The Hon Rob Lucas MLC

TRS20D2622

Government
of South Australia

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Hon Stephen Mullighan MP
Member for Lee
Unit 1, 62 Semaphore Road
SEMAPHORE SA 5019

lee@parliament.sa.gov.au

Stephen
Dear ~~Mr Mullighan~~

APPLICATION UNDER THE *FREEDOM OF INFORMATION ACT 1991*

I refer to your application made under the *Freedom of Information Act 1991* (the Act), dated 5 August 2020.

Your application seeks access to:

> *"All minutes, briefings and correspondence titled 'Homestart Finance Board Meeting- May 2020' as described on the Objective document management system, between 9 April and 5 August 2020."*

The prescribed legislative timeframe to determine this application has expired and is deemed as refused access to documents relevant to your application. I refer to my letter dated 18 August 2020 where I sought additional time to make my determination.

The purpose of this letter is to advise you of my determination. An extensive search was conducted within this office. A total of 2 documents were identified as answering the terms of your application.

I grant you access in part to 2 documents; copies of which are enclosed.

Documents Released in Part

Documents 1 and 2

Document 2 contains information relating to specific properties and has been redacted, as if disclosed, could identify individuals.

Both Document 1 and 2 contain sections with specific information providing the identification of certain HomeStart employees, which have also been redacted. This is similar to specific people working for Deloitte and KPMG. Their names have been redacted accordingly.

I have determined to exempt this information pursuant to clause 6(1).

Exemptions

Clause 6 – Documents affecting personal affairs

A document is an exempt document if it contains matter the disclosure of which would involve the unreasonable disclosure of information concerning the personal affairs of any person.

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information* (PC045), the Department of Treasury and Finance is now required to publish a log of all non-personal information released under the Act.

In accordance with this Circular, any non-personal information determined for release as part of this application, may be published on the DTF website. A copy of PC045 can be found at the following address: https://dpc.sa.gov.au/resources-and-publications/premier-and-cabinet-circulars. Please visit the website for further information.

If you require any further information, please contact Vicky Cathro on 8226 9769.

Yours sincerely

Rob Lucas

Hon Rob Lucas MLC
Principal Officer

6 March 2021

Att.

Schedule of Documents

TRS20D2622 - HomeStart Finance Board Meeting - May 2020

Doc. No.	Date	Description of Document	# of pages	Determination Recommendation	Exemption Clause	Reason
1	25/05/2020	HomeStart Finance Board Meeting - May 2020	2	Released in part	6(1) - Unreasonable disclosure of personal affairs	
2		Attachment to Document 1	126	Released in part	6(1) - Unreasonable disclosure of personal affairs	

RELEASE IN PART

DOCUMENT 1

26/05/2020
+20/039
Rec 20D1698

MINUTES forming ENCLOSURE to

Government of South Australia

HomeStart FINANCE

Critical Deadline	
Routine	

TO: **HON ROB LUCAS, TREASURER – HSM2005.4**

RE: **HOMESTART FINANCE BOARD MEETING – MAY 2020**

Monthly reports – April 2020

- Total Settlements (including Home Equity and Redraw) were $31.6million.
- Discharges were 87 loans worth $20.9million.
- YTD profit before tax was $28million.
- Capital adequacy was 12.3%.
- Return on Equity was 20.6%.

COVID-19 Update and Risk Register
Board noted the paper.

COVID-19 Scenario Analysis Update
Board noted the paper.

HomeStart Dividend 2019-20
Board approved the paper.

Register of Financial Authorisations 2020 - CEO
Board approved the paper.

Realisations – April 2020
Board noted the write-offs.

Risk and Lending Update
Board noted the paper.

John Oliver
CHIEF EXECUTIVE
HomeStart Finance

25/05/2020

Government of South Australia HomeStart FINANCE

NOTED/APPROVED/NOT APPROVED

HON ROB LUCAS MP
TREASURER

/ /20

CONTACT	John Oliver	2nd CONTACT		AUTHOR:	Tricia [redacted]
POSITION	CEO	POSITION		POSITION	Executive Assistant
DIVISION	HomeStart Finance	DIVISION		DIVISION	HomeStart Finance
PHONE/MOBILE	8203-4700	PHONE/MOBILE		PHONE/MOBILE	8203-4007

DOCUMENT 2

HomeStart Finance

ASSET & LIABILITY COMMITTEE

9.00am Tuesday 19 May 2020

Government of South Australia

HomeStart FINANCE

HOMESTART ALCO

The meeting to be held at 9.00am on Tuesday, 19 May 2020
via WebEx

AGENDA

Welcome and apologies		
Conflicts of interest		
Minutes of previous meeting		
	- 21 April 2020	3
	- Action List	7
Economic Update		
SAFA Update		
Papers/Presentations		
Noting:		
2005.1	Treasury Reports – April 2020	8
2005.2	Asset Quality Reports – April 2020	17
2005.3	Actuarial Analysis: COVID-19 Supplementary Report	23
2005.4	ARG Credit Coefficient Review	34
Any Other Business		
Next Meeting	16 June 2020	
Close		

Distribution:

Chris Ward, Deputy Chair (ALCO Chair)* Darryl Royans, member*
Shanti Berggren, member* Jim Kouts (alternative member)

External: Andrew Kennedy, Director, Treasury Services – SAFA
Don Munro, Manager, Client & Advisory Services - SAFA

Internal: John Oliver* Andrew Mills*
Peter Byrnes Vas Iannella
Leon [redacted] Tricia [redacted] (minutes)

* ALCO member

Minutes of Asset & Liability Committee Meeting held on Tuesday, 21 April 2020
Via WebEx

PRESENT	Chris Ward (Chair) Darryl Royans Shanti Berggren John Oliver Andrew Mills
ATTENDEES	Peter Byrnes Leon [redacted] Andrew Kennedy (SAFA) Don Munro (SAFA) Tricia [redacted] (minutes)

The Chair opened the meeting at 9.00am.

CONFLICTS OF INTEREST

There were no new conflicts of interest.

MINUTES OF PREVIOUS MEETINGS

The minutes of the previous meeting held on 17 March 2020 were confirmed as an accurate record.

ACTION LIST

2002.6 Country Lending Categories Review – discussed under Agenda Item 2004.5.

ECONOMIC UPDATE

Andrew Mills spoke to the circulated document "Economic Update – April 2020" and provided a general economic update. Points to note included:

- The RBA now has two targets from each meeting being cash and 3-year Australian Government Bonds, both of which remained at 25bp
- The cash rate and 3-year bond target are expected to remain at 25bp for a long time to come; the RBA wants to see "progress… towards full employment" and inflation fitting sustainably into the 2-3% target band
- The Financial Stability Review showed 20% of owner-occupiers with a mortgage held less than one month's liquidity
- The RBA has also tested the LVR distribution of mortgages against house price decline scenarios showing the proportions that will move into negative equity, and believe each one percentage point increase in unemployment increase mortgage arrears by 0.8%; Federal Treasury is working to an assumption of unemployment reaching 10%
- CoreLogic listings are down 25% in addition to valuations decreasing by 25%, however this is dependant on location i.e. eastern states
- The ABS are anticipating 300k jobs will be lost in the next four weeks; Citi are predicting 900k jobs could be lost in April
- During previous recessions consumer sentiment has taken 1-2 years to bottom out. In 2020 it has fallen to previous lows in just a few weeks.
- Without JobKeeper, Westpac estimates unemployment would have reached 17%
- Questions on employment suggest 1 in 5 have lost their entire wage income

- Short term rates are low reflecting significant RBA activity, which has a positive impact on HomeStart's margin

SAFA UPDATE

Andrew Kennedy provided an update on market conditions. Points to note included:

- SAFA raised $1.5b at the start of April
- 2019-20 Funding requirements for the States was $46b, this has now potentially increased to as much as $73b
- Australia's $800b debt may potentially to increase to $1.2trillion by the end of June 2020
- SAFA's project funding requirements for 2020-21 is expected to be revised higher following the State Budget in early November
- State government statutory organisations expect lower revenues in the coming year however the impact is yet to be fully felt
- David Reynolds has announced the new SAFA General Manager, Anna Hughes will commence in May 2020

Approval Papers

2004.1 March Standard Variable Rate Decrease - via circular resolution 23 March 2020

ALCO endorsed its approval of the paper as per the recommendations, via circular resolution on 23 March 2020.

Noting Papers

2004.2 Treasury Reports – March 2020

Leon [redacted] spoke to the paper. Points to note included:

- New swaps totalling $15m were settled to hedge fixed rate positions, including $2m in nine and ten year buckets
- The debt funding market value has shifted significantly to a favourable (positive) position in March
- The average cost of working capital over March is lower due to the reductions in the cash rate
- Cash management is being carefully watched in anticipation for an increase in discharges and customers reducing repayments due to COVID-19
- The compliance report has been updated to reflect changes to Treasury Policies approved by ALCO last month

ALCO noted the report.

2004.3 Asset Quality Reports – March 2020

Leon [redacted] spoke to the paper. Points to note included:

- Arrears 30+ days increased over March; it is likely that the financial impacts from COVID-19 have led to the increase
- Approximately 300 customers had been provided with assistance of repayment relief at month-end and a further 70 were utilising advance payments
- As at today, 534 customers have been placed on a payment arrangement, which represents $144m in value and 6.4% of the portfolio
- April is expected to be a difficult month as some customers will be waiting for the first government assistance payments to come through

ALCO noted the report.

Andrew Kennedy and Don Munro left the meeting at 9.26am.

2004.4 Actuary Review

A supplementary report will be provided next month, inclusive of COVID-19 impacts.

ALCO noted the report.

2004.5 Country Lending Loan to Valuation Review

Andrew Mills spoke to the paper. Points to note included:

- The review considers a longer time frame to review the trends and economic cycles of regions
- A timeframe is provided for loans that move into arrears, MIP, and realisations
- Whyalla has an improving trend in arrears over the last 2-3 years, as such an increase in the Whyalla LVR is now reasonable to consider
- ALCO raised concerns regarding Whyalla being a one business town and HomeStart's exposure in the market; it was noted minimal loans have been written in Whyalla over the last seven years and existing Home Equity Loans in the region are approximately ten years old. Management agreed to provide a broader range of data in support of its preference to move Whyalla back to lending category 1.
- When considered in isolation the proposed case for changes to maximum LVRs in these areas remains appropriate; however, in light of the coronavirus uncertainty, Management will defer any proposed changes for at least three months to enable a clearer picture to emerge

ALCO noted the review and noted the paper will be resubmitted to ALCO following a secondary review (and approval) by the Executive Committee in due course.

<u>OTHER BUSINESS</u>

- Valuations – John Oliver informed ALCO that a pilot comparing AVM and in-house valuations highlighted the fact that 99% of in-house valuations were coming in at the purchase price. It was also noted that the AVM data was considered unreliable as a sole measure of the property value for a credit decision. As such, it has been decided that HomeStart will accept the purchase price when the purchase is an arms-length transaction, the property is situated in the metropolitan area, has been on the market for a reasonable time. It was also noted that the assessors have access to information on realestate.com.au. and are utilising that website to look at the property.

- Guarantee Fee – notification of the 2021 guarantee fee is expected to be received in May/June 2020. The current rate of 0.99 is in place until 30 June 2020.

- Community Lending – Peter Byrnes confirmed that HomeStart has recently contacted the six largest community organisations since the outbreak of COVID-19. At this point in time all community lending partners financial position have been unaffected from the impact of Covid-19. No tenants and staff have reported as infected. Tenants were largely on Newstart, the age or disability pensions or very low incomes therefore there has not been a change in rent arrears, or signs of current social tenants not paying or looking to get a free ride under the "no eviction regime".

  Restrictions on maintenance spend and in some cases travel, has generally reduced costs / cash outflow. Aged Care facilities in Ardrossan and Mannum have not had any virus cases but have had a significant increase in spend on hand wash, sanitiser etc and personal protective equipment. Mid Murray Homes stated that spending on these items was three times that of previous months.

The Chair closed the meeting at 9.51am.

NEXT MEETING

The date of the next Asset & Liability committee meeting is Tuesday, 19 May 2020, commencing at 9:00am, at HomeStart Finance, Level 5, 169 Pirie Street, Adelaide.

CHRIS WARD
CHAIR
HOMESTART FINANCE

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ALCO action list

Government of South Australia HomeStart FINANCE

21/04/2020

Agenda No.	Action Required	Date Raised	Completion Date	Person Responsible
2004.5	Country Lending Loan to Valuation Review – 3 month subsequent review	21/4/2020	18/8/2020	Andrew Mills

ALCO committee paper

HomeStart FINANCE
Government of South Australia

Agenda item: 2005.1

Topic:	Treasury Reports – April 2020
From:	Andrew Mills
Date:	19/05/2020
Status:	Noting

1. Discussion

Funding Update
Net borrowings increased by $1.4m over April and new swaps totalling $9m were settled to hedge fixed rate positions.

The funding strategy is to:
- Finance movements in borrowings through working capital
- Continue to undertake swaps to manage positions on fixed rate lending in accordance with Treasury policies.

Summary of funding at the end of April 2020

Funding	Rate	Margin	G/fee	Total	Value
Working capital	0.64%	0.06%	0.99%	1.69%	101,014,478
FRN	0.45%	0.06%	1.32%	1.83%	1,922,000,000
Total	0.46%	0.06%	1.30%	1.82%	2,023,014,478

Cash and swap rate forecasts

Cash rate	*Jun'20*	*Sep'20*	*Dec'20*	*Mar'21*	*Jun'21*	*Comment*
ANZ	0.25	0.25	0.25	0.25	0.25	
CBA	0.25	0.25	0.25	0.25	0.25	
NAB	0.25	0.25	0.25	0.25	0.25	
WBC	0.25	0.25	0.25	0.25	0.25	
SAFA	0.25	0.25	0.25	0.25	0.25	
HomeStart	0.25	0.25	0.25	0.25	0.25	
Reuters poll	0.25	0.25	0.25	0.25	0.25	

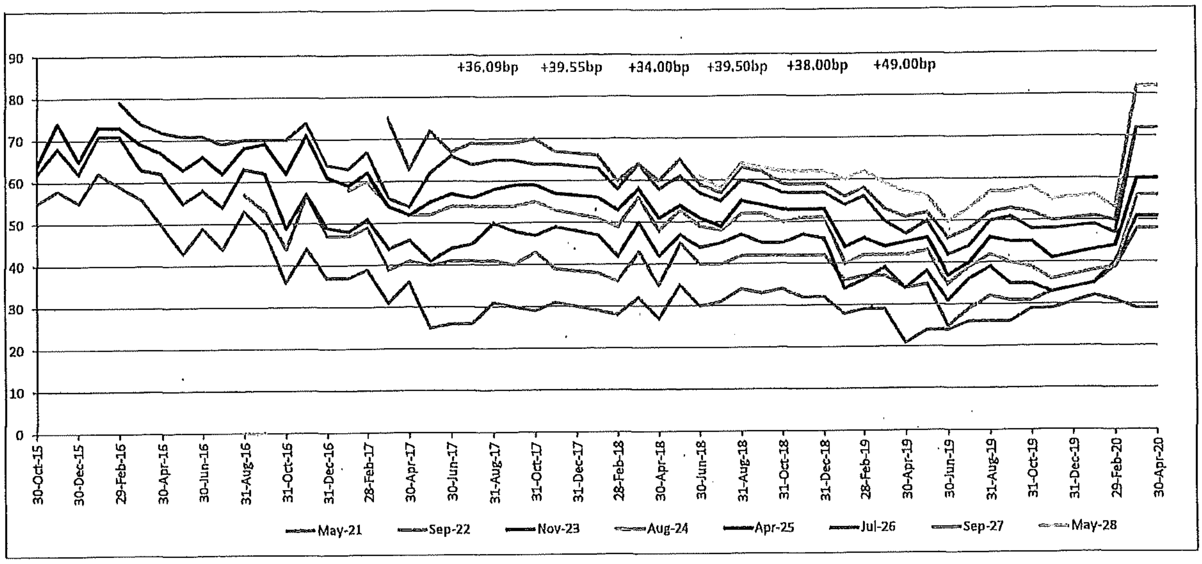
Forecast movements are highlighted.

3 yr swap	*Current*	*Jun '20*	*Sep '20*	*Dec '20*	*Mar '21*	*Jun'21*
SAFA	0.26	0.25	0.25	0.35	0.40	0.50
HomeStart		0.25	0.25	0.35	0.40	0.50

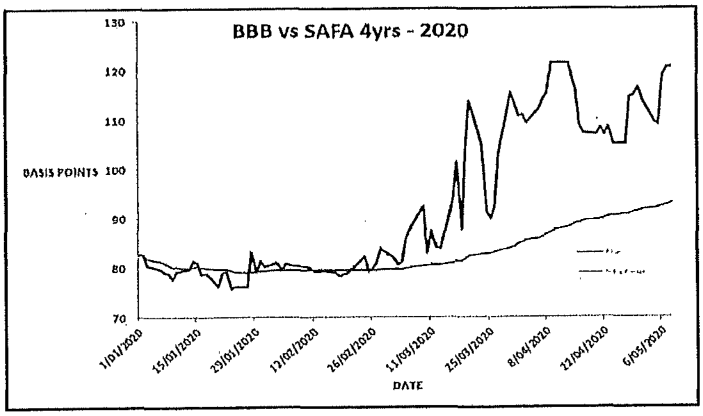
Changes to HomeStart's mortgage rates over the period

	Start	Rate	Date	Rate	Date	Rate
Variable*	1 Apr	4.53	6 Apr	4.39		
1yr fixed	"	3.29				
2yr fixed	"	3.49				
3yr fixed	"	3.59				
Seniors Equity	"	5.39	16 Apr	4.99		

SAFA FRNs - TRADED MARGIN TO BBSW



	Latest		
	Semi	Qtrly	Monthly
20-May-21	22	26	29
22-Sep-22	40	45	48
20-Nov-23	44	48	51
15-Aug-24	49	53	56
16-Apr-25	53	57	60
20-Jul-26	65	69	73
20-Sep-27	65	69	73
24-May-28	76	79	82
24-May-30	88	91	94

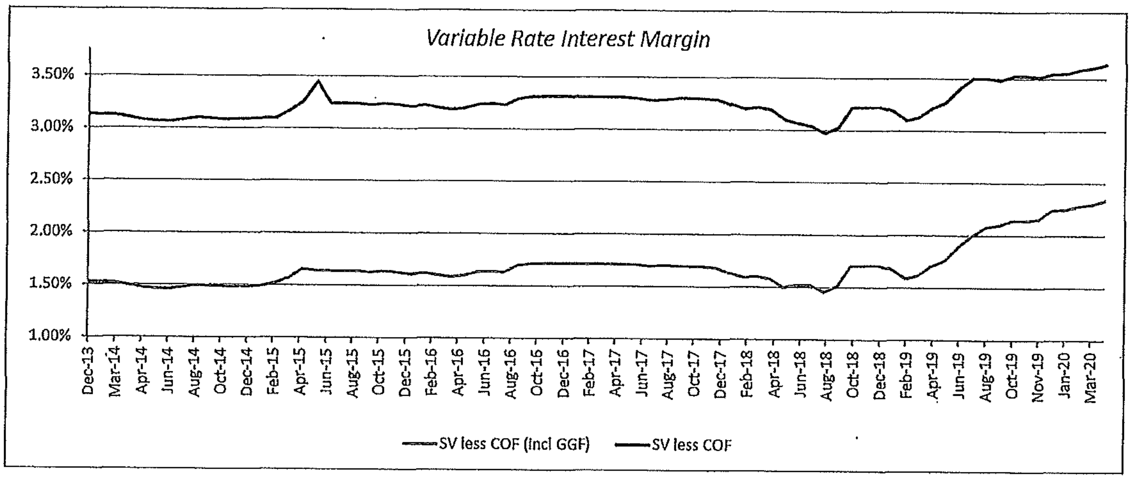


Average spreads by calendar year:

2015	1.560%
2016	2.033%
2017	1.356%
2018	0.991%
2019	0.847%
Q1 2020	0.845%
Q2 2020	1.132%
2020 YTD	0.931%

Cost of Funds

Margins improved in April despite the cut in variable rate as the benchmark cost of funds (30 day BBSW) reduced below the official cash rate to an average 12bp on debt at month-end.



HomeStart Portfolio Summary

Swaps totalling $9m were settled during April as follows to hedge fixed rate positions:
. $4m maturing in 2 years at average 0.32%
. $3m maturing in 3 years at 0.37%
. $1m maturing in 9 years at 0.94%
. $1m maturing in 10 years at 1.015%.

The margin on working capital was increased from 40 to 45bp during the month.

As at 30 April 2020

Physical Deals	**Assets**	**Swaps**	**Variance**
Up to 1 year to repricing (variable rate)	2,025,721,527		n/a
Up to 1 year to repricing (fixed rate)	82,071,484	72,000,000	10,071,484
More than 1 year, up to 2 years	84,187,328	80,000,000	4,187,328
More than 2 years, up to 3 years	39,604,395	35,000,000	4,604,395
More than 3 years, up to 4 years	4,050,433	4,000,000	50,433
More than 4 years, up to 5 years	3,966,716	4,000,000	- 33,284
More than 5 years	20,417,591	19,000,000	1,417,591
Fixed rate total	**234,297,949**	**214,000,000**	**20,297,949**
Total	**2,260,019,476**		
Average rate	**4.2200%**	**1.5779%**	
Average reset days	**17.8**		

Physical Deals - Liabilities		
Working capital [Cash+45bp] [GF 0.99%]	101,014,478	
20-May-2021 FRNs [+36.09bp] [GF 1.57%]	550,000,000	
22-Sep-2022 FRNs [+39.55bp] [GF 1.45%]	522,000,000	
20-Nov-2023 FRNs [+34.00bp] [GF 1.18%]	200,000,000	
15-Aug-2024 FRNs [+39.50bp] [GF 1.18%]	200,000,000	
16-Apr-2025 FRNs [+38.00bp] [GF 0.99%]	200,000,000	
20-July-2026 FRNs [+49.00bp] [GF 0.99%]	250,000,000	
Total	**2,023,014,478**	
Average rate	**0.7492%**	
Guarantee fee	**1.3028%**	
Short-term debt	101,014,478	**4.99%**
Long-term debt	1,922,000,000	
Average reset days	**18.7**	
Weighted average term to maturity	**2.9**	

HomeStart's Derivative Limit is currently $351.4m

Market Value Report

The market position on debt funding has shifted back to negative following partial reversal of the significant increase in credit spreads from last month.

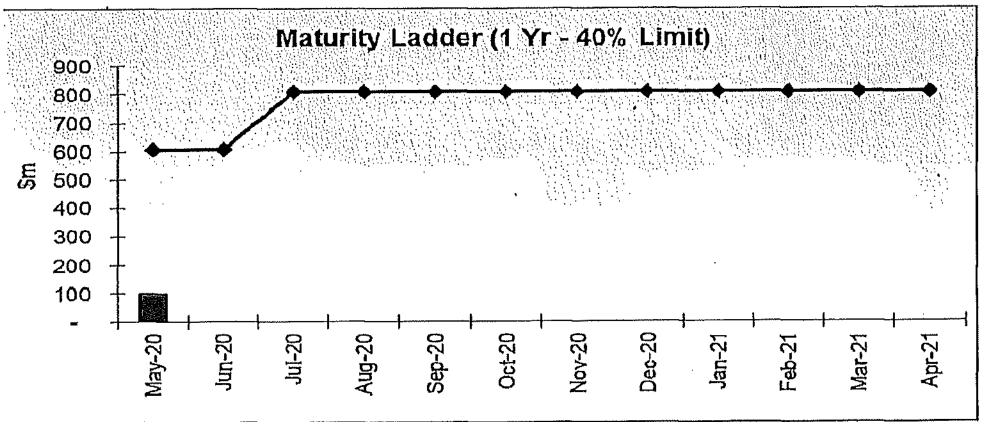
Historical Market Value of Physical Debt

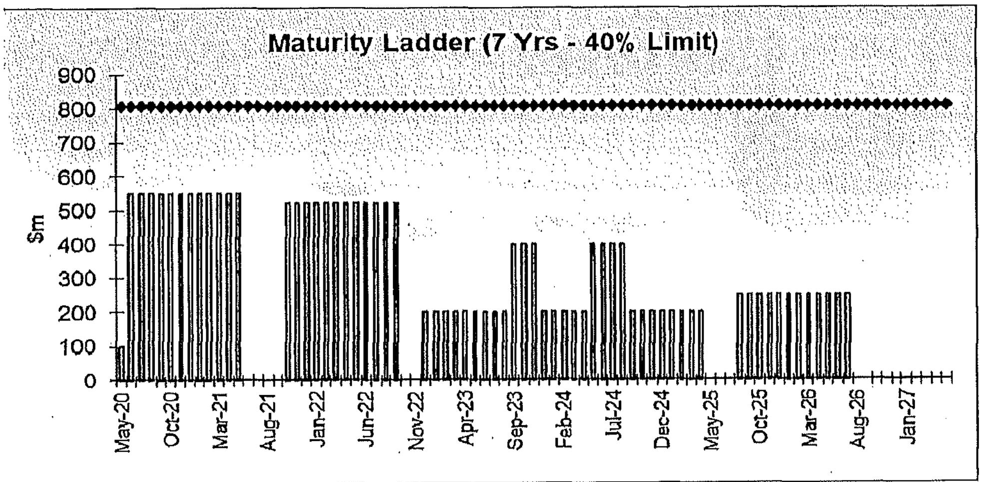
Period	Book Value	Market Value	Profit/(Loss)	Asset Book Value
Apr-2019	2,005,842,211	2,009,776,923	-3,934,711	2,235,794,869
May-2019	2,018,584,010	2,022,602,688	-4,018,678	2,247,970,175
Jun-2019	2,041,760,159	2,046,972,872	-5,212,713	2,263,027,279
Jul-2019	2,037,988,514	2,043,373,473	-5,384,959	2,260,583,359
Aug-2019	2,036,837,298	2,040,488,368	-3,651,070	2,261,120,730
Sep-2019	2,023,524,045	2,026,882,922	-3,358,878	2,250,547,756
Oct-2019	2,024,843,424	2,030,253,187	-5,409,762	2,252,231,784
Nov-2019	2,025,641,196	2,031,543,625	-5,902,429	2,251,642,965
Dec-2019	2,024,907,139	2,028,827,799	-3,920,661	2,256,492,279
Jan-2020	2,022,716,579	2,026,289,376	-3,572,797	2,255,321,688
Feb-2020	2,023,977,103	2,027,666,502	-3,689,399	2,256,784,125
Mar-2020	2,022,229,600	2,021,273,418	956,182	2,256,756,484
Apr-2020	2,023,387,676	2,024,828,517	-1,440,841	2,260,019,476

Refinancing Profile

Working capital increased to $101m (from $99.6m) over the month. The average cost of working capital for April was 15bp lower due to reductions in the cash rate offset partly by a 5bp increase in SAFA margin.

Refinancing over the next 12 months is expected to increase to 32% next month when the May 2021 debt becomes short-term.





Current level of short term debt is $101.0M or 5.0% of total borrowings

Bank Balance ($m)	This month	Last month
Monthly Average	1.90	2.15
High	4.11	3.91
Low	-0.36	0.56

WCF Balance ($m)		
Monthly Average Rate	0.67%	0.82%
Monthly Average	98.34	97.47
High	102.61	101.27
Low	93.64	92.40

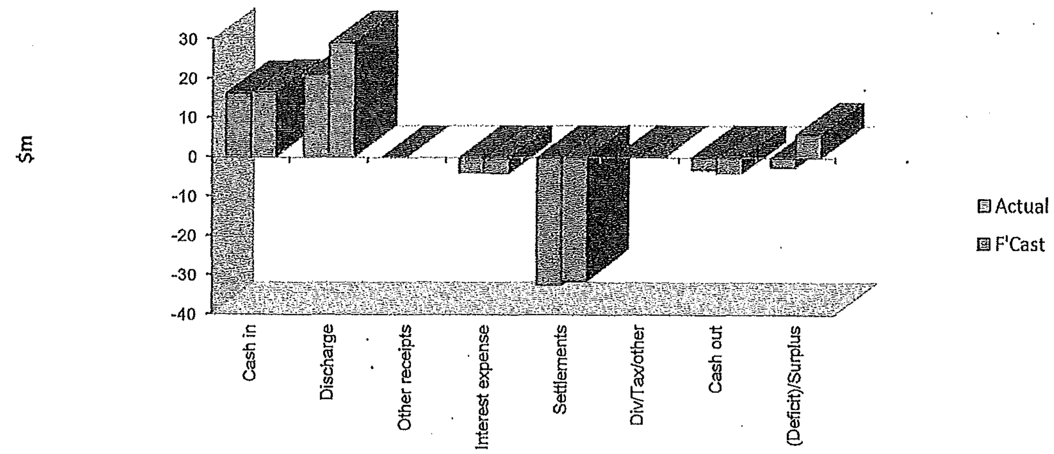
Borrowing limit ($m)	2460.0	2460.0
Actual borrowings ($m)	2023.0	2021.6
Unused limit ($m)	437.0	438.4

Cash Management Liquidity Graphs

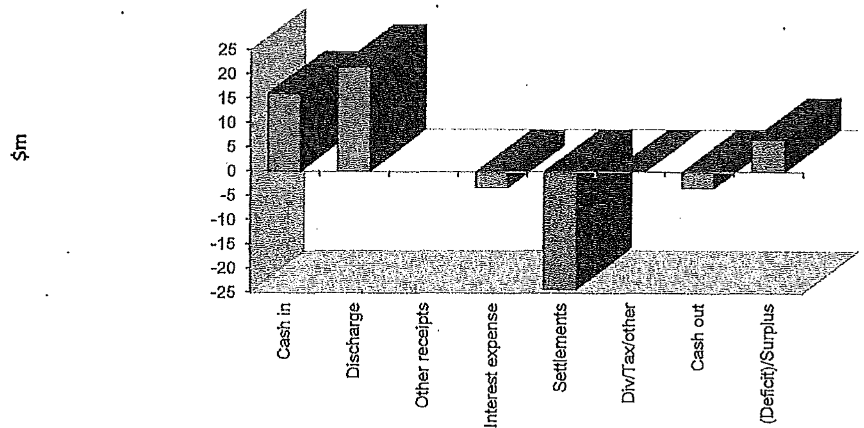
There was a cash deficit in the month compared to a forecast surplus, resulting mainly from a significant reduction in loan discharges. The May forecast is a surplus of $6.6m with settlements projected to reduce by around $8m.

The 12 month forecasts will be reviewed with the operating outlook in June.

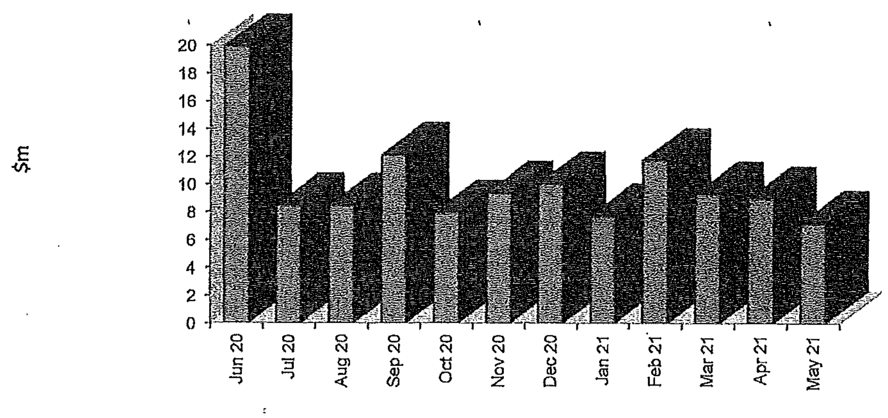
April Actual: Deficit of $2.5m vs Forecast Surplus of $6.0m



May F'Cast: Surplus $6.6m



Operating outlook forecast for the next 12 months: Funding deficit of $121.6m



2. Compliance

April 2020 - all policies complied with.

Category	Sub Category	Limit	Position	Policy
Borrowing limit		$2.460b	$2.023b	Strategic Operating Parameters
New debt approvals	SAFA	Limits as per ROFA	Complied	Treasury Policy 1
Borrowings	Fixed interest rate debt – maximum maturity	15 years	n/a	Treasury Policy 1
Borrowings	Floating rate debt – maximum maturity	15 years	6.2 years	Treasury Policy 1
Borrowings	Short-term borrowings – maximum maturity	365 days	1 day	Treasury Policy 1
Derivatives	Value - % exposure	150%	91.3%	Treasury Policy 1
Derivatives	FRAs – maximum time to settlement	6 months	n/a	Treasury Policy 1
Derivatives	FRAs – maximum tenor	6 months	n/a	Treasury Policy 1
Derivatives	Futures - maximum maturity	12 months	n/a	Treasury Policy 1
Swaps	Fixed rate assets - maximum maturity	5yrs	2.9yrs	Treasury Policy 1
Swaps	Shared equity - maximum maturity	15yrs	10.0yrs	Treasury Policy 1
Swaps	Floating / floating - maximum maturity	3yrs	n/a	Treasury Policy 1
Counterparty credit limit	Westpac	$20m	$4.1m	Treasury Policy 2
Refinancing	Next 12 mths -maximum % debt	40%	5.0%	Treasury Policy 4
Refinancing	Rolling 12mths - maximum % debt	40%	27.2%	Treasury Policy 4
Refinancing	Current and next month	30%	5.0%	Treasury Policy 4
Refinancing	Daily maximum *	$100m	$0	Treasury Policy 4
Short-term debt	Minimum level	Amount required to cover net expected cash in-flows	$101.0m	Treasury Policy 6
Product limit	Shared equity	$100m	$43.1m	Risk Appetite Statement

Multiplier setting	Maximum borrowing capacity	190	190 (reviewed Feb 2020)	Pricing and Product Mechanics Policy

* Excludes FRN select lines & working capital

3. Standing Data

Average APRA Risk Weight (3yr Avg)	60.1%	No change
Capital Adequacy (3yr Avg)	12.0%	No change
Cost of Capital	9%	No change
Capital Reprice Period (days)	30	No change
Variable rate borrowing – issue margin	0.3903%	No change

4. Recommendation

That the ALCO Committee notes the treasury reports for April 2020.

