POLICY AND REGULATORY STEWARDSHIP

Tax policy report: Interest limitation proposal – consultation, timing, and scope of consultation document

Date:	1 April 2021	**Priority:**	Medium
Security level:	In Confidence	**Report number:**	IR2021/133 T2021/847

Action sought

	Action sought	**Deadline**
Minister of Finance	**Indicate** your preferred recommendations **Refer** this report to the Minister of Housing	9 April 2021
Minister of Revenue	**Indicate** your preferred recommendations	9 April 2021

Contact for telephone discussion (if required)

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1 April 2021

Minister of Finance
Minister of Revenue

Interest limitation proposal – consultation, timing, and scope of consultation document

Executive summary

Officials propose to report to you with a consultation document in late May on the design details of limiting interest deductions for residential property. This report seeks your direction on both the timing of consultation and the timeline for making final policy decisions (and for the resulting legislation).

This report also seeks your agreement on which options to include in the consultation document in respect of a small number of design issues. Clarifying the scope of the consultation early on would allow officials to concentrate their efforts on second-order decisions and help focus submissions on areas where consultation is likely to be most helpful.

The key decisions covered in this report are:

- **Treatment of denied interest deductions when property is sold.** Cabinet has already agreed that officials will consult on whether interest deductions should be denied or merely deferred if the taxpayer is not a property developer but is taxed on the disposal of their property under the bright-line test or another land sale rule. Officials seek guidance on the range of options to be included in the discussion document.
- **Interest allocation approach.** This is the method by which taxpayers work out which interest deductions are impacted. Officials recommend that tracing be the approach generally used for all taxpayers (whether a company or not). This approach means that the limitation of interest deductions depends on whether the borrowed funds are used for residential property purposes. It also means that businesses borrowing for non-residential property purposes are unaffected by the rules, even if the borrowing is secured over a residential property. However, there are integrity and fairness issues with the tracing approach. There are other possible options set out in the Appendix. Officials seek agreement as to what methods should be included in the consultation.
- **Application to widely held companies**. Officials recommend applying the rules to all close companies and only "residential land-rich" widely held companies. This would ensure that companies holding small amounts of residential land incidental to their primary business are unaffected by the rules. This approach means interest deductions of retirement village operators could be denied, depending on how broadly a "residential land-rich" company is defined, unless there is an exception for them.[1] Officials seek clarification on what should be included in the consultation.

Recommended action

We recommend that you:

[1] Retirement villages are already carved-out from application of the bright-line rule under the definition of "residential land" and this approach could be replicated for the interest denial rule.

A. **agree** to the proposed consultation timeframe, with officials reporting to you with a consultation document in late May.

Agreed/Not agreed Agreed/Not agreed

B. **agree** to consultation beginning with a small group of stakeholders before the public release of the consultation document.

Agreed/Not agreed Agreed/Not agreed

C. **note** that consistent with the Cabinet agreement the consultation document will include an option that interest deductions may be deductible on a deferred basis if the taxpayer is taxed on the disposal of their property.

D. **agree** to consult on the further option of allowing interest deductions when a property is sold, if the sale is not taxable, to the extent that interest deductions exceed any untaxed gains.

Agreed/Not agreed Agreed/Not agreed

E. **indicate** which interest allocation option(s) you would like included in the consultation document:

1. Tracing (where interest is traced to what the borrowed funds were used for) (*recommended*).

Agreed/Not agreed Agreed/Not agreed

2. Stacking (where debt is allocated to assets in accordance with a prescribed order) (*not recommended*).

Agreed/Not agreed Agreed/Not agreed

3. Apportionment (where debt is allocated to assets in proportion to the value or cost of the assets) (*not recommended*).

Agreed/Not agreed Agreed/Not agreed

F. **indicate** which of the following scope option(s) for application to companies you would like included in the consultation document:

1. Close companies only.

Agreed/Not agreed Agreed/Not agreed

2. Close companies and "residential land-rich" companies (*recommended*).

Agreed/Not agreed Agreed/Not agreed

3. All companies.

Agreed/Not agreed Agreed/Not agreed

G. **indicate** your preference for when decisions on the design of limiting interest deductions are to be made public, noting that making decisions before 1 October 2021 will mean limiting the time for public consultation.

