



## Briefing

### Further advice on first home buyer support

Date:	20 May 2019	Security level:	In Confidence
Priority:	High	Report number:	BRF18/19050269

### Action sought

	Action sought	Deadline
Hon Twyford Minister of Housing and Urban Development	Agree to the recommendations	20 May 2019
Hon Jenny Salesa Associate Minister of Housing and Urban Development	For information only	N/A
Hon Nania Mahuta Associate Minister of Housing and Urban Development	For information only	N/A

### Contact for discussion

Name	Position	Telephone		1 <sup>st</sup> contact
Fiona Ryan	Acting Manager, Housing System Performance	04 901 9873	s 9(2)(a)	✓
Matthew Galt	Senior Advisor, Housing System Performance	04 896 5686		

### Other agencies consulted

Treasury and Housing New Zealand

### Minister's office to complete

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Declined
- ☐ Referred to (specify)

### Comments

Date returned to MHUD:



# Briefing

## First home buyer support

**For:** Minister Twyford, Minister of Housing and Urban Development  
**Date:** 10 May 2019  
**Priority:** High  
**Security level:** In Confidence  
**Report number:** BRF18/19050252

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### Purpose

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This briefing provides further advice on using the HomeStart underspend, changes that could be made to HomeStart and Welcome Home Loans as part of the build reset, and further details on how banks lend against Working for Families tax credits. It will inform the Government Build Programme reset Cabinet paper.

### Executive summary

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1. The HomeStart appropriation is currently underspent by around \$20m. This underspend is expected to gradually shrink over the next four years.
2. The HomeStart appropriation is a Benefit or Related Expense appropriation (BORE). Normally where there is an underspend for this type of appropriation, the appropriation is reduced to better match spending rather than adjusting policy settings to make full use of the appropriation. However, the appropriation has been retained at its current level to keep space for policy changes.
3. HUD considers that up to \$10m per year of the HomeStart appropriation could be used to fund policy changes with Cabinet's approval, although there is uncertainty around the size of this estimate.
4. Treasury's advice is that all policy decisions that increase expenditure in a BORE appropriation should be counted against the Budget, so using the underspend outside of a Budget process is inconsistent with the Fiscal Management Approach. Using the Budget process ensures that new spending is rigorously evaluated and the projects that offer the best value for money are funded. However, the Minister of Finance can exercise their discretion and judgment when deciding whether a particular policy decision is counted against the Budget allowance or Between Budget Contingency for Fiscal Management Approach purposes. Therefore, it would be possible to make policy changes that increase spending on HomeStart using the underspend as part of the Build Reset, if the Minister of Finance and Cabinet agree.
5. Over the second half of 2019, officials intend to clarify what the parameters of the appropriation are and the process for making minor and major policy changes in the future, as clarity around this appears to have been lost over the years. The changes made to HomeStart in 2016 and 2018 used the underspend and were likely inconsistent with the Fiscal Management Approach, but this was not noticed at the time by officials at any agency.
6. If you wish to use the underspend, officials consider that increasing the size of grants for new builds and making grants available to all buyers would be the best ways of supporting the Government Build Programme.

7. There are various ways the grants for new builds could be increased. Officials recommend increasing them from \$6000, \$8000 and \$10000 for three, four and five years of contributing to KiwiSaver respectively to \$8000, \$10000 and \$13000. This will cost between \$6-9m per year.
8. Officials recommend making grants available to all eligible buyers by removing the current maximum of two grants per home. This is expected to cost around \$0.7m-\$1m per year.
9. Officials recommend deferring considering removing the HomeStart deposit requirement and reducing the Welcome Home Loan deposit requirement to 5% to the second half of the year. While there is merit in this proposal, we are unable to develop an accurate costing for it right now. There are also other risks to it, such as creating a short term rush of buyers inflating house prices and risks around encouraging high-LVR lending that would warrant further consideration.
10. Discussions with the people overseeing Welcome Home Loans at Housing New Zealand have confirmed that banks do lend reasonably generously against Working for Families tax credits, effectively providing a means of capitalising them.

