TE AHO TĀHUHU

the Progressive Home Ownership Webinar Series

Recording and Q&A Transcript

Episode 5
Financial Modelling

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 5 – Financial Modelling		
Kaiwhakahaere	Mark Ormsby	Te Tūāpapa Kura Kāinga, the Ministry for Housing and Development (HUD)
Kaikorero	Alan Thorp	Habitat for Humanity
Kaikorero	Robert MacBeth	Te Puni Kōkiri
Kaikorero	Nigel Hewitson	Te Tūāpapa Kura Kāinga, the Ministry for Housing and Development (HUD)

Recorded Transcript

This is the transcript for the recording of Te Aho Tāhuhu, Episode 5 Financial Modelling

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Traditional incantation

Tēnā koutou whānau e whakarongo mai nei ana e titiro mai ana
tēnei te mihi atu ki a koutou kua hoki mai koutou
ki te āta titiro ki te āta whakarongo ki a mātou
Mātou nō te whakatūranga tuarima o Te Aho Tāhuhu
Tēnei te mihi atu ki koutou
Nau mai whānau, kia ora tātou again

Welcome once again to the fifth webinar in the series of Te Aho Tāhuhu. Today we are looking at financial modelling, and today I have a pai korero, a line-up of some excellent speakers who are going to talk about their financial modelling experience. Today I have with me once again we welcome back Alan Thorp, the CE of Habitat for Humanity. We have also brought in Robert MacBeth from Te Puni Kōkiri and Nigel Hewitson who is the Lead Commercial Advisor in the PHO space. So, whānau, we have a great line-up.

So, heoi anō whānau, tēnei te mihi kia koutou, nau mai anō kei tēnei whakaaturanga. I'm going to go straight through to Alan Thorp, the CE of Habitat for Humanity, tēnā koe Alan, a nei to wa.

Alan Thorp (Habitat for Humanity):
Tēnā koe Mark, kia ora koutou everybody. Ko Alan Thorp tōku ingoa. Today it is my privilege to be part of the webinar again and to briefly discuss the financial modelling that Habitat for Humanity has used in a very simplistic way just to help us in order to help families into home ownership.

Habitat has kind of put together five components of progressive home ownership. There is kind of a pre-selection phase, the support services phase, there's the stable tenure of a rental where we test our partnership with our whānau, there's a subsidy that's involved in order for this to work there needs to be a subsidy, and we also need to have a well-priced house. So, we suggest that these are the five components of progressive home ownership, and this is what we've been delivering for the last 30 years approximately. And, as we know, MHUD are able to give a grant for the pre-selection process, and they also give a grant for the annual support services. Those are critical components in order to make our progressive home ownership model actually work.

Our modelling is effectively based on those five components. So, this is a very simplistic model where we talk about our pre-selection costs and there's a pre-selection amount that MHUD is giving us. There's our support services per year for the family, not quite what MHUD is giving us, but we subsidise that. And then we think about a stable rental, what is the subsidy that's involved in order to make this work and then what is a well- priced house. So those are the kind of the five key components.

Alan Thorp (Habitat for Humanity):
I've just got a set of assumptions here which I'm going to put into a model. Let's just take an example where a house price is $650,000, the PHO household income is 100% of the median, which is $86,576 per annum. The household pays 30% of that income in rent and mortgage payments. We have a PHO loan from the government of 50% of the capital price of the house and that's for 15 years at zero percent. The community housing provider or Habitat has to come up with the other half of that money, so we need to go to a commercial financing bank and in this example, we're just going to suggest that that's 4.5%. And then in the example that I'm going to show the house price increases by 2.5% per year and we also factor in that our families also need to increase their income by 2.5% per year. And this is why the pre-selection, and the family selection is critical to the process actually working because we choose people on the basis of the future potential. In order for this to work, actually our families need to be able to increase their income over the 15-year period.

You can see all of those assumptions come into this model, and this is effectively the graph of the model. So, you see the green line, that's the house value, it starts at $650,000 at Year 1. I've done a 30-year graph here but we're mostly needing it to work for 15 years because that's the term that the PHO loan is available to us at interest free so at the 15-year mark the house value has now become $941,000.

You can see the purple value is Years 1 to 5 in the Habitat model, our whānau are renting from us. It's only at Year 5 that we offer them a long-term sale and purchase agreement, so then they become owners of the property. And then their net qualifying rental at that point is converted or given to them as a deposit and so that's why we have a difference there from $650,000 so at that point in Year 5 they have accumulated about $50,000 of deposit and you can see that that mortgage then comes down. So, at Year 15 their mortgage is approximately $457,000. And you can see that the equity or the value of the household, of the PHO household, is zero between Years 1 and 5, because they're just renting. When they take over the long-term sale and purchase agreement and become purchases in possession, then they have equity in the property and their equity increases over time as the capital value of the house goes up, but also as they pay down their mortgage. So, by the Year 15 their equity is $483,000 or 51% of the house value. So, at that point in time our modelling shows that the PHO household will be able to go to a commercial bank and to be able to refinance with a loan for another 20 years and to repay Habitat the balance that they owe so that Habitat can then repay the Government the balance of the 50% funding.

You can just see those predictions there, but not in graph value, so all of the assumptions we've already covered. And then you can see just again, house value is $941,000. The PHO household mortgage is $457,000. The equity is $483,000 and at Year 15 it allows them to go and refinance with a 20-year loan.

Just I suppose some basic principles there for financial modelling. When you are considering a financial model, it needs to work for both the community housing provider and also for the PHO household, for our whānau. And modelling an income statement and a balance sheet is really important for the community housing provider, but it is also very important to model an income statement and balance sheet for the PHO household. And that's how we came up with those graphs on the previous slide. Another basic principle is to keep it simple and keep it as simple as possible and have realistic assumptions. So often financial models become incredibly complicated and very difficult to use. This model is very simplistic, but it gives a really good rule of thumb for what we need to do.

And just finishing up with my key takeaways, your modelling will tell you what household income needs to be in order to succeed. So, in the example which I have shown you today it was an income of $86,000 in order to succeed at Year 15 for a house valued at $650,000. The second key takeaway,

Alan Thorp (Habitat for Humanity):
keep your modelling as simple as possible. It needs to be simple; it needs to be understandable, and you need to be able to keep to that. And the third key takeaway is always do a common-sense check - does this actually make sense; does it really make sense that this works like this and it's important to do that rather than necessarily getting involved and bogged down on the details of a really complicated spreadsheet. So, I hope that's been helpful. So tēnā koutou, thank you everybody.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Tēnā koe Alan. Just a couple of questions from me: You've presented a simple model, but if whānau out there where our listeners out there need a more sophisticated model, because they might be considering a development, what should they do?

Alan Thorp (Habitat for Humanity):
Well, again I think as part of what MHUD is doing is actually providing a model for people. But having an overly complicated model that someone else has produced is quite difficult to get your head into that space and that's why I really just encourage, you know, it needs to work on a very simplistic level. I mean a development by itself is a complicated venture and full of lots of risks. So, I'd say the first step is to go and have a look at a simple model and see if it actually just works on the basis of purchasing a house. A development is a completely different story.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Just another question there Alan: If we'd like to offer housing to families around the $50,000 per year household income, do you think that would be workable?