Andrew Mills
Chief Financial Officer

ALCO committee paper

Government of South Australia

HomeStart FINANCE

Agenda item: 2005.2

Topic:	Asset Quality Reports – April 2020
From:	Andrew Mills
Date:	19/05/2020
Status:	Noting

1. Background

The commentary and attachments provide a monthly report of loan asset performance. The benchmark used in projected write-off levels and benchmarks are actuary based loss projections, including a prudential margin[1].

2. Discussion

Credit loss report

The credit loss report provides a comparison of projected and actual losses based on time since origination. The following is a summary total of the detailed report for April with comparisons to last year's full year result.

($m)	*Total LYR*	*Apr 20*	*YTD*
Write-offs (gross)	$1.932	$0.144	$1.835
Actuary expected	$2.715	$0.229	$2.262
Actual to expected	71.2%	62.5%	81.1%

Credit losses for April were below the actuary benchmark which has been the case since October 2019. Year to date losses are now 19% below benchmark, compared to 29% below last year.

[1] A 25% prudential margin has been added for settlements from April 2008 to June 2011

HomeStart Finance - Credit Loss Report

Report to: 30/04/2020

Month Settled	Original Credit Limit	Expected Total Loss	Loss Adj factor	Expected Loss to Date	Loss Development %	Actual Loss to Date	Actual % Expected	Losses for month	Expected Total Loss (PV)	Expected future loss (PV)
Pre-Jul 2000	2,106,984,046		-			57,506		-		-
2000 Sub-Total	111,105,409	986,061	1.0000	986,061	100.00%	-	0.0%	-	757,377.74	-
2001 Sub-Total	180,548,492	1,602,368	1.0000	1,602,368	100.00%	41,886	2.6%	-	1,230,753.84	-
2002 Sub-Total	157,386,788	1,396,808	1.0000	1,396,808	100.00%	116,457	8.3%	-	1,072,866.30	-
2003 Sub-Total	192,969,879	1,732,456	1.0000	1,732,456	100.00%	161,863	9.3%	-	1,330,292.24	-
2004 Sub-Total	329,979,833	3,044,394	1.0000	3,044,394	100.00%	1,194,305	39.2%	-	2,336,133.19	-
2005 Sub-Total	353,060,096	4,039,070	1.4052	4,031,847	99.82%	1,502,618	37.3%	-	3,103,883.89	8,991.12
2006 Sub Total	263,419,403	3,310,862	1.6203	3,279,565	99.05%	2,356,123	71.8%	-	2,541,659	32,358
2007 Sub Total	217,679,680	2,543,710	1.6125	2,494,337	98.06%	3,186,837	127.8%	-	1,944,286	47,794
2008 Sub-Total	275,837,273	4,450,886	1.7588	4,299,757	96.60%	5,013,105	116.6%	32,265	2,824,600	117,729
2009 Sub-Total	464,817,719	6,825,282	1.5255	6,481,709	94.97%	8,347,366	128.8%	-	4,172,299	255,417
2010 Sub-Total	354,123,169	4,118,462	1.2647	3,802,529	92.33%	3,095,036	81.4%	52,258	2,549,802	233,013
2011 Sub-Total	327,693,849	3,095,153	1.4110	2,845,175	91.92%	1,468,485	51.6%	27,269	2,085,667	189,472
2012 Sub-Total	242,562,441	1,618,376	1.3353	1,470,163	90.84%	373,088	25.4%	-	1,292,202	142,989
2013 Sub-Total	274,205,837	1,999,518	1.1654	1,639,059	81.97%	266,117	16.2%	-	1,587,385	343,453
2014 Sub-Total	314,628,343	2,653,260	1.3059	1,879,762	70.85%	425,993	22.7%	-	2,103,937	728,721
2015 Sub-Total	307,568,553	2,736,301	1.3485	1,436,593	52.50%	68,747	4.8%	-	2,147,997	1,204,867
2016 Sub-Total	404,992,025	3,866,516	1.3367	971,455	25.12%	66,252	6.8%	31,863	2,973,628	2,611,510
2017 Sub-Total	445,405,241	4,382,246	1.3329	284,267	6.49%	54,557	19.2%	-	3,323,053	3,525,880
2018 Sub-Total	492,062,607	4,648,447	1.3220	66,668	1.43%	90,270	135.4%	-	3,527,441	3,787,195
31-Jan-19	41,289,803	315,301	1.0686	662	0.21%	-	0.0%	-	239,264	252,836
28-Feb-19	32,875,305	293,255	1.2483	410	0.14%	-	0.0%	-	222,534	234,408
31-Mar-19	40,235,752	388,288	1.3505	272	0.07%	-	0.0%	-	294,649	309,382
30-Apr-19	31,654,635	204,889	0.9058	-	0.00%	-		-	155,478	162,590
31-May-19	44,400,561	367,958	1.1597	-	0.00%	-		-	279,223	290,809
30-Jun-19	49,387,508	485,884	1.3767	-	0.00%	-		-	368,710	382,452
31-Jul-19	26,266,725	298,462	1.5478	-	0.00%	-		-	224,434	231,854
31-Aug-19	38,049,579	486,722	1.7425	-	0.00%	-		-	365,999	376,566
30-Sep-19	27,198,111	366,438	1.8353	-	0.00%	-		-	275,550	282,355
31-Oct-19	36,086,981	470,483	1.7760	-	0.00%	-		-	353,788	361,054
30-Nov-19	35,467,273	448,771	1.7236	-	0.00%	-		-	337,462	342,995
31-Dec-19	35,997,757	486,545	1.8412	-	0.00%	-		-	365,867	370,357
2019 Sub-Total	438,909,990	4,612,996	1.4491	1,344	0.03%	-	0.0%	-	3,482,959	3,597,658
31-Jan-20	35,961,574	417,985	1.5833	-	0.00%	-		-	314,312	316,878
29-Feb-20	28,195,612	362,863	1.7531	-	0.00%	-		-	272,861	273,973
31-Mar-20	28,978,991	366,649	1.7235	-	0.00%	-		-	275,709	275,709
30-Apr-20	31,585,594	400,398	1.7268	-	0.00%	-		-	301,087	301,087
2019-20 Sub-Total	124,721,771	1,547,894	1.6906	-	0.00%	-		-	1,163,968	1,167,646
Total	$ 6,273,678,399	$ 65,211,066	1.3436	$ 43,746,316	67.08%	$ 27,886,611	63.7%	$ 143,655	$ 47,552,189	$ 17,994,693
% of Original Loans		1.0394%		0.6973%		0.4445%			0.7580%	0.2868%
Change for month	$ 31,585,594	$ 400,398		$ 229,440		$ 143,655	62.6%		$ 301,087	$ 151,031
Year to date	$ 323,788,197	$ 4,105,315		$ 2,262,113		$ 1,835,319	81.1%		$ 3,084,676	$ 1,594,109

Arrears activity

Arrears 30+ days have increased with some most likely due to the economic effects of the coronavirus epidemic. In addition, over 600 customers have been provided with assistance by repayment deferral.

ALCO Arrears for April 2020

% Arrears by Value	2020 Jan	2020 Feb	2020 Mar	2020 Apr
30+ Days Arrears	1.75%	1.84%	1.99%	2.12%
30+ Days Moving Avg	1.67%	1.78%	1.86%	1.98%
% Loans w/Extra Payment	50.95%	0.51%	9.62%	26.95%
Seasonal Factor	0.9664	0.9150	0.9510	0.9274
30+ Day Season/ Adj	1.77%	1.68%	1.91%	2.01%
90+ Days Arrears	0.68%	0.71%	0.73%	0.75%
90+ Days Moving Avg	0.71%	0.71%	0.70%	0.73%

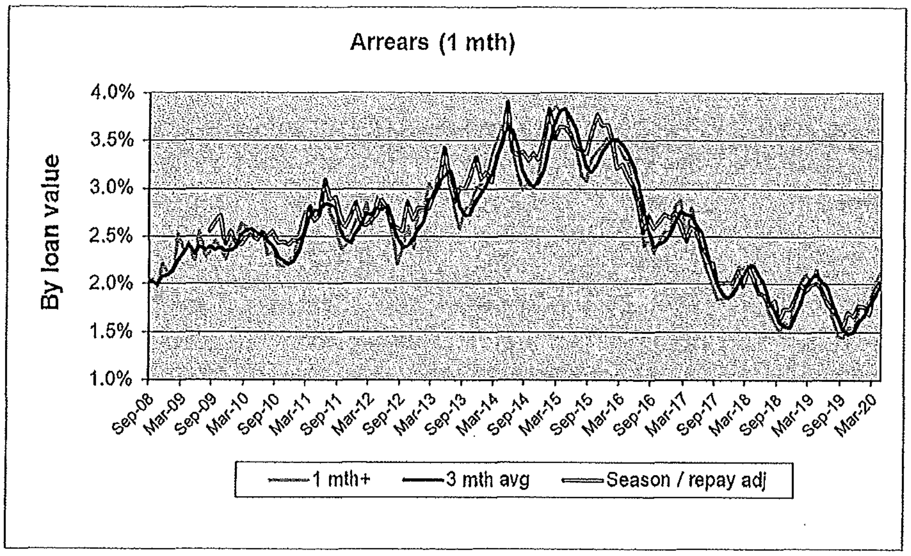
Arrears percentages are in loan value terms

Number of loans by months of instalments in arrears

Months In Arrears	2020 Jan	2020 Feb	2020 Mar	2020 Apr
0	283	338	390	349
1	98	107	117	134
2	32	32	38	33
3	17	22	22	29
4	16	17	13	14
5	12	8	14	16
6	4	8	8	7
7	3	1	4	3
8	3	2	1	3
>8	50	52	50	44
All	518	587	657	632
>=3	105	110	112	116
MIP	21	20	22	18
MIP arrs>=3	21	20	22	18

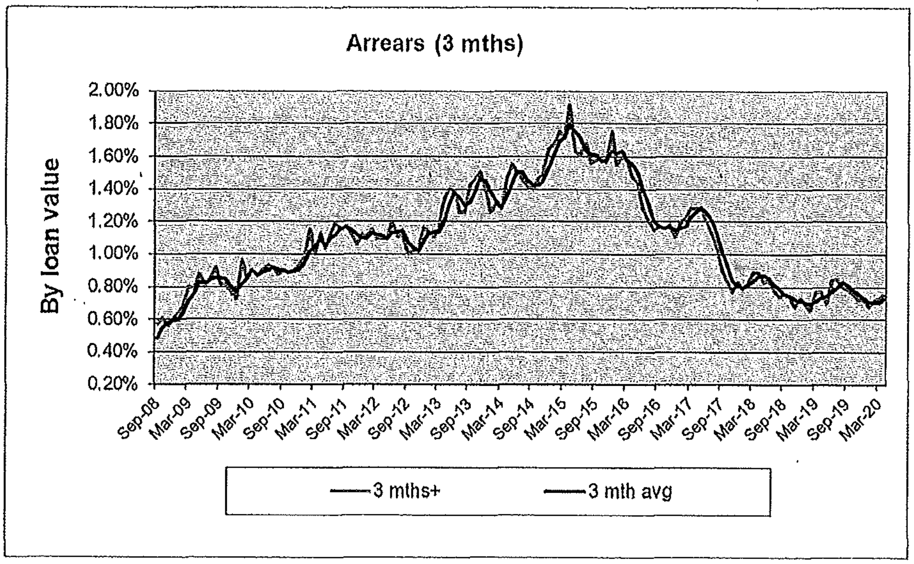
Key movements for the month:

- Loans 1 month and over up by 16; total arrears numbers down by 25
- The number of loans 3 months and over in arrears is up by 4.



Extra fortnightly/weekly repayments

Month	*Days*	*%*	*3 mth roll*	*Seas factor*	
Feb-20	Sa	0.5%	61%	0.9150	
Mar-20	Su,Mo,Tu	9.6%	61%	0.9510	
Apr-20	We,Th	27.0%	37%	0.9274	
May-20	Fr,Sa,Su	29.9%	66%	0.9796	Projected
Jun-20	Mo,Tu	9.0%	66%	0.9771	
Jul-20	We,Th,Fr	50.9%	90%	1.0302	
Aug-20	Sa,Su,Mo	6.1%	66%	1.0873	
Sep-20	Tu,We	11.2%	68%	1.0667	
Oct-20	Th,Fr,Sa	48.9%	66%	1.0722	



Write-off and realisation reports

Write-offs ($) [2]	*LYR*	*Apr 20*	*CYR*
Loans realised (no)	43	7	51
Write-offs ($) - gross	$1,932,231	$143,655	$1,835,319
Average gross	$44,936	$20,522	$35,987
Actuary projected w/offs [3]	$2,714,766	n/a	$2,723,104
Balance remaining	$782,535	n/a	$ 887,785
Remaining balance/mth	--	n/a	$443,892
Potential shortfalls - gross	$1,434,616	$1,101,754	n/a
Potential shortfall no.	26	20	n/a

There were 7 loans realised over April at an overall average of $20,500 with 3 having no shortfall. The year to date average loss is 20% lower than last year although the number of realisations is up.

Over the month, 3 new loans were added to potential shortfalls with a provision total of $152,209 (2 loans are to be assessed).

3. Recommendation

That the ALCO Committee notes the asset quality reports for April 2020.

Andrew Mills
Chief Financial Officer

[2] Includes voluntary sales
[3] Gross for the full year - determined on the actuary projected loss levels plus prudential margins

Potential Shortfall In MIP for April 2020

HomeStart FINANCE

Potential Shortfall In MIP

Primary Loan No.	Original Loan Manager	Suburb Name	Loan Start Date	Months of Provisions	Shortfall Paper Date	Loan Type	Provision Amount	MIP Reason	Days Since Credit Paper	Total Related Balance	Property Value
[redacted]	HomeStart Retail	[redacted]	[redacted]	62	12/10/2018	Nunga Loan	$66,224	Eviction	570	$191,865	$161,000
[redacted]	[redacted]	[redacted]	[redacted]	24	22/01/2019	Established Loan	$78,241	Eviction	468	$217,818	$194,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	19	16/05/2019	Established Loan	$60,586	Abandoned	354	$143,852	$106,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	11	28/06/2019	Established Loan	$33,171	VSurrender	311	$72,860	$85,000
[redacted]	[redacted]	[redacted]	[redacted]	24	30/08/2019	Established Loan	$88,346	Abandoned	248	$340,868	$275,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	7	23/09/2019	Established Loan	$7,951	Eviction	224	$121,046	$200,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	10	24/09/2019	Established Loan	$73,304	VSurrender	223	$108,352	$88,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	18	4/10/2019	Low Deposit Loan	$76,599	Abandoned	213	$121,370	$131,000
[redacted]	[redacted]	[redacted]	[redacted]	6	8/11/2019	Established Loan	$17,173	Abandoned	178	$38,376	$66,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	16	23/10/2019	Low Deposit Loan	$114,576	Abandoned	194	$147,987	$163,000
[redacted]	[redacted]	[redacted]	[redacted]	5	13/12/2019	Established Loan	$31,755	Abandoned	143	$103,761	$126,000
[redacted]	[redacted]	[redacted]	[redacted]	9	30/12/2019	Established Loan	$56,806	VSurrender	126	$109,296	$76,000
[redacted]	[redacted]	[redacted]	[redacted]	37	6/01/2020	Established Loan	$79,271	Eviction	119	$206,488	$176,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	21	20/01/2020	Low Deposit Loan	$56,533	Eviction	105	$121,786	$134,000
[redacted]	[redacted]	[redacted]	[redacted]	46	21/01/2020	Established Loan	$70,479	VSurrender	104	$238,214	$180,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	1	3/03/2020	Established Loan	$333	Abandoned	62	$57,568	$107,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	32	19/03/2020	Construction Loan	$38,197	Eviction	46	$287,794	$255,000
[redacted]	[redacted]	[redacted]	[redacted]	0	2/04/2020	Low Deposit Loan	$586	Eviction	32	$210,320	$310,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	9	WIP	Established Loan	$92,483	Eviction	0	$158,071	$134,000
[redacted]	HomeStart Retail	[redacted]	[redacted]	10	WIP	Established Loan	$59,141	Eviction	0	$106,250	$83,000
Total Loans	20			Ave Loan Age (Months)	119	Total Potential Shortfall	$1,101,754		186		
				Ave Loan Age (Years)	10	Average Potential Shortfall	$55,088				

MIP Reason	20	Regional Location	20
Abandoned	7	Country	14
Eviction	9	Northern Fringe	6
VSurrender	4		

ALCO committee paper

Government of South Australia

HomeStart FINANCE

Agenda item: 2005.3

Topic:	Actuarial Analysis: COVID-19 Supplementary Report
From:	Andrew Mills
Date:	19/05/2020
Status:	Noting

1. Background

An actuarial assessment of HomeStart's loan portfolio is undertaken annually, and the most recent review was presented to ALCO at the April 2020 meeting. The actuary (Brett & Watson) has since produced a supplementary report assessing possible effects of the coronavirus pandemic. In considering the report, it is important to note that the actuary takes an "economic loss" perspective in forming their view of possible losses over the lifetime of the portfolio, whereas HomeStart's provisions are calculated according to relevant accounting standards. The view of the actuary is therefore used as an input to decision making processes around provisions, rather than representing a target or required level of provisioning.

2. Discussion

HomeStart supplied the following in addition to normal portfolio and credit loss data:

- A list of loans with deferred payment arrangements due to the coronavirus
- A portfolio breakdown by product and employment type with repayments by ranges (to assist with determining the likelihood and extent of effects of reduction in income).

The actuary projections in the report (Appendix A) assume 980 loans subject to hardship after allowing for JobKeeper program assistance, of which 147 proceed to default (representing 1.2% of the current portfolio). Property values are assumed to have declined by 5% during the 18 months from the second half of 2020 until the end of 2021. These assumptions are developed independently by the actuary.

The table below shows the normal case (from the previous report) and additional estimates assessed in this report.

PV loss liability	*Normal*	*COVID*	*Total*
Central estimate	$10.2m	$9.3m	$19.5m
Risk margin	$2.0m	$2.3m	$4.3m
Total	$12.2m	$11.6m	$23.8m

For this assessment, the risk margin, which is added to increase the probability of sufficiency, has been increased to 25% of the central estimate (compared to 20% for the normal assessment) to provide for the higher uncertainty.

The amounts are the present value of projected future losses which represents an economic loss assessment over the lifetime of the portfolio. By its nature, the perspective of the actuary's work differs to credit loss provisioning determined under Accounting Standards. By comparison, the total of specific provision (including unearned interest income not recognised) and collective provision was $21.2m as at April. There is a further allocation of $7.3m as credit loss reserve.

The current level of $21.2m provisioning coverage above the line exceeds the central estimate but is $2.6m below the total loss estimate with risk margin added. Provisions have increased over the last 2 months and will probably rise further as additional customers request assistance. In addition, provisioning will be adjusted to financial year-end to reflect:

- A risk review of loans provided with deferred payment arrangements to determine the likelihood of default. Loans with a higher level of risk could move from collective to specific provision assessment which may result in a higher provision.
- A review of provisioning assumptions, including estimated loss given default to reflect an anticipated reduction in property values.

The supplementary report by the actuary will provide guidance and assistance to management in preparing these adjustments through to year end but it is not expected total provisioning will need to increase by the amount stated by the actuary.

Risk Analysis
Extreme or Major Risks – No

3. Recommendation

That ALCO notes the draft supplementary report by Brett & Watson assessing the effects of the coronavirus pandemic on estimated credit losses.

Andrew Mills
Chief Financial Officer

APPENDIX A: Draft Actuary Supplementary Report – Coronavirus

BRETT & WATSON PTY. LTD.
A.B.N. 65 060 568 676
CONSULTING ACTUARIES

4 May 2020

Mr L [redacted]
Asset and Liability Specialist
HomeStart Finance
GPO Box 1266
ADELAIDE SA 5001

Dear Leon,

LOSS PROVISION – IMPACT OF COVID-19 PANDEMIC

We have been requested to undertake an actuarial review of the outstanding liability of Homestart for loan write-offs as at 31 December 2019. In particular, the valuation should take into account the estimated impact of the COVID-19 pandemic. This report is a supplementary report to our initial draft report dated 8 April 2020 which provided a recommendation for the loss provision based on the observed data to 31 December 2019, excluding any allowance for the COVID-19 pandemic. This report is set out as follows:-

This report is to be used by HomeStart to assess the potential impact of COVID-19 on loss provisions.

Deborah Jones FIAA - **Geoff Keen** FIAA - **Bruce Watson** FIAA

Ground Floor, 157 Grenfell Street, Adelaide SA 5000
Telephone: (08) 8232 1333
Email: contact@brettandwatson.com.au
Website: www.brettandwatson.com.au

EXECUTIVE SUMMARY

1. Recommended Provision – Excluding Impact of COVID-19 Pandemic

We have prepared a valuation of the recommended provision for the Loss Provision in our draft report dated 8 April 2020, based on the observed experience up to 31 December 2019. The recommended provision was $12,203,000, excluding the impact of the COVID-19 pandemic.

2. Adjustment to Valuation Assumptions And Results Due To COVID-19 Pandemic

2.1 There is expected to be a significant increase in the rate of loan defaults as a result of the large and rapid increase in unemployment and reduced income stemming from the various government responses to the emergence of the COVID-19 pandemic in Australia. Whilst government responses such as the JobKeeper program will help to mitigate potential losses, the capping of the JobKeeper program at $1,500 per fortnight means that hardship will remain for many customers. The actions to be taken by HomeStart in providing relief to customers in hardship will have a substantial bearing on the ultimate level of losses that emerge over the next two years.

2.2 A significant anticipated reduction in property values is expected to result in an increase in the amount of loss given default in respect of defaults in the second half of 2020 and for calendar year 2021.

2.3 Based on the assumed changes to the assumptions, the additional liabilities expected due to COVID-19 are:

- The best estimate valuation, excluding the risk margin, is $9.262 million.
- The recommended provision, including the 25% risk margin, is $11.578 million.

2.4 There is considerable uncertainty about the adjustments made to the assumptions as a result of the COVID-19 pandemic. The adjustments made are in respect of the estimated impact of increased unemployment and reduced income, lower house prices as well as changes to customer behaviour in response to the uncertain environment. There is not sufficient data available from which reliable assumptions may be derived. The inherent uncertainty for the adjusted valuation is illustrated by the sensitivity analysis set out in Appendix B.

1. COVID-19 Pandemic

1.1 The COVID-19 pandemic and the government responses to it will result in a substantial and sudden loss of economic output and job losses. Various forecasts indicate that, but for the JobKeeper program, the unemployment rate could have increased during the June 2020 quarter from the current level of 5% to of the order of 15% or more. In addition, many employees who remain employed would suffer from significantly reduced hours at work. Accordingly, the increase in hardship is expected to be a lot more than the 10% indicated by the expected increase in the unemployment rate.

1.2 There are tentative signs that the social distancing requirements are likely to be eased over coming weeks in South Australia. This will assist in many businesses having the opportunity to re-open. Nevertheless, some sectors are likely to continue to be restricted for many months, particularly travel, tourism and tertiary education as these rely on interstate and international travel to operate in an unrestricted manner. Although economic conditions remain quite volatile and difficult to predict, it would be reasonable to assume that improvement in economic output will commence in the December 2020 quarter and throughout 2021. This will depend substantially on changes in consumer behaviour after social distancing measures are eased and this aspect is quite uncertain.

1.3 Due to weakness in equity markets, the residential rental market and general loss of confidence, we expect residential house prices to come under downwards pressure. Various forecasts are for price falls of 10% or more over the next year or two. However, we note that South Australian prices usually show less volatility than the larger markets. Also, we consider that the ongoing low interest rate environment will continue to underpin property prices. Nevertheless, we consider that it is prudent to allow for residential property price reductions of 5% to apply in the second half of 2020 and 2021.

2. Default Rates – Impact of COVID-19 Pandemic

2.1 We have been provided with a file (as at 5 April 2020) with a list of 368 loans under negotiation, which is well in excess of the normal levels. By 28 April, the number of loans under negotiation had risen to 588. Graduate loans are represented much more heavily (over 6% of open loans) than other low deposit loans and standard loans (less than 3% of open loans).

2.2 We have assumed a hardship rate of 20% due to COVID-19, applied to open loans, excluding loans provided to employment types of Benefits and Retired. This results in an estimate of 1,400 loans under hardship. The JobKeeper program will mitigate hardship for a portion of these loans, particularly where monthly repayments are less than $1,000 per month. Excluding these loans, the expected additional number of loans under hardship reduces to about 980.

2.3 Not all loans under hardship will ultimately result in a default due to the relief provided by HomeStart. We understand that previous experience is that about 40% of loans under hardship progress to default. We consider that this ratio will reduce dramatically as there will be many more cases where the hardship will be temporary as businesses re-open and employment re-commences. Nevertheless, we expect that not all businesses will be saved by the government assistance programs and some businesses will re-open but may not re-employ as many staff or only offer reduced hours. We have assumed that 15% of expected hardship cases would progress to default.

2.4 The relief offered by HomeStart is clearly critical in this process. The success that HomeStart is able to achieve with respect to loans under hardship being saved from progression to default is the most important factor for the estimation of the additional defaults expected as a result of COVID-19.

2.5 Based on the assumptions adopted, the projected additional defaults due to COVD-19 have been estimated to be:

- 69 standard loans (0.8% of open loans)
- 70 graduate loans (2.8% of open loans)
- 8 other low deposit loans (1.2% of open loans).

This gives a total of 147 defaults, equivalent to about 1.2% of open loans. We have assumed that these additional defaults will occur over the period from 1 July 2020 to 31 December 2021. We have also allowed for the reduction in future defaults due to the removal of these 147 additional defaulted loans from the future exposure.

3. Loss Given Default – Impact of COVID-19 Pandemic

3.1 The average size of loans subject to default has been increased by 10%. We expect that loans progressing to default will be skewed towards larger loans because the hardship for smaller loans is more likely to have been mitigated by the JobKeeper program.

3.2 The impact of an assumed 5% residential property price reduction increases the loss given default rates in respect of the period from 1 July 2020 to 31 December 2021:

- from an average of 20% to 24% for standard loans;
- from an average of 15% to 19.25% for graduate loans, and
- from an average of 25% to 28.75% for other low deposit loans.

4. Results of Outstanding Write-offs Investigation

4.1 Appendix A shows the revised total valuation results, based on the assumptions adopted, which are the same as were adopted for our draft report dated 8 April 2020, with the amendments outlined above. The present value of the gross liability is $22.751 million.

4.2 Allowing for recoveries, the net liability is $17.156 million. It is unclear whether the additional defaults assumed will attract the same level of recoveries of 14.5% as was assumed in our draft report dated 8 April 2020. In the absence of any available data, we have not altered the assumed rate of recoveries.

4.3 Adding 5% for claims handling expenses, the best estimate of the liability is $19.431 million.

4.4 The liability calculation excluding the impact of COVID-19 was $10.169 million. Therefore, the estimated impact of COVID-19 is estimated to be **$9.262 million**.

4.5 There is considerable uncertainty about the impact of COVID-19. Appendix B provides analysis of the sensitivity of the results to reasonable changes to the assumptions outlined above. The range of results for the increase in liabilities due to COVID-19 varies from $4.292 million to $15.073 million. The ultimate result that emerges may prove to be outside this range.

4.6 We recommended a risk margin of 20% be added to the central estimate of the liabilities for the purpose of the valuation excluding the impact of COVID-19. Having considered the range of results under the sensitivity testing in Appendix B and the limited amount of observed data about the impact of COVID-19 on losses, we would recommend a greater risk margin of 25%.

The recommended provision is **$11.578 million**, as follows:-

	$
Central Estimate of Liabilities	9,262,000
Risk Margin	2,316,000
Recommended Provision	11,578,000

4.7 Our assessment of the liability of $11,578,000 has been made with substantial difficulty due to the impending major changes to economic conditions, unemployment, changes in market values of the underlying security and other external influences that may affect borrowers' ability to make future repayments and the loss to HomeStart on default. Actual future losses may therefore vary significantly from our assessment.

4.8 In our opinion, this report (in conjunction with our draft report dated 8 April 2020) complies with the Institute of Actuaries Professional Standard PS302, concerning the estimation of liabilities for general insurance and related entities.

B A Watson
Fellow of the Institute of Actuaries of Australia

A1 PROJECTED AMOUNTS WRITTEN OFF ON LOANS DEFAULTED ALLOWING FOR COVID-19 - STANDARD LOANS

COMMENCEMENT HALF YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	TOTAL
2003/1	0																																		0
2003/2	[illegible]	0																																	[illegible]
2004/1	[illegible]	[illegible]	0																																[illegible]
2004/2	[illegible]	[illegible]	[illegible]	0																															[illegible]
2005/1	[illegible]	[illegible]	[illegible]	[illegible]	0																														[illegible]
2005/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0																													[illegible]
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2008/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0																								[illegible]
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2009/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0																						[illegible]
2009/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0																					[illegible]
2010/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0																				[illegible]
2010/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0																			[illegible]
2011/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0																		[illegible]
2011/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0																	[illegible]
2012/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0																[illegible]
2012/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0															[illegible]
2013/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0														[illegible]
2013/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0													[illegible]
2014/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0												[illegible]
2014/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0											[illegible]
2015/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0										[illegible]
2015/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0									[illegible]
2016/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0								[illegible]
2016/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0							[illegible]
2017/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0						[illegible]
2017/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0					[illegible]
2018/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0				[illegible]
2018/2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0			[illegible]
2019/1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0		[illegible]
2019/2	0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	[illegible]
TOTAL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	[illegible]
PRESENT VALUE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	[illegible]
AVERAGE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Term	0.25	0.75	1.25	1.75	2.25	2.75	3.25	3.75	4.25	4.75	5.25	5.75	6.25	6.75	7.25	7.75	8.25	8.75	9.25	9.75	10.25	10.75	11.25	11.75	12.25	12.75	13.25	13.75	14.25	14.75	15.25	15.75	16.25	16.75	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	[illegible]

APPENDIX A

A PROJECTED AMOUNTS WRITTEN OFF ON LOANS DEFAULTED ALLOWING FOR COVID-19 - GRADUATE LOANS

COMMENCEMENT HALF YEAR

TOTAL
PRESENT VALUE
AVERAGE

A PROJECTED AMOUNTS WRITTEN OFF ON LOANS DEFAULTED ALLOWING FOR COVID-19 - LOW INCOME AND SUNDAY LOANS

COMMENCEMENT HALF YEAR

TOTAL
PRESENT VALUE
AVERAGE

APPENDIX B

VALUATION RESULTS ON ALTERNATIVE ASSUMPTIONS

BASIS	Stress net of JobKeeper	Saved by Relief or Nil LGD	Resultant Assumed Defaults due to COVID-19				Property Price Impact	Resultant Assumed Loss Given Default (average)			Estimated Total Outstanding Liability	Estimated Impact of COVID-19	Impact of Variation in Assumptions
			Standard	Graduate	Other Low Deposit	Total		Standard	Graduate	Other Low Deposit			
Selected Basis			68.79	70.08	8.07	147		24.00%	19.25%	28.75%	19,431	9,262	
Variations:													
1	-20%		55.0	56.1	6.5	118		24.00%	19.25%	28.75%	17,733	7,564	-18%
2	20%		82.5	84.1	9.7	176		24.00%	19.25%	28.75%	21,124	10,955	18%
3		-10%	107.8	109.8	12.6	230		24.00%	19.25%	28.75%	24,212	14,043	52%
4		10%	29.8	30.4	3.5	64		24.00%	19.25%	28.75%	14,608	4,439	-52%
5			68.79	70.08	8.07	147	50%	26.00%	21.38%	30.63%	20,456	10,287	11%
6			68.79	70.08	8.07	147	-50%	22.00%	17.13%	26.88%	18,407	8,238	-11%
7	-20%	10%	23.8	24.3	2.8	51	50%	26.00%	21.38%	30.63%	14,461	4,292	-54%
8	20%	-10%	129.3	131.8	15.2	276	-50%	22.00%	17.13%	26.88%	25,242	15,073	63%
9	-20%	-10%	86.2	87.8	10.1	184	50%	26.00%	21.38%	30.63%	22,763	12,594	36%
10	20%	10%	35.8	36.4	4.2	76	-50%	22.00%	17.13%	26.88%	14,639	4,470	-52%

Agenda item: 2005.4

Topic:	Application Risk Grading (ARG) Coefficient Review
From:	Andrew Mills
Date:	19/05/2020
Status:	Noting

1. Background

The Application Risk grading (ARG) scorecard calculates the probability of a loan defaulting based on various factors at the time of application.

