

## Reserve Bank targets investor lending

**The Reserve Bank has today released a consultation paper proposing changes to loan-to-value restrictions (LVRs) to further reduce risks to financial stability arising from the current boom in house prices.**

**Tuesday, July 19th 2016 Good Returns**

“The banking system is heavily exposed to the property market with residential mortgages making up 55 percent of banking system assets. Investor lending has been increasing rapidly and is a significant contributing factor to the current market strength. The proposed restrictions recognise the higher risks associated with such lending,” Governor Graeme Wheeler said.

Under the proposed new restrictions:

- No more than 5% of bank lending to residential property investors across New Zealand would be permitted with an LVR of greater than 60% (i.e. a deposit of less than 40 percent).
- No more than 10% of lending to owner-occupiers across New Zealand would be permitted with an LVR of greater than 80% (i.e. a deposit of less than 20 percent).
- Loans that are exempt from the existing LVR restrictions, including loans to construct new dwellings, would continue to be exempt.

These proposed new restrictions would take effect on September 1 and simplify the LVR policy by removing the current distinction between lending in Auckland and the rest of the country.

Mr Wheeler said: “The drivers of the housing market strength are complex and action is required on many fronts that extend well beyond financial policy. Broad initiatives to reduce the underlying housing sector imbalances need to remain a top priority.

“A sharp correction in house prices is a key risk to the financial system, and there are clear signs that this risk is increasing across the country. A severe fall in house prices could have major implications for the functioning of the banking system and cause long-lasting damage to households and the broader economy.

“LVR restrictions to date have improved the resilience of bank balance sheets by reducing banks’ exposure to riskier mortgages. This policy initiative is intended to further improve the resilience of bank balance sheets, and it will assist in restraining credit and housing demand.

“We expect banks to observe the spirit of the new restrictions in the lead-up to the new policy taking effect.”

Consultation ends on August 10.

Mr Wheeler said the bank was progressing its work on potential limits to high debt-to-income ratio lending, which would be a potential complement to LVR restrictions.

“We have had positive initial discussions with the Minister of Finance on amending the Memorandum of Understanding on Macro-prudential policy to include this instrument.”

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