MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Poto Williams	**Portfolio**	Building and Construction
Title of Cabinet paper	Policy proposals to support earthquake-prone building owners to comply with the earthquake-prone building system	**Date to be published**	19 May 2022

List of documents that have been proactively released		
Date	**Title**	**Author**
March 2022	Policy proposals to support earthquake-prone building owners to comply with the earthquake-prone building system	Office of the Minister for Building and Construction
30 March 2022	Supporting Earthquake-Prone Building Owners to Comply with the Earthquake-Prone Building System DEV-22-MIN-0060 Minute	Cabinet Office

Information redacted **<u>YES</u> / NO**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of Confidential advice to Government

Budget: Sensitive

Office of the Minister for Building and Construction

Cabinet Economic Development Committee

Policy proposals to support earthquake-prone building owners to comply with the earthquake-prone building system

Proposal

1 I seek Cabinet's agreement to support earthquake-prone building owners, by:

   1.1 making changes to the Residential Earthquake-prone Building Financial Assistance Scheme (the Financial Assistance Scheme) to help earthquake-prone building owners in financial hardship to seismically strengthen their units.

   1.2 Confidential advice to Government

Relation to government priorities

2 The proposals in this paper relate to the government's priorities as stated in Labour's 2020 Election Manifesto, Confidential advice to Government

Executive Summary

3 The earthquake-prone building system requires territorial authorities to identify earthquake-prone buildings in their areas and for those building owners to remediate within certain timeframes. The objective of the system is to protect life safety in the event of an earthquake.

4 While good progress is being made to identify and remediate earthquake-prone buildings[1], some residential earthquake-prone building unit owners and ownership groups are struggling to comply with their remediation obligations. Remediation can be through seismic strengthening or demolition.

5 In September 2020, the Government responded to these concerns by establishing the Financial Assistance Scheme. The Financial Assistance Scheme provides suspensory loans with a discounted interest rate to owners in financial hardship who are at risk of losing their homes because they cannot afford to strengthen their units. There have been no applications to the Financial Assistance Scheme since its launch.

[1] As of 10 February 2022, 828 earthquake-prone buildings have been remediated through seismic strengthening and 204 buildings have been demolished.

6 A 12-month review of the Financial Assistance Scheme found most of the settings are working as intended. The Scheme is limited by design to a small group of residential owner-occupiers in financial hardship. The 12-month review found that the main reason potential applicants are unable to apply is because they must first have a remediation plan in place.

7 The remediation planning process is long and complex, involving a number of challenges such as collective decision-making by ownership groups with different means and motivations.

8 These challenges cannot be overcome by the Financial Assistance Scheme alone. There are, however, some Scheme settings that are unnecessarily restrictive and may be preventing a small number of potential applicants from accessing the Financial Assistance Scheme.

9 I propose to change the Financial Assistance Scheme's eligibility criteria and loan settings to make it accessible to a wider group of potential applicants whose circumstances are in line with the original intent of the Financial Assistance Scheme.

10 Confidential advice to Government

11 There may be further support required to help owners comply with their remediation obligations, particularly where seismic strengthening is not an option. I propose further work to explore medium- to long-term solutions to address any remaining risk of buildings not being remediated by their deadlines. This work will incorporate lessons learned once the changes to the Financial Assistance Scheme have been bedded Confidential advice to Government

12 If, following the implementation of the proposals above, further longer-term solutions are required, I will return to seek Cabinet's agreement in 2024.

Background

13 The current earthquake-prone building system came into effect in July 2017 under the Building (Earthquake-prone Buildings) Amendment Act 2016. It requires that building owners remediate (strengthen or demolish) their earthquake-prone buildings within set timeframes to mitigate the risk to life safety in seismic events.

14 While many owners are successfully remediating their buildings, by 2019 it became clear that a small group of residential building owners were struggling to remediate, and some stood to suffer financial hardship due to strengthening costs. Based on advice from MartinJenkins, the Ministry of Business,

Innovation and Employment (MBIE) estimated that 63-252 unit owners in high seismic risk areas could face financial hardship.