## Recommended actions

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It is recommended that you:

1. **Note** that this paper will feed into the Government Build Programme Cabinet paper. *Noted*
2. **Note** that the HomeStart appropriation is currently underspent by around \$20m. This underspend is expected to gradually shrink over the next four years. *Noted*
3. **Note** that Treasury's advice is that all policy decisions that increase expenditure in a BORE appropriation should be counted against the Budget. Using the underspend outside of a Budget process is inconsistent with the Fiscal Management Approach. *Noted*
4. **Note** the Minister of Finance can exercise their discretion and judgment when deciding whether a particular policy decision is counted against the Budget allowance or the Between Budget Contingency for Fiscal Management Approach purposes. Therefore, it is possible to make policy changes that increase spending on HomeStart using the underspend as part of the Build Reset with the agreement of the Minister of Finance and Cabinet. *Noted*
5. **Note** that HUD considers that up to \$10m per year of the HomeStart appropriation could be used to fund policy changes, with the Minister of Finance and Cabinet's approval, while maintaining a sufficient buffer against increased spending. *Noted*
6. **Note** that officials consider that increasing the size of grants for new builds and making grants available to all buyers to be the best changes to make at this point in time. *Noted*
7. **Agree** that the Build Programme Cabinet paper recommend increasing the HomeStart grant amounts for new builds from \$6000, \$8000 and \$10000 for three, four and five years of contributing to KiwiSaver respectively to \$8000, \$10000 and \$13000. This will cost between \$6-9m per year. This change would support new housing supply and direct more funding towards high growth areas with plenty of new builds, which have been underserved by HomeStart. *Agree/disagree*



- |     |   |                       |
|-----|---|-----------------------|
| 8.  | <b>Agree</b> that the Build Programme Cabinet paper recommend making grants available to all eligible buyers by removing the current maximum of two grants per home. This is expected to cost around \$0.7m per year. This change will benefit multigenerational Māori and Pacific households.  | <i>Agree/disagree</i> |
| 9.  | <b>Agree</b> to defer considering removing the 10% HomeStart deposit requirement and reducing the Welcome Home Loan deposit requirement to 5% to the second half of 2019. While there is merit in this proposal, we are unable to provide an accurate costing right now, and it risks inducing a short term rush of buyers that raises house prices and increases financial stability risk. | <i>Agree/disagree</i> |
| 10. | <b>Agree</b> that officials clarify the parameters of the appropriations, such as what the expected level of the buffer is and clarifying the process for adjusting the settings, as part of a wider review of the schemes over the second half of 2019.  | <i>Agree/disagree</i> |
| 11. | <b>Note</b> that discussions with the HNZ officials overseeing Welcome Home Loans have confirmed that banks do lend generously against Working for Families tax credits, effectively providing a means of capitalising them.  | <i>Noted</i>          |

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Fiona Ryan  
**Acting Manager, Housing System  
 Performance**

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Hon Twyford  
**Minister of Housing and Urban  
 Development**

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## Background

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1. Following our previous advice on first home buyer support and capitalising Working for Families [BRF18/19050252 refers], you agreed that officials investigate:
  - a. what the HomeStart underspend can be used for;
  - b. making changes to the existing homeownership products to help first home buyers with their deposit. This could include reducing the deposit threshold on HomeStart grants and Welcome Home Loans and making HomeStart available to groups of three or more buyers;
  - c. increasing the HomeStart grants for new builds; and
  - d. the extent to which banks account for Working for Families payments in determining lending amounts (ie. how much they effectively capitalise it through mortgages).
2. This briefing provides further advice on each point. The body of the briefing provides advice on HomeStart and Welcome Home Loans, and a summary of policy options around these is included in Annex 1. Lending against Working for Families is discussed in Annex 2.
3. For the policy changes, we provide analysis of how each option rates on:
  - a. cost,
  - b. fairness,
  - c. supporting new supply,
  - d. whether the change could be considered in time to be announced as part of the Build Reset in June,
  - e. administrative complexity, and
  - f. how they could support or hinder the Government's other policy objectives.

