

Debt Serviceability Restrictions Consultation 2021

3 messages

APIA Admin <admin@apia.org.nz>
To: macroprudential@rbnz.govt.nz

28 February 2022 at 16:02

Sir/Madam

1. Background

1.1. We make this submission on behalf of the members of the Auckland Property Investors' Association Incorporated ("APIA"). APIA is an independent and non-profit organisation that provides education and networking opportunities for property investors. It has been operating since 1995.

1.2. In February 2022, we conducted a membership-wide survey to collect our members' views on debt serviceability restrictions ("DSRs") in general and debt-to-income restrictions ("DTI") in particular. The views expressed in this submission broadly reflect the results of this survey.

1.3. In general, **our members are against the implementation of a debt-to-income restriction that specifically targets property investors.** Given that your consultation document is silent on a carve-out for new-build investment lending (as opposed to existing house lending), our view is that a DTI (as it is being conceptualised thus far) is not going to '... support more sustainable house prices, including by dampening investor demand for existing housing stock'. 70% of our members do not expect a DTI to affect their willingness and ability to buy an investment property in the next 12 months and a further 10% expect to be similarly unaffected in the next 12 to 36 months.

1.4. Furthermore, we are against the punitive nature of monetary policies that specifically target property investors. Any DSRs implemented (be it a DTI or floor on test interest rates) should target all lendings and all borrowers indiscriminately.

1.5. Nevertheless, we understand that you are seeking specific feedback on the design of a DTI and not whether the policy itself is philosophically or sociologically robust. On that basis, we make these recommendations:

2. On the potential interaction between debt serviceability restrictions and other policy measures relating to the housing market (Question 1 from the consultation document):

2.1. Only 20% of our members believe implementing DSRs in addition to the stated four other housing market policies would further dampen investors' demand in existing house stock while 40% believe it would further deteriorate affordability for first home buyers. 90% of APIA members believe that imposing a DTI exclusively on investors (and not owner-occupiers) would lead to adverse housing and rental market outcome.

2.2. See below for a sample of their specific comments:

2.2.1. *"The greatest impact will be on Ma/Pa investors (middle-income earners with NZD\$80K average disposable income earners) and first home buyers. This will allow the more well established and wealthier investors to gain more market share - and increase the barrier to middle-class Families prepared to work hard and save (delayed gratification) to achieve future financial independence. This is the Government interfering in the free market with no idea of the unintended consequences."*

2.2.2. *"Investors will sell more or buy less rental properties, House prices may drop a little but insufficiently for the bulk of renters to buy. Investors often build new stock, refurbish old stock, add additional bedrooms so additional tenants can be housed. However, these policy (sic) will restrict the ability of investors to do this. Owner-occupiers typically have fewer people in a home than renters. Thus all up this policy will result in less rental properties than otherwise, increased rents, less new builds (as cant get finance) and will generally exacerbate the housing shortage."*

2.2.3. *"DTI restrictions on everyone applying for finance will generally limit the growth in house prices to whatever the DTI ratio that is imposed. eg '6' times the average wage/salary growth. ie if the average couples wage/salary goes up by a combined amount of \$5000/yr then 6 x 5000 allows \$30,000 more borrowing and therefore, on average, limiting the increase in what people are able to pay in addition any (sic) principle they've paid off and they redraw or other sporadic income eg inheritance that can be used as funding."*

2.2.4. *"... that new home building may reduce, as builders will probably not be able to build and sell at a price level that buyers can finance under DTR, and no builder will build at a price that produces a loss to them."*

2.2.5. Several comments relate to the knock-on effects a DTI will have on rental prices which will lead to greater impediments for first home buyers (i.e. current renters) to save for a deposit.

2.3. Unlike their views on DTI, our members are more agreeable to a floor on test interest rates. Only 40% believe that this type of DSR would lead to adverse housing and rental market outcome.

2.4. See below for a sample of specific comments:

2.4.1. *"People will find it harder to borrow money to purchase houses. Look what the CCCFA has done its (sic) completely shut the housing market down. By imposing more regulations you are only making it harder for buyers to get on the property ladder. Lower deposit rates and more supply will get people on the housing ladder."*

2.4.2. *"People are different (isn't that what diversity is?) but this will be a blunt tool and everyone will be caught the same and some people who could afford a mortgage will be shut out."*

2.4.3. *"A barrier to entry will limit free market forces and create a class distinction which will be dominated by certain suppliers."*

2.5. While we are supportive of sustainable house price growth and greater affordability for first-home buyers, our view is that the combined effects of DSRs (be it DTI or floor on test interest rates or both) and the other four stated housing policy measures will not achieve these strategic objectives.