The Residential Earthquake-prone Financial Assistance Scheme was established to support residential earthquake-prone building owners experiencing financial hardship

15 In response to affordability concerns for some residential earthquake-prone building unit owner-occupiers, the Government established the $10 million Financial Assistance Scheme in Budget 2019.

16 In February 2020, Cabinet agreed that the Financial Assistance Scheme would [CBC-20-MIN-0002 refers]:

16.1 support eligible unit owner-occupiers in high seismic risk areas that are in financial hardship and cannot meet the costs of earthquake strengthening, to reduce the risk of them being forced to sell their homes/units,

16.2 provide deferred payment loans up to $250,000 with a below market interest rate,

16.3 be delivered by Kāinga Ora – Homes and Communities (Kāinga Ora), and

16.4 be reviewed 12 months following its launch.

17 In September 2020, Kāinga Ora launched the Financial Assistance Scheme. Kāinga Ora has received 44 expressions of interest to the Financial Assistance Scheme and is working to help potential applicants get to the point where they can apply. However, many of these owners are not ready to make an application because they are still working through the remediation planning process. As of February 2022, the Financial Assistance Scheme has not received any applications.

Findings of the 12-month review of the Financial Assistance Scheme

18 In October 2021, MBIE completed a 12-month review of the Financial Assistance Scheme.

19 The 12-month review confirmed most of the Financial Assistance Scheme's settings are aligned with its original intent and focus. The Financial Assistance Scheme was designed to support a specific small group of residential earthquake-prone building owner-occupiers who were experiencing financial hardship. This narrow focus was intended to minimise inequitable and unnecessary wealth transfers, particularly to property investors.

20 However, the review found that further action was required to ensure buildings could meet their remediation deadlines:

Review finding	Proposed action
There are some immediate adjustments that could make the Financial Assistance Scheme more accessible to potential applicants, in line with the original intent of the Financial Assistance Scheme.	This paper seeks agreement to make immediate adjustments to the eligibility criteria and loan settings in 2022.
There are options that could be explored to expand the scope of financial assistance available in order to help more owners remediate. These are outside the scope and intent of the Financial Assistance Scheme.	This paper notes further work is required to explore options to expand financial support.
There are wider barriers that earthquake-prone building owners face that make it challenging for them to remediate their buildings. Even with the proposed changes, the Financial Assistance Scheme alone cannot address these barriers.	Confidential advice to Government [redacted]

Immediate adjustments to make the Financial Assistance Scheme more accessible

21 The changes proposed below address the more immediate and straightforward findings of the 12-month review and are in line with the original intent of the Financial Assistance Scheme. Appendix One contains a table of the existing settings and proposed changes.

Changes to eligibility criteria

22 There are four proposed changes to the Financial Assistance Scheme's eligibility criteria.

23 First, I propose to extend the eligibility criteria to include former owner-occupiers who meet all the other eligibility criteria, on the condition that they either intend to sell their property or move back in upon strengthening.

23.1 The current eligibility criteria restrict access to the Financial Assistance Scheme to owner-occupiers. This was to ensure loans were only for those at risk of losing their homes, not residential property investors.

23.2 The 12-month review identified a group of former owner-occupiers who originally bought their units to live in, but by force of personal circumstance have had to move on and still only own a single property.

They are experiencing financial hardship and stress with no clear pathway to complete strengthening work and move on with their lives.

23.3 Many of these owners want to sell their units but are unable to because remediation obligations negatively impact the market value of earthquake-prone units, as many banks are not willing to lend on them. Others may intend to move back in once the unit has been strengthened, making them an owner-occupier once again.

23.4 I propose that the loan become repayable if these owners have not sold the unit or moved back into it within two years of it being removed from the Earthquake-prone Building Register. If the owner moves back into their strengthened unit and still meets all the other Financial Assistance Scheme eligibility criteria, their loan will revert to the normal terms.

