



Aide memoire

FIRST HOME BUYER SUPPORT			
Date	1 February 2024	Priority	Medium
Tracking number	HUD2024-003644		

INFORMATION FOR MINISTER(S)	
Hon Chris Bishop Minister of Housing	Note the contents of the following aide-memoire.

CONTACT FOR DISCUSSION			
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Brad Ward	DCE, Organisational Performance	s 9(2)(a)	✓

OTHER AGENCIES CONSULTED
None

MINISTER'S OFFICE TO COMPLETE	
<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> See Minister's notes <input type="checkbox"/> Needs change <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify) _____	Comments



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Purpose

1. To provide you with background information on the effectiveness and value for money of government support for first home buyers as requested.

Context for first home buyers

2. First home buyers' ability to purchase a home is generally determined by their ability to raise the deposit required to access finance and their ability to service a mortgage. The key long-term drivers affecting their ability to do this are house prices, incomes, interest rates and general access to mortgage finance.
3. Over the last twenty years, the most significant change among these drivers has been a large increase in house prices, partially driven by a general trend towards lower interest rates although they have risen more recently. This has significantly increased deposit requirements. Reserve Bank of New Zealand (RBNZ) loan-to-value ratio (LVR) requirements have also influenced deposit requirements at different points in time but less so as they still offer banks some flexibility around lending.
4. Buyers' ability to service a mortgage has been relatively stable over the long term but has declined since late 2021 as interest rates have risen.
5. This context has not posed an insurmountable barrier to well-off prospective home buyers who are able to save up a deposit and face lower servicing costs when interest rates are lower. While such households may access some government support, such as the First Home Grant, this support is unlikely to make a difference to their ability to achieve home ownership.
6. Given this context, beyond increasing the overall supply of housing to reduce rents and prices over time, government support for first home buyers is likely to be most effective in increasing home ownership where it:
 - a. enables borrowers who can service a mortgage to meet the necessary deposit requirement where they would otherwise be unlikely to do so; and
 - b. supports lower income borrowers who might otherwise struggle to service a mortgage.



Background of government support for first home buyers

Overview of the first home buyer support programmes

7. The table below provide a summary of first home buyer support programmes and an overview of their effectiveness. Information on the eligibility requirements and other relevant details are provided in Annex A.

Table 1: Overview of first home buyer support programmes and their effectiveness

	FIRST HOME GRANT	FIRST HOME LOAN	PROGRESSIVE HOME OWNERSHIP
Number of people supported	10,782 grants paid in 2022/23 (note two or more grants may be paid to purchase a single property).	2,773 loans made in 2022/23.	Since December 2020 1,119 households have moved into completed homes out of a total of 1,678 contracted homes.
Cost of support	Actual spend of \$64 million in 2022/23. Median grant value of \$5,000.	Actual spend of \$17.4 million in 2022/23. Median loan value of \$520,000 in June 2023, with insurance levy paid by government of \$3,640.	\$388 million of the \$440 million fund has been spent or committed. Average interest free loan to providers \$270,000 with cost of interest concession of \$140,000. Average loan to Kāinga Ora \$160,000 with interest concession of \$95,000.
Effectiveness	Ineffective in addressing the deposit barrier. Most recipients are likely to be in a position to purchase a home without the grant, albeit for some at a later date.	More likely to support additional households into ownership, through helping those who can service a mortgage but are unable to raise deposit required by bank.	Supports additional households into ownership who are unlikely to attain ownership at any stage, by supporting those who can service part, but not all, of a mortgage. Provider and Iwi Progressive Home Ownership schemes also add (almost all) new housing supply. Providers and Iwi can also share in capital gain to enable future reinvestment.

