Community Housing Aotearoa
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28/02/2022

Community Housing Aotearoa – Ngā Wharerau o Aotearoa (CHA) thanks the Reserve Bank of New Zealand – Te Pūtea Matua (RBNZ) for the opportunity to share our perspectives on the implementation of Debt Serviceability Restrictions. We have prepared this submission in response to the questions posed in the "Debt Serviceability Restrictions – Consultation Document" released November 2021.

CHA is an Incorporated Society and a peak body for the community housing sector. 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 realisation of the right to housing. We are also mindful of the larger institutional and regulatory settings within which our members and other community organisations operate.

Our 75 provider members provide homes for nearly 30,000 kiwis nationally across 18,520 homes, and our 30 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 national Māori housing advocate Te Matapihi, which represents Iwi-based and Māori community housing providers. More about us can be found here.

Our submission on the questions posed in the consultation document is as follows:

Q1: Do you have any comments on the potential interaction between DSRs and other policy measures related to the housing market?
CHA believes that DSRs are one of the many tools which need to be implemented to improve the housing outcomes and the associated wellbeing of Aotearoa's people and communities. The emphasis of recent Government policy has been to increase housing supply. While important, there is little evidence to suggest this will substantively improve affordability on its own. DSRs provide a tool which can be used in conjunction with residential construction stimulus and other housing policies to ensure greater affordability and more positive outcomes over the long term. The implementation of DSRs is supported by CHA as we believe they may dampen demand from over-leveraged buyers and mitigate further house price increase. Any negative impact on FHBs felt as a result of DSR implementation could be mitigated by further governmental FHB policies (grants, tax credits, other forms of investment, etc.), while recorrecting towards a more sustainable and lower leveraged housing market from which we can all benefit.

Implementing DSRs will increase the long-term stability of the financial system and housing market. Other policy measures can then be utilised to address priorities for groups within these regulatory guardrails.

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Q2: Do you have any comments on the problem definition for DSRs?

The problem definition is an excellent qualitative and quantitative description of the pressures currently facing the housing market. Prospective homeowners and investors are increasingly purchasing homes at higher DTIs due to low interest rates, the availability of credit, and a raft of other policies which has made property investment profitable. The resulting unsustainable house price growth has excluded entry onto the property ladder for many households and has contributed to the sharp increase in rents. Many FHBs who have secured loans have done so at objectively unsustainable DTI levels in the event of increased interest rates, which are now trending upwards.

Q3: Are there any other policy options we should consider to address the issues set out in the problem definition?

We agree with the examination of test interest rate floors and DTI ratios to address the issues set out in the problem definition. An eventual examination of DSTI is supported by CHA, however, we appreciate this may be time intensive and support the prioritization of the decided tools. All policy options should be implemented which will begin to resolve the affordability issues as established in the problem definition. When the housing system is operating sustainably, effectively, and affordably it allows our CHP members to better serve their communities by lessening the reliance on their services and finite resources. DSR implementation in conjunction with other central government tools – such as tax credits, increased FHB grants, and expanding investments into the community housing provider and progressive homeownership sectors - will deliver greater housing outcomes for all.

Q4: How should other types of income be treated in DTI calculations?

CHA agrees with the RBNZ's preference that gross income be taken into account when calculating DTIs. As stated, there are a number of logistical issues in calculating "net income" which will add additional efficiency costs in the administration of credit. Under a similar logic, CHA agrees with the RBNZ regarding the flexibility for banks to apply their internal assessment tools for other irregular incomes in DTI equations along with a speed limit.

Q5: How should different types of debt be treated in DTI calculations?

CHA agrees with RBNZ's assertion that DTIs should take into account the unweighted totality of household debt, not just that held as mortgage debt as stipulated in paragraph 70 and 71 of the consultation document. DTIs should apply to all mortgages for residential properties, regardless of their possession by owner-occupiers or investors as stated in paragraph 72. Furthermore, we concur that student debt should be excluded from household debt with student debt repayments being deducted from income (para 75). As stipulated in para 76, we similarly believe that business loan debts which use residential building as collateral should be excluded from DTI calculation.

Q6: Should a DTI restriction incorporate exemptions, and if so should the exemption framework mirror the current LVR regulations?

The exemptions allowed in the current LVR regulations are a good starting point for consideration to continue under DTI regulations. There may be some adjustments needed, but the overall approach is sound as they provide enough flexibility to maintain the efficacy of credit administration while better ensuring best practice in doing so.

