

NATIONAL HOUSING FINANCE AND INVESTMENT CORPORATION

Affordable Housing Bond Aggregator – Market update

31 August 2022



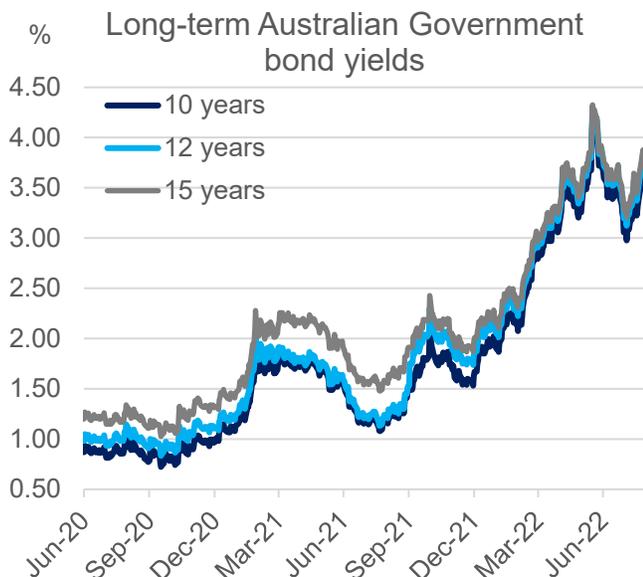
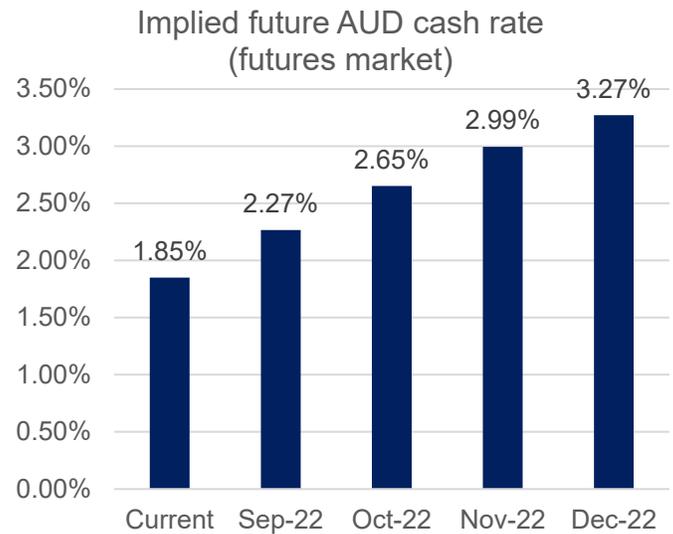
Market commentary

Interest rates have increased significantly in 2022 as financial markets price higher inflation, tightening monetary policy and an increased geopolitical risk. The Reserve Bank of Australia (RBA) has increased the cash rate target from 0.10% to 1.85% since early May 2022 and is widely expected to increase rates further in the coming months. The adjacent chart shows the cash futures market pricing of the cash rate to the end of this calendar year.

Inflation is key to the outlook for interest rates. The RBA's preferred measure of Consumer Price Inflation (CPI), the trimmed mean, for Q2 2022 was 1.5% for the quarter and 4.9% year on year. The increase in inflation has been broad based, with the transport, housing construction costs and food categories the key drivers in Q2. From 26 October 2022, the Australian Bureau of Statistics (ABS) will begin publishing a monthly CPI series that will provide policy makers and financial market participants with more timely information.

Longer term bond yields which determine NHFIC's cost of funding and the interest rates we can offer to the Community Housing sector have increased significantly with the 10-year Government bond yield increasing 1.93% year-to-date. Further, the interest rate premium that NHFIC is required to pay over the relevant government bond yield to attract investors has also increased as financial markets price in higher risk premiums across most asset classes. As at 31 August 2022, we estimate NHFIC's 10-year cost of borrowing to be 4.25%, a premium of approximately 65 basis points above the 10-year Government Bond yield.

The charts below show long- and short-term Government bond yields which drive NHFIC's cost of AHBA finance via bond issuance and our line of credit from the Commonwealth respectively.



The following table shows the estimated cost of long-term fixed and floating rate funding for NHFIC. The interest rates that NHFIC can offer Community Housing Providers (CHPs) for lending to established properties typically ranges from 0.65% to 1.00% above NHFIC's funding cost (excluding establishment fees) depending on the nature and terms of the loan. Higher margins apply for construction lending.

NHFIC's estimated AHBA cost of funds	10 years	12 years	15 years
Fixed rate cost of funds	4.25%	4.40%	4.50%
Floating rate cost of funds (3M BBSW plus)	0.20%	0.31%	0.37%
3 month BBSW	2.46%	2.46%	2.46%

CHPs interested in AHBA finance should speak to their NHFIC Relationship Manager for information on the relevant margin applicable to their project.

Notes:

The source of all market data in this report is Bloomberg.

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