TE AHO TĀHUHU

the Progressive Home Ownership Webinar Series

Recording and Q&A Transcript

Episode 4
Managing Risk

There are two parts to this transcript:

1. **The recorded transcript that was captured at the live webinar**
2. **The question and answer transcript where the panel have provided typed answers**

Panel for Episode 4 – Managing Risk		
Kaiwhakahaere	Elizabeth Richards	Te Tūāpapa Kura Kāinga, the Ministry for Housing and Development (HUD)
Kaikorero	Nigel Hewiston	Te Tūāpapa Kura Kāinga, the Ministry for Housing and Development (HUD)
Kaikorero	Rachel Woodhouse	BNZ
Kaikorero	Mata Turner	
Kaikorero	Dominic Foote	Housing Foundation

Recorded Transcript

This is the transcript for the recording of Te Aho Tāhuhu, Episode 4 Managing Risk.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
Tēnā ra koutou katoa. Nau mai, haere mai ki tēnei hui, mō te kaupapa o te Progressive Home Ownership, Risk Management. E karakia ahau ki a tatou kei te timata o tēnei hui.
Tutawa mai i runga
Tutawa mai i raro
Tutawa mai i roto
Tu tawa mai i waho
Kia tau ai te tū, te mauri ora, ki te katoa.
Haumi e, hui e, tāiki e.

Ngā mihi nui, kia koutou katoa. Kei te haere mai koutou ō tēnei hui.

Thank you all for joining us today to listen and ask questions around risk management and mitigation strategies to support you entering into progressive ownership. Our karakia this morning was to bring on the elements that surround us from above, from below, from within and the essence of the Universe to enrich our kōrero for today. So hopefully that blesses us for great conversation for today. Kei te haere mai koutou i tēnei hui.

Ko wai ahau? Ko Elizabeth Richards tōku ingoa, he uri ahau no Ngāpuhi me Ngāti Tūharetoa. No Horeke ahau. Ko Tamaki Makaurau taku kāinga e noho ana. He Kaiaki ahau mō te Tūāpapa Kura Kāinga, the Ministry of Housing and Urban Development.

My role here today is to facilitate the discussion with our panelists and to propose any questions that you may have with them. Today's session we will discuss the considerations necessary for managing risk when delivering a PHO scheme. During this webinar you will hear from staff within Te Tūāpapa Kura Kāinga, from the Bank of New Zealand, and also from our providers. In preparing for this session, I have asked our panelists to consider three factors, however it may be a bit wider than that conversation.

The three factors that I have asked our panelists to consider is around the development risk, if you are looking into being the housing developer, what are the elements that you need to consider around cost, consenting, construction etcetera. I have asked them to consider the finance risks, so that is you will be becoming a borrower but also a lender to the whānau, what are the risk factors you need to consider around this? For example, as this is a loan, how do you align this with your other mahi that you are doing and how do you protect yourselves in order to repay that loan? The third and final one, which is quite an important one, is around relationship management, particularly when working with the whānau; noting that you are having to rely, in some respects, on the whānau repaying you in order to repay the loan. But it is also around the balance, of and how do you balance that relationship so that you are not being intrusive on the whānau whilst also supporting the whānau.

Today we have three kaikōrero, three panelists with you today. We've got Nigel Hewitson who is coming from Te Tūāpapa Kura Kāinga, he is the Commercial Manager within the PHO team. We've got Rachel Woodhouse who is a Senior Partner within the BNZ, who will talk to you about what the bank looks at when they are assessing the loans and we have also got Dominic Foote who is the CEO

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
at the Housing Foundation who will talk to his experience in delivering a PHO scheme. And I actually personally wanted to thank you Dom for all of the support that you have provided to Te Tūāpapa Kura Kāinga and the development of the PHO scheme. I will ask each of them, as I ask them to speak, to introduce themselves when I hand over them to as well so they can give a small little bit about their background and then go into their presentation. We did have a fourth panelist and unfortunately, she has been unable to make it today, however, she did do her homework which is great so I will talk, in some respects, to her presentation as it comes through and then we will see if any questions and stuff that the rest of the panel can go through and answer.

So, Kia ora koutou I hope you all enjoy today's presentation around risk management. I am going to hand over now to Nigel Hewitson who, as I said before, is the Commercial Manager for the PHO scheme within Te Tūāpapa Kura Kāinga. Kia ora Nigel.

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
Kia ora, morena, tēnā koutou, ko Nigel Hewitson ahau. I would just like to start off by saying there are all sorts of definitions for risk, but I like to think in terms of the project risk where the definition is around an uncertain event, that if it occurs, have a positive or negative effect on a project's objective. Dumbing it right down, I had a project the other day in the mornings of cycles for about 45 minutes along Tamaki Drive over the hill and back home again and there were all sorts of different risks I take into effect. They can either be quite small, they can be risks that can be very likely to happen but have a low consequence or something that is unlikely to happen but could have a very high consequence. For instance, it was looking pretty showery and rainy, that is a low consequence risk, and I was quite happy to accept that. I could have been cycling along and seen glass on the road, well I could avoid that but the consequence of it would have been a bit annoying and time delaying or even the serious risk of being doored as I rode passed a line of cars. So, the mitigation that I take on all those situations is, particularly on the dooring risk is moving out into the middle of the road and avoiding the chances of not been seen by someone opening their car door. So, there we are just looking at the different risks we all face every day and the different things we do to mitigate those risks and assess them and the consequences.

Going into the PHO space, as a provider, the risk to consider if how does it, when considering whether to take up a loan with PHO, is how does it impact our financial position from the provider's perspective? How are we going to repay the loan? What are different risks it would add to our business models? So, these are all the things that will be going through your mind. Yes, you are creating an asset, but it comes with liabilities. From our perspective at Te Tūāpapa Kura Kāinga, when we are considering the funding proposal, our questions are around well, what is the Crown's risk on making this loan? And what is the risk to the Crown if the loan is not repaid and there is a default? And how can we manage and mitigate that Crown's risk if that event occurs? That all informs the security that we are considering and whether that security is adequate for the particular circumstance of that loan and that project.