24 Second, I propose to expand the cut-off date to include owners who bought their unit before the building was confirmed as earthquake-prone.

24.1 The eligibility criteria currently exclude any owner who bought their unit after 1 July 2017, when the current earthquake-prone building system took effect. It was assumed that buyers after this date should be aware of potential seismic remediation requirements.

24.2 The 12-month review found that some owners who bought units after the cut-off date, believing them to be not earthquake-prone, have since had their buildings reassessed as earthquake-prone.

24.3 Thousands of buildings had seismic assessments between 2006 and 2017, prior to the establishment of the current earthquake-prone building methodology. While it is uncertain how common this scenario is, Wellington City Council officials confirmed that engineering reassessments that result in buildings being reclassified as earthquake-prone after the cut-off date are expected.

24.4 For owners in this situation, the assumption that buyers should be aware of potential seismic remediation requirements does not hold true. Without support through the Financial Assistance Scheme, some owners may not be able to remediate their buildings without suffering financial hardship for costs that they could not have reasonably foreseen.

25 Third, I propose that, where it is not feasible for a building to obtain full insurance cover, a loan may be granted where the building has fire cover and where strengthening will bring the building to an insurable level.

25.1 Financial Assistance Scheme loans are required to be secured by a mortgage, charge, or another security against the unit's record of title (or equivalent). This means owners must have full building insurance to be eligible. This was intended to secure the loan and protect the Crown's interests in case the building was damaged or destroyed.

Bodies corporate are also required to hold full insurance under the Unit Titles Act 2010.

25.2 Some earthquake-prone buildings cannot secure full building insurance that includes earthquake cover, either because no company will offer it or because the premiums are unaffordable. Owners face a ‘Catch-22’: they cannot fully insure the building until it is strengthened, but they cannot access funds to strengthen the building until it is fully insured.

25.3 This proposal exposes the Crown (as the lender) and unit-owners (as borrowers) to increased financial risk in the unlikely event that an earthquake occurs while the building is being strengthened. The buildings would have EQCover[2], which automatically attaches to homes with a private fire insurance policy. However, they would be underinsured for any loss of value above the EQCover cap. If the building were damaged beyond repair, the government would have the option of recovering the loan from the EQCover payment, functionally decreasing the compensation owners would have for the loss of their property’s value. Potential applicants will be made aware of this risk. Such a scenario would also somewhat increase the risk of loan defaults.

25.4 The proposed change could also involve lending to owners who are in breach of the insurance requirement under the Unit Titles Act 2010.

25.5 I see these risks as minor, and necessary to ensure that the building is strengthened and becomes fully insurable, enabling owners to meet their requirements under both the Unit Titles Act and the earthquake-prone building system.

26 Fourth, I propose to remove the requirement for a consumer credit report.

26.1 Applicants for the Financial Assistance Scheme are required to have an adequate credit history. There is also a requirement to undergo a consumer credit report to check basic creditworthiness.

26.2 The creditworthiness check is aligned with general bank loan practice. However, the Financial Assistance Scheme is intended to assist those in financial hardship as a lender of last resort. If potential applicants have poor credit and cannot access finance, they may be unable to remediate their buildings.

26.3 General creditworthiness and borrower behaviour are less relevant to a deferred payment loan than they are to a traditional mortgage. A deferred payment loan is not regularly serviced like a mortgage – a loan becomes repayable only when the owner sells the unit, moves out, or passes away.

[2] The proposed insurance eligibility setting would mean unit owners would have cover for damages up to $150,000 via EQCover. The EQCover maximum amount is increasing from $150,000 to $300,000 to cover damage caused by natural disasters, starting from 1 October 2022.

26.4 To mitigate any increased risk to the Crown, Kāinga Ora will still be required to do basic due diligence, for example checking for insolvency or another defaulted loan.

