Community Housing Aotearoa
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Reserve Bank of New Zealand
Te Pūtea Matua
Via email: capitalreview@rbnz.govt.nz

28 February 2023

RE: Feedback on Risk Weights Consultation Paper

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 Risk Weights. We have prepared this submission in response to the Risk Weights Omnibus Consultation Paper.

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 82 provider members provide homes for nearly 30,000 kiwis nationally across 18,520 homes, and our 37 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.

Regarding the Consultation Paper, we are only commenting upon the First Home Loans underwritten by Kāinga Ora. However, we have additional items of concern related to Risk Weighting and the Reserve Bank's approach to registered Community Housing Providers and cooperative housing developments.

We support lowering the risk weighting applied to First Home Loans insured by Kāinga Ora to 20%, rather than the proposed 35%. We believe that applying a 20% risk weight will equalise the RBNZ requirements with those applied to licensed Non-Bank Deposit Taking institutions.

Banks are significant lenders to our members who are registered Community Housing Providers (CHPs). CHPs are classified as investors and subject to the commercial - rather than residential – lending requirements and programmes in place. The risk weighting criteria should particularly recognise those loans made where the CHP has a long term New Supply Capacity Contract with the Ministry of Housing and Urban Development. These contracts are for terms up to 25 years and guarantee the payment of a market rent over the term to the CHP. 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 CHPs.

We again call upon the Reserve Bank to work with banks and financial institutions to recognise lending to registered Community Housing Providers as a separate asset class with a lower risk weighting that

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acknowledges 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.

Applying a lower risk weighting to registered Community Housing Providers is consistent with the factors identified in the risk-weighting framework on Table 1 of the consultation document. It addresses an overly conservative approach currently to the risk of bank exposures from lending to CHPs. With a long-term government guarantee of rents, the risk exposure of a bank lending to a CHP is lower than other borrowers. It is also consistent with the desire to remove barriers to credit, as the current approach leads to higher costs of borrowing for CHPs, limiting their ability to work in partnership with government to provide social housing for those most in need.

Another area we call upon the Reserve Bank to address is the treatment of private housing cooperatives. We have heard clearly and repeatedly from organisations seeking to develop housing cooperatives of the barriers they face to secure finance. Housing cooperatives internationally are recognised as a distinct tenure through legislation and financial regulation. The current approach in New Zealand is stifling development of this tenure and removing an alternative tenure model which can deliver ownership-like outcomes for residents of cooperative housing. If we are to address the decades long decline in home ownership rates and rising housing stress amongst low to moderate income families, our financial regulations need to enable tenure models such as residential housing cooperatives.

We and our partners have made previous submissions to the Reserve Bank on the LVR changes and to the Financial Markets Authority raising these issues related to community housing. We would like to engage with the Reserve Bank regarding them and identify a path to resolve them.

Ngā mihi,

Paul Gilberd, CEO, Community Housing Aotearoa – Ngā Wharerau o Aotearoa