they are a regulated lender under the provisions of the National Consumer Credit Protection Act 2009 (Cth).

Does the hybrid loan conform with relevant legislation?

Yes, Firstrata has obtained legal advice from law firms in each state and territory in which it operates confirming that the design and operation of the hybrid loan product is in accordance with relevant legislation.

Will there be any evidence of an SFO loan on individual title?

The SFO loan is between the entity that owns the lot/unit (you as an individual/s, company, trust etc) and the OC/BC. Nothing is noted against the lot/unit. The SFO loan is an asset of each SFO, not a liability.

What if there is a default on the loan?

The rights of Firstrata and of the SFOs in the event of default on the loans are stipulated in the loan contract and SFO agreement noting that Firstrata and the SFOs rank equally in their claims against the OC/BC.

What are the key loan terms?

The key loan terms of the Firstrata Loan are stipulated in the loan documentation, including loan amount, interest rate, length of loan, repayment frequency etc.

What happens if a lot/unit owner does not pay its Loan Levies?

If any lot/unit owner is late in paying its levies, regardless of whether the levies are Administration Levies, Sinking Fund Levies or Loan Levies, the OC/BC has many remedies available to it, including but not limited to charging interest on overdue amounts, taking enforcement action to recover the debt and if required ultimately seeking a judgment from to the court to take possession and seek to have the lot/unit owner's apartment sold, from which the outstanding levies are recovered from the sale proceeds.

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