RESERVE BANK OF NEW ZEALAND
TE PŪTEA MATUA

Construction exemption categories from LVR restrictions – Q&As

Why are certain types of construction lending exempt from the LVR restrictions?

Construction exemptions support two forms of housing construction.

The first exemption is available for new dwellings or dwellings under construction, under certain conditions. This exemption provides support for an increase in the supply of housing, which is an important part of reducing house price pressures arising from supply shortages (particularly in Auckland). Reducing such pressures helps to reduce systemic risk in the banking system associated with any future house price correction.

The second exemption applies to non-routine/deferred property maintenance on a dwelling that is subject to a pre-existing residential mortgage. This exemption supports the restoration of value to dwellings in exceptional circumstances such as fire, natural disaster, weather-tightness or alignment to revised structural standards (e.g. seismic standards).

Construction loans are subject to individual banks' internal lending guidelines.

Do the exemptions mean that anyone can get a low-deposit construction loan?

No. Construction loan exemptions only apply to specific types of residential construction. Banks also apply their own lending criteria to construction loans and may set their own maximum LVR limits. The Reserve Bank expects banks to act prudently in this area.

What is classed as exempt construction lending?

There are two categories of exempt construction activities.

The new dwelling construction exemption applies to most residential mortgage lending to finance the construction of a new residential property.

The construction loan should either be

(1) for a property where the borrower has made a financial and legal commitment to buy in the form of a purchase contract with the builder, prior to the property being built or at an early stage in construction. This could be traditional 'construction lending' where the loan is disbursed in staged payments, or it could be a loan to finance the purchase of a property, which will be settled (in one payment) once the build is complete.
(2) For a newly-built entire dwelling completed less than six months before the mortgage application. The dwelling must be purchased from the original developer (the contract to buy at completion can be agreed while the building is still being constructed).

The exemption can also apply to top-ups to the loan arising from construction cost overruns during the build. It does not apply to borrowing for extensions of existing properties or for discretionary expenditure, such as furnishings.

The remediation exemption applies to top-ups of residential mortgages to finance certain residential dwelling repair or remediation activities. The top-up of a specific residential mortgage loan must relate to repair or remediation work on the residential dwelling used as security for that mortgage loan. It does not cover new residential mortgages used to finance residential dwelling renovation activities.

The exemption allows for loan top-ups relating to certain types of repair or remediation work that are not routine or deferred maintenance. The lending for repair or remediation arises as a result of an event such as fire or natural disaster (not fully funded by insurance), weather-tightness issues, or the need to improve a building to meet currently accepted standards (such as seismic strength, or insulation standards for tenanted properties).

For more information, please see section 12 in ' 'Framework for Restrictions on High-LVR Residential Mortgage Lending'.

When do the construction exemptions apply from?

The new dwelling construction exemption has applied since October 2013. The dwelling remediation or repair exemption has applied since 1 November 2015.

Banks that wish to take advantage of the new dwelling construction exemption or dwelling remediation and repair exemption need to provide the Reserve Bank with data about their related lending flows as part of the LVR new commitments exemption reporting.

Do investors benefit from these exemptions at the expense of first-home buyers?

The new dwelling construction exemption applies to all residential construction loans, regardless of whether the borrowers are first-home buyers, investors, or anyone else building a new residence.

The dwelling remediation and repair exemption likewise applies across all applicable remediation and repair of residential dwellings, regardless of the status of the borrower as a first-home buyer, other owner occupier, or investor.

Where can I find more information about LVR restrictions?

See our factsheet 'LVR restrictions: A guide for borrowers'.