

# DRAFT FOR CONSULTATION

## **Student Loan Scheme (First Home Repayment Diversion) Amendment Bill**

Member's Bill

### **Explanatory note**

#### **General policy statement**

This Bill's purpose is to assist New Zealanders with student loans to save a deposit for their first home. It allows compulsory student loan repayments, or a nominated percentage of the repayments to be delayed and diverted to a first home deposit saving scheme.

New Zealanders working hard after studying deserve to be able to set themselves up with a home before worrying about the IRD claiming back student loans. They deserve to be able to save their own money and buy their first home to take care of their family.

The difficulties of saving for a deposit are one of the main barriers to Kiwis buying their first home and a driver behind declining home ownership rates and increasing rentals dependence. Many younger New Zealanders struggle to save for a first home deposit particularly when 12% of their income before tax goes on compulsory student loan repayments.

Currently borrowers can receive a student loan repayment holiday when travelling overseas for 1 year and it is an issue of fairness that those who stay, work, and save in New Zealand can't access a repayment break too. This Bill allows student loan borrowers to opt-in to diverting up to the equivalent of 12% student loan repayments into a first home deposit saving scheme. The diverted compulsory repayments can only be withdrawn for a first home or for repayment of the borrower's student loan. At any point the borrower can choose to transfer the funds back into the student loan account. The saving scheme can be used in conjunction with KiwiSaver withdrawal and the First Home Deposit.

Tertiary education is an investment in the future of New Zealand and New Zealanders and while this change comes at a cost to the Crown from longer student loan repay-

ment lengths it is worth it to help working New Zealanders be able to save their own money to buy their own home.

### Clause by clause analysis

*Clause 1* is the Title clause.

*Clause 2* provides that the Bill comes into force 6 months after the date on which it receives the Royal assent.

*Clause 3* states that the Student Loan Act 2011 is amended by the Bill.

*Clause 4* inserts a *new Part 3A* providing for the establishment of the first home student loan repayment diversion facility that allows a borrower's compulsory repayments to be diverted to a first home savings account established by the Commissioner for the borrower.

*Clause 5* amends section 215 to provide a regulation-making power to prescribe rules for the effective administration of the first home repayment diversion facility established under *new Part 3A* and to prescribe time and monetary limits on first home savings accounts.

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### **The Parliament of New Zealand enacts as follows:**

#### **1 Title**

This Act is the Student Loan Scheme (First Home Repayment Diversion) Amendment Act **2016**.

#### **2 Commencement**

This Act comes into force on the day that is 6 months after the date that it receives the Royal assent.

### 3 Principal Act

This Act amends the Student Loan Scheme Act 2011 (the **principal Act**).

### 4 New Part 3A inserted (First home repayment diversion)

After Part 3, insert:

## Part 3A

### First home repayment diversion

#### 132A Purpose of Part 3A

The purpose of this Part is to provide for a first home repayment diversion facility that allows a borrower's compulsory repayments, or a nominated percentage of those repayments, to be diverted to a first home savings account established by the Commissioner for the borrower.

#### 132B Interpretation

In this Part, unless the context otherwise requires,—

**authorised withdrawal** means a withdrawal made under **section 132D(4)**

**compulsory repayment** means a payment that a borrower is required to make to meet the borrower's repayment obligations under Part 2

**first home** means an estate in land located in New Zealand (whether alone or as a joint tenant or a tenant in common) that—

- (a) is, or is intended to be, the principal place of residence for the borrower or for the borrower and members of the borrower's family; and
- (b) is the first such estate in land held by the borrower

**first home diversion** means the diversion of a compulsory repayment or a nominated percentage of a compulsory repayment into a first home savings account in accordance with **section 132D(3)**

**first home savings account** means a savings account established in accordance with, and subject to, the requirements of **section 132D**

#### 132C Who may apply for first home repayment diversion

A borrower with repayment obligations may apply to the Commissioner for first home diversion in accordance with requirements prescribed by regulations.

#### 132D First home savings account

- (1) If a borrower applies for first home repayment diversion in accordance with **section 132C** the Commissioner must establish a first home savings account for the borrower.
- (2) A borrower is entitled to only 1 first home savings account.

- (3) A borrower may divert all of, or a percentage nominated by the borrower of, his or her compulsory repayments into a first home savings account.
- (4) A borrower with a first home savings account may only withdraw money from a first home savings account in a single lump sum, (an **authorised withdrawal**), to—
  - (a) purchase a first home; or
  - (b) repay the borrower's student loan.
- (5) The Commissioner must deposit every compulsory repayment, or nominated percentage of a compulsory repayment received from the borrower after the date the first home savings account is established, into that account until the earlier of the following events:
  - (a) an authorised withdrawal is made from the account:
  - (b) the expiry of a prescribed diversion period:
  - (c) a prescribed savings limit is reached.
- (6) If a prescribed savings limit is reached, every subsequent compulsory repayment, or nominated percentage of a compulsory repayment received from the borrower, is applied to the borrower's loan, and any surplus is payable to the borrower.
- (7) The Commissioner closes a first home savings account on the earlier of the following dates:
  - (a) the day after an authorised withdrawal is made:
  - (b) if a diversion period has been prescribed, the day after the expiry of the diversion period.
- (8) If the Commissioner closes a first home savings account, the balance (if any) is applied to repay the borrower's loan, and any surplus is payable to the borrower.
- (9) If a diversion period or a savings limit has been prescribed, the Commissioner must give the borrower reasonable notice that a diversion period will expire or a savings limit may be exceeded.

**132E Effect of first home repayment diversion on repayment obligations**

- (1) If a borrower diverts his or her compulsory repayment in full to his or her first home savings account, the borrower's repayment obligations under Part 2 are reduced to zero during the period the borrower repays into a first home savings account, provided that the borrower's diverted compulsory repayments are received in full by the Commissioner on the dates due.
- (2) If a borrower does not divert his or her compulsory repayment in full to his or her first home savings account, the borrower's repayment obligations are reduced by the nominated percentage of compulsory repayment during the period the borrower has a first home savings account, provided that the borrower's

compulsory repayments are received in full by the Commissioner on the dates due.

- (3) A borrower's repayment obligations remain enforceable to the extent that compulsory repayments are not received or diverted by the Commissioner during the period the borrower has a first home savings account.
- (4) For the purpose of the application of the PAYE rules under section 70, the repayment codes prescribed in section 34 continue to apply during the period a borrower has a first home savings account.

## 5 Section 215 amended

After section 215(h), insert:

- (ha) prescribing rules for the effective administration of the first home repayment diversion facility established under **Part 3A**, including rules—
  - (i) for the administration of first home savings accounts:
  - (ii) prescribing a diversion period for the purpose of **section 132D(5)(b)**:
  - (iii) prescribing a savings limit for the purpose of **section 132D(5)(c)**.