Steep decline in investor lending

New Reserve Bank mortgage lending data leaves little doubt that the new investor-targeted LVRs have had a significant impact on bank lending to investors - lending to Auckland landlords dropped by almost 20%.

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The Reserve Bank's new LVRs, which require investors seeking new property loans nationwide to have 40% equity or deposit, were announced back in July.

While they don't officially come into force until October 1, "in the spirit of" the Reserve Bank's intentions banks started enforcing them immediately.

Opinion remains divided over what type of long term impact the LVRs might – or might not have – on the country's red hot property market.

But, at least for the time being, the new rules certainly appear to have had an impact on residential mortgage lending.

For the third month in a row, the Reserve Bank's monthly residential mortgage lending statistics show a decline in both overall lending and investors' share of lending.

Total new lending in August was $6.114 billion, as compared to $6.312 billion in July.

Investors accounted for $2.012 billion of August's new lending. This was a big drop on the $2.337 billion they borrowed in July.

Conversely, new lending to both owner-occupiers ($3.278 billion) and first home buyers ($760 million) was up in August, as compared to July.

Higher than 80% LVR lending to investors declined again in August – to $31 million from $32 million in July. It was at $50 million in June.

Of the other borrower groups, higher than 80% LVR lending was up for first home buyers (to $211 million) but down for owner-occupiers (to $175 million) in August.

There was an even bigger drop in higher than 70% LVR lending to investors in August. It was down from $765 million in July to $526 million.

Meanwhile, the Reserve Bank's data on the Auckland market and lending by payment type confirm the general trend.

Following a peak in May, Auckland investors have been responsible for less of the total new lending in each subsequent month.

In August, Auckland investors accounted for $1.309 of the new lending as compared to $1.589 billion in July.

New lending to Auckland non-investors in August dipped too – but, once again, only slightly. They were responsible for $1.864 billion as compared to $1.879 billion in July.

However, the non-Auckland component of the new lending total was up to $2.941 billion in August, as compared to $2.844 billion in July.

The non-Auckland data does not distinguish between investors and owner-occupiers, so it is possible that investors could be part of the reason for the increase in non-Auckland lending.

In line with the other data, the lending by payment type data, which looks at interest-only and principal-and-interest loans, also records a fall in investor commitments.

Interest-only loans accounted for $2.336 billion of total new lending in August, while principal-and-interest loans accounted for $3.778 billion.

This shows a decline in interest-only loans from July when they accounted for $2.544 billion of total new lending, while principal-and-interest loans accounted for $3.769 billion.

The amount of interest-only lending to investors was down considerably in August. It dropped to $1.053 billion from $1.256 billion in July.

Interest-only lending to owner-occupiers (which includes first home buyers) also dipped slightly in August. It was down from $1.254 billion from $1.255 billion in July.

Word on the mortgage broking ground is that banks are adhering to a very strict interpretation of the new LVR rules and lending is being tightened accordingly.