Auckland Property Investors Association Incorporated

Submission on the technical design aspects of the regulatory framework for DTI restrictions

1. Recommendations

1.1. This submission is made on behalf of the Auckland Property Investors Association Incorporated ("APIA"). We welcome the opportunity to give feedback on the technical design aspects of the regulatory framework for DTI restrictions and make the following general recommendations:

- That the framework for DTI restrictions be kept simple so as to maintain certainty for borrowers; and
- To avoid stifling market activities, that lenders be given as much latitude to apply their own credit criteria so long as they act within the general speed limit.

2. Introduction

2.1. APIA is a non-profit advocate and education facilitator for Auckland residential property investors.

2.2. We act as a collective voice for investors who provide over 200,000 rental homes across Auckland. We connect over 7,000 residential property investors and represent the interest of over 700 members.

2.3. This document set forth our thoughts on the technical design aspects of the regulatory framework for DTI restrictions. Comments and recommendations are provided on issues relevant to our members and based on (183) results collected from a recent survey designed for this submission.

3. Our comments to selected questions from the Consultation Paper

3.1. On questions regarding personal income

3.1.1. We agree with your proposal to measure personal income on a gross basis (Q1).

3.1.2.We agree with your proposal to include all forms of personal income in the DTI calculation (Q2).

3.1.3.Although we agree that all personal income should be treated on an unweighted basis, the option to specify future haircuts should be subject to the usual public consultation process (Q3).

3.1.4. The majority of our members (81.8%) prefers the measuring of variable personal income in the DTI calculation to be left to lenders' discretion (Q5).

3.2. On questions regarding personal debt

3.2.1.With the exception of student loans, we support all other forms of personal debt to be included in the DTI calculation on an unweighted basis (Q7).

3.2.2. We do not agree with your proposal to incorporate student loans with the total debt calculation and prefer that the repayments be deducted from income (Q8).

3.3. On questions regarding business debt and income

3.3.1. We agree with your proposal not to include business debt in the DTI calculation (Q11).

3.3.2. We disagree with your approach to calculate business income that is available to service mortgage lending. Instead of basing it on the entity's taxable profits, it should be based on income that is taken as personal income (Q12).

3.3.3. No specific rules should apply in cases where it is difficult to disentangle business from residential debt. Such lending should b included within the general speed limit (Q13).

3.4. On questions regarding complex lending situations

3.4.1. We are in favour of there being no set rules for complex lending situations giving lenders the ability to apply their own credit criteria so long as they act within the general speed limit (Q16).

3.4.2. However, if set rules are applied, we agree with the rules you have set out for complex lending in the Consultation Paper (Q17).

3.5. On question regarding exemptions

3.5.1. We agree with your proposal to apply an exemption regime for DTI restrictions that mirrors the current approach for LVR restrictions, with exception of the combined collateral exemption.

3.6. On questions regarding structure of the restrictions

3.6.1. We agree with your proposal to structure the DTI restrictions in the form of a speed limit and a threshold, based on the value of new lending (Q20).

3.6.2. We agree with your proposal to apply a uniform DTI limit across all residential mortgage lending. There should be no differentiation across borrower or property types (Q21).

Thank you for the opportunity for us to input on the technical design aspects of the regulatory framework for DTI restrictions. We look forward to reviewing the eventual framework.

Yours sincerely,
Sarina Gibbon, General Manager
Auckland Property Investors Association