Looking at the organisation when we get the application, it is important to consider the organisation's mission and vision and strategy – is it clear that the organisation is really engaged with the delivery of progressive home ownership and their set up in the governance and leadership and decision making to deliver the project? Do the internal operations and management of the day-to-day operations fit in with providing of PHO product as well as all the other work that you are doing? We also look at the process of selecting the whānau because the risk around selection processes and being fair and transparent is something that is very important, and also to get the right whānau for the right product

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
that you are developing. The financials, we are also looking for sound financial position that the organisation has. We're particularly looking at solvency, liquidity, you know the ability to cover your day-to-day debts as they come up in the normal course of business, and then the ability to access funding and to meet the contingencies that may arise in the course of the business. So, then the other risk at Te Tūāpapa Kura Kāinga is around the management of the monies. We want to ensure that the actual monies are going into particular parts as required by the loan agreement. So if you are acquiring a site, it is to help the acquisition of the land itself and then our lockup, releasing money during the course of the development is staged against either the lockup when the house becomes water tight and on completion, so we want to ensure that the money is going to be managed by the organisation so there is not a risk that it could get intermingled and lost in other operations. So, the organisation's experience with delivering PHO products previously is very good and helpful and if the experience is not there then how are we meeting that risk of getting the experience brought on board to help the whānau and help with the delivery of the project.

The product is another area that we look at carefully and here the risk is whether the product is still in development and whether the organisation is still undecided of the detail around the terms of the agreement with the household. We are looking to see that the documentation is all in place, that it's accepted in the financial community, the different products around rent to buy or shared equity are well exposed to the market over many, many years and are accepted by the financial institutions. When you move away from the standard terms and conditions of those types of agreement, then you introduce uncertainty with the banking sector and that could be a risk to getting the whole project off the ground and funded for the benefit of the whānau. So, we look for the completed documentation so there is no ambiguity about how the household is going to work with that product and to ensure that it is legal, meets legal requirements and that you have a bank that is going to work with the organisation and the households to provide finance at the appropriate time, depending on what the product is. Is the product workable for your whānau? Does it meet the sort of payment requirements to get through to build up equity to buy the property during the end of the rent-to-own period or is it going to be possible with the modeling that you have done to see that the whānau will be able to purchase the balance of the equity in the house from the provider in year five, seven or 10. The modelling is an important element of assessing the risks around your particular product and your whānau. And so, we look to see that those risks have been tested in that modelling and the sensitivity is tested as well by using different assumptions so that you can look at what the chances of different types of risk will have on the whānau being able to get to the position that they need to get to.

As we have heard in the previous webinars, the support of the household is critical to the success of the PHO schemes. In fact, with shared equity and rent to own programs, the loan repayment to the Crown relies on the household succeeding, so the whole program needs to be geared towards nurturing the households and walking beside them on the journey through to home ownership. That is a really important area of risk mitigation; to ensure that that support is available and continues to be available and we have a grant facility as well as a loan facility to help with that work.

Another area of risk is the delivery plan to obtain those eligible homes which are going to be used for the whānau and it has a very wide range of risks depending on how the homes are going to be built. I mean, we are going into a period now where there is change in the housing market and we are starting to see it now and over the course of the next 12-18 months that prices will be slowing down very much so and maybe reach a point where they will be a bit more in equilibrium going forward. So, we have got restrictions on the amount that banks can lend, low equity loans being introduced and debt to income ratios, so these are all things that are affecting the market. The range of securing those homes can be quite low risk where you are just purchasing a property from the developer – it is complete you just need to acquire it through to turn-key, 10% deposit down and balance of the monies on

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
completion, through to the really high-risk areas or land acquisition leading to development of the land, subdivision of it and then the construction. So, the level of risks around that route range enormously and even for a very seasoned and experience developer, the risks around that are medium, I would say high actually, very high depending, particularly depending on the size and commitment and time and cost to delivering those houses. And so, for the inexperienced, I think we just have to clearly recognise your capability and where there is a capability gap and then ensure that you get the best advice available and stay 100% engaged and track those identified risks and action the mitigation strategies early.

So, in summary, my takeaway points are leverage off the experience and the assistance of others, do not reinvent the wheel. Use the tried and tested. Recognise the risks that could lead to default and demonstrate how those risks are mitigated or eliminated. Thank you very much.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
Kia ora Nigel thank you very much for that. I am glad that you are able to navigate Tamaki Drive on your bicycle in the mornings because I know at times navigating it in a car can be quite a challenge. So, it was great to see the takeaways that you have and talking about the risks that Te Tūāpapa Kura Kāinga looks at when assessing a provider through its application process and how that provider can demonstrate their risk mitigation strategies. Just one patai I have for you in relation to your korero, was around what are the risks that Te Tūāpapa Kura Kāinga are looking at in relation to the security that has been provided from the provider?

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
Ah, it is around the repayment of the loan. There is a variety of security we can take over the property and normally we are looking at a mortgage and that could be backed up with a guarantee from a parent company or a financially sound third party as a guarantee. There are three other types of security that can be looked at and that is a general security agreement, an assignment by way of security or transferring provider's interests in the asset, in the homes, to the crown in the event of a default. So, there is, in our guidance documents and in the ITP that we have, those are explained there and then each situation is considered in its own context and merits and merits of that particular application.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
Ka pai, kia ora Nigel, thank you for that. So, we are just going to move now into Rachel. Rachel, as I mentioned before is a senior partner within the BNZ. Rachel, I just ask you to introduce yourself a little bit more comprehensively than what I have and then go into your korero, just noting that the one patai that I have at the moment is in relation to how can banks help tupuna whenua trusts build houses on papakāinga whenua and I am assuming that means Māori land as well as perhaps non-Māori land that is building papakāinga for the benefit of mutual trusts and beneficiaries. So, if you can think about that as you are doing your presentation as well that would be great. Kia ora Rachel.

