LVR limits

**What has the Reserve Bank done?**

From 1 October 2013 the Reserve Bank will restrict the amount of new mortgage lending banks can do over a loan-to-value ratio (LVR) of 80%.

Banks will be required to restrict new residential mortgage lending at LVRs of over 80% to no more than 10% of the dollar value of their new housing lending flows.

This means that people wanting low equity home loans will have reduced access to credit. It’s a form of credit rationing and will effectively halve access to low equity lending.

The Reserve Bank has also increased the capital requirements for the four largest banks on their high LVR portfolios. This is why we’re seeing low equity premiums and higher interest rates for high LVR borrowers.

**What does it mean for bank customers?**

People should be aware they may be declined loans because of the new restrictions imposed by the Reserve Bank. It’s worth talking to your bank about your individual needs and circumstances.

The restrictions will affect businesses and householders seeking low equity loans.

Most small New Zealand businesses raise investment capital through equity in their homes. LVR caps may limit their ability to invest in their businesses.

The lending limits may also make it more difficult for first-home buyers and home-owners seeking a top-up loan for renovations.

**What if you already have a high LVR loan?**

The new lending limits only apply to new lending. If you already have a high LVR / low equity loan, you won’t be affected by the new restrictions.

For example, if you are refinancing your high LVR loan by moving your mortgage to another bank, or moving house but not increasing your loan, you won’t be affected.

**Will banks try to get around the restrictions?**

Our members are committed to meeting their obligations as registered banks and will comply with the new lending requirements. Banks take their banking registration extremely seriously and won’t do anything to jeopardise their licence to operate in New Zealand.

Our banks are very competitive, and will continue to do all they can to meet the needs of all sectors of their customer base.

We have reassured government that as an industry we will respond constructively and responsibly to the new lending limits.

**How can customers get around the restrictions?**

We’re not in a position to advise people on getting around the restrictions.

There has, however, been plenty of speculation that people who don’t have a sufficient deposit to meet the LVR threshold may seek additional funding elsewhere, for example:

* Unsecured loans from third tier lenders at much higher interest rates
* Loans from friends and family
* Using equity in a family member’s property as security for the loan.

We advise people to talk to their bank about their individual needs and circumstances.

**Does NZBA agree with RBNZ’s approach?**

We don’t think it’s the right time to use this tool now. Normally a bubble is partly driven by rapid credit growth. That’s not the case here.

Credit growth is currently around 5%, which is not high. Auckland property prices are being driven by a lack of housing supply, not the availability of cheap credit.

**Will LVR limits work?**

Housing affordability and availability vary across New Zealand. LVR limits would not deal effectively with these differences.

If you’re talking about Auckland house prices, the real issue there is a lack of housing supply, not the availability of credit.

There may be unintended consequences.

LVR limits may have an initial impact on house prices by removing some entrants from the market, but longer term they may drive more investor activity. For example, higher equity lending under 80% LVR might attract lower interest rates, and so make it easier for investors to borrow and buy properties, thereby driving up property prices.

LVR limits may well push out a rise in the Official Cash Rate, and so keep historically low interest rates lower for longer. That’s good news for the around 30% of households that have a mortgage. It’s not so good for the third of households who are freehold and may rely on income from interest on their savings to get by. Savers have had to deal with low interest rate returns for some time now, and this move won’t help them.

**How will this affect loan pre-approvals?**

The Reserve Bank has shifted the goal posts. Don’t take anything for granted.

If you have any concerns about a pre-approval, we suggest you contact your bank and talk it through.