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23 August 2017

For the attention of:
Head, Macro-Prudential Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

By email

Dear Sir

Kiwibank submission on: Consultation Paper: Serviceability Restrictions as a Potential Macro-prudential Tool in New Zealand - June 2017 (Consultation Paper)

We welcome the opportunity to submit on the Consultation Paper which proposes adding a Debt to Income ratio (DTI) tool to the Reserve Bank of New Zealand's (Reserve Bank) macro-prudential toolkit. We also appreciate the extension agreed to the submission date so that we could complete this response.

Kiwibank considers that DTI restrictions may have the potential to limit some of the downside impacts of a severe downturn on the wider economy although this tool is so new globally that there is no body of empirical evidence to confirm this. It is self-evident that homeowners with lower levels of debt could reduce discretionary spending by less than might otherwise be required if they have higher levels of debt. However, we believe the benefits are likely to be relatively limited in practice. In an economic downturn, homeowners will reduce discretionary spending to a lower level based on their degree of concern about future employment and income.

We agree that additional tools to limit exuberant house price increases and to encourage home ownership should be developed. Increasing home ownership is an objective Kiwibank believes is good for New Zealanders individually, as well as to our society in general. However, we are not convinced the DTI tool, as it is proposed and acting on its own, would be the best way to achieve that objective without adding risk to the overall market by creating distortions and potentially inequitable outcomes. In particular Kiwibank is concerned about the potential impact on first home buyers, most notably in the wider Auckland region

Loan to value ratios (LVR), the existing macro-prudential tool, have always formed a critical part of credit assessments in the banking industry. However, Kiwibank does not use DTI in its own assessments of a customer's ability to service a home loan nor do we use it as a portfolio management or monitoring tool. As a measure of risk, DTI ignores the level of interest rates and customer expense levels. In our experience, along with that of the rest of the industry, net surplus income assessments are the most predictive of a customer's ability to repay their lending. Kiwibank does not believe DTI is an effective risk mitigation tool, or that it should be used to replace current affordability assessments.

If DTI restrictions are introduced, the conflicts at an individual borrower level between what we believe a customer can afford to repay, and what a DTI constraint will permit, need to be carefully managed. The suggested approach of a 20% speed limit, as well as exempting some customers as occurs under the current LVR rules, should limit the downside impacts of a DTI constraint on many customers. We would advocate for harmonisation with the LVR exemption rules. That should specifically allow customers to refinance (at similar debt levels) to another bank to encourage competition in the home loan market. We also view exemption of customers in the Government supported Welcome Home Loan Scheme as an important mechanism to provide a pathway to home ownership in New Zealand. However, imposing DTI restrictions, under the guidelines proposed and at the multiple suggested, will mean the Bank will be required to decline home lending requests for some customers we would currently approve, and who we are confident will prove able to repay their home loan.

DTI may serve a portfolio monitoring purpose through providing a simple benchmark of the distribution of borrowing levels against incomes. It also shows point of application changes in homeowner debt loads over time. However, we believe these are of limited information value as indicated in our submission. Further, we are concerned about the second order impacts of introducing a tool along the lines suggested. We expand on those potential impacts in the response attached. Our submission seeks to identify those potential unexpected impacts so they can be addressed in any final design of the tool should the decision be made to approve DTI restrictions for addition to the macro-prudential toolkit. Part 1 sets out our general comments on the proposals and in Part 2 we respond to the questions posed in the Consultation Paper.

If you do wish to discuss this response further please feel free to contact me or Mark Wilkshire.