## Funding sources for making changes to HomeStart and Welcome Home Loans

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### The HomeStart underspend

4. The HomeStart grant spend has been \$20m below the appropriation for the past two years (20% of the appropriation of \$106.2m). Housing New Zealand's current forecasts are for the underspend to remain around \$17m-\$20m out to 2022. However, there are risks around this forecast and there is a greater chance of the underspend being smaller than this than larger.
5. The HomeStart appropriation is a Benefit or Related Expense appropriation (BORE). These appropriations are set based on current policy settings. If policy settings are adjusted
6. Part of the underspend reflects a built in buffer. Demand for HomeStart grants cannot be predicted with complete accuracy. When the HomeStart settings were last significantly adjusted in 2016, the buffer was intended to be between \$3m and \$8m to manage fluctuations in demand. The underspend has grown to \$20m as a result of house prices increasing, making it harder for people to find suitable homes below the HomeStart house price caps.
7. At the end of each fiscal year, the underspend generally goes back to the centre, and the forecast is revised to more accurately reflect demand in the next financial year. Underspends do not accumulate up from year to year.
8. Although the HomeStart underspend has been larger than expected, the appropriation has been retained at its previous level in order to preserve room for future adjustments to the HomeStart policy settings and to retain a buffer for the event of an increase in demand. In addition, detailed projections of the demand for HomeStart grants were last done in 2016 as

part of the policy changes that were made then, and more recent forecasts have been based on general trends in spending.

9. Further investigation with Treasury and Housing New Zealand has indicated that it would technically be possible for Cabinet to agree to increase support for first home buyers using the underspends. Treasury advise that using the underspends as proposed would be inconsistent with the fiscal management approach, and it would be preferable to make the policy change as part of a budget process and consider it as new spending. In retrospect, best fiscal practice may have been to reduce the HomeStart appropriation during the budget round to bring it closer to actual spending expected based on policy settings.
10. However, Cabinet can approve the use of the underspend this way. The fiscal rules around adjusting the HomeStart settings have been inconsistently applied in the past. For example, changes were made in 2016 that increased annual spending by around \$10m using the underspend, and further smaller changes were made in 2018 (worth \$350k and \$3m per year respectively).
11. On balance, HUD considers that up to \$10m of the HomeStart appropriation could be used to fund changes to the HomeStart policy settings. However, this would introduce some complications that would need to be managed.

*Complication 1: Increased risk of overspend in the outyears*

12. There is a risk of the appropriation being overspent after 2021, even without increasing support now. Policy changes resulting in an increase in spending would bring forward the point at which any overspend occurs.
13. The main factor that has contained HomeStart spending in the past has been rising house prices. However, house prices have now stabilised, and the government's housing programme aims to continue this stabilisation.
14. Most other external factors will act to increase spending on HomeStart.<sup>1</sup> These include:
  - a. The growing population and rising KiwiSaver participation rates, which together has seen the population of 25-44 year olds in KiwiSaver increase by 6% per year over the past two years.
  - b. The Government's aim to increase homeownership rates.
  - c. The rising proportion of sales to first home buyers that are new builds (which receive larger grants).
15. Figure 1 shows how the HomeStart spend has tracked compared to the appropriation, Housing New Zealand's projection, and two scenarios which incorporate factors (a) to (c) above. Housing New Zealand's projection is broadly a continuation of the current spend.
16. The lower forecast scenario (blue dotted line) shows what the spend would be accounting for just growth in the number of KiwiSaver members, and assuming no additional growth in the number of first home buyers, no change in house prices, and no increase in spending from other drivers.<sup>2</sup> The higher forecast scenario (blue dashed line) factors in both growth in the number of KiwiSaver members, and a modest increase in the proportion of KiwiSaver members buying a first home as a result of the government's housing programme. Specifically, we assume that an extra 800 homes per year are purchased with the help of a

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<sup>1</sup> HomeStart spending is roughly neutral to income growth if house prices are stable, as the people whose incomes rise above the caps will be roughly offset by the people with lower incomes who become able to afford a home.