Rachel Woodhouse (BNZ):
Tēnā koutou katoa
Ko Rachel Woodhouse tōku ingoa
Ko au te pou whakahaere matua mo Te Whanganui-a-tara
He kaimahi ahau nō te pēke o Aotearoa
Tēnei te mihi ki a koutou o Te Aho Tahuhu

No reira tēnā koutou katoa

Rachel Woodhouse (BNZ):
Kia ora everyone my name is Rachel Woodhouse, and I am a Senior Partner for Wellington BNZ. I look after commercial and business bankers so they are looking at the larger request that we have, but I will talk more about that. So, I would like to take this opportunity to thank all involved in Te Aho Tāhuhu, the Progressive Home Ownership Webinar series. The Bank of New Zealand recognises the

important mahi and is committed to progressive home ownership. I have seen a significant increase in the number of whānau groups approaching the BNZ for various progressive home ownership projects and I have worked with various groups from whānau to large Iwi, all with various ambitions. These have had a range of funding grants, loans, private beneficiaries, and so a very broad mix. I know that the group on the call today really range in terms of their activity so I will try and speak in very general terms but happy to take more specific questions as they come up.

So, at the Bank we generally think about risk as cost. Yes, we are that blunt. So, any time we are creating a risk we are creating a cost and then there is an impact. So, we really need a full picture of any project to enable us to understand the risk. There are three fundamentals that we consider when looking at lending; people, security, and the ability to service any residual debts. So, let's start off with talking about people. So, I am going to start with the group initiating a project. We are really interested in who is involved and we will want to understand their experience in this kind of project. We have got a wide range of groups that approach us, so we are looking to understand have they done a similar project before, do they understand the time commitment that might be involved and are they engaging the risk external experts. There can, particularly if a group is getting into development work, be significant costs in getting this wrong, but, regardless, there are contracts involved and families involved and there are some really big risks for everyone. If everyone in the group undertaking a project has a day job - do they really have a time to put into this project? So, if we are looking at development, what additional experts might be coming in and are they already engaged? So, when we are thinking about external experts the Bank is really interested in making sure that you've got good solicitors, so this is around right at the very start, making sure you've got the right structure.

I have seen many groups that have had to relook at trustees and actually set themselves all up again and cancel and close other trusts. That is significant work and significant cost and can be quite challenging when there are many people involved. So, well worth trying to get that sorted up front.

The other aspect is we have seen many groups that have started out, perhaps, as an operational provider and then moving into development and again they will need to set up different legal entities, so there is some big work to be done there. It is worth asking round to ensure that you have got experts who have done this before. You also may need to make sure that you are future proofing your intergenerational assets, so we want to make sure that there is good advice there and that you are thinking about that.

Of course, there are going to be many contracts to look at, including our own, HUDs, or whomever else, and also understanding the impacts. So, we heard Nigel talk earlier about security; the Bank will take security and potentially other groups will as well. You need to understand the impact of that and what the contracts are asking. One of the other experts, particularly if you are undertaking development, would be a quantity surveyor and these are great at really understanding 'a whole other range of risks so their role is to overview the building contracts. They are making sure that the risk is shared and does not just sit with you, so they are looking to ensure that you are getting good products and pricing and develop a good understanding of the current market. Unless you have been under

Rachel Woodhouse (BNZ):
rocks for the last six months, you know that there are massive supply chain issues, and these are not going to be resolved anytime in the next couple of years.

So, you will need to make sure you've got good advice around what product is going to be available and that you are able to manage and negotiate costs. We are seeing an increased number of contracts where there are increased amounts of not fixed price. So, previously, there was a lot of fixed prices locked in, we are seeing a lot more people trying to shift that back to the group undertaking the project. You will need to make sure, overall, that the feasibility is right. Does the ultimate cost to deliver the product – is it worth what you have put into it on completion? So, really being able to make that decision and then decide if what you are doing is the right thing. So, once we have looked at the people, and we do look at them, we then look at security.

So, when a bank is lending for a project security, and Nigel has covered this quite well so I will not go into a lot of detail here, we are wanting to understand how we can secure the project. And of course, we will need to understand if there are other people who have an interest in the security, to understand how much we can lend against it. So, we have already covered a large number of types of security, and I will not go into a lot those. Yes, we can lend on Māori land but what we can lend is less than what we could lend on freehold fee simple land, for example. That is not everything though, and Nigel has already raised, there might be other assets out there than we can consider as well. I think what I would say here is they are very much case by case. Every single one of these that I have looked at, and I have probably looked at eight, are very, very different and so it is worth having a conversation to see how can make something work and we are very open to that. Yes, we do look at lease land as well, that is something else that has come up, and we can look at various side agreements. I have one example where a benefactor is gifting a significant amount of the project, in terms of the end building, and so in that scenario there are different things that we would consider.

So, if you brave enough to take on an actual development, and I would say that this is at the larger end of town in terms of organisations who have been established for some time and have really built up their credentials and I have been really impressed with one of the Iwi I have worked with in terms of their ambition, but the work they have done to build up to get to this piece. There are some other things to consider. There is some real benefit in purpose building, you know, the ability to build what you want to ensure that longevity and to ensure the latest technology and to create the space you want to create is fantastic. It is risky, it is a very specialist area of banking and because once you are building more than three generally, that will come into a commercial development. So, there is going to be more rigor from the Bank, which is not a bad thing, commercial terms and certainly more risk involved. A number of groups have decided to go down the turn-key option and that is where you are purchasing something pretty much been purpose built for you, but you are buying it once it is already built and that can be a good way if you do not have the expertise in development.

So, if you are building, I just want to raise a couple of risks here that you need to be mindful of. Engineering work required, just be mindful of how significant that is including things like civil works. I had one conversation last week with a client and they were in a mind of, you know, once they have developed these roads are they going to give them the Council which then enables public thoroughfare? Or do they want to keep the roads to themselves? There are a lot of additional questions to consider. If you are building, really understanding what is going to be covered in terms of money coming in and thinking about the size of units. There are some restrictions in terms of what Banks would lend against. We are not that comfortable with apartments under 50 m^2, having said that we will make an exception is if it part of a larger development and we can understand. There are some additional risks in terms of time delays, we have already talked about supply challenges and manage the cost overruns. Every delay is cost.

