

In Confidence

Office of the Minister of Housing
Chair, Cabinet Social Wellbeing Committee

Initiation of the Direct to Household pathway of the Progressive Home Ownership Fund

Proposal

1. To report back to the Cabinet Social Wellbeing Committee, as directed by Cabinet [CAB-20-MIN-0323.01], on the final design of the Direct to Household (DTH) pathway, following the Kāinga Ora board's agreement to its design.

Relation to government priorities

2. The Labour Party Manifesto stated that secure, healthy, and affordable housing is at the heart of the wellbeing of New Zealand families. It will take many years of sustained and continued focus to make that a reality for every New Zealand family.
3. The Manifesto stated that Labour will continue to partner with Community Housing Providers to support progressive home ownership and roll out a government-led scheme. The Government's work to support progressive home ownership was initiated through the Confidence and Supply Agreement between the Labour and Green Parties.

Executive summary

4. As part of our Build Programme Reset, Cabinet made available \$400 million for the delivery of Progressive Home Ownership (PHO) schemes through a PHO Fund (the Fund) [CAB-19-MIN-0444refers].
5. The Fund is a targeted initiative to increase opportunities for people to access home ownership who would not have otherwise been able to do so.
6. In July 2020 I announced the detailed design of the Fund. Phase 1 of the Fund – a limited invitation roll-out to established providers – was launched in March 2020 and has resulted in Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) entering six contracts with four providers for 166 new build homes in Auckland, Hamilton, Papamoa, Nelson and Queenstown. As of 30 June 2021, 46 households have moved into their homes.
7. Phase 2, which opened the Fund to a wider group of organisations under the Provider and Te Au Taketake [previously Iwi and Māori] pathways, launched on 12 May 2021. HUD has received responses from seven organisations to the Invitation to Participate and expects to make recommendations for loans in the coming weeks.

8. Cabinet set several parameters for the DTH pathway and product and delegated final approval of the product to the Kāinga Ora Board [CAB-19-Min-0444 and CAB-20-MIN-0323.01 refers]. The Direct to Household product will be rebranded as “First Home Partner” by Kāinga Ora.
9. The Kāinga Ora Board provided final approvals for a Shared Ownership Agreement (SOA) that it will enter with households on 9 August 2021. The SOA reflects the Cabinet design parameters for the product.
10. The term of the SOA is 25 years, but the Kāinga Ora Board is comfortable that the product gives effect to Cabinet’s direction that the product be designed around households graduating from the scheme within 15 years.
11. The Ministers of Finance and Housing (joint Ministers) have confirmed an earlier in-principle decision that Kāinga Ora delivers the pathway in its own right as a Crown entity. This decision means that funding to Kāinga Ora will take the form of a loan under the Public Finance Act 1989 (PFA).
12. The Minister of Finance has delegated to the Secretary to the Treasury the final approval for a loan facility of \$187 million from the Fund to Kāinga Ora.
13. Funding will be made available through the existing Fund capital expenditure multi-year appropriation. The proposed loan facility sits within the current Kāinga Ora Borrowing Protocol and therefore no approval for Kāinga Ora to borrow under sections 160(1)(b) and 162 of the Crown Entities Act 2004 (CEA) is required.
14. As Kāinga Ora is a co-mortgagor for property bought through the scheme, it will be liable for the shortfall to the bank if the property is sold and sale proceeds are insufficient to cover the home loan. This effectively provides a guarantee to the bank. Kāinga Ora has negotiated to limit the extent of its liability to the share owned by Kāinga Ora.
15. Joint Ministers have given approval in accordance with sections 160(1)(b) and 163 of the CEA for Kāinga Ora to give certain guarantees or indemnities to Westpac and BNZ, as the first banks participating in the scheme. This approval will be extended to the giving of guarantees to other banks on the same basis, should they choose to participate in the scheme.
16. Joint Ministers will attach conditions to this approval to limit risk to the Crown.
17. I also seek Cabinet’s agreement to make the Provider pathway available nationwide. This will enable providers to identify households that need assistance in all parts of the country and develop schemes to assist them.
18. It is estimated that the average Crown contribution per household will be \$120,000 or maximum \$200,000 for the DTH pathway and \$225,000 for

providers in Phase 1. This will support to a significant number of households¹ into homes.

