

Capital Review Team

The Reserve Bank of New Zealand – Te Pūtea Matua

By Email: capitalreview@rbnz.govt.nz

3rd October 2025

Dear Capital Review Team,

Submission on the 2025 Review of Key Capital Settings – Policy Proposals for Feedback (Consultation Paper)

We welcome the opportunity to provide feedback on the 2025 Review of Key Capital Settings. Xceda Finance Limited (**Xceda**) is a Non-bank Deposit Taker (**NBDT**) and was a contributor to the submission made by the Non-bank Deposit Takers Association (**NBDTA**) on the Consultation Paper.

Xceda supports the positions outlined in the NBDTA submission, in particular the following key points:

- 1) Reducing total capital ratios for Group Three deposit takers;
- 2) Replacing AT1 capital entirely (or predominantly) with a greater role for Tier 2 capital; and
- 3) Introducing more granular standardised risk weights across lending categories.

In addition to the above, Xceda wishes to make some further submissions on some issues of specific importance to Xceda. These relate to: (i) changes in qualifying capital, (ii) minimum capital requirements, (iii) how the new risk weightings would impact Xceda's business and (iv) our views on the transition to the new capital settings, including early adoption.

Background

Xceda's lending activities focus primarily on first ranking residential mortgage-backed lending. We concentrate on specific niches in the market that are not well-served by the banks and adopt flexible lending practices that enable optimal outcomes for our customers.

Like many of the other NBDT Fin Cos, we have structured our business to be capital efficient – focusing on market niches that have a lower risk weighting under the NBDT regime and, therefore, lower cost of capital. In doing so, we have intentionally avoided types of lending that are not efficient for us due to the NBDT regime. These include SME lending due to the fact that the risk weightings mean that lending in those markets does not make commercial sense.

Risk Weightings

We support the risk-weight changes proposed by the NBDTA. For Xceda, while the impact of changes is limited in the near term (our capital ratio is expected to increase by only 0.18% based on our current loan portfolio), the adjustments would expand our ability in the future to consider new product offerings that were previously uneconomic under higher risk weights.

We also support early adoption of the new risk weightings as something that will benefit our sector, our customers and support competition, as it would allow us to expand into new areas of lending

that were previously cost prohibitive. However, on the basis that the adoption of the new risk weightings will not impact our capital ratio, we do not support a corresponding increase to capital ratio requirements before full implementation of the new capital settings.

While Xceda could comply with a minimum capital ratio of 10% under the new risk weightings, this will slow our growth and would ultimately require us to raise more capital in the short term. In accordance with good risk management practice, we hold an internal management buffer above the amount required by our trust deed. Xceda may be required to raise capital in the short term or pause growth to remain in compliance with our risk management programme requirements. This reinforces our recommendation below for staged early adoption of Tier 2 instruments.

Reverse Mortgages

In addition to the NBDTA submission, we propose reviewing the risk weights for reverse mortgages. Particularly lower LVR reverse mortgages to reflect the added granularity and reduced risk weights being provided for residential mortgages.

We support that reverse mortgages should have higher risk weights compared to residential mortgages, however this should not be largely disproportionate given the similar collateral protection provided with low LVRs on residential property.

Our proposal is to reduce the lower LVR categories for Reverse Mortgages to the following:

- LVR <30%: 30% risk weight; and
- LVR 30–60%: 40% risk weight.

Lowering RWAs here would support innovation in retirement lending, improving financial inclusion for older New Zealanders. Particularly for Kiwis that would prefer to stay in their own home for longer rather than have to move to a retirement home where the retirement operator business models disincentivise home ownership (i.e. prevent capital growth under a “right to occupy” model).

Capital Stack & Tier 2 Allocation

Increasing Tier 2 Allocation

We support the NBDTA position on this matter and do not oppose the removal of AT1 as a qualifying capital instrument. However, we submit that the Tier 2 allocations should be increased beyond the RBNZ’s proposed 3% to 4%, to fully offset the removal of AT1.

Replacing AT1 with CET1 as proposed disproportionately impacts group 3 deposit takers, where access to CET1 is limited compared to larger institutions. Tier 2 capital is a more appropriate replacement for AT1, is cost-effective and is consistent with APRA’s approach towards smaller ADI in its phase out of this instrument.

Early adoption of Tier 2 capital as qualifying capital

We propose that in addition to early adoption of risk weights that a staged early transition of qualifying capital is permitted.

Our suggestion is that this is completed in two tranches:

- 4) From 2026 (early adoption of risk weights), permit up to 2% of Tier 2 capital as qualifying capital.
- 5) From 2028 (DTA implementation), increase this to 4% Tier 2 as per proposal above.

To the extent that we are required to comply with an increased capital ratio associated with early adoption of lower risk weights, we would like to see this phased in as part of an overall transition to the new capital settings. If an increase in minimum capital ratio was accompanied with the ability to issue Tier 2 capital as qualifying regulatory capital – this would lower the impact of the increased capital requirements on our growth.

A staged adoption and release of Tier 2 instruments into the market would also support a balanced maturity profile and lead to a more sustainable level of Tier 2 that qualifies as regulatory capital.

Minimum Capital

Capital Ratios

We strongly support the NBDTA position that capital ratio requirements for Group 3 should remain proportionate to those of larger groups. If Group 1 and 2 minimums are reduced, corresponding adjustments must also be passed through to Group 3.

As noted in the NBDTA submission, APRA has set minimums for non-SFI ADIs at 10.5% total capital (CET1 4.5%, Tier 2 3.5%, buffer 2.5%).

Minimum Capital Requirements

We submit that the minimum capital requirement for licensed deposit takers should be set at \$10 million, rather than the \$5 million proposed. A higher threshold would provide greater resilience against early-stage losses for new entrants, promote scale, and reflect the reality that deposit takers must increasingly invest in compliance, systems, cyber security, and technology to meet regulatory and market expectations.

We note that APRA has adopted a higher floor for new ADIs, requiring an initial minimum capital base of A\$15 million, reducing to an ongoing minimum of A\$10 million. This provides resilience for early-stage entities while still promoting scale and sustainability once operations are established. A comparable \$10m minimum in New Zealand would help ensure, well-resourced entrants, with sound and sustainable business models are licensed under the DTA framework.

Finally, by adopting an achievable but stronger baseline, coupled with proportionate ratios, we believe that it shows that the RBNZ is committed to building a stable, resilient, and competitive small banking sector.


We also recommend that, consistent with the approach suggested by the NBDTA, a suitable transition period be provided for existing NBDTs that currently fall below this threshold.

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We look forward to further engagement with you and your team on the transitional arrangements for the new capital settings and ensuring these settings create a stable, but enabling environment for Group Three deposit takers to grow and thrive for the long-term benefit of New Zealanders.

Yours sincerely,

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A large grey rectangular box redacting the signature of Daniel McGrath.

Daniel McGrath
Chief Executive Officer, Xceda Finance Limited