Preston Rowe Paterson
International Property Consultants and Valuers

Feedback on debt servicing restrictions framework informs future policy direction

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The Reserve Bank – Te Pūtea Matua – is today publishing our responses to feedback received on our proposed policy for debt serviceability restrictions (DSRs) on residential mortgage lending.

We use macroprudential tools to reduce the financial stability risks associated with 'boom-bust' cycles in the economy. This in turn helps us to meet our statutory purpose of 'promoting the maintenance of a sound and efficient financial system'. Currently, our most commonly used macroprudential tool is loan-to-value ratio (LVR) restrictions. These measure how much a bank lends against mortgaged property, compared to the value of that property.

In November 2021 we sought feedback on the merits and potential design of two types of DSRs:

- Restrictions on debt-to-income (DTI) ratios – which impose a cap on debt as a multiple of income; and

- A floor on the test interest rates used by banks in their serviceability assessments which test the ability of borrowers to continue repaying their loans if interest rates rise to a certain level.

The DSR consultation closed on 28 February. We are today publishing a summary of the submissions received, along with our responses to key points raised, Deputy Governor and General Manager of Financial Stability Christian Hawkesby says.

"We received a good mix of submissions from banks, industry and community groups, and members of the public.. Following consideration of the submissions, we intend to proceed with designing a framework for operationalising DTI restrictions, in consultation with the industry and other stakeholders," Mr Hawkesby says.

"Our modelling indicates that first-home buyers would be the least impacted by a DTI restriction, with investors impacted the most as they tend to borrow at higher DTIs than other groups on average. This aligns with our Memorandum of Understanding with the Minister of Finance on macroprudential policy which states that in designing DSRs, we will have regard to avoiding negative impacts, as much as possible, on first-home buyers. Additionally, the use of speed limits and exemptions can further mitigate any negative long term impacts on first-home buyers.

“We intend to have the framework finalised by late 2022, so that restrictions could be introduced by mid-2023 if required.”

Banks’ test interest rates have begun to rise in line with market rates, and we expect to see a slowdown in high-DTI lending over the coming months. The new CCCFA regulations, changes to the tax treatment of investment property, and tighter LVR restrictions on owner-occupiers are also having an impact on the availability of mortgage credit. We therefore do not see an urgent need to impose an interim test rate floor at this stage, but we are monitoring the situation closely and do not rule out this option if there is a resurgence of risky lending in the housing market.

More information

- Debt serviceability restrictions
- Views sought on debt servicing restrictions framework, November 2021

Media contact:
Brendan Manning
Senior Adviser External Stakeholders
DDI: +64 9 366 2643 | MOB: 021 923 217
Email: Brendan.Manning@rbnz.govt.nz