Alan Thorp (Habitat for Humanity):
So, I think it's a great question Mark. There's a bunch of assumptions which we put into our model and those assumptions were a household income of $86,000 for a house that's valued at $650,000. And there's a bunch of financing questions. So, all of those variables influence what level of family income we can actually take into this programme. So, you know, just as a rule of thumb if a household was earning $50,000, then I would probably say the maximum capital value that the house might be, that you'd be able to enter into this programme with, would be around $350,000, something like that. So, you know, you have to adjust all of those other variables to make it work. So that's the advantage of having a model.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Tēnā koe Alan. That was Alan Thorp, the CE of Habitat for Humanity. We have got to move straight into the next presenter, Robert MacBeth from Te Puni Kōkiri. He's itching to get out of his seat and then to korero to you. Tēnā koe Robert, anei tō wā.

Robert MacBeth (Te Puni Kōkiri):
Kia ora, kia ora koutou everybody. I've been in housing for many, many years and around progressive home ownership. I remember being in the old Housing Corporation in the 1980s and we introduced an equity sharing scheme then, so this is not a new concept. When I was in Melbourne managing the social housing sector in Victoria, we had the legacy, what was called the HOLS Loan Scheme, the Home Ownership Loan Scheme. And I guess if there's one takeout from that is that it was far too complex. It

Robert MacBeth (Te Puni Kōkiri):
didn't protect the whānau and the legacy was quite hurtful not only to the Government but to the households involved. So, I've learned lots of lessons along the way.

So, more recently Te Puni Kōkiri in 2017, 2018, was given additional funding by the Government to trial some pathways to home ownership, Te Ara Mauwhare. I want to basically just put a little bit of context around that because as a government partner and investor into progressive home ownership, we've got a little bit of skin in the game. We've been working very closely with our colleagues in the Ministry of Housing and Urban Development in recent months to pass on all the learnings and information from those trial. I think by working together we've actually added some value from this experience.

The main theme I want to talk about is the two-pronged approach to financial modelling. Right from the very start we recognise the need to balance affordability and protection of whānau going into what can be quite a complex home ownership arrangement with also the financial viability and the sustainability for the rōpū partner. So those are two things that we are absolutely focused on. And then I want to just talk about some key takeaways.

So just a bit of context, Te Ara Mauwhare, we have six trials currently underway delivering up to 70 new homes for whānau. The way it works out, it breaks it into two types really. There's the rent-to-own package and we've got He Korowai Trust in Kaitaia, Te Ranga Maro, Te Tihi o Ruahine in Palmerston North and the Chatham Islands Housing Partnership Trust on Wharekauri. And then we have three working on a shared ownership model – Port Nicholson, Te Taiwhenua o Heretaunga and Ka Uruora in Taranaki. The interesting thing is when you are talking about shared ownership or equity sharing, the subtlety in the different terminologies. But there is only so much variation you can apply when modelling shared ownership. In actual fact, all three of our Te Ara Mauwhare, shared ownership, providers have some elements of partnership with New Zealand Housing Foundation. So, the intellectual property and the experience and the knowledge and the basic modelling that comes through from New Zealand Housing Foundation is very much a part of our three shared ownership trials.

When you get into rent-to-own, this is where there is bespokeness and flexibility and a lot of variation. Each of those three trials are very, very different in the way they structure their rent-to-own. Just picking up on an earlier question, an earlier question, Mark, around the whānau on very low incomes. When we were given the Te Ara Mauwhare funding, we were told by the then Government, that was before the Labour-led Government, we had to trial some ways of getting whānau who were either eligible for or in State housing or on benefit income, onto a pathway to home ownership. Now that's really, really hard at the very low-income range in reality. And, you know, we sort of knew that sometimes if you push whānau too soon into a pathway to home ownership it can do more damage in the long run. So, we were very conscious of that. But that's why we are exploring the rent to own. Ricky Houghton from He Korowai Trust will be absolutely adamant that all the whānau that he's helping would be either eligible for, in State housing or actually declined for State housing. So, it is possible to get whānau on low incomes on to a pathway to home ownership, but it's more in the rent-to-own approach and it's a longer pathway. You will need all 15 years, potentially even more, I think ours is about 17 years to get there. And also from a government funding perspective, it's a lot more capital intensive. So, while on average for the shared ownership, what we call the retained equity, the amount of money that we have to support the rōpū so that they can retain a share in each house, averages out about $100,000 to $150,000 per house with the rest coming from the banks. For the rent-to-own, it's much higher. So, Government has to be prepared to invest quite a lot more upfront because the profile of whānau being able to buy shares in their housing, it takes a lot longer.

Robert MacBeth (Te Puni Kōkiri):
So, with Te Puni Kōkiri we always start from a whānau-centred approach. We start by thinking about the whānau and the households going into their progressive home ownership approach. Right from the very, very, start we recognise that whānau need navigation support, and they need financial capability. Potentially, the shared ownership's not that complex, but the rent-to-own is certainly complex and we needed to know that whānau absolutely knew exactly what they were getting into. That they understood in plain Reo and plain English, what it was all about and that they had a bit of time to prepare for entering into it. And so, we decided that that was going to be a mandatory component of our progressive home ownership pathway. Hence, we worked with the Commission for Financial Capability and established Sorted Kāinga Ora, which is designed for whānau Māori to be delivered by Māori in an appropriate adult education financial capability way. And that's actually worked so well that we are expanding our repertoire of Sorted Kāinga Ora. But from a Te Ara Mauwhare perspective it was really important for us to make sure that whānau were not being put at risk for participating. And that their support and time and navigation support was available for them as they prepare to enter into a progressive home ownership pathway. And I guess, even now, from our experience we are very, very strong in that view. And I think talking to our counterparts, if Dominic was here from New Zealand Housing Foundation, they would say the same from their experience. And I think Alan said the same thing - it's about making sure that there is sufficient support for whānau as they enter into this.

We also needed to make sure that all of our modelling was appropriate for whānau, and picking up on Alan's theme, that means keeping it simple. In my experience the more complex it is, the more risk of whānau disadvantage. So, it has to be a simple model readily understood and transparent. I would really, really make sure, I really couldn't emphasize it enough, make sure that whānau going into the progressive home ownership pathway understand what happens, how it happens, when it happens and what their responsibilities are and not over-complicated. That scheme in Melbourne that was just so bad was because they over-complicated it and they built in payments for maintenance and there was ambiguity over who is responsible for maintenance. So, keep it really simple. It's the whānau buying the house, they undertake the maintenance, there is no sort of complex arrangements there. We also made sure that we locked in basic protections. Deposits returnable. The world changes, whānau circumstances change, it's not always the same. You know most cases 90% of time whānau will enter into the progressive home ownership pathway, they will go through and by Year 15 they will have built up enough equity that they get their bank loan, the rōpū can exit and everything's hunky dory. But sometimes things change and even some of our rōpū with our six trials they found circumstances change.