Before 1 October/After 1 October Before 1 October/After 1 October

H. **indicate** which of the legislative timing options you would like for the housing measures to be introduced:

1. Option 1: include the housing measures in a Supplementary Order Paper to the annual rates omnibus tax Bill (AR Bill) at the Finance and Expenditure Committee stage on 14 October 2021 (*recommended*).

Agreed/Not agreed　　　　　　　　　　Agreed/Not agreed

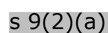
2. Option 2: introduce the housing measures as a standalone Bill on 19 October 2021.

Agreed/Not agreed　　　　　　　　　　Agreed/Not agreed

3. Option 3: delay the introduction of the AR Bill until 19 October and include the housing measures in that Bill on introduction (not recommended).

Agreed/Not agreed　　　　　　　　　　Agreed/Not agreed

I. **refer** a copy of this report to the Minister of Housing.



Felicity Barker
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Hon Grant Robertson
Minister of Finance
/ /2021

Hon David Parker
Minister of Revenue
/ /2021

Purpose

1. This report seeks joint Ministers' agreement on a proposed approach for consulting with stakeholders on the design details of the interest limitation proposal that was announced on 23 March, as well as seeking direction on the timeframe for making final policy design decisions and legislative options.

2. This report also seeks your agreement on which options officials will consult on for the interest limitation proposal regarding:

   2.1 the treatment of interest deductions when the property is sold,

   2.2 the interest allocation approach, and

   2.3 the application of the rules to widely held companies.

3. Officials intend to put forward "proposed" approaches on the above topics in a consultation document and invite submissions on the details of how those approaches will be applied.

4. Officials will report to you subsequently on a possible policy framework to help guide other important design decisions for the interest limitation proposal.

Background

5. On 8 March 2021, Cabinet agreed in-principle to limit deductions for interest incurred to earn income from residential property (CAB-21-Min-0045 refers). Cabinet also directed officials to consult with stakeholders on the design details of the interest limitation proposal before seeking final decisions from Cabinet.

6. Officials propose that the public consultation document on the interest limitation proposal is released in late May 2021, or shortly thereafter. Given the timeframes involved and the fact that some key design decisions will impact many second-order design decisions, it would be useful to get some key design decisions agreed and thereby reduce the number of issues out for consultation.

7. Limiting the scope of the consultation document in this way would allow officials to concentrate their efforts on second-order decisions and can help focus submissions on areas where consultation is likely to be most helpful.

Consultation and Timing

Timing of consultation

8. Officials are currently drafting a consultation document and propose providing you this consultation document in late May for release soon after. Cabinet directed officials to consult with stakeholders on the design of the interest limitation proposal before seeking final decisions from Cabinet. We propose to allow six weeks for submissions on the consultation document.

9. Officials also propose beginning consultation now. There are a wide range of interested and affected stakeholders that we are interested in engaging with. We will be leveraging off the Ministry of Housing and Urban Development's industry and interest group networks to ensure we reach those stakeholders.

10. We propose to adopt a similar approach to consulting on the design of the rules for interest deductibility as we did when designing the temporary loss carry back rules last year (in response to Covid-19). Under this approach we established a group of tax experts to assist in the technical design of the rules. The benefit of this approach is that we involve practitioners in promptly designing rules that are effective and

simple to implement. This expert group will be formed and consulted prior to the consultation document to help inform its contents.

Timing for decision making

11. After considering submissions on the consultation document, we will report to you with final policy recommendations. The amount of time allowed for consultation will determine when we can report back to you and when final policy decisions will need to be made. If officials' proposed timing is adopted (with six weeks of consultation), we will be able to report back to you in early September 2021 and expect that final policy decisions will be made by Cabinet on 4 October 2021.

12. This proposed timeline for making final decisions would mean that the design of the measure to limit interest deductions for residential property will not be public until after the date from which the measure begins denying deductions (1 October 2021). While tax returns that deny interest deductions will not be filed until after 31 March 2022, this uncertainty around the policy at 1 October 2021 may cause concern for some residential property investors.

13. Officials can discuss alternative timeframes for consultation and decision making with you if you wish. However, in order to have decisions on design details be made public by 1 October, there will likely need to be a reduction in time for consultation, which could harm the design of the policy.

Legislative vehicle

14. Officials' preferred timeframe for making final decisions is later than the originally planned introduction of the annual rates omnibus tax Bill (AR Bill) that also must be enacted by 31 March 2022. There are three options to have the contents of the AR Bill and the housing proposals enacted by 31 March 2022.

