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Macro Financial release note: October LVR data
22 November 2013

We now have our first month of new residential mortgage commitments reporting under the LVR restrictions framework. In aggregate, the banks appear on track to meet the speed limit requirements. Trends are largely in line with our initial modelling. One variation is in the area of exemptions, where the take-up is smaller than expected, but this could be a transition issue.

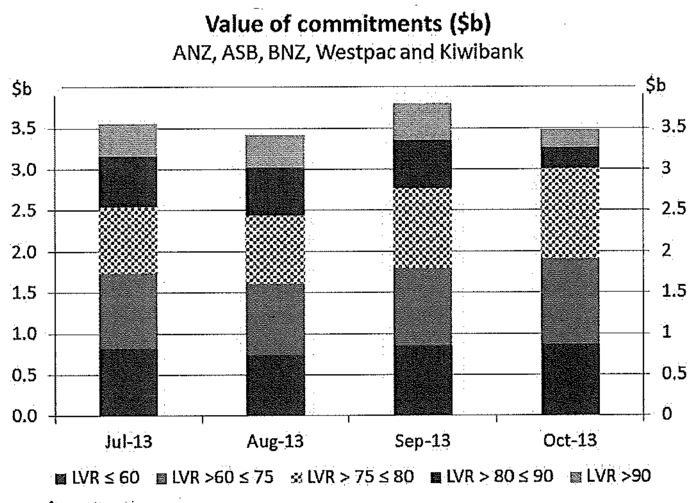
Recent developments in high-LVR residential mortgage lending

As reported in the Stats Insight LVR Monthly Survey for October, the system-wide share of new high-LVR lending (LVR > 80%) fell sharply over October, declining from 26.3 per cent to 12.5 per cent, after exemptions (Table 1). Despite the pipeline of pre-approved high-LVR lending, banks are well on track to meet the 10 percent speed limit requirement. The decline is in line with our expectations of an October high-LVR lending share of between 12 -15 percent.

Table 1: Aggregate new residential mortgage lending commitments

	Total $m	LVR > 80 $m	Exempt > 80 $m	LVR > 80 less exemptions $m	LVR > 80 %	LVR > 80 less exemptions %
Aug-13	3,597.9	1,008.7	38.2	970.6	28.04	27.27
Sep-13	3,999.2	1,078.1	37.7	1,040.4	26.96	26.26
Oct-13	3,667.8	505.0	52.9	452.2	13.77	12.51

Figure 1: New high-LVR residential mortgage lending ($ million)



Although we saw a fall in new residential mortgage lending over October, this in part reflected a return to the average levels prevailing over July and August, after a tick up in lending in September (Figure 1). The September increase likely reflected some bringing forward in activity, as banks and homebuyers rushed to beat the 1st October deadline. Banks would have had some one-off capacity to accelerate the processing of loan documents, and a few house buyers might have been able to bring forward their purchase plans. Our initial modelling estimated that, over the first year of restrictions, new residential mortgage lending commitments would be lower by around 8 percent than would otherwise have been the case. On balance, we don't think the October numbers reflect this full effect, but we expect to see some weakness start to come through in November.

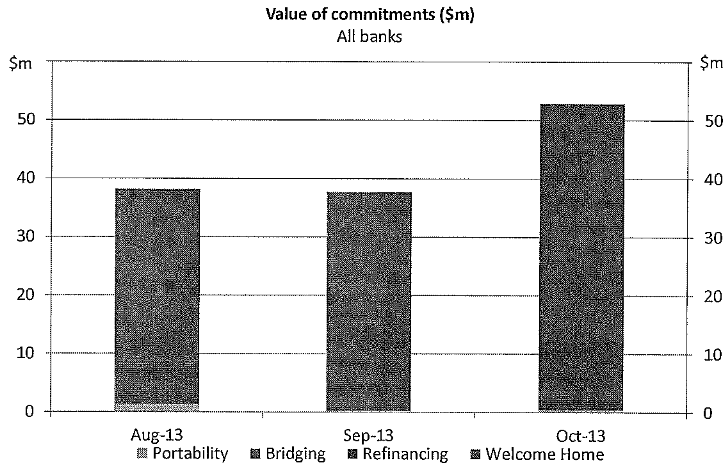
The change in the composition of flows has reflected both a decline in the value of high-LVR lending, and an increase in low-LVR lending. The increase in low-LVR lending was particularly concentrated in the 75 - 80% LVR bucket, where lending increased by around $120 million over October, following a

$150 million increase in September (Figure 1). There was a larger fall in the 80-90% bucket than in the >90% bucket, which probably reflected some house buyers with deposits near 20 percent finding some additional funds (or a cheaper house). One bank anecdotally reported that a sharp increase in the number of 79-80% LVR loans had driven the rise in the 75-80% bucket.

Exempt lending

Despite a pick-up in the reporting of exemptions this month, total exempt flows remain below expectations, at around $53 million (a 1.3 percent reduction in the high-LVR lending share compared to our projected 5 percent reduction) (Figure 2). Exempt flows were largely driven by an increase in reported Welcome Home Loans activity, which comprised around 80 percent of exempt lending, and more than doubled over October (see below). The low numbers for other types of exempt flows (bridging, refinancing and portability), could reflect a number of factors including: banks might not yet be positioned (or even intending) to make full use of these exemption types; the criteria for the exemptions may be too tight for some banks to take full advantage of them; some borrowers might be unaware of the exemptions and not even apply.

Figure 2: Exemption flows of high-LVR residential mortgage lending ($ million)



Welcome Home Loans (WHL)

After speaking to Housing New Zealand (HNZC), two factors that could have contributed to the October jump in WHL approvals were: HNZC was not accepting applications under the new WHL rules until October 1st, and banks may not have been fully reporting WHL lending prior to October.

Despite WHL approvals being up by around half compared to average pre-LVR announcement levels, HNZC report that they are lagging projections. HNZC's financial year budgetary allocation provides them with room to back around $625 million in lending (2,500 loans), which they are looking to use by around mid-May. A number of banks and other lenders have approached HNZC to request access to the WHL scheme; HNZC will be reviewing lender quotas in January, as part of which they will decide whether to admit new lenders.

HNZC further report significant post-LVR distributional effects, with WHL loan approvals quadrupling in Auckland and tripling in Wellington, although off a low base. Previously, lower house price caps meant there was little WHL lending in these areas. Conversely, WHL approvals are down in regional and low-income areas (e.g. Rotorua, Hastings, Waitangirua), where HNZC lender liaison suggests that the new WHL 10 percent deposit requirement is a binding constraint on borrowers. Prior to the rules change, the average LVR on Welcome Home Loans was 98 percent.

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