Changes to loan settings

27 There are two proposed changes to the Financial Assistance Scheme's loan settings.

28 First, I propose to remove the establishment fee.

28.1 An establishment fee is required to be paid by any successful applicant to cover half of the expected Financial Assistance Scheme administration costs (up to $500). This fee was intended to contribute to recouping administration costs and to deter frivolous applications.

28.2 The administrative effort required to track and invoice applicants for the cost of establishing the loan outweighs the funds that would be recouped through the $500 fee. Kāinga Ora also advises that the fee is not required to deter frivolous applications, as the application process is sufficiently time-consuming and involved to be an adequate deterrent.

29 Second, I propose to reduce the interest rate to 50% of the Reserve Bank's monthly average of five-year fixed interest rates and remove the low-equity margin.

29.1 Financial Assistance Scheme loans attract a below-market interest rate to balance affordability for potential applicants and incentivising repayment. The interest rate was set at 60% of the Reserve Bank's monthly average of five-year fixed interest rates plus a low-equity margin of 1.25%.

29.2 The low-equity margin was added on the basis that potential applicants are higher risk borrowers because their regular lender is not prepared to lend to them. However, the 12-month review found that many potential applicants had high equity in their homes and were not able to get lending from a bank due to their building's earthquake-prone status, rather than their risk profile as a borrower.

29.3 Because the loans are for strengthening, the Government can expect an uplift in the value of the asset after the work is done, mitigating the risk associated with genuinely lower-equity borrowers.

29.4 Changing the interest rate to 50% of the Reserve Bank's monthly average of five-year fixed rates will make the interest rate clearer and easier for potential applicants to understand. This more discounted rate may further incentivise remediation and appeases concerns about increasing interest rates.

29.5 Interest rates will continue to be fixed for five years with rate reviews at loan anniversary to keep the rate of interest aligned with market trends over time, with certainty for borrowers and the Crown alike.

29.6 As discussed in the 'Financial Implications' section, reducing the interest rate charged will require adjustments to the amounts allocated in the appropriation to give effect to the Financial Assistance Scheme.

Administrative matters

30 I propose to allow Kāinga Ora's Chief Executive discretion with regards to the purchase cut-off date, and the point at which a loan becomes repayable, to respond to exceptional circumstances.

30.1 Currently the Chief Executive of Kāinga Ora has discretion regarding the owner eligibility criteria and the maximum loan amount but not the unit and building eligibility criteria or other loan settings.

30.2 The 12-month review revealed high variability in earthquake-prone buildings owners' circumstances. There are likely to be exceptional circumstances that arise that are not covered by the changes already proposed.

30.3 I propose to give the Chief Executive the flexibility to consider these circumstances as they arise, on a case-by-case basis. I do not intend this discretion to extend to the requirement that a building be earthquake-prone, and in a high seismic risk area.

31 I propose that Cabinet authorise the Minister for Building and Construction, in consultation with the Minister of Finance, to make changes to the Financial Assistance Scheme consistent with the intent and parameters agreed to in this Cabinet paper.

31.1 Currently, Cabinet agreement is required for any changes to Financial Assistance Scheme settings. This provides strong oversight but makes it difficult for the Scheme to adapt to new circumstances or new information about people's needs. Delegating future adjustments will provide flexibility to respond to new evidence and insights that emerge over time.

31.2 Any significant proposals for change that depart from the Financial Assistance Scheme's original policy objective and/or have financial implications would still require Cabinet approval.

Options to expand the scope of financial assistance available, in order to help more owners remediate

32 The 12-month review of the Financial Assistance Scheme identified financial barriers other than strengthening costs that were faced by building owners. It recommended considering:

32.1 The impact of receiving a loan on eligibility for the Accommodation Supplement. I have directed MBIE to report back to me (and other Ministers as appropriate) in September 2022 with advice.