Rachel Woodhouse (BNZ):
Right, so now we move on from security to servicing – and Nigel has talked about this a bit as well. So, we are looking at the ability to service the Bank debt and other debt. Assessment of everything takes time and the residual debt does depend on a number of aspects in terms of what you have been able to put into a project, what else you have been able to consider. So, grants versus loans. Where we have had a grant come in and it is not repayable, we have seen some of the Kāinga Ora ones, that really does mean that you have immediate equity in the property which does enable, once we do our calculations, the more likely ability to lend against the rest of the project. For loans, we will need to factor in the servicing that is required from the other parties. So, even if that is over a period of time

or due in seven years, we need to factor that in. We also need to understand if there is an operational subsidy coming in, and some people are now considering whether they use another provider again to do that for them, especially if it is a smaller group going into it. I really think all of the projects I have seen there have been some element of partnership and I think that is a great way to use experts and those that have done it before.

With regard to Whānau lending and understanding, so again, you might be contributing some and then they are coming in, and Nigel has covered a lot of these already, but definitely the selection process. Where I have seen it done well is where groups have used another third party to ensure the background services. The Bank is set up where we have specialists who help assess. The reality is, we are not set up to ensure that people grow their financial literacy to save and budget at the level that is probably required, and there is some work to be done to ensure people can have the ability to service remaining debt. So anyone buying in, so a family moving in, they will be subject to normal lending criteria. However, there are ways where we work with groups to make sure that they would have a good understanding of our criteria upfront and be able to kind of be working to that. And where there is the shared equity, because that is in there already, you've got a lower amount that they are needing to service, which makes a big difference in their ability to get there. The other thing, and Nigel has touched on this, is making sure that you have thought through what happens when it goes wrong. Does the organisation have the ability to step in and support? I have seen some of these that have been done kind of as side agreements, so we have not necessarily been widely involved but we have seen how they are doing it and they are, you know, they have got families that are involved and ready to step in, which is good.

So, look, I think Nigel's key points were very similar to what I would say. I would stress that, you know, there are multiple scenarios, this is all case by case, it is very specialised. Engage early, do keep your bank updated. What might seem trivial may significantly change the application process and structure. They are significant deals in terms of complexity and risk and, you know, in all honestly it comes down to understanding the people involved, the ability to secure some property or other security against their debt and then how do we service the income at the end. Thank you.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
Kia ora Rachel, thank you very much for that very insightful conversation. So just taking my summary as such from what you've presented Rachel, is that it's important to have great support and understanding of those who you're working with. So, that can be your solicitors, I picked up quite a lot around your discussion around your quality surveyors and how they can help you to share that risk, to have that good relationship with your builders etc. And understanding and how to share the risk and develop your PHO scheme, and that's what the banks looking at when they're assessing it.

In relation to the question that was asked around borrowing on Whenua Māori so Rachel said that they can lend on Whenua Māori, however the level of security that is provided then impacts the amount that can be borrowed.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
So, it's just taking that into account that we know that with Whenua Māori that there's the inalienable elements of that and therefore the security can't necessarily attach to the land, so it has to attach to something else. There was another question, just in there that I've got for you Rachel was, I suppose it's a comment that was made in some of the questions is, is it time for the banks to investigate ways to work with Māori freehold titled whenua? I think that you have answered that to some degree but also just how that might look in your views, just an initial view of the PHO.

Rachel Woodhouse (BNZ):
Yeah, yeah, look I think there's two things, one is some it is legislative restriction. I get the impression that those potentially will be changing, so you know that's helpful, we do work with some really large iwi and the way that we do that is around leasehold. So, they you know have a small lease that people have for the small hold, but we'd lend against the actual house and so there are ways of doing it.

I think there is, this is still very new for us as well, in terms of actually some of these off the ground, but we are definitely willing, and we have the head of my business development who works very closely with us and with any client that I work with you know comes on board and shares his examples where he's worked. I think this is an area that you know we will come under more and more pressure to do more.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
There's one last question here that's come up for you specifically Rachel and it's around can your bank fund multiple builds on trust Whenua, of say a 10-house build project?

Rachel Woodhouse (BNZ):
Yeah, it's a really good question. I'd initially say look case by case, we have done two significant builds in Wellington where we've done over, we've already done one that's over 10 and there will be another. So, it is possible, it comes down to some of the structuring of the d4eal and how it's going to be.

So, if you're going to retain all of them in that group then that is possible, if you're going to have them all, yeah, it becomes a bit of a concentration risk in terms of numbers. So, depending on how many, if they're going to go into shared ownership then potentially there's a limit there, and what you'll find is when you're applying to the scheme, often you'll have to apply with multiple banks in support and that kind of covers some of that as well. So, I don't know if that's the easy answer, but yes, it is possible.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
So Whānau the next presenter was going to be Mata Turner. Mata Turner currently is employed by Kāinga Ora, but prior to her role with Kāinga Ora she was working with Waikato Tainui and managing their housing proposals. She has done a presentation for you so I'm going to ask Kirby to share the presentation and I'm just going to briefly go through them and I'm not to talk to them in full, I'm just going to go through them very briefly.

There's an overview of the development that Waikato Tainui did in central Hamilton. So, they were looking at 50 homes marketed at first home buyers who were registered tribal members, who's income was below the income caps that they'd set, and whānau needed to also be approved mortgage to come in with a pre-approved mortgage. So, prior to actually going through this I know that with

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
Waikato Tainui they had to have a programme that can support whānau into understanding the requirements for becoming a first-home buyer or a mortgage holder.

She talks to the price point and understanding the affordability of the whānau, noting that there was actually quite a lot of interest. So, over 300 people responded to the expression of interest, however only less than five per cent were able to progress through because of the affordability of the homes. So, we all know that the cost of housing is increasing and it's trying to find that right point. The other risk that she noted in her presentation there is just around finding the right builder to partner with and getting that builder to understand their cost margins and their profit margins, and how that can be shaved to some degree to support whānau into affording affordable houses. they were looking at partway through, and partner with others to go through and do that.

