RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA

Framework for Restrictions on High-LVR Residential Mortgage Lending

Prudential Supervision Department
Document BS19

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Part 1—Introduction

1. Objectives for residential mortgage lending restrictions

(1) This document sets out the Reserve Bank of New Zealand's (Reserve Bank's) framework for imposing quantitative restrictions on the share of high loan-to-valuation ratio (LVR) loans by registered banks to the residential property sector. Loans to the residential property sector include loans secured by owner-occupied residential property and loans secured by residential investment property.

(2) The Reserve Bank has powers under Part 5 of the Reserve Bank of New Zealand Act 1989 (the Act) to register banks and undertake prudential supervision of registered banks.

(3) Section 68 of the Act requires the powers under Part 5 of the Act to be exercised for the purposes of:

(a) promoting the maintenance of a sound and efficient financial system; or

(b) avoiding significant damage to the financial system that could result from the failure of a registered bank.

(4) As set out in the Memorandum of Understanding (the "Memorandum") on "Macro-prudential policy and operating guidelines" between the Governor of the Reserve Bank and the Minister of Finance, quantitative restrictions on the share of high loan-to-value ratio loans to the residential property sector may be deployed to address systemic risks to financial stability.

(5) The objective of the framework set out in this document is to help maintain financial stability, by providing the Reserve Bank with the practical means of imposing restrictions on the share of high-LVR residential mortgage lending undertaken by registered banks. Any decision to impose such restrictions will be taken within the operating guidelines for macro-prudential policy set out in the Memorandum, for the purposes of section 68 of the Act.

2. Entities subject to this policy

(1) This policy applies to all New Zealand registered banks. However, for overseas-incorporated banks that have a branch in New Zealand, any high-LVR lending restrictions that are imposed would only apply to mortgage lending originated by the branch in New Zealand.

3. Conditions of registration

(1) Section 74 of the Act permits the Reserve Bank to impose conditions of registration that relate to, among other things, the matters referred to in section 78(1)(fa) of the Act namely "risk management systems and policies or proposed risk management systems and policies".

4. Public disclosure

(1) Under section 81 of the Act, the Governor General may, on the advice of the Minister of Finance and in accordance with a recommendation by the Reserve Bank, prescribe information or data that registered banks must publish in disclosure statements.

5. Regulatory reporting

(1) Under section 93 of the Act, the Reserve Bank may require a registered bank to provide information, data or forecasts to the Reserve Bank. A notice under section 93 may specify:

(a) the periods for which, and form in which, the information, data or forecasts must be supplied; and

(b) the time by which the information, data or forecasts must be supplied.

Part 2—Conditions of registration

6. Standard conditions

(1) One of the Reserve Bank's policy tools within its macro-prudential framework is the use of quantitative restrictions on the share, of total lending, of high-LVR loans by registered banks to the residential property sector. If the Reserve Bank implements this tool under the decision-making processes of the macro-prudential framework, it will normally do so by imposing standard conditions of registration on all New Zealand registered banks. Section 15 sets out an example of the form of condition that may be used from time to time. The example in section 15 is purely illustrative. The conditions applying at a particular time will vary in respect of the quantitative limit that may apply and may apply differently to different geographical regions or category of borrower.

(2) Appendix 1 sets out the standard form of the conditions currently imposed by the Reserve Bank. These standard form conditions are indicative only and may be different for a particular bank. However, the Reserve Bank will normally apply these standard form conditions across all registered banks in New Zealand, subject to the variations discussed in this section (subsections 3 and 5). The Reserve Bank may in exceptional cases exclude a registered bank from the general imposition of the standard conditions. This would, for instance, be the case if the bank was prevented from originating mortgage loans by its existing conditions of registration.

(3) Conditions 1 and 2 restrict the share of a bank's new residential mortgage lending that falls within the specified higher-LVR ranges within a given category, as a proportion of total lending within that category, over each specified period. The restrictions will normally apply over a three-month rolling period for banks with new mortgage lending flows of more than $100 million per month, and a six-month rolling period for other banks. Conditions will normally apply from the first day of a month, and the relevant measurement period during which the restrictions would apply would be the three or six calendar months starting from that date. The subsequent measurement period would be the three or six calendar months starting one month later, and so on. The Reserve Bank will use the cut-off limit of $100 million per month to determine which banks are subject to LVR restrictions on a three-month basis, and which on a six-month basis. This judgement will be made at the time that it imposes LVR restrictions, on the basis of recent housing lending data. While LVR restrictions are in place a bank may be switched from one category to the other if the Reserve Bank judges that its monthly mortgage lending has persistently fallen below or risen above $100 million.

(4) Condition 3 in Appendix 1 requires a bank to include in its standard terms and conditions for any new residential mortgage loan a requirement of the loan contract or

the mortgage terms and conditions, as applicable, that the borrower may not grant any additional security over the property without the bank's prior agreement.

