From: Ian Webb [mailto:Ian.Webb@newbuild.co.nz]
Sent: Tuesday, 19 July 2016 12:15 p.m.
To: macroprudential
Subject: Adjustments to restrictions on high-LVR residential

Attention:

Head, Macro Financial Department

Reserve Bank of New Zealand

PO Box 2498

Wellington 6140

By Email: macroprudential@rbnz.govt.nz

Adjustments to restrictions on high-LVR residential mortgage lending

By Ian Webb, Managing Director, of behalf of NewBuild Home Finance Limited

NewBuild Home Finance Limited is an independently owned company that since 1999 has utilised retail funding via Sovereign/ASB to offer well managed residential construction loans for long term Owner Occupied and Investment customers. We are uniquely positioned and experienced to comment on the impact that can be expected in the residential construction sector as a result of the new restrictions.

Unlike the activity and lending of pre-GFC, we have observed significant levels of prudence and care by banks, including significantly higher test-servicing rates, uncommitted income reserves, and a move towards LEM (Low Equity Margin) from LEF (Low Equity Fee), to name just a few.

The market continues to suffer supply pressure, driven in large part by TA/Unitary Planning, infrastructure and consent timing issues. Land price pressure remains, in our opinion, the primary driver to price pressures overall, and the solutions are political by nature, but should be addressed with urgency. A substantial increase in land supply will likely not cause a retraction of pricing but the levelling the RBNZ is seeking. Building is being slowed a little by supply chain issues, but this could be resolved with more certainty around land supply.

Our customers are being forced to wait lengthy periods to secure land, or are forced to declare land contracts unconditional 12 months or longer prior to title (an inherent risk in itself) , creating a lag, and additional pressure on managing the building of new homes.

NewBuild successfully manages builds for immigrants and low deposit clients – ideal for social housing as well, including the use of Kiwisaver as deposit, increasing dramatically the ability for many, especially lower income customers, to enter the housing market by way of new construction.

As with the previous implementation of the Macro Economic tools, there is an unresolved issue that should be addressed:

It is relatively easy to manage a customer who wishes to build a new home. However, **building is now more problematic if a customer wants to build a home and they already own a home(s), or wishes to build an investment property**.

The restrictions will continue to require additional equity/deposit even if the intention of a client is to build. So while construction is technically exempted, the by-product is still an increase in equity requirements for those who own a home and wish to build.

Previous to the restrictions, we might cross collateralise the build providing the equivalent of 80% LVR over the existing property, and up to 95% (80%/95%) over the new (even if 100% funded from equity). The current restrictions take the lending levels to 70%/95%. The proposed new restriction take this scenario to 60%/95%, leaving customers with a minimum 40% of their equity tied up in the new restriction.

Changing the threshold for customers who own an existing home and wish to build should be considered as part of the exemption back to the traditional lending criteria prior to any restrictions. This would increase dramatically the pool of clients who can afford to enter the construction market to build new homes.

NewBuild seeks consideration in your new guidelines of this unintended consequence.

Ian A. Webb

Managing Director

NewBuild Home Finance Limited

Building 2, 1 William Pickering Drive (Constellation Dr End)

PO Box 300-813, Albany, Auckland 0752

0800 NewBuild (639 284) - Head Office

0508 NewBuild (639 284) - Administration

DDI 09 414 6181 extn 203

Fax 09 414 6191

Mobile 0274 401 455

Profile and disclosures: http://www.newbuild.co.nz/advisors/ian-webb