Yours faithfully

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[redacted]

Malcolm Bruce
Chief Risk Officer
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cc Paul Brock, Chief Executive Officer
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1. KIWIBANK'S GENERAL COMMENTS:

1. **What is the problem being solved?**

(a) Loan Affordability Assessments – The Government has already addressed the issue of ensuring the NZ banking industry has appropriate home lending practices through the Responsible Lending Code provisions within the Credit Contracts and Consumer Finance Act. Kiwibank does not see any objective evidence that there may be a problem with NZ banks' lending irresponsibly or beyond their customers' ability to repay. Mortgage default rates are at the lowest points since the GFC and mortgage loss rates are also low. We recognise that the economy is at a strong point in the economic cycle and the test will be when that cycle turns, however the last downturn experience (the 2008 recession followed by the GFC) demonstrated the quality of bank debt affordability assessments. Credit losses occurred but they were primarily due to losses of income through unemployment and business failure. Implementing a DTI restriction will not solve or eliminate those causes of loss. Lower LVRs provide a more effective tool for limiting credit losses and lower LVRs provide customers with additional equity which they can utilise to cover income shortfalls until incomes can be replaced.

As DTI restrictions are not solving a debt servicing problem, and the tool is a poor predictor of individual borrower risk, DTIs will need to be assessed in terms of their effectiveness in limiting system wide risks, their ability to smooth house price movements over the economic cycle, and minimising spending volatility in an economic downturn. In that context, if DTIs are added to the toolkit, the decision around where to set the DTI restrictions should be based on how well the tool will achieve those objectives.

(b) House Prices - The Reserve Bank notes that NZ house prices are amongst the highest in the world. It has identified DTIs as a tool that could work, in concert with the existing LVR tool, to limit increases in house prices via credit growth in an economic upswing, and reduce the risk of a significant rise in mortgage defaults during a severe economic downturn.

Kiwibank accepts that NZ house prices are high on a global comparative basis but there appears to be myriad reasons for that outcome including:

a. Strong immigration growth
b. Lack of responsive housing supply
c. High costs of building new homes
d. Customers choosing residential investments as a way to build wealth given favourable tax treatments and in the absence of acceptable returns from alternative asset class investments
e. Customer demand for larger higher spec homes, and
f. Lower interest rates allowing customers to afford more expensive homes.

In the absence of an ability to control any of these other factors, the Reserve Bank clearly seeks to reduce the supply of credit through a combination of LVR and DTI constraints. We accept the

Reserve Bank's modelling that DTI will reduce housing demand by removing some borrowers from the pool of eligible borrowers. However, we are not convinced that will necessarily lead to reduced house price growth or outright house price reductions or that they would occur in a controlled manner. Other drivers of housing demand and supply would also have to change to bring house prices down. In general, Kiwibank is unsure that implementing additional macro-prudential tools, aimed at suppressing house price growth and credit demand, will work in the absence of ensuring additional measures are also deployed to ensure housing supply exceeds demand.

(c) Housing Liquidity - We are concerned that any moves to change liquidity in the housing market could have effects at odds to those sought by the Reserve Bank. The feedback loop the Reserve Bank highlights in its paper (page 9) could also be triggered by a loss of market liquidity due to macro-prudential constraints set incorrectly, leading to a reduction in house prices and sales, leading to a loss of consumer confidence, reductions in related industry employment and business failures, finally leading to increased defaults. While that scenario appears unlikely we are concerned about changes to market structures having unexpected downstream impacts.

The current softening in the housing market is occurring quite rapidly and more quickly than market commentators predicted. That softening has occurred through the implementation of tougher LVR rules amid few other market changes. The housing market, and confidence in future house price levels, may be more fragile than expected. Implementing new macro-prudential tools could add to future market volatility rather than attenuating market movements.

(d) Responses to interest rate movements - The Consultation Paper notes that NZ DTI ratios have increased markedly over the last 30 or so years which partly reflects the downward trend in interest rates over that period. It is suggested DTI restrictions could reduce the severity of a decline in house prices and economic growth in that severe downturn – in essence providing another buffer for economic stress.

NZ banks all apply test rates against which they assess mortgage affordability. Those test rates are materially higher than current interest rates providing quite some room for interest rates to rise before causing repayment distress.