32.2 Providing financial assistance for costs in the remediation planning process, such as engineering reports and technical advice. Confidential advice to Government [redacted]

32.3 Providing financial assistance for individual costs during the remediation process, such as storage and alternate accommodation. Stakeholders also recommended considering whether owner-operators of small, non-residential earthquake-prone buildings who are in financial hardship should be eligible for financial assistance. These options are well beyond the original scope and intent of the Financial Assistance Scheme and require further investigation to determine their likely effectiveness and impacts. Confidential advice to Government [redacted]

Confidential advice to Government [redacted]

There are significant barriers faced by earthquake-prone building owners that cannot be addressed by the Financial Assistance Scheme alone

33 Even with my proposed changes, the Financial Assistance Scheme cannot unblock the wider barriers faced by earthquake-prone building owners in the remediation planning process.

34 The Financial Assistance Scheme supports a specific group of individual unit owners. However, many barriers to remediation planning are faced by owner groups, who must work collectively to make a remediation plan.

35 MBIE's targeted consultation and 12-month review confirmed wider barriers to getting a remediation plan in place:

35.1 **Complexity and capability** – some owners and groups become overwhelmed by the complexity of legal obligations, planning rules, construction methods, regulations and remediation options.

35.2 **Uncertainty** – owners' feelings of uncertainty can contribute to their struggles in making remediation plans. For example, some hope that their remediation requirements will be removed, or that more financial support will become available.

35.3 **Seismic strengthening work is unaffordable or unviable** – there is no support designed for building owners whose buildings cannot feasibly be strengthened. Demolition or on-sale are considered unpalatable remediation options by some owners.

35.4 **Decision-making** – it is difficult to make collective decisions when not all owners agree, or have differing motivations and financial means.

35.5 **Engaging with contractors** – engaging with professional services (such as engineers) and getting the right information from the right people to inform their remediation planning can be difficult.

Unaddressed, these barriers may prevent some buildings from being remediated in time, leading to safety risk

36 Confidential advice to Government

37 Confidential advice to Government

38 Non-compliance with remediation deadlines could undermine the long-term success of the earthquake-prone building system at mitigating life safety risk, and lead to the need for costly and time-consuming enforcement measures.

39 Confidential advice to Government

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42 Confidential advice to Government

42.1 Confidential advice to Government

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52 Confidential advice to Government For example, if a building cannot feasibly be strengthened and the owners cannot find a market purchaser, their remediation options will be extremely limited.

53 There may be opportunities for Government to support positive outcomes for buildings in these and other challenging situations, potentially while supporting the Government’s wider goals such as affordable housing. Examples include:

53.1 Confidential advice to Government

53.2 Confidential advice to Government [redacted]

53.3 Confidential advice to Government [redacted]

54 Due to the potential complexity, implications and scale of these actions, I have directed MBIE to explore these and other opportunities as further information about buildings' complex circumstances comes to light.

55 Confidential advice to Government [redacted]

56 Confidential advice to Government [redacted]

Implementation

57 Key milestones and timeframes are outlined in the table below:

Milestone/Activity	Timeframe
Cabinet decisions	4 April 2022
Proactive release of Cabinet paper, associated minutes and the Financial Assistance Scheme 12-month review subject to any necessary redactions.	30 business days of final Cabinet decisions
Agreed changes to Financial Assistance Scheme take effect	
Budget 2022 announcements	May 2022
Confidential advice to Government [redacted] MBIE reports back to Minister for Building and Construction on impact of receiving a Financial Assistance Scheme loan on eligibility for the Accommodation Supplement Confidential advice to Government [redacted]	September 2022
Confidential advice to Government [redacted]	To be determined

Confidential advice to Government	Confidential advice to Government
Confidential advice to Government	Confidential advice to Government
Confidential advice to Government	Confidential advice to Government

Financial Implications

Changes to eligibility criteria

58 My proposed changes to the eligibility criteria for the Financial Assistance Scheme do not require any additional funding.

