HEARTLAND
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5 Februrary 2020

Competition and Consumer Policy team

Building, Resources and Markets

Ministry of Business, Innovation & Employment

PO Box 1473

Wellington 6140

Via email: consumer@mbie.govt.nz

Submission to the Ministry of Business, Innovation and Employment on the Exposure Draft of the Credit Contracts and Consumer Finance Amendment Regulations 2020

Introduction

1. Heartland Bank Limited (**Heartland**) welcomes the opportunity to submit on the Ministry of Business, Innovation and Employment (**MBIE**) Exposure Draft of the Credit Contracts and Consumer Finance Amendment Regulations 2020 (**Draft Regulations**).

2. The New Zealand Banking Association (**NZBA**), of which Heartland is a member, has submitted separately on the Draft Regulations. Heartland reiterates its support of the points made in those submissions. In addition, Heartland wishes to highlight the following matter which is of particular relevance to it.

Regulaton 4AE

3. Heartland is the primary provider of reverse mortgage products in New Zeland.

4. Heartland's reverse mortgage product does not require borrowers to make regular repayments. Rather, a Heartland reverse mortgage is only required to be repaid once the last borrower has moved permanently from their home – typically, when the when the borrower downsizes and sells the property.

5. Hence the entry into a Heartland reverse mortgage does not negatively impact on a borrower's ablity to meet their expenses in the ordinary course. In fact, a Heartland reverse mortgage will often be used by borrowers as a means of *actually meeting* their expenses.

6. As can be expected, Heartland has a very robust origination process for reverse mortgage lending. During that process, discussions about the borrower's income, and their ability to meet their expenses, will occur. However given the bespoke

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nature of the product, the specific enquires around affordability focus on providing assurance that the borrower has the ability to pay for home insurance, body corporate fees and rates (being the contractual expenses). This is because the product terms require that those expenses be kept up to date, and more broadly because a reverse mortgage will only ever assist with the borrower's ability to meet their other expenses.

7. As described above, the amounts due under the loan will be paid upon the sale of the property (and the borrower has the benefit of a guarantee that they will never owe Heartland more than the sale price of the property), hence there is no need for any affordability assessment in that regard.

8. By contrast, draft Regulaton 4AE requires lenders to make enquiries to be satisfied that a borrower "*will have a reasonable surplus available to meet the payments of their relevant expenses*". Given that a reverse mortgage does not require repayments to be made, and on the basis that a reverse mortgage will not negatively impact the borrower's ability to meet their relevant expenses, we do not consider the requirement to under the steps per regulation 4AE appropriate. Further, any such requirement would impose additional process requirements on Heartland (and, therefore, both time and financial expense on borrowers). In Heartland's view, that would not be a good customer outcome, and could also run the real risk of confusing customers.

9. **Heartland accordingly echoes the NZBA's submission that clause 4AE(b)(ii) should, accordingly, be an exception to the general rules in 4AE(a), and not an additional step.**

10. Heartland is willing to engage further with MBIE with respect to the Draft Regulations and, if considered appropriate, to meet and discuss our submissions. If you would like to discuss any ascept of these submissions further, please do not hesitate to contact the sender of this submission.

Kind regards

Chris Flood

Bank Chief Executive Officer