She talked about how they needed to change during the process so it's being agile to pivot as things, as challenges are faced, so they had to change the product.

Then Mata talks to was just the relation to the key takeaways. So, the key takeaways for her and working with Waikato Tainui and their development was around ensuring that you understood the affordability of the whānau that you're looking to support. Finding the right build partners, those who can work with you and also having to pivot and shift and change as risks and things like that come up that they needed to manage. I didn't give that presentation as much heart as I'm sure Mata would have done, having lived and breathed it for probably a good two years, while she was working with the tribe. But I do know that it was successful, there are whānau sitting in their work, working in it, they did work alongside the housing foundation who we've got Dominic Foote coming up shortly and also Habitat for Humanity to support that activity. So again, it's coming back to the conversations that Nigel raised, and you know, how do you manage risk as a provider, the comments that Rachel raised around you know working with the people, understanding the people you are working with and are they on the same kaupapa as you and then going through and understanding the whānau.

So, I'm going to now hand over to Dominic. So, Dominic if you could just give yourself a bit more an introduction, so Dominic is the CEO of the Housing Foundation, and as I alluded to before was an important cog in our wheel, in developing the PHO scheme and providing the insight and advice that you do, so I'll hand over to you Dominic now, kia ora.

Dominic Foote (Housing Foundation):
Kia Ora, thanks Elizabeth, that's very kind and very generous of you. Kia ora koutou, ko Dominic tōku ingoa. I'm the CEO of the New Zealand Housing Foundation. We're a smallish not-for-profit, who's primary purpose is to assist whānau who are renting, helping whānau who are renting transition into home ownership. We've developed over the last 14 – 15 years two products we think are still showing their worth, through the evidence of whānau transitioning into full ownership and those products are shared ownership and also rent to own, and our rent to own product moves people from renting into a rental situation at the end of that renting situation they are then able to buy into shared ownership over time. So, everything we do is about transitioning and assisting whānau into ownership over time.

So, everyone's described risk, and I won't take too long on this slide, but basically it is something bad happening. How do you mitigate that? How do you define risk? How do you know what risk looks like? What's your knowledge of risk? If you're doing something new, you're not actually sure what risk comes with that new item, that new product, it's going to be quite minimal. So, what I'm trying to do here is not fire through the development programme because I think what Nigel and also Rachel have done is highlight to yourselves what risk looks like for development, building houses, working with banks, my focus here is more around whānau and as an organisation how we can engage with whānau

Dominic Foote (Housing Foundation):
and how we ensure through our engagement with whānau that we're mitigating for whānau, more than for the foundation risks, their risks are being shared ownerships, their risks are being in rent to own. Because if we can help mitigate those risks, we are also actually mitigating our own risks, so you know it's the mutually sort of issue of benefit risk. Also, as Elizabeth said right at the start you can look at risks at so many different angles, so what I've chosen here is to look at risk quite crudely from a pre-settlement i.e. before the whare through the shared ownership is purchased by whānau, and then once whānau are in that shared ownership home.

I think one of the things that's come through the earlier slides has been capacity, capability, experience. You've really got to know your strengths and weaknesses when you go to market, into a PHO programme, do you know really truly what you're good at, what you excel at, do you know your gaps, your shortfalls? It is so important to understand those first because it doesn't stop you from doing PHO, but what it does do is point to where you may need to partner with someone to help you through the PHO programme. The Housing Foundation rarely does anything on its own, we do almost everything in partnership with organisations, Iwi, community organisations, Pasifika groups. Everything we do is a partnership approach, because we know that we're not good at everything that we do. We know where we're strong, we know also where we have gaps. But also, in partnering you learn. You learn through partnering that it really important, that partnering isn't actually just the contract service, partnering is actually where you collect and restart to engage and learn from what the other entities are doing.

So having understood that, we then sort of really work out what is the housing need. What is the whānau demand for housing, what does it look like, how many are there, who are they, can you describe them is always the first question I ask my team, so can you describe who's going to be in those homes, what are they, who are they? What can they afford, are you sure we've got the right outcome, should it be rent to own, should it be affordable rental? Let's understand. And then also what are the numbers we are talking about here, is it one, is it 10, is it 100, is it 1000 because that then starts to give some focus around what it is that you think you are capable of doing and also not over committing. So, understanding demand you then start to think about well what's the land, what's the whenua, is it available, can you access houses, can you buy houses from a developer, do you have to build houses?

So, you've heard the risks from Rachel and Nigel about construction and development. One of the strengths of the Housing Foundation is that we do develop. We've built about 1000 houses now, probably over about the last 14 years, but we still enter every development with a degree of trepidation because we know that getting it wrong at the development stage is actually a big cost to the foundation. So, we also have to look at our reserves, and if are we going to do this, do we back ourselves that we're going to come out of this at the very least with a break even and if not with a positive margin.

The other aspect is that to it is that whilst we understand need, and if you're going to do shared ownership, we need the buyer to buy at least 55% of their home. So, is that possible, is there enough income to service a mortgage that enables to them buy with a deposit 5% of their home, is it viable? These things start to really focus what you can do, what you can deliver. When you are looking at whānau borrowing capacity and capability credit history, savings, source of income, stability of income, they're really important. Banks will look at those first and foremost, that's the first hard line test that banks will take, so you have to take that test, you've got to really be sure that when you're working with whānau that's, they are themselves capable because they've got good credit, they've got savings, they've got solid source of income, that the banks will actually be able to tick that box quite quickly and say ae, they are eligible at the first step.

Dominic Foote (Housing Foundation):
It's also fairly pointless saying to someone shared ownership works for you. You actually, whānau need to get to that point themselves, they need to be aligned that actually what you're proposing works for them. If you don't get that alignment at the start, there will be problems later on. You really need that alignment, so you need to be able to talk, to communicate the amount of time at the front end before you even think about how you design and build a house is really important.