19. I previously advised Cabinet that both KiwiBuild and Axis (at Hobsonville Point) homes were complimentary to the DTH pathway. Cabinet approved the inclusion of KiwiBuild homes and joint Ministers have now approved the inclusion of Axis home in the pathway.

Design of the Direct to Household product and pathway

20. Through its consideration of the Fund's high-level design in December 2019 and detailed design in July 2020, Cabinet set the following parameters for the DTH pathway and product [CAB-19-Min-0444 and CAB-20-MIN-0323.01 refer]. The pathway should:

- provide funding directly to households who have applied and are approved as eligible for the scheme;
- be delivered by the government entering into shared ownership with the household (as tenants in common);
- focus on households from Cohort B²:
- take a lighter touch approach to delivering PHO schemes, targeted towards those closer to home ownership than through the Provider pathway and the Te Au Taketake pathway.

21. The Direct to Household product should be:

- designed around households graduating from the scheme within 15 years, to align with the capital recycling requirement;
- interest-free for households, but with the flexibility to potentially charge reasonable fees needed to operate the product as intended;
- designed so that households are responsible for the costs of home ownership, including rates, insurance, and maintenance;
- designed to share any capital gains with the homeowner;
- available to an individual once only.

Shared ownership mechanism

22. Shared ownership involves a third-party equity provider (in this case Kāinga Ora) sharing the cost of purchasing a home with a household. Over time, the household purchases the third party's share (staircasing), eventually

¹ HUD's estimate provided in December 2019 [CAB 1920060062 refers] was that the Fund could support between 1,500 and 4,000 households into home ownership.

² Cohort B are at or above median income households that cannot get a large enough deposit together to buy a home due to high rents and fast-growing house prices, and/or have insufficient income to service a low deposit mortgage at current house price. Median annual household income was \$67,826 for the year ended June 2019..

'graduating' into full home ownership. The Kāinga Ora Board gave final approval to an SOA that it will enter with households on 9 August 2021.

23. The term of the SOA is 25 years, but the Kāinga Ora Board is comfortable that the product gives effect to Cabinet's direction that it be designed around households graduating from the scheme within 15 years as:
 - households will be accepted into the scheme based on their ability to staircase within 15 years, as assessed at point of entry, and
 - there are a number of mechanisms in place to incentivise households to staircase out of the scheme within 15 years.
24. The 25-year term is consistent with that offered by other providers and will simplify developing an industry standard SOA as part of next steps for the Fund. It also offers a safety net should a household be struggling with loan repayments.
25. As part of the pathway, Kāinga Ora has designed a Goals Management Programme, which will reinforce the expectation of graduation by year 15 and consequences for not doing so.

Pathway design

Entering the scheme

26. The DTH pathway is demand driven but it is subject to eligibility criteria and participating banks lending requirements. Eligibility criteria include:
 - household income must be less than \$130,000 a year;
 - a minimum of 5 percent deposit is required;
 - the applicant must satisfy Kāinga Ora that they can reasonably expect to purchase their share of the property within 15 Years.
27. After meeting the criteria, households apply to participating banks for pre-approval for a home loan and the equity contribution Kāinga Ora will make is confirmed.
28. Households must find the home they wish to buy. All homes must be new builds and have received a Code Compliance Certificate within the 12 months prior to the date that the household takes possession of the home. s 9(2)(g)(i)
[REDACTED]
[REDACTED]
[REDACTED]
29. Budget 2020 made funding available for providers to provide wraparound support to households. Since households that will come through the DTH pathway will be subject to a lighter touch approach, Kāinga Ora will only access this funding where it assesses that this is necessary (for example if a household requires financial capability education to enter or maintain itself in the scheme).
30. Although the clients who come through the DTH pathway will require less non-financial support such as budgeting or active case management, they will still need the direct financial support from Government through DTH pathway to get

into home ownership as they cannot get a large enough deposit together to buy a home due to current market conditions, and/or have insufficient income to service a low deposit mortgage at current house prices.