First Home Products (FHPs)



8. The FHPs are made up of the First Home Grant (FHG) and the First Home Loan (FHL)¹. These products help first home buyers who need support to overcome the deposit barrier to home ownership:
 - a. The FHG is a payment of between \$3,000 and \$10,000 for eligible first home buyers to put towards a deposit. The amount depends on how many years they have been in KiwiSaver and whether they are buying an existing home or a new build.
 - b. The FHL reduces the minimum deposit requirement to five percent, which is lower than what is normally required by banks. Loans are issued by participating banks and underwritten by Kāinga Ora – Homes and Communities (Kāinga Ora) to insure lenders against any potential losses from defaults^{2 3}.

There is limited evidence that the FHG supports first home buyers to purchase a home who would otherwise not be able to do so

9. Our assessment finds that there is limited evidence that the FHG is a key determinant in supporting first home buyers who would otherwise be unable to raise a deposit and purchase a home. It is likely that the FHG helps to bring forward purchases (by reducing the length of time to save a deposit) or increases how much a buyer can borrow for a given deposit required by the bank.
10. Without the FHG, most buyers would be able to save the difference within a year or purchase at a lower house price. Even for first home buyers who do get significant benefit, the FHL is a more cost-effective way of addressing the deposit barrier as it makes getting into home ownership achievable through a 5 percent deposit.⁴
11. The FHG values of between \$3,000 and \$10,000 that a recipient can potentially receive have stayed the same since this scheme was introduced in 2010. For the FHG to effectively support first home buyers who would otherwise be unable to buy, the grant value would need to make up a large proportion of their deposit and be high relative to their income. This is currently not the case.
12. Our initial assessment is that it will be difficult to coherently tighten the criteria for the FHG to reduce its funding. The key criteria we could change are the income caps, eligibility for new and existing homes, and/or putting limits on deposit sizes.
13. Additional findings on the FHG effectiveness in supporting first home buyers are provided in Annex B.

¹ If a first home buyer meets relevant criteria, they can access the First Home Grant and the First Home Loan.

² Kāinga Ora administers the Lenders Mortgage Insurance scheme for the FHL to incentivise lenders to offer low equity loans and guarantees the borrowers' obligations to the participating lenders. Kāinga Ora receives an insurance premium of 1.2 percent of the loan balance, made up of a 0.7 percent contribution from the Crown and a 0.5 percent contribution from the borrower.

³ In June 2023, the Lenders Mortgage Insurance scheme contribution levels were reduced from 2.2 percent to what they currently are now (see footnote 1). This change was made because the previous premium levels were higher than necessary to cover claims on defaults, which have historically been low (supported by actuarial analysis and modelling completed in 2022).

⁴ As opposed to entering the market with the standard bank requirement of 20 percent deposit, for example.



The FHL is more effective than the FHG at addressing the deposit barrier if the borrower can service the mortgage

14. The FHL is a more effective tool at supporting first home buyers than the FHG, through helping those who can service a mortgage but are unable to raise the deposit required by banks.
15. While HUD has not analysed the full impact of removing the FHG, it is possible that we could see a higher uptake in the FHL. For the current financial year, HUD anticipates that we could support around double the number of loans relative to the previous year.

Progressive Home Ownership (PHO)

16. The PHO is a funding programme that aims to help people into home ownership, focusing on families with children, Māori and Pacific peoples. The fund has a target to have 1,500 to 4,000 households contracted by June 2024. There are three pathways within the PHO fund. These are:
 - a. The Provider Pathway;
 - b. Te Au Taketake (the Māori and Iwi provider pathway); and
 - c. First Home Partner, the direct-to-households pathway administered by Kāinga Ora.
17. The fund provides loans to support the development of homes which are made available to eligible households through shared equity, rent-to-buy or leasehold schemes. PHO homes are generally new builds. However, existing homes have been included within the eligibility criteria from July 2023.
18. In July 2023 Cabinet approved a package of changes to the PHO fund settings to increase the pace and scale of delivery. These changes included:
 - a. Raising the household income eligibility from \$130,000 to \$150,000;
 - b. Including existing homes within the scope of the fund; and
 - c. Allowing for the possibility of a loan period of 20 years rather than 15.
19. At the time these changes were proposed it appeared unlikely that the PHO fund would achieve the target number of homes contracted by June 2024. The package of changes was developed based on discussions with providers who had indicated that these changes would expand their pool of potential households and enable PHO homes to be made available in areas that were previously not feasible due to the development costs of new homes in those areas.
20. As at 31 December 2023, the number of homes contracted through the fund had reached 1,678 with 1,119 of these already occupied by their new owners. The current average Crown Contribution (i.e. maximum loan value per home) was \$189,302. Two



more loans have been approved in January 2024 and the number of contracted homes is forecast to reach 2,000.