During 2019 the Executive Committee requested the next ARG review cycle be undertaken in more depth to ascertain the model's capability and relevance for future needs. The review has now been completed, and a pathway constructed to both lift the capability of the model and determine how it can provide more value to HomeStart.

2. Discussion

The original scorecard was developed by Adelaide University and implemented in 2001. The scorecard process has remained relatively unchanged since implementation with several reviews both internal and external (latest Adelaide University in 2016) conducted since the original implementation.

The review approach adopted was to critically assess the current scorecard method taking into consideration the most recent university recommendations. Once the areas of potential change were identified a review was conducted of external residential mortgage default scorecard models to understand the options or methods adopted. A new data set was developed to capture a range of variables for all loans using monthly portfolio snapshots from 2002, with these variables then assessed for default prediction ability.

A number of alternative modelling specifications (e.g. different variable combinations, specifications and probability distributions) were considered using Generalized Linear Models and Decision Trees methods. One of the Generalized Linear Model options was a Logit/Probit method (same as current process distribution) and this was the most common method in the external studies reviewed and the best performing in the model specifications.

With the conclusion of this work, the review has recommended the following changes:

1. Adopting most of the Adelaide University 2016 recommendations[1].
    - The review recommended adopting Probit distribution (uses inverse normal distribution), expanding variable selection methods, changes to loan risk grade and expanding alternative modelling options.

[1] Three recommendations were not adopted. In one case the recommendation was superseded by our revised approach to using monthly snapshots, the second was assessed as adding significant statistical complexity for minimal return, and the third (use of parallel machine learning) was judged impractical.

- **Reason** – The Probit distribution was the best performing, is most commonly used and is similar to the current method. Changing the Loan Risk Grading logic will remove the problems when shifts in scoring when coefficients are changed.

2. Expanding the dataset to cover all loans monthly from 2002. This will significantly improve the variables in the model, and allow longitudinal data to be included in the model.
   - This expands the dataset to 2 million lines as each loan details are captured monthly.
   - **Reason** – Much larger data set improves the predictive capability of the model.
3. Expand the data variables used to include an external (ABS) measure for Social Economic postcode ranking and existing BRG or Veda score.
   - The borrower location does have significance in many studies but a ranking system is needed and ABS have been ranking state postcodes as part of census (known as Socio-Economic Indexes for Areas (SEIFA) – which ranks postcodes in SA by decile from 1 to 10 based on a range of social economic indicators) which has been adopted. The current loan risk score is then most significant variable.
   - **Reason** – The data set was expanded to capture social economic indicators as this a large driver of the main reasons for default, namely unemployment, health or separation. The existing score was included as this captures past loan behaviour which is the strongest indicator of future behaviour.
4. Change to use R software, enabling a monthly run of the model to be more automated.
   - **Reason** –The data extract and model run can all be incorporated in the existing server environment. R is one of the most widely used open source data science platforms.
5. Score the entire portfolio monthly across all time from 2002. That has the benefit of using past behaviour to score new applications. This also has possible extensions into reporting and probability of default analysis.
   - **Reason** - By using all loan history then each loan is scored simultaneously across time every month. This allows for a comparison across time between different loans and removes problems caused by amending the model coefficients but not back dating changes.
6. Change loan risk rating to a dynamic method across all loans, monthly, since 2002.
   - Reason - This ensures the risk rating across time for all loans is using the same scoring method and loan risk rating criteria. This then allows comparison between periods.
7. Implementing the changes in stages as the following changes need to be developed:
   - Changing coefficient from manual input to automated calculations, using R.
   - Expanding the variables used.
   - Extracting Veda score for input to calculation for new loans.

   - **Reason** – Development time required across several areas to implement the new model process.

Appendix 2 contains the recommended new model using all variable and Probit distribution.

Appendix 3 contains the recommended model using the current ARG method (logit) and variables as an interim model pending changes to the ARG scorecard method being implemented.

Appendix 4 contains the current specified model.

Appendix 5 provides background on the new variables added to the model and validation testing.

The recommended model Probit coefficients are:

Coefficient	Value	Coefficient	Value
Intercept	-2.686	Country flag	0.1754
Has Clear Credit	-0.0814	*No Dependents*	*0.0187*
No Credit Enquires	0.0050	Decile (ABS Ranking)	-0.0094
Original LVR	*0.0021*	*DTI*	*0.0992*
Refinance	*0.1228*	*Normalized Risk Score*	*-0.2991*
Married + no dep	*-0.0324*	*Low Dep Product*	*0.1822*
First Home Buyer	*-0.0296*	*Customer Age*	*-0.0099*
Loan Age Months	*0.0064*		

All the ***italics*** listed in the above table are new variables incorporated into the model.

Pending completion of the new model development the recommended interim model Logit coefficients using the current model structure are:

Coefficient	Value	Coefficient	Value
Intercept	*-6.5444*	*DTI*	*0.1688*
Original LVR	*0.0195*	Has Clear Credit	-0.8225
Married no Dep	*-0.4902*	No Credit Enquires	0.1612
Loan Age Months	*0.0039*	*Refinance*	*-0.5175*
Country flag	*0.4416*	*First Home Buyer*	*0.2678*
No Dependents	*0.0969*		

All the ***italics*** listed in the above table are new variables incorporated into the model.

The recommended changes will enhance the effectiveness of the existing model and create opportunities for HomeStart to obtain more value from the ARG in the future.

Future development pathway for the ARG and credit scoring at HomeStart

Prior reviews have mainly focused on simple maintenance of the model, with periodic assurance it is performing to expectations. The current review has focused on quality, capability and capacity for automation which creates a solid foundation from which HomeStart can then explore possibilities for widening the use of the model.

Over the coming year, as the model stages are developed and automation implemented, it is intended that the ARG can become a more integrated component of the business. This approach can also then be extended to the Behavioural Risk Grade (BRG) model, which measures post-settlement performance of accounts, and thereby used to predict probability of default and assist with provisioning calculations.

For the ARG, the approach is expected to provide the major benefits in the following areas:

- Upfront risk assessment to identify applications requiring more or less intensity of effort
- Credit score based eligibility criteria for specific products or segments

The ARG is not intended to become a stand alone auto-decisioning system. Deploying these statistical techniques or machine learning methods is expected to supplement current practices and the decision process rather replace. This should help provide greater insights to underlying credit drivers in the business and therefore improve the control of credit risk.

As the changes arising from this review are implemented, the future use and application of the model will be assessed to identify in more detail where it can add value to our customers and the organisation.

Review calendar
The new model will run monthly and each year the overall model will be reviewed to ensure it is operating effectively and assess any changes necessary.

Risk Analysis

Extreme or Major Risks – No.

3. Recommendation

That the ALCO Committee notes the review of the ARG model.

Andrew Mills
Chief Financial Officer

Risk Analysis – Appendix 1
Not Applicable.

Appendix 2 – New Recommended model

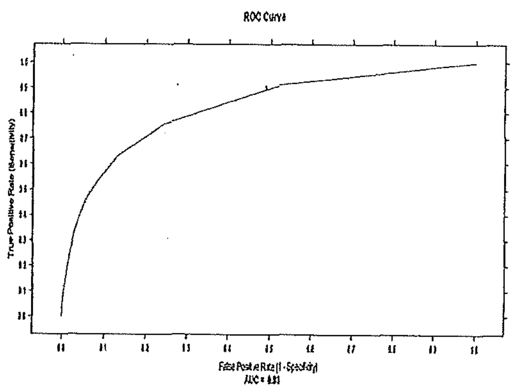
Probit Regression Equation:

ArrearsBinary ~ Has Clear Credit + Credit Enquiry Count + First Home Buyer + Loan Age Months + Number Of Dependents + Original LVR + Refinance + Low Dep Product + Country Flag + Customer Age + Married no Dep + DTI + Decile + Normalized Risk Score
Dependent Variable: Arrears Binary
Total independent variables: 15

Number of valid observations: 1,949,487

Coefficient	Value	Std. Error	Z Value	Pr(>|t|)
Intercept	-2.686	2.12E-02	-128.8	0.0000
Has Clear Credit	-0.0814	5.50E-03	-14.8	0.0000
No Credit Enquires	0.0050	1.33E-03	-41.4	0.0001
Original LVR	0.0021	1.68E-04	12.6	0.0000
Refinance	0.1228	7.78E-03	16.1	0.0000
Married + no dep	-0.0324	5.54E-03	-4.3	0.013
First Home Buyer	-0.0296	6.41E-03	-4.7	0.0000
Loan Age Months	0.0064	5.67E-05	108.2	0.0000
Country flag	0.1754	4.77E-03	37.6	0.0000
No Dependents	0.0187	1.88E-03	10.4	0.0000
Decile (ABS Ranking)	-0.0094	1.16E-03	-8.3	0.0000
DTI	0.0992	1.52E-03	66.6	0.0000
Normalized Risk Score	-0.2991	1.40E-03	-200.8	0.0000
Low Dep Product	0.1822	7.89E-03	23.5	0.0000
Customer Age	-0.0099	2.44E-04	-41.4	0.0000

Tests		Test Criteria (to compare models)
AIC	333,179	Lower improves model
Gini	0.64	Higher Improves model
AUC	0.83	Higher Improves model
R^2 (approx.)	18.04%	Higher Improves model



Appendix 3 – Recommend interim model

Logit Regression Equation:

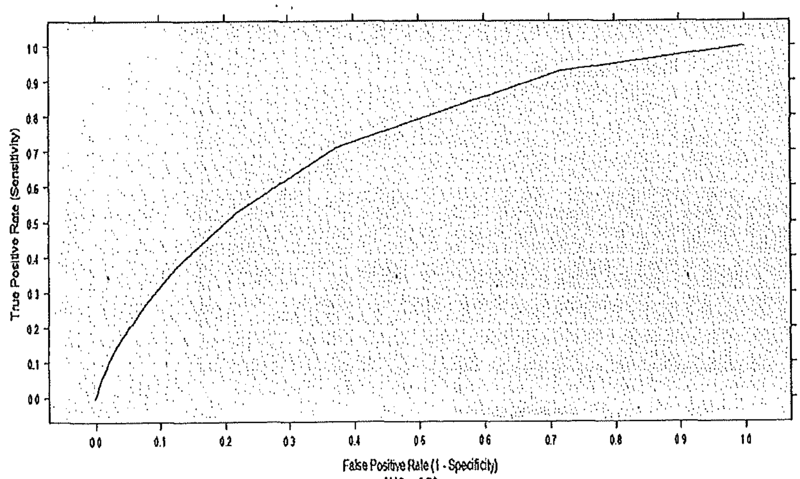
Arrears Binary ~ Metro Country Flag + Credit Enquiry Count + Loan Age Months + Married no Dep + Has Clear Credit + Number Of Dependants + DTI + Refinance + Original LVR
Dependent Variable: Arrears Binary
Total independent variables: 11

Number of valid observations: 2,018,209

Coefficient	Value	Std. Error	Z Value	Pr(>|z|)
Intercept	-6.5444	0.244371	-185.6	0.0000
Original LVR	0.0195	0.002055	54.7	0.0000
Married no Dep	-0.4902	0.119528	-28.4	0.0000
Loan Age Months	0.0039	0.001905	34.6	0.0000
Country flag	0.4416	0.065811	44.6	0.0000
No Dependents	0.0969	0.029109	26.5	0.0000
DTI	0.1688	0.021063	54.5	0.0000
Has Clear Credit	-0.8225	0.093149	-69.5	0.0000
No Credit Enquires	0.1612	0.065811	68.2	0.0000
Refinance	-0.5175	0.116186	-30.3	0.0000
First Home Buyer	0.2678	0.145006	20.5	0.0000

Tests		Test Criteria (to compare models)
AIC	394,319	Lower Improves model
Gini	0.44	Higher Improves model
AUC	0.72	Higher Improves model
R^2 (approx.)	6.84%	Higher Improves model

ROC Curve



AUC = 0.72

Appendix 4 – Current model

Logistic Regression Equation:

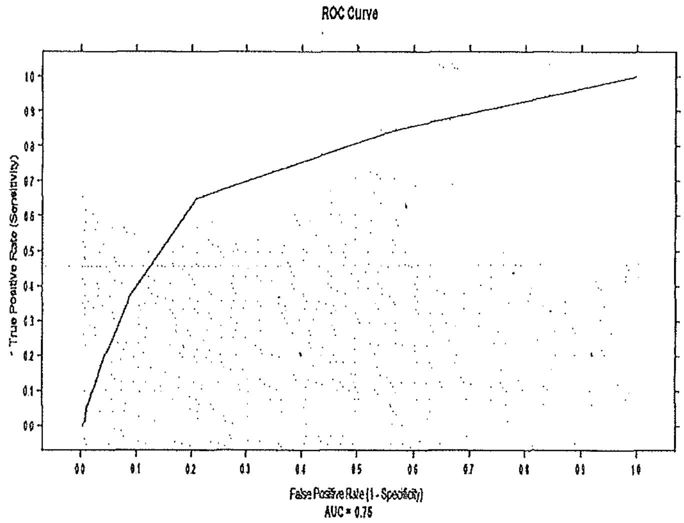
Slow Binary ~ Adverse Credit + Credit Enquiry Count + Single marital status
Dependent Variable: Slow Binary

Total independent variables: 4

Number of valid observations: 3575

Coefficient	Value	Std. Error	t Value	Pr(>|t|)
Intercept	-4.54407	0.20042	-22.672	0.0000
Adverse Credit	1.26169	0.31924	3.952	0.0000
Credit Enquiry Count	0.42333	0.05821	7.273	0.0000
Single	0.83208	0.21896	3.80	0.00016

Tests		Test Criteria (to compare models)
AIC	832.51	Lower improves model
Gini	0.50	Higher Improves model
AUC	0.75	Higher Improves model
R^2 (approx.)	7.47%	Higher Improves model
Residual Deviance	824.51 (3571 df)	Lower improves model
Null Deviance	891.10 (3574 df)	



Appendix 5 – New variables added and Validation Testing

With grouped data to compare different categories the calculation of the **Weight of Evidence (WOE)** uses a odds measure to compare the proportion of good to bad in a category
Each Characteristic has been assessed using the following criteria:

- Loans settled after 2013 when there was a much greater detail of data was captured in the warehouse from the application. The warehouse contains over 43,000 primary loans settled since 2002. Then portfolio information is used monthly for each loan which provides over 3 million data points.

- If the loan is in arrears 1 month or more then it is classified as in arrears otherwise the loan is "Good". The provides just over 69,000 loan months in arrears and just under 3 million "Good".

- The arrears rate and WOE are sufficiently different from one group to the next. This is one of the objectives of this exercise—to identify and separate attributes that differentiate well. While the absolute value of the WOE is important, the difference between the WOE of groups is key to establishing differentiation. The larger the difference between subsequent groups, the higher the predictive ability of this characteristic.

The WOE, as mentioned previously, measures the strength of each attribute, or grouped attributes, in separating good and bad accounts. It is a measure of the difference between the proportion of goods and bads in each attribute (i.e., the odds of a person with that attribute being good or bad). The WOE is based on the log of odds calculation:

(Distr Good / Distr Arrears)

which measures odds of being good (e.g., for the **Single with Children**, this would be 17%/23% = 0.71). A **Single with Children** has 0.71:1 odds of being good.
A more user-friendly way to calculate WOE, and one that is used in the tables is

$$Weight\ of\ Evidence\ (WOE) = ln\left(\frac{Distrubtion\ Good}{Distribution\ Arrears}\right) * 100$$

For example, the WOE of attribute **Single with Children** is:

$$ln\left(\frac{17\%}{23\%}\right) * 100 = -33.7$$

Multiplication by 100 is done to make the numbers easier to work with. Negative numbers imply that the particular attribute is isolating a higher proportion of bads than goods.
Based on this methodology, one rule of thumb regarding is:

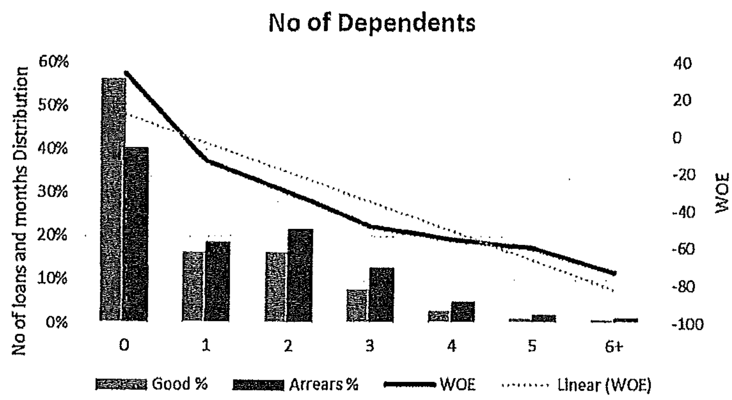
WOE Value +/-	Predictive Power
Less than 2	Unpredictive
2 to 10	Weak
10 to 30	Medium
30+	Strong

Marital Status
Customers with children (either Couples or Singles) appear to have repayment problems at a significantly higher rate than Customers without Children. Furthermore, Couples without Children appear to perform significantly better than Singles without Children.

Status	Good #	Good % Distribution	Arrears #	Arrears % Distribution	WOE	Strength
Couple with children	490,067	18%	13,792	20%	-11.9	Medium
Couple without children	395,144	14%	4,481	6%	78.9	Strong
Single with children	465,888	17%	16,298	23%	-33.7	Strong
Single without children	702,229	25%	13,660	20%	25.0	Medium
Other	744,746	27%	13,660	31%	-15.2	Medium
Total	2,798,074	100%	69,878	100%		

Model Change – removed single variable and added Married without children.

Dependents
When the multiple logistic regression is calculating it will estimate a linear line that fits across the entire distribution.
There appears to be a possible interaction between **Marital Status** and **Number of Dependants** which indicates that the effect of additional dependents increases arrears rates.
Model Change – added number of dependents variable.

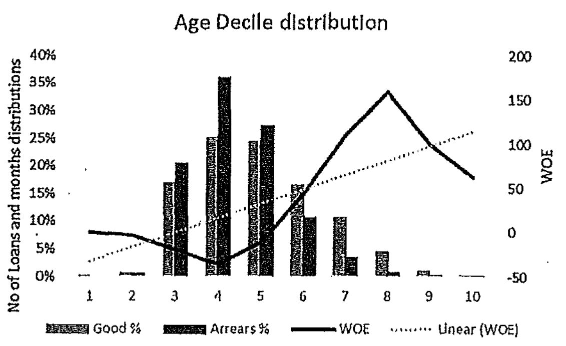


First Home Buyer
First home buyers can be either for construction of established properties.

Location	Good #	Good % Distribution	Arrears #	Arrears % Distribution	WOE	Strength
Non FHB	1,012,305	49%	16,794	35%	34.6	Strong
FHB	1,044,769	51%	31,458	65%	-25.0	Medium
Total	2,057,074	100%	48,252	100%		

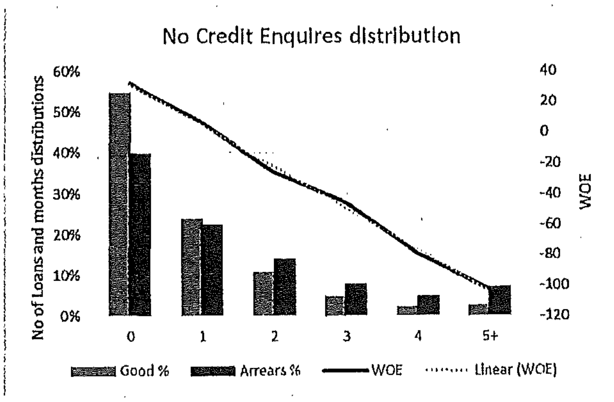
Model Change – added binary variable for FHB.

Customer Age
The older the borrower the lower the proportion of arrears months.
Model Change – added variable for customer age.



Credit Enquires
The greater the number of credit enquires the higher the proportion of months in arrears.

No Model Change – variable retained.



Adverse Credit History

There is a low number of observations as the data has only been stored since November 2013 with the roll out of Apply. Having an adverse credit history is a strong odd of arrears occurring.

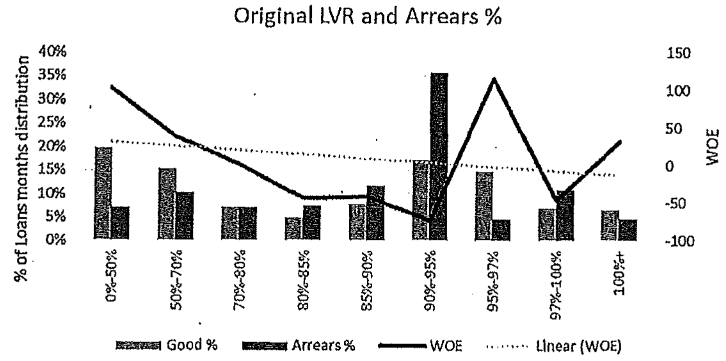
Clear credit	Good #	Good % Distribution	Arrears #	Arrears % Distribution	WOE	Strength
No	1,065,133	49%	36832	73%	-39.5	Strong
Yes	1,093,639	51%	13457	27%	63.8	Strong
Total	2,158,772	100%	1,187	100%		

No Model Change – variable retained.

Application Loan to Value Ratio

The general trend is for higher arrears the higher the original LVR with the 95%-97% band the exception. This could be related to the FHB or the graduate products.

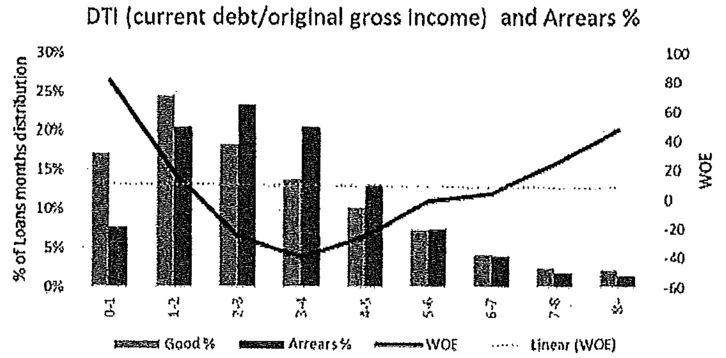
Model Change – added variable for original LVR.



Current Total Debt to Original Income ratio (DTI)

The initial trend is increasing arrears as the DTI increases. The at approximately the 5-6 ratio mark this relationship changes to positive. There is a hidden influence in this caused by the ages of the underlying loans, younger loans have a lower change of default.

Model Change – added variable for Debt to Income Ratio.

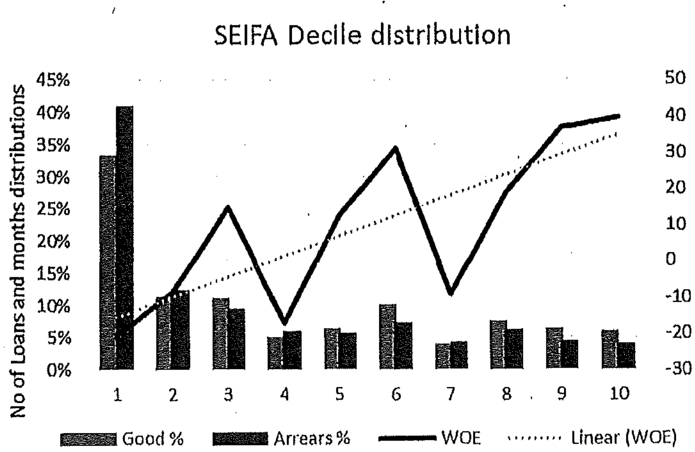


Metro Country Distribution
The metro country definition has change over the years from being by postcode to set suburbs and the boundary has changed. In terms of statistical analysis these changes have had very little impact on the arrears results.

Location	Good #	Good % Distribution	Arrears #	Arrears % Distribution	WOE	Strength
Metro	1,336,323	65%	24,522	51%	24.6	Medium
Country	720,751	35%	23,730	49%	-33.9	Strong
Total	2,057,074	100%	48,252	100%		

Model Change – added variable for original LVR.

Socio-Economic Indexes for Areas SEIFA
There is no statistical significance in using postcodes as a variable for location without a method to rank postcodes. Rather than using the raw postcodes to categories arrears SEIFA provides an ordinal ranking on postcodes in SA based of Social Economic indicators. This method allows similar social economic areas in metro and country locations to be grouped for arrears.



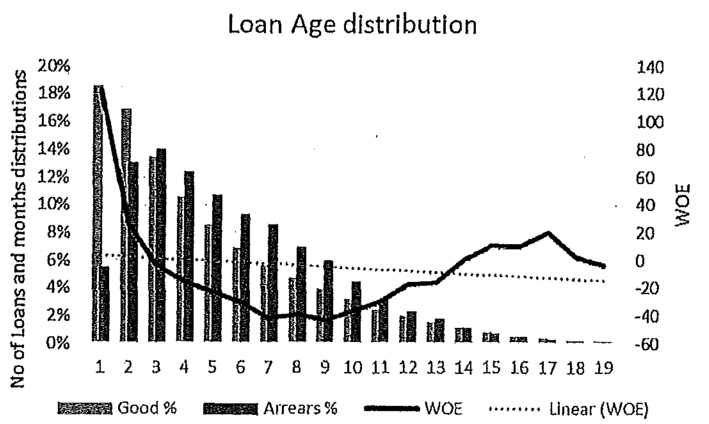
Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census. SEIFA 2016 is based on Census 2016 data, and consists of four indexes, each focusing on a different aspect of socio-economic advantage and disadvantage, and being a summary of a different subset of Census variables.
The general trend is positive with lower odds of arrears as the social economic increases. The Decile 7 has a wide range of WOE in the postcodes and include inner suburbs of Tranmere and Enfield favoured by higher income couples with children which other arrears analysis has shown have a higher default rate.

Model Change – added variable for SEIFA ranking.

Loan Age

The below table shows that the older a loan the higher the proportion of arrears. This would be expected as the longer a loan exists the higher the chances that an event can occur resulting in arrears.

Model Change – added variable for Loan Age.



Product Purpose Group

There is there was some difference between the purpose product groups. Refinance was the most significant variable.

Status	Good #	Good % Distribution	Arrears #	Arrears % Distribution	WOE	Strength
Established	1,404,854	68%	36,044	75%	-8.9	Weak
Construction	162,719	8%	3,154	7%	19.1	Medium
Land	12,815	1%	196	0%	42.8	Strong
Refinance	386,400	19%	8,101	17%	11.3	Medium
Equity Loan	88,199	4%	731	2%	104.1	Strong
Total	2,054,987	100%	48,226	100%		

Model Change – added binary variable for Refinance Loans.

Product Facility Group

There is significant difference between the product facility groups with low deposit and Nunga loans showing significant higher arrears rates. Subsequently the Nunga loans have been excluded from the model as now longer offered.

Status	Good #	Good % Distribution	Arrears #	Arrears % Distribution	WOE	Strength
Nunga	23092	1%	2,868	6%	-166.7	Strong
Graduate	163971	8%	1,226	3%	114.4	Strong
Standard	1640010	80%	38,574	80%	-0.3	Unpredictive
Low Deposit	141348	7%	4,852	10%	-38.1	Strong
Equity Loan	88,199	4%	731	2%	104.1	Strong
Total	2,056,620	100%	48,251	100%		

Model Change – added binary variable for low deposit loans.

Current Loan Risk category

During the life of a loan the Behavioural Risk Grading (BRG) is modified based on loan performance and this then modifies the current Loan Risk category. The higher the risk score the higher the arrears odds. The risk category is based on the underlying risk score.

Current Risk Rating	Good #	Good % Distribution	Arrears #	Arrears % Distribution	WOE	Strength
1	1,331,734	47%	8,576	13%	130.2	Strong
2	485,704	17%	6,164	9%	62.4	Strong
3	545,581	19%	14,561	22%	-11.9	Medium
4	259,385	9%	11,458	17%	-62.3	Strong
5	161,000	6%	15,892	24%	-142.7	Strong
6	32,629	1%	10,054	15%	-256.6	Strong
Total	2,816,033	100%	66,705	100%		

Model Change – added normalized risk score. This is a measure of the number of standard deviations a particular score is from the average score. The reasons for doing this it allows Veda score to be used as the initial score and reduces the impact the variable has on other coefficients.

Validation test

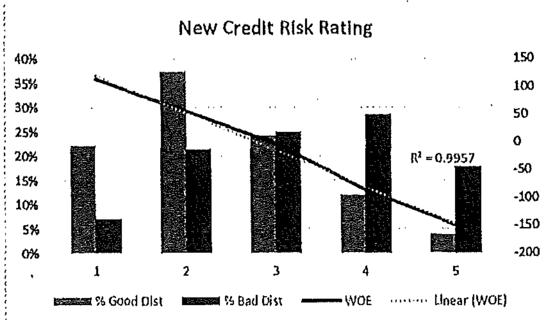
The new model has been compared to current scoring model and veda scores alone. The test method is to compare the model's model loan grades with the actual slow % performance for 1,664 loan from January 2017 to July 2019. The veda scores are not captured electronically so were extract manually using the lowest score for any applicant in the loan file.

The comparison to see how constant the change is over the grades from good quality to poor.
It must be kept in mind that the measure of SLOW loans is comparing an actual result to a probability range which has changed over the years so it is only an indicator of performance.

New Scoring method

Loan Risk Rating	Total	% Dist	Slow	% CRR Slow	% Good Dist	% Bad Dist	WOE
1	366	22%	2	1%	22%	7%	113.6
2	619	37%	6	1%	37%	21%	55.9
3	403	24%	7	2%	24%	25%	-3.2
4	205	12%	8	4%	12%	29%	-86.4
5	71	4%	5	7%	4%	18%	-148.8
Total	1664	100%	28	2%	100%	100%	

The new method results in a more constant change in the proportion of slow loans. This is a closer match to the portfolio results. Two of the main differences between the model and the portfolio is the effect over time on the model results and BRG impact on the portfolio model.

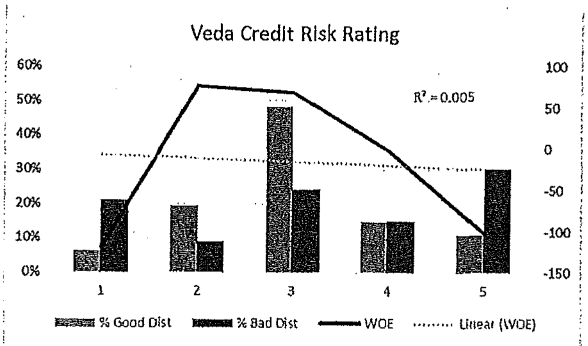


Veda Score only

Using only the Veda score and grading the results the same as the dynamic grading distribution.

Loan Risk Rating	Total	% Dist	Slow	% CRR Slow	% Good Dist	% Bad Dist	WOE
1	112	7%	7	6%	6%	21%	-119.2
2	320	19%	3	1%	19%	9%	76.0
3	794	48%	8	1%	48%	24%	68.7
4	248	15%	5	2%	15%	15%	-1.7
5	190	11%	10	5%	11%	30%	-101.0
Total	1664	100%	33	2%	100%	100%	

Risk grades 2 and 3 is better than risk grade 1 in performance which is contrary to the desired results. The Veda score is not a close match to the desired distribution of customers with rating 1 top 10% have the highest % of slow.



Settled sample set movements between Loan Rating bands

Loan Risk Rating to new Loan Risk Rating movements

	New Loan Rating					
Current	1	2	3	4	5	Total
1	111	207	121	29	4	472
2	61	122	85	40	4	312
3	185	252	145	85	20	687
4	7	29	37	29	17	119
5	2	9	15	22	26	74
Total	366	619	403	205	71	1664

Significantly different risk rating formula and method it would be expected that there are many movements between loan grades. Approximately 25% of loans remained in the same loan grade. 621 or 38% of loans estimated to increase in loan grade. 618 or 37% of loans were downgraded. Of the moved loans 96% moved up or down 2 or less loan grades. No SLOW loans move up more than 2 loan grades. Even with the significant changes and movements the slow loans are still concentrated in the risker loan grades.

HomeStart Finance

BOARD MEETING

1:00pm Tuesday 19 May 2020

Government of South Australia

HomeStart FINANCE

HOMESTART BOARD

The meeting to be held at 1.00pm on Tuesday, 19 May 2020
via WebEx

AGENDA

Distribution:

Board: Jim Kouts, Chair; Darryl Royans, member; Andrew Seaton, member; Chris Ward, Deputy Chair; Shanti Berggren, member; Sue Edwards, member; Cathie King, member

External: Hon Stephan Knoll, Minister for Transport, Infrastructure and Local Government; Tammie Pribanic and Adam Pamula, Treasurer's Representative

Internal: John Oliver; Vas Iannella; Andrew Mills; Vanessa Charlesworth; Peter Byrnes; Tricia [redacted] – Minutes

HomeStart FINANCE

Government of South Australia

Minutes of Board Meeting held on Tuesday, 21 April 2020
Via WebEx

PRESENT

Jim Kouts (Chair)
Sue Edwards
Chris Ward
Darryl Royans
Shanti Berggren
Cathie King
Andrew Seaton

ATTENDEES

John Oliver
Andrew Mills
Adam Pamula
Tricia [redacted] (minutes)

The Chair opened the meeting at 1.00pm and welcomed the Minister and his Ministerial Advisor, Cameron Henderson.

