



KiwiSaver Home Ownership Package Process Evaluation

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June 2011

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Acknowledgments

Many people have contributed to this report evaluating the first nine months of operation of the KiwiSaver Home Ownership package. We wish to thank the home purchasers and KiwiSaver providers who responded to the surveys and face-to-face interviews. We also wish to thank our colleagues in the Ministry of Economic Development who provided contact details for the KiwiSaver providers. Thank you to our colleagues who peer reviewed earlier versions of this report prior to the presentation of findings to the Steering Group for the KiwiSaver Evaluation, and an Industry Forum of KiwiSaver providers. We have incorporated feedback from these groups into the final version of this report.

Executive summary

- 1 The KiwiSaver Home Ownership package was launched on 1 July 2010. The objective of the package is to assist KiwiSaver members to enter home ownership by assisting them to overcome barriers such as not having sufficient funds for a deposit. The package allows KiwiSaver members who have not owned a house to apply for a first home withdrawal and/or a first home deposit subsidy. KiwiSaver members who have previously owned a house but are deemed to be in a similar financial position to a first home buyer may also apply.
- 2 KiwiSaver members who are eligible can make a first home withdrawal (the withdrawal) from their KiwiSaver provider after three years' membership. They can withdraw all (or part) of their, and their employers' contributions. If they contributed at the required level for three years, and meet a set of criteria covering income and the price of the house they wish to purchase, then a first home deposit subsidy (the subsidy) can be obtained from Housing New Zealand.
- 3 KiwiSaver providers, subsidy applicants and Housing New Zealand staff were participants in the year one process evaluation of the KiwiSaver Home Ownership package. The views of the participants have been collected using interviewing and surveying techniques. An analysis of the housing environment was undertaken to provide a context within which to understand the results of the evaluation. The year one process evaluation results cover the nine month period 1 July 2010 to 31 March 2011. The focus of the evaluation was to assess
 - initial take-up of the package
 - how implementation of the package by Housing New Zealand and KiwiSaver providers is working.

Findings

- 4 The uptake of the KiwiSaver Home Ownership package has been higher than expected. This may have been influenced by the housing environment where first home affordability has improved since 1 July 2010. Nine hundred and ninety-two KiwiSaver members received a withdrawal and 619 were approved a subsidy during the period 1 July 2010 – 31 March 2011. Sixty-two percent of members who received a withdrawal also received a subsidy.
- 5 Of the respondents to the evaluation, the number of KiwiSaver members who received a withdrawal, nearly 80 percent were with default providers. The total value of the withdrawals was \$9,325M of which about 80 percent was paid out by default providers.
- 6 Seventy-six percent of applications for the subsidy were approved. Similar proportions of males and females were approved. About three-quarters of the approved subsidy applicants identified as European. Almost all of the approved subsidy applicants who bought a home also received the withdrawal. The indicative value of the withdrawal and subsidy combined was between \$10,000 and \$15,000 per applicant.
- 7 When surveyed applicants were asked whether they would have been able to purchase their first (or second) home "at this stage", 71 percent of respondents said they would have been unable to do so without the withdrawal and 45 percent said they would have been unable to do so without the subsidy.

- 8 Most of the approved subsidy applicants were young and buying a house was a new experience. They were grateful for the incentive to save provided by KiwiSaver, and were very appreciative of the way the KiwiSaver Home Ownership package had helped them to purchase their first home.
- 9 However, approved applicants found the coordination of subsidy and withdrawal applications with banks, lawyers and real estate agents stressful. The main stressors were that:
 - information about the subsidy and withdrawal was located in different places
 - confusion about the inclusion of 'deposit' in the name of first home deposit subsidy when it cannot be used until settlement
 - eligibility criteria for the subsidy and withdrawal were different
 - application processes and timeframes for the subsidy and withdrawal were different
 - couples had to manage the differing requirements of different KiwiSaver providers
 - lawyers lacked knowledge of the package.
- 10 To access the withdrawal a KiwiSaver member has to provide an unconditional sale and purchase agreement. This leads to some members exposing themselves to financial risk and it also places lawyers in an invidious position. This situation results because members have to go unconditional before they know if their applications will be approved, and if they are approved, the value of the withdrawal.

Recommendations

- 11 The KiwiSaver Home Ownership package year one process evaluation suggests that one agency needs to be responsible for processing the withdrawal and subsidy applications (with KiwiSaver providers still doing the draw-down of the withdrawal). Both the withdrawal and the subsidy require confirmation of KiwiSaver contribution history, making Inland Revenue the most appropriate agency. If having one agency responsible is not considered feasible, improved coordination is required of the withdrawal and subsidy application processes.
- 12 The application process for the withdrawal needs to be redesigned so that it is available before settlement. This will remove the financial risk to applicants who rely on the withdrawal for some or all of their deposit.
- 13 A communication strategy needs to be developed for 'first home deposit subsidy' to avoid the misperception that the subsidy is available for the deposit and before the settlement date.
- 14 Additional education of Housing New Zealand's National Call Centre is needed to assist staff to manage the flow and complexity of calls to the centre about the KiwiSaver Home Ownership package.
- 15 The KiwiSaver Home Ownership package needs to be published to key audiences; namely, lawyers, lenders, mortgage brokers, real estate agents, Maori and Pacific peoples.

Introduction

Purpose

- 16 This document reports the findings of the process evaluation of the KiwiSaver Home Ownership package following nine months of operation from its introduction on 1 July 2010 until 31 March 2011. The process evaluation is part of an evaluation planned to take place over a three year period 2010/11-2012/13.

Background to KiwiSaver

- 17 The KiwiSaver scheme, announced in Budget 2005, is a work-based savings scheme designed to encourage voluntary saving for retirement and asset accumulation, such as the purchase of a first home.
- 18 KiwiSaver, which started on 1 July 2007, has a number of features to encourage participation - a government funded \$1,000 'kick-start' and a government contribution of up to \$20 a week (as a member tax credit)^{1 2} and an employer contribution.
- 19 There are three ways for people to join KiwiSaver:
- Individuals who start a new job are automatically enrolled by their employer (unless they are already a member). They have eight weeks to opt out if they do not want to join KiwiSaver.
 - Workers may opt into KiwiSaver by submitting an application through their employer to Inland Revenue.
 - People (such as the self employed) may apply via a KiwiSaver provider of their choice who submits an application on their behalf to Inland Revenue.
- 20 KiwiSaver members who are wage or salary earners are required to make regular and minimum contributions of two percent of their gross salary or wages.³ Employers are required to contribute two percent of KiwiSaver members' pay (providing the employee is contributing).^{4 5} KiwiSaver funds are locked in until members reach 65 years (except when funds are used to purchase a first home, or if approval is given for a member to withdraw funds for significant financial hardship or serious illness). KiwiSaver members may have a temporary break from contributing to their KiwiSaver account, called a contribution holiday.
- 21 Inland Revenue is the central administrator for the KiwiSaver scheme receiving contributions that have been deducted from individuals' pay by employers and passing them onto KiwiSaver providers. The Ministry of Economic Development is responsible for the selection and regulation of KiwiSaver providers. Housing New Zealand Corporation is responsible for administering the subsidy and 'second chance' determination (refer footnote 8).

¹ In order to receive the maximum tax credit amount, an individual must have been a member for the full 12 month period (July to June) and contributed more than \$1,042.86 to their KiwiSaver account.

² These provisions also apply to other Funds that are KiwiSaver compliant.

³ This came into effect in April 2009. Prior to this date, members were required to contribute a minimum of four percent of gross salary or wages. Members can contribute at a higher rate than two percent if they chose.

⁴ This came into effect in April 2009. Prior to this date, employers were required to contribute a minimum of four percent.

⁵ Employers may chose to contribute a higher amount to their workers' KiwiSaver account.

KiwiSaver Home Ownership package

- 22 One of the policy objectives of KiwiSaver is to help create a financial buffer for New Zealand households through the building up of assets, reducing debt dependency and giving people increased financial independence and flexibility, particularly in retirement.
- 23 Home ownership is a significant means of saving for retirement for many New Zealand households. Owning a home provides families with greater financial security, control and independence. The security of tenure associated with home ownership provides additional benefits for households, such as positive health and education outcomes and social cohesion.
- 24 The KiwiSaver Home Ownership package is designed to assist KiwiSaver members who face barriers to entering home ownership, such as saving a sufficient deposit. The package consists of two features to assist first home buyers (and previous home owners who are in a similar financial position to first home buyers) to purchase a home. The two features are the subsidy and withdrawal. Both options became available from 1 July 2010.

Intervention logic

- 25 An intervention logic for the KiwiSaver Home Ownership package developed from policy documents is shown below.⁶ The blue boxes refer to KiwiSaver members who use the withdrawal **without** the subsidy, and the green boxes refer to KiwiSaver members who use the withdrawal **and** the subsidy.
- 26 The boxes containing one or more asterisks are inputs that Housing New Zealand is unable to influence which may impact on the uptake of the Home Ownership package, namely:
 - * *Member makes a decision to buy their first home:* A number of factors may influence the decision to enter home ownership such as job security, home loan interest rates, perceived stage of the housing market cycle, and the cost of rents in the private rental market.
 - ** *Member obtains a commercial loan or Welcome Home Loan:* The ability of a KiwiSaver member to obtain a commercial loan is dependent on banks' lending criteria for first home buyers, including deposit requirements.
 - *** *Member continues to have financial resources to service a commercial loan or Welcome Home Loan:* It should be noted that this is an input (not an outcome). The sustainability of home ownership requires an ongoing capacity to service a home loan. People may fall out of home ownership due to relationship breakup, job loss, illness or other financial stress.

⁶ Clarke, J. Ou, C. & Nunns, H. (August 2010). *Evaluation of KiwiSaver Home Ownership package: Baseline Report*. Paper prepared for Housing New Zealand Corporation.

KiwiSaver home ownership package intervention logic

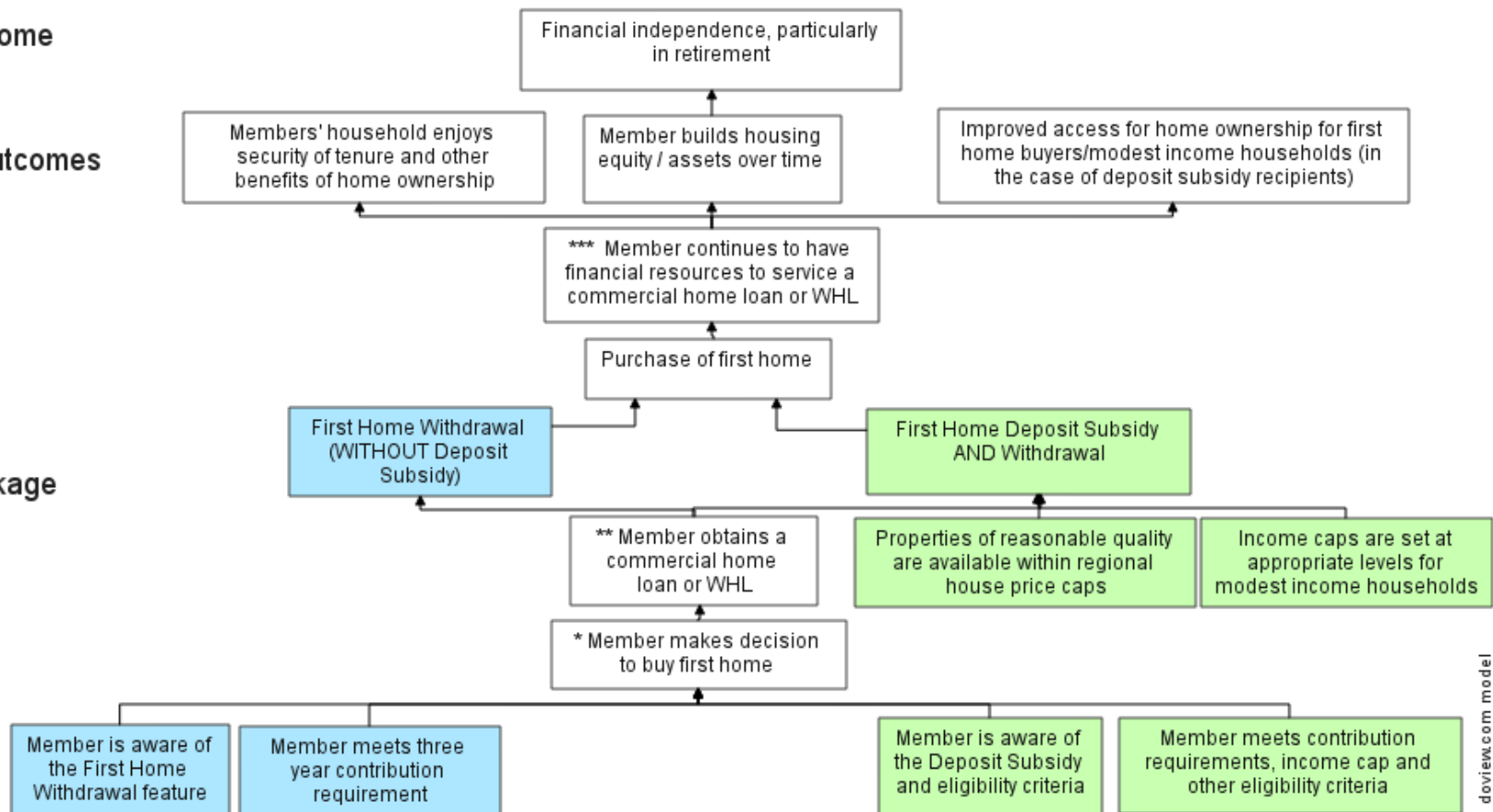
Long term outcome

Intermediate outcomes

Result

Home ownership package

Inputs



doview.com model

First home deposit subsidy

- 27 The subsidy is designed to assist first home buyers (and previous home owners who are in a similar financial position to first home buyers) who are able to service a commercial home loan.
- 28 The subsidy is available once members have contributed to KiwiSaver for at least three years at the required level. The subsidy is a suspensory loan of \$1,000 for each year of contribution, up to a maximum of \$5,000. The suspensory loan is written off after the buyer has lived in their property for at least six months from the date of settlement.
- 29 To be eligible for the subsidy, members must meet all of the following eligibility criteria:
- be aged 18 years or over
 - have contributed a minimum of four percent of their income to a KiwiSaver or complying superannuation fund up until 31 March 2009, and two percent thereafter⁷
 - be buying their first home or be assessed by Housing New Zealand as being in the same position as a first home buyer in terms of income, assets and liabilities⁸
 - be buying a house with a lower quartile sale price
 - have a household income less than \$100,000 for one or two borrowers, or less than \$140,000 for three or more borrowers (based on gross taxable income)
 - intend to live in the house for at least six months.
- 30 Regional house price caps enable members to buy lower quartile homes in expensive regions, while preventing people in lower cost regions from using government assistance to buy a more expensive house for that area. The price caps are based on the lower quartile house prices by Territorial Local Authority and are reviewed annually to ensure they reflect market fluctuations.
- 31 On 1 July 2010 the regional house price caps were \$400,000 for the higher priced areas of Auckland City, North Shore City, Rodney, Wellington City and Queenstown Lakes District, and \$300,000 for all other areas. On 1 November 2010 when Auckland became a Super City the \$400,000 house price cap was extended. The new wards describing this area are: Albany, Albert-Eden-Roskill, Franklin, Howick, Manukau, Manurewa-Papakura, Maungakiekie-Tamaki, North Shore, Orakei, Rodney, Waitakere, Waitemata and Gulf, and Whau.

⁷ Non-earning KiwiSaver members (such as full time homemakers) are eligible to apply for the subsidy provided they contribute at a minimum of two percent of the annual minimum wage and make at least one contribution a year for at least three years. Applicants who are beneficiaries are required to contribute a minimum of two percent of their gross benefit for at least three years.

⁸ The 'second chance' provision recognises that KiwiSaver members may no longer own a home due to adverse circumstances such as redundancy, illness or relationship break-up. Members who have previously owned a home, but no longer have a share in a property may be eligible for the subsidy and withdrawal providing they have not already received either the withdrawal or the subsidy, and are in a similar position to first home buyers in terms of assets, income and liabilities.

First home withdrawal

- 32 After at least three years of KiwiSaver membership, contributors who are first home buyers may withdraw all, or part, of their savings towards buying their first home, including their employer's contributions.⁹
- 33 Withdrawals are administered by KiwiSaver providers. Providers are responsible for making a determination whether the member is a first home buyer (as specified in the KiwiSaver Act 2006). If the member meets the criteria, his/her funds are released by the KiwiSaver provider to the member's solicitor for the purchase of a home.
- 34 Home buyers who have previously owned a home and who meet 'second chance' criteria may be eligible for the withdrawal.¹⁰ Housing New Zealand is responsible for assessing members' eligibility for the second chance criteria.

Welcome Home Loan

- 35 With the Welcome Home Loan a potential home buyer can borrow up to \$200,000 without a deposit. In some areas an applicant can borrow up to \$350,000. For any amount borrowed above \$200,000, a 15 percent deposit is required. Housing New Zealand supports the Welcome Home Loan by providing participating lenders with Lenders' Mortgage Insurance. The eligibility criteria that apply are that borrowers must:
- be New Zealand citizens or permanent residents
 - meet the lending criteria of participating lenders
 - have a maximum household annual income of \$85,000 (before tax) for one or two borrowers, or \$120,000 (before tax) for three borrowers
 - not own any other property
 - become owner occupiers.

Housing Environment

- 36 On 1 July 2010 the first KiwiSaver members became eligible to apply for the KiwiSaver Home Ownership package. The higher than expected number of subsidy applications that were received may have been influenced by the housing environment which was favourable for first home buyers. The housing environment is understood as comprising:
- economic indicators such as annual average change of real Gross Domestic Product (GDP), the Official Cash Rate (OCR) and the employment rate
 - housing indicators.

Economic indicators

- 37 At the time when approved applicants for the subsidy were looking for their first house to purchase there had been a steady but slow increase in the annual average change of real GDP since the third quarter of 2009 (Appendix A, Figure 1).

⁹ The withdrawal excludes the \$1,000 government contribution and member tax credits.

¹⁰ The second chance provision recognises the member is in a similar financial position as a first home buyer (in respect of income, realisable assets and liabilities) See also note 8 above.

- 38 In May 2011 the Reserve Bank Governor said that householders had been choosing to consolidate by building up savings and reducing debt. As a result of households' choice to consolidate, New Zealand's economic recovery during 2010 had been weaker than expected.¹¹ An expected increase in the OCR occurred in mid June 2010 with an increase of 0.25 percent from an all time low of 2.50 percent. A further increase of 0.25 percent to 3.0 percent occurred at the end of July. The Reserve Bank Governor indicated that further reviews of the OCR would be considered in light of economic and financial market developments.¹² In March 2011 the OCR was reduced by 0.5 percent back to the low of 2.5 percent on the basis that GDP growth was much weaker than expected, and on account of the expected impacts of the second Christchurch earthquake.¹³
- 39 During 2010 and the first half of 2011 there has been an upward trend in employment so that the annual change in employment has regained much of what was lost as a result of the recession (Appendix A, Figure 2).
- 40 In summary, the annual average change of real GDP improved, employment increased and the OCR was at a low level. The banks responded in late 2010 - early 2011 by easing their home lending criteria and requiring a 10-15 percent (rather than a 20 percent deposit) for first home buyers. Some lenders reduced this requirement to 5 percent.

