The Reserve Bank is loosening the 'speed limits' on high loan to value ratio lending and says further relaxation of the rules is likely in future

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Adrian Orr by Jacky Carpenter.

By David Hargreaves

The Reserve Bank has decided to further relax the rules around high loan to value ratio (LVR) housing lending in a highly anticipated move that should provide a boost for the housing market.

The move was announced on Wednesday as part of the bank's latest **Financial Stability Report**.

From 1 January 2019:

- Up to 20% (increased from 15%) of new mortgage loans to owner occupiers can have deposits of less than 20%.
- Up to 5% of new mortgage loans to property investors can have deposits of less than 30% (lowered from 35%).

This is the second such loosening of the LVRs - which were originally introduced in 2013 - that the RBNZ has implemented. It's pretty much identical to what the central bank did in its FSR in November 2017, which then entailed raising the so-called speed limit for owner-occupier loans from just 10% of new bank lending to 15% from January 1 this year. The investor restrictions were eased from a requirement for 40% deposits to just 35% deposits.

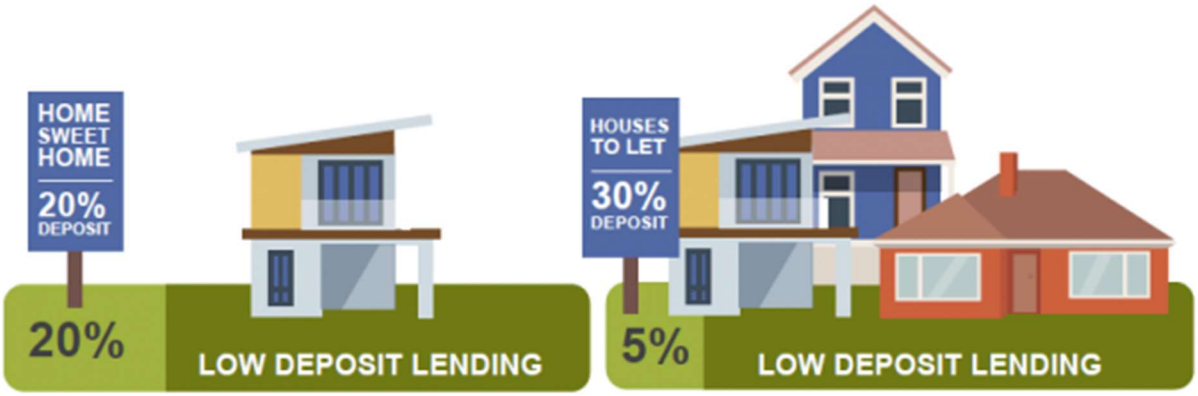
The lending data in subsequent months after the January easing suggested that the relaxation of the rules did have a somewhat stimulatory impact on the market.

The moves to loosen the rules for owner-occupiers will be especially welcomed by first home buyers. However, the decision to also relax the rules for investors - which were a key part in reining in the housing market after they were introduced in 2016 - may be seen as more contentious and risky.

In making the announcement on Wednesday, RBNZ Governor Adrian Orr said risks to New Zealand's financial system had eased over the past six months (since the last FSR), but vulnerabilities persist. In particular, households remain exposed to financial shocks due to their large mortgage debt burden.

"However, both mortgage credit growth and house price inflation have eased to more sustainable rates, reducing the riskiness of banks' new housing lending.

"In response, we are easing our loan-to-value ratio (LVR) restrictions on banks' new mortgage loans. If banks' lending standards are maintained we expect to further ease LVR restrictions over the next few years."



ASB chief economist Nick Tuffley indicated he was a bit surprised that the RBNZ had also decided to loosen the rules for investors, as well as the owner-occupiers.

"The housing market has been at an interesting juncture recently. Sales turnover and listings rose sharply in October. A beat-the-foreign-owner-ban rush was one probable reason in some parts of the country.

"But mortgage rates have been falling for months, with sub-4% rates now available to borrowers with 20% equity. House price growth has been strong in a number of provinces and been accelerating in some.

"So relaxation of the LVR restrictions is not without some risk, even though Auckland risks are slowly dissipating through a sustained period of flat prices."

ANZ senior economist Liz Kendall said the LVR loosening was "modest".

"We anticipate that this easing will boost the housing market, but only a little, with the restrictions remaining 'tight' overall.

"...We expect that further easing will occur in time, but that the RBNZ will continue to tread cautiously. Household debt and house prices remain high and the risk of resurgence in the housing market cannot be ruled out, given low mortgage rates and still-strong population growth. Any improvement in vulnerability metrics will continue to be a slow grind, short of a fundamental change in market conditions."