15. **Option 1** is to introduce the AR Bill, as originally planned, on 31 August 2021 and include the housing proposals via a Supplementary Order Paper (SOP) to the Finance and Expenditure Committee (FEC) on 14 October 2021. This is officials' preference for the following reasons:

    15.1 It maintains a full 6-week FEC submission period for both the AR Bill content and the housing proposals.

    15.2 It allows the bulk of the AR Bill FEC submissions to be considered in advance of the housing FEC submissions closing – this frees up resources to consider housing submissions in a shortened timeframe.

    15.3 Within the shortened timeframes of all three options, it provides the lowest risk of significant errors in the FEC process.

    15.4 It minimises the resource commitment of the FEC and Parliament who will only need to consider a single bill.

16. **Option 2** is to introduce the AR Bill, as originally planned, on 31 August 2021 with a separate bill for the housing proposals introduced on 19 October. This follows similar timelines to option 1 but has three main differences which, on balance, make it officials' second preference:

    16.1 It removes a perception risk that the housing proposals are being introduced by SOP which could (incorrectly) be viewed as reducing the opportunity for consultation.

    16.2 Due to the longer process for the Government to approve the introduction of a bill compared with Ministers releasing an SOP under delegated authority, there will be more decisions to be made by Ministers and less time to consider those decisions.

16.3 It will require FEC to consider two tax bills, rather than one, during February 2022 and Parliament to consider two tax bills, rather than one, to pass through all remaining stages during March 2022.

17. **Option 3** is to delay the introduction of the AR Bill so that the housing proposals can be included before it is introduced on 19 October. This avoids any negative perception issues with using an SOP and minimises FEC and house time. However, it has a number of significant risks and drawbacks so is not recommended. These include:

17.1 Even if officials provide you with the Bill the day after the housing policy is agreed by Cabinet, there will only be 12 days for you to consider the Bill, consult with Caucus, lodge the Bill with the Cabinet office and have it agreed by Cabinet. This is the same timeline for approval of a housing Bill under option 2 but the content of the Bill will be much larger.

17.2 This timeline assumes the Bill can complete its first reading on the first possible date of 26 October. If this is not completed, FEC submissions will not close until 22 December. This will make points 17.3 and 17.4 below worse.

17.3 FEC submissions are planned to close on 8 December. This only provides officials with approximately 8 weeks, including Christmas, to consider all submissions (including late submissions), reach agreement with the Independent Advisor to FEC, finalise the officials' report and prepare near-final revision tracked legislation. This is significantly shorter than previous omnibus tax bills and, despite officials' best efforts, is likely to result in a number of errors, particularly as we expect there will be a large number of submissions on the housing measures in the Bill.

17.4 This significantly shorter consultation period is likely to create a perception that the Government and officials are not taking the FEC consultation period seriously as the short timeframe is likely to result in insufficient time to consider and respond to submissions resulting in the reported back version being more similar to the introduction version than would occur under normal timeframes.

18. The relevant dates for each option are shown in Table 1 on the following page.

Table 1. Timeframes under three legislative options

	Option 1 Aug intro/Oct SOP (1st preference)	Option 3 Two Bills (2nd preference)	Option 2 Oct intro (not recommended)
AR Bill provided to Minister	5 August 2021	5 August 2021	6 October 2021
AR Bill approved by CAB (intro next day)	30 August 2021	30 August 2021	18 October 2021
Housing Bill provided to Minister		6 October 2021	
Housing SOP released	14 October 2021		
Housing Bill approved by CAB (intro next day)		18 October 2021	
AR Bill submissions close	20 October 2021	20 October 2021	8 December 2021
Housing submissions close	1 December 2021	8 December 2021	
FEC report back	3 March 2022	3 March 2022 (x2)	3 March 2022
Bill(s) enacted	31 March 2022	31 March 2022 (x2)	31 March 2022

Treatment of interest deductions when a property is sold

19. One of the questions for consultation agreed by Cabinet is how interest deductions that have been denied should be treated when the disposal of the property is taxed. One option that officials intend to consult on is allowing those deductions to offset any gain on sale that is taxable.