MINISTER UPDATE

The Minister outlined the government's response to the COVID-19 pandemic, stating further announcements will be made in relation to affected industries. The Minister requested weekly updates from HomeStart in relation to housing and construction statistics, market intelligence and in due course, suggestions for economic/housing industry recovery, post the pandemic.

At the Minister's request, Board members provided an overview of how COVID-19 has affected their respective professional fields and offered suggestions towards an economic recovery.

The Minister and his Advisor left the meeting at 1.46pm.

CONFLICTS OF INTEREST

There were no new conflicts of interest.

CHAIR UPDATE

The Chair stated the importance of communication during such challenging times and that of shareholders and credit providers. The Chair informed the Board that the stress testing of the portfolio paper (previously circulated), had been provided to the Minister.

MINUTES OF PREVIOUS MEETINGS

The minutes of the Board meeting held on 17 March 2020 were confirmed as an accurate record.

The minutes of the Asset and Liability (ALCO) Committee meeting held on 17 March 2020 were noted.

BOARD COMMITTEE UPDATES

Chris Ward provided an update on the latest ALCO meeting including:

- Economic update:
  - The economy is in a challenging position

- Unemployment is predicted to reach 10%
    - The Financial Stability Review showed 20% of owner-occupiers with a mortgage held less than one month's liquidity
- ALCO ratified the March Standard Variable Rate Decrease approved via circular resolution on 23 March 2020
- Brett & Watson will provide a supplementary Actuarial review, incorporating the effects of COVID-19, in May 2020

- Community Lending – Darryl Royans informed the Board that HomeStart has recently contacted the six largest community organisations since the outbreak of COVID-19; at this point in time financial positions have been unaffected.

Sue Edwards provided an update on the latest Audit Committee meeting including:

- The KPMG 2019-20 Audit Plan was presented and will include a COVID-19 provisioning overlay; noting should a significant event occur post 30 June 2020, its severity will determine any amendments to the notes on the financial statements
- The RoFA – CEO Authorisations paper was approved for on forwarding to the board's next meeting
- The Financial Management Compliance Program has been updated and approved
- Deloitte's Broker Governance Model review provided a good outcome
- [redacted] and [redacted] provided industry insights and highlighted the importance of (customer) record keeping, particularly in relation to impacts of COVID-19
- The Audit Committee endorsed management's recommendation to reappoint Deloitte as HomeStart's Internal Auditors.

Board approved the reappointment of Deloitte as internal auditor to HomeStart for a three-year period commencing in July 2020.

<u>ACTION LIST</u>

2003.7 Starter Loan Six Month Review – a Minute has been provided to the Minister and the Treasurer.

<u>MONTHLY REPORTS</u>

2004.1 CEO Report – March 2020

John Oliver spoke to the following matters:

- March settlements were 66% of budget with April trending in similar fashion
- Profit for the month was below budget and heavily impacted by increased collective provisions associated with repayment deferral requests
- In terms of business current activity and the changing market conditions the following was noted:
    - Internal lenders have eighteen interviews this week and twenty broker applications were received last week plus seven over the weekend
    - April approval pipeline is very good and could hit $40m for the month
    - Banks are tightening credit and restricting industries such as tourism and hospitality and opportunities will flow our way
    - Customer calls into the Customer Operations team (arrears/hardship) normally averages 750/week, however this has dramatically increased over the last five weeks ranging from 900 to 2,500 calls per week
    - The call centre received over 400 calls last week, many are new loan enquiries plus tenants enquiring about buying properties as landlords are looking to sell
- HomeStart has provided assistance to 534 customers with either deferral of repayments or payment reductions for a period of up to three months, and can be extended another three months if required (to the value of $144m, 6% of portfolio); however the number of calls received daily is now reducing. It was noted that this would have an ongoing impact on collective provisions and therefore it was expected that profit for the remainder of the financial year would be impacted.

- A letter had been sent to all customers regarding HomeStart's actions regarding COVID-19 (including a zero increase in the annual indexation and free manual redraws for a limited time), an influx of calls was received, the opportunity was taken to update customer details including employment/Centrelink status
- Customers requesting repayment deferral are being asked specific questions to identify if they have been impacted by the pandemic; notes and phone calls are recorded on customer files
- Arrears increased slightly in March, however COVID-19 affected customers will not be included in arrears figures as they have been quarantined in line with APRA guidance
- A building construction risk assessment will be presented to the Executive Committee this week noting builders currently have up to nine months' work in the pipeline and can work with social distancing measures in place but enquiry levels are slowing considerably
- Land Services SA has confirmed all settlements will be digital from 20 August 2020
- Discretionary administration expenses have been quarantined; a commitment has been made to Treasury that admin expenses in the 2020-21 budget will match that of 2019-20 revised budget, aligned to the previous request for an additional $1m profit (pre Covid 19 DTF request)
- The majority of employees are working from home, with only a few in the office each day for printing requirements
- People Leaders are checking in with teams daily via Skype and a weekly message from the CEO (video or text) is placed on the intranet
- Minor delays have been experienced with the supply of IT equipment
- The new Head of Customers and Origination, Vas Iannella will commence on 4 May 2020; she has a background in retail and business banking (ANZ)

Board noted the monthly reports.

Papers/Presentations

Noting

2004.2 Realisations – March 2020

Board noted the write-offs.

2004.3 Major Projects Report

The loan system selection project, to procure a loan origination and servicing system, is currently paused due to vendor presentations and engagement being limited due to COVID-19.

Board noted the paper.

2004.4 Strategic Scorecard Quarterly Update

Broker satisfaction has improved since last quarter due to a concentration of effort in that area.

Board noted the paper.

2004.5 Risk Appetite Quarterly Update

Board noted the paper.

Peter Byrnes (Head of risk & Lending, HomeStart), [redacted] and [redacted] (Deloitte) joined the meeting at 2.40pm.

2004.6 Draft Risk Appetite Refresh and Risk Culture Target State Discussion

Risk Appetite Refresh - [redacted] and [redacted] led a discussion with Board regarding the results of interviews held with Board members and the Executive Committee; diversity of views between Management and Board of four sub risk classes were examined and discussed. A draft statement will be provided at the May 2020 Board meeting.

Risk Culture Target State – feedback from Board interviews will be integrated into the values refresh project to be completed by the People and Culture Team (Customers, Communities and People). The Chair thanked Deloitte for their work.

Peter Byrnes, [redacted] and [redacted] left the meeting at 3.23pm.

Chief Financial Officer Update

Andrew Mills spoke to the scenario and stress testing paper circulated to members prior to the meeting. Points to note included:

- The proportion of the portfolio under payment arrangements is a key driver of collective provisioning in the short term, and the recovery or otherwise of these customers will drive specific provisioning take up through FY21.
- Property price movements present an uncontrollable risk through revaluation of the shared equity portfolio as the primary first round impact and may also be expected to flow through to provisioning. An interim shared equity revaluation is scheduled for the end of May to provide a guide to possible year end effect.
- There is minimal short term profit impact from changes to lending or discharges; the key driver is ultimately movement in the size of the loan portfolio. While demand may fall in some areas, tighter lending criteria applied across the market may increase the role of and need for HomeStart in others.
- Net margin was not stress tested as presently markets are relatively stable, reflecting significant RBA support. HomeStart's net margin will improve through April and May as a result but will not be sufficient to offset the effect of the factors above.
- Analysis is looking ahead at several possible economic "pinch points", particularly from September 2020 – March 2021.

Board noted the update.

OTHER BUSINESS

No other business was raised.

The Chair closed the meeting at 3.52pm.

NEXT MEETING

The date of the next Board meeting is Tuesday, 19 May 2020, commencing at 1.00pm, via WebEx.

JIM KOUTS
CHAIR
HOMESTART FINANCE

/ / 20

Board action list

19/05/2020

Agenda No.	Action Required	Date Raised	Completion Date	Person Responsible
Minister Update	Weekly Updates	April 2020	On-going	John Oliver
2003.8	CFO regular updates to Board as required (COVID-19)	February 2020	On-going	Andrew Mills
1910.1	Automated Data Pilot – outcome update	October 2019	May 2020	John Oliver
2004.6	Values Refresh project	April 2020	July 2020	Vanessa Charlesworth
2002.10	Information Services – Board update	February 2020	2nd half 2020 (tbd)	John Oliver

Minutes of Asset & Liability Committee Meeting held on Tuesday, 21 April 2020
Via WebEx

PRESENT

Chris Ward (Chair)
Darryl Royans
Shanti Berggren
John Oliver
Andrew Mills

ATTENDEES

Peter Byrnes
Leon [redacted]
Andrew Kennedy (SAFA)
Don Munro (SAFA)
Tricia [redacted] (minutes)

The Chair opened the meeting at 9.00am.

CONFLICTS OF INTEREST

There were no new conflicts of interest.

MINUTES OF PREVIOUS MEETINGS

The minutes of the previous meeting held on 17 March 2020 were confirmed as an accurate record.

ACTION LIST

2002.6 Country Lending Categories Review – discussed under Agenda Item 2004.5.

ECONOMIC UPDATE

Andrew Mills spoke to the circulated document "Economic Update – April 2020" and provided a general economic update. Points to note included:

- The RBA now has two targets from each meeting being cash and 3-year Australian Government Bonds, both of which remained at 25bp
- The cash rate and 3-year bond target are expected to remain at 25bp for a long time to come; the RBA wants to see "progress... towards full employment" and inflation fitting sustainably into the 2-3% target band
- The Financial Stability Review showed 20% of owner-occupiers with a mortgage held less than one month's liquidity
- The RBA has also tested the LVR distribution of mortgages against house price decline scenarios showing the proportions that will move into negative equity, and believe each one percentage point increase in unemployment increase mortgage arrears by 0.8%; Federal Treasury is working to an assumption of unemployment reaching 10%
- CoreLogic listings are down 25% in addition to valuations decreasing by 25%, however this is dependant on location i.e. eastern states
- The ABS are anticipating 300k jobs will be lost in the next four weeks; Citi are predicting 900k jobs could be lost in April
- During previous recessions consumer sentiment has taken 1-2 years to bottom out. In 2020 it has fallen to previous lows in just a few weeks.
- Without JobKeeper, Westpac estimates unemployment would have reached 17%
- Questions on employment suggest 1 in 5 have lost their entire wage income

- Short term rates are low reflecting significant RBA activity, which has a positive impact on HomeStart's margin

SAFA UPDATE

Andrew Kennedy provided an update on market conditions. Points to note included:

- SAFA raised $1.5b at the start of April
- 2019-20 Funding requirements for the States was $46b, this has now potentially increased to as much as $73b
- Australia's $800b debt may potentially to increase to $1.2trillion by the end of June 2020
- SAFA's project funding requirements for 2020-21 is expected to be revised higher following the State Budget in early November
- State government statutory organisations expect lower revenues in the coming year however the impact is yet to be fully felt
- David Reynolds has announced the new SAFA General Manager, Anna Hughes will commence in May 2020

Approval Papers

2004.1 March Standard Variable Rate Decrease - via circular resolution 23 March 2020

ALCO endorsed its approval of the paper as per the recommendations, via circular resolution on 23 March 2020.

Noting Papers

2004.2 Treasury Reports – March 2020

Leon [redacted] spoke to the paper. Points to note included:

- New swaps totalling $15m were settled to hedge fixed rate positions, including $2m in nine and ten year buckets
- The debt funding market value has shifted significantly to a favourable (positive) position in March
- The average cost of working capital over March is lower due to the reductions in the cash rate
- Cash management is being carefully watched in anticipation for an increase in discharges and customers reducing repayments due to COVID-19
- The compliance report has been updated to reflect changes to Treasury Policies approved by ALCO last month

ALCO noted the report.

2004.3 Asset Quality Reports – March 2020

Leon [redacted] spoke to the paper. Points to note included:

- Arrears 30+ days increased over March; it is likely that the financial impacts from COVID-19 have led to the increase
- Approximately 300 customers had been provided with assistance of repayment relief at month-end and a further 70 were utilising advance payments
- As at today, 534 customers have been placed on a payment arrangement, which represents $144m in value and 6.4% of the portfolio
- April is expected to be a difficult month as some customers will be waiting for the first government assistance payments to come through

ALCO noted the report.

Andrew Kennedy and Don Munro left the meeting at 9.26am.

2004.4 **Actuary Review**

A supplementary report will be provided next month, inclusive of COVID-19 impacts.

ALCO noted the report.

2004.5 **Country Lending Loan to Valuation Review**

Andrew Mills spoke to the paper. Points to note included:

- The review considers a longer time frame to review the trends and economic cycles of regions
- A timeframe is provided for loans that move into arrears, MIP, and realisations
- Whyalla has an improving trend in arrears over the last 2-3 years, as such an increase in the Whyalla LVR is now reasonable to consider
- ALCO raised concerns regarding Whyalla being a one business town and HomeStart's exposure in the market; it was noted minimal loans have been written in Whyalla over the last seven years and existing Home Equity Loans in the region are approximately ten years old. Management agreed to provide a broader range of data in support of its preference to move Whyalla back to lending category 1.
- When considered in isolation the proposed case for changes to maximum LVRs in these areas remains appropriate; however, in light of the coronavirus uncertainty, Management will defer any proposed changes for at least three months to enable a clearer picture to emerge

ALCO noted the review and noted the paper will be resubmitted to ALCO following a secondary review (and approval) by the Executive Committee in due course.

<u>OTHER BUSINESS</u>

- Valuations – John Oliver informed ALCO that a pilot comparing AVM and in-house valuations highlighted the fact that 99% of in-house valuations were coming in at the purchase price. It was also noted that the AVM data was considered unreliable as a sole measure of the property value for a credit decision. As such, it has been decided that HomeStart will accept the purchase price when the purchase is an arms-length transaction, the property is situated in the metropolitan area, has been on the market for a reasonable time. It was also noted that the assessors have access to information on realestate.com.au. and are utilising that website to look at the property.

- Guarantee Fee – notification of the 2021 guarantee fee is expected to be received in May/June 2020. The current rate of 0.99 is in place until 30 June 2020.

- Community Lending – Peter Byrnes confirmed that HomeStart has recently contacted the six largest community organisations since the outbreak of COVID-19. At this point in time all community lending partners financial position have been unaffected from the impact of Covid-19. No tenants and staff have reported as infected. Tenants were largely on Newstart, the age or disability pensions or very low incomes therefore there has not been a change in rent arrears, or signs of current social tenants not paying or looking to get a free ride under the "no eviction regime".

  Restrictions on maintenance spend and in some cases travel, has generally reduced costs / cash outflow. Aged Care facilities in Ardrossan and Mannum have not had any virus cases but have had a significant increase in spend on hand wash, sanitiser etc and personal protective equipment. Mid Murray Homes stated that spending on these items was three times that of previous months.

The Chair closed the meeting at 9.51am.

NEXT MEETING

The date of the next Asset & Liability committee meeting is Tuesday, 19 May 2020, commencing at 9:00am, at HomeStart Finance, Level 5, 169 Pirie Street, Adelaide.

CHRIS WARD
CHAIR
HOMESTART FINANCE

/ /20

Government of South Australia HomeStart FINANCE

Minutes of the Audit Committee Meeting held on Tuesday, 21 April 2020
Via WebEx

PRESENT	Sue Edwards (Chair) Cathie King Andrew Seaton
ATTENDEES	John Oliver Andrew Mills Peter Byrnes Soo-Ran [redacted] Robert Huddy / Auditor-General's Department [redacted] / Deloitte [redacted] / Deloitte [redacted] / Deloitte [redacted] KPMG [redacted] / KPMG [redacted] / KPMG Tricia [redacted] (minutes)
APOLOGIES	Kelly Wilksch

The Chair opened the meeting at 10.30am, noting a change to the order of Agenda Items.

CONFLICTS OF INTEREST

There were no new conflicts of interest.

MINUTES OF PREVIOUS MEETINGS

The minutes of the previous meeting held on 18 February 2020 were confirmed as an accurate record.

ACTION LIST

Risk Culture Survey Report – currently underway and will be reported to the Board.

External Auditor – KPMG 2019-20 Audit Plan

Robert Huddy informed the Committee that KPMG have been re-contracted by the Auditor-General as external auditors. The 2019-20 audit plan is consistent with previous years however will also focus on risks related to COVID-19.

[redacted] informed the Committee that John Evans is retiring, and he will be the responsible Partner; [redacted] and [redacted] remain on the audit team and [redacted], who specialises in financial services has joined the team. [redacted] spoke to the audit plan. Points to note included:

- Materiality is currently $2.55m and the reporting threshold is $128k, however this may change as a result of the impact of Covid-19 on the financial result.
- Key focuses include the recognition, measurement, classification, and disclosure of leases on initial application of AASB 16 Leases
- COVID-19 will not change the audit, however its disruption to the global market will have wide ranging affects
- Should a subsequent event occur after 30 June 2020 and prior to the signing of the accounts, its severity and balance will determine how it is reflected in the disclosures

- The delivery of the audit program will differ to previous years, being completed remotely due to COVID-19 restrictions

Robert Huddy added the State Government has enacted the COVID-19 Emergency Act which enables Treasury to issue changes to Treasury Instructions, co-approved by the Auditor-General, if required. These changes can enable changes to reporting timelines, if necessary under the circumstances.

NOTING PAPERS

2004.3 Provisions for COVID-19 Affected Loans

Andrew Mills spoke to the paper stating that as of yesterday, HomeStart has provided assistance to 534 customers with either deferral of repayments or payment reductions for a period of up to three months (to the value of $144m). In line with AASB 9, provisions have been determined on expected credit losses (ECL) over three stages taking into account the increased risk profile. The separation of COVID-19 affected, and non-COVID-19 affected cases is important in finding the balance for correct provisioning. APRA's guidance states the payment holiday does not put loans into arrears.

The Audit Committee noted the paper.

2004.9 Deloitte – Internal Audit Status Report

[redacted] noted the field work has been completed for the AML/CTF audit.

The Audit Committee noted the report.

Broker Governance Report

[redacted] stated the Broker Governance Model was re-written in December 2019 and was found to be consistent with other comparable financial services institutions. The findings seek to improve and embed the BGM across the organisation through the delivery of broker feedback, clarification and communication of key roles, implementation of regular reporting and analysis of broker performance. Management agree with the findings and will adopt the proposed recommendations. It was noted a broker satisfaction survey is conducted by HomeStart every quarter that provides direct feedback, results are reported on the corporate scorecard to Board.

The Audit Committee noted the report.

[redacted] provided comments regarding current industry trends:

- The tracking and monitoring of the quality of applications from brokers by aggregators, is now standard
- Brokers are busy with refinance activity, with much business returning to major banks who are offering low interest rates
- Some lenders are providing brokers with specific COVID-19 information relating to mortgage holidays which requires specific detailed information from the customer
- Some lenders have experienced a slowdown in the originations pipeline and therefore settlements; this may impact employment at financial institutions whose business model is heavily weighted at the origination stage
- There is potential for confusion on the treatment of arrears and if a customer would have gone into arrears/hardship despite COVID-19

John Oliver and Peter Byrnes informed the Committee of HomeStart's response to COVID-19 to-date:

- The Customer Operations' team (arrears/hardship) are triaging all calls to determine which customers have truly been affected by COVID-19, specific notes are being recorded on all customer files
- Current policy is being followed for all other non-COVID-19 arrears/hardship customers

- Following a letter sent to all customers regarding HomeStart's actions regarding COVID-19, an influx of calls was received, the opportunity was taken to update customer details including employment/Centrelink status
- Analysis is currently being undertaken of the portfolio to determine employment industries as well as what the market and economy may look like in September – December 2020

[redacted] *left the meeting at 11.41am.*

APPROVAL PAPERS

2004.1 RoFA – CEO Authorisations Review

A slight amendment will be made to the cover page, "Approving Authority" will be changed from "Executive Committee" to "HomeStart Finance Board of Management".

The Audit Committee recommends the Board approve the Authorisations of the Chief Executive Officer (Document 2) for the Register of Financial Authorisations, subject to the slight amendment above.

2004.2 Financial Management Compliance Program (FMCP) Policy Review

Management has undertaken its annual review of the policy and believes that HomeStart has a robust and transparent FMCP which complies with the requirements of Treasurer's Instruction (TI) 2 – Financial Management and TI 28 – Financial Management Compliance Program. The following amendments will be made:

Cover page - "Approving Authority" will be changed from "Executive Committee" to "HomeStart Audit Committee".

5.5 Debt funding and interest rate risk management – table
Element of FMCP – ALCO
Comment – second paragraph changed to read – ""Each month ALCO receives a statement from management as to whether Treasury Policies have been complied with, and if not, which policy is not complied with, why, what action including timing of when the remedial action is planned to rectify the non-compliance".

5.6 Loans to Customers – table
Element of FMCP – "Board Credit Committee" changed to "Credit Sub Committee"
Comment – changed to read - "Meets when required
Approves Community Lending proposals and Annual Reviews on behalf of the Board within delegation
Recommends proposals to Minister / Treasurer that exceed the Board Credit Sub Committee delegation"

The Audit Committee approved the annual review of HomeStart's Financial Management Compliance Program, subject to the above amendments.

2004.4 Review of the Fringe Benefits Tax (FBT) Governance Framework

Soo-Ra[redacted]spoke to the paper stating the review was completed by BDO and did not identify any critical risks in terms of the non-compliance by HomeStart, or shortfall in disclosed FBT liability. The report confirmed that HomeStart's FBT process meets requirements, however the governance framework and structure will be updated to address all recommendations and will be incorporated into the FBT management routine. This can be achieved with little disruption to the business and will limit HomeStart's exposure to any potential risks in the future.

It was noted that HomeStart has a gift register form in place, is completed by employees who are recipients of gifts, authorised by Management and are held by the General Counsel; however a specific register is not maintained, nor details passed to Finance for FBT consideration. It was highlighted that most gifts (majority received at Christmas) are only approximately $50 or less in value.

The Audit Committee noted the paper.

2004.5 Risk and Incident Update

Peter Byrnes informed the Committee that the annual update of operational risks (via Risk & Control Self-Assessment process) is currently underway. A specific COVID-19 risk assessment has also been completed, is maintained daily and reported to the Executive Committee on a fortnightly basis. A COVID-19 working party has also been established and was meeting daily; however, is now meeting three times per week. Management will forward the Committee a copy of the COVID-19 risk assessment.

Andrew Mills added scenario and stress testing of the portfolio was completed in March, the results of which have been forwarded to the Minister and Treasurer.

The Audit Committee noted the paper.

2004.6 Loan File Compliance Review

There were no High or Medium risk matters identified in February 2020 and March 2020 period. There were four Low Risk matters identified.

The Audit Committee noted the paper.

2004.7 AML/CTF/Public Interest Disclosure/Fraud Report

There were seven suspicious matter incidents reported to AUSTRAC for the period 1 February 2020 to 31 March 2020.

The Audit Committee noted the paper.

2004.8 PwC Report – End User Application Manager Report

Andrew Mills spoke to the report stating there were two low and one moderate findings (based on PwC rating criteria). HomeStart management have accepted and will implement the recommendations. It was noted the report from PwC was overdue by three months.

The Audit Committee noted the paper.

OTHER BUSINESS

No other business was raised.

The Chair closed the meeting at 12.09pm.

In Camera Session

Sue Edwards, Cathie King, Andrew Seaton, John Oliver, Peter Byrnes and Andrew Mills met in camera following the meeting.

Selection of Internal Auditors

All firms (8 in total) included on the SA Government Audit & Financial Services panel were invited to respond to tender for HomeStart's internal auditor. Six firms provided proposals that were evaluated, the highest scoring three firms were shortlisted for formal presentation; these were Deloitte, PwC and BDO. Following the presentations, the panel met and assessed the relative merits of each firm. The panel consisted of John Oliver, Andrew Mills and Peter Byrnes (not a voting member). Deloitte resulted as the preferred firm, however subsequently HomeStart was informed of Jason Muir's resignation. As such, proposed new director Richard Bush was interviewed by the panel. Mr Bush is from the United Kingdom and has a digital background which will align with HomeStart's three-year strategy in IS transformation and broader audit initiatives. Deloitte have also agreed to place KPIs around deliverables that are linked to their payment/fee.

The Audit Committee approved Management's recommendation and will recommend to the Board the reappointment of Deloitte as internal auditor to HomeStart for a three-year period commencing in July 2020.

Head of Risk & Lending 1:1 – deferred to the June 2020 meeting.

NEXT MEETING

The date of the next Audit committee meeting is Tuesday, 16 June 2020, commencing at 10:30am, at HomeStart Finance, Level 5, 169 Pirie Street, Adelaide.

SUE EDWARDS
CHAIR
HOMESTART FINANCE

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COVID – 19 Risk Register

Risk Description	Business Unit	Risk Owner	Controls	Control Effectiveness	Residual Risk Likelihood	Residual Risk Consequence	Residual Risk Rating	Comments
..ot achieving HomeStart's financial objectives for FY19/20 and beyond due to economic constriction caused by COVID. (i.e. due to an increase in provisions, and reduction in property values for the Shared Equity loan portfolio).	Risk and Lending	Peter Byrnes	- specific hardship support provided on a needs basis, e.g. casual employees who lose their job. - removal of CPI indexation on loans as a temporary measure to maintain repayments. - loan repayment holidays where needed. - balance sheet limit for Shared Equity loans. - Scenario analysis of customers impacted and overall impact to HomeStart's financial performance.	Effective	3 - Possible	5 - Extreme	Extreme	Over 600 requests for hardship have been supported.

COVID – 19 Risk Register

Risk Description	Business Unit	Risk Owner	Controls	Control Effectiveness	Residual Risk Likelihood	Residual Risk Consequence	Residual Risk Rating	Comments
Infrastructure and/or system failure impacts ability for employees to work effectively in the office and from home.	Information Services	Andrew Mills	- DR Plan - Incident management processes	Partially	2 - Unlikely	4 - Major	Major	Risk consistent with existing operational risk, however we have a greater reliance on technology in remote working environment. Many of the manual contingencies identified in the BCP are no longer possible due to the remote working environment therefore there is a greater reliance on incident management processes and disaster recovery.

Risk Description	Business Unit	Risk Owner	Controls	Control Effectiveness	Residual Risk Likelihood	Residual Risk Consequence	Residual Risk Rating	Comments
Cybercrime. crease in the number of phishing, malicious sites, and business email compromise attempts linked to the pandemic.	Information Services	Andrew Mills	- IT policies - Penetration testing - Employee testing and performance management. - Cyber risk framework (including Firewall, Endpoint protection, Patches etc.) - clear instructions on using devices remotely including security awareness. - remote patching/updates of devices. - ensure all devices have latest AV software etc	Effective	1 - Rare	5 - Extreme	Major	Industry sources continue report an increased number of cyber security threats due to COVID-19. The risk rating is consistent with the operational risk rating and controls are considered effective although continued monitoring and vigilance is required.

COVID – 19 Risk Register

Risk Description	Business Unit	Risk Owner	Controls	Control Effectiveness	Residual Risk Likelihood	Residual Risk Consequence	Residual Risk Rating	Comments
Employees may become infected with COVID-19 through contact. Business disruption caused by significant illness and absenteeism.	People & Culture	Vanessa Charlesworth	- Practice good hygiene- signage promoting good hygiene practices- clear instructions for employees regarding preventative measures- Social distancing- visible barriers at customer contact points- Avoid close contact with anyone with cold or flu like symptoms- work from home wherever possible.- phone/video customer interviews- wet cleaning of office spaces	Effective	1 - Rare	4 - Major	Moderate	- Reduced risk due to the effectiveness of preventative measures. - National COVID-19 Framework Steps 1 and 2 indicate to work from home if it works for you and your employer. - Risk may increase when employees return to the office. Preventative measures remain relevant, however the impact of an infection cluster at HomeStart would be significant, hence increase due diligence would be prudent.
Market Risk. HomeStart may not achieve sales targets due to reduced demand for loans from customers, real estate market decline, and/or inability to process loans due to employee absences	Sales	Vas Iannella	- Pricing policies - Undertake quarterly review of market offerings. - Monitor comparison rates & market offers.	Partially	2 - Unlikely	3 - Moderate	Moderate	Risk is potentially increased compared to the existing operational risk given the possibility of decreased sales over the next six months. Operational controls listed still relevant.

Risk Description	Business Unit	Risk Owner	Controls	Control Effectiveness	Residual Risk Likelihood	Residual Risk Consequence	Residual Risk Rating	Comments
Risk profile of potential customers increases due to job losses, no/irregular work/income impacting their eligibility for HomeStart loans. Employment and serviceability based on previous months records may not be sustainable in the current scenario where continued employment is less certain.	Risk and Lending	Peter Byrnes	- Application Risk Grading - Checking of application documents by trained employees - potentially tighten Lending policy, e.g. temporarily increase serviceability requirements, defer Country Lending review - maintain strong due diligence in ID checking, income and expense verification, employment status	Partially	2 - Unlikely	3 - Moderate	Moderate	Temporary lending changes in recognition of customers' changed circumstances are being developed.
Some employees may suffer mental health issues, e.g. due to illness, illness of family members, working in isolation etc, business disruption, sense of purpose etc.	People & Culture	Vanessa Charlesworth	- EAP support - identification of employees who may be more at risk. - encourage employees to communicate concerns with people Leaders - work from home protocols include regular meetings/check ins with team members	Partially	3 - Possible	3 - Moderate	Moderate	Some employees working in the office to enable more social contact. Generally employees have adapted well to WFH.

Risk Description	Business Unit	Risk Owner	Controls	Control Effectiveness	Residual Risk Likelihood	Residual Risk Consequence	Residual Risk Rating	Comments
Increase in building company insolvencies due to economic downturn resulting in partially constructed homes exposing customers and HomeStart to potential financial losses.	Risk and Lending	Peter Byrnes	- maintain contact with builders. - Structured Construction arrangements. - Builders' Indemnity Insurance.	Partially	3 - Possible	3 - Moderate	Moderate	Subject to separate pap which provide more de regarding risks and controls.
Employees working from home may not have appropriate ergonomic, infrastructure or work practices to work safely causing injury and potential workers compensation claims.	People & Culture	Vanessa Charlesworth	- Ergonomic assessments - employees able to take office equipment to use at home.	Partially	3 - Possible	3 - Moderate	Moderate	80% of ergonomic assessments of home office environment have been returned. Several employees are working in the office as their home environments are not suitable.

Board paper

Agenda item: 2005.2

Topic:	COVID-19 Scenario Analysis - Update
From:	Andrew Mills
Date:	19/05/2020
Status:	Noting

1. Background

This paper provides further analysis on the potential FY20 and FY21 financial and credit impacts of the coronavirus. It builds on the scenario analysis and other work provided to Board in April 2020. The subsequent focus has been to review the portion of the portfolio under negotiated payment arrangements, applying this information to assess possible outcomes for provisions.

2. Discussion

Overview
Analysis work has focused on loan level analysis of the 'coronavirus' portfolio, working to ascertain probabilities of loans returning to normal loan repayments, and therefore assist in defining our approach to provisioning for FY20 year end. Additional work has focused on the likelihood of a significant economic decline through the remainder of calendar year 2020 and into 2021, offering some guidance as to longer term pathways for provisions.

The original scenario analysis was first prepared in late March, and since then management has regularly reviewed assumptions against actual data. At this point, it appears the Base Case scenario is holding up well and performance is tracking inside it.

Analysis of loans under negotiated payments
At 30 April 2020 there were 628 loans worth approximately $171m (7.7% of the portfolio) under negotiated payment arrangements. The customers applying display a higher concentration in the purpose of construction than the underlying portfolio. Along with this characteristic there is a higher proportion of Graduate loan product than the underlying portfolio. Of the Graduate Loan customers, 46% had Certificate qualifications which is consistent with portfolio proportions.

An initial assessment was conducted reviewing these customers, and the loans were separated into 3 groups (high, medium, low) based on the chance that borrowers would return to prior income levels. The assessment was based on the information provided at the time of application as well as the current loan performance rating. Each loan was reviewed to consider the income source (e.g. government, either Centrelink or department/agency would be weighted more positively), the employer (relative strength of a large employer versus small business), industry (exposure to shutdowns, e.g. tourism), type of employment (full time, casual etc) and the analysis was applied across both parties to the loan (where present).

After reviewing the data set, loans with one or both borrowers in full time employment with a good repayment history and appropriate employers/industries were considered a high chance of returning to pre COVID-19 repayments. These are essentially customers where the problem can be classified as one of "temporary liquidity". However, borrowers with weaker employment arrangements and a poor repayment record were considered a lower chance of returning to pre-virus repayment behaviour.

Appendix 1 contains charts displaying total coronavirus-affected customer characteristics followed by slides for each of the three identified groups. The charts in the appendix display the assessed income chance returning to past levels, LVR distribution, loan balance by probability of income return, and employment characteristics. Key outputs are summarised in the table below.