2.6. See below for a sample of specific comments:

2.6.1. *"It's just too much change, particularly when the recent changes are going to take years to bed in. Realistically nobody can forecast with any accuracy what the combined effect of all these policy changes at much the same time will do, other than distort (sic) the market and then trying to unwind any of the policy changes or alter their settings is going to be equally impossible to forecast accurately, all up this will add up to increased uncertainty and volatility across the economy. Surely not a good thing!"*

2.6.2. *"DSR and other housing policy should work to find new buying solutions for potential home buyers. Also, new build needs to be encouraged by giving them special incentives for builders and investors in the new build so that the stock of houses increase in a ration more than the demand of the same compared to the current ratio."*

2.6.3. *"Why is this an issue don't try and fix what's not broken. Leave the housing market alone. The CCCFA is a prime example of a policy gone wrong. Supply and Demand is the housing crisis answer and lower interest rates for home buyers."*

3. On how different types of income should be treated in DTI calculations (Question 4 from the consultation document):

3.1. There is no clear consensus of how specific non-standard incomes should be treated by lenders (whether they should be accounted for/discounted entirely or on a haircut basis). However, given that only 5% of investors are also non-standard income earners, our view is that it would be more appropriate to leave the treatment of these incomes to lenders' discretion. Furthermore, a majority of our members (80%) are of the view that there should be no speed limit imposed on banks that choose to account for non-standard incomes in their DTI calculations.

3.2. Thematically, specific comments from our members are broadly supportive of a competitive lending environment that enables commercial lenders to have the flexibility to exercise good judgment and responsible lending. Recent effects of the latest amendments to the Credit Contracts and Consumer Finance Act reverberates. As such, we urge you to reflect upon the overall public good to be had should a poorly designed DSR result in a chokehold on reasonable credit in the market.

3.3. See below for a sample of specific comments:

3.3.1. *"We have seen recently the effects of trying to standardise all peoples income/assessments etc with the CCFA. Not flexible enough, thus need to head this warning and keep the assessment of income for DTI flexible for the lender to assess."*

3.3.2. *"The CCCFA is nothing but a cautionary tale of unintended consequences. Understand that \$1.74 trillion of our economy (1.74 trillion!!!) is staked in residential real estate. The reserve bank must be very very careful about a DTI's long term effect on the market. Too many of us have too much to*

lose! Is it really in our interest to make lending so hard for landlords because ultimately it is the renters (first home buyer!) who have to pay more rent for there being fewer houses to rent."

3.3.3. "I support principle-based (not rule-based) restrictions to be placed on NZ banks. Compared to other countries, there is simply no evidence of irresponsible lending across the board in NZ."

4. On how different types of debt should be treated in DTI calculations (Question 5 from the consultation document):

4.1. You've stated in paragraph 76 of the consultation document that "... loans taken out for business purposes with residential property as security... the additional lending may not be covered by increased income in the short term, but could yield income in the longer term if the business is successful." We concur. As such, 90% of our members are supportive of business loans of this nature to be excluded entirely from DTI calculations. For the avoidance of doubt, 'business loans' in the context of this paragraph does not include loans that directly fund residential property investment businesses.

4.2. A sample of other comments vis-à-vis treatment of debt from our members for your consideration:

4.2.1. *"Treatment of debt needs to be left to the lender to assess. Realistically some areas like student debt are probably irrelevant as how many people with student debt can afford to invest in investment properties, regardless of DTIs or any other limitations?"*

4.2.2. *"A student loan, a business loan where the owners (sic) property is securitized and the owners (sic) property used to securitize (sic) investment property should NOT be part of DTI's. This is an INVESTMENT in economic growth or business entrepreneurship - and the taxes/government income derived from this helps our economy thrive. The Government needs to protect the small/medium businesses not deter/disincentivize (sic)!"*

5. On whether a DTI restriction should incorporate exemptions, and if so should the exemption framework mirror that of the current LVR regulation (Question 6 from the consultation document):

5.1. We are broadly supportive of exemptions being incorporated in the DTI restriction and that these exemptions mirror that of the current LVR regulation for ease of compliance and financial planning.

6. Thank you for the opportunity for us to share our feedback on DSRs (and DTI in particular). Should it be appropriate and necessary, representatives from our organisation will be available to elaborate on matters raised above.

Sincerely,
Kristin Sutherland
President of the Auckland Property Investors' Association Incorporated

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1 March 2022 at 16:02


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