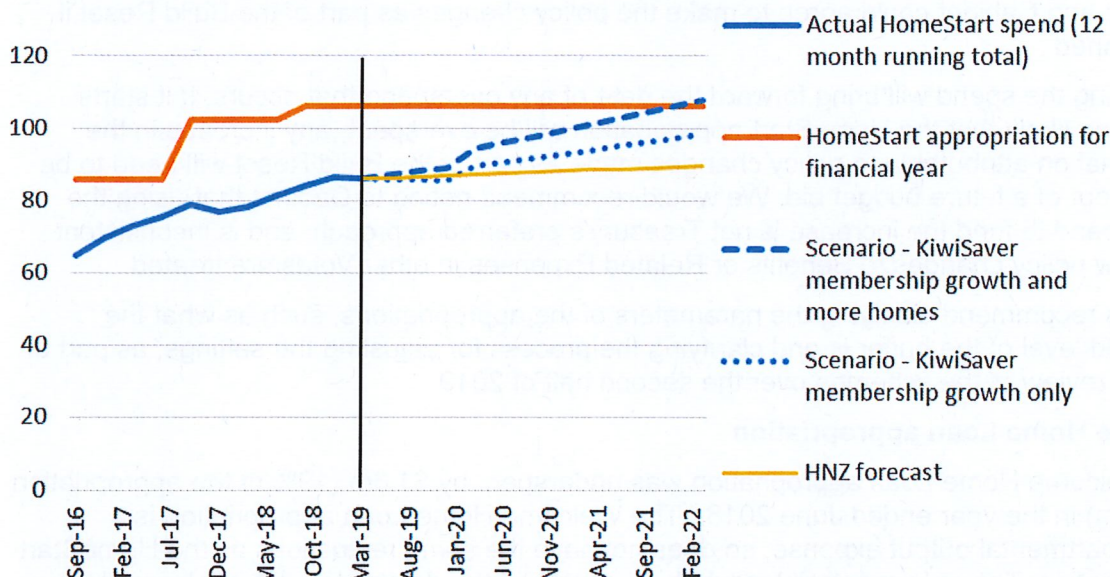
<sup>2</sup> This assumes 4% annual growth in the number of KiwiSaver members aged 25-44 (the typical age of a first home buyer) over the next few years. Over the past two years growth has been 6% per year, although the rate of growth has been declining over time.



HomeStart grant, over and above the extra homes purchased due to growth in the number of KiwiSaver members. Of these 800 homes, 675 are assumed to be new builds. These forecasts show that the underspend may shrink or be fully eliminated by 2022 absent policy changes.

17. The HomeStart spend is highly sensitive to house prices. However, we have been unable to model the magnitude of the effect given time constraints.

**Figure 1: HomeStart spend compared to the appropriations and some scenarios.**



*Complication 2: Using the underspend this way is not best practice fiscal management*

18. Funding for increasing the size of a demand-driven BORE appropriation can be approved in different ways depending on the driver of the increase:
  - a. Policy-driven increases need to be funded from the Budget or the Between Budget Contingency (BBC).
  - b. Demand-driven increases as a result of external factors (such as economic changes) and are forecast appropriations, the upper limit of which is based on forecasted demand. Eligible demand-driven changes can be incorporated into a reforecast of the appropriation, such as during the October Baseline Update or March Baseline Update.
19. Treasury's advice is that all policy decisions that increase expenditure in a BORE appropriation should be counted against the Budget. This ensures that new spending is rigorously evaluated and the projects that offer the best value for money are funded. This also is administratively more streamlined, as any subsequent increases to the BORE can be automatically reforecasted upwards at future Baseline Updates.
20. The Fiscal Management Approach dictates that changes to the HomeStart settings should be done as part of the Budget Process. The Minister of Finance can exercise their discretion and judgment when deciding whether a particular policy decision is counted against the Budget allowance or BBC for Fiscal Management Approach purposes. Therefore, it would be possible to make policy changes that increase spending on HomeStart using the underspend, without having to count it against the Budget allowances or BBC. However, Treasury does not advise this option, as it is inconsistent with the Fiscal Management Approach, and may cause different treatment between HUD and other agencies that have been asked to request new funding for policy-driven BORE increases.
21. Furthermore, if the policy changes contribute to a need to increase the appropriation in the future, any increase attributable to the policy decision today will need to be counted against the Budget or BBC at that future point in time. Making the policy change and not counting against the Budget or BBC at the time they are made creates ambiguity about whether future



adjustments to the appropriation are due to the previous policy changes or changes in demand since the changes were made.

