Changes to Macroprudential Policy

March 2024

Tirohanga Whānui | Overview

The New Zealand Council of Christian Social Services (NZCCSS) welcomes the opportunity to provide feedback on the Reserve Bank of New Zealand's Changes to Macroprudential Policy. Bringing lending regulations in line with international best practice will put soft limits on land and house prices and more chance for New Zealanders to own their own home.

Taunakitanga | Recommendations

We raise the following points and recommendations for consideration:

Item One

Student loan debt should be considered carefully when deciding appropriate DTI ratios.

Item Two

Inclusion of non-bank lenders.

Item Three

The combination of DTI and LVR rules is the most effective approach.

Item Four

International comparisons show that this approach is well thought out.

Item Five

Impacts on economic output.

Item Six

Impacts on rental housing supply.

Item Seven

Starting DTI work as soon as possible.

Item One

For many, student loan debt will be a major factor in whether people are able to access a home loan. The rules for this debt need to be carefully considered, as they will decide whether generations of New Zealanders can ever afford to own a home. Student loans should be included in DTI calculations as either a debt or a deduction to income depending on the borrower.

The average borrower (median income and median student loan debt) will currently be able to borrow more with their student loan counted as debt, however, this can easily change. There will need to be a mechanism that allows for regular reviews of the impact of student loans as debt.

Aotearoa New Zealand has long reinforced the need to get a tertiary education, and we must consider flexible arrangements for people with student loans to access their first home – especially if we want them to stay and contribute to the country after they graduate.

Recommendation One:

That the impact of student loan debt on DTI be considered on regular basis.

Item Two

Non-bank lenders should be included in this legislation. As we know from other forms of lending, if all lending services are not covered by the same rules this can increase risks to consumers. With housing as scarce and expensive as it is, there is a material amount of borrowers who may seek to borrow through non-bank lenders.

Recommendation Two:

That all professional providers of mortgages/home loans be covered by this regulation.

Item Three

Introducing debt to income (DTI) regulations alongside a less restrictive loan to value ratio (LVR) system will reduce the impact of this policy change on first home buyers and keep downward pressure on house prices. DTIs will put a cap on the amount that individuals and companies can borrow for housing, while looser LVRs will let borrowers access the amount of money they need to buy property – if it fits within the DTI. In this sense, introducing these changes at the same time is the correct approach.

Recommendation Three:

Enact both DTI and LVR changes at the same time.

Item Four

As shown in the evidence provided by the RBNZ, DTIs have been utilised overseas with mixed results. An approach which balances this evidence is important, and the proposed starting rates are sensible. While lower rates would create the conditions for a more significant limit to house price increases, this can be assessed and introduced at a later point when the initial rates have been tested. The level the rates are set at is less important than having the system in place and can be adjusted in the future.

Recommendation Four:

That DTIs and their regulations be set up as described in the RBNZ consultation document.

Item Five

DTIs may cause some "economic drag", as the housing market will take time to adjust. In this adjustment period, property sales may slow because of high asking prices and low borrowing ability. This will bring down economic activity, however, this is inevitable with any major changes and doesn't mean that DTIs shouldn't be put in place. Property prices will need to either slow their rise or reduce to meet borrowers' needs. The risk of skyrocketing house prices and rents is higher than the risk of a minor housing market slow down, and the shock of this slowdown would be more extreme if DTIs were introduced later.

Recommendation Five:

The potential "economic drag" of DTIs should not outweigh the current crisis in New Zealand's housing system, and DTIs should be introduced as soon as possible.

Item Six

Introducing DTIs may temporarily reduce the number of rental properties available, however, we consider that exempting new builds will balance this out in time. New builds, especially apartments and other housing types will provide opportunities to rent and build at lower prices, especially if councils zone for more intense growth in major centres.

Recommendation Six:

That DTIs be exempted for new-builds, and that their rate is set after considering the other policies governing housing growth.

Ko wai tātou | Who we are

NZCCSS has six foundation members; the Anglican Care Network, Baptist Churches of New Zealand, Catholic Social Services, Presbyterian Support and the Methodist and Salvation Army Churches.

Through this membership, NZCCSS represents over 230 organisations providing a range of social support services across Aotearoa. We believe in working to achieve a just and compassionate society for all, through our commitment to our faith and Te Tiriti o Waitangi. Further details on NZCCSS can be found on our website www.nzccss.org.nz.

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