RBNZ starts consulting on tougher rules for property speculators

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The Reserve Bank of New Zealand is stepping up preparations to restrict lending to residential property investors as it watches house prices, particularly in Auckland, which continue to rise strongly.

A consultation paper issued today seeks submissions on proposals to impose new capital adequacy requirements on lending to property investors, who it says carry a higher risk than traditional owner-occupier mortgage holders. The central bank has previously talked in the past about imposing such restrictions on owners of five or more residential properties although that definition does not appear in the paper issued today.

It plans to introduce property investment lending as a new asset class with higher capital adequacy ratios to better represent the risk they pose to the nation's financial stability. The current regime doesn't differentiate between property lending for investors or for owner-occupiers.

"The Reserve Bank's analysis shows that residential property investor loans are a sufficiently distinct category of loans and that by grouping them with other residential mortgage loans one is not in a position adequately to measure their risk as a separate group of loans," the central bank said in its consultation paper. "This can have negative consequences for a bank's awareness of the proper risk associated with those loans and lead to insufficient levels of capital being allocated to them."

New Zealand households had borrowings of about $194.8 billion for housing loans as at Sept. 30, of which $192.9 billion came from registered banks, according to RBNZ data. That's up from $186.2 billion in 2013 and $176 billion in 2012.

The country's mortgage market has been increasingly competitive as low interest rates encourage people to borrow, while a lack of housing supply in Auckland and rising inbound migration has bid up house prices, making the Reserve Bank increasingly uncomfortable about the potential for a sharp reversal.

Those concerns have already prompted central bank governor Graeme Wheeler to limit the level of low equity mortgage lending banks could write in October 2013, and the RBNZ

today said a new asset class for property investment loans would make it easier to rollout targeted macro prudential tools if they were required.

The Reserve Bank is also seeking feedback on plans to introduce capital requirements for reverse mortgage lending, which isn't currently reflected in its regime. Its preference is to link the risk weight of a reverse mortgage loan to its loan to value ratio.