Assessing the Crown Contribution

31. Under the DTH scheme, households will contribute a minimum of 5 percent deposit. The maximum amount of equity that Kāinga Ora will contribute is the lower of \$200,000 or 25 percent of the house price. A bank will provide finance to the household in the form of a home loan.
32. The PHO Fund is taking an affordability approach to house prices, where prices will be based on a household's ability to staircase in time for the provider to repay the loan to the Crown. If a provider does not have a way of demonstrating this, affordability will either be calculated where no more than 30 percent of household income before tax is spent on housing costs or be based on the relevant house price caps used for new builds for the First Home Grants and Loans.
33. Kāinga Ora will base the decision on how much equity it will contribute by assessing the applicant's income against household composition and prices of suitable properties in their region, to satisfy itself that the applicant would not otherwise be able to enter their regional housing market (i.e. the applicant is not Cohort C³) and can be reasonably expected to be able to afford to make staircasing payments and graduate into full home ownership within 15 years.

During the period the household is in the scheme

34. Once households have entered the scheme, they will be assigned a Relationship Manager who will work with the household in the context of the Goals Management Programme, focussed on achieving the goals outlined in the SOA. The Goals Management Programme has been modelled on the NZ Housing Foundation's after settlement service and takes a relationship-based approach to working with households.
35. While they are in the scheme, households are responsible for the costs of home ownership, including rates, insurance, and maintenance. Households do not have to pay any interest on the Kāinga Ora equity share, or any administration fees (unless they have not graduated from the scheme by Year 15).

Exiting the scheme

36. Households will exit the scheme by either graduating into full home ownership or selling. In the event of a sale, proceeds will be distributed to each party in proportion to its share.
37. In the event of the household graduating into full home ownership, Kāinga Ora is removed from the title and the household is no longer obliged to comply with the SOA or is in anyway beholden to the scheme.

³ Households in Cohort C are households that can become homeowners without assistance from the Fund.

38. The SOA provides for Kāinga Ora to buy the property in certain exceptional circumstances. Kāinga Ora might choose to exercise this option to support the homeowner into an alternative and sustainable accommodation solution and/or protect its investment in the property.

Kāinga Ora to deliver the pathway in its own right

39. In July 2020 Cabinet delegated the decision on whether Kāinga Ora delivers the pathway as an agent of the Crown or in its own right as a Crown entity to joint Ministers, noting that the funding approach for delivery of the DTH pathway was dependent on this decision.
40. As the details of the scheme (including the Loan Facility Agreement and Service Level Agreement) have now been finalised, joint Ministers have confirmed our earlier in-principle decision that Kāinga Ora delivers the pathway in its own right as a Crown entity. This decision means that funding to Kāinga Ora will take the form of a loan under the Public Finance Act 1989 (PFA).

Permissions needed for Kāinga Ora to be able to be able to implement the Direct to Household pathway

41. The required approvals are:
- under section 65L of the PFA, delegation of the power to give a loan to Kāinga Ora [Minister of Finance only];
 - under sections 160 and 163 of the CEA, the approval for Kāinga Ora to give indemnities to banks in connection with the PHO scheme [joint Ministers].
42. The loan facility sits within the current Kāinga Ora Borrowing Protocol and therefore no approval for Kāinga Ora to borrow under section 162 of the CEA is required.

Loan facility to Kāinga Ora

43. The PHO Investment Framework set out a minimum of \$87 million for each pathway over the four years of the operation of the Fund. Along with \$38.85 million already contracted through Phase 1, this accounts for \$299.85 of the \$400 million Fund and leaves an unallocated amount of just over \$100 million to enable the Fund to be responsive to demand.
44. The Minister of Finance has delegated to the Secretary to the Treasury the final approval for a 15-year loan facility to Kāinga Ora of \$187 million (the minimum \$87 million for the pathway plus the \$100 million unallocated).
45. Officials have advised joint Ministers that, after weighing the risks and benefits of the loan against the public interest test, the giving of the loan to Kāinga Ora would be expedient in the public interest.
46. Funding for this loan has been provided for in the non-departmental capital expenditure multi-year appropriation “Progressive Home Ownership Fund MYA” in Vote Housing and Urban Development.

47. Because the component of funding unallocated under the Investment Framework will only be available to Kāinga Ora and is not committed funding, it will still be available to fund contracts under the Provider and Te Au Taketake pathways if needed.

