Factsheet: LVR restrictions

A guide for borrowers

1. What are LVRs?

A loan-to-value ratio (LVR) is a measure of how much a bank lends against residential property, compared to the value of that property. Borrowers with LVRs of more than 80 percent (less than 20 percent deposit) are often stretching their financial resources. They may be more vulnerable to an economic or financial shock, such as a recession or an increase in interest rates. When we talk about high-LVR (low-deposit) lending, we are generally referring to someone with less than a 20 percent deposit – or an LVR ratio of greater than 80 percent. For investors purchasing property secured with a mortgage, deposits of less than 35 percent (LVR of greater than 65 percent) are considered high-LVR.

2. What are the current LVR restrictions?

The restrictions are a form of 'speed limit' on the banks, and constrain how much low deposit (high-LVR) lending that the banks can make overall. The restrictions are not absolute – they still allow the banks to continue some high-LVR lending to some borrowers.

There are two nationwide speed limits for owner occupier and investor lending. Banks are permitted to make no more than 15 percent of their residential owner occupier mortgage lending to high-LVR (less than 20 percent deposit) borrowers and no more than 5 percent of investor lending to high-LVR (less than 35 percent deposit) borrowers.

3. Do LVR restrictions prevent me from borrowing if I only have a 5 or 10 percent deposit?

That depends on your bank and your individual circumstances. The LVR restrictions operate by setting an upper limit on the share of low-deposit lending that each bank can provide. Your bank may be prepared to offer you a low-deposit (high-LVR) loan, depending on what other low-deposit lending commitments it has made to other borrowers. There are also exemptions to the restrictions on high-LVR lending. It is important to know that bank lending is also subject to each bank's own internal lending guidelines and policies. You need to talk to your bank to find out about these policies.

4. How is my loan-to-value ratio calculated?

The LVR is equal to the loan value (amount you've borrowed) divided by the valuation of the property or properties you are giving the bank a mortgage over. Consider a property worth $400,000 that you'll purchase using a cash deposit and a loan secured with a mortgage. For owner occupiers, a deposit of anything less than $80,000 would be a high-LVR loan, as this would result in an LVR above 80 percent. For investors, a deposit of anything less than $140,000 would be a high LVR loan, as this would result in an LVR above 65 percent.

5. What is the Reserve Bank's definition of 'owner occupier'?

Some examples of cases where a property is likely to be considered owner-occupied are provided in the definition of owner-occupied property (PDF 70KB).

A property will be an owner-occupied property if the person who owns the property, or their spouse, occupies the property as either their principal or secondary residence. The definition also covers common ownership structures, such as company and trust structures. For a secondary residence, any rental income earned from the property must be minimal (e.g. a holiday house rented out for six weeks a year) for the property to retain its owner-occupied status. No rental income test applies to a principal residence; so a property will continue to be considered owner-occupied if the owner who lives in the property, for example, takes in a boarder or flatmate.

Banks are expected to interpret aspects of this definition, including if rental income on a secondary residence is 'minimal'. Refer to your bank for their internal policies regarding a dwelling's occupancy status.

6. I own and occupy my home, and intend to build a 'granny flat' or studio at the rear of my section for extra income. Is this construction loan exempt from the LVR restrictions?

This type of construction is potentially exempt from LVR restrictions. However, the exemption can depend on a number of factors specific to each individual situation. In order to qualify for the construction loan exemption, the new building must be considered a new residential dwelling.

Note that construction loans continue to be subject to each bank's internal lending guidelines. Each bank will have its own practices and policies relating to construction lending, within the minimum requirements set out by the Reserve Bank.

7. Do LVR restrictions apply to first-home buyers?

There is some special treatment for low-deposit first-home buyers under Housing New Zealand's Welcome Home Loan scheme, as these mortgages are exempt from the Reserve Bank's LVR restrictions (although borrowers will be subject to any conditions applying under the Welcome Home Loan scheme, and individual bank lending guidelines).

All other low-deposit, first-home buyers may be affected by LVR restrictions. If your deposit is less than 20 percent (as an owner occupier) or 35 percent (as an investor), it will be up to your bank to decide whether it is prepared to lend to you using the capacity provided to it under their respective owner occupier and investor lending high-LVR 'speed limits', or whether your circumstances fit within one of the special high-LVR exemption categories (see "Are there any exemptions or special cases to the LVR restrictions?" below). You will need to check your situation with your bank.

8. I already have a mortgage – how does this affect me?

LVR restrictions apply to new low-deposit (high-LVR) loans, and not retrospectively to existing loans.

The new restrictions will only affect you if you want to take out a 'top-up' loan that takes your total LVR above the required threshold (80 percent for owner occupiers or 65 percent for investors – see "What are the current LVR restrictions?" above).

If the total LVR is taken above the appropriate threshold, your bank would have to decide whether to use some of its 'speed limit' capacity to provide the 'top-up'. Note also that there are some possible exemptions in the case of refinancing of existing loans, replacing an existing loan with a new loan if the borrower moves house (portability), and bridging loans during the sale and purchase process (see “Are there any exemptions or special cases to the LVR restrictions?” below).

The Reserve Bank considers that repaying part of a mortgage (selling one or more of a pool of securities) need not constitute a new commitment as defined by the Reserve Bank, so such activity can be considered outside the scope of LVR restrictions. However, more generally, how the proceeds are split between borrower and bank when a property is sold will depend on the mortgage contract and the policies of the bank you’ve borrowed from.

If you’re planning to alter your loan, please check with your bank for details about how your existing mortgage(s) could be affected by LVR restrictions.

