

Reserve Bank of New Zealand  
Via email to: [capitalreview@rbnz.govt.nz](mailto:capitalreview@rbnz.govt.nz)

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RE: Review of Key Capital Settings

### Introduction

1. Community Housing Aotearoa (CHA) is an Incorporated Society and a peak body for the community housing sector. To achieve our vision of ‘all New Zealanders well-housed’, we have a strategic focus on supporting a well-functioning housing system and working toward the realisation of the right to housing for all. We are also mindful of the larger institutional and regulatory settings within which our members and other community organisations operate.
2. Our 108 provider member organisations own and/or manage homes for over 30,000 kiwis nationally in nearly 20,000 homes, and our 78 partner members include developers, consultants, and local councils. We work closely with national Māori housing advocate Te Matapihi, which represents Iwi-based and Māori community housing providers. More about us can be found [here](#).
3. As an organisation that represents socially motivated landlords, we seek to improve their ability to contribute to better housing outcomes for all New Zealanders.
4. The major strength of the community housing sector is our focus on achieving sustainable outcomes for residents and communities – being more than a landlord. Our sector develops and applies policies and practices using this lens balanced with the duty to prudently manage the assets we own or lease to protect them for the long-term and wider social good.
5. In this submission, we have grouped our responses for the proposals related to Community housing providers and cooperatives Questions 43-44 and 52-55, along with whenua Māori Questions 45-51.
6. In all our dealings with Ministers, Ministries, industry, stakeholders and members we ask that they consider what power and influence they have that could be employed to improve the responsiveness and the performance of our New Zealand housing system. Given finance is by far the largest cost in the stack of costs required to create and operate much needed new affordable housing supply, we are asking you, as the Reserve Bank, to do what you can to make things better. We support the proposed changes to risk weightings you are proposing for CHPs.

### Key submission points

**We support the proposed approach in Option 3 for risk weights on lending for Community Housing Providers and housing co-operatives. We agree that lending for property development and construction is subject to different risks from providing accommodation in finished dwellings.**

7. In our submission on the Deposit Takers Core Standards Consultation in August 2024 we called upon the Reserve Bank to review the risk weighting approach to registered Community Housing Providers. We are pleased to see action taken to review the approach and the analysis provided.
8. We urge the Reserve Bank to approve the proposed changes to risk weighting for Community Housing Providers and implement these as soon as possible. As we have noted in prior submissions and meetings with the Reserve Bank, the current settings result in risk weights applied to CHP lending that is substantially higher than the actual risk. This is confirmed in the analysis in the current consultation document. The current approach effectively classifies CHP lending as income-producing real estate. This is a mischaracterisation of their goal to deliver long term build to rent housing as a social good and rather than for financial investment purposes.
9. The higher cost of bank lending under the current classification does not reflect the risk and structure of cashflows from housing ownership as a long-term landlord. This reduces the amount of housing delivered and drives up the amount of IRR subsidy paid by the government. The settings are constraining the growth of the build to rent CHP sector. This is a lose-lose situation.
10. We recognise that other build to rent developers are also becoming active in New Zealand, although not currently focussing on the low-income households served by CHPs. We urge the Reserve Bank to also review the appropriate settings for these long-term build to rent models which are structured on cash flow yield returns rather than relying on speculative capital gains. It is important that there is access to institutional capital on favourable terms to encourage a range of tenures that CHPs and others should be providing in New Zealand to meet critical housing shortages.
11. We believe residential co-operatives have also faced barriers due to the current settings. Whilst our members do not currently provide this form of housing, we agree that it represents lower risks. As noted in the consultation there are differences between CHP structures and residential cooperatives, with the lack of regulation and government funding the main points of difference.
12. We believe that residential co-operatives would benefit from the adoption of legislation to define them in New Zealand law. In most currently operating co-operatives, a membership

agreement is overlayed onto a Unit Title development, which is out of step with other countries who have specific legislation for residential co-operatives. We realise this is out of scope for the Reserve Bank but would encourage conversations with the appropriate ministries to codify their status and thereby ensure the risk settings are appropriate. Again, you have power and influence as the RBNZ. We are asking that you use it to help improve the housing system.