Some whānau, you know, there was family breakup, some whānau had to go to Australia, they had to exit. So, we wanted to make sure that there were basic protections built into our modelling. In discussion with the rōpū and in the case of all of our trials it was all co-designed. Every single one of them is different and that's the important thing, and so we went into it on a co-designed basis. The rōpū understood their whānau better than us and so we basically sat around the table, and we worked up something that worked and every single one of them is different. So that the more you try and homogenise it, sometimes you lose that flexibility. But in each case, we did try to put in the basic protections - equity shares, limited liabilities, what happens if. And we asked that question constantly. People got sick of me asking the question what if, what if? What if house values don't actually rise as your model? What if they actually decline? What if the whānau for whatever reason, legitimate reason, have to exit? Do they lose all their deposit, or do you guarantee that back? What if something else happens and the model doesn't pan out? So, we basically put a lot of emphasis in our co-design asking the "what if" question.

Robert MacBeth (Te Puni Kōkiri):
I'm not going to go into the detail of this, but this is just an example of one of our rōpū with one of the trials, it's a rent-to-buy model. We basically, in the grey boxes down underneath, you can see the different scenarios and different options in terms of how the rent-to-own package would work.

In terms of the rōpū, now remember the two-phase thing, whānau and then rōpū. One of the things we've learned is that the project needed to be cash-flowed out. So, there's two components of a pathway to home ownership package. Once is you are actually building houses to then transact with the whānau, and then once the houses are transacted, they have entered into the shared ownership arrangement or the rent-to-buy arrangement. Rent-to-buy usually, by the way, is a Residential Tenancies Act agreement, so they are renting the house with protections built in. And then a complementary or concurrent sale and purchase agreement which is triggered at a suitable time. But in all cases, each of our rōpū were building houses to include, and so we had to work out a way to make the construction period viable for them. And we had some interesting conversations with our colleagues in HUD about how you make the PHO drawdown available during the construction phase. And the reality is you probably don't have the $2 million necessary upfront to build the houses and then transact them. You need money upfront to help with the construction. So, cash flow the construction period. Think about the revenue coming in, where you're not going to get the revenue until you actually enter into a sale and purchase agreement or a shared ownership agreement or enter into a tenancy agreement. So, there's a period of time where you are not going to have any revenue, but you are paying to construct houses. And the other thing that our rōpū are finding is the need to really strictly control costs. If you're actually aiming to have houses to be sold to follow or enter into that transaction at the $500,000 to $600,000 range, you have got to be really on your ball about that construction period.

For post-transaction, shared ownership is reasonably easy - you just need to ensure that your holding costs are covered, you're modelling back, as Alan said, in the case of PHO. You've got that obligation to repay it for 15 years, so you need to model your revenue and effectively the liquidity coming back within those 15 years. Ask the question, what if you don't give it all back in 15 years? But with Te Ara Mauwhare, I guess the one difference with PHO was that our retained equity or the contribution from Government was a grant, so our model was based on what happens when you get it back. It's about reinvesting it. Whereas with the PHO there's that 15-year repayment obligation. Rent-to-own models are much more complex. They require what we call a Project Viability Assessment Tool operating cash flow, because you're running a rental business for a period of time. That needs to be absolutely cash flowed out. You need to know that your rent revenue coming in is going to basically service your obligations as a landlord, you're meeting any debt servicing requirements. You also need to make sure as a rent-to-own provider that you are provisioning for any buyback or repayment to the whānau. There might be a time when they have to exit earlier, or they can't exit at the 10-year mark where they have to enter into a sale and purchase agreement. How are you going to pay back the deposits or whatever that's been paid? And what do you do with the revenue that comes in during the rental period as part of that buying to own? Do you put it in trust, do you put it in Kiwisaver, how do you make that work? And you've got to basically run a multiple cashflow model.

So, some key takeaways from me. Model the impact on whānau – ask the "what if" questions. Whānau first. If you come from "what does it mean for the whānau in these circumstances", your model will build right. You need to cashflow the construction period. How will the houses be paid for before you transact them into the pathway of home ownership? And then you need to cashflow the long-term viability for the kaitono, for the rōpū. There has to be some sharing of equity. A little story: some of our whānau, some of our rōpū, who are wanting to help whānau into the rent-to-own, really wanted to give everything to the whānau. They really were passionately wanting to build these whānau and build them up, so we had to bring them back a bit and say that if you give everything to the whānau,

Robert MacBeth (Te Puni Kōkiri):
you're not actually supporting the organisation to do more. Actually, you've got to think about the organisational health as well. So, in every model, you know, you've got to ask the question, how is the equity being shared? Whether its rent-to-own or shared ownership there has to be some sharing. You can't give it all to the whānau. You've got to protect the whānau, but you're got to also think about the financial viability of the organisation. Because if the organisation goes under it's not going to help whānau in the scheme or future whānau.

So, in terms of contacts, until the 3rd of December there's my details there. Helen Algar at Te Puni Kōkiri is the person who sort of has been managing our Te Ara Mauwhare programme. I've just been doing the financial modelling. You've got Nigel on here as well from HUD but for those of you wanting to get into the Iwi Māori pathway for progressive home ownership, I would really encourage you to have a chat to Debbie Bean. We know and love Debbie because she is one of ours and she's now moved across, but she would be a really good resource for you as well. That's me.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Tēnā koe Robert, thank you for that very informative presentation. As Robert said, if you have further questions, you've only got till December the 3rd whānau to hit him up straight away. Otherwise get in touch with those of us from HUD, Nigel Hewitson, Debbie Bean and me, Mark Ormsby. Also, Alan Thorp will provide all those details for you once again at the end. Robert, just before we move on, I have got a couple of questions: How do you balance the need to provide an affordable pathway for whānau with the need to ensure the long-term strength of your organisation?

Robert MacBeth (Te Puni Kōkiri):
So, that gets back to what I was sort of finishing with really in terms of that understanding that there is hopefully, a good chance that there is going to be equity gain during the period. It's about understanding how the equity gain is shared. And being really transparent and clear with whānau that if you stay in this game, if you stay in this period of time, you will have the opportunity to own the home. But be really clear also with whānau that we, as a rōpū, because we're helping you, we also want to help other whānau. That we will be sharing in that, and this is how we are sharing it. We built in some protections for you, so minimum outcomes for you, but we have to build some minimum outcomes for us as an organisation and just be really transparent about that.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Thank you, Robert. Robert, here's a question that tends to pop up on a lot on the webinars that we've had so far. It's possibly a question for the whole group, but I'll ask you: What do you see as the barriers for progressive home ownership on whenua Māori and what can be done to make PHO a reality?

