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Reserve Bank activates Debt-to-Income Restrictions

28 May 2024

The Reserve Bank of New Zealand - Te Pūtea Matua has confirmed the activation of Debt-to-Income (DTI) restrictions and loosening of Loan-to-Value Ratio (LVR) restrictions at the settings that we consulted on earlier this year.

The new DTI restrictions will create limits on the amount of high-DTI lending that banks can make (i.e. where the borrower has taken on a high amount of debt relative to their gross, or pre-tax, income). LVR restrictions limit the amount of low-deposit lending that they can make.

Deputy Governor Christian Hawkesby says DTIs and LVRs are complementary.

“LVRs target the impact of defaults by reducing the amount of potential losses in the event of a housing down-turn. While DTIs reduce the probability of default by targeting the ability of borrowers to continue to repay debt. Both act as guardrails reducing the build-up of high-risk lending in the system.

“Having both the DTI and LVR restrictions in place means we can better focus them on the risks that they are designed for while achieving the same or better overall level of resilience in the financial system. Therefore, activating DTIs means that we can ease LVR settings too.”

The DTI restrictions include an allowance for banks to do 20% of their lending outside of our specified limits. This will improve efficiency by letting banks exercise their own discretion and manage complex cases.

Banks will need to comply with the new DTI and LVR restrictions from 1 July 2024. These restrictions will apply to new lending for residential properties in New Zealand, for both owner-occupiers and investors. Banks were given 12 months to prepare their systems for the possible implementation of DTI restrictions. The new DTI settings allow banks to make:

- 20% of new owner-occupier lending to borrowers with a DTI ratio over 6; and
- 20% of new investor lending to borrowers with a DTI ratio over 7.

LVRs will be eased to allow banks to make:

- 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

- This announcement follows a consultation on the settings launched from January to March this year. You can view the summary of submissions here.
- All banks will have an initial 6-month measurement window to calculate whether their lending is within the DTI restrictions, to ensure a smooth introduction of the DTI rules.
- The current LVR settings are:
  - 15% limit for loans with LVR above 80% for owner occupiers, and
  - 5% limit for loans with LVR above 65% for investors.

These will continue to apply until the new settings come into effect on 1 July 2024.

- DTI and LVR restrictions are what is known as 'macroprudential policy tools'. These are regulatory measures implemented by central banks and financial authorities to mitigate systemic risks and promote the stability of the financial system as a whole.
- Macroprudential policy aims to reduce the likelihood of a financial crisis by restraining excessive lending during upturns (booms) and making banks and households more resilient during downturns (busts). It focuses on risks to the financial system as a whole and complements our baseline prudential policies, which apply to individual banks.
- 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 for activating the DTI restrictions.

More Information

- Watch our Debt-to-Income restrictions explainer video on YouTube
- Debt-to-income (DTI) restrictions explained
- Loan-to-value ratio restrictions

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