It's also important when you're working with whānau about their alignment and eligibility that once they've been mortgaged approved and you're at the point where you're ready to buy the whare, finally ready to settle on that purchase or you know equity that they're still actually eligible for that mortgage. We have experienced whānau who have got to that stage where they've gone to draw the mortgage down and the financier said no, sorry not lending to you, we've gone back over your last three months of statements and you've actually borrowed more money, taken on more debt or your income's changed you cannot service a mortgage. That is a really hard position to be in, because everyone is expecting whānau to be in the whare, absolutely. And what we've had to do, and this has been from some of our experiences, we've actually then rented the whare to the whānau. We've had no choice, we've had absolutely no choice, but we at least have got the capacity to do that.

Admittedly, that happens rarely because we have enough systems in place, we are understanding and engaged with whānau. But that is really, really important, the ability to transact at settlement.
And then the last two things really, as you've heard from Nigel, you actually need to make sure that you can repay the loan. So, you do not want to get to a settlement stage where you're buying the house, buying the land, setting it onto whānau and then drawing your money down from the PHO without a plan for how you're going to repay that PHO loan, because it is a debt, it is due. I mean, they say there's nothing more certain in life than taxes and death, well actually paying debt is also fairly, it is a certainty.

So, all of those talk to that final point, your responsibilities and liabilities, do you actually really know them? It's not like an Apple contract where you sign up your phone and you just tick yes, I understand all the conditions, you do really need to understand the contracts that you're getting into.

So, assuming everything has gone well and trust me 95% of the time it just goes well. You know I'm flagging the risks, when you know the risks, it goes well. When whānau are in the home, your job's not done. In fact, if anything your job's actually just started. You have to commit resources to work with whānau for 15 years, you have to allow for a 15-year period. We are finding whānau are actually transitioning out of shared ownership into home ownership after those seven to eight years. That is, they're buying our share in their whare from us after about seven to eight years. We also know though house prices are rocketing up, household incomes are not increasing so much, that that ability to buy out early is probably going to slip further and further back in time. So, it's more likely to be a 10-year, 12-year period, it could even be that in times to come that they'll take 15 years to buy us out. But you need to be in there. You need on that journey with the whānau all the way through, and then being in that journey, you'll start, you will know very quickly if the whānau are losing income.

So, what do they if they've lost income through redundancy or through a disability or form sickness, what do you do if they can't afford to make their mortgage repayments, and the bank says well you can't pay your mortgage we want our money back so we're going to have to sell your house? What do you do then? So, through shared ownership agreement we have with the banks including the BNZ is that we're committed to actually buy the whānau's equity to preserve their credit history and also to preserve the house and stop it from being sold. That's quite a large liability given that we already have a PHO debt in there as well. So, that's a risk that you have to manage, and that's a risk that you can't actually perceive because as I said, you know managing additional whānau debt, life happens,

Dominic Foote (Housing Foundation):
and it does. I mean, no one can predict the future, we're married today, we're single today, we don't have children today, we have children tomorrow. Or we get divorced, we die, we have a disability, stuff happens, it just happens. So, how do you cope with that, how do you manage? And one of those things that does have that impact is whānau taking on debt, because they needed a replacement car, they've got to repair the house, they want to do something. How do you manage that? So, the importance of having that is actually staying alongside whānau, having that very open door that open conversation around their circumstances. So, we meet the whānau at least once a year, and we meet with them as often as we need to for the duration of the time, we have funding our money in their home. And often we find we meet more than once a year, it's often twice a year. And when they are in difficulty, we have an open-door policy. We'll be there as long as they want us, and we'll work with them to help them get back in on the path that they're on in that first home.

If whānau haven't purchased our equity from us after 15 years, what do you do? Well, you've got no choice, you've got to replace the PHO debt, you just have to. So, we ensure, and we actually have enough money set aside in our balance sheet to cover the debt. We also work on the basis that we work on a percentage. We look at the amount of whānau that we will be housing with PHO and we'll make an assumption that a percentage of them will not transition into home ownership, full ownership and buy our equity after 15 years because of life, life circumstances. So, we set aside funding for that, so we know that we're going to cover that.

Other things that you need to be aware of, we expect whānau to pay house insurance, council rates, repair the home. It is their home. Our equity is a bit like a mum and dad as far as we're concerned in that sense, we'll leave the funding in there at no cost to them, but we do expect them to take on the responsibilities. But if they don't pay the house insurance and the house burns down what happens, you've got a debt that has to be repaid but there's no house there and you've got a whānau who's actually homeless. Or the house is significantly compromised for some reason. So, you need to stay on top of insurances, you could take the insurance liability on, these are the things that you can choose to do and how you choose to mitigate risk. So, there are things that you can do and you can manage, or you can put the liability and the responsibility on the whānau because when they own the house outright, this is part of the protocols, the responsibility of home ownership. I mean, you've got other things that you need to consider, and these sit within your own policies, your own thinking, but also be mindful of the PHO responsibilities. One that we frequently get is, I need to move down country can rent my whare to a whānau member, and we'll take a view on that, depending on the duration and the length. If it's for six months, we'll often let that happen. If it's for longer then no, we won't, because the benefit of PHO for the whānau is to live in the whare that they're in. It's not for them to rent it to someone else, it's a very hard line and it causes us a lot of angst, but we do take a view on it.

But these are things, this is our policy. This is the Housing Foundation's policy, for the how we mitigate these risks. You may not see them as risks, but it's for you to have a clear understanding when you move into running a PHO programme of the things and the questions you could be asked and the circumstances that you could face.

So, I've talked about some of these items, and we've gone through some of the risks. Our number one focus is pastoral care, because if we get it wrong then it's really wrong for whānau and that isn't going to happen for us, we're not going to put whānau in a bad space. So, for us it's about understanding need, affordability, then that helps us determine what's going to be the best PHO product for whānau and frequently shared ownership is not the solution, we have often rent to owners and then transition to shared ownership, but we also know some shared ownership absolutely works, but you need to be sure about that.

