Changes to the First Home Loan and Grant

First Home Loans and Grants settings are changing. From 1 April 2021 the income caps will increase and the house price caps will increase in targeted areas.

By increasing the income caps from $130,000 to $150,000, approximately 9,300 additional couples and 3700 additional singles who are currently renting will now newly qualify for the First Home Loan and Grant.

The key changes are to the caps are:

House Price Caps For New Properties by Region	New Property House Price Caps		Existing Property House Price Caps	
	Previous Caps	New Caps	Previous Caps	New Caps
Auckland	$650,000	$700,000	$600,000	$625,000
Queenstown-Lakes	$650,000	$650,000 (No Change)	$600,000	$600,000 (No Change)
Wellington City, Hutt City, Upper Hutt City, Porirua City, Kāpiti Coast District	$550,000	$650,000	$500,000	$550,000
Nelson City, Tasman District, Tauranga City, Western Bay of Plenty District, Hamilton City	$550,000	$600,000	$500,000	$525,000
Christchurch City, Selwyn District, Waimakariri District	$550,000	$550,000 (No Change)	$500,000	$500,000 (No Change)
Waipā District, Hastings District, Napier City	$500,000	$600,000	$400,000	$525,000
Waikato District, Dunedin City	$500,000	$550,000	$400,000	$425,000
Rest of New Zealand	$500,000	$500,000 (No Change)	$400,000	$400,000 (No Change)

Income Caps	Previous Caps	New Caps
Individual Buyer	$ 5,000	$95,000
Multiple Buyers	$130,000	$150,000

Examples of households benefiting from the policy changes

*All examples assume an interest rate of 4.5% and 30 years mortgage term

Two teachers with five years' experience (earning 75k each) make over $120,000 combined and with KiwiSaver and $15,000 in other savings is looking to buy an existing two-bedroom home for $500,000 in Napier.	The increased existing property price cap for Napier City has enabled this couple to access a more suitable existing home.	They will get two $5,000 First Home Grants totalling $10,000 and withdraw $25,000 from KiwiSaver, adding savings of $15,000, bringing the total to $50,000 (a 10% deposit). When accessing the First Home Loan there is a 1% insurance premium that will increase their mortgage by $4,500. They will be able to borrow the remaining $454,500 with a monthly payment of $2,300, or around 18% of their pre-tax income.
A single experienced police officer earning $95,000 with KiwiSaver but no other savings looking to buy a one-bedroom unit for $500,000 in Upper Hutt.	The higher income caps enable this person to access the First Home Products and achieve home ownership more easily.	They will get a First Home Grant of $5,000 and withdraw $20,000 from KiwiSaver, bringing their deposit to $25,000. This is a 5% deposit so to access a mortgage they use the First Home Loan. When accessing the First Home Loan there is a 1% insurance premium that will increase their mortgage by $4,750. They will be able to borrow the remaining $479,750 with a monthly payment of $2,430 or around 31% of their pre-tax income.
A single experienced nurse earning $85,000 with KiwiSaver but no other savings is looking to buy a new one or two bedroom home for $550,000 in Dunedin.	This person benefits from the increased house price cap.	They will get a First Home Grant of $10,000 and withdraw $45,000 from KiwiSaver bringing the total deposit to $55,000. Using the First Home Loan they can access a 10% mortgage. When accessing the First Home Loan there is a 1% insurance premium that will increase their mortgage by $4,950.They will be able to borrow the remaining $499,950 with a monthly payment of around $2,500, or around 35% of their pre-tax income

More examples of households benefiting from the policy changes

*All examples assume an interest rate of 4.5% and 30 years mortgage term

A couple in Tauranga who are a full-time librarian and part time experienced early childhood teacher, have a combined income of $100,000 with KiwiSaver. They are looking to buy a 2 or 3 bedroom new build home for up to $600,000.	The increased house price cap will mean they can access the First Home Grant and Loan for a higher priced house.	This couple have a 5% deposit ($30,000) which they withdraw from KiwiSaver. Using a First Home Loan, they can access a mortgage although the insurance premium of 1% will increase the mortgage by $5,700. The remainder of their mortgage is $575,700, and will have a monthly repayment of $2,920, which is 35% of their pre-tax income.
Two friends in Hamilton, a mechanic and a teacher, earning $140,000, with KiwiSaver, but no other savings is looking to buy a new three-bedroom home for $600,000.	The increased new property price cap for Hamilton has enabled these people to access a more suitable new home for them to start a family.	They will get two $10,000 First Home Grants totalling $20,000 and withdrawing $10,000 from KiwiSaver bringing the total deposit to $30,000 (a 5% deposit). Using the First Home Loan they can access a mortgage with a 5% deposit. Adding the 1% insurance premium increases their mortgage by $5,700. They will be able to borrow the remaining $575,700 with a monthly payment of $2,920, or around 25% of their pre-tax income.
A multi-generation family with four incomes (two full time and two part time) totalling $145,000 in Auckland with KiwiSaver and $20,000 in other savings, looking to buy a large new townhouse at $700,000.	They would not be able to purchase a first home in that region priced at $700,000 previously. They now qualify for the First Home Products because of the higher income caps.	They will get four First Home Grants at $40,000, and withdraw $30,000 from KiwiSaver, adding savings of $20,000, bringing the total to $90,000. Using a First Home Loan, they can access a mortgage although the insurance premium of 1% will increase the mortgage by $6,100 They will be able to borrow the remaining $616,100 with a monthly payment of $3,120, or around 26% of their pre-tax income.

Servicing costs at income and price caps overtime

The changes to the income caps and house price caps update them to be approximately equivalent in affordability terms to 2007 levels. The 2007 caps were set to ensure households could service a mortgage at the lower quartile of the housing market. Cap levels were also set to ensure that they were not so high that they would help many households that didn't need assistance.

The table below shows the comparison of the 2007 caps with the current caps:

Percentage of (pre-tax) income to service mortgage on house at highest price cap						
	1 buyer	**2 buyers**	**3 buyers+**	**House price cap**	**Income cap**	**Interest rate**
2007 – caps first agreed	**38%**	**38%**	**27%**	**$400,000**	**$100,000 1-2 buyers** **$140,000 3+ buyers**	**10.1% p.a.**
2021 – current settings	**42%**	**27%**	**27%**	**$650,000**	**$85,000 1 buyer** **$130,000 2+ buyers**	**4.5% p.a.**
2021 – new income and price caps	**40%**	**26%**	**26%**	**$700,000**	**$95,000 1 buyer** **$150,000 2+ buyers**	**4.5% p.a.**

[1] **Note the term 'real' in technical economics terms means to take into account the effect of inflation on purchasing power. The incomes described in the examples remain nominal incomes which haven't been adjusted for inflation. We recommend avoiding the use of the term 'real' in any release to avoid confusion and potentially misleading information.**