Characteristic	All Covid-19	High	Medium	Low
Number of Loans	628	284 *(45%)*	282 *(45%)*	62 *(10%)*
Value of Loans	$171m	$79m *(46%)*	$76m *(44%)*	$16m *(10%)*
Primary Borrower Full time %	49%	69%	34%	24%
Primary Borrower Casual %	12%	1%	20%	35%
Loan Performance Rating Satisfactory or better %	85%	94%	87%	8%
Median LVR	93%	94%	91%	86%
Average Loan Age	5.2 years	4.7 years	4.5 years	7.9 years

Source: HomeStart analysis

Customers in the low probability bucket display a much higher propensity for casual employment and are less likely to demonstrate ongoing good loan conduct. Consequently, this group is likely to already have an underlying credit issue as opposed to the customers in the high/medium probability buckets, and thus more likely to trigger a specific provision at some point (if not already).

When comparing customers placed in the High probability group with those in Medium, it is observed that the Medium group tends to show:

- An older group of customers, which is expected to increase the risk of longer term unemployment
- Less propensity to be in full time work, and more causal employment
- Higher industry risk factors for prolonged closure / restriction
- Slightly weaker employers

Provisioning for FY20 – "first round" effects of the virus

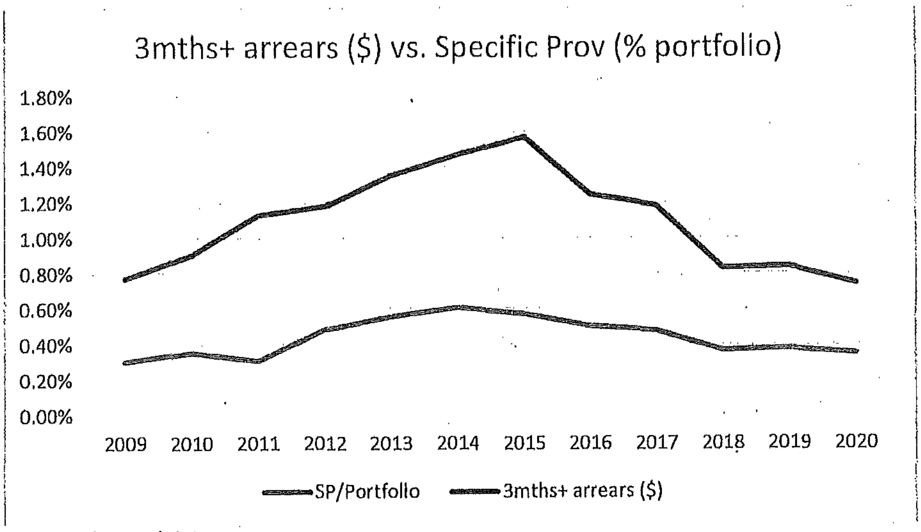
Provision adjustments for March and April due to the coronavirus portfolio already exceed $3m, with most adjustments through the collective provision account so far. As there is a need to ensure provisions reflect expected credit losses, the portfolio is being closely monitored and will be assessed monthly as well as formally at year end. It is considered likely that further provision increases this financial year will be necessary as the portfolio becomes more well understood. In particular, the segmentation prepared above is expected to allow a finer discrimination between loans with a "temporary liquidity problem" as opposed to loans where there may be a deeper credit issue. The latter (Low probability cases, totalling $16m) are more likely to require a specific provision be raised, whereas the former (High and Medium probability cases, totalling $155m).

As a guide, a specific provision on $16m of loans would normally equate to around $3.2m, although that is subject to a range of assumptions including costs of realisation, and a proportion of this amount has already been recognised albeit through the collective account. The remainder of the coronavirus portfolio has had some form of collective provision already raised, although final figures will be subject to a full review including any economic overlays necessary.

Possible impacts on FY21 and beyond – "second round" effects of the virus

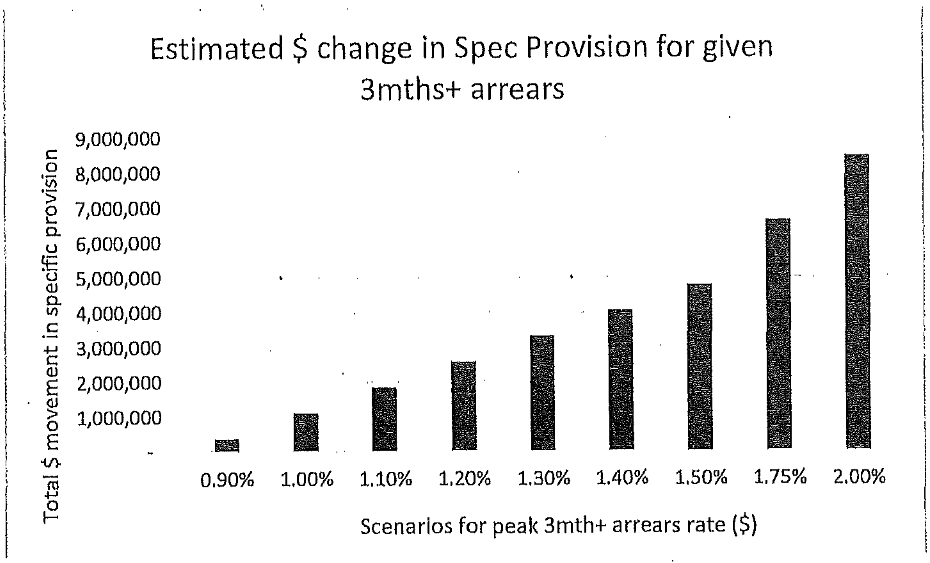
In addition to the 'first round' direct coronavirus effects discussed above, the economic downturn will have a second round of impacts on credit quality and thus, arrears, and this will be realised over a much longer time period.

To provide some sense of historical context, although not to suggest that history will necessarily repeat, the graph below compares movement in the 3mths+ arrears rate (measured by value of accounts) against the specific provision coverage of the loan portfolio as at 30 June each year. Although the two measures are tightly correlated (0.9), the provision rate will generally shift by about 50% that of the movement in arrears, where those movements are small. For larger shifts, such as from 2010 – 2015, the provision build up was about a third of the increase in arrears, and similarly for the period 2015 – 2020 the unwinding of provisions has been about a third the decrease in arrears.



Source: HomeStart internal data

Some of the reasons for this variation can be particular to the drivers of arrears in any given cycle such as geography, property price movements and other factors but the relationship generally can provide a guide to how specific provisions might track if, as expected, 3mths+ arrears begin to rise during FY21. Looking ahead, of particular concern is the six month period after September 2020, from which time loans will have exited negotiated payment status and will either be expected to return to terms, or may start triggering arrears rules in provisioning models if the customer is unable to service their loan.



Source: HomeStart internal modelling

Using the experience from 2010 – 2020 as a guide, a model has been constructed to estimate equivalent specific provision requirements, as well as the movement from the provision held as at 30 April 2020, if the

3mth+ arrears rate begins to rise. It shows that, for example, 3 month arrears at 1.30% would require an additional $3.3m of specific provision over and above current levels. In considering the above, three factors must be considered:

- The above does *not* represent a prediction for what arrears or provisions will be, instead it is a model of possible outcomes and designed to illustrate scale.
- Arrears – and provisions – are built over time. Even if 3 month arrears were to double over the course of the coming economic cycle, it is unlikely all of it would be realised in any one financial year. As the first graph above shows, these cycles can span several financial years depending on the circumstances.
- Collective provisions will increase ahead of any change in specific provisions, and movements in the two can be related. The above does not include the net effects of any change in collective. Under AASB9 HomeStart is using an Expected Credit Loss model which, by definition, is forward looking.

Actual performance compared to original scenarios

The following scenarios were modelled during late March / early April and results presented at the Board's April 2020 meeting.

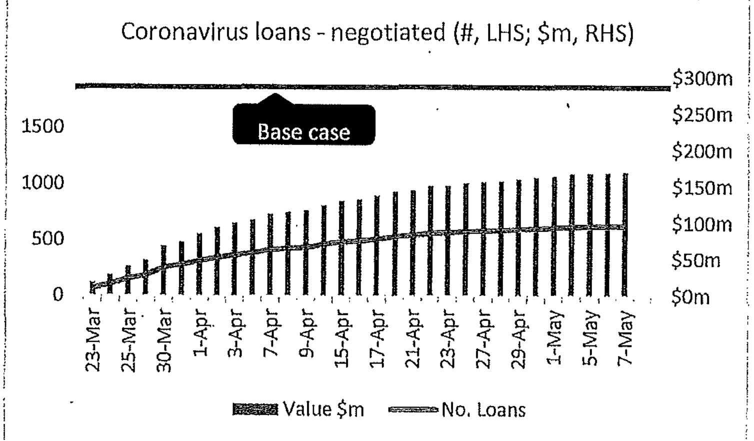
Measure / Scenario name	Covid-Base	Covid-Bad	Covid-Severe	Covid-Severe+
New lending	-65% for 3 mths	-80% for 3 mths	-100% for 6 mths	-100% for 6 mths
Discharges	-65% for 3 mths	-80% for 3 mths	-100% for 6 mths	-100% for 6 mths
Net interest margin*	Stable	Stable	Stable	Stable
Payment relief take-up (% portfolio, duration)	15% for 3 mths ($300m)	25% for 3 mths ($500m)	40% for 6 mths ($800m)	40% for 6 mths ($800m)
House prices	-10%	-12%	-15%	-25%
Dividend payout ratio	100%	100%	100%	100%

The modelling showed that the key variables for monitoring were the proportion of the portfolio that was under arrangements, and property price movements.

Portfolio scale is always fundamental to HomeStart's financial strength and remains so.

Highlighted in the graph below is the portfolio under arrangements, which is tracking well below the Base Case projection of $300m, although it continues to grow very slowly.

HomeStart's shared equity portfolio will be revalued as at May month end, and again in June for year end, to ascertain property price trajectories. Recent data from CoreLogic suggests prices are stable but this is not expected to be maintained as supply of houses on market is thought to be continuing to increase. This is still regarded as an issue more likely to hit in FY21 although some effect is expected in FY20.



Source: HomeStart internal data

Board paper

Summary

Initial analysis shows there is a reasonable proportion of customers who are rated as likely to be able to resume normal loan instalments once the negotiation period has ended. There is also a significant 'middle' group where the outcome still remains uncertain but still somewhat positive, and a much smaller group rated as highly unlikely to return to their original instalments. Not all of this latter group will necessarily fall into arrears or default – there are a variety of pathways for customers and HomeStart to take – but the possibilities need to be considered.

Beyond the current financial year it is expected the period from September 2020 onward has the potential to represent a 'pinch point' for the economy as many mortgages either reset and various government assistance programmes begin to close. FY21 is considered to hold greater economic risk than has been experienced to date. For this reason, analysis of the relationship between 3 month arrears and specific provisions has been undertaken to outline possible outcomes. This work will be used to assist in developing the next iteration of Operating Outlook which is planned to be presented to Board in June 2020 as per normal.

3. Recommendation

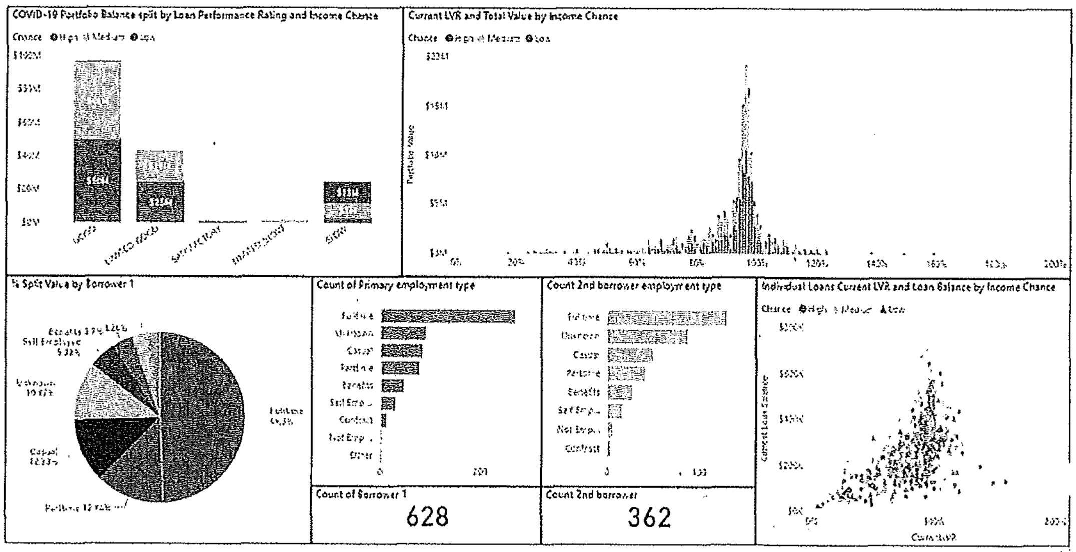
That the Board notes further progress in assessing and understanding the financial implications of the coronavirus.

Andrew Mills
Chief Financial Officer

Appendix 1 Slides – COVID-19 Profiles

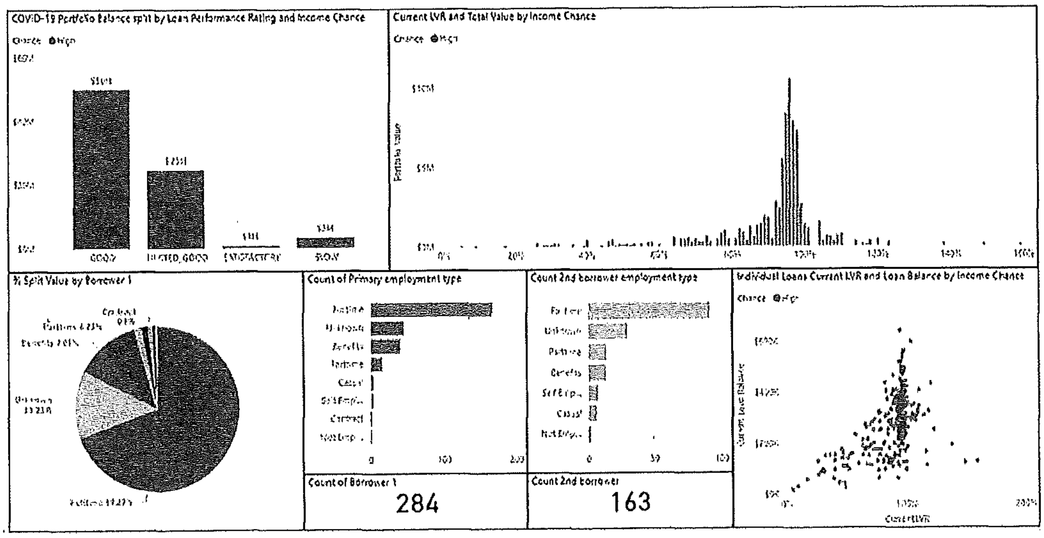
COVID-19 All Customers profile

- Approximately 50% are full time employed
- Nearly 70% of the loans have an LVR of 90% or more
- 78% of the loans are less than or equal to 5 years or younger compared to 70% for all HomeStart Loans



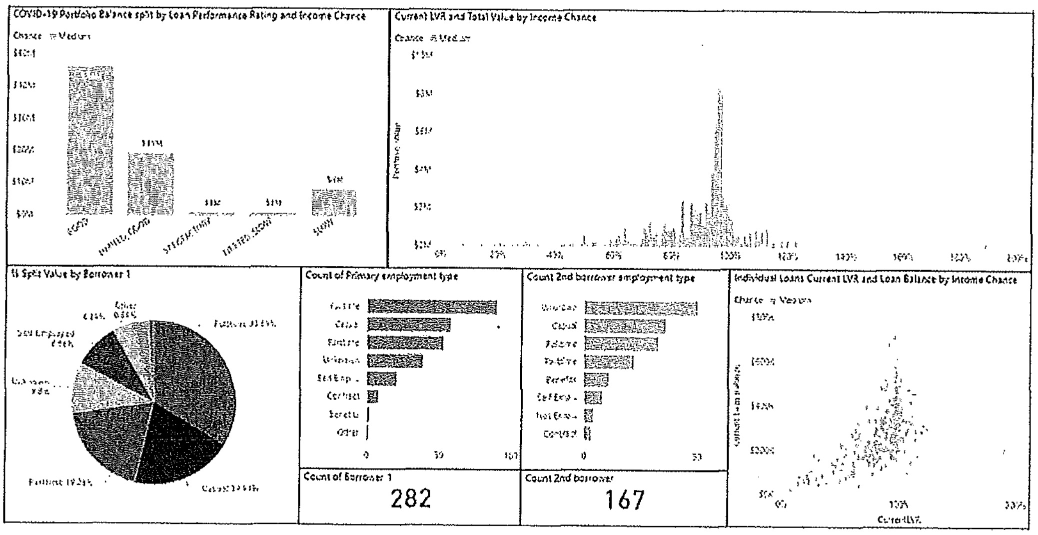
High chance return to same Income

- 46% of the COVID-19 by value was assessed High chance
- Over 69% of primary borrowers are full time employed and there is a high proportion of secondary borrower with full time jobs
- 94% have a good repayment history satisfactory or better Loan Performance Rating



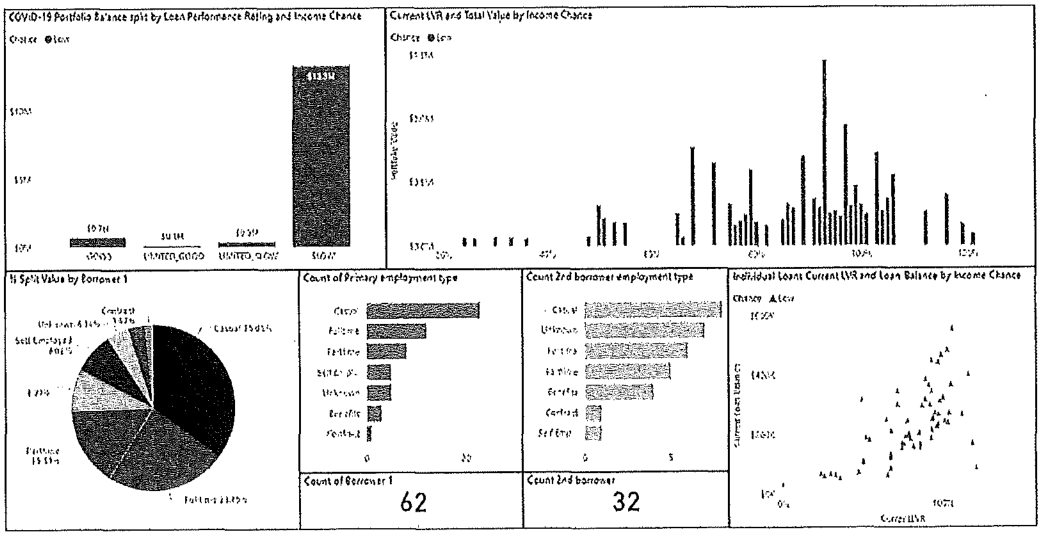
Medium chance return to same Income

- 44% of the COVID-19 by value was assessed Medium chance
- Over 34% of primary borrowers are full time employed with a much lower proportion of second borrowers in full time
- 87% have a good repayment history satisfactory or better Loan Performance Rating



Low chance return to same Income

- 10% of the COVID-19 by value was assessed Low chance
- 35% of primary borrowers are casuals
- Less than 10% have a good repayment history
- LVR distribution is lower than the Good or Medium ratings



Board paper

Agenda Item: 2005.4

Topic:	CEO Report
From:	Andrew Mills
Date:	19/05/2020
Status:	Noting

1. Recommendation

That the Board notes the monthly reports for April 2020.

Andrew Mills
Chief Financial Officer

John Oliver
Chief Executive Officer

Board Report Index
April 2020

HomeStart FINANCE

Government of South Australia

Executive Summary April 2020

Key Points

- Underlying earnings for the month of April were again strong but the reported profit of $1.6m was approximately $1m under budget due to a further increase in provisions due to the coronavirus situation. By 30 April there were 604 loan accounts on negotiated payment arrangements due to the virus, totalling $163m. The rate at which loans entered these arrangements slowed significantly over the course of the month and the total balance represents just over 7% of the total portfolio. HomeStart's experience appears broadly consistent with the wider banking sector.
- Consequently, YTD profit of $28m fell behind revised budget for the first time this year, although still well ahead of the original budget of $20m. Given the situation, the revised budget of $34m is not expected to be achieved. Significant work has been undertaken to understand the provisioning impact of the virus, whilst there remains substantial uncertainty as to the effect of house prices by year end.
- The core earnings engine of the business remains strong, with net interest margin (NIM) continuing to rise during the month to 1.88% from 1.87% last month, benefiting from the 30 day BBSW rate settling at a 15bp discount to cash for much of the month. NIM is expected to provide earnings support through May and provide a partial offset against rising bad & doubtful debt costs.
- Return on equity (ROE) remains elevated at 20.6%, although falling from the result of 21.5% in March but well ahead of the 9% target.
- A total of 104 new loans were settled during April worth $31.6m, 89% of target, and essentially comparable to levels in March and February. YTD volumes reached 1,096 loans worth $324m (78% of target). Approvals were solid at $37m, 3% ahead of target and supportive of lending remaining stable in the near term. Construction lending to the end of the month was almost 10% ahead of the same period last year.
- Discharges exceeded budget by just under 2% but modest portfolio growth was achieved with the loan portfolio growing by around $3m.
- Interest rate markets were stable during the month reflecting ongoing RBA support. Short term interest rates were significantly below the cash rate, whilst shorter term swaps (1-3 years) were also generally at levels close to, or below cash. Fixed rates have been reduced to reflect the much lower funding costs, and customer demand for a fixed rate has grown substantially. Swaps were dealt across various maturities to hedge interest rate exposures arising, as well as manage shared equity exposure.
- Arrears of 30 days+ increased, noting that coronavirus-affected customers are not included in these values, to 2.12% from 1.99% (benchmark 2.90%), and from 2.22% to 2.35% by number of accounts (benchmark 2.50%). Arrears 90 days and over edged up slightly from 0.73% to 0.75% by value. These figures are expected to increase over the coming year as the full economic impact of the coronavirus becomes apparent, particularly the long-term impact on unemployment.
- Administration expenses were $64k inside the revised budget, with some additional costs incurred due to the conronavirus such as contacting the entire customer base. The overall trajectory for administration expenses remains below the revised full year budget. Discretionary expense controls were implemented from April onwards.
- HomeStart's underlying financial performance and earnings capacity remains sound. The initial impact of the virus is being absorbed, and preparations are underway to evaluate and understand second and third round impacts over coming months and into FY21.

Operational Dashboard

As at April 2020

FINANCIAL	KPI	Last Year Actual		YTD Actual		Target
OPERATING PARAMETERS	ROE	14.49%		20.60%	229%	> 9.00% ****
	Pre-Tax Operating Profit ($m)	$23.3		$28.0	97%	$28.9
	Net Interest Margin	1.31%		1.88%	179%	1.05%
	Capital Adequacy	12.50%		12.30%	103%	> 12.00% ****
	Operating Cost : Net Interest Income	49.99%		40.99%	134%	< 55.00% ****
RETURN ON INVESTMENT	YTD Payments to Govt ($m)	$51.7		$30.5	63%	$48.6
	Payments to Govt as % of Capital	32.13%		18.28%	47%	38.83%
PORTFOLIO ^	Gross Portfolio ($m)	$2,245.7		$2,239.0	94%	$2,379.6 ***
	% Loan Portfolio Growth ($) (YoY)	6.92%		1.01%	14%	7.06%
ARREARS	All Channels ($)	1.84%		2.12%	137%	2.90%
	All Channels (No.)	2.11%		2.36%	106%	2.50%
CUSTOMER & COMMUNITY	**KPI**	**Last Year Actual**	**APR 20**	**YTD Actual**		**Target**
NEW BUSINESS	Lending (No.)	136*	104	1,096	78%	1,404
	Settlements inc HELs & Redraws ($m)	$489.7	$32.4	$338.7	79%	$431.3
	% FHB Loans to New Lending (YTD No.)	66.16%		69.80%	140%	50.00%
	% Customers Can't Get Finance	87.05%		85.98%	100%	80.00% - 90.00%
SPECIAL ASSISTANCE	% New (No.) Customers with S.A.	25.05%		19.89%	57%	35.00%
	% Loan Portfolio (No.) with S.A.	28.80%		28.69%	143%	20.00%
DISCHARGES (guide 2)	Discharges ($m) inc. HOME Programs	$20.4*	$20.9	$262.1	129%	$202.7
INTERNAL PROCESS	**KPI**	**Last Year Actual**	**APR 20**	**YTD Actual**		**Target**
MARKET SHARE	% All (No.)	4.35%	0.00%	4.87%	122%	4.00%
	% FHB (No.)	18.70%	0.00%	22.67%	188%	12.00%
LOAN PROCESSING	% App Started to Submitted	85.75%		79.84%	114%	70.00%
	% App Submitted to Approval	72.98%		75.08%	94%	80.00%
	% App Approval to Settled	101.87%		95.72%	101%	95.00%
	Last Submitted to Approval (days)	0.06	0.13		1,553%	2
	Credit Assessment Rework	45.35%		40.96%	82%	50.00%
LEARNING & GROWTH	**KPI**	**Last Year Actual**	**APR 20**	**YTD Actual**		**Target**
WORKFORCE QUALITY	Total Employee Turnover	19.27% +		11.21% +	178%	20.00%
	Unplanned leave (%)	2.71%	2.31%		173%	4.00%
	Lost Time Injury (days)	0.00		0.00	100%	0.00
	% Employee AL > 35 working days	7.90%	6.31%		79%	<=5.00%
STRATEGY ALIGNMENT	% Employee with Current MyPlan Plans	100%	100.00%		100%	100.00%
	Signed Performance Reviews^^^	100%	99.00%		99%	100.00%

% Indicator guide : <90 | 90 - 99 | >=100 of target

% Indicator guide 2 : <=100 | 101 - 110 | > 110 of target

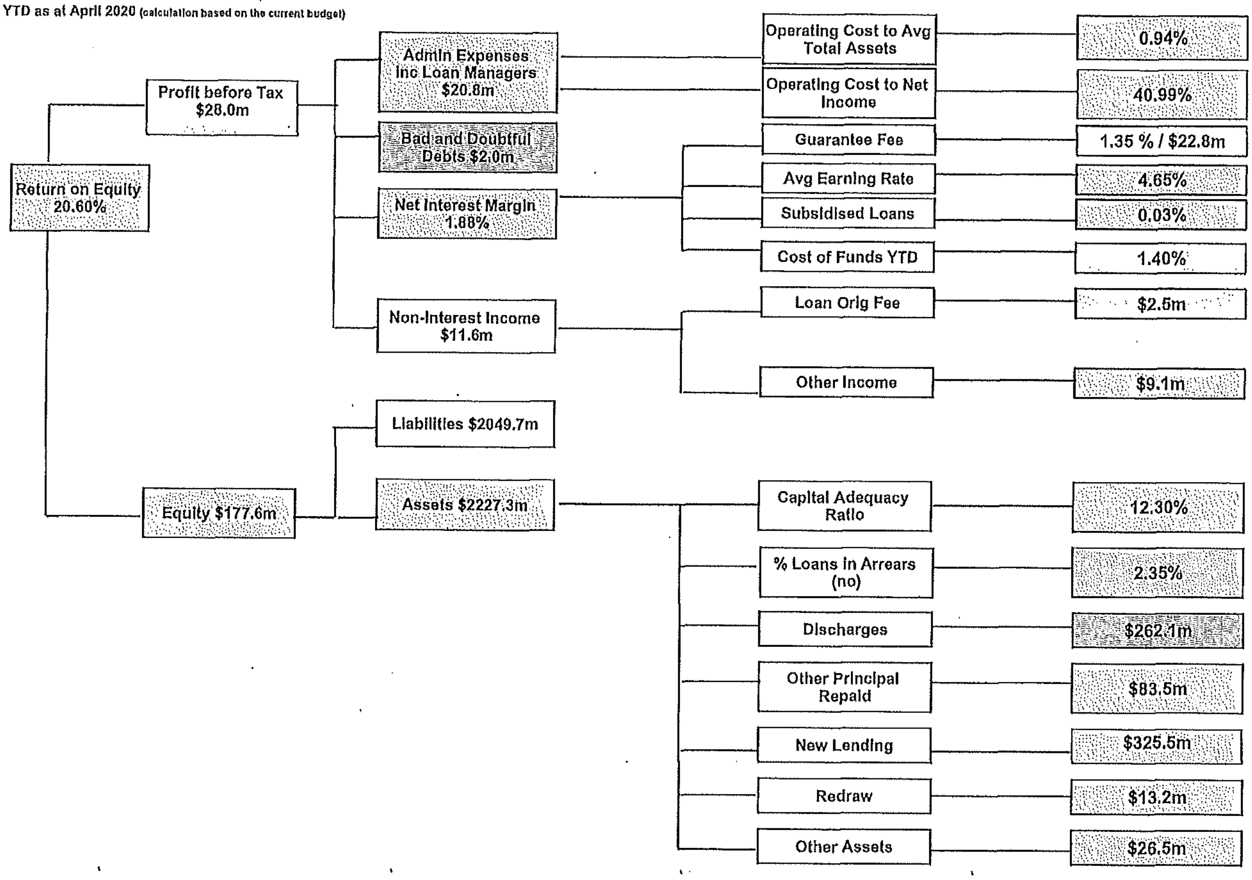
* Monthly average previous financial year.
** Last year's actuals.
*** June FY Budget.
**** Government Approved Targets
\+ Rolling 12 Months

S.A. loans include: Advantage, Wyatt and EquityStart.
^ Surplus Borrowing Cap measure will show when under $250m.
^^ excludes Community Finance.
^^^ Jul to Dec = EOY reviews, Jan to Jun = MY reviews

FINANCIAL PERSPECTIVE - VALUE DRIVERS

FP1

YTD as at April 2020 (calculation based on the current budget)



FINANCIAL PERSPECTIVE - INCOME STATEMENT

FP2

As at April 2020

	MTD				YTD				LY YTD	Full Year	
	Actual	Original	Ref.	Var.	Actual	Original	Ref.	Var.	Actual	Original	Ref.
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	[illegible]	$ '000
Gross Interest Margin	5,924	5,681	5,926	(2)	59,168	55,315	59,003	165	50,976	66,554	71,014
Interest Income	7,409	8,715	8,061	(652)	82,801	87,058	83,512	(711)	87,888	104,925	99,339
Interest Expense	1,486	3,034	2,136	651	23,642	31,743	24,509	867	36,913	38,370	28,326
S[illegible]ed Loans Net Fair Value	272	191	205	67	2,920	1,898	2,451	469	1,780	2,200	2,859
[illegible]ised Loans Effective Interest Income	333	365	338	(4)	3,384	3,642	3,394	(10)	3,426	4,373	4,069
[illegible]idised Loans FV Expense (1)	61	174	133	72	464	1,744	943	479	1,646	2,093	1,209
Government Guarantee Fee	2,164	2,410	2,174	9	22,767	23,837	22,784	17	24,646	28,780	27,217
Govt. Guarantee Fee	2,164	2,410	2,174	9	22,767	23,837	22,784	17	24,645	28,780	27,217
Net Interest Margin	4,032	3,462	3,957	75	39,312	33,376	38,670	641	28,110	40,054	46,656
Add: Other Income	1,089	1,166	1,183	(93)	11,552	11,437	11,945	(393)	11,905	13,778	14,314
RTV Investments											
Loan Origination Revenue Amortisation	243	248	261	(18)	2,495	2,354	2,539	(44)	2,573	2,857	3,087
EquityStart Subsidy (2)	0	0	0	0	34	0	34	0	531	0	34
Other Loan Administration Fees (3)	198	218	234	(35)	2,300	2,237	2,394	(95)	2,307	2,674	2,861
Breakthrough Loans Capital Gains	20	74	61	(41)	414	613	674	(260)	537	760	793
Shared Equity Option Loans Capital Gains	0	7	9	(9)	6	45	41	(35)	27	60	69
Sundry	8	6	8	0	70	58	63	8	56	70	74
CSO subsidies and reimbursements	613	613	613	0	6,131	6,131	6,131	0	5,767	7,357	7,357
Bad Debts Recovered	9	0	0	9	103	0	69	34	108	0	69
Total Net Income	5,121	4,628	5,140	[illegible]	50,864	44,814	50,615	248	40,015	53,832	60,970
Loan Managers Payments (4)	295	329	307	11	3,001	3,208	3,020	18	3,271	3,881	3,644
Trail Commission	183	207	181	(2)	1,845	2,050	1,832	(13)	1,404	2,474	2,201
Loan Origination Expense Amortisation	81	86	90	8	820	799	848	28	865	974	1,031
Other Loan Administration Payments	31	29	28	(3)	336	287	311	(25)	359	347	369
Management Fee	0	0	0	0	0	0	0	0	649	0	0
Other Loan Managers Payments	0	7	7	7	0	72	29	29	4	87	43
Administration Expenses (5)	1,850	1,813	1,914	64	17,847	18,346	18,527	680	16,668	21,945	22,347
Personnel Expenses	1,080	1,035	1,028	(52)	10,528	10,453	10,393	(135)	9,823	12,484	12,487
Other	207	182	216	8	1,411	1,670	1,756	344	1,788	2,080	2,222
Depreciation and Amortisation of Fitouts	194	194	199	5	1,884	1,807	1,900	16	983	2,198	2,307
Information Technology	110	142	131	21	1,388	1,328	1,337	(51)	706	1,582	1,616
Marketing, Prod Dev, Adv, Spec Proj	81	121	167	86	1,324	1,690	1,798	474	1,408	1,952	2,039
Loan Administration	65	19	24	(40)	268	227	252	(16)	305	279	294
Audit Fees	55	27	28	(27)	334	269	269	(65)	216	323	324
Board Fees	22	22	22	0	220	224	220	(1)	221	289	283
Office Accommodation	14	16	18	5	194	206	212	18	832	243	255
Consultants Fee	11	17	36	25	81	105	104	24	116	147	157
Human Resources and Staff Devt	11	38	43	33	216	367	285	69	270	428	383
Bad and Doubtful Debts Expense (6)	1,369	303	357	(1,013)	1,982	2,910	135	(1,847)	1,831	3,301	966
Doubtful Debts - Specific	976	236	365	(611)	772	2,225	483	(289)	1,983	2,695	1,203
Doubtful Debts - Collective	391	66	(8)	(400)	1,144	685	(348)	(1,492)	(151)	805	(237)
Bad Debts Written Off	1	0	0	(1)	66	0	0	(66)	19	0	0
T[illegible]enses	3,515	2,444	2,577	[illegible]	22,831	24,464	21,681	[illegible]	21,770	29,128	26,957
P[illegible]oss) from ordinary activities before related income tax	1,607	2,184	2,563	[illegible]	28,033	20,350	28,934	[illegible]	18,245	24,705	34,013

Individual line item $ amounts may not add up to Totals due to rounding variance +-$1,000
LY = Last Year
Ref. = Reforecast Budget
Var. = Variance between Actual to Reforecast Budget

COMMENTS:

HomeStart's YTD profit from ordinary activities before related income tax is $28.0m, $901k or 3.1% below the YTD revised budget.

