

Budget: Sensitive

CAB Min (05) 13/10

2005 Budget Savings Package: First Home Ownership Assistance

On 11 April 2005, following reference from the Cabinet Policy Committee (POL),
Cabinet:

Savings initiatives

- 1 agreed that encouraging savings be a priority in the 2005 Budget made up of three initiatives:
 - 1.1 work based savings scheme (WBSS) for retirement (CAB Min (05) 13/9);
 - 1.2 first home ownership assistance (CAB Min (05) 13/10);
 - 1.3 tertiary education savings (CAB Min (05) 13/li);

Home ownership assistance

- 2 agreed in principle, subject to paragraph 19, that the 2005 Budget first home ownership package, which is linked to the Savings Package, comprise the following initiatives:
 - 2.1 expansion of existing Mortgage Insurance Scheme (MIS) to underwrite up to 5,000 loans per annum, including the 2,500 funded from the Social Development and Housing allocation, by 2007/08;
 - 2.2 one-off first home ownership drawdown from the Work-Based Savings Scheme (WBSS) after a minimum of three years of participation, from April 2010;
 - 2.3 one-off deposit subsidy for first home buyers in the WBSS after a minimum of three years of contributions, from April 2010;
 - 2.4 ability to divert WBSS payments to the repayment of a home loan, from April 2010, subject to further consultation with banks;
 - 2.5 appropriate first home ownership education to complement the first home ownership package;
- 3 noted that Cabinet's decisions relating to first home ownership drawdown and diversion of WBSS contributions to repay home loans are contained in the minute on the WBSS [CAB Min (05) 13/9];
- 4 noted that the package is targeted at people who are able to achieve first home ownership with modest levels of assistance;

Expansion of Mortgage Insurance Scheme

- 5 noted that the proposed Social Development and Housing allocation in the 2005

Budget includes an initiative to expand the MIS, which is currently being piloted with one bank. to a number of lenders and to increase the number of loans to 2,500 per annum from 2007/08 [CAB Min (05) 13/7(53)];

Further increase to 5,000 MIS loans per annum

- 6 approved the following incremental changes to appropriations, in addition to those reflected in the Social Development and Housing allocation, to expand the MIS to a total of 5,000 loans per annum from 2007/08, with a corresponding impact on the operating balance:

Vote Housing	\$m – Increase/(Decrease)					
	2004/05	2005/06	2006/07	2007/08	2008/09 & Outyears	GST
Non-Departmental Output Class: HNZC Housing Support Services	–	2.520	5.290	6.950	7.290	Incl.

Increasing MIS income caps

- 7 approved the following changes to appropriations to increase the MIS household income cap from \$65,000 to \$85,000 per annum for one or two earner households, and from \$100,000 to \$120,000 for three or more earners, from July 2005:

Vote Housing	\$m – Increase/(Decrease)					
	2004/05	2005/06	2006/07	2007/08	2008/09 & Outyears	GST
Non-Departmental Output Class: HNZC Housing Support Services	–	0.420	0.882	1.158	1.126	Incl.

- 8 noted that MIS income caps will continue to be reviewed, with the intention of aligning MIS and deposit criteria by the time the subsidy is available in April 2010;

Deposit subsidy

- 9 agreed in principle, subject to paragraph 19, to provide a deposit subsidy for individual WBSS participants who:
- 9.1 have contributed to WBSS for at least three years (i.e. same timeframe as the first home ownership drawdown);
 - 9.2 have never owned a home or had an interest in a home;
 - 9.3 use the deposit subsidy for the purchase of a home up to a regional house price cap, which will be the recipient’s primary place of residence (i.e. not for investment/rental properties or holiday homes);
 - 9.4 have not previously accessed a deposit subsidy or first home ownership drawdown from WBSS;

9.5

9.6 purchase a home with a purchase price at or below the lower-quartile house price in their region at the time;

10 agreed in principle, subject to paragraph 19, that the value of the deposit subsidy be based on a nominal value of \$1,000 per annum of saving in the WBSS, up to a maximum of ten years/\$ 10,000;