Housing indicators

- 41 The housing indicators in this section focus on those relevant for first home buyers and include:
- housing affordability
 - house sale prices
 - number of house sales
 - mortgagee sales
 - interest rates and deposit requirements.

First home buyer affordability

- 42 The first home buyer affordability index measures the proportion of a household's take-home pay needed to afford the mortgage payment on a lower quartile priced house purchased in a specific month. A mortgage is deemed affordable when the mortgage payment is no greater than 40 percent of a household's weekly take-home pay.
- 43 Results for the first home affordability index (Appendix A, Figure 3) shows that housing for first home buyers has become more affordable since 1 July 2010, decreasing 3-4 percent since then to just under 22 percent. The places where housing is less affordable are Auckland, Central Otago/Queenstown Lakes, Nelson Marlborough and Wellington.¹⁴ Waikato/Bay of Plenty has joined this group, being

¹¹ The Reserve Bank of New Zealand. Financial Stability Report, May 2011.

¹² The Reserve Bank of New Zealand. Media Release: *The Reserve Bank raises OCR to 2.75 percent*. 10 June 2010.

¹³ The Reserve Bank of New Zealand. Media Release. *OCR reduced to 2.5 percent*. 10 March 2011.

¹⁴ These regions have a subsidy house price cap of \$400,000. The house price cap in all other areas is \$300,000.

less affordable than Wellington. Reference was made to high Tauranga house prices by respondents in this research.

House sale prices

- 44 The national lower quartile house sale price ranged between \$272,000 and \$265,000 (Appendix A, Figure 5) during 2010. The difference between the national lower quartile house sale price in quarter one 2007 and quarter one 2011 represented a small decrease (2 percent). The regions with the highest lower quartile house sale price at the end of 2010 - beginning of 2011 were those covered by the higher house price cap allowed in the subsidy – Auckland, Wellington, Tasman/Nelson Marlborough. The lower quartile house prices in the other regions were lower than the lower house price cap. (See Appendix A, Figures 5 and 6)

Number of house sales

- 45 National total house sales have been in decline since the beginning of 2007 when there were 27,347 sales. In January 2011 the national total house sales stood at 4,583. This represented a decrease in total national house sales over this period of 83 percent (Appendix A, Figure 9). This downward trend in house sales indicates some uncertainty in the market relating to the expectations of buyers and sellers. It may not reflect a lack of available housing stock. The earthquake in Christchurch may have contributed to the extent of this downward trend - the greatest decrease was in the Canterbury region (90 percent).

Mortgagee sales

- 46 While there had been a substantial rise in mortgagee sales (TPS count¹⁵) over the two year period from January 2007 to September 2009, by December 2010 the number of mortgagee sales had almost returned to the level in January 2007 (Appendix A, Figure 11). In March 2011 mortgagee sales were on the increase again. However, mortgagee sales contribute to a small increase in houses available for first home buyers to purchase.

Interest rates and deposit requirements

- 47 Since July 2010 the average rates for floating mortgages, and six, 12 and 24 months term mortgages, have been around six percent. Longer term mortgages have held at between seven and eight percent (Appendix A, Figure 12). Following a change in lending criteria by most of the major banks in late 2008, a deposit of around 20 percent was required for first home buyers. Exceptions included lenders who had a guarantee from someone with sufficient equity in an existing property to cover the shortfall of the deposit. Where banks lent over 80 percent of the property's value, a low equity premium applied based on the amount borrowed. These lending criteria were beginning to ease in early 2011 with some lenders advertising deposit requirements as low as five percent.

¹⁵ Transfer of Power of Sale (TPS) is when a mortgagor exercises the power to sell a property to recover the loan amount as a result of the borrower defaulting the mortgage payment.

Evaluation activities

- 48 The KiwiSaver Joint Evaluation Strategy was signed off by Government in December 2006. The strategy provides a framework for each of the implementation agencies (Inland Revenue, Ministry of Economic Development and Housing New Zealand) to evaluate the components of KiwiSaver for which they are responsible.
- 49 In 2009/10 Housing New Zealand undertook a baseline study, the purposes of which were to:
- provide baseline information for the evaluation of the Home Ownership package
 - understand the likely scale and pattern of uptake of the package.
- 50 The housing environment was a section in the baseline study and it has been updated and included as Appendix A. The previous section provides a summary of the analysis of the housing environment.
- 51 The KiwiSaver Home Ownership package (i.e. the first home deposit subsidy and first home withdrawal) is being evaluated over the period 2010/11-2012/13. The objectives identified for the evaluation are to:
- assess its impact and effectiveness from a customer perspective
 - assess the uptake (levels and financial value)
 - identify design features that are working as intended and those that are not
 - assess internal and external stakeholder experiences of implementing the Home Ownership package¹⁶
 - identify recommendations to enhance the effectiveness of the Home Ownership package.
- 52 During 2012/13 the evaluation will assess the impact and effectiveness of the Home Ownership package against the agreed outcomes (the first objective identified above). The focus in the first year has been on the second to fourth objectives identified above.
- 53 The findings from the year one process evaluation will be used by operational staff to make enhancements to the package. The findings will also be used for the report back to Government on the package's implementation.
- 54 The following are out of scope of the process evaluation:
- the effectiveness of the Home Ownership package in encouraging long term saving and asset accumulation
 - the impact of the package on home ownership rates.

Objectives and questions

- 55 The objectives of the process evaluation of the KiwiSaver Home Ownership package in 2010/11 are to:

¹⁶ External stakeholders include Inland Revenue, MED, MSD, Treasury, KiwiSaver providers, mortgage lenders, mortgage brokers, and KiwiSaver members.

- provide information about applicants' experiences of applying for the first home withdrawal and/or first home deposit subsidy
- provide information about the implementation of the package for operational staff to refine and enhance it
- assess the pattern of uptake.

Participants

- 56 Participants in the evaluation include: KiwiSaver providers, applicants for the subsidy and withdrawal, and Housing New Zealand staff involved in the provision of the product and associated services. The number of people invited to participate in the evaluation was based on the principles of saturation and triangulation (see below paragraphs 70 and 71).

KiwiSaver Providers

- 57 There are five default providers and 25 active choice providers. In May 2011 approximately 75 percent (n = 1,029,876) of KiwiSaver members were registered with default providers. The remaining 25 percent (n = 347,210) were registered with active choice providers.
- 58 Face to face interviews were undertaken with all five default providers. All 25 active choice providers were sent an email survey and eight responded (a response rate of 32 percent).

Applicants for the subsidy

- 59 Information was collected from three groups of applicants for the subsidy:
- approved applicants (excluding pre-approved applicants who had not yet purchased a house)
 - lapsed applicants
 - declined applicants.
- 60 A census (n = 675) was undertaken of approved applicants (n = 619) and those whose applications had lapsed ¹⁷(n = 56). The census was commissioned by Housing New Zealand and conducted by Mobius, a research provider. The response rate was 61 percent excluding the 71 Christchurch applicants from the total of 619 applicants.

¹⁷ Applicants approvals for the subsidy are valid for 90 days. If the applicant has not purchased a house within this period the approval lapses and a new application is required for approval.

Table 1 Research participants by data collection methods and populations

Research Participants	Face to face interviews	Telephone interviews	Email or online survey
KiwiSaver Providers	5 out of 5 default		8 out of 25 active
Subsidy applicants (Shading indicates people who had not responded to the online survey)	16 applicants from 11 interviews (Auckland, Wellington, Dunedin)	6 out of 56 lapsed	335 out of 548* 61 percent response rate
		8 out of 141 declined	
Housing New Zealand Staff	3 Subsidy Team Manager of National Call Centre		

* Seventy-one Christchurch applicants were excluded from the evaluation.

- 61 Twelve approved applicants who had purchased a house and who had not responded to the census were invited to participate in a face to face interview. Four interviews were conducted in each of Auckland and Wellington, and three in Dunedin. (One participant excused herself from an arranged interview because of work pressures.) This resulted in the evaluators interviewing 16 approved applicants because, of the 11 selected applicants, five applicants had purchased their first house with partners who were also approved applicants. (See Appendix D: Information sheet and consent form for face to face interviews with approved applicants who had purchased a house.)
- 62 Six approved applicants whose applications had lapsed and who had not responded to the census participated in telephone interviews. Some of the approved applicants who had purchased a house had also been through the experience of having an application that had lapsed.
- 63 Eight people whose applications were declined agreed to telephone interviews.

Housing New Zealand staff

- 64 Three Housing New Zealand staff involved in implementing the KiwiSaver Home Ownership package were interviewed either face to face or by telephone. These staff also answered additional questions as and when required, and assisted with the interpretation of administrative data for the package. An early draft of the findings was presented to two senior staff for their feedback which has been incorporated in this report.
- 65 The manager of the National Call Centre was interviewed about applicants' responses to their interactions with the Call Centre. These responses were collected from the census and from face-to-face interviews with applicants. to the census interviews and the interviews about their interaction with the Call Centre.

Methods

- 66 A mixed method approach was used to gather information for this process evaluation. Economic and housing data was analysed to provide a context for the evaluation. A census of applicants for the first home deposit subsidy was

undertaken. Three groups of people participated in interviews to provide quantitative and qualitative data for the evaluation: KiwiSaver providers, applicants for the subsidy, and Housing New Zealand staff.

- 67 The data collection tools were based on a crosswalk linking the methods that could be used to collect data for each of the evaluation objectives, and an evaluative rubric (Appendix C). The evaluative rubric was developed to identify and describe performance standards (i.e. definitions of what constitutes 'excellent', 'satisfactory', and 'poor' performance) in relation to five of the evaluation questions. These standards were applied to quantitative and qualitative data to draw conclusions about performance quality.¹⁸ Senior managers from Housing New Zealand assisted in developing the rubric.
- 68 All data collecting instruments were piloted with people who had some knowledge of the KiwiSaver Home Ownership package and refined before being used in the field.

Robust and valid results

- 69 A mixed method approach using both quantitative and qualitative methods of analysis provides robust and valid results because information can be checked and triangulated.
- 70 The qualitative equivalent of quantitative reliability and validity requires the use of a combination of principles known as "saturation" and "triangulation"¹⁹.
- 71 Saturation is about the number of interviews required to cover a topic. After approximately eight interviews the amount of new information begins to decrease, after 12 interviews hardly any new information is collected and at about the 15th interview saturation is reached and no new information is forthcoming no matter how many more people are interviewed. This principle was used in deciding the numbers of approved, lapsed and declined applicants to interview.
- 72 Triangulation is about having more than one perspective on a topic and its verification as a consequence. Multiple analysts, and/or multiple perspectives give a more significant result than one analyst with one perspective. The census was undertaken by Mobius, a research contractor, and the face to face and telephone interviews were undertaken by two evaluators (one employed by Housing New Zealand and the other an independent evaluator). Multiple perspectives were brought to the review of the initial results when the evaluators checked them with the staff implementing the programme.

Quantitative data sources

- 73 Demographic data was provided for the census and this report from Housing New Zealand administrative data on applicants.
- 74 The analysis of the housing environment is based on data from:
- Statistics NZ data on the population demographics and household income of the private renter market

¹⁸ Davidson, J. (2005). *Evaluation methodology basics*, Sage: Thousand Oaks

¹⁹ Patton, Michael Quinn (Revised edition 2002) *Qualitative Research and Evaluation Methods*, Sage Publications Newbury Park CA. Denzin, Norman K. and Yvonne S. Lincoln (Third Edition, 2005) *Handbook of Qualitative Research*, Thousand Oaks, CA : Sage.

- Reserve Bank of New Zealand data on consumer debt and Inland Revenue forecasts of KiwiSaver membership
 - Quotable Value New Zealand (QVNZ) lower quartile house price data
- 75 The uptake of the KiwiSaver Home Ownership package was forecast using a Deposit Subsidy Demand Forecast Model²⁰. It was designed to forecast the potential capital required to fund subsidy draw-downs. The model combined data from the same sources as were used for the analysis of the housing environment. The potential uptake of the package was also estimated in the baseline report based on research commissioned by Inland Revenue and conducted by Colmar Brunton, and the Ministry of Economic Development.
- 76 In this report these forecasts and estimates are compared with the actual uptake based on data from KiwiSaver providers and Housing New Zealand's administrative data.

Qualitative data sources

- 77 Qualitative data from the open ended responses to the census and interviews was entered into NVivo for thematic and comparative analysis. Nvivo provides the ability to code qualitative data and this has been done based on the evaluation questions. Coding has also been done using the key themes that came from the interviews.

Limitations

- 78 Following the earthquakes in Christchurch, applicants residing in Christchurch were excluded from the census, telephone and face to face interviews. This resulted in 71 approved applicants and four declined applicants being excluded from the study.
- 79 The response rate of 31 percent for the survey of KiwiSaver active providers representing 21 percent of KiwiSaver members was poor. This limitation was balanced to some extent by the fact that five KiwiSaver default providers representing an estimated 61 percent of KiwiSaver members agreed to face to face interviews.
- 80 At the time when the fieldwork was being organised two default providers merged. This led to some confusion over the numbers of KiwiSaver members represented by default and active providers. The confusion was identified by checking the total numbers of KiwiSaver members on the Inland Revenue's web site. With assistance from Inland Revenue staff, an estimation of the numbers of KiwiSaver members with default and active providers was made.
- 81 The results indicate that the practices of lawyers and mortgage lenders have had an impact on the operation of the Home Ownership package. However neither group was interviewed. One of the approved applicants was a lawyer and described some of the issues facing lawyers doing conveyancing involving the subsidy and withdrawal.

²⁰ Clarke, J., Ou C. & H. Nunns (August 2010) Evaluation of KiwiSaver Home Ownership package: Baseline Report. Paper prepared for Housing New Zealand Corporation.

82 No information is provided about the age of applicants for the subsidy (this information is not collected on the application form). The number of joint applications for the subsidy (i.e. where two or more people from the same household) was not available. Only when the face-to-face interviews were undertaken did we discover that the eleven interviews included 16 KiwiSaver members (five couples).

Findings

83 The findings are presented under the following headings:

- Uptake of Home Ownership package
- Applicants' perspectives
- KiwiSaver providers' perspectives
- Housing New Zealand perspectives.

Uptake of Home Ownership package

Subsidy

84 Eight hundred and sixteen KiwiSaver members applied for a subsidy during the period 1 July 2010 to 31 March 2011. Of these applications 619 were approved, 56 lapsed²¹ and 141 were declined (table 2).

85 Table 2 shows that all applicants and approved applicants comprised similar proportions of females and males: 47 percent female and 52 percent male. The proportion of lapsed applicants who were female and male was also similar (45 percent female and 55 percent male). Among the declined applicants the proportion of females was higher than for males (55 percent female and 48 percent male.)

Table 2 All applicants for the subsidy by gender (1 July 2010-31 March 2011)

Applicants	Female		Male		Unknown		Total	
	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage
Approved	293	48%	324	52%	2	0%	619	100%*
Lapsed	25	45%	31	55%	0	0%	56	100%
Declined	74	52%	67	48%	0	0%	141	100%
Total	392	47%	422	52%	2	0%	816	100%

* Percentages may not add to 100 percent as a result of rounding

²¹ Preapproved applicants have 90 days in which to purchase a home, at which point their approval lapses.

- 86 Applicants identifying as European were the largest group²². This group was followed in size by Maori and Asian. Applicants identifying as Pacific or MEELA were the smallest groups. Applicants identifying as European or Maori had similar proportions of approvals, lapsed or declined applications. Applicants identifying as Asian had a higher percentage of declined applicants compared to the percentage approved.
- 87 The 619 approved applicants are grouped into those who only applied for a subsidy, and those who had previously owned a house and sought approval to be treated as a first home purchaser for the purposes of the subsidy and/or withdrawal.
- 88 Table 3 shows the proportion of approved applicants who have successfully found a house to purchase in areas where the housing price cap is \$300,000 or \$400,000. Of the applications approved 24 percent were in areas where the house price cap is \$400,000, while 76 percent were in areas where the house price cap is \$300,000. It would be expected that a greater proportion of applications would be from the areas where the house price cap is \$400,000 since these include Auckland, Wellington city and Queenstown and these are areas where 24 percent of the population of New Zealand reside. The result suggests that even with the \$400,000 house price cap, first home buyers are unable to afford the lower quartile house prices.

Table 3 Approved subsidy applicants by house price cap (1 July 2010 – 31 March 2011)

Applicants	\$300,000		\$400,000		Total	
	Count	Percentage	Count	Percentage	Count	Percentage
Subsidy only	435	76%	134	24%	569	100%
Subsidy and previous owner determination	38	76%	12	24%	50	100%
Total	473	76%	146	24%	619	100%

Withdrawal

- 89 Table four reports the statistics that were provided by the default providers who agreed to a face-to-face interview, and active choice KiwiSaver providers who responded to the online survey.
- 90 It is commonly understood that there are six default schemes and providers. At the time when we were doing the fieldwork there was a merger of two default providers - AMP and AXA. As a result there was some misunderstanding about which

²² This is Total Response data. People have been asked to identify their own ethnicity. Those who identify more than one ethnicity are counted once in each group with which they identify. The sum of the responses for all ethnic groups will be greater than the number of people responding. When calculating percentages, the number of total respondents is to be used as the denominator. In other words this calculation excludes people who did not state an ethnicity. Due to multiple responses, percentages will add up to more than 100 percent. When interpreting this data it would be incorrect to say that a certain number or percentage of people are for example "Maori" because some Maori may also identify with another ethnic group. Instead the more correct way to word an interpretation is to say that a certain number or percentage of people "identified themselves as having Maori ethnicity, either as their only ethnicity or as one of several ethnicities". "MELAA" is Middle Eastern/Latin American/African. The "Residual" category contains mostly people who did not state an ethnicity.

statistics were provided. On checking the numbers of KiwiSaver members with Inland Revenue it has been estimated that the number of KiwiSaver members with default providers is understated by approximately 100,000 members. This means that the 17 active choice providers who did not respond to the survey had an estimated 201,356 members.

- 91 Of the respondents to the evaluation, 992 KiwiSaver members received a withdrawal during the period 1 July 2010 to 31 March 2011, to a total value of \$9.325M.²³ Of the respondents, nearly 80 percent of withdrawals were paid out by default providers, with 20 percent paid out by active choice providers. The mean withdrawal paid out by default providers was \$9,602, while the mean paid out by six active choice providers was \$8,634²⁴ (see Table 4).

Table 4 Withdrawals identified by evaluation respondents (1 July 2010 – 31 March 2011)²⁵

	Total no. of KiwiSaver members	No. of members who received a withdrawal	Total value of withdrawal	Mean value of withdrawal
Default providers (5)	1,029,876 (75%)	785 (79%)	\$7.538M (81%)	\$9,602
Active choice providers (6)	347,210 (25%)	207 (21%)	\$1.787M (19%)	\$8,634
Totals	1,377,086 (100%)	992 (100%)	\$9.325M (100%)	\$9,400

Sources: The total number of KiwiSaver members sourced from the Inland Revenue's KiwiSaver website was 1,678,442 members.

- 92 The five default providers reported that 80 – 100 percent of withdrawal applicants take the full amount to which they are entitled.

Applicants' perspective

- 93 The applicants' perspective is drawn from responses (closed and open ended) from the approved applicants' survey, face to face interviews with approved applicants who have purchased a home, and phone interviews with declined and lapsed applicants.
- 94 The closed ended responses in the applicant survey about the subsidy and withdrawal application processes were more positive than expected when compared to results from other sources (See tables 7 and 8 below). These results were moderated by the number of critical and negative responses from the other sources. The reason for this inconsistency is not known. One possible explanation

²³ These figures exclude any first home withdrawals processed by the 16 active choice providers who did not respond to the active choice provider survey.