20. The case considered by Cabinet considers one situation where there are no untaxed gains but does not explicitly consider all such cases. Whenever income is fully taxed, there are grounds for considering allowing interest deductions on sale. The decision by Cabinet does not discuss situations where there are net losses on sale or where there are tax-free capital gains but these are smaller than the interest deductions that have been denied. A question for you is whether you want the consultation document to consider the treatment of interest deductions when there are net losses arising on sale or tax-free capital gains which are smaller than disallowed interest deductions.

21. Officials recommend extending consultation to cover situations where the disposal of a property either produces a loss, or a gain that is smaller than the amount of interest expense. This would mean putting multiple options in the consultation document for how to treat interest deductions that have been denied when the disposal of a property is taxed. These options could include the following, although other options, or variations on these, are also possible:

    21.1 Permanently denying interest deductions.

    21.2 Allowing interest deductions on a deferred basis if the taxpayer is taxed on the disposal of their property.

    21.3 Allowing interest deductions when a property is sold, if the sale is not taxable, to the extent that interest deductions exceed any untaxed gains.

This would mean interest deductions may be fully allowed where a property is sold for a capital loss.

Proposed interest allocation approach: tracing

22. In tax law, a deduction is generally allowed for expenditure or loss that is incurred in deriving assessable (taxable) income. This can be described as a 'nexus' approach, as the availability of a deduction depends on what the expenditure was used for. It is the default approach applied in the absence of any other specific rule.

23. Establishing nexus for interest expense can be difficult. Generally, a tracing approach is applied. If borrowed money is used to acquire an income producing asset or pay a deductible expense, the money can be directly traced to the production of taxable income, and the interest is deductible. If the borrowed money is used to acquire a family home or personal vehicle, or to fund a holiday, the interest is not deductible. In other cases, loan funding is used for purposes which do not relate directly to earning taxable income, such as repaying another loan, funding a dividend or payment of drawings to a business partner, or funding payment of a tax obligation. In these cases, tracing is more problematic. Tracing is also subject to manipulation. For example, an individual can use equity to fund private assets and borrowing to fund taxable assets. For these reasons, tracing is not generally applicable to interest expense incurred by companies.

24. There are already some specific tax rules that apply to interest allocated to residential property, namely the mixed-use asset (*MUA*) rules and the residential loss ring-fencing (*RLR*) rules. For taxpayers other than companies, the tracing approach is used under both the MUA and RLR rules. For companies, the RLR rules also use tracing but the MUA rules apply a different 'stacking' approach. An explanation of stacking and other possible approaches is outlined in the **Appendix**.

25. You have stated that your intention is for the interest limitation proposal not to affect non-housing loans (for example, loans for a small business operated by a sole trader and secured by residential property). Officials consider that the tracing approach is the most viable approach that is consistent with that intention.

26. However, because money is fungible, the tracing approach can cause fairness and integrity issues. This is shown in **Example 1** below. There may also be practical difficulties in applying tracing, particularly retrospectively (for example, it may be hard to trace how much of a loan was used for residential rental property purposes versus other business purposes, if the borrowed funds were used before application date).

Example 1 – Issues with tracing

Assume that the interest limitation proposal applies a tracing approach, such that interest deductions are denied for money borrowed to acquire a residential rental property.

Staffa Trust is a family trust, which owns a share portfolio worth $1M and no other assets or debt. Staffa Trust borrows $1M to acquire a residential rental property. Under the interest limitation proposal, Staffa Trust would not be allowed deductions for any of its interest expense.

Rota Trust is another family trust, which owns a residential rental property worth $1M and no other assets or debt. Rota Trust borrows $1M to acquire a share portfolio worth $1M. Rota Trust's interest deductions are not affected by the interest limitation proposal. Interest paid by Rota Trust on the $1M loan would remain fully deductible, as the borrowed funds were used in deriving assessable income.

This outcome raises issues of horizontal equity, as Rota Trust has exactly the same assets and liabilities as Staffa Trust. However, because Rota Trust used its existing equity to buy the residential rental property and it used debt to buy its share portfolio, it was able to retain its interest deductions. This example also illustrates the integrity problems caused by tracing, as taxpayers who own

significant taxable assets (other than residential rental properties) will be able to limit the impact of the interest limitation proposal by equity-funding their rental properties and debt-funding their other taxable assets.

27. Alternative approaches could be used to avoid these issues, but such approaches are either overly generous or would deny (at least partially) interest deductions on loans incurred for the purpose of funding a small business. This is discussed further in the Appendix.