9. My partner and I own our house and a rental, both are heavily mortgaged. In the event of a market crash, what would happen if the value of both our properties suddenly drops to say less than 20 percent equity? Would we be in breach of the LVR policy and what could our bank make us do?

The LVR restrictions apply only to new bank loans. If you were to change banks or ask for a top up or other loan term change, then it is possible that the LVR restrictions might apply to you at the time you seek the new loan or change the loan – but not otherwise.

The Reserve Bank cannot say what your bank might, or might not, require you to do regarding your existing loan if there was a sudden market correction. Please ask your bank about their own residential mortgage policies regarding market corrections.

10. I am buying a house with my partner so there are two borrowers – how does the LVR work for us?

Joint borrowing doesn’t change the LVR – the total loan value and the property value are used to calculate the LVR in the same way as for a single borrower.

11. I want to top-up our mortgage to take a holiday not to buy a house. Am I affected by the LVR restriction?

The reason you’re borrowing money makes no difference. If a mortgage top-up will take your LVR above the required threshold (80 percent for owner occupiers or 65 percent for investors – see “What are the current LVR restrictions?” above), then the restrictions will apply unless your bank is prepared to provide the top-up by using its capacity provided by the LVR ‘speed limit.’ You will need to talk to your bank about your own circumstances.

12. I want to buy a small business, partly using a housing loan – does the LVR restriction apply to me?

The LVR restriction may apply to you depending on how your bank classifies your loan. If the bank classifies your loan as a residential mortgage loan and you have an LVR above the required threshold, then the restriction will apply in respect of your loan, even if the purpose of the loan is to buy a business. In such a case you will need to talk to your bank to see if it is prepared to lend to you from within its ‘speed limit’ capacity for that category of residential loan.

13. I want to buy a farm – do the LVR restrictions apply to me?

LVR restrictions apply only to residential mortgages and would not generally be expected to apply when purchasing a farm. However, there might be some exceptions (for example, if you were buying a freehold house with a separate title on a farm). You will need to check with your bank.

14. Are there any exemptions or special cases to the LVR restrictions, e.g. residential construction loans?

Yes, under specific circumstances there are exemptions to LVR restrictions. Where a loan falls under an exemption, the loan is not included in the banks' high LVR 'speed limits'. These exemptions include the following:

Construction and remediation: these exemptions support new housing dwelling construction and property remediation.
The *construction exemption* is for lending (including increases of existing loans) to finance the construction of a new house or apartment. The exemption covers:

(i) construction lending for new residential dwellings that are yet to be built or are currently under construction. This lending can be traditional 'construction lending' where the loan is disbursed in staged payments, or a loan to finance the purchase of a property that will be settled (in one payment) once the build is complete. The exemption can also apply to top-ups to the construction loan arising from construction cost overruns during the build. The exemption does not apply to borrowing for extensions of existing properties or for discretionary expenditure for a newly built home, such as furnishings.

(ii) newly-built entire dwellings 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 *property remediation exemption* is for an increase in value of an existing loan to finance some types of non-routine building repair or remediation work on existing properties (e.g. fixing leaky homes). This exemption supports the restoration or preservation of value for dwellings affected by exceptional events such as fire or natural disaster (not fully funded by insurance), weather-tightness issues, or making a property align with revised building standards (e.g. seismic strengthening or rental home insulation standards). The top-up of a specific residential mortgage must relate to repair or remediation work on a residential dwelling used as security for that loan. It does not cover residential mortgages used to finance renovation activities or to cover deferred maintenance.

Portability: these exemptions permit certain refinancing of loans or apply if a borrower shifts house. Banks can allow a person moving their principal place of residence to take a new loan secured over the new property up to the value of an existing loan, known as 'portability' of an existing loan amount. This 'portability' applies even if the borrower is switching banks.

Bridging: a short-term bridging loan may be exempt from LVR restrictions. The exemption applies where a borrower is purchasing a new property, which will be their principal residence, before the sale of their current principal residence.

Refinancing: the refinancing of existing residential mortgage loans for all borrower types can be exempt from high LVR restrictions, subject to certain conditions.

Housing New Zealand loans: loans made under Housing New Zealand's Mortgage Insurance scheme, including the Welcome Home Loan scheme, can be exempt from the RBNZ's high LVR restrictions.

Combined collateral: some high-LVR (greater than 60 percent) investor loans secured by investment property can be allowable in cases where an investors' residential property portfolio includes other investment property and/or owner occupied property. In this instance, a purchaser may be able to borrow up to 80 percent against the value of their owner occupied properties, and 60 percent against the value of investment properties, under a 'combined collateral' exemption applied by the purchaser's bank.

Note that bank lending is also subject to each bank's internal lending guidelines and policies, within the RBNZ's minimum LVR requirements. For example, banks may set internal policies for permissible LVR limits on new construction lending even if the lending qualifies for a high-LVR exemption under RBNZ restrictions. Similarly, exempt Welcome Home Loans will be subject to eligibility criteria under the scheme.

15. What can I do if I think my bank is being unreasonable in the way it is implementing the LVR restrictions?

The Reserve Bank sets out the minimum requirement for banks with the LVR rules. It is up to each bank to establish its own practices and policies for lending within those rules. If a bank wants to apply a stricter policy that the rules require, they are within their rights to do so. Borrowers who are dissatisfied with the stance or service offered by a bank are at liberty to take their custom to other banks.

Further information

The Reserve Bank website contains information about LVR restrictions: www.rbnz.govt.nz