Kiwibank notes that mortgage interest rates have already begun increasing as margins have decoupled from the OCR with longer term rates responding to yield pressure as global and local funding costs rise. Our customers are responding by using the option to fix interest rates over a range of terms to provide some certainty of repayments. Interest rates may well increase further but that is likely to be in an environment of increasing inflation and increasing incomes. Increasing incomes should largely offset the impacts of interest rate increases. More rapid increases in interest rates also remain possible but that is largely within the control of the Reserve Bank. In that latter environment homeowners will adjust spending accordingly.

We also observe that any reductions in spending by mortgage borrowers in financial stress due to mortgage interest rate rises might be partially offset by increases in spending by depositors who would benefit from higher interest rates on their deposits.

(e) Limiting spending volatility - We note the Reserve Bank's desire to use DTIs as a means to limit the impacts on the wider economy of customers reducing their spending to ensure higher interest rates on mortgage loans can be met. Lower DTIs might provide that wider economic benefit of reducing volatility of consumer confidence and spending but we could not find the empirical evidence to support the size of that potential benefit. In an economic downturn we would expect interest rates to fall which will benefit the majority of home loan borrowers who actually retain their jobs. However, history has proven customers will adjust discretionary expenses when required to maintain mortgage payments and protect their family home, but our observation is that material adjustments to spending patterns only occur as a last resort and generally only in response to a financial distress, such as job loss, or heightened economic uncertainty (e.g. GFC).

2. **International Evidence**

Kiwibank notes the examples quoted where countries have implemented DTI restrictions, or a close equivalent such as Loan to Income (LTI) or Debt Servicing to Income (DSTI), but observe that all have done so since the GFC. There is no actual evidence that DTI restrictions have, or will have, the effect of limiting house price increases as proposed. Kiwibank notes the DTI restrictions (or their equivalents) are lower in Ireland (3.5 multiple) and UK (4.5 multiple) vs the suggested 5 multiple in NZ, but that proposed NZ multiple is much lower than DTIs set in Canada, Netherlands and Norway (6), Korea (9) and Estonia and Hong Kong (10). There appears to be no international consensus on the most effective form of the tool or on the appropriate multiple where it has already been introduced. There is also little international literature on the relationships between DTI and mortgage defaults and the conclusions are not compelling.

Kiwibank does not believe that the USA. and Ireland provide useful housing market examples for NZ to be compared with, or that they provide regulatory rules that should be followed with any confidence in the NZ environment. Prior to the GFC, the lending standards in both countries were relaxed to the point of being almost non-existent. Lending affordability norms were not enforced with income tests largely ignored and customer incomes often not validated. Customers who then defaulted could not be held liable for their lending (in many states in the USA) or legal enforcement proved practically impossible (Ireland). In both countries, customers who were under-water on their loans could choose to default and then to remain in their homes without making payments until recourse was eventually enforced. That situation does not exist in NZ.

Kiwibank also notes that none of the countries listed have included investor lending in their DTI target lending. Kiwibank submits these investors would be unfairly impacted by the application of a DTI tool as it is designed for owner occupier borrowers and not investors who have a very different income and expense profile.

3. **Unintended Consequences**

As is the case with any artificial market constraints, there is the potential for DTI to have unexpected impacts on particular groups of customers. Any downside impacts should be taken into account in the final design of the tool and when implementation is being considered. We have set out below some potential issues with the introduction of DTI restrictions as well as some groups we believe will be disadvantaged by implementation of the tool as suggested:

(f) Limiting social mobility – DTI restrictions will limit home ownership for customers without high incomes, dual incomes, or access to family financial support. As an example, a single borrower with income of $80,000 would be limited to borrowing $400,000 under the proposed criteria. This would be insufficient to buy a home in the main centres unless they had a substantial deposit, they had access to family support, they chose a property requiring significant upgrading (which they would not be able to borrow to undertake), or they bought a property on the urban fringe, which would require extra transport costs. In the absence of reductions in house and section prices we are concerned DTI will disadvantage first home buyers in the main centres and particularly in Auckland.