28. The interest allocation approach to be used is a key design decision that will impact many other second-order decisions that officials intend to consult on. For example, rules for taxpayers borrowing to acquire shares in a company that owns residential rental property may be designed very differently if a tracing approach is used than if a stacking approach is used.

29. Officials consider that getting early clarity on the interest allocation approach to be used will help to focus issues and allow more meaningful consultation on second-order design decisions. Officials recommend that tracing be the approach generally used for all taxpayers (whether a company or not) under the interest limitation proposal, noting that there may possibly be some limited instances where a different approach might be needed.

Application of the rules to widely held companies

30. Residential properties can be held by companies in many different situations. Some companies hold residential properties as part of their primary business. A landlord may use a company to hold all of their rental properties, for tax or non-tax reasons. Companies operating retirement villages own residential properties and sell licences to occupy to the village's residents.

31. A company may also have small holdings of residential property that are incidental to its core business. For example, an agricultural company may own residential properties near its farms or orchards and use them to provide accommodation to its workers. A large company may also own residential properties near its offices for employees to use when they have to travel from out of town, or for short secondments. A company may also own holiday homes that it allows employees to use as a perk.

32. To be effective, the interest limitation proposal must apply to residential properties held in "close companies" (companies where 5 or fewer individuals[2] hold more than 50% of the company). Otherwise, taxpayers could avoid the rules by simply transferring their residential properties to a company.

33. However, it is an open question whether the proposal should apply to more widely held companies and, if so, to what extent. On one hand, currently the vast majority of rental properties are owned by individuals, trusts, or family (close) companies[3] so a proposal that only applied to close companies could capture the majority of residential rental properties and avoid complexity for widely held companies. It would be very difficult for a taxpayer to set up a widely held company to hold their own residential properties without significantly changing the nature of their investment. For this reason, the RLR and MUA rules both apply only to residential property held by close companies.

34. On the other hand, the principle that interest deductions should be denied for borrowing relating to residential property should arguably apply equally to all taxpayers, regardless of their legal form. Moreover, limiting the rules to close

[2] Associates are treated as a single individual.

[3] Based on 2019 income tax returns, less than 0.1% of entities returning any rental income were widely held companies.

companies may encourage groups of taxpayers to form widely held companies to debt-fund residential rental investment. There are recent reports in the media of this kind of activity.

35. Extending the proposal to widely held companies could increase the after-tax costs of retirement villages if they come under the broadened scope. This may be inappropriate given the objective is concerned with dampening investor demand for existing housing stock (CAB-21-MIN-0045 refers), especially when other potential buyers of the housing stock are first-home buyers. This is unlikely to apply for the residential housing stock of retirement village operators. On the other hand, retirement village operators may compete for development sites with other property developers and reducing the after-tax return to the former group may be necessary to ensure a level playing field. However, allowing interest deductions for developers and purchasers of new builds will mitigate this in most cases. We note that even if the proposal were extended to widely held companies (whether only land-rich ones or all widely held companies), it would still be possible to exclude retirement villages, which are currently excluded from the definition of "residential land" that applies for purposes of the bright-line test.

36. Issues around employer-provided accommodation can also arise with the bright-line test, though it is possible that these could be resolved by changing the definition of "residential land", rather than through narrowing the scope of persons affected by the interest limitation proposal.

37. There are three options for applying the interest limitation proposal to companies:

  37.1 **Option A**. Apply it to close companies only.

  37.2 **Option B**. Apply it to close companies and any "residential land-rich" company where residential property makes up more than a certain percentage (say, 25 per cent) of its total assets.

  37.3 **Option C**. Apply it to all companies.

38. Table 2 below summarises the advantages and disadvantages of these options.

Table 2. Application of rules to widely held companies

Option	Advantages	Disadvantages	Other impacts
A. Close companies only	• Simplest and lowest compliance cost • Consistent with the mixed-use asset and residential loss ring-fencing rules	• Different tax treatment for close companies and widely held companies could be viewed as unfair	
B. Close companies and widely held companies that are "residential land-rich"	• Reduces compliance costs for widely held companies that are not "residential land-rich" • Consistent tax treatment for all residential land-rich companies	• Increases compliance costs for companies close to and over the "residential land-rich" threshold	• May increase costs for residents of retirement village
C. All companies	• Consistent, principled, approach for all taxpayers	• May increase complexity and impose compliance costs on companies that hold residential property	• May increase costs for residents of retirement villages

		incidental to their main business	

39. Officials recommend Option B (close and residential land-rich companies). However, we consider all options are viable and you may wish to consult on all three.