- 21. HUD considers that the PHO programme (particularly the provider and Te Au Taketake pathways) offers good value for money as it is effective at assisting people to achieve home ownership who might otherwise not have been able to do so. It also effectively targets Māori and Pacific households which are poorly represented in home ownership. HUD is planning to undertake an evaluation of the PHO programme and will provide you with advice on the results of this in the future.
- 22. More information on the PHO pathways is included in Annex C.

KiwiBuild and affordable housing for ownership

- 23. In recent years, the KiwiBuild programme has also provided support for first home buyers by providing first home buyers and ‘second chancers’⁵ with the first opportunity to purchase homes delivered through the programme.
- 24. Since its establishment, KiwiBuild has supported almost 2,350 households into home ownership. On average, the first home buyers which KiwiBuild assists into home ownership are more likely to be on higher incomes than those assisted through the other home ownership support programmes given the programme’s focus on new builds and due to the higher income eligibility thresholds which apply to the programme. The programme has most effectively supported first home buyers in Auckland and, to a much lesser degree, other major urban centres.⁶

25. s 9(2)(f)(iv) [Redacted]

26. [Redacted]

Annexes

- Annex A: Overview of eligibility criteria across different all home buyer support programmes
- Annex B: Additional findings on the FHG effectiveness in supporting first home buyers
- Annex C: PHO Pathway update

⁵ People who have previously owned a home but are now in a similar position to first home buyers.
⁶ Over 80 percent of the KiwiBuild homes delivered or in the pipeline are in Auckland

Annex A: Overview of current eligibility criteria across all first home buyer support

	FIRST HOME GRANT (FHG)	FIRST HOME LOAN (FHL)	PROGRESSIVE HOME OWNERSHIP (PHO)	KIWIBUILD
Income caps	<ul style="list-style-type: none"> Individual buyers: \$95,000. Individual buyers with dependents: \$150,000. Multiple buyers (2 buyers or more, and regardless of the number of dependents): \$150,000. 	<ul style="list-style-type: none"> Individual buyers: \$95,000. Individual buyers with dependents: \$150,000. Multiple buyers (two buyers or more, and regardless of the number of dependents): \$150,000. 	<ul style="list-style-type: none"> \$150,000 maximum household income. Intergenerational households are exempt from the cap and have a cap of 170 percent of median regional income for the area they are purchasing in. 	<ul style="list-style-type: none"> Single buyers: \$120,000. Single buyers with dependents: \$150,000. Multiple buyers: \$200,000.
House price caps	<p>Applicant must be purchasing an existing home or new build within the house price cap set in each region. House price cap settings are informed by the lower quartile estimated values of new and existing properties in each Territorial Authority boundary. https://kaingaora.govt.nz/home-ownership/first-home-grant/house-price-caps/</p>	N/A	N/A	<p>To keep KiwiBuild homes in more affordable price ranges, price caps are used that set the maximum price all KiwiBuild homes can be sold for in each region. Price caps are informed by the lower quartile estimated values of new builds in each location with some adjustments made to ensure commercial viability. A minimum price cap of \$550,000 is also applied. https://www.kiwibuild.govt.nz/about-kiwibuild/home-price-caps/</p>
Minimum deposit	5 percent of the house price (inclusive of all savings, FHG, KiwiSaver, First Home withdrawal, and gifts).	5 percent of the house price (inclusive of all savings, FHG, KiwiSaver First Home withdrawal, and gifts).	<ul style="list-style-type: none"> Normal deposit requirements apply unless the buyer secures a First Home Loan. However, in a shared equity scheme like First Home Partner (and PHO schemes offered by some providers) buyers only purchase a portion of the property and the provider buys the remainder. A deposit is only required for the portion the buyer 	Normal deposit requirements apply unless the buyer secures a FHL.

