

Reserve Bank proposes to remove LVR restrictions

Release date: 21 April 2020

The Reserve Bank is proposing the removal of mortgage loan-to-value ratio (LVR) restrictions in line with the Bank's financial stability mandate.

The proposal is in response to the economic downturn caused by the COVID-19 pandemic. The LVR requirements are one of the macro-prudential tools that the Reserve Bank has available to respond to cyclical pressures.

"LVRs were introduced as a macro-prudential financial stability tool in October 2013 and have been adjusted over time. Adjusting the use and calibration of macro-prudential tools in response to economic conditions is how they are intended to be used", Deputy Governor and General Manager of Financial Stability Geoff Bascand says.

This move will help banks to keep lending to support customers, including with mortgage deferrals.

As is normal for changes to macro-prudential measures, we are consulting on this proposal. In this case, consultation is open for seven days. Feedback will be collated from industry stakeholders over this period and a decision will be made promptly after that.

The change, if effected, will be made via a change in bank Conditions of Registration. If the decision is made to remove the restrictions, the Reserve Bank will monitor lending activity and feedback from retail banks over the next 12 months as the economic impact of the COVID-19 pandemic becomes clearer. After that period, we will review whether to reinstate LVR restrictions. This provides banks and customers certainty that no further changes to LVR requirements will be made for at least one year.

Members of the public wishing to provide feedback on the proposal can do so by emailing rbnz-info@rbnz.govt.nz

More information:

- [LVR temporary removal consultation documents](#)
- [Press release: LVR restrictions promote financial stability, evaluation finds, 22 May 2019](#)
- [Reserve Bank Bulletin Article: Review of the Reserve Bank's loan-to-value ratio policy, 6 May 2019](#)
- [Loan-to-value ratio restrictions FAQs](#)

Editor's notes:

- A loan-to-value ratio (LVR) is a measure of how much a bank lends against a mortgaged property, compared to the value of that property. There are currently two macro-prudential LVR restrictions ("speed limits") in place:
 - Banks are permitted to make no more than 20 percent of their residential mortgage lending to high-LVR (less than 20 percent deposit) borrowers who are owner occupiers,- and Banks are permitted to make no more than 5 percent of residential mortgage lending to high-LVR (less than 30 percent deposit) borrowers who are investors.
- The calculation of new lending under the LVR policy would capture only the new amount of lending associated with any mortgage deferral, arising from the capitalisation of principal and/or interest during the deferral.

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Reference source:

Manning B 2020, *Reserve Bank proposes to remove LVR restrictions*, Reserve Bank of New Zealand, viewed 21 April 2020, <<https://www.rbnz.govt.nz/news/2020/04/reserve-bank-proposes-to-remove-lvr-restrictions>>