From: Liu, David Zheng s9(2)(a) privacy [redacted]
Sent: Thursday, 27 July 2017 5:09 a.m.
To: macroprudential
Subject: Suggestion for Serviceability Restrictions as Macro Tool

Hello RBNZ,

I am submitting this thought as an individual. Please keep this organization and email confidential. You may use my name and location (United States).

I have always been interested in the NZ housing market as it is a top destination for hot money from largely a single national source, and the obvious limit of supply of housing and land.

From what I understand, the macro tool is to protect the NZ economy in case there is a sharp drop in housing prices (the mitigate risks to financial system stability), which will raise LTV, give incentives to allow the property to be foreclosed instead of keep payments ongoing, which could happen hand-in-hand with a downturn in the economy which will sharply increase the debt load on New Zealanders. The risk is written as "high debt to income ratio" but shouldn't the bank also be looking at treating one of the problems with leads to the high mortgage debt - the price of the houses itself?

My proposal is to treat the high housing costs. The supply can be increased with construction, but could the demand be crimped by restricting borrowing in this way?

Along with DTI - would it be possible to increase borrowing rates based on wealth? Naturally, the higher the borrowed amount, the higher the note rate. But, instead of looking at just the borrowed amount of this house, could NZ banks also consider the total wealth (and thus willingness to purchase) of a borrower? My logic is:

- The wealthier a person is, the higher willingness to pay
- This willingness to pay comes in the form of a higher amount single house purchase – OR the largest problem, purchase of additional houses
- Purchase of additional houses (even as a secondary residence) pushes up the demand
    - I would reckon New Zealanders also buy investment houses not only as a preservation of wealth but as an investment which beat bank CD or equity market performance
- Higher house prices pushes lower income/new buyers out of the market
- Mortgage borrowing would need to increase, naturally increasing the DTI and debt load.

So essentially - a wealth tax/rate on lending. The level of rates that could be raised in this scheme should have quite large space - as wealthier buyers have more willingness to pay. A policy against cash buyers (maybe like Vancouver’s policy against foreign buyers, as cash buyers are mostly foreign) may have to be enacted together to bring down house prices. There will be a risk of popping the prices too quickly, which will leave high unrealized losses (house equity vs debt on mortgage), so any restrictive policies should be made quickly before house prices continue to grow.

Again, these are completely my thoughts and do not represent the views of my company. The application of this to the United States is almost impossible due to the politics - and the fact there are vast swaths of land in the US which give investors an option (get pushed out of NY? Go to Texas). It might be something to chew on for everyone in New Zealand.

Best, and any plans on releasing commemorative notes?

Thanks,
David