#### *Recommendation on HomeStart underspend*

22. On balance, HUD considers that up to an additional \$10m per year of spending could be accommodated by the HomeStart underspend without creating an excessive risk of an overspend. This will leave a buffer of \$10m for increases in demand over time.
23. While this would be inconsistent with the Fiscal Management Approach, but the Minister of Finance and Cabinet could agree to make the policy changes as part of the Build Reset if they wished.
24. Increasing the spend will bring forward the date of any overspend that occurs. If it starts appearing likely that the HomeStart appropriation will be overspent, any increase in the appropriation attributable to policy changes made as part of the Build Reset will need to be funded out of a future budget bid. We would recommend noting to Cabinet that using the underspend to fund the increase is not Treasury's preferred approach, and is inconsistent with how policy changes to Benefits or Related Expenses in other Votes are treated.
25. Officials recommend clarifying the parameters of the appropriations, such as what the expected level of the buffer is and clarifying the process for adjusting the settings, as part of a wider review of the schemes over the second half of 2019.

#### **The Welcome Home Loan appropriation**

26. The Welcome Home Loan appropriation was underspent by \$1.6m (19% of the appropriation of \$8.7m) in the year ended June 2018.<sup>3</sup> The Welcome Home Loan appropriation is a non-departmental output expense, so does not have the same restrictions as the HomeStart appropriation. The only constraint would be that should the demand for the Welcome Home Loan be higher after the settings are widened, the appropriation cannot be automatically adjusted. If Ministers wish to spend more than the limit of the appropriation, the increase would either need to be funded from within baselines or sought through new spending sources (such as BBC or Budget 2020).
27. However, below we recommend deferring consideration of reducing the Welcome Home Loan deposit requirement to a more comprehensive review as there are a number of risks to this policy change which would warrant further consideration.

#### **Budget 2020**

28. Another source of funding would be Budget 2020. This would involve developing a budget bid over the second half of 2019 and implementing the changes in the second half of 2020 if the bid is approved. The between budget contingency could also be used, although there is a high bar for using this for proposals that could be deferred to a budget round.

#### **Policy options noted in the previous briefing**

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29. The three changes you agreed for officials to look at further were:
  - **Option 1:** Investigating the potential to increase the size of grants for new builds, potentially for mid-income earners and families.
  - **Option 2:** Allowing HomeStart grants to be paid to all buyers where there are three or more buyers (ie. Removing the maximum of two grants per home).
  - **Option 3:** Eliminating the 10% deposit requirement on HomeStart grants and reducing the deposit requirement for Welcome Home Loans to 5%.

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<sup>3</sup> Welcome Home Loans are funded out of the HNZC Housing Support Services appropriation. \$8.7m of funding is available, of which \$7.1m was used.



30. Given that HUD considers that up to \$10m from the HomeStart appropriation could be prudently spent, officials consider that the best changes to make would be options (a) and (b). Specifically, we would recommend increasing HomeStart grants for new builds by \$2000-\$3000 and removing the maximum of two grants per home.
31. Housing New Zealand advise that all options are administratively straightforward. Any of these changes could be made with three weeks' notice, so could go live at or shortly after the Government Build Programme changes are announced in mid-June.
32. Below we outline the options in more detail and assess them against the criteria of cost, fairness, implementation time, supporting new supply, and how they could support or hinder the Government's other policy objectives.

#### **Option 1: Increasing the size of grants for new builds**

33. The table below gives some options for increasing the size of grants for new builds. Our recommended option is option D - increasing the grants for new builds to \$8000, \$11000 and \$14000 for 3, 4 and 5 years of contributing to KiwiSaver respectively. This is a 38% increase on average, and would cost between \$8-\$10m per year.

