



# Reserve Bank Financial System Roundup

4 December 2013

For further information, contact: Bernard Hodgetts, Head Macro Financial Department, RBNZ (04-471 3781)

## FINANCIAL MARKET DEVELOPMENTS

Redacted: information out of scope, not relevant to request

## FINANCIAL SYSTEM AND POLICY

This edition of the fortnightly report takes a closer look at the initial effects from the LVR speed limits. Overall, the impact of restrictions to date appears consistent with our initial estimates, but data flow so far has been limited and it will take a couple more months to be able to be more definitive.

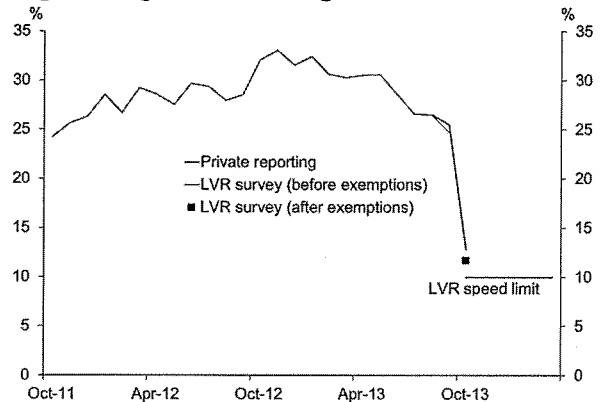
### Sharp reduction in high-LVR loan availability

Since the announcement of restrictions on high-LVR mortgage lending in late August, banks have sharply curtailed the availability of high-LVR loans. Most banks are not currently offering high-LVR loans to new customers as they manage the pipeline of loans that were approved prior to policy announcement. A number of banks have also cancelled or restricted pre-approvals. For those high-LVR loans that are offered, banks have increased both low equity margins and interest rates being charged.

High-LVR mortgage commitments dropped to 12.8 percent of total commitments in October, from 25.5 percent in September. After allowing for exemptions, this proportion drops to 11.7 percent. At this stage the reported use of exemptions is lower than the 5 percent of lending expected. In part this is due to some banks not yet having the systems to identify potentially exempt lending. It may also be that potential borrowers are unaware of the exemption categories and are not approaching banks.

The share of high-LVR lending is likely to drop further in November as the pipeline effect begins to wane. Banks suggest that they are well on the way to working through existing preapprovals, and expect most of it to have gone by the end of December. At that stage it is likely that banks would begin to start offering new high-LVR loans again.

**Figure: High-LVR lending flows**



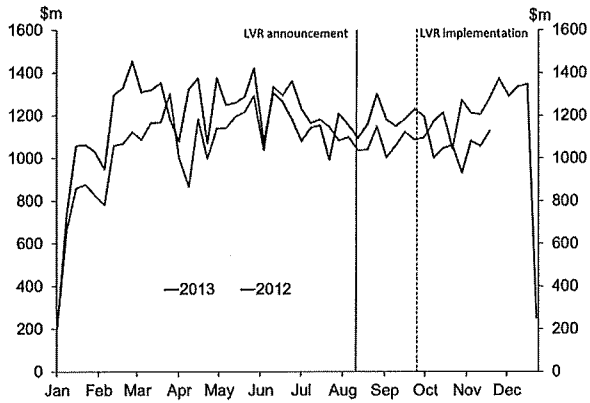
### New incentive scheme

Redacted: OIA section 18(c)(i), referring to RBNZ Act s105 introduced a new mortgage product designed specifically for first home buyers. Preferential treatment will be given under the existing speed limit allocation to those who sign up to the scheme. Participants will be required to save for at least 6-months and have at least \$10,000 to put towards a deposit. Other incentives include a cash bonus at drawdown. Redacted: OIA section 18(c)(i), referring to RBNZ Act s105 the only other bank that has given preferential treatment to first home buyers.

### No impact on credit growth yet

The LVR policy does not appear to have had a discernible impact on household credit growth yet, with October data showing a slight strengthening. We believe that this is likely to be a timing effect, with this strength likely to relate to loans that were committed in the September month. Following a slight increase in the period immediately following the announcement of LVR restrictions, new mortgage approvals (which lead credit growth) have been tracking lower since LVR implementation. The total volume of new mortgage commitments was also lower in the October month. It is expected that this will translate into softer credit growth in the November month.