Accounts prepared in accordance with AIFRS; refer Board Glossary for specific accounting impact.

Budget Variance Analysis **OVER / (UNDER) $'000**

(1) Subsidised Loans Fair Value Expense **479**

YTD Subsidised Loans Fair Value Expense is 50.3% under YTD revised budget. Variation due to lower discount rates than forecast.

(2) EquityStart Subsidy **0**

YTD EquityStart Subsidy are line with the revised budget with 2 loans YTD.

(3) Other Loan Administration Fees **(95)**

YTD Other Loan Administration Fees Income is 4.0% below the YTD revised budget

(4) Loan Managers Payments **18**

YTD Loan Manager Payments are 0.6% below the revised budget with lower settlements.

(5) Administration Expenses **680**

YTD Administration Expenses are 3.7% under the YTD revised budget predominately due to timing of marketing expenses related to TV advert production and timing related to IS project expenses.

(6) Bad and Doubtful Debts Expense **(1,847**

YTD Bad and Doubtful Debts expense is 1371.3% over the revised budget due to COVID19 with additional provisions for customers who sought payment relief in March and April.

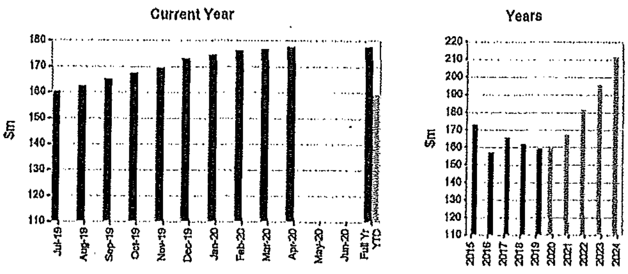
Note:

FINANCIAL PERSPECTIVE - BALANCE SHEET

As at April 2020

FP3

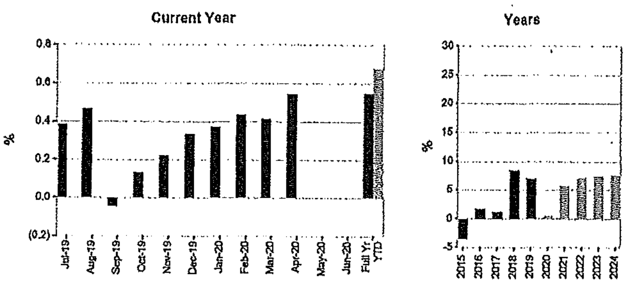
HomeStart Consolidated Net Assets



YTD net assets have increased by $18.4m (11.6%) predominantly due to the favourable YTD profit after tax.

Actual ■ Forecast ▒

HomeStart Consolidated Movement YTD in Total Assets



YTD total assets have increased by $9.2m (0.42%) largely due to the change in treatment of leases under new accounting standard (AASB 16).

YTD gross loan portfolio has decreased by $6.7m (-0.30%) due to the continued increase in discharges.

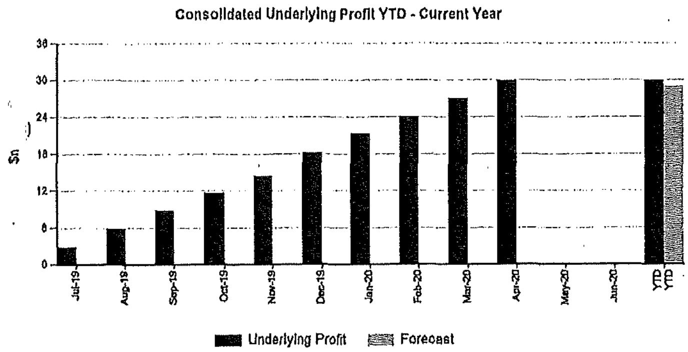
	ACTUAL Apr-20 $ '000	FORECAST Jun-20 $ '000	LAST YEAR Jun-19 $ '000
Funds Employed			
Retained Earnings	155,346	128,102	139,812
Credit Losses Reserve	7,306	7,306	7,306
Derivative Valuation Reserve	(4,675)		(4,202)
Current Years Profit (after tax)	19,623	23,809	16,301
Total Funds Employed	**177,600**	**159,217**	**159,217**
Assets			
Standard Loans	2,079,537	2,094,582	2,080,068
Subsidised Loans	110,276	111,808	111,672
Breakthrough Loans	44,051	43,818	48,954
Shared Equity Option Loans	5,049	5,949	3,677
Control Accounts	81		1,331
Gross Loan Portfolio	2,238,994	2,256,157	2,245,703
Fair Value Adjustment	(9,197)	(10,152)	(10,639)
Net Deferred Loan Fees	(7,780)	(7,896)	(7,555)
Total Loans (After AIFRS adjustments)	2,222,017	2,238,109	2,227,508
Provision for Impairment - Specific	(7,630)	(7,014)	(8,230)
Provision for Impairment - Collective	(11,503)	(10,122)	(10,359)
Impaired Loans Unearned Income	(2,115)	(2,078)	(2,170)
Net Portfolio	2,200,770	2,218,895	2,206,748
Derivatives			0
Other Assets	26,519	11,252	11,252
Total Assets	**2,227,289**	**2,230,147**	**2,218,001**
Less: Liabilities			
Borrowings	2,023,014	2,052,427	2,040,430
Tax Liability	5,859		3,856
Derivatives	4,675		4,202
Other Liabilities	16,140	18,503	10,295
Total Liabilities	**2,049,688**	**2,070,930**	**2,058,783**
Net Assets	**177,600**	**159,217**	**159,217**

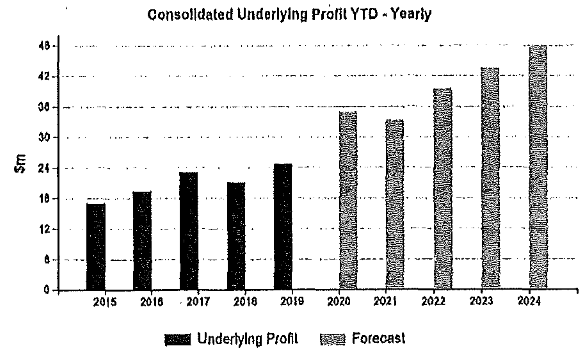
Individual line item $ amounts may not add up to Totals due to rounding variance +-$1,000

FINANCIAL PERSPECTIVE - PROFITABILITY AND RETURN

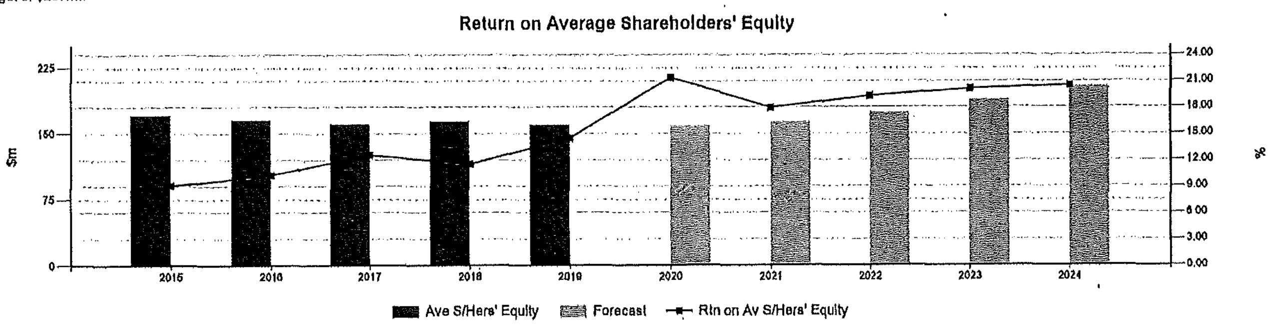
FP4

As at April 2020





- YTD actual underlying profit was $30.0m which was $0.9m higher than YTD revised budget of $29.1m.



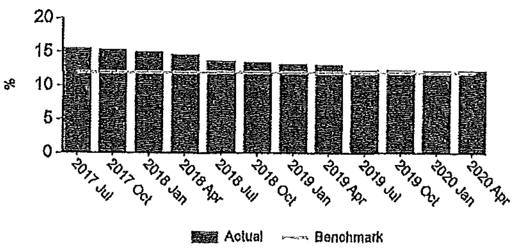
- YTD actual return on shareholder's equity was 20.6% compared to FY revised budget of 15.2%.

FINANCIAL PERSPECTIVE - PORTFOLIO RISK ANALYSIS

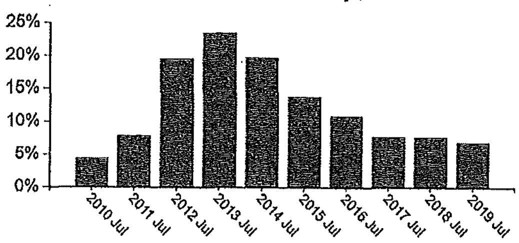
FP5

As at April 2020

Capital Adequacy Ratio

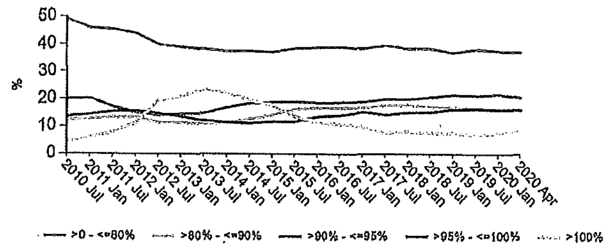


Portfolio LVR >100% by $value



Exc Community Lending & Aged Care. Values as at July each year after the annual VG update in LLAS.

Portfolio by LVR Distribution by $value



Exc Community Lending & Aged Care

Portfolio Potential Shortfall - Stress Test

Sale Price: Current Value %		Customers who sell % ($m)			
Metro	Country	1%	10%	20%	30%
99	79	$0.8	$7.6	$15.2	$22.7
90	70	$1.6	$15.5	$31.1	$46.6
80	60	$3.0	$29.6	$59.2	$88.9
70	50	$4.7	$47.0	$94.0	$141.1

E.g. If 30% of properties were sold on the one day and HomeStart only realises 70% of current value in the Metro Areas and 50% in Country Areas, $141.1 million in capital would be required to make up the shortfall.

General Portfolio Risk Statistics	2020 Apr	2020 Mar	Benchmark
Current Weighted Avg LVR (%)	79.39	79.17	<=80.00
Weighted Avg Age (years)	4.65	4.65	n/a
Non-Accrual Loans (%)	2.55	2.42	<=5.60

FINANCIAL PERSPECTIVE - TREASURY

As at April 2020

Key Measures	This month $	Previous month $	Policy limit $
Total debt portfolio	2,023,014,478	2,021,553,435	2,460,000,000
Market Value profit/(loss) of debt portfolio	(1,440,841)	956,182	

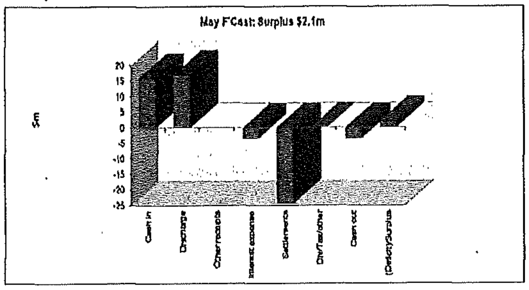
	Actual this month	Previous month
Cost of Funds %	0.749	1.074
Avg Guarantee fee %	1.303	1.303

Comments/Actions:

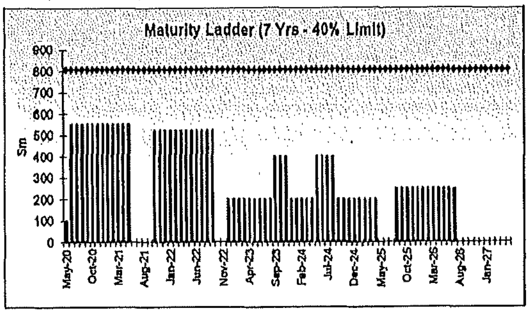
Borrowings increased by $1.4m in April. Settlements were around expectation but loan discharges were down compared to recent months. Borrowings are forecast to reduce next month allowing for decreases in both settlements and discharges.

The market value position on debt shifted back due to some unwinding of the significant increase in credit spreads since March. Funding costs reduced further from continuing reductions to the benchmark 30 day rate (BBSW). Refinancing over the next 12 months will increase when May 2021 maturities become short-term but will be well within the 40% limit.

Graph 1 Forecast borrowing for next month



Graph 2 Maturity ladder (refinancing risk)



As at April 2020

Valuer-General Quarterly House Price Changes

Suburb	Dec 2019 ($)	Dec 2018 ($)	Period change (%)
Blakeview	342,000	351,750	-2.8
Elizabeth Downs	203,250	182,500	11.4
Salisbury East	315,000	320,000	-1.6
Brahma Lodge	265,000	285,000	-7.0
Morphett Vale	308,500	324,100	-4.8
Christie Downs	280,000	260,000	7.7

Source: Data SA metro median house sales (latest quarterly update)

Selected South Australian Indicators

INDICATOR	Latest	A year ago	COMMENTS
Unemployment (%)	6.0	6.0	SA, trend data, Mar20
Retail Sales - Total ($m)	1,794	1,772	+1.21% trend data change over 12 months to Jan20 *
Inflation (Adelaide, all groups) (%)	2.4	1.3	Mar qtr 2020, YoY inflation figures
RP Data Home Value Index	118.28	116.23	Adelaide prices: +1.8% from 12 months ago

Sources: ABS Cats 5609, 6202, 8501, 6401 (latest updates; RP Data Daily Index on rpdata.com)

** ABS has suspended publishing of trend data for Retail Sales as the coronavirus effects makes underlying comparisons invalid*

Comments/Actions:

The RBA left the official cash rate at 0.25% during May and has also maintained a target 3 year bond rate of 0.25%. In the RBA Statement on Monetary Policy (released 8 May) the base case estimate of unemployment peaks at around 10% over coming months (assuming some decreases in hours worked will mitigate job losses) and is still above 7% at the end of 2021. The forecast effect on GDP is shorter term with it expected to be negative for the last half of 2020. The table at the right shows the forecasts compared with those prior to the onset of the coronavirus.

An upside scenario is for faster return to normal economic activity with improved consumer confidence by maintaining good progress in containing the coronavirus, while the downside would be a delay in lifting of restrictions or the need to reimpose restrictions. The RBA Board has stated it will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band. This is expected to be some time away, with the view among forecasters that rates will be unchanged until 2022 at the earliest.

The graph to the right shows expectations for housing price growth in Australia over the next year have fallen sharply, with over half of those surveyed expecting prices to decline, compared to around 10 per cent of respondents earlier this year. Restrictions on auctions and open inspections have contributed to this and although these are likely to be unwound progressively, consumer confidence and uncertainty are expected to have continuing effects over coming months.

Charts for the Month

Table 6.1: Output Growth and Inflation Baseline Forecasts[a],[b]

Per cent

	Year-ended					
	Dec 2019	June 2020	Dec 2020	June 2021	Dec 2021	June 2022
GDP growth	2.2	–8	–6	7	6	5
(previous)	(2)	(2)	(2¾)	(3)	(3)	(3)
Unemployment rate[c]	5.2	10	9	8½	7½	6½
(previous)	(5.2)	(5¼)	(5)	(5)	(4¾)	(4¾)
CPI inflation	1.8	–1	¼	2¼	1½	1½
(previous)	(1.8)	(1¾)	(1¾)	(1¾)	(2)	(2)
Trimmed mean inflation	1.6	1¼	1¼	1¼	1¼	1½
(previous)	(1.6)	(1¾)	(1¾)	(1¾)	(2)	(2)
	Year-average					
	2019	2019/20	2020	2020/21	2021	2021/22
GDP growth	1.8	–1	–5	–3	4	6
(previous)	(1¾)	(2)	(2½)	(2¾)	(3)	(3)

(a) [illegible]

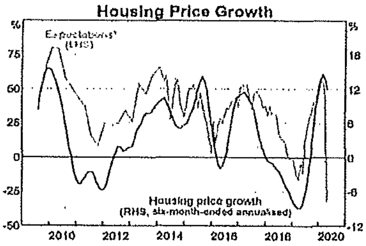
(b) [illegible]

(c) [illegible]

Sources: ABS; RBA

Graph 3.13

Housing Price Growth



* Share of survey respondents expecting an increase in prices over the coming year less share of respondents expecting a decrease in prices

Sources: CoreLogic; RBA; Westpac-Melbourne Institute

FINANCIAL PERSPECTIVE - RISK MANAGEMENT

FP8

As at April 2020

Category	Number
Inherent Risks	
Extreme	0
Major	8
Moderate	15
Low	1
[illegible]sidual Risks	
Extreme	0
Major	3
Moderate	18
Low	1

New Major and Extreme Incidents

Existing Major and Extreme Incident Update

New / Emerging Risks

COVID-19.

Extreme Residual Risks

Major Residual Risks

Cybercrime
Change in Government Policy Setting
System Failure

Business Continuity

BCP: February 2020
Last Completed Test - Partial test November 2019.
Next Test - TBC
IT DR Plan: Last tested April 2019

Risk Indicators - all % data calculated by reference to loan values unless otherwise stated

	2020 Apr	2020 Mar	2020 Feb	2020 Jan	2019 Dec	2019 Nov
Stress Test (Write-Offs)* ($m)	$140.9	$139.4	$137.6	$135.7	$134.8	$132.3
$ Arrears >= 1 Months ** (%)	2.12	1.99	1.84	1.75	1.75	1.53
$ Arrears >= 3 Months ** (%)	0.76	0.73	0.71	0.68	0.74	0.72
SPIN*** > 1 Months (%) - 2 month lag			1.00%	0.95%	0.90%	0.90%
SPIN*** > 3 Months (%) - 2 month lag			0.52%	0.49%	0.46%	0.50%
Capitalised Arrears ($ '000) (No.of loans)	56 (17)	15 (11)	4 (4)	7 (12)	3 (6)	14 (14)
Customers in Advance (^%)	64.91	64.61	65.29	66.38	65.10	66.28
No. Loans with Voluntary Instalments (%)	40.47%	40.50%	40.57%	40.28%	39.68%	39.58%
Properties for Sale (MIP) **** (No.)	20	25	24	25	29	30
Capitalising loans >$50/mth ($'000) (No of loans)	138.9 (558)	52.7 (216)	5.4 (32)	7.1 (41)	5.8 (29)	5.2 (27)
Portfolio Loans > 100% LVR (%)	9.11%	8.47%	7.99%	7.81%	7.84%	7.58%
New Lending rated ARG 5 (%)	2.93%	1.77%	3.31%	3.59%	0.00%	4.08%
High LVR New Lending > 95% - Graduate Loans (%) +	44.30%	47.54%	45.04%	45.44%	43.16%	46.45%
High LVR New Lending > 95% - Other (%) +	1.37%	3.06%	3.13%	3.70%	1.55%	2.11%
No. Channels 'A' Audit - New Lending (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
No. Channels 'A' Audit - Arrears (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Borrowing Limit Capacity ($m)	$437.0	$438.4	$436.7	$438.2	$173.0	$172.2

Account Payment Performance	No.	Amount ($)	Comments
Paid by due date	312	$1,137,074.02	
Paid late, but paid within 30 days of due date	0	$0.00	
Paid more than 30 days after due date	0	$0.00	

* based on 30% sale of properties.
** A[illegible] ne HOME, RP and all Realisation accounts.
*** ([illegible] andard and Poors Australian RMBS PRIME Spin - two mont[illegible]
**** Mortgagee In Possession

CUSTOMER PERSPECTIVE - LOAN PORTFOLIO COMPOSITION

CP1

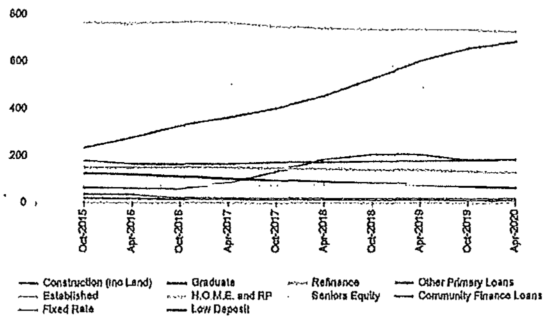
As at April 2020

Portfolio Value ($m) by Loan Type	Jun-2018	Jun-2019	Mar-2020	Apr-2020	Monthly Movement	YTD Movement
Construction (inc Land)	173.0	179.0	181.8	182.6	0.8	3.6
Established	739.7	736.9	724.3	724.5	0.2	(12.4)
Fixed Rate	197.9	199.4	181.9	182.0	0.2	(17.3)
Graduate	478.2	633.5	677.9	681.0	3.2	47.5
H.O.M.E. and RP	0.3	0.2	0.1	0.1	0.0	(0.1)
Low Deposit	85.4	73.3	63.6	62.8	(0.8)	(10.5)
Refinance	141.1	137.8	128.5	127.5	(1.0)	(10.3)
Seniors Equity	76.3	76.9	78.9	79.2	0.3	2.3
Other Primary Loans	12.1	10.7	9.4	9.4	(0.1)	(1.3)
Community Finance Loans	16.4	16.0	14.6	14.5	(0.1)	(1.4)
Primary Loan Portfolio	**1,919.5**	**2,063.6**	**2,061.0**	**2,063.6**	**2.6**	**0.0**
Advantage	74.7	78.1	78.6	78.7	0.1	0.6
Breakthrough	47.7	43.0	38.5	38.0	(0.5)	(4.9)
EquityStart	33.3	33.0	31.2	30.9	(0.3)	(2.1)
Shared Equity Option	0.1	3.7	5.0	5.0	0.0	1.4
Split Fixed	14.4	13.1	9.0	9.4	0.5	(3.7)
Starter Loan			0.6	0.7	0.1	0.7
Wyatt	1.3	1.4	1.3	1.3	0.0	0.0
Other Secondary Loans	3.8	4.0	6.7	7.2	0.5	3.3
Secondary Loan Portfolio	**175.4**	**176.2**	**170.9**	**171.3**	**0.5**	**(4.8)**
Loan Portfolio	**2,094.8**	**2,239.7**	**2,231.9**	**2,234.9**	**3.1**	**(4.8)**

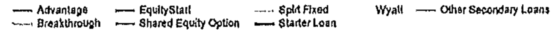
Primary Portfolio Count by Loan Type	Jun-2018	Jun-2019	Mar-2020	Apr-2020	Monthly Movement	YTD Movement
Construction (inc Land)	1013	1019	1001	1000	-1	-19
Established	6025	5902	5774	5775	1	-127
Fixed Rate	899	873	787	788	1	-85
Graduate	1698	2154	2241	2251	10	97
H.O.M.E. and RP	58	42	39	39	0	-3
Low Deposit	583	530	486	483	-3	-47
Refinance	1667	1604	1529	1525	-4	-79
Seniors Equity	1167	1153	1145	1146	1	-7
Other Primary Loans	127	122	113	113	0	-9
Community Finance Loans	17	16	12	12	0	-4
Loan Portfolio	**13,254**	**13,415**	**13,127**	**13,132**	**5**	**-283**

Data excludes Loss Recovery and off balance sheet loans

Portfolio Value ($m) by Loan Type for Primary Lending



Portfolio Value ($m) by Loan Type for Secondary Lending



Comments/Actions:

CUSTOMER PERSPECTIVE - LOAN ACTIVITY STATISTICS

CP2

As at April 2020

Loan Activities	April 2020		MTD Budget	Var	YTD Actuals		YTD Budget	Var
Approvals	No.	$'000	$'000	$'000	No.	$'000	$'000	$'000
Primary Loans	119	35,834			1,145	329,048		
Secondary Loans					6	1,450		
Subsidised Loans	27	755			239	7,529		
Lending Approvals	**119**	**36,589**	**35,622**	**966**	**1,145**	**338,026**	**415,050**	**-77,024**
New Lending By Loan Type								
Construction (inc Land)	8	2,253			127	38,863		
Established	21	5,227			228	53,243		
Fixed Rate	16	4,937			160	49,201		
Graduate	48	17,981			455	168,133		
Low Deposit					4	1,339		
Refinance	1	199			27	5,177		
Seniors Equity	10	1,009			95	8,014		
Lending total	**104**	**31,606**	**35,622**	**-4,017**	**1,096**	**323,970**	**415,050**	**-91,080**
Home Equity	6	79	230	-151	92	1,481	2,301	-820
New Lending total	**110**	**31,685**	**35,853**	**-4,168**	**1,188**	**325,451**	**417,352**	**-91,900**
Redraw	438	756	1,397	-641	7828	13,232	13,972	-740
Total Settlements	**548**	**32,442**	**37,250**	**-4,808**	**9016**	**338,683**	**431,323**	**-92,640**

Data excludes Community Finance

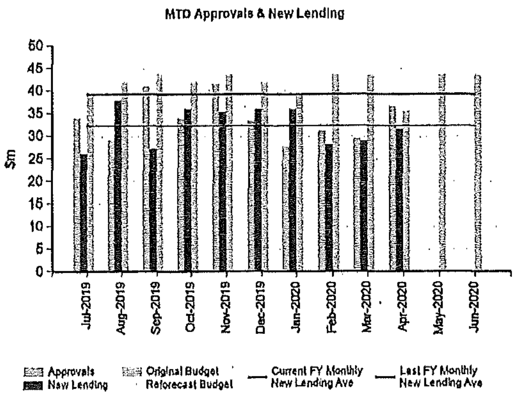
Indicator guide : <90 | 90 - 99 | >=100 of target

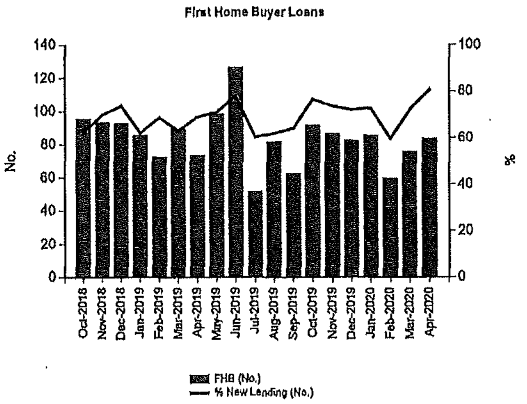
Secondary Loans	April 2020				YTD Actuals			
	No.	$'000			No.	$'000		
Advantage	18	513			204	5,411		
EquityStart					2	91		
Shared Equity Option	1	49			23	1,626		
Split Fixed	2	580			8	2,119		
Starter Loan	13	107			73	673		
Wyatt	2	20			20	182		
Total	**36**	**1,269**			**330**	**10,101**		
	No.	$'000			No.	$'000		
munity Finance								

Comments/Actions:
New Lending approvals for April 2020 were $36.589M

New Lending approvals for April 2019 were $37.216M

Settlements for April 2020 were 104 @ $31.606M (69% of $ target) vs
Settlements for April 2019 were 107 @ $31.665M (60% of $ target of $53.61M)



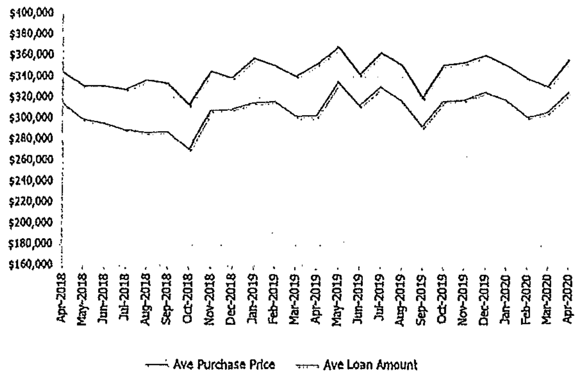


CUSTOMER PERSPECTIVE - NEW LENDING PROFILE

CP3

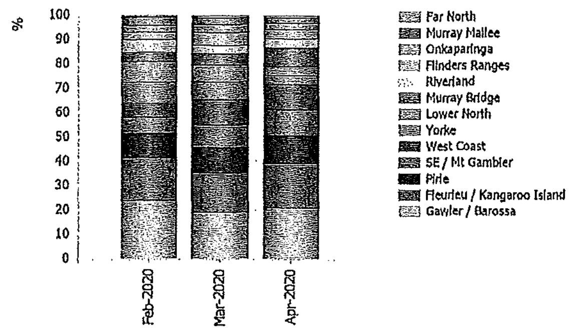
As at April 2020

New Lending Average Purchase Price vs Average Loan Amount*



* Excludes Seniors Equity Loans

Country Lending by Geographical Split^



New Lending Profile by No.

Buyer Status	Feb-2020 %	Mar-2020 %	Apr-2020 %	YTD %	FY2019 %
First Home Buyer	60.00	72.38	80.77	69.80	66.16
Non-FHB	40.00	27.62	19.23	30.20	33.84
Loan Type					
Construction (Inc Land)	9.00	14.29	7.69	11.59	9.71
Established	22.00	17.14	20.19	20.80	26.27
Fixed Rate	22.00	21.90	15.38	14.60	9.71
Graduate	34.00	31.43	46.15	41.51	42.33
Low Deposit	0.00	0.00	0.00	0.36	0.79
Other Primary Loans	0.00	0.00	0.00	0.00	0.00
Refinance	3.00	2.86	0.96	2.46	4.40
Seniors Equity	10.00	12.38	9.62	8.67	6.78
Property Purchase Price (exc Seniors Equity Loans)					
<$150,000	4.44	3.26	1.06	2.60	2.23
$150,000 - $199,999	3.33	9.78	3.19	5.09	5.96
$200,000 - $249,999	8.89	14.13	7.45	8.99	11.01
$250,000 - $299,999	31.11	10.87	17.02	16.98	16.51
$300,000 - $349,999	12.22	18.48	19.15	17.98	20.18
$350,000 - $399,999	11.11	17.39	20.21	18.18	17.23
$400,000+	28.89	26.09	31.91	30.17	26.87
Ave Property Purchase Price	$338,864	$331,055	$356,333	$348,260	$341,867
Ave Loan Amount	$302,281	$306,329	$325,497	$315,640	$302,896
Original LVR (exc Seniors Equity Loans)					
>0 - <=80%	15.56	9.78	9.57	11.79	15.66
>80% - <=90%	7.78	10.87	9.57	9.29	10.88
>90% - <=95%	37.78	36.96	40.43	37.96	34.80
>95%	38.89	42.39	40.43	40.96	38.66
Geographical Split					
Country	22.00	20.00	19.23	19.53	19.43
Eastern	7.00	6.67	7.69	6.02	6.05
Northern	1.00	5.71	0.96	4.11	3.79
Northern Fringe	26.00	27.62	31.73	29.84	32.68
Onkaparinga	2.00	3.81	3.85	4.84	4.76
South	7.00	3.81	4.81	5.93	6.78
Southern Fringe	20.00	18.10	25.96	17.15	14.97
Western	15.00	14.29	5.77	12.59	11.48

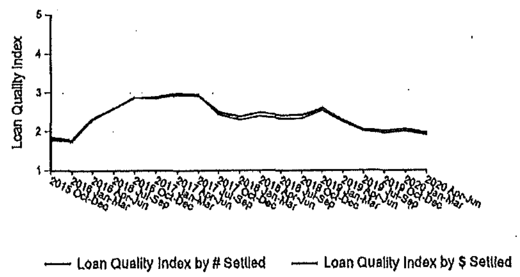
Data includes Restructured loans and excludes Community Finance loans. Seniors Equity loans are also excluded where indicated.

