

Independent Review

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Key Finding of the Independent Review

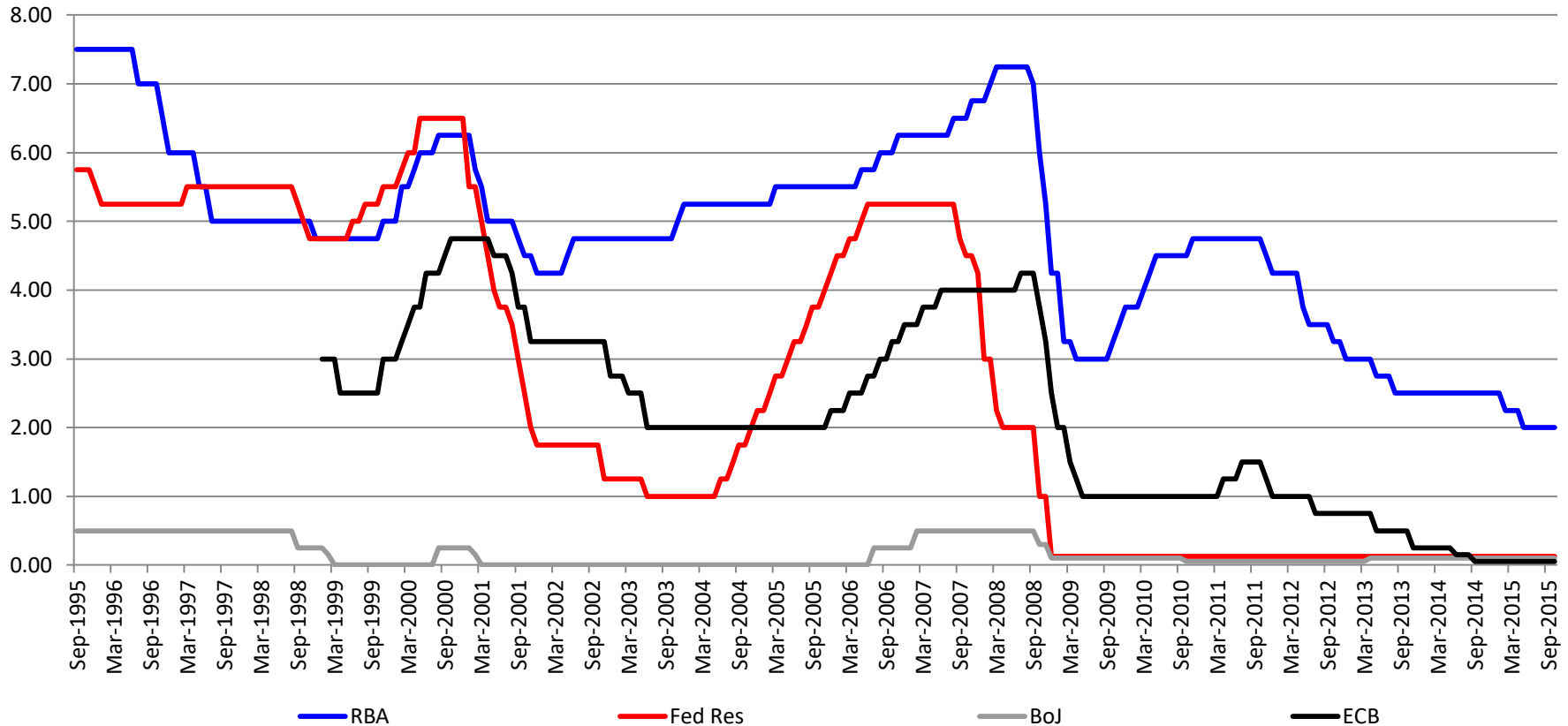
The Buy Assist program is a timely and necessary step for the delivery of affordable housing in Australia. It is also a program exposed to a number of market uncertainties which will require mitigation strategies:

- Interest rate risk (and the capacity of buyers to service debt in a higher rate environment)
- Employment in the short and medium term.

Interest Rate Risk

Interest rates are one of Australia's most volatile economic indicators.

International InterBank Interest Rate 1995-2015 (% Monthly) (Source RBA 2015)



Note: Reserve Bank of Australia (RBA); Federal Reserve New York (FedRes); Bank of Japan (BoJ); European Central Bank (ECB).

Interest Rate Risk Mitigation

- Capped rate for 50% of debt exposure
- Specialised mortgage insurance product
- Raise ratio of debt servicing to income
- Forecast interest rates against current term structure for 10 year bonds
- Weight approvals in favour of employees in designated growth industry sectors

Employment

Australia's employment data is understated:

- An person is employed if engaged for one hour of work (or equivalent) per week
- The underutilisation rate = unemployed + persons looking for more hours/labour force
- Part-time employment <35 hours per week
- Consumer finance stress highest since 2008 (Veda 2015).

