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To the RBNZ Select committee; Public comments and input on Macro Financial Controls

With regards to the introduction of Debt to Income Macro Financial Controls.

My name is Penelope Cowie and I am writing to the RBNZ to submit my view on Debt to Income macro financial controls, and why they need to be incorporated in commercial and residential mortgage lending practices. I am a member of the NZ public and I am not in the financial industry.

New Zealand currently has a housing bubble, mainly focused on Auckland some of those realty prices have been on par with places like Luxemburg Monarco or London, these prices have been propped up with capital flight from the 3 main tier cities of Mainland China, and lax lending standards.

However for the purposes of this submission; I would like to focus on why the Debt to Income macro financial controls should be introduced by the RBNZ to the main banks and why that's needed.

Further complicating this situation is the current state of banks in NZ. The so called big 4 banks from Australia, Commonwealth Bank, ANZ, Westpac and NAB own or parent own, the 4 main banks in New Zealand; ANZ (New Zealand) ASB, Westpac (New Zealand) and the BNZ.

Those 4 NZ based banks have inherited the Australian Bank's software, marketing algorithms and basic all over macro prudential controls over lending practices which are open to fraudulent practices of inflating income and house hold assets and superannuation accounts to meet the criteria to get large unaffordable mortgages. Those 4 main NZ banks with kiwi bank own around 80% of the mortgage market for residential loans, and therefore are at most risk.

Fraudulent practices on banking information loan applications did come to light in Australia in 2016, and APRA and ASIC are currently investigating this practice, but the damage may have already occurred in the New Zealand mortgage market.

NZ media such as NZ Herald, and Stuff talk about "Interest only loans" which has been suggested to purchase property for a short time, then to resell for a profit as a means to generate wealth. This process is also known as property speculation or property flipping. These interest only loans should indeed be classified as they really are, sub prime loans.

As New Zealand has no capital gains tax, this has rewarded a cottage industry around the reselling of property at every stage, however the key requirement for this practice to be successful is the constant upward growth of housing prices. When (not if) house prices will go down, this practice will mean even more houses will be on the market for sale, competing with mortgagee sales from people unable to meet their mortgage requirements.

The social cost of pushing the residential housing market in to an unaffordable bubble has dire consequences for the large majority of New Zealanders that vote. An expensive and out of reach housing market has thrown many people's retirement and savings options out the window.

It is my wish that Debt to Income macro financial planning be put in at the beginning of the mortgage approval process, along with the Loan to Value metric. This is to preserve many New Zealanders from taking on overpriced mortgages and further distorting the housing market. The damage, which is the economic fallout from the inevitable credit crunch will be large. But without the additional hand brake of Debt to Income, the fallout will be even bigger.

I would also add as part of this process that the Income declared on these mortgage applications be generated in New Zealand, with an IRD number attached to them. This will back stop and reduce mortgage fraud and income inflation to meet over valued mortgages. The RBNZ's main function is to protect the New Zealand economy, allowing mortgage income non verification to continue, and relying on secondary income streams such as rents, and possible insurance payouts is too much of a risk to bear.

This is my opinion and I'm writing to you as part of the public submission process. Please don't hesitate to contact me further discussions or details.

Sincerely

PL Cowie   investor.