			<p>purchases reducing the size of the deposit needed.</p> <ul style="list-style-type: none"> • In the case of a leasehold PHO scheme the buyer only purchases the house on the land not the land itself so the purchase price will be reduced. • For rent-to-buy PHO schemes, a portion of the rent paid by tenants is usually set aside to help build up a deposit. 	
Target	Applicants must be a first home buyer <i>or</i> someone in a similar financial position to a first home buyer (second chancer).	Applicants must be a first home buyer <i>or</i> someone in a similar financial position to a first home buyer (second chancer).	Applicants must be a first home buyer <i>or</i> someone in a similar financial position to a first home buyer (second chancer).	Applicants must be a first home buyer <i>or</i> someone in a similar financial position to a first home buyer (second chancer).
Minimum holding period	Buyers must commit to living in the home they purchase as their main place of residence for at least 6 months.	Buyers must be purchasing a home to live in as their main place of residence.	Applicants must commit to living in the house as their main place of residence for at least 3 years.	Buyers must commit to living in the house as their main place of residence for a minimum of: <ul style="list-style-type: none"> • One year if the home is a studio or one-bedroom dwelling. • Three years if the home is a 2 or more bedroom dwelling.
Other criteria	<ul style="list-style-type: none"> • Be a New Zealand citizen, permanent resident or a resident visa holder who is ordinarily a resident in New Zealand or be applying with a partner who meets citizenship/residency requirements. • Meet bank lending requirements • Have been contributing a minimum amount of 3% of their salary <i>or</i> \$1,000 per year (whichever is lower) to KiwiSaver (or complying fund or exempt employer scheme) for at least three years. 	<ul style="list-style-type: none"> • Be a New Zealand citizen, permanent resident or a resident visa holder who is ordinarily a resident in New Zealand or be applying with a partner who meets citizenship/residency requirements. • Meet bank lending requirements. • Be purchasing land of less than 1 hectare. • Contribute 0.5 % of their total loan balance to a mortgage insurance scheme. administered by Kāinga Ora 	<ul style="list-style-type: none"> • Be a New Zealand citizen, permanent resident or a resident visa holder who is ordinarily a resident in New Zealand or be applying with a partner who meets citizenship/residency requirements. • Meet bank lending requirements • PHO providers (other than Kāinga Ora) may also apply their own eligibility criteria. 	<ul style="list-style-type: none"> • Be a New Zealand citizen, permanent resident or a resident visa holder who is ordinarily a resident in New Zealand or be applying with a partner who meets citizenship/residency requirements. • Meet bank lending requirements.
How much	If buying:	N/A	The First Home Partner Pathway has a cap of \$200,000 or 25% of the	N/A

<p>they can receive</p>	<ul style="list-style-type: none"> • An existing home: \$1,000 for each of the three (or more) years they've contributed to KiwiSaver. Maximum they can receive is \$5,000 for five or more years. • New build or land to build on: \$2,000 for each of the three (or more) years they've contributed to KiwiSaver. Maximum they can receive is \$10,000 for five or more years 		<p>value of the home, whichever is the lower.</p>	
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Annex B: Additional findings on the FHG effectiveness in supporting first home buyers

