



## Consultation on DTI and LVR settings

23 January 2024

The Reserve Bank of New Zealand - Te Pūtea Matua has launched a consultation on activating debt to income (DTI) restrictions and loosening loan to value ratios (LVR) for residential lending.

Deputy Governor Christian Hawkesby says the financial stability risks of 'boom and bust' credit cycles are significant, so it's important to ensure we have appropriate policies in place to manage them.

"DTI restrictions, which set limits on the amount of debt borrowers can take on relative to their income, will complement other tools we use to support financial stability, including LVR restrictions on residential mortgage lending," Mr Hawkesby says.

"While the LVR tool is aimed at improving the resilience of the financial system by reducing potential losses when households default on their mortgage, the DTI tool is aimed at reducing the probability of a systemic wave of households defaulting. We believe introducing DTI restrictions will reduce financial stability risks, support house price sustainability, and fill a gap that is not covered by existing policies.

"Introducing DTI restrictions will also allow us to loosen LVR settings without increasing risks to financial stability. Working together, these tools enable us to more efficiently target financial stability risks."

We propose initially setting the DTI policy to allow banks to lend:

- 20% of their residential loans to owner-occupiers with a DTI greater than 6; and
- 20% of their residential loans to investors with a DTI greater than 7.

We are proposing easing the LVR settings at the same time as activating DTIs. We propose easing LVRs to allow:



- 20% of owner-occupier lending to borrowers with an LVR greater than 80%; and
- 5% of investor lending to borrowers with an LVR greater than 70%.

### Background

- In November 2021 we consulted on the merits and design of debt serviceability restrictions, including DTIs.
- In 2022, we held a public consultation on the framework for the DTI restrictions. After incorporating feedback from stakeholders, we published the framework document for DTI restrictions in April 2023. The framework document outlined the definition and procedures under which the DTI restrictions would be activated.
- We are now consulting on the proposed settings for DTI, as well as proposed easing of LVRs. Consultation will close on 12 March 2024. We will then consider the feedback and decide on the activation and initial settings of the DTI tool. We expect to communicate our decisions in the middle of this year.

### More information

[Consultation on DTI and LVR settings - Reserve Bank of New Zealand - Te Pūtea Matua \(rbnz.govt.nz\)](#)

[DTI and LVR consultation Q&As](#)

[Loan-to-value ratio restrictions - Reserve Bank of New Zealand - Te Pūtea Matua \(rbnz.govt.nz\)](#)