59 The proposals aim to enable applicants to access loans as originally intended, not substantially increase demand. While there will be a slightly larger pool of eligible candidates, I do not expect these changes will result in the Financial Assistance Scheme becoming oversubscribed, as there is substantial funding available ($10 million capital) and there have been no applications to date.

60 Quarterly reporting provides me with oversight, enabling me to monitor and respond appropriately in the unlikely scenario that there are unforeseen financial implications.

Refreshed view of appropriations for the Financial Assistance Scheme, reflecting changes to the interest rate

61 Decreasing the interest rate for Financial Assistance Scheme loans is expected to increase the concessionary interest expense required for the loan scheme. This difference must be recognised as an expense under accounting standards. This is a non-cash accounting adjustment.

62 I propose to increase the Scheme's appropriation by $1.3m to accommodate this expense and enable the proposed changes to the interest rate.

Legislative Implications

63 There are no legislative implications for the proposals in this paper.

Impact Analysis

Regulatory Impact Statement

64 The proposals in this paper are not subject to Cabinet's impact analysis requirements, as they do not relate to the introduction of new primary or secondary legislation, or changes to or the repeal of existing legislation. For this reason, a Regulatory Impact Statement has not been prepared.

Human Rights

65 The proposals in this paper have no implications under the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993. There are no gender implications arising from this paper.

Population Implications

66 The proposals in this paper will impact sub-groups of building owners in New Zealand. MBIE does not have data on the ethnic or gender make-up of this group, so are not able come to any conclusions about the distributional impact on any of the above groups with certainty. However, indications are that as this group are property owners they collectively are unlikely to reflect the full spectrum of Aotearoa, New Zealand's communities.

Consultation

67 Proposals in this paper have been informed by targeted consultation with the earthquake-prone building system stakeholders including residential earthquake-prone building owners and ownership groups, Inner-City Wellington, high seismic risk territorial authorities and Kāinga Ora.

68 Confidential advice to Government

69 MBIE has received general support from Kāinga Ora, the Ministry of Housing and Urban Development, the Earthquake Commission, the Ministry of Social Development and the Treasury through consultation on the proposals that relate to their work.

Communications

70 I intend to meet with Inner-City Wellington to discuss changes to the Financial Assistance Scheme prior to issuing a press release to communicate the changes to the Financial Assistance Scheme.

71 Confidential advice to Government

72 I propose to publicly release the report on the 12-month review of the Financial Assistance Scheme when the Cabinet paper is proactively released.

73 Any agreed changes to the Financial Assistance Scheme will be made operational by Kāinga Ora within 30 business days of final decisions by Cabinet.

Proactive Release

74 I intend to proactively release this Cabinet paper, associated minutes and the Financial Assistance Scheme 12-month review by publishing them on MBIE's

website within 30 business days of final decisions by Cabinet, subject to any necessary redactions.

Recommendations

The Minister for Building and Construction recommends that the Committee:

Proposed changes to the Residential Earthquake-prone Building Financial Assistance Scheme

1 **note** that the 12-month review of the Residential Earthquake-prone Building Financial Assistance Scheme (Financial Assistance Scheme) found the Financial Assistance Scheme's settings are mostly in line with its policy intent, but there are some settings that could be improved;

2 **agree** the following changes to the Residential Earthquake-prone Building Financial Assistance Scheme, to be given effect within 30 business days of final decisions by Cabinet:

Changes to eligibility criteria

2.1 **agree** to expand the owner-occupier eligibility requirement to include former owner-occupiers who meet the other eligibility criteria, on the condition that they sell their property or move back in within two years of the property being removed from the Earthquake-prone Building Register;

2.2 **agree** to expand the cut-off date to include owners who purchased their unit prior to the date that their building was confirmed as earthquake-prone;

2.3 **agree** to require that loans be secured by full insurance where possible, and where full cover is not feasible a loan may be granted where the building has fire cover and where strengthening will bring the building to an insurable level;