Robert MacBeth (Te Puni Kōkiri):
So, access to finance for housing of whenua Māori is one of two key barriers for enabling whenua Māori to be used for housing. The other one is the planning and consenting barrier. Now both of those are actually on the Government's radar, and we in the next 11 days are working up some scoping about hopefully what will be a big project on access to finance and partnership in conjunction with HUD, but it is a real issue. At the moment, the only loan available for housing of whenua Māori is the kāinga whenua loan which is underwritten by Kāinga Ora and delivered by Kiwibank. Now, we know and use that quite a lot with our papakāinga programme and it is the only way that you can get loans at the moment because the banks as a rule they might say they do it, but actually there is a real issue with security on whenua Māori because the land is not mortgage securable because it's not alienable.

Robert MacBeth (Te Puni Kōkiri):
So, the whole point of the kāinga whenua loan is that the security is not over the whenua, it is effectively an arrangement over the house. And it sort of works but not very very well which is why there is work to be done on access to finance. As Te Puni Kōkiri we have been talking to HUD and we raised the issue about how progressive home ownership can be available on whenua Māori because whether it's a rent-to-own scenario or a shared ownership scenario, there is an element of bank loan required. You know the rōpū or the Government is not paying 100% of the cost of the house, the expectation of the arrangement is that banks will be providing loan finance to both the rōpū in the case of rent-to-own and to the individual home buyers as mortgage finance. And that's the key, mortgage finance. So, because mortgage finance isn't available on whenua Māori at the moment progressive home ownership scheme won't work on whenua Māori. So, what we've got to do is we have got to find a way of getting that access to finance issues sorted so that banks can and will lend including through a progressive home ownership model. It is work in progress, it's understood to be an issue but at the moment I can't see how it can work unless there is a resource--rich or an alternative security arrangement with maybe some land trusts or iwi that might be able to provide alternative security. And just noting the six Te Ara Mauwhare arrangements, only one of those six is on whenua Māori, He Korowai Trust, the others are on general title land.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Tēnā koe Robert, thank you for that korero. Going to go to Nigel Hewitson now who is the Lead Commercial Advisor for the PHO team, tēnā koe Nigel, a nei to wa.

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
Thank you, Mark, this is Nigel here. Kia ora koutou. Ko Nigel Hewitson ahau. I'm the Lead Commercial Advisor. I'm very pleased to be here today just to give you a bit of a preview of the work we've been doing with the Property Group on developing three models, to help whānau and organisations to assess the affordability of the different types of shared ownership schemes. And also, to look at development appraisals and development feasibility appraisals.

So, the work we've been doing. We've reached the stage of Alpha stage, Beta stage. So, in the Alpha stage we're just testing it. We'll be doing some external testing and we'll hope to have something available prior to Christmas, so that's the timeline we're aiming for. Each model stands alone. There are three of them, and each one looks at whānau affordability and then a separate section looks at development feasibility. So, I'll use as an example the shared equity model for affordability first and then we'll go on and have a look at the development feasibility work.

So, all the models actually start off with the family, the household income. There's the ability to put in up to four people earning an income for the household and whether they are contributing to Kiwisaver or not. There's also an eligibility check around the requirements of the fund, that you're over 18, that you haven't owned a home before and the income cap of $130,000 per annum gross income is met. And then there is also the gross income is converted into a weekly income after tax and Kiwisaver. Then there's an ability in all the green boxes, the ability to import various costs and they are listed there in that table. Because we're using a shared equity, you'll see that the rent is zero and the mortgage has got a figure against it.

From the provider's point of view, the input areas are to do with the price of the home and the amount of equity the household is going to be buying from the provider. In this case I put it in at sort of 55% for the whānau and 45%, which is our maximum support, for PHO, so 45% based on a $650,000 house, that's the numbers that it splits out into. Then there's an input area for the whānau existing household

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
finances in terms of how they can put a deposit together. You can fill in the amounts there to arrive at, the amount that the household would need to borrow in the market with a bank.

There's a mortgage calculator on the same page. Having the model has worked out obviously the amount required by the household. You can input the interest rate, make an assumption around the interest rate during the term of the mortgage, which will then calculate what your weekly payments are for that mortgage, which is the $448 per week we have in this particular case.

You'll see how that then fills in the mortgage cost per week for the household. For the shared equity there is an area where the rates and the contents and the property maintenance etcetera is also calculated and that can be inputted elsewhere.

At the end of the day, you end up with a large cashflow model which just tracks all those different incomes and expenditure. You can change the rate at which the value of the house is your assumption around that. In this case we're just assuming 2%. You can change the household's ability or the total household income, how their income will grow over time. You can put in 2% there, and you can put in what a market equivalent rent would be. They're going into a shared equity arrangement so they're purchasing the home with the provider as they're not paying a rent, but it just shows, as a comparison, what you would be paying if you are renting an equivalent type of house. Then you can see how your expenditure on buying a house compares to what you'd be paying in the market for renting.

So just pulling out some of those numbers in Year Zero, Year 7 and Year 14. You can see that the house based on 2% gross it is about $746,000 in Year 7 and $857,000 in Year 14 and how the provider share, and the whānau share changes in terms of value. You can see the whānau equity from $45,000 being the deposit and then how that grows over time have the benefit of owning 55% of the home. Your income is also growing and based on only 2% that would rise to $131,000 in Year 14. So, the purpose of the model really is to find the spot where the loan to value ratio of the household for their mortgage to buy out the balance of the provider's share to get to 100% ownership. Where the loan to value ratio is somewhere between less than 80% and down to 70% on the basis that if you're at 70% you should be able to get a mortgage with any of the high street banks, subject to their lending requirements and the debt service requirement. Again, we track the debt service ratio and we're targeting there the affordability rate of, you wouldn't spend more than 30% of your gross income. And so those little dots at the bottom of the cashflow that you can see running along there just show how the loan to value ratio and the debt servicing ratio are improving over time as you build your equity. When they turn sort of orange to green, then you know that you'd be able to staircase up to buy out the whole amount. Obviously, there are opportunities to staircase in smaller tranches as you buy out the provider, you can play with that in the model.

Also, this graph basically shows all those numbers graphically so it's just easier to spot where the sweet spot is. So, Year 7 you can see that the loan to value ratio is still just on the 80% mark, but by Year 14 it's got down to between about 65% or so. And the debt servicing ratio is dropping in Year 7 at about 40% of your income and by Year 14 your about 36% thereabouts. So, by putting different inputs in and the price of the house and the share of the mortgage and the income from the home, it will change this graph and this graph is hopefully the easiest way to see how, when you're testing and trying out your model. You can see where something may work for whānau or where it may not work.

I'll just look at the other two models, which is the leasehold and the rent-to-own. The basic inputs are the same in terms of the income and the eligibility check and the weekly income per household. But depending on if it's a rent-to-buy you'll be paying a rent and no mortgage and if you're leasehold you'll be paying a mortgage and a ground rent.

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
The rent-to-buy focuses on what is the market rents you are going to be paying and deducted from that will be various amounts of money to cover off the management fee for the provider; the rates, insurance, maintenance, etcetera, to provide you with a net amount. From that the provider will likely have some other debt on the property, as well as the PHO loan, and will be paying interest on that. Part of that surplus or available rent can be diverted to cover that interest payment and that's up to the provider to decide what level that should be at which would then leave a certain amount of money per week available for the whānau to build their equity in the product.