(5) Conditions 1 to 3 will apply to each New Zealand-incorporated registered bank as a legal entity. For branches of overseas-incorporated banks, these conditions will apply to the New Zealand business of the registered bank. This reflects the significant burden that would be imposed on an overseas bank by requiring it to be able to identify all New Zealand residential mortgage lending booked in the bank in any other jurisdiction. The Reserve Bank expects that such lending would be immaterial unless the bank deliberately used its New Zealand operations to facilitate it.

(6) After imposing such conditions, the Reserve Bank will keep under review the impact of the restrictions on high-LVR residential mortgage lending, and on the credit and housing price cycle more generally. In light of changing circumstances, the Reserve Bank may remove the conditions, or may vary them in order to tighten or loosen their settings as appropriate.

7. Anti-avoidance

(1) A registered bank should not enter into any arrangement to avoid the LVR restrictions in its conditions of registration.

(2) The Reserve Bank has identified the following activities as a non-exhaustive list of methods that a bank could use to actively avoid the impact of LVR restrictions:

(a) entering into a series of separate contracts to create what in substance is a single residential mortgage loan transaction;

(b) entering into an arrangement with a borrower to channel funding to the borrower through a third party, or to guarantee the borrower's debt to another lender, to enable the borrower to purchase a residential property with total borrowing which would count as a high-LVR loan for the bank if it was all provided by the bank;

(c) directing the borrower to another lender who lends the borrower an amount such that the bank can provide a new residential mortgage loan to the borrower with an LVR less than the LVR restriction threshold;

(d) arrangements involving the use of additional collateral to hold the LVR on a residential mortgage loan below the LVR restriction threshold;

(e) providing unsecured consumer lending to a borrower who has a residential mortgage loan with that registered bank where the terms of the unsecured consumer lending:

(i) are substantially different to that which would apply under normal risk management practice; and/or

(ii) are determined in reliance on the security provided by an all-obligation mortgage;

unless eligibility for such unsecured consumer lending is effectively restricted in circumstances where, had the unsecured lending been part of the residential mortgage loan, the residential mortgage loan would have counted as a high-LVR loan for the bank;

(f) providing lending primarily reliant on residential property as security, as opposed to lending that is also reliant on other sources of funds such as business cash flows, that is treated as outside the residential mortgage loan asset class (for example, in the corporate asset class) and where the lending would be high-LVR lending if a residential mortgage loan;

(g) where loans are not cross collateralised, providing high-LVR loans secured against property subject to a LVR limit, in order to fund the purchase of property subject to a stricter LVR limit. For example, lending at an LVR greater than 80% against non-Auckland investment properties to allow the investor to separately fund the purchase of an Auckland investment property which would have been high-LVR absent the extra funding;

(h) permitting a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan, or providing a mortgage loan against a property already subject to a charge in favour of another person, where if the lending secured by the charge had been part of the residential mortgage loan, the residential mortgage loan would have counted as high LVR lending for the bank;

(i) acting as a broker for, or arranging a residential mortgage loan for, another member of the bank's banking group, or in the case of a branch, doing so for the business of the registered bank outside New Zealand or for an associated person outside New Zealand;

(j) in the case of a branch, facilitating the drawdown of a residential mortgage loan that has been originated by the bank as part of its business outside New Zealand or by an associated person of the bank outside New Zealand; or

(k) providing a residential mortgage loan to a borrower where the bank is aware that the borrower's deposit for the purchase of the residential property to which the residential mortgage loan relates, has been, or will be, funded by unsecured lending, including credit cards, provided by that bank in the case where, had the unsecured lending been part of the residential mortgage loan, the residential mortgage loan would have counted as a high-LVR loan for the bank.

(3) The Reserve Bank recognises that the arrangements in 7(2)(a)-(j) can in certain instances be used for legitimate business purposes, and as such is not ruling out those uses. Rather, the Reserve Bank's expectation is that banks will not exploit or promote such arrangements to avoid the LVR restrictions. Should concerns arise, the Reserve Bank would look closely at the extent to which, and over what period, any registered bank was increasing its use of such arrangements, measured by the total volume or as a proportion of all of its residential lending. The Reserve Bank would also be concerned about more prominent marketing of products based on such arrangements.

(4) If at any point it appears to the Reserve Bank, taking into account the considerations above, that an individual bank is entering into arrangements to avoid any LVR restrictions, or, for example, is systematically exploiting definitions or providing unsecured lending to fund customers' deposits, the Reserve Bank would consider taking action against that bank. Such action could address the concern directly by varying the standard LVR conditions or by imposing an additional condition relating to LVRs, or could take some other form as appropriate.

8. Variations to standard conditions of registration

(1) The Reserve Bank will give registered banks at least two weeks' notice of its intention to impose, vary or remove such conditions. (Section 74(3) of the Act requires the Reserve Bank to give at least seven days' notice.)

9. Transitional arrangements

(1) At the point that the Reserve Bank first decides to impose restrictions on high-LVR lending, the first period over which the amount of high-LVR lending will be measured may be longer than the standard measurement period that will subsequently apply.