2.4 **agree** to remove the requirement for a consumer credit report;

Changes to loan settings

2.5 **agree** to remove the requirement that successful applicants pay half of the actual cost of establishing the loan (establishment fee);

2.6 **agree** to adjust the interest rate to 50% of the Reserve Bank's monthly average of five-year fixed interest rate and remove the 1.25% low-equity margin;

Financial recommendations

2.7 **agree** to an increased appropriation for a non-cash accounting expense, for the initial recognition of the fair value write-down of loans and investments in the Earthquake Prone Building appropriation;

2.8 **approve** the following changes to appropriations with a corresponding impact on the operating balance only:

	$m – increase/(decrease)				
Vote Building and Construction	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26 & outyears**
Operating Balance and Net Core Crown Debt Impact	-	-	-	-	-
Operating Balance Only Impact	-	1.300	-	-	-
Net Core Crown Debt Only Impact	-	-	-	-	-
No Impact	-	-	-	-	-
Total	**-**	**1.300**	**-**	**-**	**-**

	$m – increase/(decrease)	
Vote Building and Construction **Minister of Building and Construction**	**2021/22 to 2024/25**	**2025/26 & Outyears**
Non-Departmental Other Expense: Residential Earthquake-Prone Buildings Financial Assistance Scheme: Fair value write down (funded by revenue Crown)	1.300	-

2.9 **note** that the indicative spending profile for the multi-year appropriation described in recommendation 3 above is as follows:

	$m – increase/(decrease)				
Indicative annual spending profile	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26 & Outyears**
	-	1.300	-	-	-

Administrative changes

2.10 **agree** to allow the Chief Executive of Kāinga Ora discretion to approve loans that would otherwise fall outside of the purchase cut-off date building eligibility requirement (but not the requirements regarding high seismic risk and earthquake-prone status);

2.11 **agree** to allow the Chief Executive of Kāinga Ora discretion regarding when a loan becomes repayable, to allow for exceptional circumstances;

2.12 **agree** to authorise the Minister for Building and Construction, in consultation with the Minister of Finance, to make changes to the Residential Earthquake-prone Financial Assistance Scheme consistent with the intent and parameters agreed to in this Cabinet paper;

2.13 **note** that the report on the 12-month review of the Scheme will be publicly released along with the proactive release of this Cabinet paper;

Options that could be explored to expand the scope of financial assistance available, in order to help more owners remediate

3 **note** that the Ministry of Business, Innovation and Employment will further investigate and advise me on the impact of a Financial Assistance Scheme loan on eligibility for the Accommodation Supplement;

4 **note** that the Ministry of Business, Innovation and Employment will explore options to expand the financial assistance available in order to help more owners remediate, and report back to the Minister for Building and Construction (and other Ministers as appropriate);

Confidential advice to Government

5 Confidential advice to Government

6 Confidential advice to Government

6.1 Confidential advice to Government

6.2 Confidential advice to Government

6.2.1 Confidential advice to Government

6.2.2 Confidential advice to Government

6.2.3 Confidential advice to Government

6.2.4 Confidential advice to Government

6.3 Confidential advice to Government

6.4 Confidential advice to Government

7 Confidential advice to Government [redacted]

8 Confidential advice to Government [redacted]

Possible further interventions to support building remediation

9 **note** these interventions alone might not be enough to ensure certain difficult buildings are remediated and that the government may need to consider other options;

10 **note** that MBIE will explore longer-term opportunities to support remediation while supporting Government's wider goals, as further information about buildings' complex circumstances comes to light.