For the leasehold, the input areas are on the market value of the whole home, land and buildings, and then what price will be charged to the whānau taking out that long term 100 year right to occupy in the property. So, in this case we're just adopting $325,000 being the price which is 50% of the total value of the property, and then there's normally a ground rental payment which is made as well to the provider. That can be changed and based on 1% or 1.5%, a low ground rent requirement there. So those are the two, the different models, points for the provider to be considering.

Again, you'll be looking at those cash flows and the rent-to-buy model will show you on the basis that the purchase price to the whānau when they get the sale and purchase agreement it may be fixed at the original price at Year Zero. They can buy the property when they're in a position to at that price, the Year Zero price, but they will be purchasing it at say Year 10, and it shows the debt service line there as well. So, you can see on the rent-to-buy graph that in about Year 6, Year 7 your blue line which is your loan to value ratio is getting down to about 70% and your debt service ratio is probably getting Year 7 to 8, about 22%, 23% of your gross income on the leasehold. In this case the provider has an obligation to purchase the lease back if you were to move away and that purchase price is normally set at the original price plus inflation. That shows you the sale price of what you'd be able to sell it back to if you were to leave, to the provider, and how you are building total equity in that interest you've bought, that long leasehold interest, over time. In Year 8 the price of the leasehold has gone from the $300,000 you paid at the beginning, in Year 8 it will be worth $350,000 and your equity would have risen from about $45,000 to circa about $100,000 as you pay down your mortgage and the growth of the price, you'll be able to sell it back to the provider at.

So, that's really just a summary of the three affordability models for rent-to-buy leasehold and shared equity.

So, the second part of the presentation we want to have a look at the financial modelling. So here we have sort of two levels really. One is a high-level feasibility, just to have a quick sense check over the risk laden process of developing a property. Then there's a second model which does a deep dive into all the detail of that modelling and the cash flow. Is showing the high-level feasibility. On the left-hand side of the page, you'll input the basic facts around the assumptions to build the property; what you're buying the land at, whether you're doing it yourself, because you have the expertise in-house to manage the development scenario, or whether you are using a developer to provide the housing. So that's the value of the land and the cost of acquiring the land, what you think the houses will be worth on completion. Then in the shared equity case, what percentage of the home will the household, the whānau, be purchasing and what percentage is kept by the provider to assist the household, what's the cost per square metre and professional fees, etcetera. So, inputting those variables into that left-hand side will then give you a preliminary feasibility budget, which gives you a quick outcome. Well in this case it makes a loss of about just under half a million and, you know, it doesn't look at all feasible given the risks of the development project. Most developers and participants will be looking for at least 20% to 25% even just to cover all the unexpected risks that can occur through time delays and design creep and all sorts of different things that can really impact the feasibility of a development.

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
So that's the sort of the high-level quick check page. If you then want to dive into more detail with a development manager in-house or you are contracting with, then you can look at the next three or four slides which have a much wider range of detail input that you're able to do. So, here you can just run through each individual house, the topology, the number of that type, how many one bedroom, how many two or three bedrooms you plan to be building, floor areas and the land area they take up. And then the estimated market value which may be different from the price you want to sell it to your whānau. And then moving that across to the right, the value of the household's share, the 55%, what's that worth of the portion of the total value of the home and what your total income would be on that typology. So, for the one bedroom as I think there's about seven of them, the income to the provider organisation would be about $1.7 million.

It goes through the rest of the development costs, which is about the timeline - how long will each stage of the project be. Consenting, subdivision, civil engineering, construction of the homes, how long is that all going to take? And so, you can input that in depending on the project. Again, you can break that down into the individual homes. From HUD's point of view the development finance we can offer is 30% on the land acquisition and lock-up would be 30% and on completion and the family moving in, the 40% balance of the funding we'd agreed. If you already own the land, then we're limited to offering 50% on lock-up and 50% on the family moving in.

The PHO loan calculations just show you what proportion of each property that you are building. You can apply for help with the funding. The PHO loan amounts are set out on that table and then at the bottom left-hand table is what other funding you will have put in place to help cover all your cash requirements during the course of the development.

And then moving across the right-hand side of the table, you've got the construction costs of each type of typology per square metre gross of the development. Then you then put in all the different direct costs such as your land acquisition, site civil engineering and infrastructure, your professional fees through architecture, urban design engineering, landscaping design, project management, and the legals and insurance, and your Council costs. And so, you can see that that's extremely detailed. It's for when you really want to dive into this in great detail and think about each particular element to flesh out and assess the risks around all those different elements of doing the residential development.

So, on the next large spreadsheet, which we won't go into the details of. The graph just basically shows you how your cash flow is going to work during the course of the development that you're planning. And shows you the areas where you're going to be relying on a lot of debt to make up the difference between your income from the HUD financing and your expenditure, and then the requirement for bank financing during the course of that development. This table picks up the options you can have for bank financing, and it then works out what you need to be covering off in your financing arrangements. So, that is how we've set up these spreadsheets to having different levels of in-depth analysis. We hope they're going to be really helpful to everybody who's looking at either the affordability side in terms of looking at the whānau and the price of the homes they're buying or thinking about developing. And then on the feasibility side, recognising the risks around the development and the commitment and the expertise that's required to undertake a development successfully.

So, in summary, particularly for the development stuff, you really do have to dig into the detail to really try and assess all the risks and mitigate the risks. And even then, you've got to have contingencies for the things that just come out of left field. So, test your assumptions to understand the risks, and that applies for both the affordability model and for the feasibility model. And now for

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
the affordability, it has to work for whānau. It needs to work for whānau because you're relying on whānau in the shared equity and the rent-to-buy to be able to repay the loan to HUD at Year 15. We're very happy for you to contact any of us in the team. And we can help you with any questions you have got on the modelling and, as I say, we are hoping to have that fine-tuned are ready for use just before Christmas. Thank you for your time.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Tēnā koe Nigel, thank you for that presentation. I have a few questions for you Nigel before we move into the Q & A session: You mentioned that these models are in the final stages of internal testing, when will they be available on the MHUD site or Te Tūāpapa Kura Kāinga's website?

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
All things going well, probably in the second week or third week of December or just the week before Christmas I think is probably good to wait for. We'd like to get some feedback from the practitioners and just to fine tune the models and then go from there.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Some of that modelling looks quite intense, Nigel. Will there be any assistance in helping whānau out there or users wanting to understand how to input information into the model?

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
Yes, definitely we're here to help and we will be able to spend time just going through that with you. I think you'll find that once you get used to seeing the models, especially the affordability, it generally does most of the work for you, once you've put in your variables. That detailed development feasibility, which requires a lot of work for participants to get to the bottom of all the risks around that. So, we're here to help definitely.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
And just final question Nigel: We're offering up all the presentations at the end of these webinars to the whānau out there who can access it via the website, could you also provide some of those Excel spreadsheets that you had in your presentation as well?

