

Submission

to the

Reserve Bank of New Zealand

on the

Consultation on adjustments to restrictions on high-LVR residential mortgage lending – further proposal

24 July 2015

Submission by the New Zealand Bankers' Association to the Reserve Bank of New Zealand on the consultation on adjustments to restrictions on high-LVR residential mortgage lending

About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes which contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.
2. The following fifteen registered banks in New Zealand are members of NZBA:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - Bank of Tokyo-Mitsubishi, UFJ
 - Citibank, N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - JPMorgan Chase Bank, N.A.
 - Kiwibank Limited
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited.

Background

3. NZBA is grateful for the opportunity to submit on the Reserve Bank's consultation on adjustments to high-LVR lending restrictions – further proposal (dated 13 July 2015).
4. NZBA commends the commitment to meaningful consultation and engagement, and appreciates the invitation to participate in this consultation.
5. The following submission makes some brief comments in relation to implementation of the policy.
6. If you would like to discuss any aspect of the submission further, please contact:

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NZBA comments

7. Due to the significant change management required and short lead-in timeframe the NZBA submits that an initial 6-month measurement period should assist a successful transition. The NZBA is also supportive of extending the commencement date to 1 November 2015. We would also encourage the RBNZ to finalise the proposals as soon as possible to ensure that banks have adequate time to implement the policy.
8. However, NZBA submits that implementing a 5 per cent speed limit would be extremely difficult – if not impossible – for some members. Notwithstanding that NZBA provided an earlier submission indicating that the speed limit would need to be increased to at least 5 per cent to make the policy workable, after further analysis we consider that the speed limit may need to be lifted further to assist banks in managing compliance with the policy.
9. We also strongly suggest that the policy is implemented by way of anti-avoidance provisions contained in BS19, in conjunction with appropriate supervision, relevant data, and breach reporting obligations rather than as a condition of registration. We would be happy to discuss with you how this might work in practice.
10. We suggest that it would be useful for the Reserve Bank to consider exemptions for particular types of loans – for example property remediation, and financial hardship. Further details are outlined below.

Property Remediation

11. As noted by the Reserve Bank in the consultation discussion there are special circumstances around property remediation and hardship that warrant loans being granted outside normal limits.
12. Leaky buildings are a particular problem in Auckland and lending to remediate will almost always take the customer over 70 per cent LVR. This category of lending should be dealt with by way of an exemption rather than having to be addressed through the flow limit.
13. The low flow setting will need to be used to absorb any errors and any increase in the flow limit will likely still need to be used for that purpose leaving little or no capacity for remediation funding for leaky buildings. There is a low risk of an exemption being used to game the restrictions as an industry group has developed a standard set of

loan conditions covering escrow arrangements and when funds will be released to ensure they are being used for remediation purposes.

14. We disagree that a small speed limit is the most effective way of allowing for these cases for the reasons outlined above. Setting a speed limit that accommodates the variation in volume that is experienced in these special categories will be difficult to judge. We have concluded that the better approach is to introduce specific exemptions to BS19.

Financial Hardship

15. It would be an undesirable outcome if banks could not consider assistance to a customer in difficulty due to concerns over breaching the proposed speed limits. This is in direct conflict with a bank's financial hardship responsibilities under the Responsible Lending Code. If such exemptions were available, we would expect that specific ongoing reporting would be required so that the Reserve Bank has comfort that these provisions are not being used as an avoidance activity.