

The Treasury

Reserve Bank Act Review Phase 2 Consultation 3 Submission Information Release

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Submission on the 3rd consultation of Phase 2 of the Review of the Reserve Bank Act - RBNZ's prudential regulation of bank lending exposures to cohousing and private housing co-operatives

Membership and role of Society for Alternative Housing Development

New Zealand's aspirations for thriving communities will not come about simply by building housing: We need a wider range of sustainable and attainable home ownership models that give agency to communities, bring people together, provide security and enhance wellbeing. Some housing and property tenure models that are emerging in New Zealand that meet these needs include:

- Papakāinga
- Co-housing
- Housing Co-operatives
- Community Land Trusts

The underlying principles for these models have existed in New Zealand for a long time. Contemporary papakāinga reflects traditional Māori living arrangements that have existed in New Zealand for hundreds of years, while. Co-housing models (like that used at Earthsong in Auckland) have existed for decades and are rapidly growing in popularity, while private housing co-operatives were the dominant form of apartment block tenure prior to the Unit Titles Act, with hundreds still existing in New Zealand. Community Land Trusts (CLTs) are an emerging governance framework to ensure the retention of public land for affordable housing (again reflecting the traditional Māori approach that land cannot be owned by the individual).

These models have direct parallels to and antecedents in many of the most stable and equitable housing systems globally, particularly northern Europe.

The Society for Alternative Housing Development (SAHD) is a peak body organisation that represents the resident-led collective development sector in New Zealand. It advocates for transformative and collective models of property development (and ownership models) that promote more equal, and effective use of resources and ecologically sound outcomes.

Working with residents, the community housing sector, private developers, local and central government, the organisation provides a forum to discuss issues that face this sector, and identify ways to remove barriers, and grow the sector by supporting people wanting to undertake projects.

For more information about the issues impacting this sector, see:

<https://www.alternativedevelopment.org.nz/election-2020>

Purpose and objectives of proposed Deposit Takers Act are flawed

SAHD is **strongly opposed** to the removal from the RBNZ's statutory framework in the proposed Deposit Takers Act of:

- the overarching purpose of prosperity and wellbeing.
- the objective of the efficiency of the financial system.

SAHD's members undertaking projects consistently face the very real consequences of mistakes in the RBNZ's banking standards, which has a direct consequence to the availability of high-quality housing stock nationally. These mistakes severely restrict innovation in residential tenure and unnecessarily and unjustifiably limit the supply of new housing. The mistakes are inconsistent with the RBNZ's statutory purpose.

Removal of prosperity, wellbeing and efficiency from the proposed Deposit Takers Act will make it much harder to challenge the RBNZ's banking standards and encourage the RBNZ to change them.

RBNZ's prudential regulation of bank lending exposures to cohousing and private housing co-operatives

RBNZ's capital adequacy treatment of bank lending to cohousing and private housing cooperatives in its prudential management is unhelpful and misguided.

BS2B, and BS2A through incorrect inference by the banks, require banks to treat their lending to private cohousing and housing cooperatives as commercial property lending, despite these projects acting in a non-profit manner. This treatment of lending to cohousing and private housing co-operatives raises the cost of borrowing, changes the loan repayment profile, shortens the loan repayment period and also importantly withholds prudential endorsement of the validity of private housing cooperatives.

Is it the intent of the current banking standards to limit innovation and the supply of quality housing, or is it simply a mistake or unintended consequence, given there have not previously been examples to test the existing standards? Unsurprisingly the banks are very comfortable with the RBNZ's treatment, and thus have little incentive to push for change. We see no competitive impulse for any bank to innovate in this area. In general, the banks are using the RBNZ's position as political and commercial cover for their lack of courage and innovation, which (coincidentally) unjustifiably commercially benefits them at the expense of public benefit.

Basel treatment, first principles, empirical analysis and widespread international practice of prudential regulators all suggest RBNZ's capital adequacy classification of private housing cooperatives are incorrect. RBNZ's prudential management team will not address this point and strangely see no conflict in their position with RBNZ's current statutory obligations, which contain an obligation to the prosperity and wellbeing purpose and efficiency objective.

The proposed Deposit Takers Act will remove the statutory (and enforceable) requirement for the RBNZ to correct this mistake and ensure fair practice that maintains (the currently ignored) legal obligation to prosperity, wellbeing and efficiency.

SAHD wants RBNZ to immediately write to the banks and state clearly:

RBNZ has received submissions on its capital adequacy treatment of bank lending to cohousing projects and private housing cooperatives. RBNZ recognises the potential of

cohousing and private housing cooperatives to contribute to the improvement in the quality and affordability of housing for New Zealanders. RBNZ wishes to clarify its capital adequacy framework's treatment of bank lending to cohousing projects and private housing cooperatives including retirement village cooperatives.

Loans secured by first ranking mortgage over a residential property including cohousing and private housing cooperatives and retirement village cooperatives, used primarily for residential purposes, as opposed to profit generation, are eligible for categorisation as residential mortgage loans under both the Standardised and Internal Models Based frameworks, and therefore eligible for that regulatory capital treatment.

We request the Reserve Bank Act review team:

1. Use this example in discussion with the RBNZ as to why the proposed Deposit Takers Act should include prosperity and well being as an overarching purpose and efficiency of the financial system as an objective.
2. Ask the Reserve Bank's prudential team what, in particular in the Reserve Bank of New Zealand Act, stops immediate amendment of its standards to remove this mistake given the prosperity and well being purpose and efficiency objective.
3. Schedule a follow up meeting with the SAHD Committee to discuss and rectify this issue.

We expect that detailed discussions with the Reserve Bank of New Zealand's prudential team about this example will both practically highlight the need for the prosperity and well being purpose and efficiency objective and the more proactive role RBNZ must take in order to comply with its statutory mandate.

Bank Review's consultations are exclusionary

SAHD is very concerned about the quality and extent of consultation that has occurred on the Reserve Bank Act review.

The technical presentation of the material and absence of a clear explanation of the effect of the changes for New Zealanders in aggregate or by cohort effectively excludes most stakeholders.

We are also concerned that the consultation means that the Crown has not satisfied its Treaty of Waitangi obligations to fully consult Māori.

We Would welcome further discussion on the matters raised in this submission.

Contact

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[23]

Appendix 1: Purpose of SAHD

Appendix 1: Society for Alternative Housing Development is an Incorporated Society

3.0 Purposes of Society

3.1 The purposes of the Society are to:

1. Provide a space that connects, informs and supports the emergence, growth and establishment of socially sustainable, self-organised, collective housing communities in the Aotearoa.
2. Promote collective housing endeavours in New Zealand that use development models that deliver social, cultural, environmental and financial sustainability outcomes ('alternative development models').
3. Advocate and engage proactively with policy makers to remove barriers and promote the use of alternative development models, such as cohousing and property cooperatives.
4. Actively encourage and support members to develop property (particularly housing and ancillary uses) using alternative development models.
5. Do anything necessary or helpful to the above purposes.