Next steps

40. Officials are available to discuss the contents of this report with you at the next Joint Ministers' meeting.

41. We intend to report to you after that meeting on a possible policy framework to help guide other important design decisions for the interest limitation proposal.

42. Officials will continue to discuss key design issues with you over the coming weeks as work progresses on the interest limitation proposal.

Appendix – Other interest allocation approaches

1. The other interest allocation approaches that officials have considered include:

    1.1 Stacking approach.

    1.2 Apportionment approach.

    1.3 Security approach.

2. However, we do not consider any of these approaches to be viable, given your desire to ensure that interest deductions on loans to fund small businesses remain unaffected.

Stacking approach

3. The stacking approach looks at all of a taxpayer's debt (and also sometimes their associates' debt) and allocates it to assets according to a prescribed order at the end of each income year.[4] The prescribed order would depend on how strongly you wish to incentive or disincentivise certain purchases. This is shown in **Example 2**.

<u>Example 2 – Stacking approach</u>

Property Ltd has debt of $700,000 and owns the following assets, with a total value of $1.8m:

- residential rental property acquired before application date, valued at $300,000
- residential rental property acquired after application date, valued at $500,000
- assets used in a small restaurant business, valued at $1m.

Harsh stacking

Assume the prescribed stacking order is: (1) post-application date rental property; (2) pre-application date rental property; (3) non-residential business assets.

Property Ltd's debt would first be allocated to the post-application date property so $500,000 would be subject to full interest denial. The remaining $200,000 of debt would be allocated to the pre-application date rental property, so would be subject to phasing.

Even if Property Ltd takes out a further loan to buy more equipment for the restaurant business, interest on the first $100,000 of that loan will be allocated to the pre-application date rental property and subject to phasing. Any part of the loan beyond $100,000 will be allocated to the restaurant assets and interest will be deductible on that part.

Generous stacking

Assume now that the prescribed stacking order is: (1) non-residential business assets; (2) pre-application date rental property; (3) post-application date rental property.

Property Ltd's debt would be allocated entirely to the restaurant assets so interest would be fully deductible. If Property Ltd took out more debt to buy a third residential rental property, interest deductions would be fully allowed on a further $300,000 of debt (as that debt would still be allocated to the restaurant assets). Beyond $300,00 of debt, interest deductions will be subject to phasing or full denial.

4. As Example 2 illustrates, a harsh stacking approach would have the effect of denying interest deductions on some loans used for small business purposes. The principle of stacking is that money is fungible, and debt in reality funds all of the borrower's assets. This is the approach used in the existing mixed-use asset rules. On the

[4] Where loans have different interest rates, a blended/average interest rate is used.

other hand, a generous stacking approach would allow taxpayers to easily borrow to acquire residential rental properties without losing any interest deductions.

Apportionment approach

5. An apportionment approach looks at a taxpayer's balance sheet and allocates the debt in proportion to their assets.

Example 3 – Apportionment approach

Assume Property Ltd has the same debt and assets as in Example 2.

Applying an apportionment approach:

- 27.8% (500k/1.8m) of the debt would be allocated to the pre-application date rental property,

- 16.7% (300k/1.8m) of the debt would be allocated to the post-application date rental property, and

- 55.6% (1m/1.8m) of the debt would be allocated to the restaurant assets.

6. As Example 3 illustrates, an apportionment approach would have the effect of partially denying interest deductions on loans used for small business purposes (for taxpayers that own both business and residential property assets). Apportionment also involves high compliance costs as it depends heavily on asset valuations. It is the approach that applies, for example, to New Zealand subsidiaries of multinational groups, to prevent them over-allocating interest expense to their New Zealand activities.

Security approach

7. A security approach would deny interest deductions on any debt secured against a residential rental property.

8. Officials do not consider a security approach is viable. Mortgage agreements often provide that any security given by the borrower secures any loans the borrower has with the particular bank, as well as any future loans the borrower may have with the same bank. It will not therefore be possible to link a loan with any particular property. Furthermore, the fact that an asset is given as security for a loan often has little to do with the purpose for which the loan is used.