We recognise that New Zealanders have traditionally pushed their debt servicing capacity when getting into their first homes. However, they rely on limiting their discretionary spending and, as they are in the early years of their working career, the prospect of significant increases in incomes through career advancement to get them through. Those considerations are often taken into account by current lenders but that supportive approach will be less likely under a DTI regime. Customers in similar situations to that listed above could service a larger loan but would be reliant on finding a bank with spare capacity on their speed limit. The same customer with access to family support would have fewer concerns getting into their first home.

In the same way, setting DTIs at a low level means banks may be forced to ration access to DTI speed limits. That rationing may be actioned through favouring customers who are part of a wider group with large borrowing or deposits in order to strengthen or to retain that business. In a rationing environment, customers who offer no such additional business may have greater difficulty in borrowing above the DTI limit.

(g) Limiting housing mobility – New Zealanders have often upgraded properties in order to leverage into their next home which offers more space and/or a preferred location, or to move to a more expensive city for better job prospects. That may become less likely under a DTI regime where house price growth is constrained thus limiting housing equity growth. Customers restricted by DTIs will be less able to borrow to upgrade a property and then use the resulting additional equity to get them into their next property. There are already some indications the LVR rules are reducing the ability for higher LVR owner occupiers and residential investor customers to change banks because of the restrictions around refinancing no more than the current balance. We are concerned DTIs may further limit banking competition as well as housing mobility.

It is possible that DTIs will encourage home buyers to consider new home construction as a means to use DTI exemptions as a way to avoid DTI restrictions. We are not sure that is necessarily a good thing from two perspectives. Firstly, that will encourage further urban sprawl given the high cost of sections close to the CBD. Secondly, it could discourage property renewal as buyers will be less able to buy run-down properties and upgrade them appropriately. Some of those impacts have been seen in Australian cities as a result of new build incentives.

(h) Reducing housing market liquidity – in recent years a high proportion of property sales have been conducted by auction or through tender. Successful tenders usually exclude any conditions around sale of an existing property in order to improve the chances of success. Under both scenarios customers often require bridging finance until their existing properties are sold. The current LVR exemption conditions for bridging loans are very onerous and Kiwibank generally elects not to apply this bridging exemption because of the risks of mis-reporting. DTI restrictions will severely limit these house sale options unless DTIs, as a minimum, retain the existing LVR exemption for bridging loans, or ideally DTIs access simpler rules for bridging loan exemptions. Otherwise DTIs will reduce housing market efficiency as those market sales options will become more limited. That could have an unwelcome impact on the volume of house sales, extending the average time to sell, and on price levels.

(i) Reducing overall economic activity – our customers often leverage the equity in their homes to invest in new businesses or to invest in expanding their businesses to grow future incomes. They often do so when they are younger and when they have relatively little equity in their homes. DTI constraints may limit access to that traditional source of seed funding as banks will not be able to include the proposed new business income estimates in their DTI calculation. Where banks are required to ration lending in order to remain within speed limits those borrowing requests may be declined or borrowing may be directed to unsecured lenders at a much higher interest rate. In those circumstances some business expansion opportunities may not be realised at a cost to those customers and wider economic growth.

(j) Financial dis-intermediation - as the DTI rules will be limited to banks there is likely to be a move of some borrowing into other financial service providers. New opportunities will become available for emerging providers to finance those who can no longer access banks. While that is a small market currently, NZ has a history of new market players being established to build market offerings to those who can no longer access funds from mainstream banks. Finance companies, pay day lenders, solicitor mortgage funds and peer-to-peer lenders are recent examples of shadow banking institutions arising to exploit market niches. Those providers are not subject to the same disciplines and regulation as the banks with potential impacts on financial stability should they achieve sufficient scale as well as delivering to societal expectations to promote responsible lending.

