LVR easing not on cards

Hopes that the Reserve Bank might be gearing up to ease the LVRs further have been dashed by this morning's Financial Stability Report (FSR).

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by Miriam Bell

According to the report, which is the first under new Reserve Bank Governor Adrian Orr, financial system vulnerabilities are much the same as they were at the last FSR, with household mortgage debt remaining high.

Orr says financial risk has lessened with both lending and house price growth slowing in the last 12 months – in part due to the imposition of the LVR restrictions.

"This more subdued lending growth needs to be further sustained before we gain sufficient confidence to again ease the LVR restrictions."

The Reserve Bank did relax the LVRs slightly from January 1 this year, which has led to some pick up in mortgage lending, and there has been speculation that more easing might be on the way.

But today's FSR makes it clear this will not be the case for some time.

ANZ senior economist Liz Kendall says the full effects of the easing in January are still working their way through.

The Reserve Bank will need to see house price and lending growth remain contained, with continued prudent lending standards, before further easing can be expected, she says.

"We think the Reserve Bank will need to tread carefully in easing restrictions further, particularly given that investor loans can accentuate property cycles and exacerbate financial stability risks.

"And by not changing the measures today caution is clearly evident."

She says the Reserve Bank has found that tightening of restrictions on investor lending in 2016 was binding and thus very effective.

That tightening means monthly mortgage lending to investors has been flat at levels that are 40% lower than those in late 2016.

At the same time, government policy changes – like extending the bright-line test - have been aimed at reducing the attractiveness of housing as an investment, Kendall says.

"But the possibility of pent-up demand after such a large fall means that an enthusiastic response by investors to any easing of restrictions cannot be ruled out."

For Westpac senior economist Michael Gordon, the Reserve Bank was not very specific about the conditions required for a further easing.

They indicated that easing would come if housing market risks decline and banks maintain prudent mortgage lending standards, he says.

“Despite the vagueness of these criteria, we think that they will be met before the end of this year – in part due to the Government’s introduction of new policies aimed at cooling investor demand for housing.”

Gordon says house sales and prices were fairly muted in April, and while it’s early days, they expect this to be repeated over the coming months.

“We are forecasting annual house price growth to slow to zero by the end of this year.”

*The Reserve Bank’s Financial Stability Report, which says that New Zealand’s financial system remains sound, can be read here.