Community Housing Aotearoa
NGĀ WHARERAU O AOTEAROA

PO Box 11543
Wellington
New Zealand
Ph 04 385 8722

www.commmunityhousing.org.nz

Prudential Policy Department
Activating DTI & Loosening LVR
The Reserve Bank of New Zealand
Wellington 6140
New Zealand
Email : macroprudential@rbnz.govt.nz

12/03/2024

RE: Submission Response March 2024

Community Housing Aotearoa – Ngā Wharerau o Aotearoa (CHA) thanks the Reserve Bank of New Zealand - Te Pūtea Matua for the opportunity to share our perspectives on the upcoming macroprudential policy regulation. We have prepared this submission in response to the questions posed in the "*Enhancing the efficiency of macroprudential policy: activating DTIs and loosening LVRs*" consultation paper released in January 2024. We also submitted our views on this topic in response to the "Debt serviceability restrictions" consultation paper in February 2022.

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 85 provider members provide homes for nearly 30,000 kiwis nationally across 18,520 homes, and our 44 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. Our provider members are regulated by the Community Housing Regulatory Authority (CHRA) and the Department of Internal Affairs through the Charities Services office. 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 discussion paper is as follows:

Q1. Do you have any comments on the proposed approach to using the DTI restriction?

> **Agree to a) and b) disagree with c)** - Community Housing Aotearoa supports the first two points but not the third proposed approach to the DTI restriction. First, by activating DTI restrictions during economic boom periods but keeping them minimally binding at

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other times, we agree that home buyers will not be overly restricted in access to housing. Secondly, implementing these restrictions as soon as practical will help mitigate sudden financial instabilities affecting community housing providers and tenants. Finally, we do not support applying distinct standards for owner-occupiers and investors. The impact of speculative investment is felt most acutely by lower income households and first home buyers. Whilst we understand the different risk profiles, we do not agree that investors should be further advantaged in their pursuit of financial profits at the expense of families in need of an affordable home to live in wherein they can establish connections in communities of their choice.

Q2. Do you see any major risks or issues with activating the DTI restriction in mid-2024?

No - Community Housing Aotearoa see no significant risks in implementing the DTI restriction by mid-2024. This timeline gives buyers and lenders ample time to adjust to the new financial landscape. We support the proposed monitoring and urge the Reserve Bank to consider support mechanisms to ensure that the transition does not adversely affect the availability of affordable housing.

Q3. Do you have any feedback on our proposed DTI calibration of: a DTI threshold of 6 with a speed limit of 20 percent for owner-occupiers; and a DTI threshold of 7 with a speed limit of 20 percent for investors?

No – We believe the DTI settings are too high. In our February 2022 submission we noted the consultation document evaluated DTIs of 6 and 7 yet referred to a DTI of 5 as "high-DTI lending". We also note the Hon Chris Bishop, Minister of Housing, Associate Minister of Finance signalling that a house price to income ratio of between three and five is considered affordable and is a medium to long term target that he supports. Setting the DTI level at 5 would support improved achievements in affordability over time. We continue to be concerned about the level of debt to household income, especially for first home buyers and lower income households. A simple desktop case study of a median household income and a median house price, in a given location, with a loan amortisation table and repayment of both principle and interest, over a 25 year period, will give you a clear picture of just how high a 6 times multiple is. Guide rails are useful instruments but only if real life cases get close enough to bump into them. We politely suggest very, very, low numbers of households (low income and first home owners) will get near these thresholds. We also support applying the same DTI to owner-

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occupiers and investors. As discussed above, we do not support further advantaging investors over owner-occupiers. We agree with a 20 percent speed limit. It balances risk mitigation with the need to maintain credit access, respecting varying borrower capacities while aligning with international standards.

Q4. Do you have any comments on whether the proposed DTI calibration best achieves the policy objectives and approach of the policy?

Yes - We believe the proposed calibration aligns effectively with policy objectives. It strategically moderates high-DTI lending during elevated market conditions without overly constraining credit availability during stable conditions, thereby supporting both market stability and borrower resilience. It's crucial for us that these measures do not inadvertently reduce the ability of renters to become first home buyers. We encourage the Reserve Bank to monitor the impacts of its policies and strike a balance between financial prudence and ensuring the ongoing provision of affordable housing. Some of the tools may be beyond the remit of the Reserve Bank, but these can be signaled to the parts of government with the ability to mitigate any negative impacts.

Q5. Do you have any comments on our proposed initial regulatory measurement window of 6 months?

Yes - Community Housing Aotearoa agrees that the proposed initial regulatory measurement reflects an adequate response to current market assessments.

Do you agree with our proposed LVR calibration of a 20 percent limit on new lending to owner-occupiers with an LVR above 80 percent; and a 5 percent limit on new lending to investors with an LVR above 70 percent.

Agree – We support the proposed LVR calibration.

Do you have any comments on our initial assessment of impacts?
Please explain why/comment

Yes - We generally agree with the initial assessment of impacts, particularly as they pertain to the broader housing market's stability. However, we emphasise the

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importance of continuously assessing the specific effects on first home buyers. It is crucial to ensure that policies intended to stabilise the general housing market do not inadvertently hinder the availability or affordability of homes for low to moderate income families.

We would like to thank the Reserve Bank of New Zealand - Te Pūtea Matua for the opportunity to submit on this discussion document. Our responses aim to reflect our commitment to ensuring a well-functioning housing system enabling all New Zealanders to be well-housed, while also acknowledging the importance of broader financial stability measures.

CHA is generally supportive of the direction of these regulations and we look forward to opportunities in the future to provide more of our perspectives into their implementation.

Kind Regards,

Paul Gilberd, Chief Executive