(k) Perverse Incentives - The proposed DTI regime could have the perverse effect of favouring weaker borrowers. As an example, assume the borrowers are a couple with two children with one earning an income of $80,000. They seek a loan of $350,000 on a house worth $400,000. They would have a DTI of 4.4. After tax and income support and student loan payments the borrowers have an income of $60,000 to service loan repayments of $24,000 p.a. and essential living expenses of $30,000 p.a. They would have a surplus of $6,000 p.a. to cover other discretionary expenses. Those customers would still be able to borrow more under a proposed DTI multiple of 5; however their surplus would barely cover a 2% increase in interest rates.

An alternative example would be a couple with two children who have an income of $140,000 p.a. seeking to buy a third investment property at a cost of $600,000 on top of their existing $500,000 loans on two investment properties worth $1m and a $400,000 home loan on a house worth $800,000. In total they will have $1.1m of lending on properties valued at $2.4m. The rental properties would generate net rentals of $60,000pa after the 25% rental haircut. That couple would have a DTI multiple of 5.5 which appears higher risk than the first couple. However, the investors have available income of $160,000 after tax. Assuming essential expenses of $50,000 p.a. and borrowing costs of $60,000 p.a. they have a surplus of $50,000. The investors provides a better lending risk than the first couple (larger surplus and larger equity buffer) but the DTI reverses that risk profile because it ignores the fact investors do not have to cover more than one set of living expenses. The DTI constraint could have the unintended effect of encouraging lending to higher risk customers at the expense of lower risk customers which is clearly at odds with the financial stability objective.

In addition, implementing DTI may be seen by some customers, and even some lenders, as implying that any lending up to that ratio is 'safe' for them to commit to. Customers should be encouraged to plan around what they can comfortably afford and lenders should be encouraged to invest in improving debt servicing systems and capability. In addition, portfolio analysis should be based around the most predictive measures of default and loss rather than trying to reconcile those outputs with DTI measures and benchmarks.

(l) Kiwibank has no internal loss experience supporting the Reserve Bank's contention that property investors offer a higher risk profile than owner occupiers. Rather investors have the advantage of more diversified income streams (salaries plus rentals) as well as an asset that can be sold in times of financial distress without requiring the sale of the family home. NZ lending practices, including Kiwibank's, generally require that investors cannot separate out their family homes from the full security group which means NZ residential investment lending does not have the same risk profile as the UK buy to let market. DTI restrictions, as proposed, will reduce residential investment lending which is of concern to Kiwibank. While in a balanced housing market one less rental property may result in one more owner occupier home, in the current NZ market, DTIs might result in a lower supply of rental properties, exacerbating the existing housing shortage.

2. RESPONSES TO SPECIFIC QUESTIONS IN THE CONSULTATION PAPER.

1. ***Do you have any comments on the evidence that high DTI borrowers are more susceptible to mortgage default and consumption stress? Are there other relevant studies or other relevant channels through which a DTI policy could influence financial stability?***

   Kiwibank does not have sufficient loss experience to positively evidence high DTI customers as more susceptible to mortgage default and consumption stress. Rather our anecdotal experience would tend to suggest the opposite is true. We find that in a benign economic environment it is marital breakdowns, serious and prolonged illness, persistent unemployment or financial mismanagement which causes mortgage defaults and financial stress. Generally, high DTI customers are in occupations with less employment volatility, greater earnings capacity and enhanced employability.

   We have reviewed some of the industry studies but these tend to relate to other jurisdictions (USA, and Ireland) which we do not believe are comparable with NZ lending and legal practices. The UK buy to let market also operates differently to NZ making comparisons with that market uncertain as well. We note some increasing mortgage stress in the Australian market but that tends to be concentrated in the mining regions and in lower income areas. The former stresses are generally amongst higher income workers but in the mining industry, which is volatile and in locations with illiquid employment and housing markets. We doubt DTIs would have made much of an impact on those mortgage default or credit loss situations.

2. ***Do you agree that the current levels of debt (relative to income) that some borrowers are able to borrow risk putting them under pressure, especially if interest rates rise? Why are the DTIs achievable in NZ apparently higher than in other markets like the UK?***

   Kiwibank does not believe the current debt levels in NZ risk putting borrowers under unacceptable levels of pressure. Banks are required to lend responsibly and apply debt servicing criteria that ensure lending can be afforded given the information provided.