11 agreed in principle, subject to paragraph 19, that two or more deposit subsidies may be combined to assist with the purchase of a single house;

12 noted that the estimated ongoing cost of the deposit subsidy ranges from around \$10 million in the first year and \$14 million on an ongoing basis for a five year/\$5,000 subsidy, to \$20 million for a ten year/\$10,000 subsidy

Legal status of deposit subsidy

13 agreed in principle, subject to paragraph 19, that subsidy recipients who do not continue to use the purchased home as a primary place of residence within a reasonable time (to be determined) will be required to pay the subsidy back to the Crown;

14 agreed that the deposit subsidy be treated as a social assistance suspensory loan for the purposes of the Income Tax Act 2004, to ensure that recipients of this assistance are not subject to income tax when the obligation to repay the loan is released;

15 directed the Inland Revenue Department to provide advice to the Minister of Revenue regarding an appropriate Order in Council to give effect to the proposal in paragraph 14 above, in time for it to be implemented before the first deposit subsidy being available in April 2010;

Home Ownership Education

16 agreed in principle, subject to paragraph 19, to implement a first home ownership education programme to complement the first home ownership package, which will provide 5,000 places per annum from 2006/07 with the intention of

16.1 improving knowledge of what is involved in first home ownership;

16.2 mitigating the risk of inappropriate decisions;

16.3 helping to target promotion of other assistance;

17 noted that the cost of funding a first home ownership education programme would be:

	\$m – Increase/(Decrease)				
	2004/05	2005/06	2006/07	2007/08	2008/09 & Outyears
Operating (GST inclusive)	--	1,000	2,850	2,850	2,700

- 18 noted that officials will ensure that first home ownership education is appropriately linked to any generic financial/savings education associated with the Savings Package, and that evaluations of the first home ownership education will be available to inform the development of generic savings education and further development of home ownership education to ensure it meets the objectives in paragraph 16;

Finalising the home ownership assistance package

- 19 authorised the Minister of Finance, Minister of Housing and Minister of Education, in consultation with the Prime Minister, following receipt of the Budget Economic and Fiscal Update in April 2005, to agree to detailed design issues for first home ownership assistance, including the scope of and eligibility for the expanded Mortgage Insurance Scheme, the eligibility criteria and size of the deposit subsidy, and inclusion of first home ownership education in the savings package;

Next steps

- 20 invited the Minister of Housing, in consultation with other Ministers, to provide a further report to POL in due course on the position of sole parents following a relationship breakdown in relation to this package;
- 21 invited the Minister of Housing to direct officials from the Housing New Zealand Corporation, in consultation with the Department of Building and Housing, Inland Revenue Department, Ministry of Social Development, Director-General, Ministry of Agriculture and Forestry (Rural Affairs) and the Treasury, to report to the Ministers of Finance and Housing on the following issues:
- 21.1 size of the deposit subsidy, level of income caps, administrative rules about who is a “borrower”, and the use of regional house price caps;
- 21.2 implementation and monitoring of the first home ownership assistance package, including:
- 21.2.1 measures to constrain fiscal risks if demand for WBSS and/or deposit subsidies exceed forecasts;
- 21.2.2 default rates and client profiles of MIS, including whether it is still relevant to the market and reflects the actual ability of modest income people to buy a home;
- 21.2.3 consideration of the need for and cost of any future evaluation of elements of the package;
- 21.3 criteria for treating a deposit subsidy as a suspensory loan, including

security of the loan, a “reasonable time” for occupying a home and any exceptions;

21.4 ensuring assistance is delivered to the desired target groups, including administrative rules to prevent people adjusting their circumstances purely to obtain a deposit subsidy;

21.5 continuing to ensure the first home ownership package is aligned with the other elements of the Savings Package;

22 noted that the Minister of Finance indicates that consultation will be required with the government caucuses and that consultation is not required with other parties represented in Parliament.

Secretary

Reference: POL Min (05) 8/3; CAB (05) 134

Secretary’s Note: *This minute replaces POL Min (05) 8/3. Paragraph 21 was amended to include MAP (Rural Affairs).*