Dominic Foote (Housing Foundation):
Partner with banks, Rachel said banks will take a view on the number of mortgages in the development that they will issue. So, most banks cap out at about 30, 25-30% so if you've got 20 houses in the development you will need at least three to four banks to partner and to provide mortgages. Because a bank may say okay 20 houses, we'll mortgage fund seven of them, New Zealand mortgage fund you're at 13, you need to then find two more banks to do that. So, you need more than one bank on board, and the onboarding means that the bank has to accept you as a partner in the shared ownership programme, because when you get shared ownership the buyer will take the mortgage out from the bank, but the bank will look at the other property owner, which is the Housing Foundation shared ownership. We're on that title of that property and they'll say to us we've got mortgage liability because we are putting a mortgage over the whole house. You as the title owner have a mortgage liability, now we're not liable for the repayments, we're not liable for any financial misconduct, misappropriation, any additional debt finance they take on. But we are liable because if there is a mortgagee sale, banks, they can instruct the sale of the property because as a mortgagor to the bank, we've given them the rights to do so.

So, you've got to be really mindful about what shared ownership means in terms of your liabilities when you partner with a bank, and when actually then whānau come into the home. That is why it is so important for that journey for whānau from the day that they settle to the day that they transact, buy you out and move on. We've had, in all honesty, nothing but brilliant service from the banks. The banks, when they understand shared ownership, they buy into it, they understand the outcome. Crudely I could say it ticks all the ESG/CSR sort of boxes but actually it goes deeper than that. Banks are truly committed. So, then they look at risk what they're doing is not just protecting themselves, but they're actually looking at themselves and saying do we actually understand the risk because we don't want to cause harm to you, we don't want to hurt your reputation, because we do have to take steps.

The other thing that we also find is that some law firms and other services, shared ownership isn't known. Very few legal entities know shared ownership. Kāinga Ora have done a very good job promoting their shared ownership through the country and that's certainly going to help them understand what shared ownership does. But if whānau have got limited income and they go and talk to a lawyer and the lawyer doesn't understand shared ownership, then the whānau legal bill can be $3,000 to $4,000, quite simply just because they'll charge on time.

So, the foundation partners in law firms, and those law firms give a committed, commit to fixed fee. And part of that fixed fee is to do things like wills, and other benefits that enable the whānau when they've got an agreement to buy a property that actually the whole of the whānau are supported. And then for us, the main thing is that no one goes into a shared ownership home or a rent to own home, in the foundation of better financial plan, and that financial plan varies on the household, on the whānau.

Some whānau are absolutely, they absolutely get everything and all they need is some sense of direction as to where they need to take their money and go forward in the sense of what do we need to say, what do we need to earn to do this. Others need a lot more. They need a lot more support and that is why often for some whānau that they could take two or three years before they're ready. But it's important to invest that time and the financial plan helps guide people it helps guide in terms of the direction. Then sort of the main thing for us because we are a developer and the whānau, we really want to make sure that the whānau know the house price when they buy it. So, we actually fix house prices and we have been caught, obviously because values have gone up. But if we fix prices for whānau to buy a house at $700,000, on the day of settlement the new valuation shows it's $750,000, but that's the whānau benefit. But we've fixed the price early because we actually know that what they can afford to buy and the PHO lending that we get covers the cost of that house at that price.

Dominic Foote (Housing Foundation):
Pastoral care. Do never underestimate it please, just don't. I know for yourselves this is something that you do through so many of your other services, and I think it's really important that you provide pastoral care. Most of the organisations the Iwi, Kaupapa Māori organisations on this course will be doing this anyway, but just because its ownership doesn't make it any less important. It doesn't and that's the third point. PHO, shared ownership, PHO for me and that one is actually shorthand for shared ownership, it's different from renting. You are just a passive equity owner with the whānau shared whare. It's their home. You actually don't have control, you can't kick them out, you can't terminate the tenancies, you can't hammer on the door and say go. You have none of those rights, you actually give a lot of those rights away which is why understanding the pastoral care relationships are so crucial for shared ownership to work.
Kia ora and thank you.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
Kia ora and thank you very much Dominic for that insightful korero and it's great to hear how important it is to understand the whānau need and build your product or service to suit the whānau need rather than trying to retrofit the whānau into what you're providing. It's also good to hear that you do have to have hard conversations at times and understand how you can support the whānau through those hard times and things like that they might have.

What is something that Housing Foundation does, or what are the things that Housing Foundation does in relation to building those partnerships with other providers to support them into supporting whānau through home ownership? And also, are you looking at going into the outer regions of Aotearoa? One of the questions was from Tai Rawhiti as an example, so yeah just a couple of questions there from the participants.

Dominic Foote (Housing Foundation):
So, this is from the Housing Foundation perspective, but there are other community housing providers that do also partner. Habitat is a good example of an organisation that partners through the rohe, through the motu rather. So, when I talk about the Foundation, I think we should also, anyone who's listening to this, watching this, should also think about other CHPs in their community like Habitat who do the same.

Housing Foundation has partnered with Ngai Tahu, Waikato Tainui, Port Nicholson Block Settlement Trust, we've been working alongside Te Taiwhenua o Heretaunga, just to name a few. And we operate so differently with each of them, we do different things. So, some of them we will help through the construction and development, we provide development expertise, and in others we just work purely with whānau. So, we work with the Māori Trustee as well. Some of them we will actually take on the full responsibility and role of the Iwi in delivering the housing services to whānau. Others we'll sit right in the background and support the Iwi to do this job. And the decision that is made, it's not made by us, it's made by the Iwi or by the Māori community housing organisation, so they'll lead us as to what they need. And that is the first point, it is about coming back to the very first point, what are the strengths and weaknesses of the organisation.