13. We believe action on the barriers to accessing finance for whenua Māori is long overdue. The constraints have been documented in numerous research papers, and in direct calls to action by Māori and in the Reserve Bank's recent work on Improving Māori Access to Capital. We encourage the Reserve Bank to consider imposing requirements on the deposit takers it regulates to ensure equitable access to finance on whenua Māori. Ongoing conservatism and inaction on this important matter after so many years looks like systemic and institutional racism. Lenders have had long enough to proactively innovate and provide services in this important area. It is time the RBNZ showed leadership and provided much clearer direction to them.

#### **Responses to Questions on CHP risk weights**

14. In response to Question 43, we agree with the conclusions summarised in Table 20 that the existing risk weights are too high. We agree with Option 3 as the appropriate approach to create a new set of exposures in the standardised framework and require IRB deposit takers to also use this category of exposures. We believe this better reflects the actual risk exposure and provides certainty for both CHPs and lenders.
15. In response to Question 44, we agree that Option 3 is consistent with the main purpose of the Deposit Takers Act 2023 (section 3(1)) and the additional purposes (section 3(2)). We believe the proposed approach supports the prosperity and well-being of New Zealanders by lowering the cost of finance for organisations seeking to deliver long-term affordable housing.
16. In response to Question 52, we agree with the decision to exclude lending for property development from the proposed approach to risk weights for lending to Community Housing Providers and co-operative housing.
17. In response to Question 53, we believe that the risks during the property development and construction phase are materially and significantly different from providing accommodation in finished dwellings.
18. In response to Question 54, we believe that lending to third-party providers who have a lease agreement with Community Housing Providers and housing co-operatives should be included in the same risk weighting framework when certain conditions are met. CHPs are exploring new delivery models which may include the establishment of a Special Purpose Vehicle to build new homes. These are common internationally to overcome a lack of capital by CHPs who are typically charitable organisations. The same lower risk weighting should apply to not

inhibit adoption of models which can help the sector to deliver more affordable homes for low- and moderate-income households. In other models where there is no CHP involvement in the ownership of the lessor, we support applying the same risk weighting if the term of the lease and the lending are of equal term length and where the lease is non-cancellable except for a default by the CHP or housing co-operative. Where these conditions are met, the lending risks are consistent with direct lending to a CHP and reduce costs to deliver more affordable homes.

- 19.** In response to Question 55, we reiterate our response above. Where conditions are met, the risk of lending to third-party borrowers are not different from lending directly to Community Housing Providers. We would like to work with the Reserve Bank to further define the criteria to be applied when evaluating these types of lease arrangements. We believe it is important to ensure that new models which increase the ability of CHPs to deliver more affordable homes are not disadvantaged but recognise that not all models may have the same risk profile. The Ministry of Housing and Urban Development should also take a leading role in setting these criteria to ensure alignment with their funding supports.

### **Responses to Questions on Whenua Māori**

- 20.** In response to Questions 45-51, we note these questions are structured to solicit information from deposit takers. However, based on our experience supporting our member Māori housing providers, we would like to provide some general observations. We believe more specific requirements on deposit takers are needed to ensure access to finance for whenua Māori on equitable terms to other residential lending.
- 21.** We agree the practice notice released by the Māori Land Court is helpful but believe that New Zealand deposit takers, as sophisticated businesses with access to quality legal advice, already understood that process. Ongoing conservatism and inaction on this important matter after so many years looks like systemic and institutional racism. We note recent efforts by some deposit takers to proactively innovate and provide services in this area but feel more must be done. It is time the RBNZ showed leadership and provided much clearer direction to them through a standardised approach to reduce barriers, as now proposed for lending to CHPs.

### **Conclusion**

- 22.** We thank the Reserve Bank of New Zealand for the opportunity to make a submission.
- 23.** We are open to follow up discussions with the Reserve Bank of New Zealand regarding the criteria to be applied for extending the risk weightings to third-party providers who lease to CHPs and co-operatives. We believe the Ministry of Housing and Urban Development should also be engaged in developing the criteria to ensure alignment with the commercial structures approved when they contract with CHPs in lease arrangements.

24. We ask the Reserve Bank to implement these changes for CHPs and housing co-operatives as soon as possible. CHPs are increasing their delivery of affordable homes with subsidies from the government. Reducing their costs of borrowing now means more families will have an affordable home at a lower cost, a win-win for CHPs and government.

Ngā mihi,

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