CUSTOMER PERSPECTIVE - APPLICATION RISK GRADING DISTRIBUTION

CP4

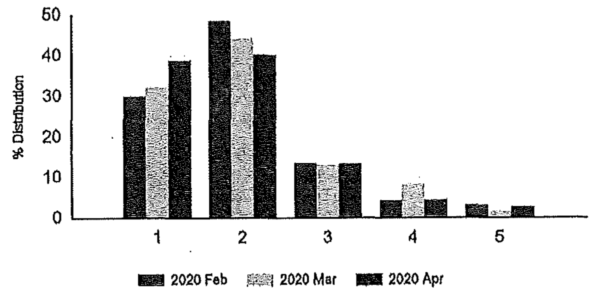
As at April 2020

Loan Quality Index



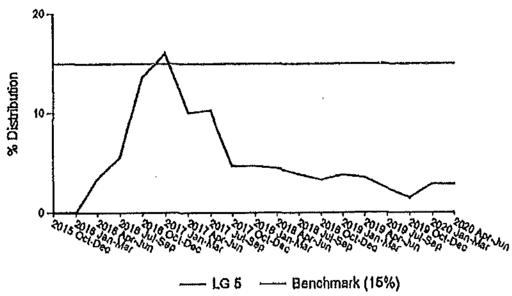
Index of total loans settled by application risk grade (ARG)

Loan Grade Distribution Comparison (by $ Settled)



A comparison of the distribution of loans settled by application risk grade for the previous 3 months

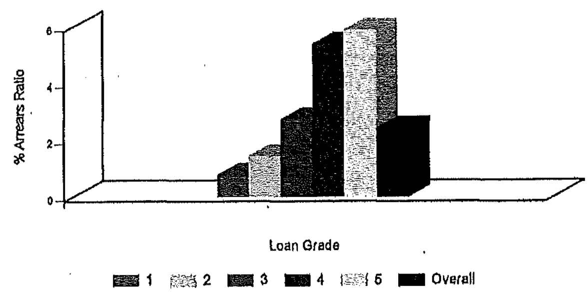
Loan Distribution (by $ Settled)



Proportion of new loans (ARG 5) settled to total $ settled

Benchmark: % of loans settled to total loans settled < 15 % (grey line)

Arrears Ratio by Loan Grade



The ability of the ARG credit scoring system to capture the largest proportion of arrears accounts in risk grades (ARG 5)

CUSTOMER PERSPECTIVE - ARREARS

CP5

As at April 2020

	Apr-2019		Mar-2020	Apr-2020			
Months in Arrears	No. of Arrears	% to Portfolio by Value	% to Portfolio by Value	No. of Arrears	% to Portfolio by No.	% to Portfolio by Value	% to Portfolio 3 Mth Moving Avg by Value
1 Month in Arrears	122	0.95	0.93	134	1.11	1.09	
2 Months in Arrears	60	0.43	0.33	33	0.27	0.28	
3 Months in Arrears	24	0.16	0.17	29	0.24	0.21	
4 Months and over	85	0.61	0.56	87	0.72	0.54	
Total	**291**	**2.15**	**1.99**	**283**	**2.35**	**2.12**	**1.98**

	HomeStart Retail	Policy and Compliance	Pre Legal - Realisations	Mortgagee in Possession	Supreme Court	Hardship	Community Finance
1 Month in Arrears	101	1	10		6	16	
2 Months in Arrears	18		6		5	4	
3 Months in Arrears	11		7		5	6	
4 Months and over	8	2	21	18	33	5	
Total	**138**	**3**	**44**	**18**	**49**	**31**	
Portfolio*	11703	30	118	20	64	84	12

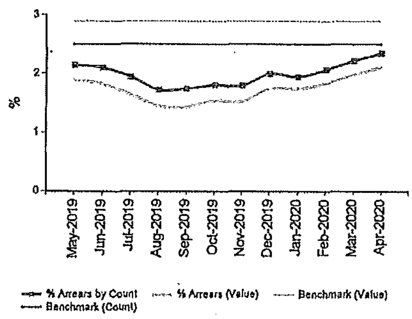
% Portfolio (No.)	2.35 %
% Portfolio 3+ months (No.)	0.96 %
Benchmark by No.	
% Portfolio ($)	2.12 %
% Portfolio 3+ months ($)	0.75 %
Benchmark by $	2.90%
Avg Age of Portfolio	7.3

Comments/Actions:

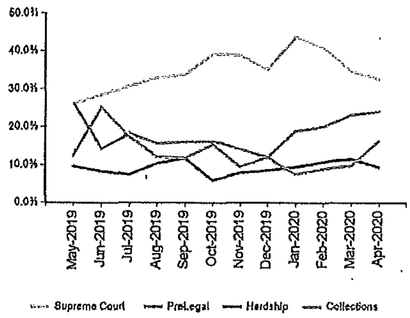
It is encouraging that despite the impact of COVID, arrears have remained fairly stable and we have not exceeded the target of 2.5% for all arrears cases, and 1.0% for >90 days.

With the inbound volumes returning to more manageable volumes, and with increased resource on the portfolio, we expect to see a reduction in these numbers of the coming month.

% To Portfolio by No. and $



Percentage of Loans 3+ Months in Arrears



* Data excludes Senior Equity, Loss Recovery and Off Balance Sheet loan products.

Indicator guide : <90 90 - 99 >=100 of target

INTERNAL PERSPECTIVE - REALISATIONS

As at April 2020

Portfolio - Realisations	Feb-2020	Mar-2020	Apr-2020
Opening Balance for Month	26	24	25
Add New Properties	2	2	2
[illegible]charges	3	1 (+1)	7
Closing Balance	24	25	20
Le[illegible] Contracts In Hand	5	13	8
Properties for sale	19	12	12

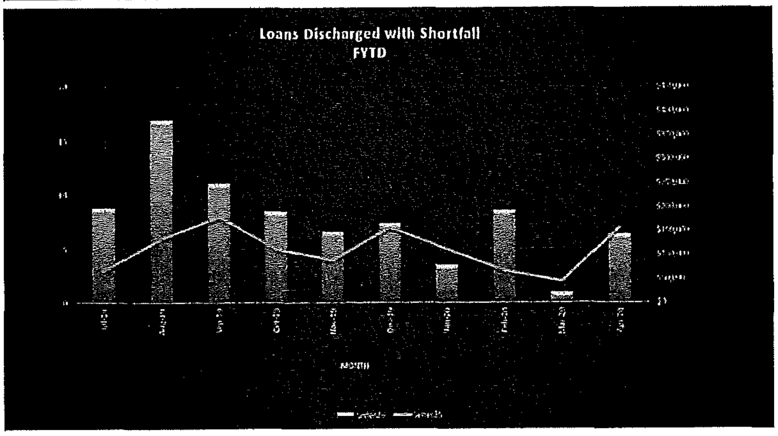
Shortfall Details	Apr	YTD	Benchmarks
Total Shortfall ($)	143,655	1,835,319	2,225,928
Average Shortfall ($)	20,522	35,986	41,250
Average age of Current Stock (Days)	186		90

Legal Portfolio Summary	Mar-20	Apr-20	FYTD 19
Rolled over	203	205	
New	14	12	157
Returning	5	4	59
Deceased	0	1	7
Sub total	222	222	
Less Transferred to MIP	2	2	39
Less Loans Refinanced/Discharged	5	3	53
Less Loans returned to Hardship/Retail	7	5	50
Closing balance at month end	208	212	

Pre-Legal	136	148	
Supreme Court	69	68	

WRITE OFF COMPARISON YEAR TO DATE

	$0k to $10k	$11k to $20k	$21k to $30k	$31k to $40k	$40k+	Total $
Full Year Budget $ Value	26,711	53,423	53,423	53,423	53,423	2,671,114
YTD #	17	2	7	6	19	51
YTD Total $ Value	30,719	32,239	196,951	211,610	1,363,801	1,835,319



Comments/Actions:

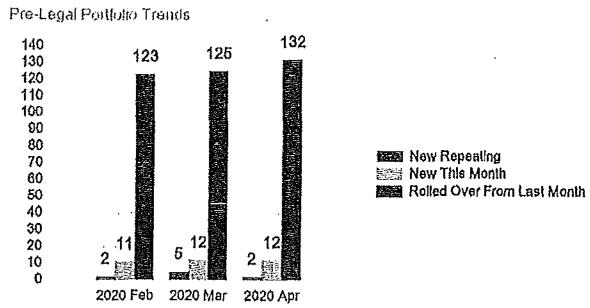
- 7 discharges completed in April 2020 which yielded an approved write off value of $143,655 (average $20,522).
- 2 new shortfalls with a provisioned loss of $92,483 have been established this month with the properties considered 1 x Poor and 1 x Average. The current YTD potential provisioned shortfalls are 20 properties with total provision of $1,101,754 (average $55,088).
- Performance against FY20 Budget is within range at 82%: $1,835,319 actual loss vs $2,225,928 budget year to date.

INTERNAL PERSPECTIVE - LEGAL CASES

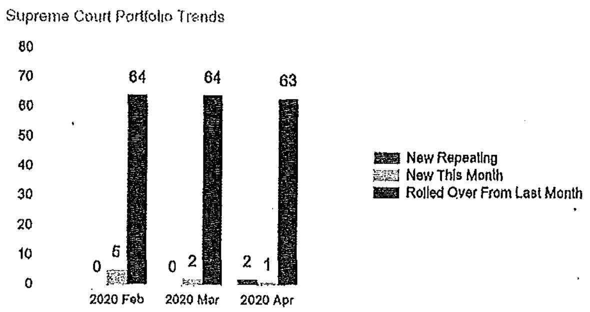
CP7

As at April 2020

Pre-Legal	Primary Loans	Loan Balance	Arrears	Average Balance
Current	146	$15,689,179.35	-$807,818.77	
New Repeating	2	$230,448.30	$1,503.04	$115,224.15
New This Month	12	$1,799,948.76	-$171,850.86	$149,995.73
Rolled Over From Last Month	132	$13,658,782.29	-$637,470.95	$103,475.62
Outgoing	7	$400,534.47	-$26,502.79	
Discharged This Month	3	$0.00	$0.00	$0.00
Loss Recovery	0	$0.00	$0.00	$0.00
Mortgagee In Possession	0	$0.00	$0.00	$0.00
Rehabilitated This Month	4	$400,634.47	-$26,502.79	$100,133.62



Supreme Court	Primary Loans	Loan Balance	Arrears	Average Balance
Current	66	$9,603,998.90	$390,478.90	
New Repeating	2	$218,413.63	$4,586.31	$109,206.82
New This Month	1	$142,724.41	$5,943.51	$142,724.41
Rolled Over From Last Month	63	$9,322,860.86	$379,949.08	$147,981.92
Outgoing	3	$344,406.94	$42,369.26	
Discharged This Month	0	$0.00	$0.00	$0.00
Loss Recovery	0	$0.00	$0.00	$0.00
Mortgagee In Possession	2	$264,320.70	$43,390.64	$132,160.35
Rehabilitated This Month	1	$80,086.24	-$1,021.38	$80,086.24



Comments/Actions:

The legal portfolio has remained fairly static over the past 3 months due to a suspension of new cases being forwarded to Supreme Court as a result of COVID restrictions commencing early March.

As restrictions start to ease, appropriate action will resume including Evictions (2 are adjourned until July, pending a review of the COVID situation).

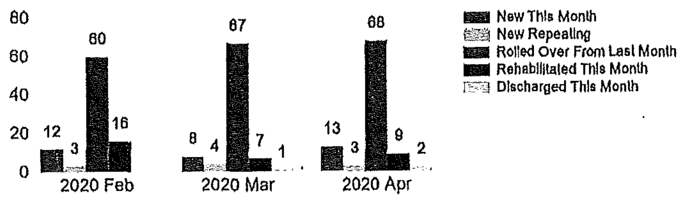
INTERNAL PERSPECTIVE - HARDSHIP CASES

CP7

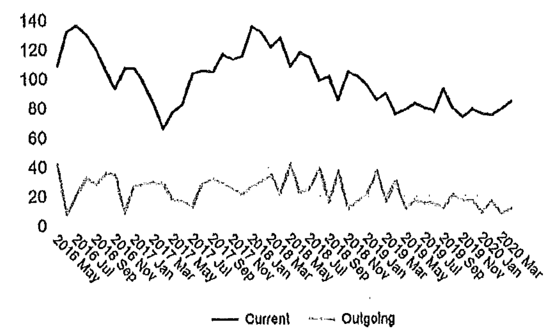
As at April 2020

Hardship Status	Primary Hardship Count
Current	84
New Repeating	3
New This Month	13
Rolled Over From Last Month	68
Outgoing	11
Discharged This Month	2
Loss Recovery	0
Mortgagee In Possession	0
Rehabilitated This Month	9

Hardship Portfolio Trends



Loans Held in Hardship



Comments/Actions:

There has been an increase of 5 new cases which are not specifically related to COVID. Overall the portfolio has remained stable despite high volumes of work and with the addition of a further FTE, we can start to reduce the processing times of new applications.

CUSTOMER PERSPECTIVE - CUSTOMER PROFILE

CP8

[redacted]

Metro** % 83.00

[redacted]

CUSTOMER PERSPECTIVE - EQUITYSTART, SEO AND BREAKTHROUGH ACTIVITY

As at April 2020

EquityStart	No.	$ '000
Total	0	

Shared Equity Option	No.	$ '000
PreApprovals	9	2,780
Approved	8	2,961
Total	17	5,741

ending	YTD		All	
Start	No.	$ '000	No.	$ '000
EquityStart Loan		91		67,827
HomeStart Loans		289		200,859
Total Settled	2	381	1488	268,686

New Lending	MTD		YTD		All	
Shared Equity Option	No.	$ '000	No.	$ '000	No.	$ '000
HomeStart Loans		279		6,309		21,476
Shared Equity Option		49		1,626		5,341
Total Settled	1	328	23	7,934	77	26,816

New Lending	All	
Breakthrough	No.	$ '000
Breakthrough Loan		109,669
HomeStart Loans		244,954
Total Settled	1344	354,623

New Lending	All	
Off Balance Sheet - SAL	No.	$ '000
Off Balance Sheet		7,064
HomeStart Loans		23,355
Total Settled	98	30,418

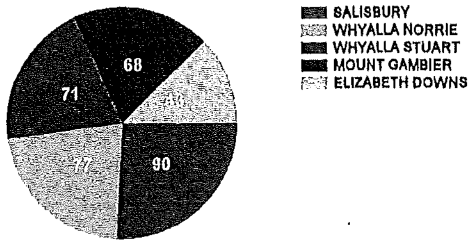
EquityStart Portfolio	No.	$ '000
EquityStart Loans	624	30,899
Start Loans		66,459

Shared Equity Option Portfolio		$ '000
Shared Equity Option	73	5,046
HomeStart Loans		19,227

Breakthrough Loans Portfolio		$ '000
Breakthrough Loans	440	38,024
HomeStart Loans		58,356

Comments/Actions:

Top 5 EquityStart Loan Settlement Locations



Breakthrough Loans Gains/Losses on Property Movements $ '000	MTD	All
Gains	36	5,933
Losses	(17)	(953)

Breakthrough Loan Current Portfolio by LVR	No.	$ '000	% by $
>100%	19	6,729	6.97
>95% - <=100%	21	5,614	5.81
>90% - <=95%	34	8,860	9.17
>80% - <=90%	95	25,209	26.10
>0 - <=80%	271	50,181	51.95
Total	440	96,592	100

CUSTOMER PERSPECTIVE - DISCHARGES

As at April 2020

Discharges	BankSA	Bernie Lewis	Brokers	HomeLoans Plus	Internal - Adelaide	Internal - North	Internal - South	HLC	Total	YTD Budget
MTD No.	11	5	40	8	12	4	2	5	87	
MTD $'000	1,574	1,004	12,106	1,289	2,666	1,323	468	519	20,949	20,699
YTD $'000	23,688	18,390	121,999	17,320	44,075	14,127	14,331	8,186	262,116	202,708

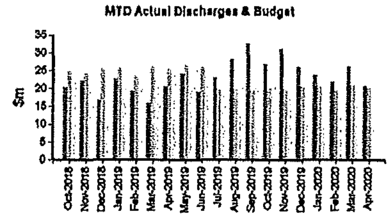
Discharge Summary by Loan Manager

MTD	BankSA	Bernie Lewis	Brokers	HomeLoans Plus	Internal - Adelaide	Internal - North	Internal - South	HLC	All Loans
Ave Age (yrs)	9.8	9.6	2.2	10.1	7.4	2.2	2.9	12.4	5.5
Benchmark (yrs)	3	3	3	3	3	3	3	3	3
Ave LVR %	69.07	57.41	82.60	57.19	69.31	88.31	88.89	48.26	70.13

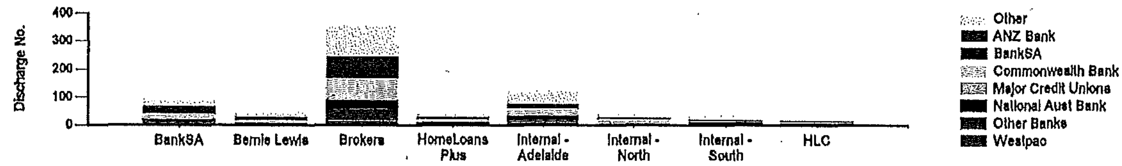
Discharge Reason by Loan Manager

YTD	BankSA	Bernie Lewis	Brokers	HomeLoans Plus	Internal - Adelaide	Internal - North	Internal - South	HLC	Total Avg %
Property Sold	31.35	30.19	14.09	32.69	25.85	22.41	30.91	34.91	27.80
Refinance	38.89	50.00	83.18	50.00	61.46	75.86	67.27	28.30	56.87
Repaid in Full	29.37	19.81	2.73	17.31	12.20	1.72	1.82	36.79	15.22
Other	0.40	0.00	0.00	0.00	0.49	0.00	0.00	0.00	0.44

MTD Actual Discharges & Budget



YTD Refinance by Institution by Channel



Comments/Actions:

April's discharges, both number and $ value are in line with budget for the first time this FY. The month's total of $20.72m is only slightly higher than April 2019's $20.66m. Broker accounts for 57% of $ figure for the month. By $ value YTD figure is 129% of budget. YTD 57% overall have been refinanced to OFIs, 28% property sales and 15% paid in full. These percentages have been consistent for the YTD.

Data excludes Aged Care, Community Finance, Loss Recovery, HomeStart - SAL Loan Managers and Loan Types Loss Recovery

Indicator guide: <=100 101 - 110 >110 of target

INTERNAL PERSPECTIVE - CHANNEL

IP1

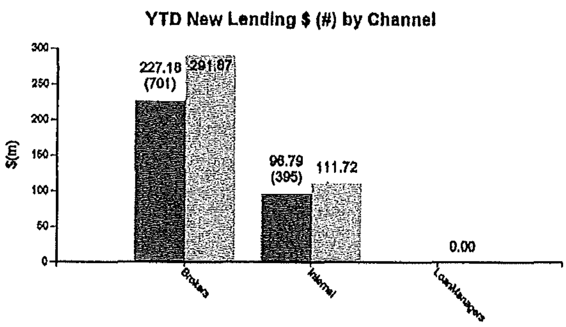
As at April 2020

Channel Lending	Total	Brokers	Internal	LoanManagers
Approvals (No.)	119	78	41	
Approvals ($ '000)	36,689	25,078	11,611	
Lending (No.)	104	73	31	
Lending ($ '000)	31,606	24,434	7,172	
[illegible] Loan Amount ($ '000)*	325	337	288	
Weighted Avg LVR of New Lending*	92.71%	92.99%	81.40%	
Home Equity ($ '000)	79		79	
ReDraw ($ '000)	756	174.	261	321
Total Settlements($'000)	32,442	24,608	7,512	321
Portfolio Management Details				
Portfolio Loans (No.)	13,135	3,622	3,591	5,922
Portfolio Loans ($ '000)	2,234,794	943,425	691,554	599,814
Portfolio Loans $ Value by Final LVR				
>0 - <=80%	60.82	8.77	14.75	37.30
>80% - <=90%	12.07	4.46	3.94	3.67
>90% - <=95%	12.27	6.81	3.94	1.52
>95% - <=100%	8.58	5.04	2.52	1.02
>100%	6.26	2.50	2.19	1.58
Total Net Commission Paid ($)		$230,773		$54,842

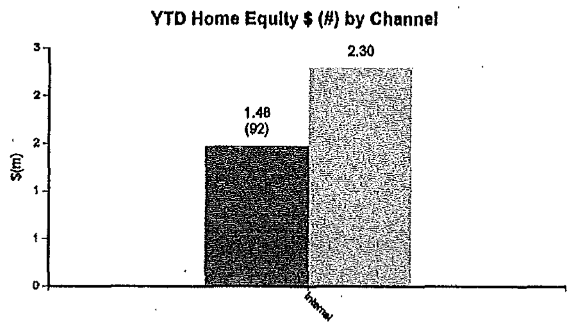
* Data excludes Seniors Equity loans,
Loan Manager is equivalent of Original Loan Manager

INTERNAL PERSPECTIVE - CHANNEL

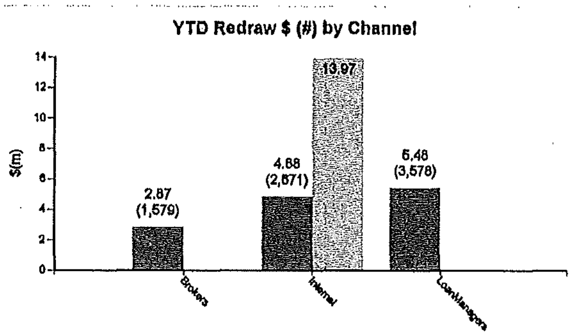
As at April 2020



YTD Target $m	403.58
YTD Actual $m	323.97
Variance $m	(79.61)



YTD Target $m	2.30
YTD Actual $m	1.48
Variance $m	(0.82)



YTD Target $m	13.97
YTD Actual $m	13.23
Variance $m	(0.74)

Comments/Actions:

Approvals for April 2020 = 119 @ $36.589M (Brokers = 66% by number and 69% by $'s)

Approvals for April 2019 = 119 @ $37.216M (Brokers = 66% by number and 69% by $'s)

Settlements for April 2020 = 104 @ $31.606M (Brokers = 71% by number and 78% by $'s)

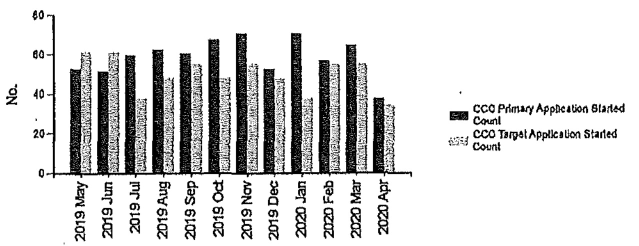
Settlements for April 2019 = 107 @ $31.665M (Brokers = 66% by number and 66% by $'s)

INTERNAL PERSPECTIVE - MARKETING, COMMUNICATIONS & CONTACT CENTRE ACTIVITIES

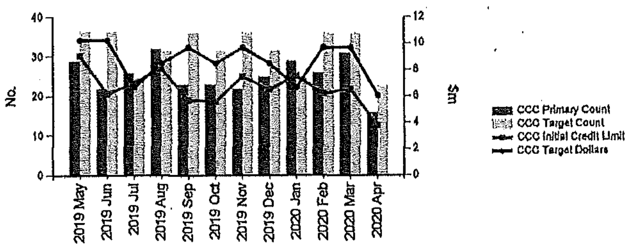
As at April 2020

CCC Referred	Conv % YTD	Targets	Actuals	MTD' Variance	YTD Targets	Actual YTD	YTD' Variance
Quotes Started #		90	99	111%	1236	1314	106%
Quick		52	52	100%	717	562	78%
		38	47	125%	519	752	146%
A[illegible]ions Started #	80.72%	34	38	111%	472	607	129%
Application Submitted #	55.68%	24	30	124%	333	338	101%
Approvals #	45.14%	22	26	120%	300	274	91%
CCC Settlement #	96.72%	23	18	80%	311	265	85%
CCC Settlement $		$6,071,500	$3,983,740	66%	$83,786,695	$66,539,775	79%

CCC Application Started



CCC Referred Settlements



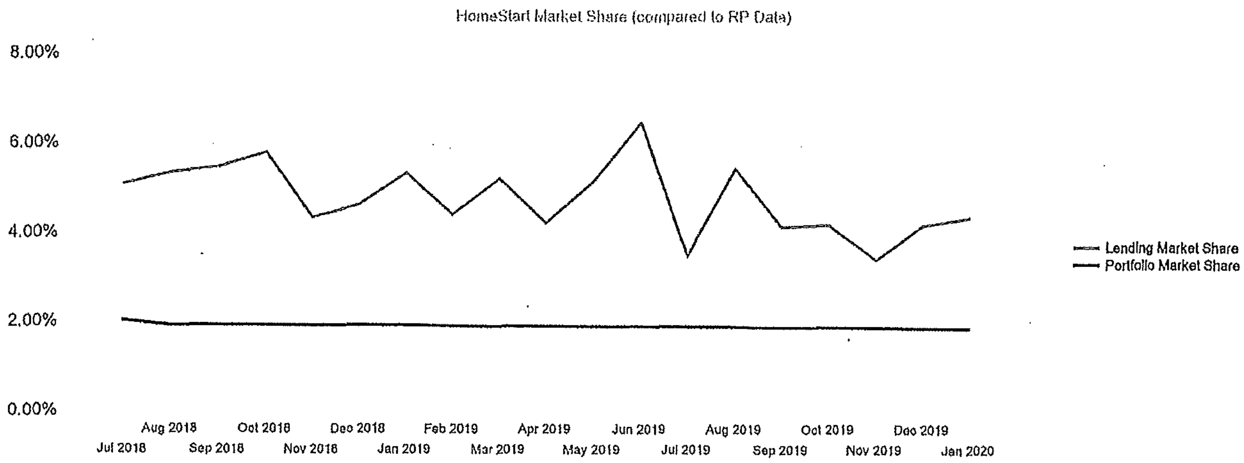
CCC Comments/Actions:

Currently experiencing a large volume of calls and leads 140% on last year for the month of April. Strong pipeline in place with application started, submitted and approvals all up on target for the month. Settlements were down at 80% of target.

INTERNAL PERSPECTIVE -
MARKETING, COMMUNICATIONS & CONTACT CENTRE ACTIVITIES

IP2

As at April 2020



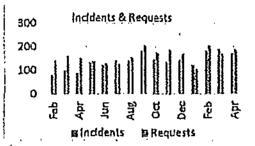
Note: Market Share data is generally up to three months behind current reporting period.

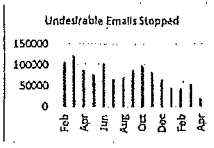
Marketing Comments/Actions:

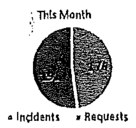
Metro and regional TV and radio advertising continued in April, along with outdoor and bus backs. With the current COVID-19 restrictions in place, all planned event and partnership activities remained on hold and this included pausing the new TVC production for the remainder of the financial year. A number of customer and broker communications regarding HomeStarts approach to Covid-19 were delivered. New enquiries were 770 against a monthly target of 564, while YTD enquiries finished at 95% at the end of the month.
Despite the impact of COVID-19, customer interest continued across digital channels with a 13% increase in unique web form submissions (441 in total). Paid Social ads generated 76% higher leads. Organic social activity resulted in 27 Facebook posts, 24 Instagram posts and 1 on LinkedIn. Total PR value achieved in April was$9,500 with a total reach of 400,000. This included the Top Tips segment in the Home Magazine, with the topic "Building to a Budget".

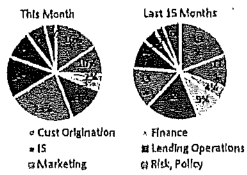
IP3 - Information Services Dashboard - for April 2020

Service







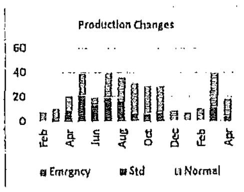


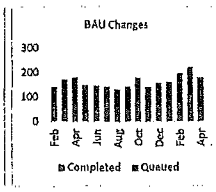
Incidents of Note:
None

Maintenance

Project	*Last*	*Current*	*Next*	*%*	*Key Points*
Sandstone Suite Upgrade	G	G	G	95%	Final testing of defect resolution in progress, to be deployed in May
Customer Data Remediation	G	A	G	70%	Manual remediation continues, business processes under review
SugarCRM Upgrade	G	G	G	80%	Testing continues, on track to launch in May
Touchpoint & QMS upgrade	G	G	G	95%	Project launched in April, project closure activities have commenced
Desktop SOE Update	G	G	G	80%	Desktop SOE Upgrade rollout has commenced, completes June
Laptop Upgrade	G	G	G	80%	Laptop Upgrade rollout has commenced, completes June
Prod and DR Fibre Switching Upgrade	G	G		100%	Project Complete
MS-SQL Upgrade	G	G	G	80%	Test preparating in progress, on track to launch in June
NextGen Upgrade	G	A	A	60%	Ongoing UAT resource commitment required to complete project
Chris 21 Upgrade	G	G	G	15%	Upgrade/replace options in progress, to be presented in May

Operations





Significant Issues:
None

Capability Building

Project	*Last*	*Current*	*Next*	*%*	*Key Points*
Web Site Stage 2 - Brokers	G	A	G	55%	5 streams progressing well, platform (Kentico) upgrade on track to launch in May
Lending multiplier	G	G		100%	Project Complete
Multifactor Authentication	G	G	G	20%	RFQ in progress
ESB #2	G	A	G	60%	Design in progress, build of first adapter on track to commence in May
EDRMS Integration with Line of Business Applications	G	G	G	50%	Integration of 6 separate systems progressing well
Loan System Selection	G	G	G	55%	Vendor presentations moved to July due to COVID-19
Revise Network Topology	G	G	G	50%	Waiting on vendor quotes to progress scope & Gate 3 documentation
Starter Loan Product	G	G	G	80%	UAT in progress, on track to launch in May
Organisational Document Controls & Governance	G	G	G	45%	Requirment & design in progress, on track to commence build in May
Loan Process Review	G	G	G	35%	Vendor (BDO) engagement and review has commenced
Move to Electronic Settlement Process	G	G	G	10%	Initial workshops in progress, Gate 3 to be presented in May

PEOPLE PERSPECTIVE - OUR PEOPLE

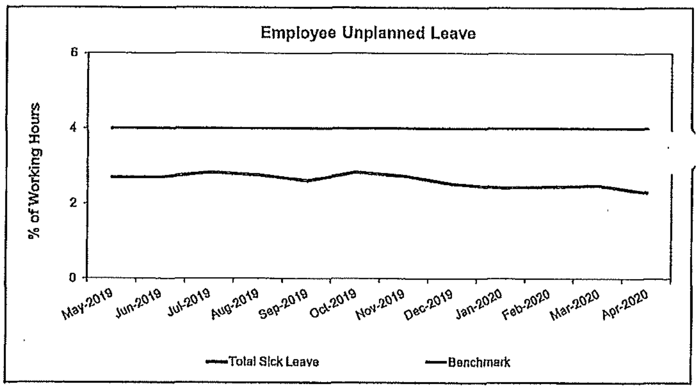
As at April 2020

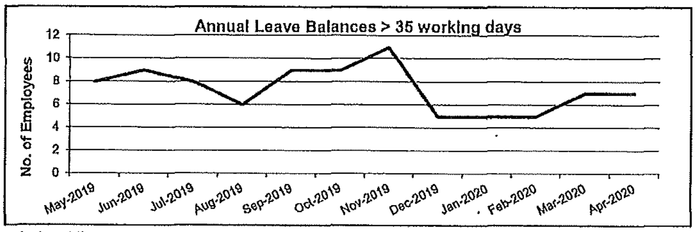
WORKFORCE QUALITY*	Actual	Benchmark
Workforce movements (rolling 12 months) (%)		
Employee initiated	10.28	
Employer initiated	0.00	
Contract expiry	0.93	
Total *	11.21	20.00
** Total excludes redundancies of 2.78% (Benchmark based on latest Aon-Hewitt Banking & Finance Survey Data May 2019)*		
Learning & Development		
L&D to Salaries (excl CEO & GMs) (%)	2.10	3.00 - 4.00
L&D to Salaries (all employees) (%)	1.92	

Cost & Efficiency*		
Total headcount (inc. casuals) (No.)	111	
Headcount - Continuing	91	
Headcount - Tenured	1	
Headcount - Fixed Term + Casuals	19	
Total FTE vs. Budget (No.)	103.34	112.30
Executive Services	6.30	7.30
Risk & Lending	36.50	37.50
Customers & Originations	27.04	30.00
Corporate Services	33.50	37.50
Workforce Composition (%)		
Headcount full time	86.11	
Headcount part time	13.89	

Strategy Alignment*		
Performance Management %		
2019-20 *my*Plan Mid Year Review	98.00	100.00
2019-20 *my*Plan Set Plans	100.00	100.00

Service Quality*		
Employee grievances (No.)	0.00	0.00

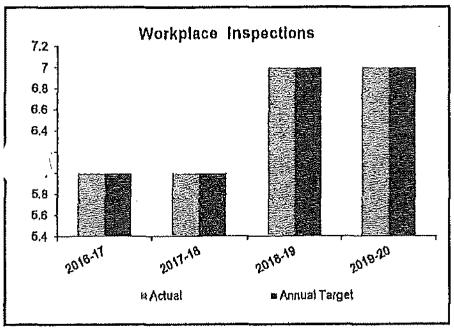


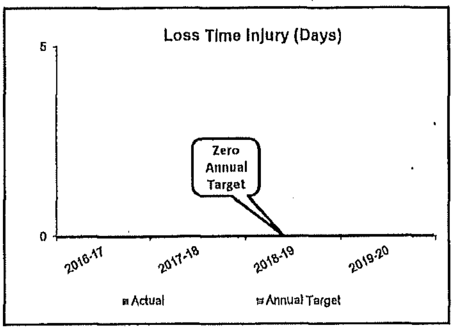


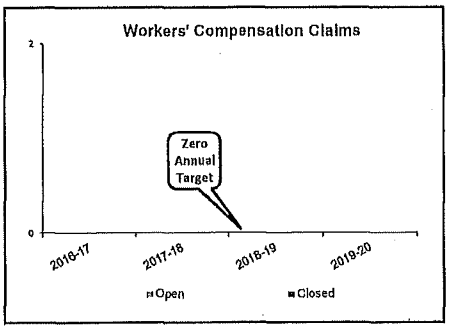
**All data excludes contractors & includes employees on LWOP unless otherwise indicated, ** Statistics no longer available due to content manager implementation*

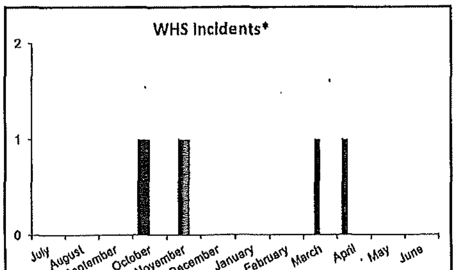
Comments / Actions: Recruitment activity has slowed and/or has been put on hold as a result of the impact of COVID-19. Despite this, the Programme Manager & Team Lead commenced in the Information Services Team and one of our Senior Lending Consultants joined the Customer Operations team on a permanent basis assisting in the Hardship Team. An announcement is expected soon regarding the Accountant role, with the Organisational Change Specialist on hold. To continue to support mental health and engage with employees while we work from home, the Wellbeing Team commenced sending a daily "HomeStart Heart" email. The purpose of the daily email is to bring interesting topics, games/quizzes, funny video clips and fun to employees to enhance connectedness while working from home. The Wellbeing Team with the assistance of Marketing also held a school holiday competition. Employees were asked to send in photos of activities during the school holiday period, with people posting photos ranging from crafts, gardening, hair-styling and playing musi instruments. Anzac Day was also acknowledged with employees sending in their #LightUpTheDawn photos which was shared on The Hub. A donation of $250.00 was also made to Operation K9 who provide servi dogs to returned men and women suffering from post traumatic stress disorder. Fundraising continued with $164.49 raised from vending machine purchases which will be donated to a nominated charity. This brings year to date donations to $3,403.49.