Kāinga Ora requires the ability to give a guarantee or indemnity to banks

48. As a co-mortgagor for properties bought for PHO purposes, Kāinga Ora is liable for any shortfall to the bank in the event of a sale whereby sale proceeds are insufficient to cover the home loan (effectively providing a guarantee or indemnity to the banks).
49. Kāinga Ora has negotiated with BNZ and Westpac, as first banks to participate in the scheme, to limit the extent of any liability to the share owned by Kāinga Ora.
50. Joint Ministers have approved Kāinga Ora giving guarantees to Westpac and BNZ and extending similar guarantees to other Tier 1 and Tier 2 banks, should they choose to participate in the scheme.
51. This mirrors the security arrangements that banks have with other shared ownership providers and is critical to banks' participation in the scheme.
52. There is a balance to be struck between ensuring the scheme supports households into home ownership who otherwise would not be able to buy and reducing risk to the Crown.
53. Enabling Kāinga Ora to give a guarantee as a co-mortgagor means that Kāinga Ora will be more exposed to risk. A 'worst case' scenario has been modelled for a 30 percent market drop in the value of the portfolio with the total funding of \$187 million invested. This would result in a \$56.1 million reduction in net book value, that could take up to 8 years to fully recover.
54. Forced sales in the downturn could lead to 100 percent realised losses of Kāinga Ora investment in 5 percent of the portfolio (5 percent is the maximum acceptable exposure level). This equates to \$9.35 million.
55. Joint Ministers will write to Kāinga Ora attaching conditions to any approval, to mitigate downside risks to the Crown.

Other PHO related issues

Nationwide availability of the Fund

56. In July 2020, Cabinet noted that one of the three priorities for the Fund was to support a range of places with severe housing affordability in New Zealand [CAB-20-MIN-0323.01 refers].
57. Cabinet also agreed that the Provider pathway largely should apply the process from the Phase 1 Provider pilot.

58. I seek Cabinet agreement that the Provider pathway will now be delivered nationwide. This will enable providers to identify households that need assistance in all parts of the country and develop schemes to assist them.
59. This is complimentary with Te Au Taketake pathway, which enables the government to work with iwi and Māori organisations, and the DTH pathway which is targeted at households closer to home ownership.

Second chancer

60. In December 2019 Cabinet agreed that those eligible for the government shared ownership scheme need, amongst other things, to be “first homeowners and second chancers as defined in the eligibility criteria for KiwiBuild”.
61. As KiwiBuild has removed Second Chancer as a criterion the definition needs to be amended for the Fund. The new definition will align the Fund definition with that for the KiwiSaver HomeStart grant.
62. A Second Chancer will be defined as where the assets and liabilities of the person represent a financial position that would be expected of a person that has never held an estate in land (assessed as meeting the asset test that applies to the KiwiSaver HomeStart grant)

Axis Series Homes

63. The paper *Design of the Progressive Home Ownership Fund* considered by Cabinet on 6 July 2020 saw both KiwiBuild and Axis Series homes as complementary to the Fund and made the case that households should be able to buy a KiwiBuild or Axis Series home through the DTH pathway if it is the right home for them. Cabinet gave approval for KiwiBuild but not for Axis Series. Joint Ministers are able to give approval for Axis Series homes as they set the eligibility criteria.
64. Axis Series homes are new affordable homes within the Hobsonville Point development. There are 73 Axis Series homes under construction and a further 147 homes are still to be constructed at Hobsonville Point.
65. Joint Ministers ask Cabinet to note that they have agreed that Kāinga Ora be allowed to co-purchase Axis Series homes with eligible Axis Series buyers where this is done under the DTH pathway.

PHO Investment Framework update

66. s 9(2)(f)(iv)

67. The revised IF will provide an updated estimate of the number of households the Fund will support.

Implementation and timing

68. I intend that the DTH pathway will be launched on 5 October 2021, following consideration by Cabinet and the giving of the required approvals by joint Ministers.

Legislative Implications

69. There are no legislative implications resulting from the introduction of the PHO DTH pathway as set out in this paper.

Climate Implications of Policy Assessment

70. Not applicable as the DTH pathway does not result in direct emissions or emissions reduction.

Population Implications

71. I expect that improving opportunities for home ownership will improve housing choices for New Zealanders. The PHO Fund has a specific focus on our priority groups, including Māori, Pacific peoples, and families with children. The PHO Fund is one way that we can help to address low levels of home ownership that Māori and Pacific peoples face in New Zealand.

