

# Submission

to the

# Real Estate Agents Authority

on

# Residential property risks facing consumers

4 September 2015

# Submission by the New Zealand Bankers' Association to the Real Estate Agents Authority on residential property risks facing consumers

## About NZBA

1. The New Zealand Bankers' Association (**NZBA**) works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes which contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.
2. The following fifteen registered banks in New Zealand are members of NZBA:
  - ANZ Bank New Zealand Limited
  - ASB Bank Limited
  - Bank of China (NZ) Limited
  - Bank of New Zealand
  - Bank of Tokyo-Mitsubishi, UFJ
  - Citibank, N.A.
  - The Co-operative Bank Limited
  - Heartland Bank Limited
  - The Hongkong and Shanghai Banking Corporation Limited
  - JPMorgan Chase Bank, N.A.
  - Kiwibank Limited
  - Rabobank New Zealand Limited
  - SBS Bank
  - TSB Bank Limited
  - Westpac New Zealand Limited.

## Background

3. NZBA is grateful for the opportunity to submit to the Real Estate Agents Authority (**REAA**) on the residential property risks facing consumers, as invited by the REAA's letter to NZBA Chief Executive Kirk Hope dated 17 August 2015.
4. NZBA commends REAA's commitment to meaningful consultation and engagement and appreciates the invitation to participate in this targeted consultation.
5. The following submission provides responses to the questions posed in the REAA's letter dated 17 August 2015.

6. If you would like to discuss any aspect of the submission further, please contact:

Antony Buick-Constable  
 Policy Director & Legal Counsel  
 04 802 3351 / 021 255 4043  
[antony.buick-constable@nzba.org.nz](mailto:antony.buick-constable@nzba.org.nz)

7. NZBA provides the following high level comments in response to the REAA's questions:

Q 1: What are the main risks that consumers face when buying or selling residential property?	Q 2: What are the key drivers that contribute to those risks?	Q 3: What factors would reduce those risks to consumers?	Q 4: What is not being done currently or could be done better to address those risks to consumers? This could be by the REAA or some other entity
Current surging house prices	Market issues, including lack of supply  Possible panic buying prior to regulation/policy changes	Use of Registered Valuations  Consumer access to up-to-date market information	REAA could provide more information to consumers about the importance of paying a reasonable price for residential property (for example to avoid difficulties of negative equity)
Lack of knowledge about the property for purchase and failure by consumers to practise due diligence	Cost when attending multiple auctions  Lack of time  Lack of knowledge  Speed of sales (especially in Auckland)  Selling process (for example auction)	Ensuring consumers exercise appropriate due diligence  The provision of appropriate check lists (including local authority searches, engineer reports, building inspections)  Consumer awareness/education	Ensure consumers are made aware of and/or have completed due diligence

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Lack of knowledge about the process and/or market	<p>Emotional purchases (particularly with first home buyers)</p> <p>New migrants who may have limited knowledge of local process and/or market</p> <p>Vested interests of other parties (for example sellers, real estate agents)</p>	<p>Educating consumers, for example via books/manuals/on-line resources</p> <p>Referrals to property experts/specialists</p> <p>Provision of more comprehensive information regarding residential properties</p> <p>Regulation of commissions</p> <p>Real estate agent disclosures (around conflicts etc.)</p>	<p>Real estate agents to refer consumers to relevant information on process</p> <p>Real estate agents to inform buyers of the availability of relevant professional advice which can be sought prior to purchase</p> <p>Regulation of commissions</p>
Legal issues which can arise with different kinds of residential properties, for example cross leases and lease holds	<p>Lack of knowledge</p> <p>Lack of time</p> <p>The potentially cheaper price of such properties</p>	<p>Consumer education</p> <p>Referrals to experts/specialists</p>	<p>Real estate agents to inform buyers of the availability of relevant professional advice which can be sought prior to purchase</p>
Change in value of the house post-sale (negative equity)		<p>Consistency/rules in third party valuation ordering systems</p>	

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Interest rate changes (reliance on rates remaining at current levels and not factoring the potential of higher mortgage repayments into budget)		Consumer education to encourage better financial literacy	REAA could encourage purchasers considering borrowing options to visit consumer education material on this, for example understanding of fixed/floating rates, links to mortgage calculator on <a href="http://www.sorted.org.nz">www.sorted.org.nz</a>
Selecting appropriate housing insurance and sum insured (and being underinsured)	Lack of knowledge/education	Consumer education Obtaining proper financial advice	