22 July 2016

Head, Macro Financial Department
Reserve Bank of New Zealand
PO Box 2498
WELLINGTON 6140 **BY EMAIL:** macroprudential@rbnz.govt.nz

Dear Sir/ Madam,

RE: INDIVIDUAL SUBMISSION ON ADJUSTMENTS TO RESTRICTIONS ON HIGH-LVR RESIDENTIAL MORTGAGE LENDING

I wish to make a submission on the adjustments to restrictions on high-LVR residential mortgage lending in reference to your consultation paper dated 19 July 2016 as follows:

1. It is my submission that the proposed LVR 60:40 restrictions for residential property investments should not apply but instead the current 80:20 restrictions should remain (and 70:30 for Auckland properties) for those with existing lending prior to 1 September 2016 where an existing property is being sold and part of the sale proceeds are being used to pay down another existing loan where the properties are cross-secured.

2. By way of background, I currently own 2 residential investment properties in Hamilton. House A was purchased in 2009 and had equity of approximately 50%. I purchased House B in May 2016 by leveraging off of House A. Based upon conservative market value estimates my current equity across both House A and B is 33%. The mortgages cross-secure each other.

3. Prior to the RBNZ announcement on 19 July 2016 I had resolved to sell House A with a view to converting most of that equity into cash although knowing that my bank would require me to increase my equity on House B to at least 20% from the sale proceeds of House A. Having discussed matters with my bank manager as at 22 July 2016 I have been informed that should I sell House A, the bank will require me to reduce my loan on House B to a minimum of 60% of its value in line with the proposed LVR restrictions.

4. I believe my current position raises some potential unintended consequences stemming from the proposed LVR restrictions:

    a. Firstly, to reduce my loan to an LVR of 60:40 if I sell House A means the cash equity released will be much less than expected had the previous 80:20 restrictions remained and defeats the purpose of selling House A. It is therefore a possibility that I will not sell House A and instead continue to pay down the mortgage for the foreseeable future. House A would be obtainable for a first home buyer if put on the market. If I keep House A it will be one more property not available in a market struggling on the supply side.

b. Secondly, if I keep House A my debt level will not be reduced thus exposing me to higher risk if the property market does in fact see a downturn.

5. I believe the LVR restrictions are preventing me from realising the equity in House A by forcing me to reduce the debt levels of House B however by keeping both properties I can remain at a lower LVR without any restriction and at a higher risk. It is highly likely that there are many more small property investors in the same position, who would like to sell one or more properties thus increasing housing supply and cash on hand but would be forced to reduce debt instead. I can certainly foresee others in my situation simply refinancing with non-bank lenders as a means of releasing that equity.

6. I am in no way opposed to the 60:40 LVR for new investment lending and believe it is a necessary measure. However, to enforce the restrictions somewhat retrospectively onto existing lending is unfair and could in fact dissuade investors from selling existing portfolio stock or to refinance through non-bank lenders.

7. Thank you for considering this submission.

Yours faithfully,

Withheld OIA s9(2)(a) [redacted]

James Swarbrick ***LLB***

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