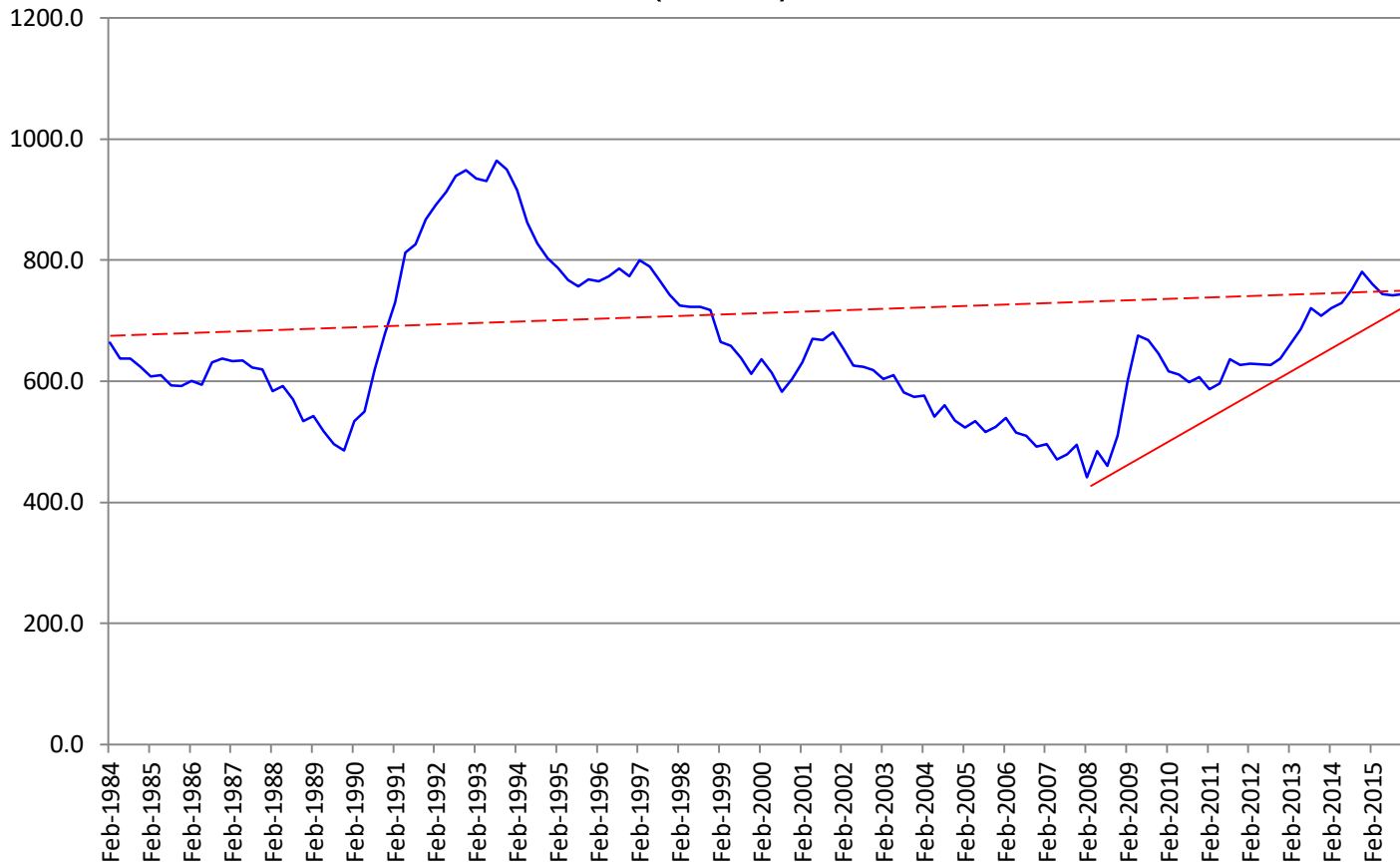
In November 2015:

| | |
|---------------------------------|----------------|
| Employed persons (national) | 11,919,000 |
| Participation rate (steady) | 69.7% |
| Unemployed persons | 689,000 (5.5%) |
| Underemployed persons | <u>394,000</u> |
| Underemployed | 1,083,000 |
| Underutilisation rate: National | 14.1% |
| New South Wales | 12.6% |
| Victoria | 15.3% |
| Queensland | 13.6% |

Source: ABS 6202.0

Unemployment, Australia, 1984-2015

(000s)



Employment by Industry 2005-2015

| 000s | 2005 | 2010 | 2015 | Change % pa |
|---------------------------------|-------|-------|-------|----------------|
| Agriculture | 347 | 346 | 321 | - 0.75 |
| Mining | 127 | 199 | 218 | 7.17 |
| Manufacturing | 1,014 | 976 | 918 | - 0.95 |
| Utilities | 103 | 149 | 140 | 3.59 |
| Construction | 855 | 1,005 | 1,055 | 2.34 |
| Wholesale | 365 | 407 | 383 | 0.49 |
| Retail | 1,162 | 1,201 | 1,254 | 0.79 |
| Accomm & Catering | 669 | 754 | 824 | 2.32 |
| Transport | 497 | 577 | 602 | 2.11 |
| Media & Comms | 237 | 213 | 222 | - 0.63 |
| Finance & Insurance | 372 | 399 | 414 | 1.13 |
| Real Estate | 187 | 205 | 208 | 1.12 |
| Professional | 704 | 844 | 971 | 3.79 |
| Admin Services | 353 | 390 | 374 | 0.59 |
| Public Administration | 607 | 693 | 737 | 2.14 |
| Education & Training | 747 | 848 | 907 | 2.14 |
| Health | 1,012 | 1,266 | 1,395 | 3.79 |
| Arts | 174 | 193 | 241 | 3.85 |
| Other Services | 405 | 450 | 462 | 1.41 |
| Average | | | | 1.91 |

Risk Mitigation

Marketing applications to specific industry sectors
(health, education, public services)

Portfolio weighting in favour of sectors with strong
employment growth past 10 years

- Mining
- Health
- Arts
- Professional and Scientific Services.

