



## NZBA Oral Submission to Local Government and Environment Committee – 10 March 2011

Good morning. Thank you for seeing us. I am Sarah Mehrtens, Chief Executive of the New Zealand Bankers' Association. With me is Karen Scott-Howman who works with me at the Association.

We would like to start by saying that we support the Weathertight Homes Resolution Services (Financial Assistance Package) Amendment Bill.

We welcome the Government's commitment to providing a financial assistance package to New Zealanders with leaky homes. This package will help improve access to finance for eligible bank customers, by substantially reducing the amount they will need to borrow by up to 50 per cent of the cost of their repair loans.

NZBA has been actively working with officials at the Department of Building and Housing to ensure that member banks are best placed to support Banks' customers to repair leaky homes. These negotiations are ongoing and progressing well. In this forum we would like to reiterate the Banks' commitment to working with Government towards a long-term leaky homes solution. Banks share the Crown's desire to establish a durable and sustainable means by which affected homeowners are able to repair their leaky homes and restore confidence to residential property markets.

In terms of our submission to you today, we would simply like to use this opportunity to clarify the nature of the credit support element of the package being proposed by the Government.

The credit support which is being offered to banks to support its customers has been represented publicly as a "Crown guarantee". People commonly perceive a guarantee as being given by someone who, in effect, stands in the shoes of a borrower in case of default. To avoid confusion and unrealistic expectations, we think it is important that consumers know that a guarantee of this nature is not being offered by the Government.

What the Government is offering is to enter into a loss sharing agreement with the Banks in relation to any amounts which are lent to fund the approved cost of leaky home repairs. This means that, in the event of a default, Government should contribute a proportion of any shortfall.

We note here that the credit support is provided in relation to the repair loan amount and not the total amount a customer has borrowed. While we cannot give the Committee exact figures, we expect the credit support extended by the Crown might cover 15 to 25 per cent of

any shortfall on the repair loan. The remaining 75 to 85 per cent would therefore represent the Bank's risk.

There is one other important feature of the credit support arrangement which we think it is important that the public understand:

Typically, in cases where there is third party support for the advance of credit, one would expect that lenders might be able to lend more than they otherwise would have, or perhaps lend in circumstances where they perhaps otherwise would not have. If this were the case, one might reasonably assume that Banks could pass on any benefit of a credit support arrangement to its affected customers.

However, the suggested terms of the loss sharing agreement preclude this. They require that the Banks continue to apply their standard lending criteria when processing a customer's loan application to fund leaky home repairs. It is important to emphasise that this loss sharing agreement does not influence the Bank's ability to lend money to its customers, nor does it relax the circumstances in which the Bank will lend.

So the Government's credit support – of itself – will not make it easier for customers to access a loan from their bank to finance leaky home repairs. The potential benefit to customers with leaky homes comes from the combined direct contributions that they may receive from the Crown and territorial authorities.

We make these comments because we wish to ensure that consumers understand what is being offered and what impact the financial assistance package might have on them. Our written submission suggests one way of clarifying any confusion around the arrangements and we will continue to work with officials to ensure that our member Banks' customers, and the public in general, are well informed and able to benefit as best they can from the proposed financial assistance package.

We would be happy to take questions from the Committee if there anything else you would like to discuss with us.