1. First home buyers wanting to access the FHG do not have to be recipients of the FHL or other support, as long as they meet the eligibility requirements (see Annex A). Data from 2019 to 2023 show that less than 7 percent of FHG recipients also take up the FHL each year.
2. The majority of FHG recipients are those buying with a deposit of over 5 percent⁷. This indicates that the majority of first home buyers accessing the FHG are not necessarily facing a deposit barrier in the same way as a buyer needing support from both the FHG and the FHL.
3. Conversely, most first home buyers taking up the FHL do not access the FHG⁸. This indicates that not receiving the FHG does not affect their ability to enter home ownership, reinforcing its limited impact in getting people over the deposit threshold required by their lender.
4. In addition to their own savings, first home buyers may also withdraw funds from their KiwiSaver or use gifted money from relatives to put towards their deposit. This can place some buyers in a better position to overcome the deposit barrier than others.
5. Lower income households (including single and multiple buyers) can struggle to purchase a home but likely face more challenges with servicing a mortgage which is heightened by the current high interest rate environment. For low-income households, the FHL is more effective in addressing the deposit barrier, subject to their ability to service the mortgage.

⁷ Based on FHG uptake data from 2019 to 2023.

⁸ Likely due to having additional requirements to meet for the FHG such as being a contributing KiwiSaver member of at least three years, and that there are house price caps in place (see Annex A) for full eligibility requirements).

Annex C – PHO pathway update

PHO Pathways

Provider

1. The Provider Pathway has been in operation since 2020 and includes some well-established providers such as Habitat for Humanity, New Zealand Housing Foundation and Queenstown Lakes Community Housing Trust. A full list of approved providers is provided below.
2. In addition to the contracted homes there are three loans in the process of being executed which will deliver a further 21 homes.

ALLOCATED FUNDING	CONTRACTED HOMES	COMPLETED HOMES	UNCOMMITTED FUNDING
\$151.8m	485	154	\$14m

Te Au Taketake

3. Te Au Taketake, a dedicated pathway for Māori and Iwi organisations, opened in May 2021 and now has 11 approved providers. The initial focus for this pathway was on building capability and growing the number of organisations approved as providers, which took some time. HUD also needed to work with the providers on the development of suitable PHO products and documentation. With that having been achieved, the current focus in this pathway is working with the approved providers to develop delivery plans. In addition to the contracted homes in the table below there are eight recently approved loans in the process of being executed, which will deliver a further 167 homes.

ALLOCATED FUNDING	CONTRACTED HOMES	COMPLETED HOMES	UNCOMMITTED FUNDING
\$94.2m	20	0	\$38m

First Home Partner

4. First Home Partner commenced operation in October 2021 and was fully subscribed in mid-2023. Additional funding from the previously unallocated balance of the fund, and a further appropriation of funding from the KiwiBuild Buying Off the Plans appropriation, was allocated to First Home Partner. At the end of December 2023 there were 28 households awaiting final approval.

ALLOCATED FUNDING	CONTRACTED HOMES	COMPLETED HOMES	UNCOMMITTED FUNDING
\$194m	1173	965	\$0m

Summary table of pathway status as at 31 December 2023

5. With the current appropriation available until 30 June 2024, HUD are actively working with providers to develop delivery plans to utilise the remaining uncommitted funding noted below.

PATHWAY	ALLOCATED FUNDING	CONTRACTED HOMES	COMPLETED HOMES	UNCOMMITTED FUNDING
Provider	\$151.8m	485	154	\$14m
Te Au Taketake	\$94.2m	20	0	\$38m
First Home Partner	\$194m	1173	965	\$0m
Total	\$440m	1678	1119	\$52m

List of Approved Providers

PROVIDER PATHWAY	TE AU TAKETAKE
Bridge Housing Charitable Trust	Ka Uruora Aotearoa Trust
Doing Good Foundation	Manawa Community Housing Trust
Habitat for Humanity New Zealand	Ngāti Whātua Orākei Whai Rawa
Homes for People Trust	Te Āhuru Mōwai
New Zealand Housing Foundation	Te Ranga Mārō
Ōtautahi Community Housing Trust	Te Rūnanga o Kirikiriroa Charitable Trust
Penina Trust	Te Rūnanga o Ngāi Tahu
Queenstown Lakes Community Housing Trust	Te Rūnanga o Toa Rangatira
	Te Tahua o Rangitane
	Te Tumu Kāinga