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
Not till we've checked through and got feedback on it on the detail because, as you appreciate, there's lots of moving parts in these spreadsheets and formulas etcetera, so it's good to get feedback from other people who haven't been involved in the design of it because they'll spot stuff which just needs to be ironed out before we can make them available. So, the spreadsheets will be on the website when they're ready just before Christmas.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Kia ora Nigel, thank you for your presentation there. We are going to move into the Q & A session now whānau and I can see we've had quite a few questions and a lot of them have been answered. So, I'm just going to run through some of the ones that have been answered, and maybe throw that over to our panel if they have anything else to add.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
But just running down the list of the questions that have been answered, the first one is from Lisa Nathan, kia ora again Lisa, who was also our panelist with us in one of the previous webinars. Her question was: What if whānau are unable to purchase the remaining share over the 15-year period due to house price increases outweighing wage growth increases, what are the implications? And Alan has replied back by saying Habitat's model is not a shared equity model, so they purchase the house at its market value at Year Zero. They don't have to pay out a share of the capital gain at Year 15. If the panelists want to add to that answer, there you're more than welcome right now.

Robert MacBeth (Te Puni Kōkiri):
A perfect example of a "what if" question Lisa, that's exactly what you need to ask. One of our rent-to-own models actually builds in the possibility that the share can't be, or they can't enter into a sale and purchase agreement, in which case being a rent-to-own then the question is does it continue as a rental house or do we find another answer. But it's a good example of what a "what if" question.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Kia ora thanks Robert. Just moving down some of the most voted questions, the next question was from Leah Warbrick: We would like to establish home ownership on Māori freehold land. Does the price of housing have to reflect the status quo? Our research shows we can buy quality homes for under $200k, which we could possibly pay off within 15 years at a low weekly rent. The higher prices work well for those with a specific yearly income. What could you suggest to those who are benefit ridden due to illnesses, have a good Kiwisaver and some savings? Thanks, Alan, for answering those quickly and Alan said just as Robert said, MHUD is providing 50% finance, so you will need to come up with the other 50% and will need the cash flow to support that and then be able to pay back HUD at the end of 15 years, along with your other financing.

Robert MacBeth (Te Puni Kōkiri):
Actually, that's another thing about whenua Māori, because while home ownership on whenua Māori builds whānau wealth which is a good, good thing, you're not going to see the same levels of capital appreciation values on whenua Māori that you do on general title. Basically, what happens on general title is it's the land that is increasing in value, but because whenua Māori is inalienable, rightly so, the value of the land is not a part of the equation. So, you're not going to get the capital appreciation on whenua Māori. To answer that I'd go to our example we trialled with He Korowai Trust with Ricky Houghton up in Kaitaia. His model is basically same sort of thing, houses costing about $200,000, rent to own and his model is that within 15 years or certainly before 17 years, the whānau will have bought the house and then they've got private wealth. So, it can be done, but the thing is you need the funding, under Ricky's model, you need the government funding almost 100% upfront, because you can't have the debt component there because the profile of whānau paying back over a long period of time is not going to support, the model won't support bank finance coming in. So, it's a different scenario. What our trial shows is that it is possible but that's probably not where PHO is going but I'll leave that for Nigel.

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
Only I suppose, in the events you've referred to before Robert, where there'd be some third party who'd stand behind to provide the security.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Kia ora Nigel for answering that. Just on another one of the answered questions from an anonymous attendee: Are you able to give an idea/estimate of how many people have gone through the PHO model and now own their own house. And Alan has provided an answer for that, and the rest of that question was can you also give an idea of how many people have reneged on payments. So, Alan has responded for Habitat, that Habitat for Humanity had approximately 530 families through its PHO model. We have had a 97% success rate. We know families go through different circumstances over the 15-year period, this is why the annual grant from HUD for pastoral care support is really important as it is the initial selection of the household at the beginning. So, Nigel I don't know if you want to add anything extra to that, or Robert?

Robert MacBeth (Te Puni Kōkiri):
Well, I will, actually that's a good point, so in the models and this will be Alan's model, and also the New Zealand Housing Foundation model. Once a whānau is on a pathway to home ownership, they're not left alone, there is some navigation and support available through their journey. So, I would be very surprised if a whānau that was at risk of reneging wasn't picked up as part of those annual reviews and annual discussions and solutions and resolved before it got to a reneging situation. That would be my hope. The other thing I didn't say is that, in terms of catchment. So, remember I said about Sorted Kāinga Ora being an absolute necessity to go into our programmes, it's really, really important for us. We knew that when you go into a community offering Sorted Kāinga Ora, it has to have quite a large catchment.

And so, you offer it to the whole Community as much as possible and in itself that delivers a financial capability boost to whānau in that community or cohort, which is a good thing. But we knew that not all whānau going into Sorted Kāinga Ora are going to be able to enter into progressive home ownership and so we took a wide catch approach with our Rōpū. And so, offer it widely knowing that probably about one-third maybe of those whānau that enter into the financial capability programme might then be in a position to enter into progressive home ownership. Te Tihi in Palmerston North, because of the range that they had, they were supporting 100 state housing tenants as part of their support programme. And of those 100 they found maybe 20 that would be in a position to move towards progressive home ownership. And that's a harsh reality that sometimes whānau do take a lot longer to get ready to enter into progressive home ownership. So, you actually have to go in with a wide catchment, and then whānau need to basically self-select which ones are ready to go into progressive home ownership. Now that's not to say that you are discarding all the others. What it means is you are providing them with a different sort of support, but maybe at this point in time, progressive home ownership's not the answer. The other thing I forgot to mention too Mark was that in our experience Kiwisaver. Because Kiwisaver is so intricately linked into the Government first home ownership grants, participation in Kiwisaver for that minimum three-year period is really quite critical. Because that triggers their access to the first homeowner's grant which is quite an important deposit into a progressive home ownership. So, one of the things that we found with Sorted Kāinga Ora was actually getting whānau to join Kiwisaver, getting them on that pathway of Kiwisaver. It means that they have to wait three years before they get the deposit and for the rent-to-own models, the rent-to-own scheme was triggered on eligibility for the first homeowner's grant. So, you keep them on rental, rental, build their Kiwisaver up, and then they get the first homeowner's grant. So that sometimes takes time and so you've got to build in a programme for Kiwisaver and first home grants eligibility. But we found a lot of whānau had not joined Kiwisaver and so that's something that you need to think about from a very early stage.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Very good answer there Robert. Certainly, resonates with some of my own whānau too not having that awareness of what Kiwisaver can do. Just moving on to the next question: Is there a current programme which supports entities, iwi trusts etcetera, into becoming CHP providers. Robert replied back: I don't think registration as a CHP is a requirement for PHO, and the answer is no it's not a requirement, but it does help, but we will work with organizations to become PHO providers without that CHP registration. And Nigel you might want to add to that. And then, Robert also just finished off and saying: In terms of support for registration as a CHP, we absolutely want to support and see more Māori CHPs. I suggest you look at the Whai Kāinga Whai Oranga on the HUD website, rōpū can put in an expression of interest for that, including for any organisational capacity building. Alternatively, talk to TPK team in the region and they'll be able to guide you through that. Nigel did you want to add any more to that?

