



## **A submission of the Salvation Army Social Housing Management Board to the Reserve Bank of New Zealand (RBNZ) 2025 Review of Key Capital Settings consultation document on the Capital Treatment of Community Housing Providers and Housing Co-operative Lending**

1<sup>st</sup> October 2025

### **Executive Summary**

This submission is in response to the options presented in the consultation document Section 5.3 Community Housing Providers, co-operatives and whenua Māori risk weights (standardised and IRB). The Salvation Army Social Housing Management Board strongly supports Option 3 (Table 21, p.94).

We believe that this approach best aligns capital treatment with the real economic risks of community housing providers (CHPs) and cooperative lending, reduces unjustified borrowing costs, and preserves our capacity to expand social housing while sustaining other charitable services. By adopting Option 3, the Reserve Bank can ensure capital rules promote financial stability, efficiency, and the public interest in affordable housing.

### **The Scope of The Salvation Army Social Housing**

The Salvation Army *Te Ope Whakaora* operates a growing portfolio of social housing in direct response to Government requests and funding and pressing community needs. Salvation Army Social Housing (SASH) is a registered community housing provider currently providing housing to 800 people in 567 homes throughout the country. A further 400 homes are under construction or planned in the next 2 years. These homes are mission-led, held for the long term, and financed in ways that require affordable and predictable banking relationships. Current capital settings materially constrain our ability to deliver new homes and risk drawing resources away from other vital charitable services.

### **Defining the Issues raised by the Reserve Bank regarding CHP Housing**

- Current RBNZ exposure classification causes a risk weight faced by CHPs that is substantially higher than the actual risk. This is not consistent with treatment by other jurisdictions in the OECD and reflects a misclassification as effectively income-producing real estate.
- RBNZ has not recognised that the structure of the loan enabling term amortisation is essential when assessing risk and setting the price of the loan. This enables the

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- financial feasibility of long-life assets like build-to-rent housing to be retained long term for its intended purpose.
- The difficulty of obtaining bank funding on terms that reflect the risk and structure of cash flows from housing ownership as a landlord has constrained the growth of the build-to-rent CHP sector and caused it to incur substantially higher costs than necessary when compared to its actual risk.

### **Why The Salvation Army Housing Board Supports Option 3**

#### *1. Alignment with Risk and Fairness*

- CHP and housing co-operative lending carries risk characteristics that are more comparable to the actual risks associated with assets held for long-term build-to-rent purposes, i.e., no higher than property investment residential mortgage lending (RML), and relatively aligned with owner-occupied RML.
- CHPs manage multiple tenancies, undertake significant maintenance obligations, and steward assets for the long term—unlike single owner-occupiers.
- A separate category under Option 3 reflects these realities and avoids forcing exposures into inappropriate classifications.

#### *2. Integrity of Bank Risk Modelling*

- With relatively few CHPs in New Zealand, internal ratings-based (IRB) banks cannot reliably model them as homogeneous owner-occupier loans but could assess risk separately.
- Requiring IRB banks to apply the standardised treatment under Option 3 avoids poor pooling assumptions and preserves model integrity.

#### *3. Lower Funding Costs, Better Social Outcomes*

- The Reserve Bank's own estimates show Option 3 would reduce risk-weighted assets and could lower lending margins by 0.4–0.8 percentage points.
- This reduction in interest rates would provide better aligned security to lenders and enable The Salvation Army to consider further housing ownership.
- Even small reductions in interest rates have significant cumulative effects: they improve viability of new builds, protect operating surpluses which are reinvested back into new supply or upgrades, and free up charitable resources for wrap-around social services.

#### *4. Transparency, Consistency and Incentives*

- A dedicated category eliminates ambiguity and prevents inconsistent treatment across banks.

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- It encourages lenders to develop appropriate underwriting standards for CHPs, rather than relying on corporate classifications that overstate risk.

#### *5. Practical Simplicity with Recognition of Diversity*

- While CHPs are diverse, Option 3 provides a single category with LVR-linked risk weights, striking the right balance between accuracy and simplicity.
- This option avoids the impracticality of creating multiple sub-categories.

#### *6. Counter-Cyclical Stability*

- The Salvation Army builds and holds homes long-term. Unlike speculative developers, this counter-cyclical role helps smooth volatility in the housing market, thereby reinforcing the financial system and social stability—a key purpose of the Deposit Takers Act.

### **Matters to Address Alongside Option 3**

We encourage the Reserve Bank to:

- Publish clear eligibility and governance criteria (e.g. registered CHPs, qualified co-ops, papakāinga with recognised governance standards) to prevent scope creep.
- Recognise long-term Crown contracting and income security when assessing risk—government-backed rental subsidy contracts materially reduce credit risk.
- Enhance this recognition with complementary tools (e.g. targeted credit facilities or guarantees) to support smaller providers and reduce barriers to access.

### **Why Option 2 or the Status Quo Are Not Acceptable to The Salvation Army**

The status quo overstates risk, inflates borrowing costs, and directly impedes housing supply and service delivery.

Option 2, as argued in the paper, risks distorting IRB models by forcing CHP loans into inappropriate pools, thereby undermining both capital accuracy and supervisory objectives.

### **Recommendations and Conclusion**

The Salvation Army Social Housing Board recommends the Reserve Bank adopt Option 3, with the following complementary measures:

- Clear eligibility and governance criteria
- Recognition of secure public income streams
- Immediate adoption of changes and implementation
- Robust reporting and supervisory oversight

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- Underwriting safeguards
- Targeted support for all build-to-rent long-term asset holders

We believe this approach aligns regulatory capital with economic risk, reduces unjustified financing costs for mission-driven housing providers, and supports the accelerated and sustainable delivery of social housing—while preserving financial stability and advancing the public good. We stand ready to work with the Reserve Bank and other stakeholders to ensure that capital settings enable, not hinder, the delivery of safe and affordable housing for those most in need.

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