12 March 2024

Prudential Policy Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

By email: macroprudential@rbnz.govt.nz

Dear Sir / Madam

Squirrel Ltd submission on the January 2024 DTI settings consultation paper

Squirrel is broadly supportive of the introduction of DTI restrictions, but submits that the proposed setting for property investors is significantly too restrictive. It will reduce the availability of rental properties and inflate rents – to the detriment of lower-income New Zealanders.

The key points outlined in Squirrel's submission are as follows:

- Squirrel broadly supports the introduction of DTI restrictions from the middle of 2024, and the proposed approach of setting the framework at different levels for owner-occupiers and property investors.

- Squirrel believes DTI limits will be an effective tool in helping to moderate large increases or declines in New Zealand house prices. Both by dampening credit supply at times when prices are rising quickly, and helping to mitigate price falls when interest rates are high (by limiting potential mortgage distress).

- Squirrel does have a number of concerns about the potential unintended consequences that the DTI restrictions may have for property investors and business owners if implemented at the proposed settings.

- The primary concerns are:

    - Given the proportion of activity that's taken place above this level in recent years, a DTI threshold of 7 for property investors with a 20% speed limit will be highly restrictive. Squirrel believes this will seriously limit investor activity even outside of periods of rapidly rising house prices.

- Lenders tend to err on the side of caution when implementing these frameworks, and it wouldn't be surprising to see banks enforce an internal speed limit nearer ~15% to ~17%. If that's the case, this would mean even less flexibility to accommodate investors needing to operate above the proposed DTI limit.

- Squirrel anticipates that the new DTI limits will create significant challenges for those with existing property portfolios. For example, those who have not previously been subject to DTI restrictions will become subject to them when they wish to sell a property. When DTIs are reassessed as part of the sale process, that investor may find they now inadvertently fall outside the limits. This may result in a lender taking the full proceeds of that sale, to get the borrower back within the tolerance level.

- The large degree of crossover between property investors and business owners could also have major negative consequences for anyone wanting to borrow against their property portfolio to raise business capital. This would become much more difficult to do, particularly during weaker periods in the economic cycle when business earnings are lower. This may adversely impact small businesses' access to capital during cyclical periods of low profitability.

- The nature of the DTI framework – and its application across an entire investment portfolio rather than property to property (as with LVRs) – creates further complications, particularly for investors with their lending across different lenders. If they are outside of DTI limits, investors will be locked out of borrowing.

- Squirrel also has concerns regarding the treatment of new builds under the proposed DTI framework. Their exemption, whilst well-intended, is illogical. Why is a lack of affordability acceptable for new builds? How will the borrower's DTI be managed after the purchase and what are the implications for access to capital?

- In light of these concerns, Squirrel submits that it would be more appropriate to set the property investor DTI limit to 8. Doing so would be restrictive enough to limit activity in this part of the market when prices are rising rapidly.

Squirrel's responses to the consultation paper questions are outlined in the attached document, providing more detail on the above points.

If you require any further information from us regarding this submission, please do not hesitate to get in touch.

Yours sincerely,

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