

Major legislative change for New Zealand societies

Deregulation has gone further than expected,
giving building societies far wider powers

LEGISLATION will shortly be enacted in New Zealand which will, in effect, remove all of the constraints on the activities of building societies in that country. Indeed, the Act can be considered to be more of a mutual institutions' act than an act governing the activities of specialised housing finance institutions.

This article briefly sets out the traditional role of building societies in New Zealand, the legislative changes envisaged and the future path likely to be taken by the societies.

The traditional position

Building societies in New Zealand have had little more than 20% of the mortgage market. That market, and the financial markets generally, have been subject to extensive regulation and government intervention. This has been reflected in the activities of the government-owned Housing Corporation, the largest individual lender, and also by regulations on interest rates which have served to frustrate normal market forces and have led to a somewhat inefficient mortgage market.

Building societies operated in this market under specific legislation, the Building Societies Act 1965. Like similar legislation in other countries this largely confined building societies to the activities of raising retail savings and making loans for house purchase.

The Labour Government has recently been deregulating the financial markets and this has put significant pressure on building societies

because of their restricted activities. Modest changes in the legislation have been expected on the lines of those recently implemented for United Kingdom building societies.

The new legislation

On 3 April, 1987, The Building Societies Amendment Bill was introduced into the New Zealand parliament. It was generally expected that it will become law in May or June. The Bill goes very much further than the limited deregulation that had been expected. As far as possible the legislation attempts to assimilate building society and company legislation and wherever there were restrictions on the activities of building societies these are removed.

Effectively, the legislation covers only the constitution of building societies and not their activities. The philosophy is institutional neutrality in line with the policy of the government which had been established some 18 months ago.

The major feature of the Act is that it provides that, subject to any restrictions which a society itself may have imposed, the functions of a society should be to provide services of any kind for its members or for any other purpose. This compares with the previous objects clause by which a building society existed for the purpose of raising, by the subscriptions of members, a fund for making advances to members.

The new section expressly provides that the provision of services includes the provision of financial services, which includes, but is not

limited to, any services relating to the lending of money, the provision of credit, the giving of guarantees and indemnities, the sale and purchase of financial obligations, debts and securities, the discounting of credit instruments, banking, investment, insurance, trusteeship and foreign exchange dealing.

Consequently, the whole of Parts III, IV and V of the 1965 Act are repealed. These are the parts of the Act which placed restrictions on the powers of societies to make advances, to invest surplus funds and to borrow money. The previous Act required, for example, that 85% of advances had to be for residential purposes and secured by mortgage of land, and Part V of the Act provided for borrowings not to exceed two thirds of the value of shares.

A new section provides that, subject to any restriction contained in the rules of the society, a society may invest any money belonging to it or acquired in the course of its business for any purpose connected with the function of the society or to the extent that any money is not immediately required for the performance of that function in any manner that the society thinks fit.

The powers of control of the Registrar of Building Societies are also repealed. For their prudential supervision societies have been responsible to the Reserve Bank and this will continue.

The new legislation makes provision for a building society, by special resolution, to convert to a public com-

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pany limited by shares under the Companies Act 1955.

New Zealand building societies

The building society industry in New Zealand is heavily concentrated. The largest building society, the United, has recently been accounting for nearly half of building society activity. The assets of the United were NZ\$1,024 million (US\$525 million) at the end of September 1986. The society grew rapidly in its last financial year following a board decision to widen the access to mortgage finance to members of the general public.

It believed that in the increasingly free market environment, restricting lending products to the existing customer base would have severely constrained the ability of the society to remain a significant force in the mortgage and financial markets.

The society has decided to remain as a building society for the time being and not to seek to convert to company status. It has recently been involved in a number of significant initiatives. In 1985 it established the United Realty World Network, a franchised estate agency operation which now comprises 55 real estate offices. These offices help to market loan and savings accounts and

enable customer relationships to be developed, not necessarily related to a property sale or purchase. It is intended to expand this network further.

The society has also introduced the United Life Care Programme which involves the development of a number of high quality retirement villages throughout the country. The villages are all owned, free of mortgage, by United Life Care. Residents purchase a licence to occupy or a leasehold interest, and make a once only payment towards a life care trust. This amount is amortised over the first 40 months of occupancy.

Residents also pay a weekly service charge to cover the operating costs of each village. United Life Care will repurchase units from residents at the original cost of the leasehold interest, or licence to occupy, less the costs of refurbishing the units to the original standard.

United also owns allied Mortgage Guarantee Company Limited, a mortgage guarantee and mortgage broking company. This was established in 1970 to provide mortgage insurance for lenders. It has also developed a sophisticated mortgage banking

facility, which in recent years has been dominating the activities of the Company. It currently administers nearly NZ\$100 million (US\$51 million) of mortgage funds.

The deregulation of the finance industries is seen as providing AMG with an opportunity to widen its primary role as an insurer of other lenders' loans. It will also become involved in the establishment of a secondary mortgage market in the USA.

United intends to move in the direction of becoming a mortgage banking operation. Among new mortgage products which it has developed are low start mortgages, personal loans, transferable mortgages and offshore funded mortgages for commercial borrowers.

The second largest society in New Zealand, the Countrywide, had assets of NZ\$540 million (US\$237 million) at June 1986. It operates through 50 branches. The Countrywide has announced its intention of converting to company status and becoming a banking institution. The intention is to establish a holding company in which the Bank of Scotland (a British based bank) will take 40% of the equity, General Accident Insurance Company will take a further 40%, with the remaining 20% being floated. The Countrywide will then cease to be a building society.



Residential district in Hamilton, New Zealand.