**Table 1: Options for increasing the new build grants**

Option	New build grant amount for 3, 4 and 5 years contributing to KiwiSaver	Cost per year <sup>4</sup>
A. Status quo	\$6000, \$8000, \$10000	-
B. 25% increase	\$7500, \$10000, \$12500	\$5-7m
C. \$2000 increase for 3 and 4 years; \$3000 increase for five years (30% increase on average)	\$8000, \$10000, \$13000	\$6-\$8m
D. \$2000 increase for 3 years, \$3000 increase for four years, \$4000 increase for five years (\$38% increase on average)	\$8000, \$11000, \$14000	\$8-\$10m

34. Increasing the size of grants for new builds would:
  - a. Support new supply if developers responded by building more, or more affordable, homes.
  - b. Support fairness in some ways, but not in others. It would support fairness if it lowers housing costs by encouraging affordable housing supply. It could support fairness by directing more funding towards high growth areas, which have benefited less from HomeStart than low growth areas. However, buyers of new builds tend to be better off than buyers of existing homes. Some people may also view increasing the difference between new build and existing home grants as unfair, but we expect

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<sup>4</sup> A total of \$21.3m was spent on new builds last year, suggesting that a 25% increase would cost \$5.3m, a 30% increase \$6.3m and a 38% increase would cost \$8.2m. However, spending on new builds has increased more quickly than for existing homes (new builds were up 25%, existing homes up 5% in the year to March 2019). If this trend continues, spending on new builds would be higher in the future. In addition, the larger grants will incentivise more people to buy new builds.

that people would generally recognise the broader benefits of supporting new supply.

- c. Be administratively simple to implement, and could be implemented at the same time as the build programme reset.

#### *Variants on increasing the size of grants for new builds*

35. Two possible variants to increasing the size of grants for new builds are:
- a. Scaling the size of the grant with household composition.
  - b. Increasing the size of the grants for households below a new, lower income threshold. For example, households with incomes below \$70,000 (sole buyer) and \$110,000 (two or more buyers) could be eligible for the larger grant, while households with incomes over this level would remain eligible for the current grant. We would need to do further work to determine fair levels for a second, lower income threshold and the exact savings this would offer.
36. These options would have a lower cost than increasing the size of new build grants for all buyers. However, officials do not recommend them for the following reasons:
- a. Scaling the size of grants by family composition would be complex and need to be done on a longer timeframe if you were interested in this option. We would need to develop processes for defining and verifying family types as this information is not currently collected during the HomeStart application process. There could also be issues from the grant being paid at a point in time while family compositions vary over time. For example, the timing of a birth or change in care arrangements for a child could result in a significant change in entitlement, leading to the perception that some applicants are missing out. This is less of an issue for entitlements that are paid over time such as the accommodation supplement and working for families.
  - b. Having a second income cap would add complexity to the scheme and could result in confusion for first home buyers. It may also only add marginally to the extent to which HomeStart targets need. Household incomes vary a lot with people's life stages and household size. Without accounting for these a second, lower income cap may have the effect of directing support towards small households made up of people early on their careers.

#### **Option 2: Allowing HomeStart grants to be paid to all buyers where there are three or more buyers (ie. Removing the maximum of two grants per home).**

37. Currently only a maximum of two buyers per household can be paid a HomeStart grant. Officials recommend making grants available for all buyers. This change would rate well against all the criteria:
- a. The cost would be low, at under \$1m per year.<sup>5</sup>
  - b. It would be administratively simple.
  - c. It could be implemented quickly.
  - d. It would support fairness, as there is no strong rationale for excluding additional buyers from receiving a grant.
  - e. It would benefit Pacific and Māori households, who are overrepresented among groups of three or more buyers.

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<sup>5</sup> Around 0.8% of homes purchased with the help of a HomeStart grant in 2017/18 had more than two buyers, with the vast majority of these having three buyers. If an average of one additional grant was paid for each house with multiple buyers, this would suggest an increase in HomeStart spending of around 0.8%, or \$0.7m, as a result of the change.



f. It would not do much to support new supply, but nor would it harm new supply.

