

## **Drop in new mortgage lending in June's Reserve Bank data suggests slowing demand – and it occurred before last week's announcement that further LVR restrictions are coming.**

**Wednesday, July 27th 2016 by Miriam Bell**

The Reserve Bank's June residential mortgage lending statistics show total new lending in June was \$6,803 billion.

This was down on May's record high of \$7,287 billion, although it was still significantly higher than the totals recorded in the month's leading up to May.

The drop comes in a month where focus on the housing market was reaching fever pitch.

Speculation about the type of macro-prudential policy the Reserve Bank might introduce to try and curb demand was rife, with even the Prime Minister urging the Reserve Bank to act.\*

While this climate of uncertainty could have had an impact on the market, so too could the shortage of inventory in markets around the country.

New lending totals to all borrowing groups dropped in June, as compared to May. Owner-occupiers remained responsible for the highest amount of new lending (\$3,427 billion).

However, the total lending to investors dropped the least. Investors accounted for \$2,564 billion in June, down from \$2,698 billion in May.

Further, higher than 80% LVR lending to investors increased in June as compared to May – from \$36 million to \$50 million. It dropped for all other borrower groups.

Conversely, higher than 70% LVR lending to investors dropped from \$880 million in May to \$811 million in June.

The Reserve Bank's new improved data now separates out the Auckland market from the rest of the country's lending figures.

In line with June's overall drop in new lending, new lending to both Auckland investors and Auckland non-investors declined, although again the non-investor total dropped more.

Auckland investors were responsible for \$1,761 billion of the total new lending in June, down from \$1,850 billion in May.

Auckland non-investors accounted for \$1,916 billion of the total new lending in June, down from \$2,096 billion in May.

Proving that the drop in lending was nationwide, rather than confined to Auckland, new lending to non-Auckland buyers also declined.

Non-Auckland buyers borrowed \$3,126 billion of the total new lending in June, down from \$3,340 in May.

The Reserve Bank also now releases data on lending by payment type – interest-only and principal-and-interest loans.

The proportional split between the two types of loans remained at around the same mark in June as in May.

Interest-only loans accounted for \$2,705 billion of total new lending in June, while principal-and-interest loans accounted for \$4,098 billion.

In May, interest-only loans made up \$2,996 billion of total new lending, while principal-and-interest loans made up \$4,291 billion.

However, while interest-only loans to both investors and owner-occupiers declined in June, investors' share of that lending has increased to over 50%.

Investors were responsible for \$1,422 billion of interest-only lending in June, as compared to \$1,489 in May.

Owner-occupiers accounted for \$1,246 billion of interest-only lending in June, as compared to \$1,468 in May.

Overall, the Reserve Bank's June data shows investors' share of new mortgage lending remains strong.

But last week, the Reserve Bank announced new LVR restrictions which target investors and many banks responded by instituting tougher lending rules for investors immediately.

This is intended to curb investor demand for property and means all eyes will be on the Reserve Bank's July data to see if the new rules have had any impact on mortgage lending.