²⁴ While eight active choice providers responded to the active choice provider survey, only six of them had processed first home withdrawals for their members.

²⁵ Differences in the numbers reported on the IRD website and in this report may be interpreted as resulting from different interpretations of default and active providers/schemes. For instance some providers identified in this research as "default" providers administer both default and active schemes.

is that overall, the 302 survey and interview respondents who had received a subsidy and/or withdrawal were highly appreciative of the Home Ownership package in helping them get into their first home.

Joining KiwiSaver

- 95 Approved and declined applicants who were interviewed were asked about their main reason for joining KiwiSaver (or remaining in the scheme if they had been automatically enrolled by a new employer). Six (of 16) approved applicants and three (of eight) declined applicants became KiwiSaver members with the intention of saving up for their first home. Four (of 16) approved applicants and three (of eight) declined applicants regarded KiwiSaver as a way of building long term savings. Some of these latter applicants said they had not considered buying a home when they joined KiwiSaver.
- 96 Among the interviewed applicants were two couples who had returned from Australia to start a family. Both couples said they had become so used to having compulsory superannuation savings taken from their wages that they “*didn’t think twice*” about becoming KiwiSaver members.

Finding out and applying for the Home Ownership package

Finding out

- 97 Results from the applicant survey suggest that finding out information about the Home Ownership package was relatively easy for respondents (Tables 5 and 6). However, this is not supported by the large number of open ended survey responses and data from the applicant interviews describing applicants’ difficulties in accessing information about the package. While applicants knew to contact their KiwiSaver provider for information about the withdrawal, people were less likely to know where to find information about the subsidy. Speaking about her experiences of finding out about the subsidy, a respondent said:

When we started, we knew about the withdrawal but nothing about the subsidy. Other people we talked to also knew about the withdrawal, but didn’t know about the subsidy...It’s hard to find something when you don’t know what you are looking for (Interview respondent)

- 98 With a few exceptions, the parties involved in the home purchase process (i.e. lawyers, mortgage lenders,²⁶ mortgage brokers and real estate agents) were not aware of the Home Ownership package. Respondents described having to “educate” these parties about the package.
- 99 Applicant survey respondents were asked to identify their **main** source of information about the Home Ownership package. The Housing New Zealand website was the main source for 27.2 percent of respondents,²⁷ followed by KiwiSaver providers (23.1 percent) (Table 5). Friends and family members were the main source of information for 12.7 percent of survey respondents. A website (Housing New Zealand, Internet, Inland Revenue as specified in Table 5) was identified as the main information source by 40 percent of survey respondents.

²⁶ This lack of awareness was less likely if a bank is also a KiwiSaver provider.

²⁷ The fact that the Housing New Zealand website was rated the main source of information by the highest percentage of respondents is not unexpected because all of the applicant survey and interview respondents had applied for the subsidy and/or under the second chance provision. See above note 8.

Table 5 Survey respondents' main source of information

Source	Percentage of respondents (n=316)
Housing New Zealand website	27.2%
KiwiSaver provider	23.1%
Friend or family member	12.7%
Internet (non specific website)	7.3%
Other sources*	6.6%
Media non specific (TV, radio, newspaper)	6.3%
Inland Revenue website	6.0%
Mortgage broker	5.7%
Bank	5.1%
Housing New Zealand Contact Centre	0.0%
Total	100%

*Other sources: home ownership course, lawyer, employer, real estate agent, financial adviser.0

- 100 Survey and interview respondents who had bought a home using the withdrawal and/or the subsidy said they had “*spread the word*” about the package to workmates, friends and family.

Applying

- 101 This section begins with general comments about applicants' experience of applying for the Home Ownership package, before providing specific comments about each product.
- 102 A home buyer typically has three key processes to manage during the purchase process – those involving their real estate agent, mortgage lender/broker and lawyer. Many applicant respondents described the Home Ownership package as introducing an added level of complication to these processes. The following factors contributed to this complication:
- Information about the subsidy and withdrawal is located in different places.
 - The eligibility criteria for the subsidy and withdrawal are different.
 - The application processes for the subsidy and withdrawal are different.
 - Applicants have between two and four withdrawal and subsidy applications to coordinate.^{28 29}
 - There appears to be minor differences in some provider processes for the withdrawal application. This was reported as being problematic by couples with different KiwiSaver providers.

²⁸ It should be noted that the respondents in the applicant survey and interviews applied for both the subsidy and withdrawal. The process is likely to be less complicated for applicants who apply for the withdrawal only.

²⁹ A couple might each submit a subsidy and a withdrawal application.

- 103 Understanding the differences in eligibility requirements between the subsidy and withdrawal (particularly the membership requirements of the withdrawal and the contribution requirements of the subsidy) was a recurrent issue identified by respondents:

I am a reasonably onto it person. I found all the information I needed about the subsidy and withdrawal through the Housing and KiwiSaver websites and the newspapers. I remember writing it all down because the subsidy and withdrawal involve different requirements which are easy to get mixed up. It could be quite confusing for other people who are not as clued up (Interview respondent)

- 104 Another frequent area of confusion was that applicants thought the subsidy and withdrawal could be accessed prior to settlement for the deposit paid to the real estate agent when the sale and purchase agreement becomes unconditional,³⁰ and/or for their 'up front' equity (deposit) required by mortgage lenders for approval of a mortgage. Many applicants only realised that this was not the case after they had made an offer on a property. The name "First Home **Deposit** Subsidy" contributed to this misconception.

We thought we could use the subsidy and withdrawal for the (lender) deposit. That this was not the case wasn't spelt out on the Housing New Zealand website. It wasn't until X rang his KiwiSaver provider that we found this out (Interview respondent)

Given that the deposit subsidy was paid directly to the solicitor on the settlement date meant that I could not use this subsidy as a pre-settlement deposit but rather as a top up for the solicitor for the difference between what my lender would actually lend me and the purchase price. The completion of purchase was only really possible given that I had a very helpful solicitor who I knew personally...and a vendor that was willing to not take any cash deposit prior to completion and to wait at least two months between the conditional and unconditional purchase (Applicant survey respondent)

- 105 An application for the withdrawal requires applicants to submit an unconditional sale and purchase agreement. Respondents who were relying on the withdrawal to make up some (or all) of their deposit found themselves in a predicament described as "catch 22" and "chicken and egg". The only way to "trigger" the house sale was for the applicant to become unconditional. Applicants in this situation were extremely anxious that the withdrawal would be paid out in time for the settlement:

It was frustrating that the (withdrawal) approval couldn't be confirmed until I had gone unconditional, but I couldn't go unconditional without confirming that I was able to get the withdrawal. This was VERY VERY stressful! (Applicant survey respondent)

We were in a catch 22 situation. We needed the subsidy and withdrawal to pay for the deposit, but we couldn't access them until we had an unconditional offer. We were stressed and confused about the timing of the withdrawal and subsidy. Nobody (at Housing New Zealand or KiwiSaver provider) seemed to have an answer to our situation (Interview respondents)

³⁰ Real Estate Agents Authority (2009). New Zealand Residential Property Sale and Purchase Agreements Guide.

106 One of the interviewed applicants (a recently qualified lawyer) said that requiring an unconditional offer for the withdrawal application places lawyers in an invidious position when their client is relying on the withdrawal for part or all of their deposit. A lawyer should not advise a client to become unconditional if they have insufficient funds to cover the deposit required by their mortgage lender, given the potential for a client to default on the sale and purchase agreement (for example, if the provider fails to pay out the withdrawal by the settlement date or if a client's withdrawal application is declined because they do not meet the three year membership requirement).^{31 32}

107 Some applicants with insufficient personal savings for the deposit required by their lender had to obtain an overdraft or personal loan, or borrow money from family to cover the deposit until the subsidy and withdrawal were paid out:

Would prefer the subsidy be paid out prior to settlement date as we had to take out a large overdraft with high interest to pay the deposit. We did not know this would happen until it was too late (Applicant survey respondent)

108 Some applicants said that their mortgage lender did not consider the funds they were to receive from the withdrawal and subsidy as equity for the house deposit:

At first our home loan was declined on the grounds that the first home withdrawal was not considered savings. We had to provide documentation of EVERY payment in the three years to prove that they were savings (Applicant survey respondent)

109 Applicants who required the subsidy and/or withdrawal for some or all of their house deposit also described being in the position of having to coordinate Housing New Zealand, Inland Revenue, their mortgage lender, KiwiSaver provider, lawyer and Study Link. This led some applicants to suggest sharing of information among the parties:

Privacy of information between government departments is a problem. I just wanted information to be shared between Study Link, IRD and Housing New Zealand. Everything was reliant on everything else and so it felt like "ring-a-ring a rosey" – frustrating! (Interview respondent)

Is there any way I could sign a piece of paper giving permission for everyone - IRD, KiwiSaver provider, bank, Housing New Zealand and the lawyer - to talk to each other and share information? (Interview respondent)

³¹ Two respondents in the applicant survey reported that their provider failed to pay out their withdrawal on the settlement date; two of the interviewed applicants reported that their active choice provider only makes withdrawal payments once a month.

³² It should also be noted that Housing New Zealand and default providers reported that they had received subsidy or withdrawal applications from some applicants' lawyers one or two days before the settlement date. In such cases there was insufficient time to process the application for the payment to be paid on the settlement day. This is discussed further in paragraph 118.

Applying for the first home deposit subsidy and previous home owner determination

- 110 Applicant survey respondents were asked to score eight statements describing different aspects of applying for the subsidy and previous home owner determination based on their experience. The results are presented in Table 6.

Table 6 Applying for the subsidy and previous home owner determination

Statement	Percentage of respondents who rated the statement 'very good', excellent'	
	Subsidy (n=323-331)*	Determination (n=33-35)*
Ease of finding out information about the subsidy/determination	60%	60%
Ease of understanding the information about the KiwiSaver subsidy/determination (e.g. who is eligible and how it works)	63%	66%
Ease of understanding and completing the subsidy/determination application form	55%	60%
Ease of understanding what you needed to provide as part of the application (e.g. the supporting documents you needed to supply)	52%	57%
Ease of getting hold of staff at Housing New Zealand to answer any queries you had during the application process	69%	68%
Time it took for staff at Housing New Zealand to respond to phone messages, enquiries, emails	79%	NA**
Usefulness of the information provided by staff at Housing New Zealand	75%	76%
Overall user friendliness of the subsidy/determination application process	67%	68%

* The number of respondents who answered each statement varied

** Question not asked in survey

- 111 The scores (from 52 percent to 79 percent) appear positive when considered alongside the more critical open ended responses from the survey, and the responses of interviewed applicants.
- 112 The application form and process were described as *“onerous” and “confusing”*. Many applicants were critical about the amount of supporting documentation they were required to supply for their application. The requirements for three years' contribution history and proof of income were particularly problematic for some applicants.

I think that people without an administration background or much education would probably be put off by the documents and hassle involved (Applicant survey respondent)

I was quite disappointed that it was necessary for our lawyer who was not cheap, to explain and process the (subsidy) application on our behalf. The process took a very long time and was very difficult (Applicant survey respondent)

113 An application for the subsidy requires a sale and purchase agreement to be submitted with the application. Although the agreement does not need to be unconditional (as is the case for a withdrawal application), many respondents were under the mistaken impression that an unconditional agreement was required when the subsidy application was submitted:

It is hard to make an offer on a house if you are not sure whether you can get the subsidy. You have to pretend that you are eligible for the money and hope it comes through (Applicant survey respondent)

114 Other areas of confusion or difficulty for applicants included the following.

- Three years of KiwiSaver contributions (at the required level) are required for the subsidy. Breaks between jobs, or leave such as parental leave do not count towards the three years.
- Providing proof of contribution history by applicants who have worked in short term jobs (as is the case with students) and/or as self employed and who have contributed to a KiwiSaver scheme directly (rather than via Inland Revenue).
- The subsidy application cannot be submitted retrospectively (i.e. after the settlement date).

Applying for the withdrawal

115 Applicant survey respondents were asked to score six statements describing different aspects of applying for the withdrawal based on their experience. The results are presented in Table 7.

Table 7 Applying for the withdrawal

Statement	Percentage of respondents who rated the statement 'very good', excellent' (n=289-292)*
Ease of finding out information about the withdrawal	61%
Ease of understanding the information about the withdrawal (e.g. who is eligible and how it works)	66%
Ease of understanding and completing the withdrawal application form	59%
Ease of getting hold of staff at your KiwiSaver provider to answer any queries you had during the application process	66%
Usefulness of the information provided by staff at your KiwiSaver provider	60%
Overall user friendliness of the withdrawal application process	62%

* The number of respondents who answered each statement varied.

116 A frequent criticism of applicants who applied in the months after the 1 July 2010 introduction of the Home Ownership package was that their KiwiSaver provider did

not appear to have systems in place to process withdrawal applications or staff who were able to answer questions.

- 117 While some KiwiSaver providers gave applicants an indicative value of their withdrawal following the approval of their application, many applicant survey respondents reported that their provider did not.³³ This meant applicants had to become unconditional without knowing how much they would receive for their withdrawal. They were unable to inform their mortgage lender of the amount of equity (deposit) they would have, and therefore the value of the mortgage they required. This predicament added to applicants' stress levels. A couple who bought their home in October 2010 each received a withdrawal (from different KiwiSaver providers - one a default provider and the other an active choice provider) described their experience:

But even the day before settlement we didn't know the amount we would get from the withdrawal...It was complicated by the fact that X was working overtime the night before. So...everything became very stressful (Interview respondent)

As a first homebuyer, the bank needs to know what deposit I have. On the (first home withdrawal application) form, it requested a copy of the unconditional agreement as part of the application process. That meant I had to go unconditional...When I rang to ask for pre approval, the people were not helpful. They could not advise me if my claim would be accepted and told me I just had to put in the application along with a copy of unconditional offer (Applicant survey respondent)

- 118 Eight of the 15 interviewed applicants were also unable to obtain an indicative amount of their withdrawal from their provider before the date it was released to their lawyer. One couple who bought their home in January 2011 were in the situation of having one of their providers advise the amount, while the other provider refused to do so.³⁴ Another respondent who purchased her home in December 2010 recounted the stress this caused:

I felt as if I was fighting for what was already mine anyway. It was impossible even to get an indicative amount (of the withdrawal) because it depended on the investment and there was uncertainty. (Name of default KiwiSaver provider) said they would draw the amount down on settlement day but as it transpired the money was paid into the legal firm's trust account six weeks before the settlement day. All the uncertainty gave me sleepless nights (Interview respondent)

- 119 Some applicants reported that when the provider processed their withdrawal, the amount was more than expected, while others received an amount that was less than expected.
- 120 One active choice provider was reported by two interview respondents as only making withdrawal payments once a month, requiring them to re-negotiate their settlement dates accordingly. Two applicant survey respondents reported that their withdrawal did not arrive by the settlement date:

³³ The withdrawal includes members' savings and employers' contributions. It excludes the \$1,000 government contribution and member tax credits. The amount of the withdrawal is based on the market value of the funds on the day of withdrawal.

³⁴ Both of these providers are default providers.

I had been approved by Housing New Zealand but my scheme provider couldn't withdraw my contribution in time due to their poor service. I am making a complaint to the Banking Ombudsman (Applicant survey respondent)

On the day of settlement the money had not been transferred which was not really acceptable. The reason given was that the case manager forgot to do the transfer (Applicant survey respondent)

House purchase

Sources of deposit

- 121 Information was sought from the applicant survey respondents about how their house deposit was made up³⁵ (Table 8). Respondents' deposits were made up of various combinations of the subsidy, withdrawal, applicants savings other than KiwiSaver, contributions from family and other sources such as Bonus Bonds and contributions from partners.

Table 8 Sources of deposit of applicant respondents to survey

Sources of deposit	Number of applicant survey respondents (n = 335)	Mean amount
Subsidy	248 ³⁶	\$3,707
Withdrawal	250 ³⁷	\$10,972
Applicants' savings (other than KiwiSaver)	182	\$23,519
Family	30	\$18,023
Other *	9	NA**

* Includes personal loans, money from Bonus Bonds, partner's contribution.

** Respondents were not asked the amounts.

- 122 Table 9 shows the amounts of applicant savings and family contributions of applicant survey respondents.

Table 9 Savings and family contributions of applicant respondents to survey

Amounts	Applicant savings: No. of applicants (n=182)	Family contributions: No. of applicants (n=30)
\$10,000 or less	71	12
\$10,001 - \$20,000	36	7
\$20,001 - \$30,000	30	4
\$30,001 - \$40,000	9	6
\$40,001 - \$50,000	14	1
\$50,001+	22	0

³⁵ "Deposit" refers to the equity required by lenders when a person is applying for a mortgage.

³⁶ ³³ In the first part of the applicants' survey, 325 applicants said they had been approved a subsidy (of which 42 had subsequently lapsed) and 292 applicants said they had applied for the withdrawal. Yet when asked for deposit information, only 248 applicants identified the deposit and 250 applicants identified the withdrawal as forming part of their deposit.

123 The combined amount of subsidy and withdrawal of the interviewed applicants ranged from \$9,000 to \$27,000, with an average of \$14,250. In addition to the 30 applicants who responded to the survey, five of the 16 interviewed applicants received financial assistance from family (the amounts were \$5,000, \$6,500, \$10,000, \$40,000, \$55,000).³⁸ The two applicants who received the highest amount from family had no personal savings (other than their KiwiSaver savings) for their deposit. Two other interviewed applicants had received small inheritances which they used towards their deposit.

Size of mortgage in relation to house value

124 Information was also sought from the applicant survey respondents about the size of their mortgage in relation to the house value (Table 10). Seventy percent of respondents were servicing a mortgage which was over 80 percent of the value of their home.

Table 10 Mortgage as a proportion of house value

Size of mortgage in relation to house value	Number of applicant survey respondents	Percentage of applicant survey respondents
More than 90 percent	85	30.5%
Between 80 and 89 percent	112	40.1%
Between 70 and 79 percent	51	18.5%
Between 60 and 69 percent	21	5.3%
Between 50 and 59 percent	3	1.1%
Don't know	7	2.6%
Total	278	100%*

* Percentages may not add to 100% due to rounding

125 Of the interviewed applicant respondents, four had mortgages between 70 and 80 percent, five between 80 and 90 percent, one more than 90 percent. One couple was in a shared equity situation where, for their proportion of the house price, they had a mortgage of more than 90 percent.

Impact of subsidy house price cap

126 The house price cap of the subsidy requires recipients to buy a home that is priced in the lower quartile house price range (refer paragraphs 43 and 44).

127 The house price cap made no difference to the choice of property location for 77 percent of respondents in the applicant survey. Ninety eight percent of applicant survey respondents said their home met their household's needs in terms of the number of bedrooms and facilities.

128 However, 35 percent of applicant survey respondents who bought a house using the subsidy said it was "difficult or very difficult" to find a house within the house price cap. Applicant survey respondents from Auckland and Tauranga suggested that the house price cap should be increased in these locations.

129 All of the approved applicants who were interviewed were realistic about the location and type of house they were able to afford as first home buyers. Some had

³⁸ The sum of \$55,000 was from a family trust.

bought 'do-up' properties and/or houses which they regarded as a 'stepping stone' into another home in the future. Some applicants expressed the view that the house price cap made little difference to them as they were unable to service a mortgage on a house priced above the price cap.