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
I'll go back firstly to the previous question and just note that I remember Dominic Foote mentioning how important or emphasising how important that relationship with the whānau was and being on the journey with whānau and the success rates that they've had which have been very high as well. So, in terms of whether you need to be a CHP or not, no you don't need to be a CHP and we work with potential providers to approve them for PHO and there we look, I think, in the last webinar we covered off the items around sound financial position, having the product developed, having the whānau there in the right cohort, that it works for them as well, the product. So those are the things we work on and can approve a provider for PHO and then we look at the delivery proposed for a specific scheme.

Robert MacBeth (Te Puni Kōkiri):
Mark actually, and we don't require it even for our rental housing papakāinga. But in saying that, thinking about being registered as a community housing provider or using a registered community housing provider in terms of managing collectively owned rental housing, is not a bad thing. And when I go through it with our papakāinga journey, PVATs with groups, I always raise that as a question. But if you are actually looking at a rent to own scenario in terms of progressive home ownership, although HUD doesn't require it, I reckon if you're in the business of renting houses, even for a period of time, like one of our rōpū is a rental agreement for five years and then it goes into a sale and purchase agreement. So it's rent and then shared ownership effectively, that period of time while the organisation is a landlord organisation providing a rental housing service, it needs to understand the Residential Tendencies Act, it needs to be a social housing landlord because you're dealing with whānau who might have sort of vulnerability, so I would actually actively encourage thinking about being registered or working in partnership with a registered CHP for that component, even though it's not required.

Alan Thorp (Habitat for Humanity):
I'd like to add one thing, Mark. I think just overall there is quite a lot of learning already out there. So, we've got Robert with TPK, we've got Housing Foundation with Dominic, Habitat for Humanity's been doing this for 28 years, there's a lot of learning out there already. So don't try to reinvent the wheel, but garner all of the information together and the experience together and, you know, we really want progressive home ownership to work for whānau in New Zealand.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Kia ora, thanks Alan. I've just got a final question from those that have been answered: How do we get our own financial model. Alan Thorp has answered back by saying HUD will provide a financial model and like Nigel said hopefully before Christmas. But Habitat is also willing to have a conversation to share their model with you all. So that's good and those contact details have been provided in our chat box, in the presentations and we can also offer that up to everyone after. Now I better go to the few remaining questions that are left so that our panelists can all chip in together on this. Here's a question from Matira Duncan: Has there been any thoughts around whānau labour of so many hours to help offset a full cost of a home. So, I'm thinking we're talking about sweat equity here, maybe. Panellists let's open up for anyone to start.

Robert MacBeth
I'll start. And I come from the basis that in the 1990s, when I was last in Te Puni Kōkiri, we ran a programme with the then Housing Corporation or Housing New Zealand called Kapa Hanga Kāinga which is a group self-build scheme. And an experience more recently we have done a few earthbuild, supported a few earthbuild projects. When we are talking papakāinga and we're talking about sweat equity, we say absolutely. If you want to put sweat equity in absolute that's an acceptable contribution and we will value that. What you have got to make sure is that it is actually something that can be valued in the sense that it's not something that's just said. So, we did our PVATs in our financial modelling, we have the opportunity to put in a sweat equity, but what we need to see is the corresponding actual cost that it's reducing. So, for example, if you wanted to do a sweat equity landscaping, then that cost has to be in the project costings and the value of the sweat equity reduces that. So, it's something that has to be a real reduction in the cost of the house, and we need to see the evidence of that. But yes, sweat equity is a possibility. Whare Uku I think is on whenua Māori, the trouble with the Whare Uku is that the houses are not upliftable which is the basis of the security arrangement, of Kāinga Whenua loans, so effectively on whenua Māori you can't get finance for Whare Uku which is a real shame.

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
So, Alan, I know that the Habitat model has a large degree of sweat equity, in the past it has, a large degree of sweat equity involvement, how has that evolved over time?

Alan Thorp (Habitat for Humanity)
Yes, thanks Nigel. I think the reality is that our sweat equity is part of our transaction documents in our agreement with our whānau and it's a maximum of 450 hours but that's primarily about testing their willingness to partner with us, we don't count that kind of as a value towards the home. So involved in that sweat equity now is a lot of financial literacy and education and there may be some other community hours that they need to do. So, it's really more now an indicator of their willingness to partner and it's kind of motivation to enter into the PHO model with us. So, it's not, given health and safety, and given the fact that we're purchasing houses of developer's etcetera, it's very difficult to get people involved in the construction of a house now.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Moving on to the next question: In regard to Māori whenua, as banks understand lease arrangements and the Māori Land Court have the ability to grant long term leases, could it be feasible that banks look to use a tripartite agreement created similar to the Kiwibank kāinga whenua loan. But using a lease arrangement as opposed to an LTO and, if so, would a lease agreement work with all the progressive home ownership arrangements. Let's start with you, Robert.

Robert MacBeth (Te Puni Kōkiri):
So, I've been on this journey for a little while and it's something that will be picked up as part of the access to finance, whole policy consideration, I think. Then we have an example of a papakāinga up in Raglan, Whaingaroa, where they use leasehold interests and the trusts basically issued long term leases and that sort of worked, I think that worked. We also have another example at Ratana where a new papakāinga or development there, they were looking at leasehold interests. In my experience it always ends up going back to license to occupy. Because that's a well proven and easily documented and accepted model in terms of kāinga whenua loans. It's just easier. If you're going to issue a lease, if it's an ahu whenua trust, it's going to issue a lease, it might as well just issue a licence to occupy and that's a lot easier, a lot simpler. But the thing is why it doesn't really work for the banks is this thing called reputational risk and that's always going to be the catch. Because it might have adequate security and it might feel that on paper the leasehold interest is an adequate security, but it's like that "what if" question again. What if actually the loan is in default and the bank has to take mortgagee action on that default and the risk to the reputation on the bank going on to whenua Māori and evicting a whānau from their own land is very, very difficult for a bank to accept. Which is why the kāinga whenua loan scheme is underwritten by government, Kāinga Ora. So, I think that thing around the leasehold interest acceptable on paper, but actually in practice, it still comes across that reputational risk if a bank in the unlikely, unlikely event had to take action, and I think that will always stymie things. I know it's real painful to taihoa even more, but I would hope, I have real high hope, that the work that we're going to be doing with HUDs, and looking at the whole access to finance, will actually start to uncover these things and actually work through them. And Te Matapihi as well should be there. I know a couple of years ago there was a financial wananga up in Tāmaki and we got the banks together and we looked at this and it's been a bit slow, but I've really got hope that we will get into this. And yes, at that point we will look at issues like leasehold.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Thank you, Robert. Just moving on to the final question from Selena Rika: What if the deposit is offered in affordable vendor finance contribution? Panellists, does anyone want to have a go at answering that question?

