

IN-CONFIDENCE

MEMORANDUM FOR Macro-Financial Committee; Banking Steering Group

FROM Lamorna Rogers

DATE 20 May 2013

SUBJECT **Operationalisation of LVR restrictions**

FOR YOUR Information

Introduction

This note summarises the work in progress to operationalise LVR restrictions. The project has a tentative end date of 31 July (see Appendix). It is being run across MFD, PSD and the Stats unit, with coordination out of MFD.

The project is working on the following assumptions:

- that “speed limits” will be the preferred option, but the possibility of outright prohibitions will also need to be catered for
- that there may be exemptions for “trapped borrowers” (refinancers, bridging finance, moving home) if this is practically do-able
- that “best endeavours” are acceptable given the short timelines.

We are also looking to provide banks with a number of options to phase their implementation (of both LVR restrictions and the LVR data), in order to help them meet the short timeframe.

Organisation

- We have separate workstreams for the major tasks involved in operationalising LVR restrictions, with cross-representation being the key mechanism for coordination at the working level (see table),
- We have a weekly LVR working group meeting to monitor progress on the policy side, identify issues and escalate if necessary (Bernard, Jeremy, Annalise, Lamorna and Cavan, optional attendance by Fliss/David C.),
- We expect to add and subtract resources/tasks as needed.

Task	Notes	Resourcing
Conditions of Registration/ Banking Supervision Handbook	- principles-based approach (simplicity over complexity, backed up by supervisory oversight) - new chapter BS19, changes to BS1 all workstreams feed into COR/BSH changes	Lead: Jeremy + <i>Annalise, Lamorna, Felicity, David C.</i>
Final LVR definitions – loan value, residential mortgage, valuation	- principle of co-ordinating LVR definitions across capital and macro-prudential requirements - BS2A/BS2B issue on loan value - manage projects on three different timelines: 1. housing review phase 2 2. LVR restrictions 3. LVR data collection	Lead: Cavan/ Lamorna + <i>David C, Annalise, Jeremy, Felicity, Ian W, Andy, Rochelle</i>
Calibration	Model impact of different LVR calibrations leading to identification of alternative options	Lead: Chris Bloor + <i>David C, Victoria</i>
Regulatory Impact Statement	- establish case for LVRs – key document - consultation with MoF/Treasury - publish with finalised COR	Lead: Annalise/ Lamorna + <i>Chris B, Jeremy,</i>

	- modelling work to be done for costs/benefits.	<i>Cavan, Bernard</i>
LVR data collections (flows and stocks)	- standing purpose is risk assessment; also relevant for assessing regulatory impact and monitoring compliance - monthly flow data: <ul style="list-style-type: none">• disaggregated by FHB, owner-occupier, investor, business, interest-only lending (broken down by o-o and investor)• tracking of exemption flows - quarterly stock data <ul style="list-style-type: none">• reconcile changes in balance (drawdowns, interest, repayments etc)• LVR data by payment type - staged implementation - allow banks to provide minimal subset in phase 1.	Lead: Rochelle <i>+ Lamorna, David C, Paul Briggs, others..</i>

Appendix

LVR restrictions – provisional timeline

ID	Task Name	Start	Finish	Duration	Resource Names	% Complete	2013												
							May	Jun	Jul										
							28/4	5/5	12/5	19/5	26/5	2/6	9/6	16/6	23/6	30/6	7/7	14/7	21/7
1	Task: LVR definitions – loan value, residential mortgage, valuation	6/05/2013	4/06/2013	4w 2d	Cavan/Lamorna	50%													
2	MFC	22/05/2013	22/05/2013																
3	Task: Calibration of LVR restrictions	6/05/2013	24/05/2013	3w	Chris B, VZ, DC	85%													
4	Task: Conditions of Registration/ Banking Supervision Handbook etc	13/05/2013	28/05/2013	2w 2d	Jeremy, MFD, PSD	60%													
5	Publish draft CoR/BSH	29/05/2013	29/05/2013																
6	Consultation with industry – CoR/BSH	30/05/2013	20/06/2013	3w 1d	Lead: MFD	0%													
7	Finalise CoR/BSH	21/06/2013	3/07/2013	1w 4d	Lead: jeremy	0%													
8	Publish updated CoR/BSH	4/07/2013	4/07/2013																
9	Task: Regulatory Impact Statement (allow for consultation with Tsv/MoF)	30/04/2013	20/06/2013	7w 3d	Annalise, LR, CB, PSD	30%													
10	Publish RIS	4/07/2013	4/07/2013																
11	Banks pre-positioning	4/07/2013	31/07/2013	4w		0%													
12	Reserve Bank pre-positioning	4/07/2013	31/07/2013	4w	MFD/PSD/ Stats	0%													
13	LVR restrictions could take effect	1/08/2013	1/08/2013																
14	Task: New LVR data collection																		
15	Incorporate agreed LVR definitions into templates	6/05/2013	15/05/2013	1w 3d	Lead: Stats	100%													
16	Incorporate test bank feedback into templates	29/04/2013	3/05/2013	1w	Lead: Stats	100%													
17	Publish draft LVR data template (to banks)	17/05/2013	17/05/2013																
18	Consultation with industry – LVR data	20/05/2013	30/05/2013	1w 4d	Lead: Stats, PSD	0%													
19	IRB banks workshop	24/05/2013	24/05/2013																
20	Standardised banks workshop	28/05/2013	28/05/2013																
21	Publish finalised LVR data template	31/05/2013	31/05/2013																
22	Banks' system changes	3/06/2013	31/07/2013	8w 3d	Lead: Stats	0%													
23	LVR data collection Phase 1 in effect	1/08/2013	1/08/2013																

Key: blue text – macro-prudential framework; black text – LVR restrictions project; red text – LVR restrictions milestones; green text – LVR data project;