Welcome Home Loan

- 130 Of the 87 applicant survey respondents who applied for a Welcome Home Loan (WHL), 68 obtained a WHL. Only one of the 30 applicant interview respondents obtained a WHL (she was declined a subsidy because she did not meet the contribution requirements).
- 131 The main criticism of survey and interview respondents was that they were unable to make the WHL and subsidy work together because of the different eligibility criteria:
- The income cap for the WHL is \$85,000 (for one or two borrowers), while the income cap for the subsidy is \$100,000 (for one or two borrowers).
 - The house price cap for the WHL is either \$280,000 or \$350,000 depending on the Territorial Local Authority, while the cap for the subsidy is either \$300,000 or \$400,000 (refer paragraph 16).
- 132 Another criticism was that the amount of the respondents' withdrawal and subsidy meant that they had a deposit that was more than five percent maximum contribution to the deposit allowed by the WHL.³⁹

We ended up having too much of a deposit once my KiwiSaver was drawn down and we were not able to make a partial withdrawal to keep under the 5 percent (deposit) threshold (Applicant survey respondent)

I had saved too much of my own money. But I still didn't have a 20 percent so had to pay a high risk loan insurance to get a mortgage (Applicant survey respondent)

- 133 A further criticism was that the WHL house price cap was too low to purchase a house with more than two bedrooms, or home (that wasn't an apartment or unit) in Auckland, other than South Auckland.
- 134 Responses from applicant survey respondents appear to indicate that while some mortgage applicants may have met the eligibility criteria for the WHL, some banks (who offer the WHL) are choosing not to offer a WHL to them. This left respondents feeling confused as to why they could not access a WHL:

We couldn't understand why we weren't able to get the Welcome Home Loan and still don't understand (Applicant survey respondent)

Applicants' experience of lawyers

- 135 Lawyers' lack of knowledge about the Home Ownership package was a common complaint. While many respondents had lawyers who were helpful and supportive, some respondents were critical about missed deadlines or other aspects of lawyers' service:

³⁹ Mortgage applicants approved for a WHL can borrow up to \$200,000 with no deposit required; or \$280,000 (or \$350,000 in approved areas) with a deposit of 15 percent of the amount above \$200,000.

We had a few issues with our solicitors not completing their side of things in the correct timeframe which meant that we had to fill out forms again and delayed the purchase of our house (Applicant survey respondent)

- 136 Some lawyers did not charge more than their quoted conveyancing fee (usually around \$900). However other lawyers added extra amounts for the work associated with the package. Nine of the 15 interviewed applicants⁴⁰ were charged additional fees ranging between \$100 and \$500, to a fee that was three times the initial quote. Three applicant survey respondents reported that they had been charged legal fees of \$2000, \$2300, and \$2400:

The other part which is not made clear is that the whole thing has to go through our solicitor, and this is at our own cost. Legal fees are one of the big barriers to first home buying. In my case, the law firm estimated \$900 and charged around \$2000. They even said the real cost was over \$4000. I wonder how much of the extra charges were due to the unfamiliar work for the law team in processing your 'free' subsidy. This really erodes the value of the subsidy (Applicant survey respondent).

Overall assessment of applicants' experience of the application process

- 137 Table 11 provides an overall assessment of the three dimensions identified by Housing New Zealand as comprising a successful application experience for applicants. The evaluative rubric on which this assessment is based is shown in Appendix C.

Table 11 Overall assessment of applicants' experience of the application process

Dimension	Product	Assessment	Rating
Information about the package	Subsidy and withdrawal	There has been a significant lack of information about the Home Ownership package for potential applicants and other 'players' involved in the house purchasing process. Immediately prior to and after the introduction of the package on 1 July 2010, information about the withdrawal was not available from some providers. Many applicants did not know where to look for information about the subsidy. Despite obtaining information about the withdrawal and subsidy, many respondents failed to understand the details of how the respective application processes work (e.g. the subsidy and withdrawal are not available at the time when the KiwiSaver member is seeking mortgage approval from a lender).	Poor

⁴⁰ This number included four couples.

User friendliness of application process	Subsidy and withdrawal	(Note: The following is an assessment of the user friendliness of the Home Ownership package as a whole for KiwiSaver members who apply for both the withdrawal and subsidy.) The user friendliness of the package for applicants who apply for both the withdrawal and subsidy is compromised by information about the two products being located in different places, separate application processes, different eligibility criteria and duplication of information requirements. Couples who apply for both the withdrawal and subsidy are required to coordinate four applications between them (i.e. two for the subsidy and two for the withdrawal).	Poor
	Subsidy	The initial application form, including the supporting documentation requirements, was confusing for many applicants. The information provided by the National Contact Centre staff did not answer some callers' questions. In contrast, there were consistently positive comments from applicants about the level of service provided by the subsidy team, such as following up applicants on the phone to talk through the process, responding to applicants' particular circumstances, and the team's friendly and approachable manner.	Satisfactory
	Withdrawal	The application form and process for the withdrawal was generally more straightforward for applicants than was the case for the subsidy (due to the smaller amount of information required from applicants). The user friendliness of the application process varied across KiwiSaver providers. Some providers did not provide applicants with an indicative amount for their withdrawal prior to draw down. In the majority of cases, applicants were able to access staff who were able to respond to their enquiries. However, the user friendliness of the process was lessened because some applicants had to talk to a different staff member every time they rang the provider.	Satisfactory/ Very good
Timeliness of application process	Subsidy	Housing New Zealand responded to enquiries in two working days in the majority of cases. Applications were processed in a timely manner and the subsidy paid out on the settlement date. Delays in processing were caused by applicants submitting incorrect applications and/or supporting documentation, and lawyers submitting the required documentation after the deadline date provided. In the case of the latter, the subsidy team followed up lawyers to ensure applicants received the subsidy on the settlement date, or to suggest an extension to the settlement date.	Very good
	Withdrawal	Default providers' contact centres provided timely responses to withdrawal applicants' queries about the application process. In the majority of cases, withdrawals were received by the applicant's lawyer on or before the settlement date. As was the case with the subsidy, delays were caused by lawyers submitting the required documentation after the deadline date provided.	Very good

Perception of ability to buy a home without the Home Ownership package

- 138 Buying their first home was a significant milestone and achievement for respondents. Many applicant survey respondents expressed their appreciation about the KiwiSaver Home Ownership package:

I am grateful for the opportunity to save and withdraw the deposit for my first home through Kiwisaver. I would not have had the discipline to do so independently, and the employers' contributions helped also (Applicant survey respondent)

It was a great assistance and much appreciated as I was able to purchase a healthier home (Applicant survey respondent)

It gives young New Zealanders a chance to get into an otherwise almost impossible position in the housing market. It was an amazing help to us and we are very grateful this (package) was available (Applicant survey respondent)

- 139 Survey respondents who had purchased a home were asked whether they would have been able to purchase their first (or "other" in the case of second chance applicants) home "at this stage" without the subsidy or withdrawal. Table 13 summarises their responses. Just over 70 percent of applicant survey respondents said they would have been unable to buy a home without the withdrawal. This was also the case for forty five percent of subsidy recipients.

Table 12 Ability to purchase a home without the withdrawal and subsidy

	Able to purchase a house at this stage without the withdrawal (n=286)	Able to purchase a house at this stage without the subsidy (n=282)
No	71.3%	44.7%
Yes	13.6%	37.5%
Not sure	12.9%	17.7%
Total	100%*	100%*

* Percentages may not add to 100% due to rounding

- 140 A few applicant survey respondents who indicated they could have purchased their home without the withdrawal said that their family would have assisted them financially if they had not received the withdrawal.

Applicants who did not purchase a home

- 141 Applicants may seek approval for a subsidy before they find a home to purchase (referred to as a "preapproval"). Applicants have 90 days in which to purchase a home before the approval lapses. Forty two (13 percent) applicant survey respondents had had their approval lapse. Six lapsed applicants were interviewed. The lapse reasons for the survey and interview respondents are shown in Table 13.

Table 13 Reasons for lapsed subsidy approvals

Reason for lapsed approval	Approved applicant survey respondents (n=42)	Lapsed applicant interviews (n=6)
Unable to find a suitable property	16	2
Mortgage finance declined / insufficient funds for a deposit	14	3
House purchase delayed due to personal circumstances	7	1
Christchurch earthquakes	3	0
Building report issues about the property	2	0

Applicants' suggestions about the Home Ownership package

142 The most frequent suggestion from applicants was that the profile of the Home Ownership package needs to increase, especially among lawyers, mortgage lenders, mortgage brokers and real estate agents. As noted above, the sharing of applicant information among the parties involved was also suggested.⁴¹ A further suggestion was for potential applicants to be advised that the subsidy and withdrawal applications require the services of a lawyer, so that applicants can budget for any additional legal fees. Another suggestion was to integrate the subsidy and withdrawal applications into one process, which is administered by a single organisation. Table 14 summarises other suggestions about each of the products.

Table 14 Applicants' suggestions about the Home Ownership package

Product	Suggestions
The subsidy	<p>Remove the word "deposit" from the name, KiwiSaver Deposit Subsidy. This would avoid the confusion about what it can be used for. It cannot be used as the house deposit required by mortgage lenders and real estate agents because it is not payable until the settlement date.</p> <p>Allow discretion in the application of the house price cap for applicants with larger families.</p> <p>Promote the use of preapprovals.</p> <p>Extend the preapproval period beyond 90 days.</p> <p>If the pre approval has lapsed and the applicant is reapplying, s/he should not be required to redo the identification section of the application</p>

⁴¹ The parties include Inland Revenue, the applicant's KiwiSaver provider, Housing New Zealand, the applicant's lawyer, and Study Link (if appropriate).

	<p>form.</p> <p>Housing New Zealand obtain applicants' contribution information directly from Inland Revenue.</p> <p>Provide more information (e.g. flow charts) about the process following submission of the application, and indicate timeframes for the process.</p> <p>Have an online application process.</p> <p>Increase the house price caps in Auckland and Tauranga.</p>
The withdrawal	<p>An applicant should not have to go unconditional to access their withdrawal, given the risk this involves for applicants who are relying on the withdrawal for some or all of their deposit.</p> <p>Applicants should be allocated a case manager who is easily accessible (via direct dial phone number and email), rather than being required to ring the provider's contact centre and deal with different staff.</p> <p>Information should be provided on provider websites that applicants become eligible for the withdrawal on the anniversary of the date their first contribution was received by Inland Revenue (not on the anniversary date of the first KiwiSaver deduction from their pay⁴²).</p> <p>Providers should provide applicants with an indicative amount of the value of their withdrawal.</p> <p>There is variation in the wording required by some providers in the document submitted by lawyers. It would be helpful (and less expensive for applicants) if there was standard wording for this document.</p> <p>The provider should formally notify the applicant when the withdrawal has been transferred to the applicants' lawyer.</p>

KiwiSaver providers' perspective

- 143 This section examines KiwiSaver providers' experiences of administering the withdrawal.

Information about the withdrawal

- 144 Default and active choice providers use a number of channels to provide information to members who are interested in the withdrawal, including websites, investment statements, mailouts, pamphlets and face to face contact.
- 145 In the case of each of the five default providers, their call centres are the main source of information about the withdrawal for their members. The call centre also undertakes an initial assessment of the caller's eligibility for the withdrawal. An application form is sent to the caller once his/her eligibility has been established.

⁴² The KiwiSaver Act 2006 states that for the purposes of the First Home Withdrawal a member's start date is the date their first payment was received by Inland Revenue (the 15th of the month).

Withdrawal application process

- 146 Two of the five default providers said they provide approved applicants with a preapproval document which includes an indicative value of the applicant's withdrawal. The other three default providers said they provide applicants with a letter to take to their mortgage lender confirming the member's eligibility and an indicative amount of the withdrawal.
- 147 The following were identified by default and active choice providers as the main areas of confusion for applicants about applying for the withdrawal:
- Applicants think that the withdrawal can be obtained pre-settlement for the deposit required by their mortgage lender.
 - Applicants confuse the eligibility criteria for the withdrawal and subsidy. This has led some KiwiSaver members to think they are not eligible for the withdrawal when they are eligible.
 - Applicants send in withdrawal applications after they have purchased a home.
- 148 Three default providers and one active choice provider described some lawyers as not following the required application procedures, such as:
- manipulating the application or solicitors' certificate (for example, adding notes to the signed solicitors' certificate, or reproducing the solicitors' certificate and using alternative wording.)
 - submitting insufficient or incorrect information (for example, a member was not named as the purchaser on the sale and purchase agreement)
 - the solicitor's documentation has not been submitted in time to make payment prior to the settlement date. In some cases providers had to advise the solicitor that the settlement date needed to be postponed to allow the withdrawal application to be processed.
- 149 Two default and three active choice providers supplied information about the ongoing annual cost to administer the withdrawal. The costs were variable: \$50 and \$600 per application (two active choice providers), \$10,000 (one default and one active choice provider) and \$100,000 (a default provider). The \$100,000 amount appears excessive given that this provider had processed 251 withdrawal applications to 31 March 2011, while another default provider that had processed 261 applications in the same period estimated its ongoing annual costs as \$10,000.

Attraction of the withdrawal

- 150 One default and three active choice providers described the withdrawal as a positive feature of KiwiSaver, which was helpful for recruiting young people or discouraging them from opting out of the scheme:

...is relevant and appealing to young people for whom retirement can seem a long time away... it does make KiwiSaver easier to sell to young people (Active choice provider survey respondent)

The withdrawal is a positive feature of KiwiSaver that has benefited many of our members and as a result of this many more clients have joined KiwiSaver (Active choice provider survey respondent)

- 151 A default provider commented on the positive aspects of the withdrawal for both its members and staff:

From the point of view of the administrators who work on the withdrawal it is a very satisfying process. They receive positive feedback from members who have got the withdrawal - members ring or email to thank staff for helping them to get into their first home. This sort of positive, personal contact is very different to other situations where members withdraw their funds, such as hardship or illness.

- 152 Three providers who are also mortgage lenders described the withdrawal as being complementary to their home lending services and offering increased options for their customers. However another provider was critical of what was described as “predatory selling” by banks who are KiwiSaver providers:

... many banks have used this as an opportunity to mis-sell their KiwiSaver schemes and insist directly or implied that the member must join the bank's (KiwiSaver) scheme (in order to get a mortgage). In one case this meant that the member missed out on the withdrawal (Active choice provider survey respondent)

Subsidy

- 153 Providers described withdrawal applicants as lacking knowledge about the subsidy. Members who have rung the providers' call centre about the withdrawal are also told about the subsidy. However one default provider said that its call centre is careful about what is said about the subsidy because it might appear as if the provider was making a recommendation to the caller (as the Finance Industry must not direct people about making a financial decision). All of the providers commented about the confusion around the subsidy:

We would like to see a survey regarding the first home deposit subsidy given the confusion the industry and KiwiSaver members have experienced to date (Active choice provider survey respondent)

Housing New Zealand perspectives

- 154 This section examines the administration of the subsidy by Housing New Zealand.

Information about the subsidy

- 155 Prior to its introduction, Housing New Zealand provided information about the subsidy to law associations, mortgage lenders and brokers. Information was also provided to the New Zealand Law Society and Real Estate Institute of New Zealand for dissemination to their members.
- 156 Information about the subsidy for potential applicants is provided by the Housing New Zealand contact centre and website.⁴³ Enquiries that cannot be dealt with by contact centre staff are referred to the team who administers the subsidy. The KiwiSaver and Inland Revenue websites have links to the Housing New Zealand

⁴³ The information includes the eligibility criteria and application form.

website. Some provider websites and call centres inform members that Housing New Zealand is the point of contact for the subsidy. No other information dissemination activities about the subsidy to potential first home buyers has occurred prior to or since its introduction.⁴⁴

Application process

- 157 Staff describe the subsidy as a complex product compared to other lending products administered by Housing New Zealand, due to the number of eligibility criteria and amount of supporting documentation required with the application.
- 158 The most frequent problem encountered is applicants submitting incomplete application forms or omitting some of the supporting documentation. Following up applicants and explaining the requirements has been a time consuming task for staff. The original application form was revised in early 2011 in response to these issues. The wording of questions that were confusing applicants were revised and additional explanatory material added. These changes have added to the length of the application form. Information about the subsidy on the website is also being revised to clarify areas of confusion that have emerged such as the contributions⁴⁵ and income⁴⁶ criteria.
- 159 The objective of the subsidy preapproval is to assist applicants in the house hunting process (because they can seek properties within the house price cap) and to avoid unnecessary pressure with a hurried application when applicants sign a sale and purchase agreement. About 45 percent of applicants have applied for a preapproval.
- 160 Another recurring issue is when applicants who have not got a preapproval submit applications “at the last minute”. Applicants with an unconditional sale and purchase agreement have submitted a subsidy application days before their settlement date.⁴⁷ Some applications are received after the house purchase.⁴⁸
- 161 Housing New Zealand staff estimate that around 60 percent of lawyers do not return the required documents by the deadline to enable the subsidy to be paid out on the settlement date. Housing New Zealand staff often have to follow up lawyers so as to ensure their client’s subsidy is paid on time. Some lawyers have submitted applications or legal documents one day and expected payment the next day, which in some cases was the date of settlement.
- 162 When applicants apply for the subsidy, staff ensure they are aware of the first home withdrawal.

National Contact Centre

- 163 The Housing New Zealand National Contact Centre (NCC) is the first point of contact for enquiries about the subsidy. As part of providing information about the

⁴⁴ The eligibility criteria for the first home deposit were not announced until the early part of 2010.

⁴⁵ Contributions must be at the required level for a cumulative period of three years. Breaks in contribution do not count towards the three years.

⁴⁶ Income is determined by the income over the preceding 52 weeks.

⁴⁷ At least five working days are required for processing applications and drawing down the subsidy into a lawyer’s trust account.

⁴⁸ The subsidy is paid into the lawyer’s trust account on the settlement date. It cannot be paid out retrospectively.

subsidy, staff ensure that the caller is aware of the withdrawal and advises them to contact their KiwiSaver provider.⁴⁹ The NCC deals with straightforward questions about eligibility for the subsidy and general questions about the application process. This information is contained in training documentation developed by the Subsidy Team which all NCC staff can access to help them answer questions. If a caller's question is more complex, the NCC staff member records the nature of the enquiry and emails it to the Subsidy Team who responds directly to the caller (usually by phone).

- 164 The NCC was set up under a general, low cost operating model⁵⁰ which is less appropriate for a complex financial product such as the subsidy. Contact centre staff are generalists and deal predominantly with Housing New Zealand tenants. The NCC Manager reported that it is difficult to maintain the depth of knowledge among staff required by a complex product such as the subsidy.
- 165 The NCC operating model also has implications for customer service. Callers about the subsidy are likely to have the same service expectations of the NCC as they do of financial providers' call centres. For example, when a potential applicant, mortgage broker or financial adviser rings up with a difficult enquiry, s/he wants an immediate answer rather than having to wait for someone to ring them back. Some survey and interview respondents were critical of NCC staff's response to their questions or the length of time involved in getting the information they required.

Forecasted uptake of the subsidy

- 166 In 2008 Housing New Zealand developed a demand forecast model to predict the future uptake and cost the subsidy. Table 15 shows the number of KiwiSaver members who were projected and actual uptake of the subsidy for nine months of the year 2010/11. The recipient numbers shown in Table 15 are households rather than individuals because two or more people can receive the subsidy to buy the same house.