Alan Thorp (Habitat for Humanity):
Not quite sure that I understand the question but it's Alan Thorp, Selina, thanks for the question. I think, in the end, I think I answered the previous question that was along the same lines. In the end the PHO provider has its own options about obtaining finance, so the finance needs to work for family to be able to graduate into home ownership ultimately, and so if a vendor is providing finance and it's a good rate then, you know, pop it into your model as part of the calculation, I think I can answer it that way.

Nigel Hewitson (Te Tūāpapa Kura Kāinga):
And just looking at the model in totality and how the loan repayment is managed as well, it needs to be looked at, all the constituent parts need to be assessed and worked out how they're going to work.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Final words from you Robert?

Robert MacBeth (Te Puni Kōkiri):
No, no, just my final word, it's about how does it work for whānau. Make sure that whānau are safe, make sure that it is simple and that it's transparent and that whānau know when they're entering into this what are their obligations and how it all works, that's really important.

Mark Ormsby (Te Tūāpapa Kura Kāinga):
Kia ora, we're coming to the end of our webinar presentations, and I just want to thank the panelists that have joined us today and offered up their information to you all. We had Alan Thorp for his second time around back with us on the Te Aho Tāhuhu. Nigel was a second time around person and Robert, while you were a virgin prior to this, and this is your first time we'd like to probably think about getting you back for a second time in the near future. So, my mihi to all three of you for your time and your efforts today presenting to the whānau out there.

Heoi anō whānau kua tae mai nei ki mutunga o tēnei whakatūranga – te whakatūranga tuarima o Te Aho Tāhuhu. Ko te tumanako ka noho koutou ki roto i te rangi marie, te maramatanga me te whanaungatanga kei waho.

Thank you for tuning in and on behalf of the panelists here, on behalf of Te Matapihi as well as Te Tūāpapa Kura Kāinga that have brought you these webinar presentations, we wish to thank you for tuning in with us and tune back in on Thursday again to look at further continuing those webinar series. So, on behalf of all of us tēnā koutou, tēnā koutou, kia ora mai tātou katoa. Ka kite.

Questions & Answers

Episode 5
Financial Modelling

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 do we get our own financial model?	HUD will be providing a financial model. But Habitat is also willing to have a conversation to share our own model.
What if whānau are unable to purchase the remaining share over the 15-year period due to house price increases outweighing wage growth increases? What are the implications?	Great question. Habitat's model is not a shared equity model, so they purchase the house at its market value at year zero. They don't have to pay out a share of the capital gain at year 15.
Can you expand on use of 15yr HUD loan and how repaid to HUD at year 15?	The family can get a commercial mortgage for the balance of the loan at 15years, so they repay Habitat and then Habitat repays our commercial finance and repays HUD.
Can you supply those basic income thresholds for each range of home loan amount people should be looking at? Just a guide, we understand there are many components that affect this we would just like a guide.	The MHUD model will have some guides around this. Another way of testing this is using a bank calculator - e.g., the ASB bank will show how much a family with certain criteria can afford. Then consider the 50% from MHUD. But ensure that the family will be able to refinance the full amount at year 15.
To confirm: no principal repayments by Habitat to HUD during the 15 years? Full 50% HUD/PHO loan paid via whānau refinance?	Yes, no principal repayments by Habitat to HUD over the 15 years, only at year 15 or if the family settles with Habitat earlier. The family finance with a commercial loan at year 15 or before if they can.
How sensitive is the modelling to rising interest rates?	The simplistic model just has one interest rate for the 15 years. More complicated models will have potentially increasing interest rates. Clearly it is better for the family and also the CHP if the CHP can secure long term finance for at least 15 years and fix in the interest rates as long as possible.

Why not extend the acquired deposit scheme from 5yrs to either 8 or 10yrs?	There is a GST issue where our families need to have moved from renting into the purchasing phase before the end of year 5. The families' payments don't change between year 5 and 6, just the accounting for it. The family still effectively keeps accumulating a deposit after year 5.
Does TPK have funding now for us to get into this?	The Te Ara Mauwhare trial funding is fully committed. The Government's approach now is through the PHO programme led by HUD. There is an Iwi/Māori pathway, so they are geared up to support whānau Māori.
We would like to establish homeownership on Māori freehold land, does the price of housing have to reflect the status quo? **Our research shows we can buy quality homes for under 200k which we could possibly payoff within 15 years at a low weekly rent. The higher prices work well for those with a specific yearly income, what could you suggest to those who are benefit ridden due to illnesses have a good Kiwisaver and some saving?**	Just as Robert is saying, MHUD is providing 50% finance, so you will need to come up with the other 50% and will need the cashflow to support that, and then be able to pay back HUD at the end of 15 years along with your other financing.
What happens if vendor finance is offered by the developer for that 5%deposit required by Progressive Home Ownership products	It is up to the Community Housing Provider to decide how it finances the property. But clearly the finance rate makes a difference as to whether this will work or not.
Are you able to give an idea/estimate of how many people have gone through the PHO model and now own their house? **And can you also give an idea/est of how many people have 'reneged' on payments?**	Habitat for Humanity has had approximately 530 families through its PHO model. We have had a 97% success rate. We know families go through different circumstances over the 15-year period. This is why the annual grant from HUD for pastoral care support is really important, as is the initial selection of the household at the beginning.
Are there any National Housing Providers who can offer these products to those people in the regions especially where there are no CHP housing providers?	MHUD is close to finishing an affordability and feasibility tool that will be made available to the public hopefully before Christmas. If you mean products such as Rent to Own/Buy, Leasehold and Shared Equity/Ownership there are the national providers like Habitat for Humanity and the Housing Foundation that work with whānau nationally. However, they don't reach all corners of Aotearoa, so HUD is working with Māori organisations around the country to work with them in the PHO space.

Could the leasehold model work be redeveloped to work for providers that wish to build on Papakāinga / Māori land (despite Rob's korero on security issues with whenua Māori)? **Could Kāinga Whenua be combined with PHO for example?**	The Access to Finance policy work should include a review of Kāinga Whenua loans as well as other options, and how it works with PHO. Leasehold interest might work – TPK has a papakāinga example - and we know some of the other banks have shown interest in this. So maybe.
Is there a current program which supports entities/iwi/trusts/etc - into becoming CHP providers?	Registration as a CHP is a requirement for PHO - but HUD will be able to answer that. In terms of support for registration as a CHP, we absolutely want to support and see more Māori CHPs. Look at the Whai Kāinga Whai Oranga (new Budget pūtea for Māori housing) on the HUD website. Rōpū can put in an EOI for that including for organisational capacity building. Alternatively talk to the TPK team in the region and they'll be able to guide you through.
Can a developer apply to be a PHO?	Yes. Check out Episode 1 to see what criteria is required to be in PHO as a provider by visiting www.tematapihi.org.nz
Are there more details on the Leasehold model?	There is!! This was discussed on our second episode PHO Products Explained. It is discussed again in Episode 10: Home Ownership and Land Retention. You can view both episodes by visiting www.tematapihi.org.nz