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Q7: Should speed limits apply under a DTI, and if so should there be separate speed limits for different borrower groups?
Speed limits should apply under a DTI to enable some flexibility for banks to address unique borrower circumstances. The differentiation of speed limit settings between groups of borrowers should be considered to achieve well-being outcomes for households so the administration of credit is bespoke to the contexts of the applicants without creating greater inequities between FHBs and multiple homeowners. FHBs are the most vulnerable category of borrower and most exposed to rising interest rates and severe consequences should they be unable to keep up with rising borrowing costs. Speed limit settings should consider the capability of different groups to withstand short to medium term shocks in income and interest rates.

Q8: Do you have any views on the potential calibration of a DTI restriction?
DTIs should be adaptable and recognise the changeable nature of interest rates and house prices. Consequently, one way of addressing this may be via calibrating DTIs based on the interest rate environment at the origination of the loan and updated quarterly. For example, DTI limits may be set at 7 when the average floating interest rate is from 2%-5%, but a 6 DTI ratio may be implemented in higher floating interest rate scenarios. This is simply a heuristic and will require some further modelling to determine the optimal calibration of the particular DTIs to set at varying interest rate levels, but it may better acknowledge the serviceability of debt through changing interest rate contexts than a more permanent DTI ratio would.

Whatever the calibration of the DTIs may be, it is imperative they are implemented sooner rather than later. The consultation document models the implementation of a 6 or 7 DTI ratio being introduced, despite the same document stating that a DTI ratio of 5 constitutes "high-DTI lending". This remains - and has long been - a concern of CHA with the implementation of DTIs being imperative and overdue.

Q9: Are there any other issues that should be considered if DTI limits were to be implemented?
No comments for Q9.

Q10: Which methodology for setting test rate floors do you prefer? Please explain your reasoning.
CHA agrees with RBNZ's preference to implement Option 3 (para 92 and 94) with a floor interest rate test set at a pre-set, universal benchmark rate with a buffer. The consultation document suggests that RBNZ's preference is for the OCR to be the benchmark, however, using an average floating interest rate may be more indicative of the current and forecast interest rate environment. The test interest rate + buffer could be updated quarterly and would likely require little effort to equate and implement while satisfying RBNZ's ideal conditions for a benchmark stipulated in para 94.

Q11: For banks, please provide information on how your test rates are currently set (on a confidential basis if necessary).
Not applicable for CHA.

Q12: Are there any other issues that should be considered if test interest rate floors were to be implemented?

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No comments for Q12

Q13: Do you have any comments on our assessment of the impacts of implementing DSRs?
The assessment is thorough and extensive, we now await their implementation.

Q14: Would it be feasible to set test rate floors at different levels for different borrower groups, in order to mitigate potential impacts on first-home buyers?
FHBs are often the most vulnerable and effected during times of recession or bust periods, especially those who are over-leveraged. With interest rates appearing to be rising and the housing boom coming to an inevitable end, establishing a lower test interest rate floor for FHBs may put them at even greater risk of default in an economic downturn. Implementing test interest rates will have an impact on FHBs, however, the downstream benefits of more a sustainable and responsible lending environment will likely outweigh any negative impacts on first-home buyers. Government is best placed to address the inequities in the housing market which FHBs face with other policy tools which enable first homeownership such as tax credits, increased FHB grants, and expanding investments into the community housing provider and progressive homeownership sectors.

Q15: Do you have any comments on our indicative timeframes for decision-making and implementation of DSRs?
The immediate implementation of DSRs should be a priority to mitigate many of the concerning trends in house price increase and over-leveraging of homeowners which we have seen in recent decades. In many centres at current house prices levels, it may take 30 years until homes are affordable relative to income at current house price levels. This has put pressures on families across the housing continuum and has numerous downstream consequences such as declining homeownership rates, increased rental costs, greater Accommodation Supplement expenditure, and more reliance on and longer wait times for public housing. We encourage the implementation of DSRs as soon as practicable to take another step towards more equitable housing outcomes.

CHA thanks RBNZ for the opportunity to give our perspectives on the potential implementation of DSRs. We restate our commitment to an effective and sustainable housing system which fulfil all people's fundamental human right to a decent home with "All New Zealanders well-housed". We are eager to engage with the RBNZ on housing matters moving forward and encourage RBNZ to get in touch with us if our expertise could be beneficial.

Ngā mihi,

Vic Crockford, CEO, Community Housing Aotearoa