38. Buying a home as a group of three or more buyers does have additional complications, such as the legal arrangements in the event that one member of the group wishes to leave the home. However, the HomeStart grant is only a small part of the home buying process, and banks and legal professionals will generally be the main points of contact supporting buyers.

**Option 3: Eliminating the 10% deposit requirement on HomeStart grants, and reducing the deposit requirement on Welcome Home Loans to 5%**

39. HomeStart grants and Welcome Home Loans require the buyer to have a 10% deposit made up of their own savings (ie. excluding the value of the grant). This requirement was introduced in 2013 to encourage first home buyers to be in a solid financial position before purchasing a first home.
40. In our previous advice [BRF18/19050252 refers] we noted that we considered the HomeStart deposit requirement to be of little value for two reasons. First, it works against the intention of HomeStart to help first home buyers into home ownership who struggle to save a deposit. Second, buyers who do not have a 10% deposit have in cases found a way to create the impression that they have a deposit, such as by presenting gift certificates that are not subsequently drawn, so few applicants are declined based on this criteria.
41. We also noted that there could be a case to reduce the Welcome Home Loan deposit requirement to 5% to match what banks already offer. Several banks offer mortgages with 5% deposits, although some require a 10% deposit.
42. It would be best to do the changes to HomeStart and Welcome Home Loans together so that the products can be used together with small deposits.
43. We continue to think that these criteria should be reviewed. However, after further considering them we consider this would be best done on a longer timeframe as there are three risks:
- a. We cannot easily estimate the cost of making these changes as it is hard to know how much additional demand will arise from them. According to Reserve Bank statistics, 4% of first home buyers in the year to March 2018 bought at an LVR of over 90%. Therefore, if we removed the deposit requirement, there would likely be at least a 4% increase in uptake of HomeStart, which would cost around \$4m. However, it is possible that the cost could be higher in the short term if there is a rush of additional buyers who have saved between a 5% and a 10% deposit. There are similar challenges estimating the likely increase in demand for Welcome Home Loans.
  - b. If there is a temporary rush of buyers, this could also put upward pressure on house prices. Inducing additional demand in this way could be helpful if the economy were weak, but right now it is strong enough that it would likely be unhelpful.
  - c. There is a risk that removing the deposit requirement will result in an increase in high-LVR lending, placing banks and households at greater risk of financial stress. The Reserve Bank do not have significant concerns about the changes, but it may be worth further considering the risks that buyers will be exposed to by buying homes at very high LVRs.
44. These options could be reviewed over the second half of 2019, and funded through a budget bid unless they could be funded through an underspend later on.

## **Next steps**

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45. Your preferred approach will form part of the Government Build Programme Cabinet paper to be considered by SWC on 12 June.

## **Annexes**

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Annex A: Summary table of the HomeStart and Welcome Home Loan options

Annex B: How banks lend against Working for Families





## Annex A: Summary of options (options in blue are substitutes)

Option	Description	Cost per year	Fairness and other policy objectives	Supports new supply	Can be implemented as part of Build reset?	Administration cost
Size of new build grants	Increase new build grants by 25%	\$5-7m	Positive: More funding towards high growth areas. Positive: Supports new supply	Yes	Yes	Negligible
	Increase new build grants by \$2000-\$3000 (recommended)	\$6-\$9m	Negative: Buyers of new builds tend to be slightly better off. Negative: Increasing the gap between new build and existing home grants may be viewed as unfair.	Yes	Yes	Negligible
	Increase new build grants by \$2000-\$4000	\$8-\$11m		Yes	Yes	Negligible
Multiple buyers	Remove maximum of two grants per house (recommended)	\$0.7-\$1m	It seems fair that all eligible buyers get a grant. Supports multigenerational households, including Pacific and Māori.	Not specifically	Yes	Negligible
HomeStart and WHL deposit	Remove 10% deposit for HomeStart grants and reduce Welcome Home Loan deposit requirement to 5% (best done together)	HomeStart: Uncertain – likely at least \$4m. WHL: Uncertain, likely to fit into appropriation	Seems fair – it creates additional opportunities that weren't there before.  May place more buyers at risk of financial stress. May increase financial stability risk. May result in a short term rush of buyers putting upward pressure on house prices. It seems fair that all eligible buyers get a grant. Supports multigenerational households, including Pacific and Māori.	Not specifically	Risky without further analysis and full costings	Negligible