As at April 2020

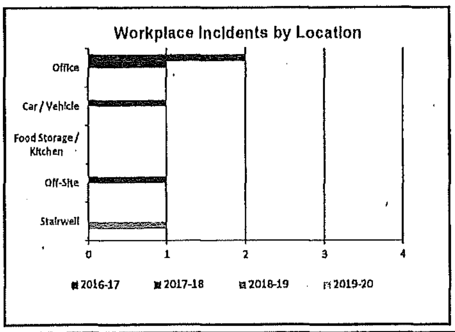


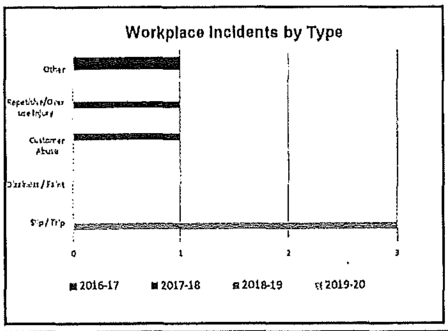






* Total WHS Incidents include any incidents that resulted in a Workers Compensation claim





Comments / Actions: The COVID-19 Working Party continues to meet regularly to work through the current health crisis. There were no workplace accidents or injuries in April. Year to date, 170 online (e-learning) WHS courses have been completed consisting of Bullying and Harassment for Employees, Bullying and Harassment for Managers, Code of Ethics Awareness Training, Driver Safety, Equal Opportunity for Employees, Warden Training and Work Health and Safety Fundamentals.

Board paper

Agenda item: 2005.5

Topic:	HomeStart Dividend 2019-20
From:	Andrew Mills
Date:	19/05/2020
Status:	Approving

1. Background

Pursuant to Section 26 of the *Urban Renewal Act* 1995, HomeStart must recommend to the Minister for Transport, Infrastructure and Local Government that it pay a specified dividend or not pay a dividend for the financial year, as it considers appropriate. The Minister may, in consultation with the Treasurer, by notice to HomeStart approve its recommendation or determine that another dividend, or no dividend, should be paid.

In May 2019, HomeStart received notice from the Treasurer requesting a dividend payment recommendation of 100% of after-tax profit commencing from the 2018-19 financial year. For the 2019-20 financial year, HomeStart will again pay a dividend calculated as 100% of its expected after-tax profit for the year. If the actual audited profit is higher or lower than expected, an appropriate adjustment will be made to the next dividend payment made in June 2021.

2. Discussion

Final dividend in respect of the financial year ended 30 June 2019

For the financial year ended 30 June 2019, the Board of HomeStart recommended the payment of a dividend of 100% of after-tax profit. Based on the forecast profit, this amounted to a total dividend of $14.6m. The Minister and Treasurer approved the recommendation and the estimated amount was paid in June 2019.

The actual dividend based on the payout ratio of 100% of actual after-tax profit was $16.3m. HomeStart will pay the residual dividend amount of $1.7m in respect of the financial year ended 2019 in June 2020.

Dividend in respect of the year ending 30 June 2020

It is proposed that HomeStart will again make a dividend payment prior to the end of June, calculated as 100% of its expected profit for the year. Typically, the expected profit for the year is calculated by reference to the most recent (February) Operating Outlook update which was $34.0m for the current year, and as at early March, HomeStart was tracking towards this level.

Notwithstanding this practice, the coronavirus has rapidly had a significant and material impact on business and economic conditions. As at the end of April, HomeStart's current estimated pre-tax equivalent profit for the year has been revised downwards to $29.5m. The key drivers of this revision include:

- Additional provisions for bad & doubtful debts in excess of $3m already taken up over March and April, with further adjustments expected to come as the economic picture becomes clearer. In particular, under AASB 9, HomeStart is required to undertake a forward-looking view of expected losses and the environment creates significant uncertainty and downside risk to these numbers. HomeStart has received actuarial guidance as to the possible effects on possible credit losses from the virus and this analysis will be taken into account. As at 30 April 2020, there were 604 loan accounts totaling $163m on negotiated payment arrangements due to the virus.

- Expectations of reductions in property prices which directly affect profitability through recognition of unrealized gains and losses on the shared equity portfolio, as well as indirect exposures through provisioning calculations.

In the year to 30 April 2020 HomeStart has earned a pre-tax profit of $28.03m. Taking the above factors into account results in an estimated full year pre-tax profit of $29.5m.

As such, a dividend payout ratio of 100% of expected full year profit after tax equivalent results in a dividend payment of $20.65m, as outlined below:

Estimated full year profit	**$m**
Expected profit before tax	29.50
Tax expense (30%)	8.85
Expected profit after tax	**20.65**
Estimated dividend (100%)	**20.65**
Estimated average equity (as per below)	159.20

Estimated equity as at 30 June 2020	**$m**
Equity – opening balance	159.20
Estimated profit after tax	20.65
Estimated dividend paid	(20.65)
Equity – closing balance	**159.20**
Estimated average equity	**159.20**

A 100% dividend payout ratio is not expected to damage our capital adequacy as this ratio is calculated after provision for dividends and is primarily driven by growth in risk weighted assets (fundamentally, portfolio growth). The capital adequacy ratio at the end of April was 12.3% which is expected to remain stable over the coming months unless sustained portfolio growth occurs.

The final payment to the Department of Treasury and Finance, estimated to be made on 23 June this year, will therefore be $22.34m, being $1.69m outstanding dividend payable from the 2018-19 financial year and $20.65m dividend for 2019-20 based on 100% of expected profit for the financial year.

Risk Analysis

Extreme or Major Risks – No.

3. Recommendation

That Board recommends to the Minister for Transport, Infrastructure and Local Government that:

- A dividend calculated as 100% of expected after-tax profit be paid for the year ended 30 June 2020.
- A payment of $22.34m be made on 23 June 2020, calculated as 100% of expected after-tax profit for the year ended 30 June 2020 and a final dividend in respect of the financial year ended 30 June 2019.
- A final dividend adjustment to be made in June 2021 based on HomeStart's final year end audited financial results for 2019-20.

Andrew Mills
Chief Financial Officer

Board paper

Government of South Australia   HomeStart FINANCE

Agenda item: 2005.6

Topic:	Register of Financial Authorisations 2020 – Authorisations of the Chief Executive Officer (Document 2)
From:	Andrew Mills
Date:	19/05/2020
Status:	Approving

1. Background

The Register of Financial Authorisations (ROFA) consists of three separate documents:

- Document 1 – Framework and Overarching Policy (FOP) which provides a framework for the financial authorisations relating to different areas of HomeStart Finance's business. This document was reviewed by the Audit Committee in February and approved by the Board in March.
- Document 2 – Authorisations of the Chief Executive Officer (CEO) which is discussed below.
- Document 3 – Authorisations table which documents the sub-delegation of the CEO to employees within HomeStart Finance (HomeStart). This document is required to be reviewed annually by Executive Committee and approved by the CEO annually in June.

The purpose of Document 2 – Authorisations of the CEO is to formally document the financial authorisations delegated from the Board to the CEO. It is consistent with, and must be considered in, the context of Document 1 – Framework and Overarching Policy. This document is required to be reviewed annually by Audit Committee in April and submitted to the Board for approval in May. Once approved, these delegations will form the basis for sub-delegations from the CEO to employees of HomeStart. Only the CEO is required to review and approve these sub-delegations (they are not reviewed or approved by Audit Committee and Board). The authorisations of the CEO are at a high level however the sub-delegations are further refined and more detailed.

The Audit Committee formally reviewed the document in April 2020, and it is submitted to the Board to consider for approval.

2. Discussion

Management has reviewed applicable legislation and Treasurer's Instructions (TIs) relating to financial authorisations and updated the attached document to reflect changes required. The changes have been marked up in the document for easy identification and are summarised below:

- Updated annual review of Community Lending and Aged Care loans to be the authority to approve where the aggregated exposure is below <$1,500,000. This has been revised to align with the Credit Sub-Committee charter wording which refers to aggregated exposure rather than credit limit.
- Updated administration and capital expenditure outside of the budget authority to be 2% over the full year "capital expenditure" rather than "per capital *project* expenditure" to align with current practice. The Board reviews and re-approves the capital budget bi-annually so the total capital budget is considered acceptable in this instance, and it clarifies the sentence.
- Updated all references to "Human Resources" with "People & Culture" to align with current terminology.

Management believe that the authorisations contained in the document support a strong internal control environment and also believe it necessary and appropriate for the CEO to be able to make sub-delegations enabling HomeStart employees to undertake the responsibilities of their roles both effectively and efficiently.

Risk Analysis

Extreme or Major Risks – No.

3. Recommendation

That the Board approves the Authorisations of the Chief Executive Officer (Document 2) for the Register of Financial Authorisations as reviewed and approved by the Audit Committee in April 2020.

Andrew Mills
Chief Financial Officer

HomeStart Finance

Register of Financial Authorisations (ROFA) – Authorisations of the Chief Executive Officer (CEO)

Logistics	
Effective Date:	21/04/2020
Approving Authority:	~~HomeStart Finance Board of Management~~Executive Committee
Policy Owner:	Chief Financial Officer
Due For Review:	1/04/2021

Government of South Australia HomeStart FINANCE

Table of Contents

1. Objective

HomeStart's Register of Financial Authorisations (ROFA) is made up of a number of separate documents, as set out below:

- Document 1 – Framework and Overarching Policy (FOP)
- Document 2 – Authorisations of the Chief Executive Officer (CEO)
- Document 3 – Authorisations Table which details the sub-delegation of authorisations to employees and business partners.

The purpose of each document is outlined below:

Document 1 – Its purpose is to provide a framework for financial authorisations relating to different areas of HomeStart's business. Although different types of financial authorisations may be documented and maintained by different business areas, it is important that they are consistent with this FOP.

- **Document 2** – Its purpose is to document the financial authorisations formally delegated from the Board to the CEO. It is consistent with and must be considered in the context of Document 1 – Framework and Overarching Policy
- **Document 3** – Authorisations table which documents the sub-delegation of the CEO to employees of HomeStart.

The following sets out for each document and sub document:

- Responsible position (the "owner" of the document);
- Who is required to approve; and
- Frequency and timing of approval.

	Framework and overarching policy	CEO authorisations	Authorisations table
Responsible position	Chief Financial Officer	Chief Financial Officer	Chief Financial Officer
Approval timing and frequency	Board, annually in March	Board, annually in May	Chief Executive Officer, annually in June
Review timing and frequency	Audit Committee annually in February	Audit Committee annually in April	Executive Committee annually in June

2. Detail

2.1 Definitions

Payment authorisation[1] – is a financial authorisation that relates to the approval of a public authority making a payment or disbursement, including through a direct debit arrangement.

Contract authorisation[1] – is a financial authorisation that relates to the approval for the authority to enter into a contract, including for the purchase of good and services, subject to the authority's procurement policies.

[1] As defined in Treasurer's Instruction 8 – Financial Authorisations

Contract[1] – a "contract" refers to an arrangement, including for the purchase of goods and services, whereby a public authority commits to or incurs expenditure, or where there is the potential for expenditure to be incurred, where the terms and conditions are contained in a document signed by the parties, or where the terms and conditions are recorded in some other document or documents such as a purchase order or an exchange of letters, or terms and conditions are agreed in an oral exchange, but does not include an employment contract pursuant to the Public Sector Act 2009 or the authority's enabling legislation.

2.2 Specific approvals and/or authorities

The Chief Executive Officer remains responsible for all purchases, contracts, payments and disbursements nothwithstanding that particular financial authorisations have been delegated to specific positions or employees.

The following delegations are made by the Board to the Chief Executive Officer.

Authorisation type: CONTRACTS (Head Agreements)	
Description of authorisation	**Limit**
Execute contracts (except for accommodation leases and accommodation projects)	<$1,500,000 or no maximum where value not ascertainable
All loans (including Community Lending and Aged Care)	<$1,500,000
Annual review of Community Lending and Aged Care loans	Authority to approve annual review where the ~~credit limit~~ aggregated exposure is below <$1,500,000
Arrears management - variations to loan contract or conditions including: payment reductions, loan restructure, capitalisation of arrears, financial hardship arrangements, interest only payments	No maximum
Authority to reduce loan fees and charges	Up to level of fees/charges
Administration and capital expenditure	<$1,500,000
Authorisation type: Credit and arrears management, MIP	
Description of authorisation	**Limit**
Arrangements including: permanent payment reductions, capitalisation of interest, loan restructure, financial hardship nominal payments and interest only payments, capitalisation of arrears	No maximum delegation
Debt write-off (TI 5 amended by the Treasurer 21 August 2014)	<$150,000 per customer contract
Repayment arrangements for loss recovery loans	No maximum delegation
Waiver of debt	Only in exceptional circumstances <$150,000 per customer contract
MIP – property services and maintenance	<$100,000
Authorisation type: PAYMENTS – In accordance with an appropriately approved written or verbal contract or arrangement	
Description of authorisation	**Limit**
All payments and disbursement types - unless a specific delegation applies as below	<$1,500,000 per transaction
Advances of funds to customers for loans	Up to the value of approved loan amount
Advances of funds for Community and Aged Care loans	Up to the value of approved loan

Payments to customers – redraws and refunds	Up to a limit in accordance with customer's loan contract and not exceeding original credit limit
Payments to customers – reimbursments of fees and charges	Up to level of fees/charges
Administration and capital expenditure within the year budget	<$1,500,000 per transaction – resulting in a full year expense not exceeding full year budget
Administration and capital expenditure outside of the budget	An amount that would result in the annual administration expenditure being 2% over the full year budget or ~~per~~ capital ~~project~~ expenditure being up to 2% over the respective budget
Authorisation type: Transactions with government agencies and authorities	
Description of authorisation	**Limit**
All payments except for dividend	$10,000,000 per transaction
Payments of dividend approved by the Treasurer and the Minister	As per board approved amounts
All transactions in relation to borrowings	Up to the Treasurer's approved borrowing limit for HomeStart
All derivatives – Forward Rate Agreements (FRAs), Futures and Swaps	Up to a combined maximum derivative limit of 1.5 times the exposure from fixed rate loans and shared equity loans under the Treasury Policy 1
Authorisation type: Bank accounts, transactions and relationship	
Description of authorisation	**Limit**
Bank verifying officer	No maximum delegation
Bank EFT payments/cheque signatories	No maximum delegation
Authorisation type: ~~Human Resources~~People & Culture	
Description of authorisation	**Limit**
All functions and activities in relation to recruitment, employment, dismissal and managing ~~human resources~~P&C	No maximum delegation
Authorisation type: Journals	
Description of authorisation	**Limit**
General ledger journals	No maximum delegation
Journal relating to management of customer loan accounts	No maximum delegation

3. Definitions

Term	Definition
DLA	Delegated Lending Authority
EFT	Electronic Funds Transfer
~~HR~~P&C	~~Human Resources~~People & Culture
TI	Treasurer's Instruction
MIP	Mortgagee in possession

Please refer to the Register of Financial Authorisations (ROFA) Document 1 – Framework and Overarching Policy for further definitions and abbreviations.

4. Reference Documents

Treasurer's Instruction 8 – Financial Authorisations (TI 8)

Financial delegations to approve contracts (including purchases) is prescribed in Paragraph 8.11.1 of TI 8. TI 8 was reissued and effective from 30 September 2019 and can be found here.

Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007 under the *Urban Renewal Act* 1995

The authority of the Board of HomeStart Finance under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations* 2007 can be found here. The specific powers of HomeStart Finance are prescribed in Section 7 of the regulations.

A letter dated 21 August 2014 from the Hon John Rau MP, Deputy Premier, approving a variation to TI 5 – Debt Recovery and Write-Offs authorising the CEO of HomeStart to approve write-offs of up to $150,000.

Board paper

Government of South Australia

HomeStart FINANCE

Agenda item: 2005.7

Topic:	Realisations – April 2020
From:	Peter Byrnes
Date:	19/05/2020
Status:	Noting

1. Recommendation

That the Board notes the following write-offs:

	Gross Shortfall	Net Loss / Gain after unearned interest	Existing Provision	Bad Debt / Write Back
[redacted]	$52,258	-$29,595	$56,500	$26,905
[redacted]	$32,265	-$31,180	$30,000	-$1,180
[redacted]	$31,863	-$24,792	$28,302	$3,510
[redacted]	$27,269	-$25,121	$42,406	$17,285
[redacted]	$0	$399	$1	$40
[redacted]	$0	$1,241	$25,000	$26,241
[redacted]	$0	$795	$1	$796
Total	**$143,655**	**-$108,253**	**$182,210**	**$73,957**

Peter Byrnes
Head of Risk and Lending

John Oliver
Chief Executive Officer

Board paper

HomeStart FINANCE

Government of South Australia

Realisation Loss [redacted]

Original Loan Details	Appendix 1
Primary Loan Number	[redacted]
Loan Start Date	[redacted]
Channel	Internal - Adelaide
Loan Type	[redacted]
Original Purchase Price	$331,000
Loan Amount	$314,266
Further Advances	
Arrears at Possession	$36,760
Credit Score	3c
Risk Score	3c
Original Valuation	$331,000
Valuer	[redacted]
LVR	95%
VG Valuation	$340,000
Was the Loan Application approved under DLA	No

Possession Details	
Possession Date	[redacted]
Valuation Date	[redacted]
Valuation - High	$280,000
Valuation - Low	$270,000
Valuer	[redacted]
Property Condition	Average
Real Estate Agent	[redacted]
Agent Appraisal - Upper	$290,000
Agent Appraisal - Lower	$280,000
Contract Price	$280,000
Discharge Date	[redacted]
Sale Method	Auction
Key Reason for Delinquency	
Relationship Breakdown	
Key Actions	
Eviction	

Financial Position	Actual
Loan Balance at Possession	$324,526
Clean-up/ Maintenance	$3,820
Legal Costs	$1,323
Interest	$2,623
Council Rates	$947
Water Rates	$32
HS Admin Fee	$2,000
Other	$1,644
Loan Balance	$336,914
Sale Price	$280,000
Less Costs	
Agent Comm + GST	$6,160
Agent Mktng + GST	$1,925
Conveyancer Fee	$500
Net Sales Proceeds	$271,415
Gross Shortfall (calculated)	**$52,258**
Unearned Income	**-$22,663**
Net Loss	**$29,595**
Existing Provision	**-$56,500**
Bad Debt /Write back	**$26,905**

Additional Commentary

Breakthrough loan amount: $109,993 (HomeStart equity share loss: -$16,947).

Arrears have accrued on this loan account since June 2018, when the loan first fell into arrears.

Board paper

Government of South Australia HomeStart FINANCE

Realisation Loss [redacted]

Original Loan Details	Appendix 2
Primary Loan Number	[redacted]
Loan Start Date	[redacted]
Channel	The Home Loan Centre
Loan Type	[redacted]
Original Purchase Price	$137,000
Loan Amount	$128,285
Further Advances	
Arrears at Possession	$6,587
Credit Score	5c
Risk Score	4b
Original Valuation	$137,000
Valuer	[redacted]
LVR	94%
VG Valuation	$147,000

Was the Loan Application approved under DLA Yes

Possession Details	
Possession Date	[redacted]
Valuation Date	[redacted]
Valuation - High	$120,000
Valuation - Low	$100,000
Valuer	[redacted]
Property Condition	Poor
Real Estate Agent	[redacted]
Agent Appraisal - Upper	$120,000
Agent Appraisal - Lower	$110,000
Contract Price	$120,000
Discharge Date	[redacted]
Sale Method	Auction

Key Reason for Delinquency

Relationship Breakdown

Key Actions

Abandoned

Financial Position	Actual
Loan Balance at Possession	$110,705
Clean-up/ Maintenance	$4,999
Legal Costs	$2,358
Interest	$1,300
Council Rates	$5,643
Water Rates	$12,884
HS Admin Fee	$2,000
Other	$1,247
Loan Balance	$141,137
Sale Price	$115,000
Less Costs	
Agent Comm + GST	$2,530
Agent Mktng + GST	$1,925
Conveyancer Fee	$500
Net Sales Proceeds	$110,045
Gross Shortfall (calculated)	**$32,265**
Unearned Income	**-$1,084**
Net Loss	**$31,180**
Existing Provision	**-$30,000**
Bad Debt /Write back	**-$1,180**

Additional Commentary

Circa 1960, maisonette in poor condition.

Outstanding statutory charges of approx $18,000.

Board paper

HomeStart FINANCE
Government of South Australia

Realisation Loss [redacted]

Original Loan Details	Appendix 3
Primary Loan Number	[redacted]
Loan Start Date	[redacted]
Channel	BrokerGroup
Loan Type	[redacted]
Original Purchase Price	$125,000
Loan Amount	$118,746
Further Advances	
Arrears at Possession	$1,464
Credit Score	4a
Risk Score	4a
Original Valuation	$125,000
Valuer	[redacted]
LVR	95%
VG Valuation	$137,000

Was the Loan Application approved under DLA	No

Possession Details	
Possession Date	[redacted]
Valuation Date	[redacted]
Valuation - High	$130,000
Valuation - Low	$100,000
Valuer	[redacted]
Property Condition	Average
Real Estate Agent	[redacted]
Agent Appraisal - Upper	$125,000
Agent Appraisal - Lower	$115,000
Contract Price	$115,000
Discharge Date	[redacted]
Sale Method	Private Treaty

Key Reason for Delinquency
Financial Difficulties

Key Actions
Voluntary Surrender

Financial Position	Actual
Loan Balance at Possession	$117,362
Clean-up/ Maintenance	$0
Legal Costs	$0
Interest	$7,037
Council Rates	$2,892
Water Rates	$1,645
HS Admin Fee	$2,000
Other	$2,114
Loan Balance	$133,050
Sale Price	$108,000
Less Costs	
Agent Comm + GST	$2,376
Agent Mkting + GST	$1,925
Conveyancer Fee	$500
Net Sales Proceeds	$103,199
Gross Shortfall (calculated)	**$31,863**
Unearned Income	**-$7,070**
Net Loss	**$24,792**
Existing Provision	**-$28,302**
Bad Debt /Write back	**$3,510**

Additional Commentary
Land only, 904sqm hammerhead block located in Willaston.

Board paper

Government of South Australia HomeStart FINANCE

Realisation Loss **13 ROOK RD MOUNT GAMBIER 5290**

Original Loan Details	Appendix 4
Primary Loan Number	[redacted]
Loan Start Date	[redacted]
Channel	BankSA
Loan Type	[redacted]
Original Purchase Price	$110,000
Loan Amount	$97,935
Further Advances	
Arrears at Possession	$1,193
Credit Score	3b
Risk Score	3c
Original Valuation	$110,000
Valuer	[redacted]
LVR	89%
VG Valuation	$109,000

Was the Loan Application approved under DLA: No

Possession Details	
Possession Date	[redacted]
Valuation Date	[redacted]
Valuation - High	$80,000
Valuation - Low	$60,000
Valuer	[redacted]
Property Condition	Poor
Real Estate Agent	[redacted]
Agent Appraisal - Upper	$75,000
Agent Appraisal - Lower	$70,000
Contract Price	$70,000
Discharge Date	[redacted]
Sale Method	Auction

Key Reason for Delinquency

Deceased

Key Actions

Abandoned

Financial Position	Actual
Loan Balance at Possession	$91,879
Clean-up/ Maintenance	$2,865
Legal Costs	$0
Interest	$931
Council Rates	$856
Water Rates	$418
HS Admin Fee	$2,000
Other	$1,155
Loan Balance	$100,104
Sale Price	$78,500
Less Costs	
Agent Comm + GST	$2,750
Agent Mkting + GST	$1,925
Conveyancer Fee	$500
Net Sales Proceeds	$73,325
Gross Shortfall (calculated)	**$27,269**
Unearned Income	**-$2,148**
Net Loss	**$25,121**
Existing Provision	**-$42,406**
Bad Debt /Write back	**$17,285**

Additional Commentary

Circa 1955, property in poor condition due to poor quality partial renovation undertaken by the customer pre HomeStart possession.

Board paper

HomeStart FINANCE
Government of South Australia

Realisation Loss [redacted]

Original Loan Details	Appendix 5
Primary Loan Number	[redacted]
Loan Start Date	[redacted]
Channel	HomeLoans Plus
Loan Type	[redacted]
Original Purchase Price	$215,000
Loan Amount	$196,811
Further Advances	
Arrears at Possession	$57,733
Credit Score	3c
Risk Score	1b
Original Valuation	$215,000
Valuer	[redacted]
LVR	92%
VG Valuation	$260,000
Was the Loan Application approved under DLA	No

Possession Details	
Possession Date	[redacted]
Valuation Date	[redacted]
Valuation - High	$230,000
Valuation - Low	$190,000
Valuer	[redacted]
Property Condition	Average
Real Estate Agent	[redacted]
Agent Appraisal - Upper	$240,000
Agent Appraisal - Lower	$220,000
Contract Price	$220,000
Discharge Date	[redacted]
Sale Method	Auction
Key Reason for Delinquency	
Financial Difficulties	
Key Actions	
Eviction	

Financial Position	Actual
Loan Balance at Possession	$232,256
Clean-up/ Maintenance	$1,900
Legal Costs	$3,004
Interest	$707
Council Rates	$267
Water Rates	$152
HS Admin Fee	$2,000
Other	$4,446
Loan Balance	$244,732
Sale Price	$235,000
Less Costs	
Agent Comm + GST	$4,700
Agent Mkting + GST	$1,305
Conveyancer Fee	$500
Net Sales Proceeds	$228,495
Gross Shortfall (calculated)	$0
Unearned Income	-$399
Net Loss	-$399
Existing Provision	-$1
Bad Debt /Write back	$400

Additional Commentary

This loan account first fell into arrears in mid-2015, after a long history an order for possession was granted in November 2019.

Average condition maisonette, above the odds sale price achieved at auction (7 registered bidders).

Note: All interest, fees and charges associated with this loan [redacted], totalling $101,100) have been reversed from the loan balance.

Board paper

HomeStart FINANCE
Government of South Australia

Realisation Loss [redacted]

Original Loan Details	Appendix 6	**Possession Details**		**Financial Position**	Actual
Primary Loan Number	[redacted]	Possession Date	[redacted]	Loan Balance at Possession	$119,333
Loan Start Date	[redacted]	Valuation Date	[redacted]		
Channel	Internal - Adelaide	Valuation - High	$150,000	Clean-up/ Maintenance	$6,497
Loan Type	[redacted]	Valuation - Low	$120,000	Legal Costs	$0
Original Purchase Price	$140,000	Valuer	[redacted]	Interest	$1,029
Loan Amount	$133,000	Property Condition	Poor	Council Rates	$802
Further Advances				Water Rates	$526
				HS Admin Fee	$2,000
Arrears at Possession	-$4,435	Real Estate Agent	[redacted]	Other	$1,833
Credit Score	2c	Agent Appraisal - Upper	$145,000		
Risk Score	1c	Agent Appraisal - Lower	$135,000	Loan Balance	$132,020
Original Valuation	$140,000	Contract Price	$135,000		
Valuer	[redacted]	Discharge Date	[redacted]		
LVR	95%	Sale Method	Auction	Sale Price	$156,000
VG Valuation	$169,000				
				Less Costs	
		Key Reason for Delinquency		Agent Comm + GST	$3,432
Was the Loan Application approved under DLA	No	Deceased		Agent Mkting + GST	$1,925
				Conveyancer Fee	$500
		Key Actions			
		Abandoned		Net Sales Proceeds	$150,143
				Gross Shortfall (calculated)	$0
Additional Commentary					
Reasonable sale price achieved, despite property being in poor condition.				**Unearned Income**	**-$1,241**
				Net Loss	**-$1,241**
				Existing Provision	**-$25,000**
				Bad Debt /Write back	**$26,241**

Board paper

HomeStart FINANCE

Government of South Australia

Realisation Loss [redacted]

Original Loan Details	Appendix 7	**Possession Details**		**Financial Position**	Actual
Primary Loan Number	[redacted]	Possession Date	[redacted]	Loan Balance at Possession	$49,836
Loan Start Date	[redacted]	Valuation Date	[redacted]		
Channel	BankSA	Valuation - High	$120,000	Clean-up/ Maintenance	$5,348
Loan Type	[redacted]	Valuation - Low	$100,000	Legal Costs	$0
Original Purchase Price	$65,000	Valuer	[redacted]	Interest	$972
Loan Amount	$50,400	Property Condition	Poor	Council Rates	$6,208
Further Advances	$31,319			Water Rates	$3,816
				HS Admin Fee	$2,000
Arrears at session	$1,585	Real Estate Agent	[redacted]	Other	$1,415
Credit Score	3b	Agent Appraisal - Upper	$120,000		
Risk Score	1a	Agent Appraisal - Lower	$110,000	Loan Balance	$69,595
Original Valuation	$65,000	Contract Price	$100,000		
Valuer	[redacted]	Discharge Date	[redacted]		
LVR	78%	Sale Method	Auction	Sale Price	$115,000
VG Valuation	$135,000				
				Less Costs	
		Key Reason for Delinquency		Agent Comm + GST	$2,530
Was the Loan Application approved under DLA	Yes	Avoidance		Agent Mkting + GST	$1,925
				Conveyancer Fee	$500
		Key Actions			
		Abandoned		Net Sales Proceeds	$110,045
				Gross Shortfall (calculated)	**$0**
Additional Commentary					
Poor condition maisonette, reasonable sale price achieved.				**Unearned Income**	**-$795**
				Net Loss	**-$795**
				Existing Provision	**-$1**
				Bad Debt /Write back	**$796**

Board paper

Government of South Australia HomeStart FINANCE

Agenda item: 2005.8

Topic:	Risk and Lending Update
From:	Peter Byrnes
Date:	19/05/2020
Status:	Noting

1. Background

Following is an outline forming the basis of discussion on HomeStart's Risk and Lending activities.

2. Discussion

- **Operational Initiatives**
  - Valuations
  - Minimum Standards
  - Lending Assessment Criteria
  - Monitoring & Responding to Broker Application Quality

- **Risk Initiatives**
  - Risk Appetite Update
  - Risk & Control Program

- **COVID Response**
  - Risk & Lending – Operations Maintained
  - Assessment & Settlement Activity
  - Risk Register
  - Loans Under Arrangement

3. Recommendation

That the Board notes the above outline of topics for discussion.

Peter Byrnes
Head of Risk & Lending