   While household debt levels are now slightly above pre-GFC levels, actual debt servicing costs for the average household are lower than the pre-GFC period due to lower prevailing interest rates. NZ wide debt servicing affordability is not materially above longer term averages despite the greater debt load. The issue is more that more recent borrowers have debt levels diverging significantly from the average and that debt load is exacerbated when looking at recent house buyers in Auckland and Queenstown as well as some of the northern cities. Of course that debt servicing affordability picture would change for these latter groups if interest rates increase significantly but that scenario is not considered the most likely scenario over the short to medium term.

   In addition, Kiwibank uses an internal interest rate test rate which is much higher than prevailing interest rates to test the customer's ability to sustain higher interest rates and models that over a 25 year P&I basis. That approach leaves customers sufficient capacity to manage interest rate increases considered possible over the medium term. In a high interest rate environment (>8%) there would be some additional stress but that environment would also be representative of higher inflation and thus higher wage growth. We note that our customers tend to adjust spending quite aggressively in situations of material income changes. However that experience makes us wonder how effective DTIs might be in moderating spending reductions in a downturn. Assuming a severe downturn and large scale employment loss it would make little practical difference if a customer's DTI multiple was 5 or 3 if they lost one income. Neither DTI multiple would be sustainable longer term without the ability to replace that income. The GFC experience indicates that NZ banks would act ethically from a corporate and social responsibility perspective and support customers until their incomes could be restored.

We are unsure why NZ is able to achieve higher DTIs than other markets. Potentially that is due to the lifestyle choices that New Zealanders make in relation to housing costs versus other forms of discretionary expenses. We know that New Zealanders save much less than Australians through superannuation (3% vs 9% of salaries) which leaves more to spend on housing and there will also be significant differences in tax rates, housing interest deductibility, and costs of living across the countries being compared.

The London housing market (with a DTI multiple of 12.9 versus 7 in Auckland) is more severely unaffordable than in NZ cities. Given the continuing inflow into that city from other cities in Britain and offshore, we presume these people are able to find ways around the UK DTI constraints or they access rental properties as investors there are not constrained by DTI rules. UK regional housing price to income ratios may display the same differentials that apply across NZ regional cities.

3. *Do you agree with our assessment of other possible policies that are under the Reserve Bank's control, or do you think one or more of them could be preferable to DTI limits? Are there other policy options under the Reserve Bank's control that we haven't listed that could be relevant?*

Kiwibank believes the Reserve Bank should use a range of tools in combination rather than relying on a single DTI tool which we believe has some potential flaws as outlined in this response.

- Kiwibank believes all banks should apply similar risk weights on mortgage lending so that some banks are not incentivised through differing capital requirements to prefer mortgage lending against lending into other markets.
- In addition we believe the Reserve Bank could mandate higher test rates that banks should use to measure affordability. A standard higher test rate, applied across the industry, would level the mortgage lending playing field, remove the potential for unintended impacts that DTIs include, and would provide a real test of borrowers' ability to manage interest rate volatility. Higher test rates are simpler to implement, can be implemented quickly, have an immediate impact, have minimal compliance costs, and would have no impact on interest rate sensitive segments of the economy. The difference between actual mortgage rates and the standard test rate also provides a buffer the homeowner can use to build precautionary savings or to accelerate loan repayments and shorten loan terms.
- The Reserve Bank has the ability to apply a counter-cyclical buffer which offers some flexibility to be applied in high credit growth environments although it is a much less direct tool.

- The Reserve Bank can also mandate higher minimum capital ratios to slow loan growth and ensure the higher capital costs are reflected in higher interest margins.
- Lastly, the Reserve Bank could increase the minimum Core Funding Ratio requirements on banks. While that would not have an immediate impact it would also act to limit credit growth and reduce the risks of limited access to offshore funding markets in times of economic and liquidity stress. It appears an appropriate tool to consider from a medium term perspective if used in conjunction with some of the others listed above.