Table 15 Projected and actual uptake and cost of the subsidy (2010 – 2011)

	Projected (12 months)	Actual (9 months)	Percent change
Recipient household numbers	315*	547*	75% increase
Initial Outlays (\$mil)	1.5	1.857	24% increase

* Projected household numbers were calculated assuming a requirement of a 20 percent deposit

** Seventy percent of actual households had a deposit of less than 20 percent (see table 10)

Discussion

Housing environment for first home buyers

- 167 The housing environment is comprised of economic and housing indicators. Since the Home Ownership package's introduction on 1 July 2010, the economic factors

⁴⁹ If the caller belongs to a default provider, staff also supply the phone number of the provider's contact centre.

⁵⁰ For example, the low cost operating model means that callers have to wait longer for their call to be answered than is the case with a private sector call centre.

for first home buyers have improved. The annual average change in real GDP improved, employment increased and the OCR was at a low level. The banks responded in late 2010 early 2011 by easing their home lending criteria and requiring a 10-15 percent rather than a 20 percent deposit for first home buyers. Some lenders reduced this requirement to five percent.

- 168 First home affordability is now significantly greater than it was a year ago. The *Roost first-home buyer index* for May 2011 (published by *interest.co.nz*) showed that it now takes 44.5 percent of one median income of a person in the 25-29 age group to pay the mortgage on a lower quartile priced house. This was down from 45.5 percent in April 2011 and down from 55.0 percent in May 2010. Conditions are such that it would still be difficult for a single median income earner in this age group to sustain a mortgage on a lower quartile priced house, even with a 10 percent deposit, but a couple or family with more than one income would find it easier. Median income earners in older age groups would also find it easier to afford a lower quartile priced house. The index for median income earners in the 30-34 age group is now 40 percent, compared to 40.9 percent in April 2011 and 49.2 percent in May 2010. This increased affordability compared to a year ago is due to a combination of slightly lower house prices, slightly lower interest rates and slightly higher earnings.

Home Ownership package

Uptake

- 169 There has been a steady uptake of the Home Ownership package in the nine months since its introduction. Nearly 1000 KiwiSaver members have received a withdrawal, to a total value of \$9.325M.⁵¹ There were 619 approved subsidy recipients and 547 recipient households. The projected number of household recipients⁵² in the first twelve months was expected to be 315, the actual number for the first nine months was 547 representing a 75 percent increase so far. Some of this increase can be attributed to the easing of the deposit requirements. The projected household numbers were calculated assuming a 20 percent deposit. Seventy percent of the households had a deposit less than 20 percent (see table 10)
- 170 Recipients of the subsidy are predominantly people who identify as European (n=480), followed by Asian people (n=56), Maori (n=53) and Pacific peoples (n=16).⁵³ These figures highlight the need for targeted publicity for Pacific and Maori audiences, given their low home ownership rates compared to other ethnic groups (34.1 percent for Pacific peoples and 42.5 percent for Maori, compared with 71.9 percent for Europeans and 58.8 for Asian people).⁵⁴

⁵¹ The number of withdrawal recipients and the total amount may be larger as they do not include any withdrawals processed by the 16 active choice providers who did not respond to the active choice provider survey.

⁵² As noted above, projected numbers are based on recipient households as two (or more) people living in the same household may receive a first home deposit subsidy.

⁵³ As noted above, the ethnicities listed describe how people identify themselves, either as their only ethnicity or as one of several ethnicities.

⁵⁴ Census 2006 and Housing in New Zealand (2007). DTZ New Zealand, Centre for Housing Research Aotearoa and Building Research. Retrieved 7 June 2011 <http://www.chranz.co.nz/pdfs/census-2006-housing-in-nz.pdf>

- 171 Although the subsidy and withdrawal are described as a “package”, this is not the case from an applicant’s perspective. The withdrawal and subsidy are distinct products, administered by different agencies, with different eligibility requirements and application procedures, including timeframes.
- 172 Even so, the withdrawal and subsidy combined together enable modest income earners to have sufficient equity to buy their first home. The average amount of the first home withdrawal paid out by the 11 providers who participated in the evaluation was \$9400.⁵⁵ Around 62 percent of withdrawal recipients also received a subsidy. The average withdrawal plus the subsidy of \$3000 provides an indicative amount of \$12,400 (or \$24,800 for a couple). This indicative amount per person will increase in future years as the subsidy increases to its maximum value of \$5000 in July 2012, and as members build up their KiwiSaver savings over a longer period of time. At the fifth anniversary of KiwiSaver membership a peak in the number of approved subsidy applicants is expected. After this peak the number of approved subsidy applicants is expected to plateau or continue as a relatively constant percentage of KiwiSaver members.

Impact

- 173 The Home Ownership package appears to be helping KiwiSaver members to get into first home ownership earlier than would otherwise have been the case. Just over 70 percent of survey respondents who had bought a home would have been unable to purchase their home ‘at this stage’ without the withdrawal. This is despite 73 percent of the applicant survey respondents who received a withdrawal having savings other than KiwiSaver.⁵⁶ Speaking about the benefits of the withdrawal, respondents noted that they had benefitted not only from their savings but also from their employers’ contributions.
- 174 Forty five percent of respondents said they would have been unable to purchase their home without the subsidy. Although the value of the subsidy in 2010/11 may appear small, it was significant for some respondents who described having to “*scrape together every last dollar*” to buy their home. However for the 38 percent of survey respondents who would have been able to purchase their home without the subsidy, the \$3000 was an insufficient amount to have made a difference for them.

Enablers to the Home Ownership package’s use

- 175 Applying for a subsidy and/or withdrawal requires effective coordination (including timing) of the house sale (by the real estate agent), the mortgage approval (by the lender), the withdrawal application process (KiwiSaver provider), the subsidy application process (Housing New Zealand), and the lawyer who plays a key role in the subsidy and withdrawal applications. In cases where each of these parties has performed their respective role in a timely fashion, applicants have achieved their goal of becoming home owners with minimum stress. Conversely, where one or more of these parties failed to perform their role in a timely manner, the house purchasing process became unnecessarily stressful for the applicant.
- 176 Timing is a critical factor when buying a home using the withdrawal and/or subsidy, for example:

⁵⁵ The average amount of the withdrawal received by approved applicant survey respondents was \$10,972.

⁵⁶ Thirty nine percent had savings of \$10,000 or less, 20 percent had savings \$10,001 - \$20,000, and 17 percent had savings \$20,001 - \$30,000. The remaining 25 percent had savings over \$30,001.

- The amount of time between the date the offer becomes unconditional and the settlement date needs to be a sufficient length of time for the withdrawal application to be processed.
- The settlement date needs to take into account that Housing New Zealand requires a month to process a subsidy application.⁵⁷
- The documents supplied by the applicant's lawyer for drawdown of the subsidy and withdrawal into the lawyer's trust account must be received by Housing New Zealand and the KiwiSaver provider by the specified deadline date, in order for the subsidy and withdrawal to be paid out on the settlement date.

Finding out

177 Factors which assisted applicants in finding out about the Home Ownership package included the following:

- access to the internet
- family, friends and workmates who were aware of the package and/or about the house purchasing process
- attendance at a Welcome Home First Steps course⁵⁸
- mortgage brokers, real estate agents, mortgage lenders and lawyers who were aware of the package and could direct KiwiSaver members about where to get information
- contact centre staff (from KiwiSaver providers and Housing New Zealand) who were knowledgeable about the package, including eligibility criteria and application processes.

Applying

178 Factors which assisted applicants in applying for the Home Ownership package included:

- KiwiSaver providers who have dedicated staff to work with withdrawal applicants (rather than applicants having to ring the contact centre and deal with different staff members)
- KiwiSaver providers who provide preapprovals for the withdrawal
- applicants who are couples have the same KiwiSaver provider
- previous experience for applicants in filling out long application forms and gathering personal information
- obtaining a preapproval for a subsidy from Housing New Zealand, and a pre-approval from KiwiSaver providers (who offer it)
- "shopping around" for a lawyer to check out their familiarity with the package and their fee rates
- an efficient, customer focussed lawyer who meets deadlines.

⁵⁷ This is the standard requirement stated on the application form and Housing New Zealand website. However Housing New Zealand has processed applications in five working days.

⁵⁸ This course which is aimed at first home buyers explains about mortgage finance and the purchasing process. It is delivered by community-based providers funded by Housing New Zealand. The course is also available online.

Barriers to the Home Ownership package's use

- 179 The findings confirm the results of a survey commissioned by Inland Revenue in 2010 that awareness and knowledge about the Home Ownership package is low.⁵⁹
⁶⁰ While evaluation respondents knew to contact their KiwiSaver provider about the withdrawal, there was less awareness of the subsidy and where to get information about it. KiwiSaver providers also described the lack of knowledge and level of confusion among their members about the subsidy.
- 180 This lack of awareness is the result of the decision by government agencies not to conduct an information campaign about the Home Ownership package prior to or since its introduction. Information about the Home Ownership package supplied by Housing New Zealand to banks and other mortgage lenders, mortgage brokers, the New Zealand Law Society and Real Estate Institute of New Zealand appears to have had little impact.
- 181 Two design features of the package (specified in the KiwiSaver Act 2006) act as barriers for members who are relying on the withdrawal (and subsidy) for some or all of the equity required by their lender for mortgage approval, namely:
- a) A withdrawal application must be accompanied by an unconditional sale and purchase agreement.⁶¹
 - b) The withdrawal⁶² and subsidy are paid out on settlement towards the purchase price.
- 182 KiwiSaver members who are saving towards a first home have the (not unreasonable) expectation that savings in their KiwiSaver account can be used for some or all of the equity (deposit) required by lenders when approving a mortgage. Similarly, the name 'First Home Deposit subsidy' leads KiwiSaver members to assume that the subsidy is available for the deposit given to the real estate agent when an offer becomes unconditional, and for the equity (deposit) required by the lender for mortgage approval. However, these expectations are erroneous because of the two design features. Unfortunately, many members only realise this once they have put an offer on a property and have begun the application process for the subsidy and/or withdrawal.
- 183 The implications of the design features for KiwiSaver members who are relying on the withdrawal (and subsidy) for some or all of the equity required by their lender are significant. Members are required to become unconditional (in order to apply for the withdrawal) and borrow high interest funds from their lender to cover the deposit until such time as the withdrawal and subsidy are paid out, exposing them to unnecessary financial risk and expense.
- 184 The difficulties that these design features cause for applicants are illustrated in Figure 1 which portrays a scenario described by respondents.

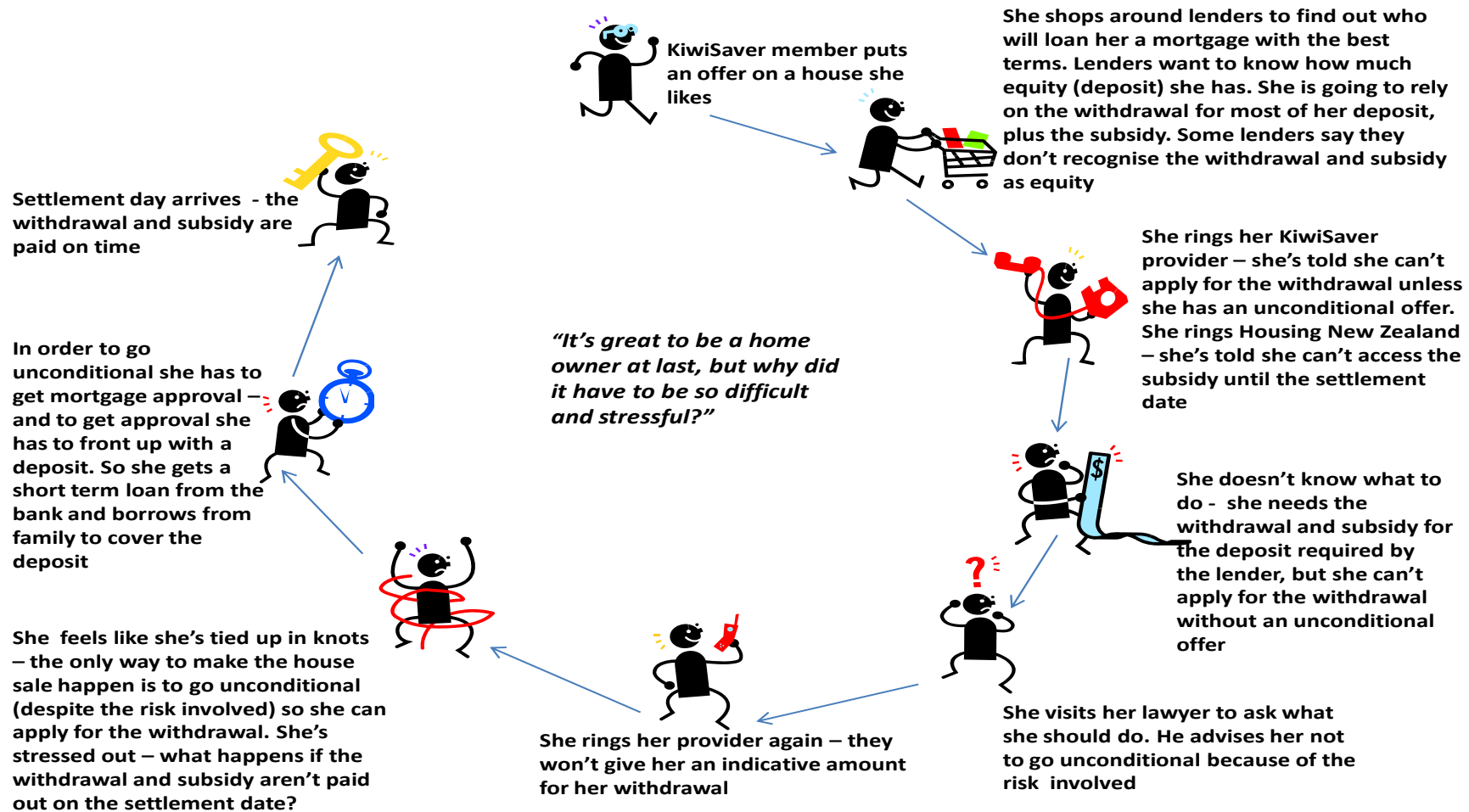
⁵⁹ KiwiSaver Evaluation: Survey of individuals. Colmar Brunton, July 2010.

⁶⁰ A face to face survey of 825 individuals was conducted in January – March 2010.

⁶¹ Kiwisaver Act 2006, schedule 1, subclause (7) (b) (ii).

⁶² Kiwisaver Act 2006, schedule 1, subclause (7) (b) (iii).

Figure 1 Applicant Scenario



- 185 These design features are further complicated by two evaluation findings. Firstly, some lenders' were reported as not recognising the withdrawal and subsidy as equity. It is not clear whether this was due to lenders' unfamiliarity with the Home Ownership package, or for some other reason (for example, the subsidy is a grant rather than savings). Further investigation is required to assess whether this practice is continuing, and if so, lenders' reasons for this decision.⁶³
- 186 Secondly, there are significant inconsistencies in the administration practices described by default providers and applicants' experiences of these practices. All of the default providers advised that eligible withdrawal applicants are given either a preapproval document or a letter for the applicant's lender providing an indicative amount of the withdrawal. However some interviewed respondents said their default provider refused to supply them with this information (as late as January 2011) which left applicants in the difficult position of negotiating a mortgage with only their calculation of the value of their KiwiSaver withdrawal. This complicated an already stressful time for many applicants.
- 187 A further barrier to the use of the Home Ownership package is the complexity of applying for two products from different organisations, with different eligibility requirements and application processes. This adds additional layers of complication to an already unfamiliar experience for first home buyers, particularly for people who are unfamiliar with filling out lengthy forms. Ideally, one agency with responsibility for administering the application processes for both products would streamline and simplify the process for applicants. Given that applications for both the subsidy and withdrawal require evidence of applicants' KiwiSaver contribution history, Inland Revenue may be the most appropriate agency to assume the responsibility of assessing eligibility. Once an applicant's eligibility for the withdrawal is confirmed, this information would be sent onto the applicant's KiwiSaver provider who would identify the amount of the draw down and transfer the funds into the applicant's lawyer's trust account.
- 188 If this suggestion for one agency being responsible for processing subsidy and withdrawal application is not considered feasible, an investigation could be undertaken to identify how the two processes could be coordinated.

Recommendations

- 189 The following are recommended.
- a) Work is undertaken to enhance the withdrawal and subsidy as a package. This may include one agency having responsibility for administering the application processes for the subsidy and withdrawal, such as Inland Revenue. If this is not considered feasible:
- An investigation is undertaken to identify how the application processes for the two products could be coordinated.
 - A privacy statement is available for withdrawal and subsidy applicants to sign allowing information sharing among Inland Revenue, Ministry of Social Development (Study Link), KiwiSaver providers, mortgage lenders, lawyers and Housing New Zealand.

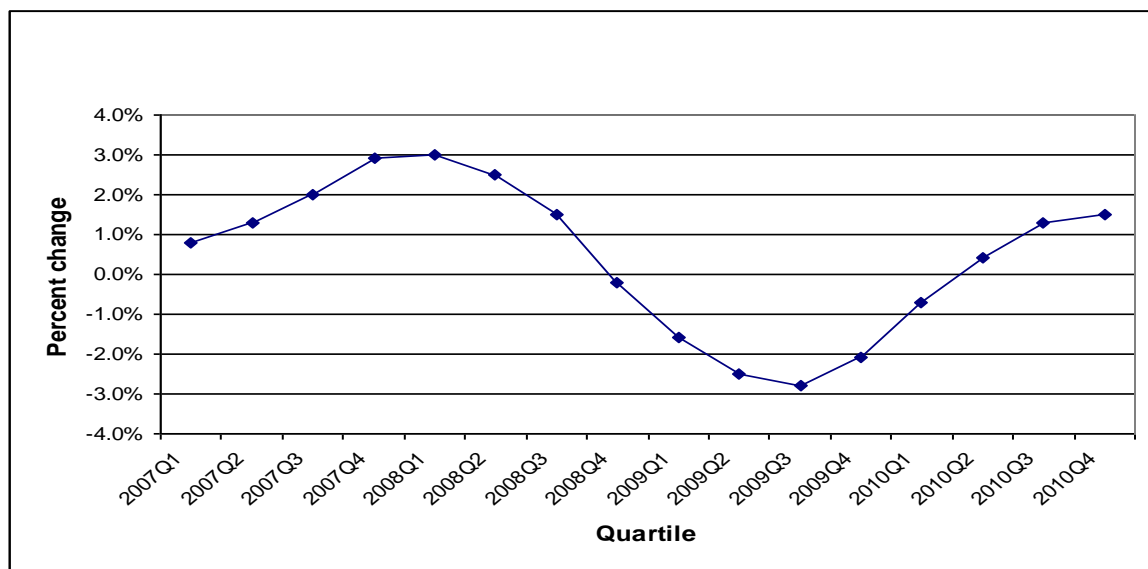
⁶³ Mortgage lenders were not interviewed.