Authorised for lodgement

Hon Poto Williams

Minister for Building and Construction

Appendices

Appendix 1: Current settings and proposed changes to the Residential Earthquake-prone Building Financial Assistance Scheme

Appendix 1: Current settings and proposed changes to the Residential Earthquake-prone Building Financial Assistance Scheme

Table 1: Proposed changes to owner eligibility criteria

Current eligibility criteria An owner must be all of the following:	Proposed change
1. Experiencing financial hardship (unable to secure a loan to cover the costs of seismic strengthening without significant financial hardship)	No change
2. A New Zealand Citizen, ordinarily resident in New Zealand or an overseas person allowed under the Overseas Investment Act 2005	No change
3. An owner-occupier of that unit for the duration of the loan	An owner-occupier of the unit, OR A former owner-occupier who owns a single property, on the condition that within two years of the property being removed from the Earthquake-prone Building Register the owner must either: • sell their property, or • move back in.
4. Having an adequate credit history, including undergoing a consumer credit report to check basic creditworthiness; Not being: • in default of a mortgage, charge, or another security • subject to a Court Order or Tenancy Tribunal Order	Having an adequate financial standing, based on not being: • in default of a mortgage, charge, or another security • subject to a Court Order or Tenancy Tribunal Order • currently insolvent
5. The Chief Executive of Kāinga Ora has discretion to approve loans that would otherwise fall outside of agreed owner eligibility criteria	No change

Table 2: Proposed changes to unit and building eligibility criteria

Current eligibility criteria A unit must be all of the following:	Proposed change
6. Purchased before 1 July 2017	Purchased before 1 July 2017, *or* purchased prior to the date that the building was confirmed as earthquake-prone
7. Within a building in an area of high seismic risk, which is two or more storeys in height and contains three or more household units (or is a household unit within a mixed-use building)	No change
8. Within a building subject to a territorial authority-issued EPB notice	No change
9. In cases where unit or building eligibility criteria are unfulfilled, the applicant is not able to seek discretion from the Chief Executive of Kāinga Ora	The Chief Executive of Kāinga Ora will have discretion to approve loans that would otherwise fall outside of the purchase cut-off date building eligibility requirement (but not the requirements regarding high seismic risk and earthquake-prone status)

Table 3: Proposed changes to loan settings

Current loan settings	Proposed change
10. Loans are for only for seismic retrofit to achieve seismic performance up to 100% NBS	No change
11. The maximum loan secured against any one unit will not exceed $250,000 (but with discretion for the Chief Executive of Kāinga Ora to approve amounts above this level on a case-by-case basis)	No change
12. Loans become repayable: • On the unit's sale or disposal • 12 months after the last owner's death • Borrower default • If the unit owner is no longer an owner-occupier	The Chief Executive of Kāinga Ora will have discretion on when a loan becomes repayable, to allow for exceptional circumstances.
13. Provides for voluntary loan repayment (with no early repayment fees)	No change
14. The Scheme will not pursue negative equity	No change

15. The obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML Act) and the Financial Services Providers (Registration and Dispute Resolution) Act 2008 (FSP Act) will be met	No change
16. Loans will be secured by a mortgage, charge, or another security against the unit's record of title (or equivalent)	Loans will be secured by a mortgage, charge, or another security against the unit's record of title (or equivalent) where possible. Where it is not feasible for the building to obtain full earthquake insurance cover but the building does have fire cover (as required for EQCover eligibility), and where strengthening will bring the building to an insurable level, a loan may be granted
17. Applications to the Scheme will close on 30 June 2027	No change
18. Successful applicants to pay half of the actual cost of establishing the loan (establishment fee) to a maximum of $500.00	Successful applicants are not required to pay an establishment fee
19. Scheme settings to be reviewed 12-months after becoming operative	No change

Table 4: Proposed changes to interest rate settings

Current interest rate settings	Proposed change
20. A below market rate of interest set at 60% of the sum of: • the Reserve Bank's monthly average of five-year fixed interest rates; and • a low-equity margin of 1.25%	A below market rate of interest set at 50% of the Reserve Bank's monthly average of five-year fixed interest rates
21. Interest rates are fixed for five-years with rate reviews at loan anniversary; and interest rates will be calculated daily and compound annually	No change