4. *If a DTI policy was used, what would be the challenges and issues that could arise in the detailed rules and (for lenders and the Reserve Bank) monitoring compliance with the policy?*

   The primary challenge lies in the customer impact from more intrusive questioning and validation of all income requirements. Currently banks seek only sufficient income to confirm debt servicing ability but the Reserve Bank now requires banks to go much further and obtain and validate all eligible and material income. That additional questioning will detract from the customer experience with no added benefit to the financial system. Kiwibank believes the extra impost on customers outweighs the potential information benefits.

   Kiwibank will also have increased costs due to requirements to change systems to gather and report more detailed income as well as to ensure that mortgage lending stays within the agreed speed limits and that any exemptions comply with those speed limits.

   Costs will increase further if the Reserve Bank specifies a compliance regime requiring more expansive sampling of loans to validate the accuracy of the data provided. That would be an intensive manual and onerous task.

5. *Do you agree that a DTI policy (if implemented) should be broadly as described above (a speed limit, with similar exemptions to the LVR policy? Are there other design options or additional exemptions (besides the suggestion described above for relatively inexpensive owner occupied homes) that would be worth considering?*

   Kiwibank agrees any regime should be simple and an approach mirroring the LVR regime would be simpler to administer. We agree that an exemption for relatively inexpensive homes should be included although that limit should be sufficiently high to have a meaningful impact in the major centres. We also believe that borrowing against the home to invest in a business should be excluded from both DTI and LVR calculations. Lastly our experience from the LVR regime suggests a small top-up capacity should be allowed so homeowners can make small improvements to their properties without having to access more expensive financing to avoid LVR restrictions or to have no access to any top-up facilities if they were over a proposed DTI cap. A flat sum, say $40-50,000, or a proportional sum would satisfy that existing constraint on home improvements.

   However, we are strongly of the view that residential property investors should be excluded from DTI as they are in other jurisdictions. DTI is a tool that is not appropriate for investor situations and should not be applied against a market that we do not believe has a higher loss profile under current lending criteria. As evidenced by the current slowdown in residential investor lending, the current LVR regime is proving more than sufficient to curtail investor borrowing and needs no further support.

6. *Do you agree with our assessments of the impacts of a DTI policy as described on the housing market – in particular, that it would not materially affect construction, and would if anything tend to increase the home ownership rate? Are there other potential consequences of the policy for the housing market that we have not discussed?).*

   Kiwibank does not have access to the econometric modelling that the Reserve Bank has so we are unable to comment on the impacts that a DTI policy would have on specific segments of the housing market. Kiwibank notes the construction sector is already at full capacity so DTIs would have no additional impact on housing supply. DTIs may impact on housing demand through reduced credit however Kiwibank believes that effect will continue to be outweighed by population growth. We have already noted our concerns about the potential unintended consequences of any new rules. Collectively these consequences, if they materialise, could generate differing outcomes from those expected by the Reserve Bank.

7. *Please comment on the Reserve Bank's analysis of the potential costs and benefits of a DTI policy. Do you see other material costs of benefits, or do you have views about the magnitudes of the costs and benefits or the methods used to derive them?*

   Kiwibank has no specific comments on the cost benefit analysis. The potential benefits appear higher than we would expect when we consider the NZ experience of the GFC. In that situation, housing values moved relatively little as customers chose not to put properties on the market and the banks supported that decision in situations where customers had some residual equity and were willing to work with the banks towards finding replacement income. Kiwibank would adopt a similar approach in future downturns where it has the ability to do so. In that environment there are few mortgagee sales and distressed house prices represent isolated customers circumstances rather than the market as a whole. Discretionary spending will inevitably reduce but that will primarily be caused by some customers losing jobs and incomes, as well as the remainder seeking to build savings buffers in an uncertain economy. We do not believe the impacts of DTIs in ameliorating those spending reductions can be empirically confirmed at this point.