NATIONAL HOUSING FINANCE AND INVESTMENT CORPORATION

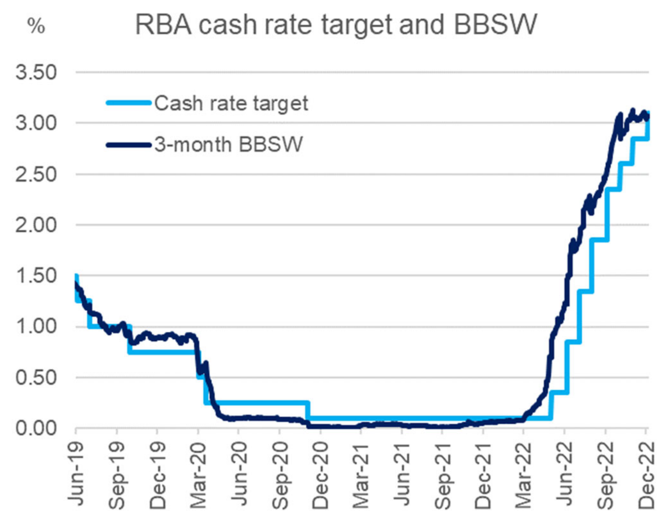
Affordable Housing Bond Aggregator – Market update

6 December 2022

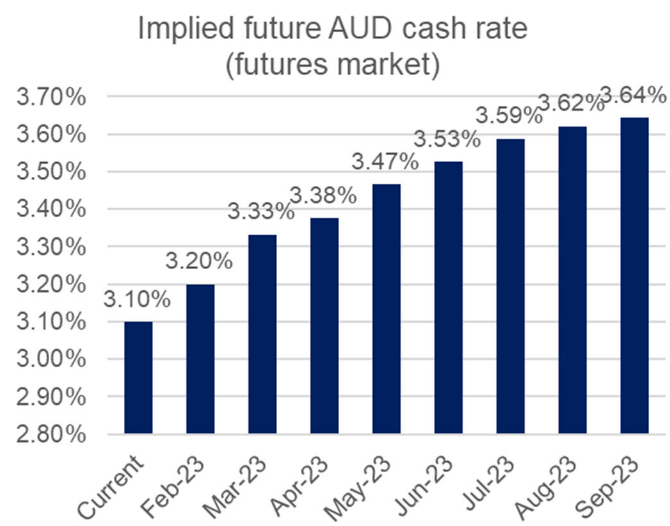
Market commentary

Bond yields have declined in the past month with some key inflation data coming in below market expectations and confidence increasing that central banks will begin to slow the rate of interest rate hikes going forward.

The Reserve Bank of Australia (RBA) increased the cash rate target by a further 0.25% to 3.10% on 6 December 2022, with the accompanying statement noting that the "Board expects to increase interest rates further in the period ahead, but it is not on a pre-set course". The RBA Board will not meet again until 7 February 2023, which will allow the RBA and financial markets additional time to assess the impact of the 300 basis points in interest rate increases to date. The adjacent chart shows the cash futures market pricing of the cash rate to September 2023.

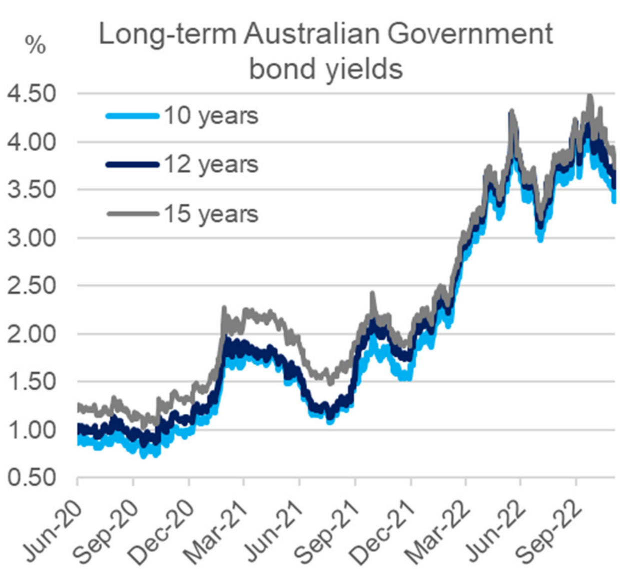


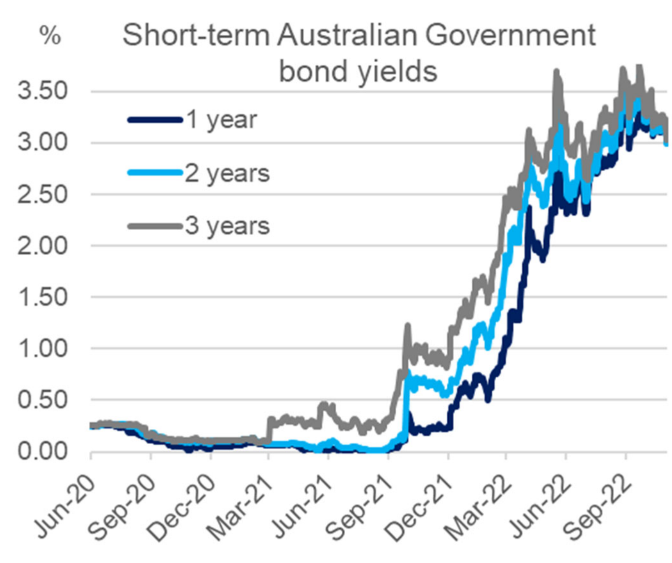
Economic data indicates that the Australian economy remains strong with a tight labor market and a resilient household sector. The RBA is forecasting inflation to peak at around 8% over the year to December 2022 before gradually declining to a little over 3% over 2024 as supply-side pressures ease, declines in certain commodity prices feed through and higher interest rates slow the economy.



Long term bond yields, which determine NHFIC's cost of funding and the interest rates we can offer to the community housing sector have decrease in recent weeks. The 10-year Government bond yield is currently 3.40%. As at 6 December 2022, we estimate NHFIC's 10-year cost of borrowing to be 4.05%, 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 the cost of NHFIC's finance to the community housing sector.





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The following table shows the estimated cost of long-term fixed and floating rate funding for NHFIC as at 6 December 2022. 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	4.05%	4.23%	4.42%
Floating rate cost of funds (3M BBSW plus)	0.23%	0.33%	0.48%
3 month BBSW	3.07%	3.07%	3.07%

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

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

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