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Financial System Policy and Analysis Department
Reserve Bank of New Zealand
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LVR Consultation December 2020
By Email: macroprudential@rbnz.govt.nz

Thank you for the opportunity to offer our views on the reinstatement of loan-to-value ratio (LVR) restrictions on residential mortgage lending from 1 March 2021. We support the immediate reinstatement of these restrictions to mitigate the extremely negative impacts on housing affordability which resulted from their removal in April 2020. In addition, we again call on the Reserve Bank to take a more active role in ensuring the affordability of housing.

1. Community Housing Aotearoa (CHA) is a peak body for the community housing sector. In order to achieve our vision of 'all New Zealanders well-housed', we have a strategic focus on supporting a well-functioning housing system, and working toward the progressive realisation of the right to housing.
2. Our 90 provider members are home for nearly 30,000 kiwis nationally across 18,000 homes, and our 19 partner members include developers, consultants and local councils. Community Housing Providers (CHPs) are primarily not for dividend entities that develop, own and manage social and affordable housing stock, with rental and progressive homeownership tenure offerings. We work closely with Te Matapihi, which represents Iwi-based and Māori community housing providers. More about us can be found [here](#).
3. Banks are significant lenders to our sector providers. Our members are classified as investors and subject to the commercial - rather than residential – lending requirements and programmes in place. Although they are supporting government efforts to provide affordable housing, there are no settings that recognise – or incentivise – banks and financial institutions to provide preferential lending to the not for dividend community housing sector. We and our partners have made previous submissions, on the LVR changes and to the financial markets authority consultation, raising these issues.

Problem definition for this policy

4. We are concerned with the sharp increase in house price inflation and the continued lack of a mandate for the Reserve Bank to target house prices. Whilst the RBNZ looks at the risks this poses for financial stability, the limited scope to address the negative impacts on society of extremely unaffordable housing risk allowing continued pressures to build which could undermine the overall perceived legitimacy of government institutions and their adopted policy and regulatory settings. The risks are greater than just the banking sector.
5. We are concerned with the impacts on households of the high house price-to-income ratios and household debt levels relative to both international comparator countries and historical averages. Should the current historically low interest rates begin to rise, there is potential for widespread defaults impacting both households and the banking sector.
6. We share the RBNZ's concern about the increase in high-LVR lending to investors since the restrictions were removed. We believe this has directly contributed to the further deterioration in house price-to-income ratios and household debt levels for households with mortgages. We also believe it has contributed to rising homelessness through the deteriorating affordability of homes and rents.

Policy proposal

7. We support the reinstatement of LVR restrictions as a necessary step to meet the RBNZ's focus on financial stability, but more importantly, to help ease pressures on lower income households to maintain a roof over their heads.
8. We again call upon the Reserve Bank to work with banks and financial institutions to provide preferential lending to the not for dividend community housing sector that recognises they are not driven by the same economic factors as profit-oriented investors. Doing so will assist the government to achieve its stated goals in ending child poverty, and to see homelessness become rare, brief, and non-recurring. Doing so will also assist in the progressive realisation of the right to housing.

Impacts on reinstating LVR restrictions

9. We agree with the RBNZ's assessment that high-LVR investor lending will fall rather than rise by reinstating the restrictions. We also agree that the impact on owner-occupiers will be more muted.
10. We agree with the analysis that the original imposition of LVR restrictions and the further tightening of those helped to moderate house price inflation.
11. We do not share the RBNZ's expectation of a small negative impact on economic activity from reinstatement. We believe that the current house price and rent levels

are stifling consumption and negatively impacting on households and the economy.

12. We do not foresee an impact on the supply of rental property due to the reinstatement of the LVR restrictions, primarily due to the exemption regime on new build investments. We hope that by mitigating house price inflation more first homebuyers can enter the market and somewhat ease competition for existing rental housing.

In summary, we support the reinstatement of the LVR restrictions. We again call upon the RBNZ to work with banks and financial institutions to provide preferential lending to the not for dividend community housing sector to further ease the negative impacts of high house price-to-income ratios and household debt levels both on households and as a risk to financial stability.

We would welcome a discussion with you on the above points.

Kind regards



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