**Figure: Housing loan approvals**

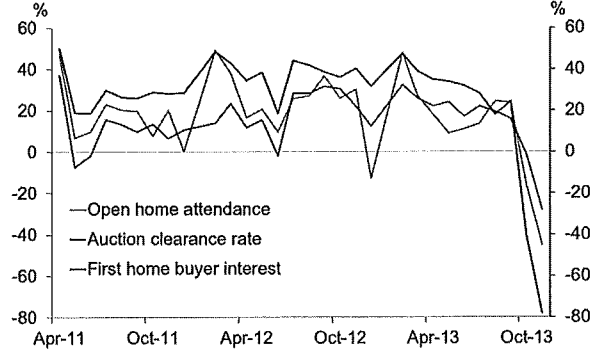


**Anecdotal reports of slowing housing market**

House sales declined by a fairly modest 3.8 percent in October. House sales would need to decline further in the coming months in order for our expectations of LVR effectiveness to be met. Anecdotal reports suggest that there has been a fall in property market activity in November. For example, a survey of real estate agents reports a sharp reduction in forward indicators of activity such as open home attendance, auction clearance rates and first home buyer interest. For most of these indicators, a sharper slowing was

reported by Auckland real estate agents than in the rest of the country.

**Figure: Selected indicators from BNZ REINZ survey (net percentage reporting increase)**



**First home buyers still active**

Recent new data released by PropertyIQ has begun categorising property sales in a way that makes it able to estimate whether new home owners are first home buyers, movers, or investors. Across the country, 20 percent of sales of houses, flats and apartments were to first home buyers at the beginning of the year. This has increased to 22.7 percent in October. PropertyIQ also identified that areas where people either retire to or have holiday homes, such as Taupo, Kapiti, Nelson and Queenstown, have a lower proportion of first home buyers compared to larger cities.

**Key regulatory/legislative initiatives (significant recent changes in blue)**

<p>Macro-prudential policy</p>	<p>'Speed limits' on high-LVR residential mortgage lending are now in place. The bank is monitoring the impact of the restrictions on bank lending and the housing market.</p>
<p>[Redacted]</p>	<p>[Redacted]                  Redacted: information out of scope, not relevant to request                  [Redacted]</p>
<p>[Redacted]</p>	<p>[Redacted]                  Redacted: information out of scope, not relevant to request                  [Redacted]</p>
<p>[Redacted]</p>	<p>[Redacted]                  [Redacted]                  [Redacted]                  Redacted: information out of scope, not relevant to request                  [Redacted]                  [Redacted]</p>
<p>[Redacted]</p>	<p>[Redacted]                  [Redacted]                  [Redacted]                  [Redacted]</p>
<p>[Redacted]</p>	<p>[Redacted]                  Redacted: information out of scope, not relevant to request                  [Redacted]                  [Redacted]</p>
<p>Review of bank capital adequacy requirements for housing loans</p>	<p>The Bank is working on a staged review of bank capital adequacy requirements for housing loans. As a result of stage one, the capital requirements for internal models banks will increase to reflect the additional systemic risk in high loan to value lending. The Reserve Bank has recently consulted on stage two of the review, which focused on definitional issues, some of which need to be addressed in order to enhance the effectiveness of the Bank's new macro-prudential LVR policy, and some administrative aspects of internal models processes. The Reserve Bank is currently in the process of analysing the consultation feedback.</p>

## Market Indicators

EXCHANGE RATES	Current	% change 2 weeks ago	% change month ago	% change year ago
	NZDUSD	0.8237	-0.4%	-0.6%
NZDEUR	0.6061	-1.5%	-1.1%	-3.7%
NZDAUD	0.9020	1.8%	3.5%	14.6%
NZ TWI	77.37	-0.4%	0.4%	5.3%

INTEREST RATES	Current	% Current	bps change 2 weeks ago	bps change month ago	bps change year ago
	OCR	2.50		0	0
NZ 90 day bank bill	2.70		4	4	9
NZ 10 yr govt bond	4.77		9	19	127
Australia 10 yr govt bond	4.32		5	18	114
US 10 yr govt bond	2.78		-2	18	118
Germany 10 yr govt bond	1.73		1	5	33
UK 10 yr govt bond	2.82		8	19	101
Italy 10 yr govt bond	4.09		1	-2	-33

CDS SPREADS	Current	bps Current	bps change 2 weeks ago	bps change month ago	bps change year ago
	NZ Govt	49		0	0
AU Banks	105		0	0	-2
EU Banks	98		-8	-16	-54

COMMODITIES	Current	% change 2 weeks ago	% change month ago	% change year ago
	WTI Oil	96.0	2.9%	1.5%
Gold	1,221.7	-2.9%	-7.1%	-27.9%
CRB	276.3	1.1%	1.0%	-7.0%

SHAREMARKETS	Current	% change 2 weeks ago	% change month ago	% change year ago
	S&P 500	1,795	0.8%	1.5%
Euro Stoxx 600	319.1	-1.2%	-1.0%	15.5%
ASX 200	5,249	-1.1%	-2.6%	16.6%
NZX 50	4,752	-1.8%	-3.2%	18.3%
VIX Volatility	14.6	8.6%	12.5%	-15.0%

Note: 'Current' prices measured on Wednesday 4 December 2013.