Once we've got that right then we know where we can start giving support. One of our most enduring aims is that actually we want the capability and capacity and strengths to be built in other organisations. The need for ownership in affordable housing is massive. Housing Foundation can't' do it on its own, Kāinga Ora can't do it on its own, you can only do it in partnership. So, I absolutely would encourage anyone who is interested in this, contact ourselves, contact Habitat and we will work to find out what we can do with yourselves. In terms of elsewhere, we are looking at other areas, so we

Dominic Foote (Housing Foundation):
are looking at the Hawkes Bay, we are looking in the Bay of Plenty, we are based in Christchurch, Canterbury, Tai Rawhiti is another place. Tai Tokerau at the moment no, though we have worked with Iwi in the last few years, but there's nothing concrete there for us to work with. So, I guess what I'm saying we're game for working where we can provide household services is something that we do as a core competency of ours and we want to help and help others to succeed.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
Kia Ora Dom, and just reiterating the comments that you said, I have worked with a few Iwi in my time and noted the work through this mahi that you've supported them with and also Habitat for Humanity as two working examples. But noting that there are others out there that are happy to share knowledge. Queenstown lakes for example is another one that's very happy to share knowledge that they have there. So whānau, there's a few of you that have questions in there in relation to partnering, what I would suggest is that through the PHO scheme if you're interested in looking at there is information there to contact us and I think the email is PHO@govt.nz. And we have two PHO leads, so Debbie Bean is a PHO lead for Te Au Taketake which is our Māori and Iwi pathway and we've got Mark Ormsby who's the lead for what we call the provider pathway. And both of them can work with you to see what your aspirations are in relation to providing PHO. And if you're at a point where you're looking to partner with someone else, they can introduce you to other people as well, so I've answered those questions hopefully in that.

So, we've now come to the end of our presentation from the analysts, there are a few questions in there specifically in there, they're quite specific questions in relation to banking and then just one question that I might ask of both Dominic and Rachel and Nigel free to add any comments. Is it mandatory to take out mortgage insurance to possible mitigate these unforeseen life negatives? I'll probably start with you on that one Dominic.

Dominic Foote (Housing Foundation):
Oh, that's a difficult one. We do recommend it to some whānau. We recommend it depending on circumstances. if it's a single person applying then we would strongly recommend it, often you get circumstances where you may get a single adult with children and then in that circumstance, we would absolutely recommend mortgage insurance. You can't, it's not, you can't, sort of demand it but you can recommend it. Where there's more than one income coming into the household, because our mortgage payments are based on 30% of gross household income, then we'll look at the total income from the whānau and actually sort of work out how suitable or how able would that whānau be able to support with just one income the mortgage debt for a short term. So, it's not a hard and fast it's by the whānau really, but I guess in one essence if it's a single person, single income then we strongly recommend that they take out mortgage insurance.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
Ka pai, and Rachel is it a requirement from a bank perspective?

Rachel Woodhouse (BNZ):
Generally, yes but even beside that look, I'll be honest if it was any of my own family members, I would be absolutely adamant that they needed it.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
The other question that's coming through and this is again for Dominic and Rachel but I might start with Rachel first in this one, is in relation to tiny homes, transportables, security and things like that, what's the banks approach to supporting or financing for tiny homes and then Dom would you consider it through the PHO scheme?

Rachel Woodhouse (BNZ):
Right, so if we are talking about one tiny home for, with nothing else there then the answer is no. If it is part of a bigger portfolio then it is possible. But the thing is with the tiny home you can pick them and take them away and when we're talking about security, we very much prefer landed or something that you can actually get your hands on I suppose. So, it's unusual but it can be considered if you have a large group who already had additional other assets and security and we can consider it.

Dominic Foote (Housing Foundation):
At the moment the Housing Foundation view on this is no. But mainly because tiny homes tend to be, you tend to get more than one tiny home on a section. And often with the cost of housing the price of the section is what drives the cost of home ownership. In my experience and my views and I'm well prepared to be tested on this is that shared tiny homes, you'd get more than one tiny home on a section. So, the question would be then who owns the section, is there a lease associated with that tiny home, how do you do shared ownership on that basis? It becomes slightly more complex and difficult but that's our position, but if someone's there and they're interested in tiny homes and how that works I'm quite happy to talk to with them at a later date.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
Ka pai. Nigel, I saw you came off mute, did you have a comment on that?

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
No, I think really only around the longevity of and the wellbeing of living in a tiny home for a long period of time. I mean so you balance that against other quality, size of house etcetera in what your outcomes are, those are the only comments I have.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
I just wanted to I suppose wrap up the conversation today and thank you all for taking the time to attend the session. From the volume of questions and things that we got I think a lot of people got a lot of information out of today in identifying risks and managing risks that we have in relation to the PHO scheme. To our panellists, I want to thank you all for your knowledge and expertise on this kaupapa and I took a lot of information away forum what you provided today. I thought your insight was extremely valuable around the various risk areas. And as I mentioned at the beginning of the conversation some of the questions that I wanted you to focus on was what are the risks around the development, understanding the finance risks, but to me the most important one is the working relationship and understanding the needs and requirements of the whānau so thank you all for your korero today and your presentations.

Elizabeth Richards (Te Tūāpapa Kura Kāinga):
So again, thank you all for your time today I will close us with a karakia. So, the karakia is to hold fast to our conversation that we've had today and return yourselves to everyday activities as well.

Ka whakairia te tapu, kia watea ae te ara, kia turiki taka ae, kia turiki whakata ae, haumi e, huia e, taiki e.

Kia ora ra whānau, thank you very much.

Questions & Answers

Episode 4
Managing Risk

These are the questions that were answered by the Panel in written format and therefore not included in the recorded transcription above.

Questions	Answers
How can banks help Tupuna Whenua Trusts build houses on Papakāinga Whenua for the benefit of multiple Trust beneficiaries?	Responded to during the presentation noting security required to support the loan.
Morena, is there a list of PHOs in Tauranga Moana?	There are some providers working on projects in that region. MHUD's website has a list of current providers.
Is it time that banks investigate ways to work with Māori Freehold Titled Whenua?	As noted by Rachel, there is discussion around change to this and more will come - noting banks are currently lending but noting the security profile changes as the land cannot be used for security
Are there any risks where a building company involved the PHO project has a reluctance to accept turnkey rather than milestone, which may mean some of our whānau are paying a part of the new mortgage while the house is being built and while they are still paying rent at the house, they are currently living in.	No, PHO products are designed so households start the financial commitment when they move into the completed house. Though in preparing for taking up the product the whānau will be working on building savings and reducing debt.
Are there any PHO providers in the Manawatū-Whanganui area?	Not yet but organisations are considering it.