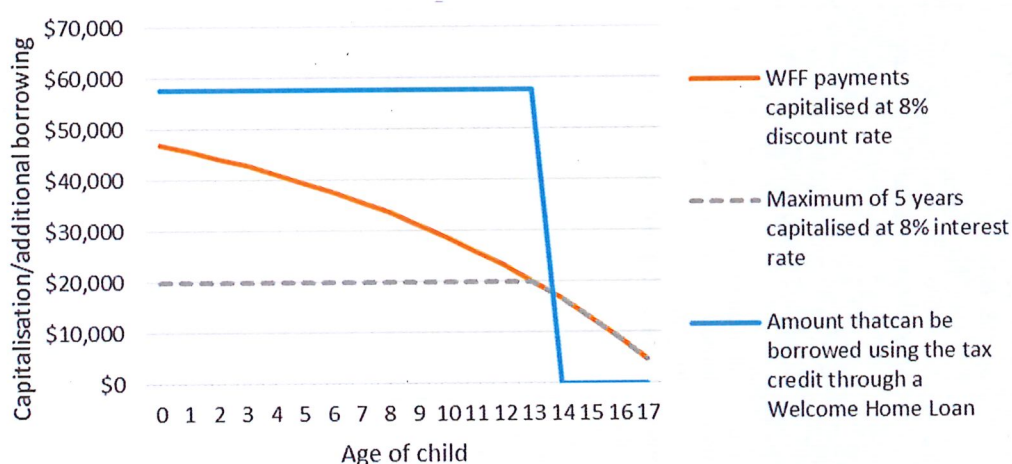




## Annex B: How banks lend against Working for Families

46. Officials have discussed how banks lend against Working for Families with Housing New Zealand. HNZ maintains a good awareness of the retail banking sector to ensure that the Welcome Home Loan lending criteria reflect best practice. These discussions have confirmed that banks already do effectively capitalise Working for Families by lending against it.
47. Retail banks generally count WFF tax credits as income. In the Welcome Home Loan credit policy, tax credits for children aged 13 and under are fully counted for debt servicing purposes and are treated as continuing indefinitely. Tax credits for children aged 14 or over are not counted for debt servicing purposes as they are not considered to be sufficiently long term (they will end when the child turns 18).
48. Because WFF tax credits for children aged under 13 are treated as continuing indefinitely, they add a lot to a household's borrowing power – in fact, more than capitalising Working for Families at 8% discount rate would. For example, a \$5000 per year WFF tax credit would allow a household to borrow up to an additional \$55,000-\$60,000 if the household's income was already above their assessed minimum living costs, and they could match this with a 10% deposit.<sup>6</sup>
49. In contrast, capitalising future working for families payments would only give between \$47,000 and \$4,700 depending on the age of the child. If only a maximum of five years' WFF could be capitalised, the potential benefits are further reduced (figure 4).
50. This suggests that, given some help with the deposit, a household's ability to purchase a home would be enhanced more by borrowing against their WFF tax credits than capitalising them. They would also retain the safety net of being eligible for WFF tax credits (potentially with increased payments) if their income falls. In some ways it is surprising how much banks will lend against WFF tax credits, but it does illustrate that WFF is already helping to get families into homeownership.

**Figure A: Capitalising Working for Families payments versus the amount that could be borrowed against ongoing WFF tax credits through a Welcome Home Loan**



Note: Shows the effect that a \$5000 per year WFF payment has on borrowing power or the amount that could be capitalised. Assumptions for loan: 5.7% interest rate, 30 year term. and household income is above their assessed minimum living expenses prior to receiving the tax credit.

<sup>6</sup> The relationship between net income and borrowing power here is similar to those given by online bank lending calculators.