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17th August, 2017

Attention:
Head, Macro Financial Department
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Submission in response to:
Consultation Paper:Serviceability Restrictions as a Potential Macroprudential Tool in New Zealand

I am making this submission as an individual. There are no privacy reasons to withhold anything of this submission in response to Official Information Act inquires with the exception of my name.

It is worth repeating that the Reserve Bank has a statutory obligation to promote the functioning of a sound and efficient financial system. Nothing in this requires the targeting of house prices or restriction of price increases, which has been justified as promoting a sound financial system. With an increasing likelihood of unintended consequences our financial system may in fact be less stable now than before 2013.

Not long after Wheeler took office the RBNZ began discussing increasing the risk weighting for housing loans for larger investors. What followed later was the first macro prudential measure to restrict high LVR lending. Then higher risk weighting were put onto investor loans. Finally investors were restricted to 70% LVR in Auckland and then later 60% for all NZ. Why has no research been done over the past 4 years on distressed sale history in NZ to see if investors do default more than owner-occupiers? The lack of rigour and the paucity of research provided for justification for these measures, points us to the real rationale here. Governor Wheeler arrived with a pre-conceived notion based upon his US experience that house price rises are bad, cause crashes, and so they and property investors should be restrained. Now we have the DTI consultation which is very clear that it is intended to restrain large investors. This is despite the overseas use of DTI's excluding investors.

My own situation is an example of the ridiculousness of the justification of the DTI rational of increasing financial stability by targeting larger investors, as well as its unintended consequences. Before my retirement I accumulated a residential property portfolio currently valued at around $10 million. On this security I have around $4 million debt: so a low 40% LVR but a DTI of around 8 on the proposed method. As a retired person I support my family with these investments so there is no separate income other than my net income from this business.

Am I a very safe bet for the banks? Of course! If interest rates go to 8-9% my income drops to zero, but I can easily sell a house, and I keep a large reserve of funds on deposit just in case I need to wait out any period of high rates. So no trouble at all in terms of financial stability. Compared this to a much smaller borrower with a much lower DTI who relies on a separate income to pay their mortgages. For them the real problems are unemployment, addiction, or divorce in addition to higher interest rates.

But hey, everyone loves to hate property investors so we are an easy target. But what of the unintended effects? Right now due to the Auckland Unitary Plan I have 5 smaller affordable housing units I can subdivide off and build on with my existing sites, and have begun to build the first. I do this because I can (obviously not because I need the money), and because it will benefit first home buyers. The profit from the first will fund the second and so on. But every time a subdivision is done, the bank which holds the security treats it as a credit event and decides how much of my loans should be repaid. If the DTI as proposed was in place, then the answer would be that all of the loan on that security and the profit from creating a new house will be required to be repaid (as my DTI is supposedly too high). End of story, and no more houses to be built. Right now with the banks rationing credit I can produce 5 more Auckland houses without borrowing: with the DTI there would be none. Is that really the sort of outcome which will help fix the housing shortage in Auckland?

Kind regards