- b) The requirement that a withdrawal application must be accompanied by an unconditional sale and purchase agreement is amended to a sale and purchase agreement (as per the subsidy).
- c) The requirement that the withdrawal and subsidy are paid out on settlement towards the purchase price is reviewed and the following options considered.
 - *Either:* Applicants who require the subsidy and/or the withdrawal for some or all of the equity required by their lender for mortgage approval are able to access the subsidy and/or withdrawal before settlement.
 - *Or:* Discussions are held with mortgage lenders (particularly the lenders who are also KiwiSaver providers) for them to waive the payment of a deposit until the settlement date when the withdrawal and subsidy are paid out.
 - *And,* any changes to requirements and processes be discussed with KiwiSaver providers and lawyers prior to confirmation.
- d) The word “deposit” in the name “First Home Deposit Subsidy” leads to misconceptions, and a communication strategy is needed to clarify purpose of this product.
- e) The subsidy house price cap for Tauranga is reconsidered in light of the First Home Affordability index at the next house price cap annual review.
- f) Further investigation is undertaken with KiwiSaver providers about their practices concerning the provision of information about indicative amounts of the withdrawal to eligible applicants.
- g) Additional education of Housing New Zealand’s National Call Centre is needed to assist staff to manage the flow and complexity of calls to the centre about the KiwiSaver Home Ownership package.
- h) The Home Ownership package is publicised. Targeted information is provided to the ‘key players’ in the home purchase process (lawyers, mortgage brokers, mortgage lenders, real estate agents), KiwiSaver members who are in the age range for first home purchase, and Maori and Pacific audiences.
- i) Mortgage lenders’ practices about recognising the withdrawal and subsidy as equity for the purposes of mortgage approval are investigated.
- j) The Welcome Home Loan eligibility criteria are reviewed so that they are consistent with those used for the subsidy.

Appendix A: Overview of housing environment 2007-2011

- 190 This section provides an overview of the economic and housing environments. This overview covers the introduction of KiwiSaver in 2007, and the first six- nine months of the operation of the Home Ownership package. This overview is followed by an examination of key housing indicators during this period of relevance to first home buyers.
- 191 When the KiwiSaver scheme was introduced in 2007, the housing market was buoyant. Positive levels of net migration and the availability of finance from commercial lenders for housing investment stimulated housing activity. House prices increased steadily from 2003, peaking towards the end of 2007. Strong house values made home owners feel wealthier, causing some to extract equity from their homes to leverage further investment in the property market or for consumer spending.⁶⁴
- 192 The New Zealand economy entered recession in early 2008, before the effects of the global financial crisis were felt later in the year.⁶⁵ The annual average change of real Gross Domestic Product (GDP) started a downward trend in the second quarter of 2008 which continued until the third quarter of 2009 when recovery began. From the low in the third quarter of 2009 there has been a steady but slow increase in the annual change of real GDP (Figure 2).

Figure 2 Annual average change of real GDP by Quarter 2007-2010



Source: Statistics New Zealand

- 193 During 2008 the economic uncertainty, coupled with increased fuel and food prices, and high interest rates had a significant impact on the level of residential

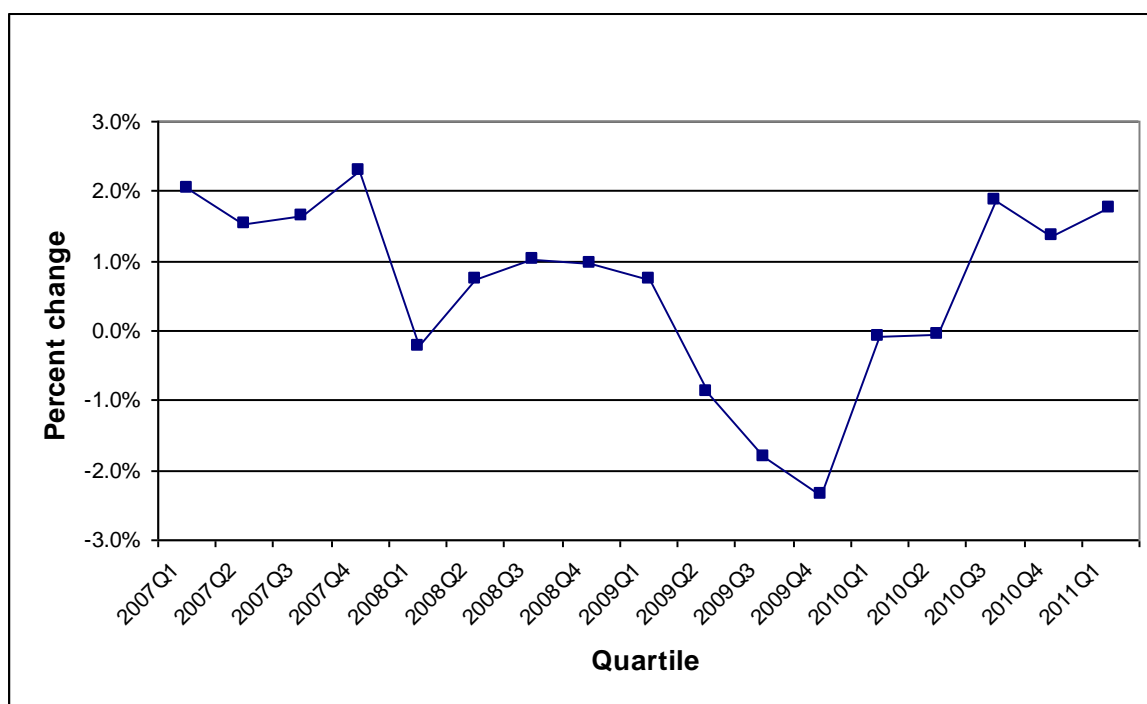
⁶⁴ New Zealand Treasury, *Monthly Economic Indicators. Special Topic: Outlook for the housing market*. February 2008.

⁶⁵ New Zealand Treasury. *New Zealand Economic and Financial Overview 2010*. April 2010.

investment.⁶⁶ A reduction in net migration in the 12 months to January 2008 (arrivals exceeded departures by 4,800 people compared to 14,100 for the 12 months to January 2007) also lowered housing demand.⁶⁷ By mid-late 2008 commercial lenders were responding to the recessionary pressures by tightening their home lending criteria, with the majority of banks requiring a 20 percent deposit for first home buyers.

- 194 As the annual average change of real GDP improved and employment increased, the banks responded in late 2010 early 2011 by easing their home lending criteria and requiring a 10-15 percent rather than a 20 percent deposit for first home buyers.
- 195 The effects of the recession on employment were most obvious during 2009 when the annual change of employment figures reached a low of -2.4 percent in the fourth quarter. Over the first three quarters of 2010 there was an upward trend which regained much of what had been lost as a result of the recession. (Figure 3)

Figure 3 Annual change of employment by Quarter 2007- 2011



Source: Statistics New Zealand

- 196 Despite the economy's increasing recovery from the global financial crisis during the first months of 2010, the housing market has remained subdued.⁶⁸ The ASB Housing Confidence Survey for the three months to April 2010 reported waning optimism and a slowing in housing market activity. In a media release (dated May 2010), the Reserve Bank Governor said householders were choosing to

⁶⁶ New Zealand Treasury. *Pre Election Economic and Fiscal Update*. October 2008; New Zealand Treasury. *New Zealand Economic and Financial Overview 2010*. April 2010.

⁶⁷ New Zealand Treasury. *Monthly Economic Indicators. Special Topic: Outlook for the housing market*. February 2008.

⁶⁸ The Reserve Bank of New Zealand. *Handling our economic recovery*. 6 May 2010.

consolidate by building up savings and reducing debt.⁶⁹ As a result of households' choice to consolidate, New Zealand's economic recovery in 2010 has been weaker than expected.⁷⁰

- 197 Property values released by Quotable Value in May 2010 were 6.1 percent above the same time in 2009 according to the QV residential property indices for April.⁷¹ The annual change in values was the same as reported in March 2010, reflecting stable values in previous months and at the same time in 2009. Nationally, values remained 3.9 percent below the market peak of late 2007.
- 198 The subdued housing market was attributed in the short term to uncertainty about whether the tax advantages for property investment would be removed in the May 2010 Budget. Expectations of higher short term interest rates as a result of an anticipated increase in the Official Cash Rate (OCR) were also identified as dampening the housing sector.⁷²
- 199 The tax changes in the 2010 Budget included property investors losing the ability to claim depreciation on most permanent buildings from 1 April 2011 and the tightening of the rules on tax rates for loss attributing qualifying companies. There were a range of views among commentators about the impact of these tax changes on rent rises and property values. Rent rises of 1.4 to four percent over four years, and a decrease in property values of two to four percent over the next two years were forecast.^{73 74}
- 200 The expected increase in the OCR occurred in mid June 2010 with an increase of 0.25 percent from an all time low of 2.50 percent. A further increase of 0.25 percent to 3.0 percent occurred at the end of July. The Reserve Bank Governor indicated that further reviews of the OCR would be considered in light of economic and financial market developments.⁷⁵ In March 2011 the OCR was reduced by 0.5 percent back to 2.5 percent on the basis that GDP growth was much weaker than expected through the second half of 2010. The OCR was also reduced on account of the expected impacts of the second Christchurch earthquake.⁷⁶

Housing indicators

First home buyer affordability index

- 201 This section examines the Interest.co Home Loan Affordability series for the first home buyer home loan affordability index. The data and assumptions underpinning this measure are set out in table 16:

⁶⁹ *ibid*

⁷⁰ The Reserve Bank of New Zealand. Financial Stability Report, May 2011.

⁷¹ Quotable Value, National Property Statistics. May 2010.

⁷² ASB. *NZ Housing Confidence Survey*. 5 May 2010

⁷³ Budget report. (21 May 2010). The Dominion Post

⁷⁴ Experts tip house values to fall to four percent. (22 May 2010). The Dominion Post.

⁷⁵ The Reserve Bank of New Zealand. Media Release: *The Reserve Bank raises OCR to 2.75 percent*. 10 June 2010.

⁷⁶ The Reserve Bank of New Zealand. Media Release. *OCR reduced to 2.5 percent*. 10 March 2011.

Table 16 Data and assumption underlying home buyer home loan affordability index

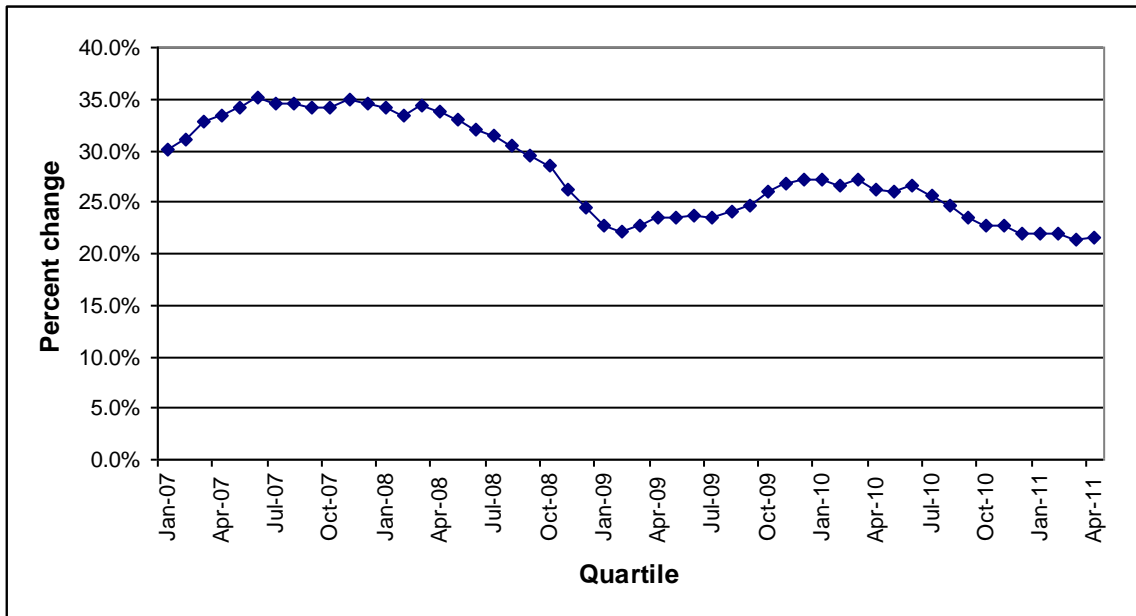
<p>Weekly Income (source change)</p>	<p>From the July 2007 Report onward, the source on which estimates of weekly income are based is the LEED (Linked employer-employee data survey) data from Statistics New Zealand. For more information follow the link www.interest.co.nz/HLA/changes.asp</p> <p>The standard home loan affordability report is based on the LEED data for the 30-34 age group.</p> <p>Income tax rates from IRD are used to calculate a take-home pay (which is the LEED-based data net of the specific income tax rate).</p>
<p>Home Loan (Median house price less a 20% deposit)</p>	<p>Mortgage repayments are based on the value of the home loan, paid weekly for 25 years, using the two year bank average interest rate. The home loan is assumed to be a standard table mortgage, where both interest and principal is repaid in a fixed weekly payment made in arrears. The repayment is calculated using the tools at www.interest.co.nz/calculator.</p>
<p>Mortgage Rates</p>	<p>Average mortgage interest rates are sourced from www.interest.co.nz. These averages are for banks only as banks have 90%+ of the mortgage market. Affordability calculations are done for mortgages at the floating rate and one year through to the five fixed-rate terms. In this report, the two-year fixed mortgage interest rate is used. This is, and has been the most popular term. However, the market is shifting to longer term rates, and the index reviews allow for keeping track of affordability issues as this shift happens.</p>
<p>House price data</p>	<p>Median house prices are as reported by the Real Estate Institute of New Zealand. Although the REINZ series is more volatile than the QV equivalent, there is a highly positive correlation between the two series. The REINZ series is more current and offers an earlier indication of market trends.</p>
<p>Saving Rates</p>	<p>Average savings interest rates are sourced from www.interest.co.nz. These averages are for banks only, and use the 90 day term deposit rate. Saving calculations take into account the individuals marginal tax rates as defined by IRD.</p>
<p>Household affordability</p>	<p>Household affordability is calculated in the same way as individual affordability except instead of individual income, household income is used. The household income for a standard-buyer household is made from 1 full time male median income, 50% of a female median income, both in the 30-34 age range, plus the Working For Families income support they are entitled to receive under that program. This standardised household is assumed to have one 5 year old child.</p>
<p>A first-home buyer</p>	<p>An individual in the 25-29 year old age group who buys the lower-quartile priced house with a deposit as calculated below.</p>
<p>Deposit - First home buyer index</p>	<p>As house prices vary by region to a larger extent than wages, we refrained from using a simple 10% deposit-90% mortgage rule to emulate a first home buyer. Instead, to capture the disparity between incomes and house prices we estimate the deposit as a function of savings – that is 20% of weekly income saved for 4 years, plus interest earned at a 90 day deposit interest rate.</p>
<p>Home Loan (Lower quartile house price less the deposit)</p>	<p>Mortgage repayments are based on the value of the home loan, paid weekly for 25 years, using the 2 year bank average interest rate. The home loan is assumed to be a standard table mortgage, where both interest and principal is repaid in a fixed weekly payment made in arrears. The repayment is calculated using the tools at www.interest.co.nz/calculator.</p>

Mortgage Rates	Average mortgage interest rates are sourced from www.interest.co.nz . These averages are for banks only as banks have 90%+ of the mortgage market. Affordability calculations are done for mortgages at the floating rate and one year through to the five fixed-rate terms. In this report, the two-year fixed mortgage interest rate is used. This is, and has been the most popular term. However, the market is shifting to longer term rates, and the index reviews allow for keeping track of affordability issues as this shift happens.
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202 The first home buyer affordability index measures the proportion of a household's take-home pay needed to afford the mortgage payment on a lower quartile priced house purchased in a specific month. A mortgage is deemed affordable when the mortgage payment is no greater than 40 percent of a household's weekly take-home pay. The results (Figures 4 and 5) show that housing for first home buyers has become more affordable since the KiwiSaver Home Ownership package was launched in July 2010.

203 Figure 4 shows the first home buyer affordability index from January 2007 to March 2011. Based on a first home buyer household profile, 25 percent of the median take-home pay was required to service a mortgage on a lower quartile home purchased in April 2010. The index peaked in June 2007 at 35 percent before decreasing to 22 percent in February 2009. The index increased slowly, staying at between 25 – 26 percent from October 2009 until July 2010. Since that date the index has been slowly decreasing. Since January 2011 the index has been just under 22 percent.

Figure 4 First Home Buyer Affordability Index by Quartile January 2007– March 2011

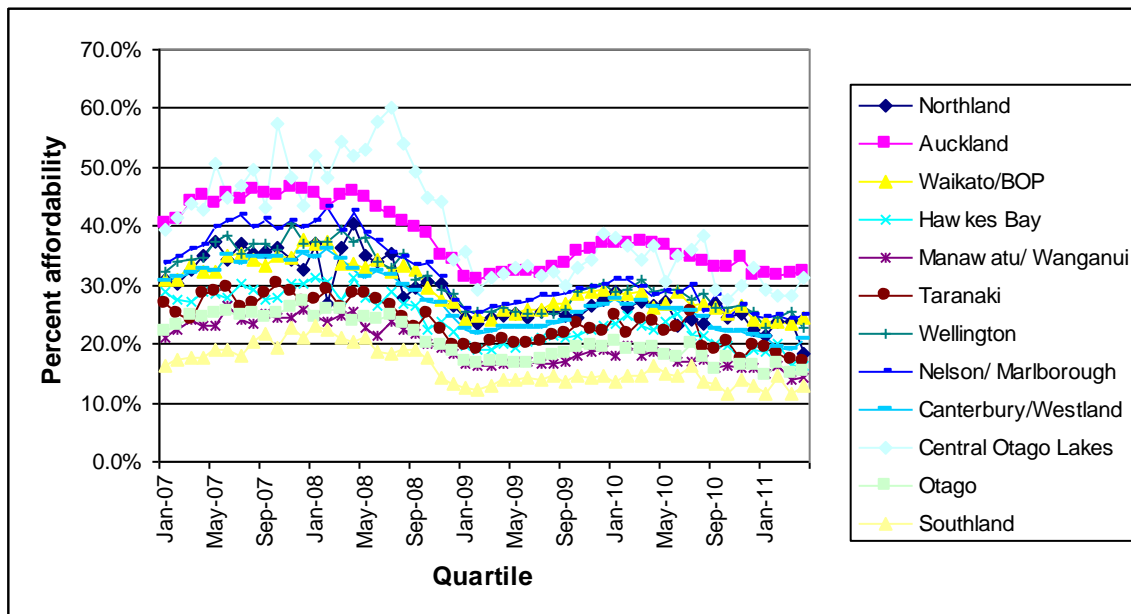


Source: www.interest.co.nz/property

204 Figure 5 shows the first home affordability index by region. As at April 2011, the regions from least to most affordable were: Auckland (32 percent) Central Otago/Queenstown Lakes (31 percent), Nelson/Marlborough (25 percent), Waikato/Bay of Plenty (24 percent), Wellington (23 percent), Canterbury and West

Coast (21 percent), Northland (18 percent), Taranaki (17 percent), Hawkes Bay (16 percent), Manawatu/Whanganui (14 percent) and Southland (13 percent).