Human Rights

72. While the Direct to Household pathway is demand driven, Kāinga Ora will be targeting the priority groups through:
- working with relevant Ministries and communities on an ongoing basis to raise awareness and/or connect with aspiring homeowners;
 - targeted media and communications activities, including translations of promotional and educational material.
73. I will continue to be cognisant of any potential implication for the *Human Rights Act 1993* or *New Zealand Bill of Rights Act 1990* as the DTH pathway is implemented.

Consultation

74. Consultation is taken place with Kāinga Ora, the Treasury, Te Puni Kokiri, the Ministry of Social Development, the Ministry for Pacific Peoples, the Department of Prime Minister and Cabinet and the Green Party.

Communications

75. A communications package is being developed for the DTH pathway launch.

Proactive Release

76. I intend to publicly release this Cabinet Paper on the Ministry of Housing and Urban Development's website.

Recommendations

The Minister of Housing recommends that the Committee:

1. **Note** that in July 2020 Cabinet invited the Minister of Housing to report back to the Cabinet Social Wellbeing Committee (SWC) on the final design of the government shared ownership product, following the Kāinga Ora Board's agreement to its design;

Kāinga Ora delivering the Direct to Household pathway in its own right

2. **Note** that in July 2020 Cabinet agreed that Kāinga Ora will be the service provider for the Direct to Household (DTH) pathway and delegated to the Ministers of Finance and Housing the decision about whether Kāinga Ora delivers the pathway in its own right as a Crown entity or as an agent of the Crown;
3. **Note** that the Ministers of Finance and Housing have approved Kāinga Ora delivering the pathway in its own right and that the appropriate funding mechanism for Kāinga Ora is a loan under the Public Finance Act 1989;
4. **Note** that the Direct to Household product will be rebranded as "First Home Partner" by Kāinga Ora.

Design of the Direct to Household pathway

5. **Note** that in July 2020 Cabinet agreed the high-level design of the DTH pathway (including that the pathway take a light touch approach) and delegated the detailed operational and legal design parameters for the government shared ownership product to the Kāinga Ora Board;
6. **Note** that the Kāinga Ora Board provided final approvals for the design and contractual arrangements of the DTH product and pathway on 9 August 2021;
7. **Note** that, while the Kāinga Ora Shared Ownership Agreement with households is a 25-year document, the Kāinga Ora Board is comfortable that the scheme overall conforms to the Cabinet design parameter that households graduate within 15 years;

Loan arrangements

8. **Note** that the Minister of Finance has delegated to the Secretary to the Treasury the final approval for a loan facility of \$187 million to Kāinga

Ora – Home and Communities as part of the Progressive Home Ownership Fund;

9. **Note** that the loan facility will include the current unallocated balance of \$100 million from the Fund and that this will still be available to fund contracts under the Provider and Te Au Taketake pathways if needed.

Ability of Kāinga Ora to give guarantees or indemnities to banks

10. **Note** that as a co-mortgagor for properties bought for PHO purposes, Kāinga Ora is liable for any shortfall to the bank in the event of a sale whereby sale proceeds are insufficient to cover the home loan (effectively providing a guarantee or indemnity to the banks);
11. **Note** that Kāinga Ora has negotiated with BNZ and Westpac, as first banks to participate in the scheme, to limit the extent of any liability to the share owned by Kāinga Ora;
12. **Note** that the Ministers of Finance and Housing have approved Kāinga Ora giving guarantees to Westpac and BNZ, and extending similar guarantees to other Tier 1 and Tier 2 banks, should they choose to participate in the scheme;

Nationwide availability of the Fund

13. **Agree** that the Provider pathway of the Fund will be delivered nationwide, and this will be noted in an updated Investment Framework;

Second chancer

14. **Note** that the definition of Second Chancer will be amended for the DTH product to align with that used for KiwiSaver HomeStart grant

Axis Series homes

15. **Note** that joint Ministers have approved Kāinga Ora being allowed to co-purchase Axis Series homes with eligible buyers where this is done under the DTH pathway.

Report back

16. **Note** Officials will report back to the Minister of Housing and Associate Minister of Housing (Māori Housing) in April 2022 on progress of all three PHO pathways.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Housing