



Tighter LVRs proposed to reduce risky mortgage lending

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The Reserve Bank – Te Pūtea Matua – is seeking views on its proposal to reduce risky mortgage lending by further reducing the amount of high Loan-to-Value Ratio (LVR) lending to owner-occupiers.

“We propose restricting the amount of lending banks can do above an LVR of 80 percent to 10 percent of all new loans to owner-occupiers, down from 20 percent at present,” Deputy Governor and General Manager for Financial Stability Geoff Bascand says.

“Our analysis indicates that house prices are above their sustainable level, and the risks of a housing market correction are continuing to rise. The proposed tightening of LVR restrictions will over time help reduce the number of highly leveraged borrowers and help to build resilience in the financial system,” Mr Bascand says.

In response to a growing amount of high risk lending in the residential housing market, LVR restrictions were reinstated on both owner-occupiers and investors in March 2021, with a further tightening for investors occurring May 2021. In addition, the Government announced a package of tax policy changes, removing interest deductibility on rental property.

Since these changes were introduced, the volume of new investor lending (as a share of total lending) has declined to below its historical average. This has been especially pronounced for high-LVR investor lending. Despite this, house prices have continued to rise and we have seen a significant increase in higher risk loans to owner-occupiers.



“Lending at LVRs greater than 80 percent has nearly tripled since 2017, with the large majority of this lending going to first-home buyers, followed by existing owner-occupiers. Although our stress testing indicates that the financial system is well-placed to weather shocks such as a downturn in the housing market, we are concerned about the potential future risks to economic and financial stability of allowing this higher risk borrowing to continue at its current rates,” Mr Bascand says.

We invite consultations from interested parties until 17 September 2021. We expect to release our final decision in late September, along with a regulatory impact assessment and a summary of the submissions received. Our current intention is to implement the new LVR settings from 1 October. Given the heightened COVID-19 alert levels, we are open to feedback from banks on the feasibility of the proposed timeframe.

More information:

- [Consultation Paper: Tightening Loan-to-Value Ratio Restrictions \(PDF 1.4MB\)](#)
- [House prices above sustainable levels, August 2021](#)
- [Reserve Bank considers tighter mortgage lending standards, August 2021](#)

Media contact:

Brendan Manning

Senior Adviser External Stakeholders

DDI: [+64 9 366 2643](tel:+6493662643) | MOB: [021 923 217](tel:021923217)

Email: Brendan.Manning@rbnz.govt.nz

Background notes:

- We are planning to launch a consultation in October on a proposal to introduce debt servicing restrictions that will give us another tool to address financial stability risks posed by high Debt-to-Income (DTI) borrowing.



However, this will take some time to implement. Adjusting the LVR restrictions is the most suitable tool available for an immediate response.

- Earlier this year the Minister of Finance issued a direction (under section 68B of the Reserve Bank Act) requiring the Bank to have regard to the impact of its actions on the Government's policy of supporting more sustainable house prices, including by dampening investor demand for existing housing stock, which would improve affordability for first-home buyers.

We acknowledge that tightening LVR restrictions on owner-occupiers is likely to reduce the number of first-home buyers with low deposits who are able to enter the housing market in the short term. However, reducing house price inflation will improve affordability for first-home buyers. Furthermore, exemptions to the LVR restrictions (including Kainga Ora First Home Loan recipients and purchasers of new build property) will continue to support access for first-home buyers.

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Manning B 2021, Tighter LVRs proposed to reduce risky mortgage lending, Reserve Bank of New Zealand, viewed 03 September 2021, <<https://mailchi.mp/rbnz.govt.nz/media-release-tighter-lvrs-proposed-to-reduce-risky-mortgage-lending-13801509?e=427f6f0c62>>