Figure 5 First Home Buyer Affordability Index by region January 2007– April 2011



Source: www.interest.co.nz/property

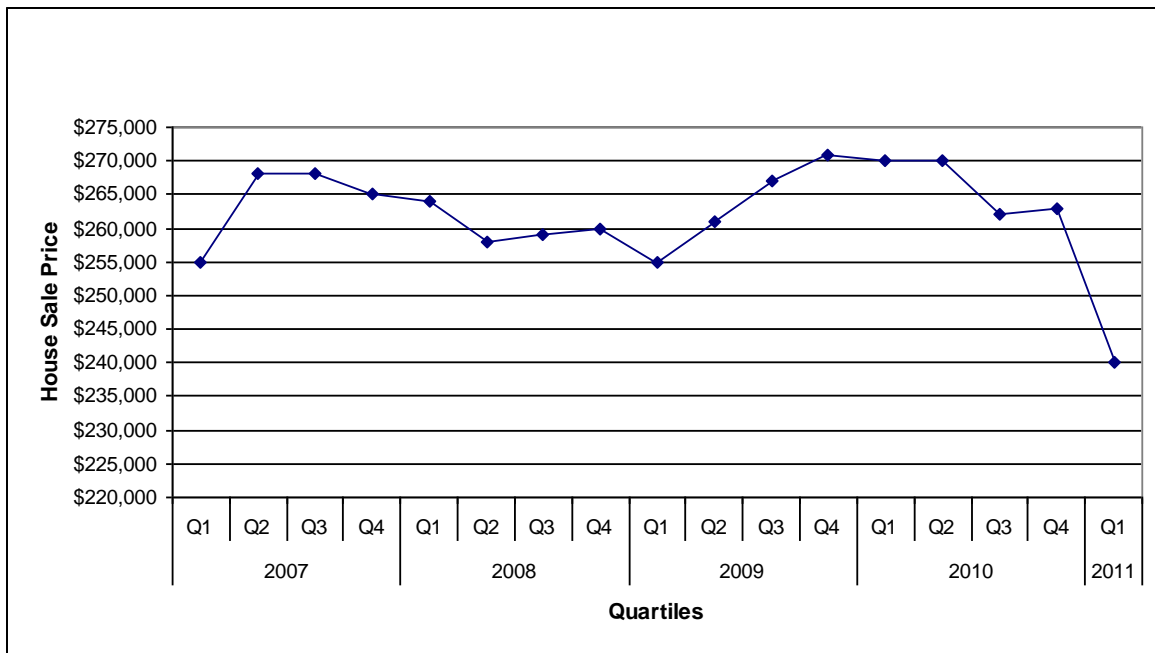
House prices

Lower quartile house price sales

205 In the first quarter of January 2007 the national lower quartile house sale price rose from \$255,000 to \$268,000. Over the next seven quarters it fell back to the low of \$255,000 (December 2008). Exceptionally low fixed mortgage interest rates led to house price rises across all quartiles in 2009⁷⁷ to a peak of \$272,000. Over the quarters of 2010 the house sale price ranged between \$272,000 and \$265,000 (Figure 6). In the first quarter of 2011 the house sale price dropped below this level in January 2007 to \$240,000. The difference between the national lower quartile house sale price in January 2007 and January 2011 represented a decrease of 2 percent.

⁷⁷ The Treasury. *New Zealand Economic and Financial Overview*. April 2010.

Figure 6 National lower quartile house sale price by Quartile 2007- 2010



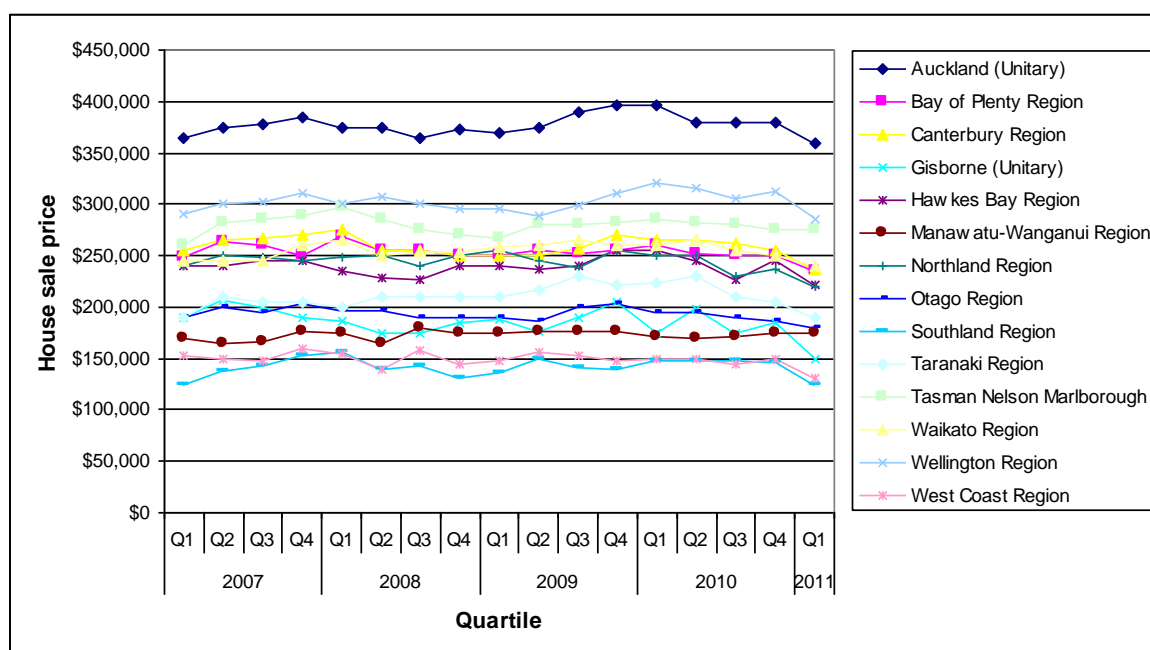
Source: Quotable Value New Zealand

206 Figure 7 shows lower quartile house sale prices by region. The Auckland region had the highest lower quartile house sale prices across the period 2007-2011 ranging from \$365,000 in the first quarter 2007, to a peak of \$397,000 in the last quarter of 2009. Over three quarters of 2010 the lower quartile house sale price was constant at \$380,000. In the first quarter of 2011 the house sale price dropped to \$360,000. The Wellington region had the second highest lower quartile house sale prices ranging from \$290,000 in the first quarter 2007 to a peak of \$320,000 in the first quarter of 2010. Over the next three quarters of 2010 the lower quartile house sale price ranged between \$305,000 and \$315,000. In the first quarter it dropped to \$286,000. This was followed by the Tasman/Nelson/Marlborough region with lower quartile house sale prices ranging from \$260,000 in the first quarter 2007 to a peak of \$297,000 in the first quarter of 2008. Throughout 2009, and 2010 the lower quartile house sale prices ranged between \$267,000 and \$285,000. In the last quarter of 2010 it was \$275,000 and remained unchanged in the first quarter of 2011.

207 The Southland region had the lowest lower quartile house sale prices across the period ranging from \$125,000 in the first quarter 2007 to \$156,000 in the first quarter 2008. The West Coast region had the second lowest lower quartile house sale prices, ranging from \$140,000 in the second quarter 2008 to \$157,500 in the third quarter 2008. The Manawatu-Wanganui region had the third lowest, ranging from \$165,000 in the second quarter of 2007 to \$180,000 in the third quarter of 2008. For the four years 2007-2010 the lower quartile house sale prices fluctuated within these ranges. In the first quarter of 2011 Southland, and West Coast decreased and Manawatu-Wanganui remained unchanged from the previous quarter.

- 208 During the four years January 2007 to December 2010 lower quartile house sale prices have remained relatively stable across all fourteen regions. Southland had the greatest growth in the lower quartile house sale price over the four years (16.8 percent), this was followed by Taranaki (7.9 percent) and Wellington regions (7.6 percent).
- 209 Canterbury region experienced no change in lower quartile house sale prices (the prices in January 2007 and December 2010 were the same).
- 210 Four regions experienced decreases in lower quartile house sale prices over this four year period from January 2007 until December 2010. The Gisborne region had the largest decrease (2.6 percent), followed by Otago (2 percent), Northland and the West Coast regions (1.3 percent).
- 211 The first quarter of 2011 saw decreases in many regions. Two regions had increases (Tasman/Nelson/Marlborough region 6 percent, and Manawatu – Wanganui 3 percent). Two regions had no change (Southland and Taranaki). The greatest decreases were in Gisborne region (21 percent), West Coast region (14 percent). Hawkes Bay and Northland had decreases of eight percent. Canterbury had a decrease of seven percent. The other five regions had decreases ranging from one to six percent

Figure 7 Lower quartile regional house sale prices by Quarter 2007- 2011

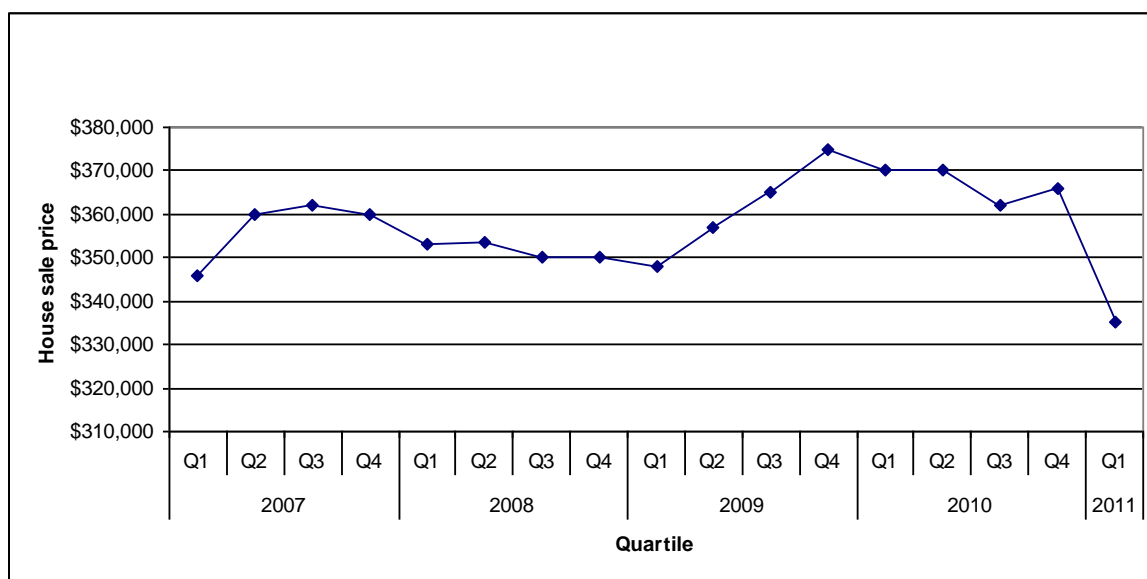


Source: Quotable Value New Zealand

Median house price sales

- 212 The national median house sale price followed a similar pattern to the lower quartile house sale price (Figure 8). The lowest median sale price of \$346,000 occurred in quarter one 2007 and the highest median house price of \$375,000 in the last quarter of 2009. Over the four quarters of 2010 there was a decrease back to \$366,000. Overall there was a decrease in the national median house sale price of three percent.

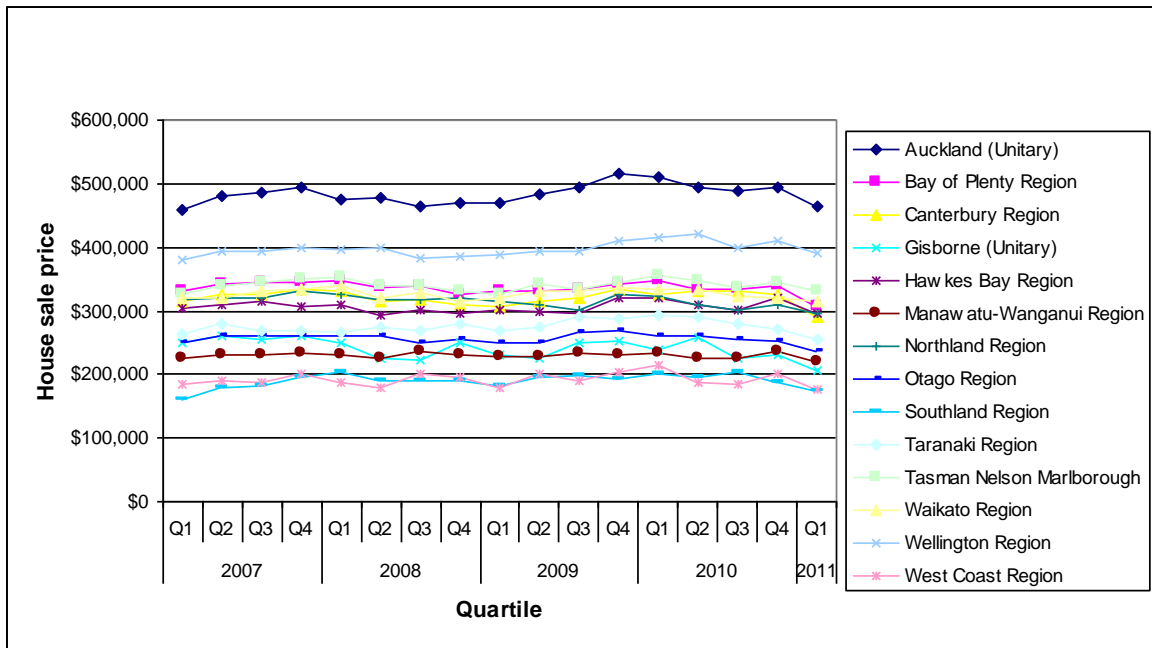
Figure 8 National median house sale price by Quartile 2007- 2011



Source: Quotable Value New Zealand

- 213 Figure 9 shows the median house sale prices by region. In January 2011 Auckland region had the highest median house sale price (\$465,000), Wellington region the second highest (\$490,000) and Tasman/Nelson /Marlborough the third highest (\$330,000). In January 2011 Southland region had the lowest median house sale price (\$172,750), West Coast region had the second lowest (\$176,750) and Manawatu-Wanganui region the third lowest (\$207,000).
- 214 The percent change in median house sale price increased in four regions from January 2007-January 2011: Southland region (8 percent), Wellington (3 percent) Tasman/Nelson/Malborough (2 percent) and Auckland (1 percent). The other ten regions had decreases in median house sale prices.

Figure 9 Median Regional House Sale Price by Quartile 2007-2011

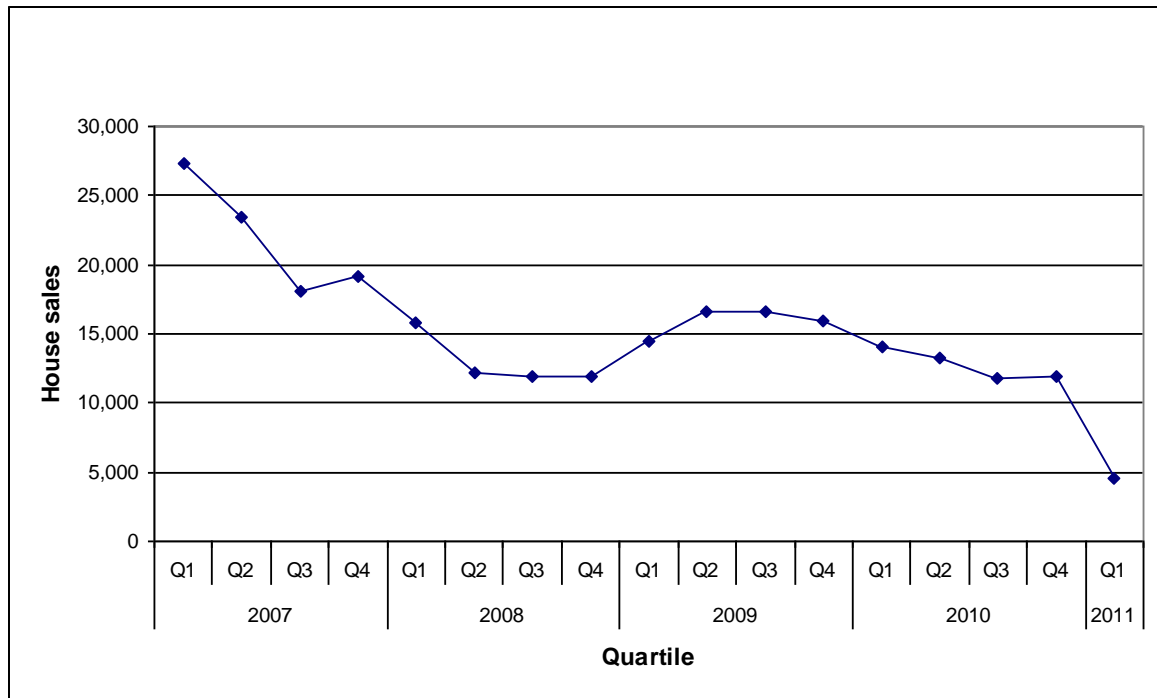


Source: Quotable Value New Zealand

House sales

215 National total house sales have been in decline since the beginning of 2007 when there were 27,347 sales (Figure 10). In the first quarter of 2011 the national total house sales stood at 4,583. This represented a decrease in total national house sales over this period of 83 percent.

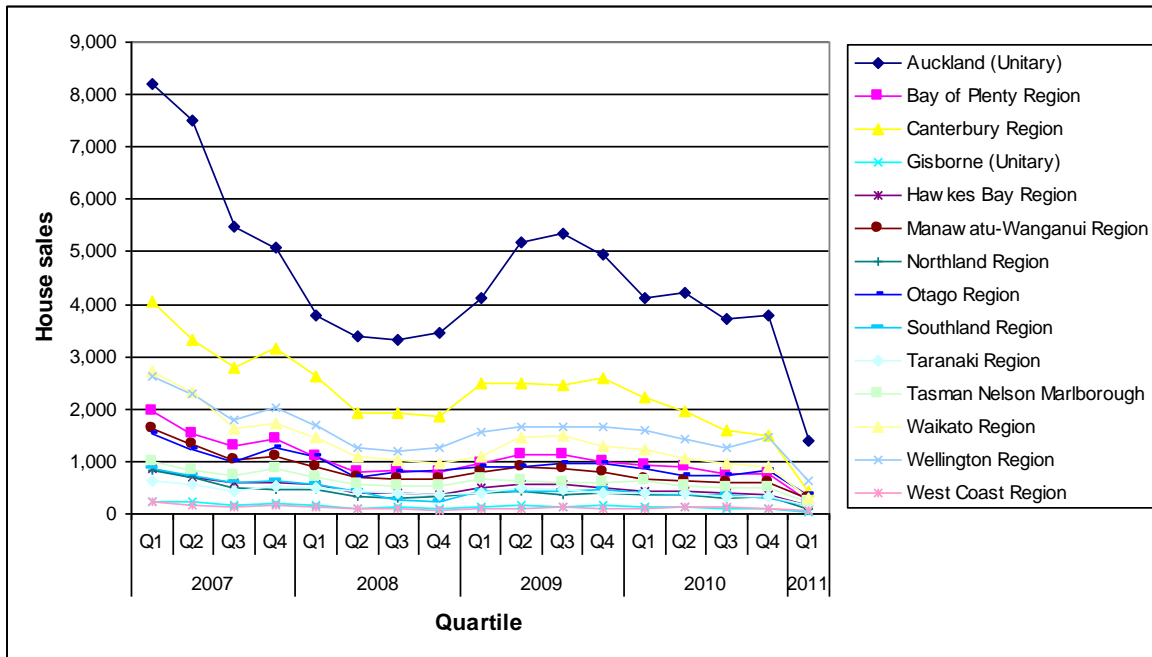
Figure 10 National Total House Sales by Quartile 2007- 2011



Source: Quotable Value New Zealand

216 Figure 11 shows that the total house sales by region follow the national trend downwards. The greatest decrease was in the Canterbury region (90 percent) as a result of the earthquakes, the second greatest was Waikato region (89 percent), and the third greatest decrease was in Northland and Bay of Plenty regions (86 percent). The smallest decrease in the total house sales was in the West Coast region (73 percent), the second smallest decrease was the Taranaki region (74 percent). And the third smallest decrease was in Tasman/Nelson/Malborough and Otago (76 percent).

