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Reserve Bank of New Zealand
Via email to: capitalreview@rbnz.govt.nz

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RE: Review of Key Capital Settings

Introduction

1. Community Housing Aotearoa (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 for all. We are also mindful of the larger institutional and regulatory settings within which our members and other community organisations operate.
2. Our 108 provider member organisations own and/or manage homes for over 30,000 kiwis nationally in nearly 20,000 homes, and our 78 partner members include developers, consultants, and local councils. 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](#).
3. As an organisation that represents socially motivated landlords, we seek to improve their ability to contribute to better housing outcomes for all New Zealanders.
4. The major strength of the community housing sector is our focus on achieving sustainable outcomes for residents and communities – being more than a landlord. Our sector develops and applies policies and practices using this lens balanced with the duty to prudently manage the assets we own or lease to protect them for the long-term and wider social good.
5. We appreciate the engagement with staff of the Reserve Bank of New Zealand on risk weights applied for community housing providers borrowing during the process of developing and consulting on the proposed risk weights.

Key submission points

We support the proposed approach to add a new category to BPR131 for exposures to community housing providers. We support the new C2.21 risk weights and definition of community housing providers as proposed by the Reserve Bank.

We would like to continue to engage with the Reserve Bank and other relevant agencies regarding risk weights applied where a community housing provider utilises a Special Purpose Vehicle or long term lease structure to build new social and affordable homes.

Discussion

6. The approach to lending for community housing providers in BPR131 has responded to our prior submissions calling for revised risk weightings. The proposed approach:
 - a. Incorporates a broad definition of community housing providers as having a purpose of providing social and affordable housing, recognising the fundamentally different motivations of these typically registered Charities compared to private investors;
 - b. Classifies lending to community housing providers as Residential Mortgage Lending for risk weights which reduces their cost of borrowing;
 - c. Further reduces risk weights for lending where the Crown provides a loan guarantee and where the Crown provides an operating subsidy, saving the Crown money which can translate into more social and affordable homes; and
 - d. Is applied to mortgage lending rather than construction or property development.
7. We note that there is no specific category for Papakāinga developments undertaken by iwi and hapū. We believe that lending on whenua Māori should be explicitly recognised as Residential Mortgage Lending in the same category as community housing providers.
8. The Reserve Bank has not included consideration of the evolving development structures we noted in our October submission. As most community housing providers are Charities and cannot provide returns on equity, they face capital constraints when building new homes. Crown support is provided as an operating subsidy, with limited up front capital. In response, new structures are being developed to overcome this barrier. These responses fall into two broad categories of Special Purpose Vehicles (SPVs) and long term leases from a third party owner.
9. **Special Purpose Vehicles** are typically established to bring in private sector capital and expertise to deliver a particular new housing development. There are lease and service arrangements between the SPV and the community housing provider who is responsible for service delivery and enables access to Crown subsidy streams to support operations and debt repayments. Where the SPV structure and project aligns with the Reserve Bank's criteria, we believe these structures should be treated in the same way as direct lending to a community housing provider. We would like to continue working with the Reserve Bank and other agencies to incorporate these into the risk weight framework.

10. **Long term lease structures** are currently more common and function like SPVs to bring capital and expertise to enable new supply. We acknowledge the submission of the Salvation Army which provides a good explanation of the reasons community housing providers use long term leases and the scale of new development enabled. We support their call to develop criteria to formalise inclusion in the community housing provider risk weights where:

- a. the developer has secure access to contracted CHP cashflows;
- b. the lending relates solely to the delivery of the social or affordable housing project;
- c. the lease agreement is appropriately structured to protect the interests of tenants, the CHP and the developer/investor; and
- d. the lending institution is otherwise satisfied with the risk profile of the transaction.

Conclusion

11. We thank the Reserve Bank of New Zealand for the opportunity to make a submission.

12. We appreciate the work undertaken by the Reserve Bank with us and the Ministry of Housing and Urban Development to understand the risk profile of community housing providers and the Crown funding programmes and policy settings underpinning much of their work.

13. These changes will reduce the borrowing costs for providers which means more families will have an affordable home at a lower cost, a win-win for CHPs and government.

Ngā mihi,



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