Figure 11 Total Regional House Sales by Quartile 2007- 2011



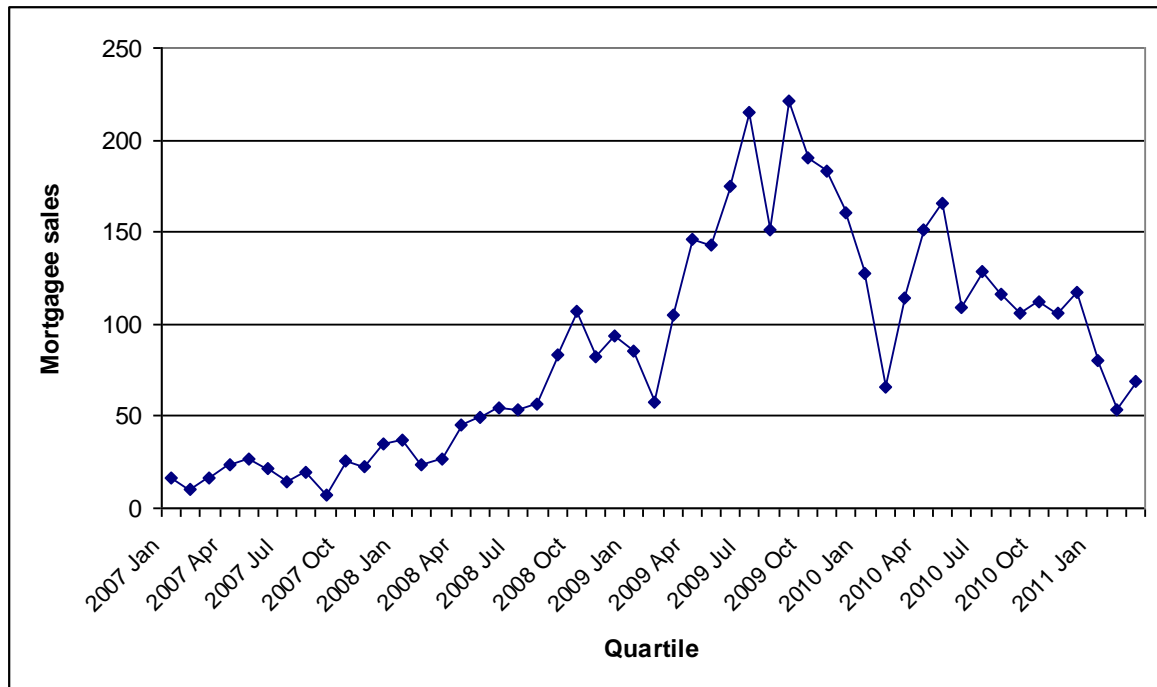
Source: Quotable Value New Zealand

Mortgagee sales

217 The number of mortgagee sales (TPS count⁷⁸) was on an upward trend over the two year period from January 2007 to September 2009 (Figure 12). Sales peaked in September 2009 (220 sales) This represented an increase of 1,275 percent. Between September 2009 and December 2010 the number of mortgagee sales decreased by 83 percent. Despite the fall in the number of mortgagee sales between September 2009 and March 2011 the level is still around four times greater than prior to September 2007.

⁷⁸ Transfer of Power of Sale (TPS) is when a mortgagee exercises the power to sell a property to recover the loan amount as a result of the borrower defaulting the mortgage payment.

Figure 12 Number of mortgagee sales by quartile January 2007 – March 2011

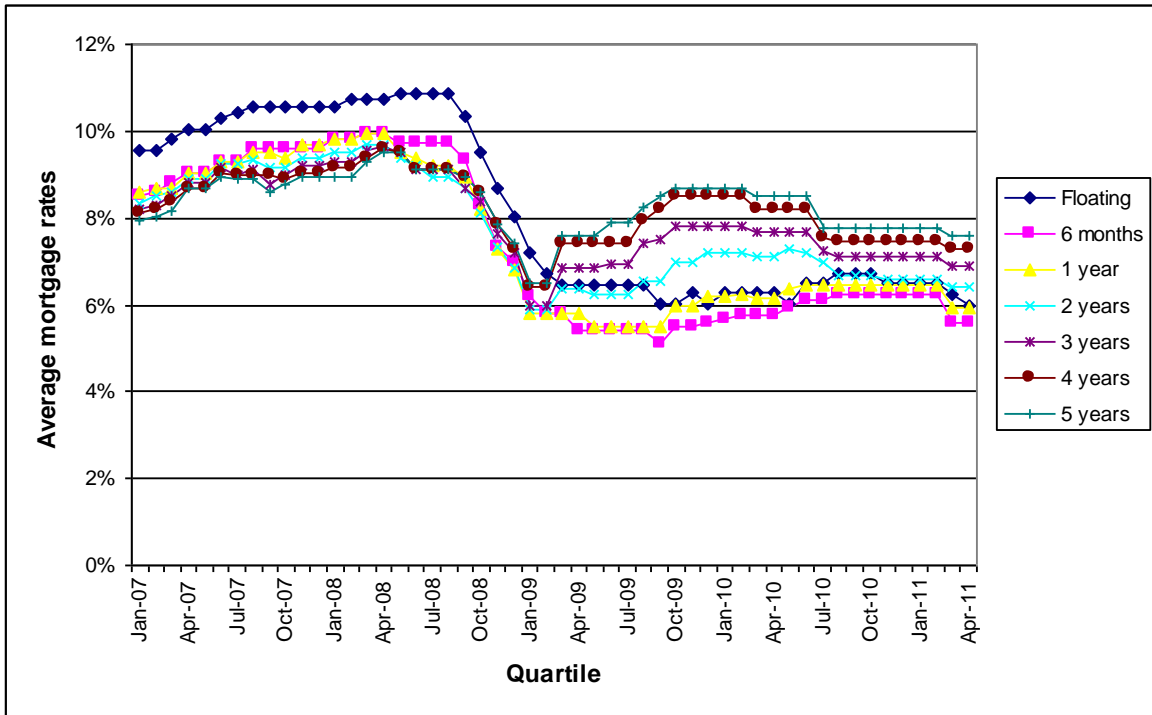


Source: HNZA

Interest rates and deposit requirements

218 Figure 13 shows the average mortgage rates for new customers charged by commercial lenders during the period January 2007 – March 2011. Floating and fixed term interest rates increased steadily until peaking in April – May 2008 with an average floating rate of 10.72 percent and fixed rates of 9.95 percent for six and 12 month terms, 9.7 percent for two years, and 9.5 percent for five years. The next six months saw all rates reduce steadily, bottoming out in January-February 2009. Since this date, average rates for floating mortgages and six, 12 and 24 month terms have remained around five and six percent, while longer term mortgages have risen to between seven and eight percent. In 2010 average rates for floating mortgages, six, 12 and 24 months have been just over six percent, while longer term mortgages have dropped to between seven to eight percent.

Figure 13 New customer average mortgage rates by quartile January 2007 – March 2011



Source: RBNZ

Following the change in lending criteria by most of the major banks in late 2008, a deposit of around 20 percent still appears to be required for first home buyers. Exceptions include lenders who have a guarantee from someone with sufficient equity in an existing property to cover the shortfall of the deposit. Where banks lend over 80 percent of the property's value, a low equity premium applies based on the amount borrowed. This lending criteria was beginning to ease in early 2011 with some lenders advertising deposit requirements of five percent.

Appendix B: Research objectives and questions 2010/2011

219 Table 17 shows the research objectives and questions for the year one process evaluation.

Table 17 Research objectives and questions 2010/11

Evaluation objectives	Evaluation questions
<p>1. To assess the uptake (levels and financial value) of the Home Ownership package</p>	<p><i>Context for the Home Ownership package:</i></p> <ul style="list-style-type: none"> • To what extent has the interaction of economic and housing trends impacted on housing affordability and availability for first home buyers? • How have commercial lenders' lending practices impacted on first home buyers? <p><i>First home deposit subsidy (subsidy):</i></p> <ul style="list-style-type: none"> • How many applications have been approved? • What is the profile (demographic, financial, location) of approved applicants? • What proportion apply for pre-approval (before finding a house to purchase)? Was pre-approval helpful in the purchase process? Should pre-approval be actively encouraged? • How many joint applications for the subsidy have been received? • What is the type of house purchased by subsidy approved applicants? • How many applications have been declined? What are the reasons for declined applications? What is the profile of declined applicants? Do they intend to reapply?/Did they purchase a home without the deposit subsidy? • How many applicants have not bought a property within the 90 day approval period? What are the reasons for lapsed approvals? • How many applicants were approved a subsidy but were declined a commercial /Welcome Home loan? • For applicants who have bought a property (with or without the subsidy) did they use the withdrawal? If not, why not? Did they use a Welcome Home Loan? If not, why not? <p><i>First home withdrawal: (withdrawal)</i></p> <ul style="list-style-type: none"> • How many KiwiSaver members/subsidy applicants have used the withdrawal? • What proportion of eligible KiwiSaver members have used the withdrawal? • What was the amount of KiwiSaver funds drawn down? (as at 31.3.11) • What proportion of their savings are subsidy recipients or second chancers withdrawing? What is their reasoning behind this decision? <p><i>Second chance applicants:</i></p> <ul style="list-style-type: none"> • How many second chance applicants have been approved for the subsidy? For the withdrawal? • What is the profile (demographic, financial, location) of second

	<p>chance applicants who have been approved?</p> <ul style="list-style-type: none"> • How many applications have been declined? What are the reasons for declined applications? What is the profile of declined applicants? <p><i>Other:</i> To what extent is the subsidy and/or withdrawal being used with the Welcome Home Loan?</p>
<p>2. To assess the effectiveness and impact of the package from a customer perspective</p>	<p><i>Subsidy:</i></p> <ul style="list-style-type: none"> • How user friendly is the application process (including the application form) for KiwiSaver members? • How timely is the application process and provision of the subsidy? • To what extent has the subsidy influenced members' choice of house location? • How suitable is the home that has been purchased for the household? • What (if any) difference has the subsidy made in reducing the deposit barrier for KiwiSaver members? Is it helping people to get into home ownership who would have done so anyway? Is it helping people to get into home ownership earlier than they would have otherwise done so? <p><i>Withdrawal:</i></p> <ul style="list-style-type: none"> • How user friendly is the application process and draw down of funds for applicants? • How timely is the application process and provision of funds? • What (if any) difference has the withdrawal made for KiwiSaver members? Could they have bought their first home without it? <p><i>Both features:</i></p> <ul style="list-style-type: none"> • How did KiwiSaver members who have used one or both features find out information about the Home Ownership package? • How easy to understand is information about the Home Ownership package? • What are the enablers and barriers that make a difference between successful and less successful customer experience of the Home Ownership package?(analytic question) • What are the disadvantages and unexpected consequences (if any) of the Home Ownership package for KiwiSaver members? • How was the deposit made up? (withdrawal, subsidy, other)? What is the size of the mortgage relative to the value of the property?
<p>3. To identify design features that are working as intended and those that are not⁷⁹</p>	<p>To what extent are properties available within the house price caps for the subsidy that are suitable for households?</p>
<p>4. To identify recommendations to enhance the effectiveness of the</p>	<ul style="list-style-type: none"> • How adequate is the information about the Home Ownership package for National Contact Centre and other frontline staff to respond to enquiries? • How could the application and approval process for the subsidy

⁷⁹ Given the short period of time since the KiwiSaver Home Ownership package began, this evaluation objective will be examined in greater depth in subsequent evaluations.

package	be improved? <ul style="list-style-type: none">• What issues have providers experienced in implementing the withdrawal? How are issues being addressed?• How can the withdrawal application process be improved?
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Appendix C: Evaluative rubric

An evaluative rubric was developed to identify performance standards (i.e. definitions of what constitutes 'excellent', 'satisfactory', and 'poor' performance) in relation to the following evaluation questions:

- How *user friendly* is the First Home Deposit subsidy (subsidy) application process (including the application form) for KiwiSaver members?
- How *user friendly* is the First Home Withdrawal (withdrawal) application process and draw down of funds for applicants?
- How *timely* is the subsidy application process and provision of the subsidy?
- How *timely* is the withdrawal application process and provision of funds?
- How *easy to understand* is information about the Home Ownership package?

The evaluative rubric is shown on the following pages.

		Excellent ⁸⁰	Satisfactory ⁸¹	Poor
User friendliness of process	<i>Subsidy</i>	<p>More than 80% of respondents report <u>all</u> of the following:</p> <p>The application form is very easy to understand and fill out</p> <p>The requirements for supporting documents are very easy to understand</p> <p>It is very easy to access Corporation staff who are able to respond to queries</p>	<p>50 – 64% of respondents report <u>two</u> of the following:</p> <p>The application form is easy to understand and fill out</p> <p>The requirements for supporting documents are easy to understand</p> <p>It is easy to access Corporation staff who are able to respond to queries</p>	<p>Up to 29% of respondents report <u>all</u> of the following:</p> <p>The application form is <i>not</i> easy to understand and fill out</p> <p>The requirements for supporting documents are <i>not</i> easy to understand</p> <p>It is <i>hard</i> to access Corporation staff who are able to respond to queries</p>
	<i>Withdrawal</i>	<p>More than 80% of respondents report <u>both</u> of the following:</p> <p>The application form is very easy to understand and fill out</p> <p>It is very easy to access staff from the KiwiSaver provider who are able to respond to queries</p>	<p>50 – 64% of respondents report <u>one</u> of the following:</p> <p>The application form is easy to understand and fill out</p> <p>It is easy to access staff from the KiwiSaver provider who are able to respond to queries</p>	<p>Up to 29% of respondents report <u>all</u> of the following:</p> <p>The application form is not easy to understand and fill out</p> <p>It is hard to access staff from the KiwiSaver provider who are able to respond to queries</p>
Timeliness of process	<i>Subsidy + Second chance applications for</i>	<p>More than 80% of respondents report receiving a response to their enquiries/emails within one working day</p> <p>More than 80% of respondents report that the time period between</p>	<p>50 – 64% of respondents report receiving a response to their enquiries/emails within two working days</p> <p>50 – 64% of respondents report that the time period between submitting</p>	<p>Up to 29% of respondents report receiving a response to their enquiries/emails in more than two working days</p> <p>Up to 29% of respondents report that the time period between</p>

⁸⁰ The standard between 'excellent' and 'satisfactory' is 'very good' (65 – 79%)

⁸¹ The standard between 'satisfactory' and 'poor' is 'marginal' (49 – 30%)

The evaluative rubric is shown on the following pages.

		Excellent ⁸⁰	Satisfactory ⁸¹	Poor
	<i>withdrawal</i>	submitting their application (plus correct supporting documentation) and a pre-approval / approval was less than five working days	their application (plus correct supporting documentation) and a pre-approval / approval was five working days	submitting their application (plus correct supporting documentation) and a pre-approval / approval was more than five working days
	<i>Withdrawal</i>	<p>More than 80% of respondents report receiving a response to their enquiries/emails within one working days</p> <p>More than 80% of respondents report that the time period between submitting their application and notification of approval was less than eight working days</p>	<p>50 – 64% of respondents report receiving a response to their enquiries/emails within two working days</p> <p>50 – 64% of respondents report that the time period between submitting their application and notification of approval was eight working days</p>	<p>Up to 29% of respondents report receiving a response to their enquiries/emails beyond two working days</p> <p>Up to 29% of respondents report that the time period between submitting their application and a notification of approval was more than eight working days</p>
Information about the package ^{82 83}	<i>Subsidy and withdrawal</i>	Information (via websites, written material, phone, emails) about the Home Ownership package is very easy to understand and provides all of the information needed about the package and how it works, including eligibility criteria	Information about the Home Ownership package (via websites, written material, phone, emails) is clear, understandable and provides sufficient detail about the package and how it works, including eligibility criteria	Information about the Home Ownership package (via websites, written material, phone, emails) is not clear, understandable and/or provides insufficient detail about the package and how it works, including eligibility criteria

⁸²This question does not differentiate between information from Housing New Zealand and information from other sources (e.g. KiwiSaver providers, Inland Revenue etc).

⁸³ This does not show standards for performance that is better than 'adequate' but not as good as 'excellent'; or performance that is worse than 'adequate' but better than 'poor'. These intermediary performance levels will be assigned by the evaluators if the evaluation data is not definitive, but shows elements of both levels.

Appendix D: Information sheet and consent form for approved applicants

Evaluation of the KiwiSaver Home Ownership package

Information Sheet

Would you like to be part of our evaluation?

We want to find out about people's experiences of applying for one or more of the following:

- A KiwiSaver First Home Deposit Subsidy from Housing New Zealand
- A KiwiSaver First Home Withdrawal from a KiwiSaver provider
- A determination from Housing New Zealand for a First Home Withdrawal (for people who have previously owned a home)
- The Welcome Home Loan from Housing New Zealand.

The KiwiSaver First Home Deposit Subsidy is a conditional grant of between \$3,000 and \$5,000 towards a first home.

The KiwiSaver First Home Withdrawal AND Determination

The First Home Withdrawal enables first home buyers to withdraw all or some of their KiwiSaver funds to purchase a first home.

The determination is to establish whether a previous home owner who would like to make a 'first home withdrawal' from their KiwiSaver account is in similar financial circumstances to a first home buyer.

The Welcome Home Loan helps people who are outside standard lending criteria to get a home loan with little or no deposit.

Do I have to take part in the evaluation?

No, you don't. It is totally your choice. You are free to withdraw from the evaluation at any time, without giving a reason.

If I say yes, what will I be asked to do?

You will be interviewed in your home by a researcher who will listen to your story about buying your house using the KiwiSaver Home Ownership package and the Welcome Home Loan.

Who will see the information you give us?

We will prepare a record of the interview which will be kept private within the research team. Any information we collect from you will be kept safe in a locked cabinet or on a password protected computer drive. It will be kept until December 2015 when it will be destroyed. Your information is protected by the Privacy Act 1993.

When the results of the interviews are reported, your information will be anonymous. That means that nobody will know you gave us this information. After your interview you can ask for a copy of the record.

What do I do if I have questions about this evaluation?

If you have questions about this evaluation now or during the study, or if you change your mind about being involved, you can contact Dr Patricia Laing on 04-439-3141 or patricia.laing@hnzc.co.nz

Evaluation of the KiwiSaver Home Ownership package

Consent Form

- 1 I have read and I understand the information sheet about taking part in this evaluation.
- 2 I have had the opportunity to ask questions about the evaluation and I am satisfied with the answers I have been given.
- 3 I understand that I can ask my family/whanau or friends to come to support me when I am interviewed.
- 4 I understand that taking part in this evaluation is my choice and that I may withdraw from the evaluation at any time.
- 5 I understand that my participation in this evaluation is confidential and that no material which could identify me will be used in any reports on this evaluation.
- 6 I have had time to consider whether to take part.
- 7 I know who to contact if I have any questions about the study.

I,.....(full name)
hereby consent to take part in this study.

Signature.....

Date.....

Project explained by:

Date.....

Cc Dr Patricia Laing
Senior Analyst
Research, Evaluation and Data Analysis
Housing New Zealand Corporation
DDI: 04 439 3141