10. Definitions

For the purposes of this document, including for conditions of registration imposed under the Act,—

“ANPIL” means a non property-investment residential mortgage loan that is secured against at least one Auckland property.

“APIL” means a property-investment residential mortgage loan that is secured against at least one Auckland investment property.

“Auckland” means the area within the boundaries of Auckland as prescribed by the Local Government (Auckland Boundaries) Determination 2010 (as amended or replaced from time to time).

“Auckland investment property” means a residential property in Auckland that is not an owner-occupied residential property.

“Auckland property” means a residential property in Auckland.

“BS2A”, for a registered bank that is not an IRB bank, means the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)”, in the version applying to the registered bank in its conditions of registration.

“BS2B”, for an IRB bank, means the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)”, in the version applying to the registered bank in its conditions of registration.

“exempt”, for a residential mortgage loan or an increase in the loan value of a residential mortgage loan, means the residential mortgage loan or increase is treated by the registered bank as exempt under section 12.

“high-LVR loan”, “high-LVR lending” or “high-LVR residential mortgage lending” means a residential mortgage loan with a loan-to-valuation ratio that falls within one of the LVR ranges that is restricted.

“IRB bank” means a New Zealand-incorporated bank that is accredited by the Reserve Bank to use the internal ratings-based approach to credit risk for capital adequacy purposes.

“loan value”, for a residential mortgage loan,—
(i) if made or provided by an IRB bank, has the same meaning as in section 4.150A of BS2B (except that, when incorporating any off-balance sheet exposures in the loan value, the bank may apply a credit conversion factor of 100% rather than using its own EAD estimates); and
(ii) if made or provided by any other registered bank, has the same meaning as in section 37 of BS2A.

“loan-to-valuation measurement period” has the same meaning as in the registered bank’s conditions of registration, for example, a three-month, six-month or other period.

“loan-to-valuation ratio”, in relation to a residential mortgage loan, —
(i) if made or provided by an IRB bank, has the same meaning as in section 4.150A of BS2B (except that, if the bank has varied the calculation of “loan value” as permitted in these definitions, the bank must use that loan value in calculating the loan-to-valuation ratio); or
(ii) if made or provided by any other registered bank, has the same meaning as in section 37 of BS2A.

“NAPIL” means a property-investment residential mortgage loan that the registered bank is satisfied is not secured against any Auckland investment property.

“NANPIL” means a non property-investment residential mortgage loan that the registered bank is satisfied is not secured against any Auckland property.

“non property-investment residential mortgage loan” —
(i) if made or provided by an IRB bank, has the same meaning as in section 4.7(a) of BS2B; or
(ii) if made or provided by any other registered bank, has the same meaning as in section 43(e) of BS2A.

“owner occupied residential property”, in relation to a residential mortgage loan, —
(i) if made or provided by an IRB bank, has the same meaning as in section 4.7(a) of BS2B; or
(ii) if made or provided by any other registered bank, has the same meaning as in section 43(e) of BS2A.

“property-investment residential mortgage loan” —
(i) if made or provided by an IRB bank, has the same meaning as in section 4.7(a) of BS2B; or
(ii) if made or provided by any other registered bank, has the same meaning as in section 43(e) of BS2A.

“property value”, in relation to a residential mortgage loan —
(i) if made or provided by an IRB bank, has the same meaning as in section 4.150A of BS2B; or
(ii) if made or provided by any other registered bank, has the same meaning as in section 37 of BS2A.

“qualifying increase in mortgage loan value” means an increase in loan value that is not exempt associated with a residential mortgage loan previously made by the registered bank.

“qualifying mortgage loan” means a residential mortgage loan that is made by a registered bank and is not exempt.

“qualifying mortgage loan commitment”, as evidenced by the loan documents provided by the registered bank to the borrower, means the finalised offer given by the registered bank to a borrower to—
(i) provide a qualifying mortgage loan; or
(ii) provide a qualifying increase in mortgage loan value.

"qualifying new mortgage lending amount" is the sum of —

(i) the total of any loan values associated with a qualifying mortgage loan made by the registered bank in a loan-to-valuation measurement period in accordance with a qualifying mortgage loan commitment; and

(ii) the total of any increases in loan value that are a qualifying increase in mortgage loan value made by the registered bank in a loan-to-valuation measurement period.

"qualifying new mortgage lending amount in respect of property-investment residential mortgage loans" is the sum of —

(i) the total of any loan values for property-investment residential mortgage loans associated with a qualifying mortgage loan made by the registered bank in a loan-to-valuation measurement period in accordance with a qualifying mortgage loan commitment; and

(ii) the total of any increases in loan value for property-investment residential mortgage loans that are a qualifying increase in mortgage loan value made by the registered bank in a loan-to-valuation measurement period.

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"qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans" is the sum of —

(i) the total of any loan values for non property-investment residential mortgage loans associated with a qualifying mortgage loan made by the registered bank in a loan-to-valuation measurement period in accordance with a qualifying mortgage loan commitment; and

(ii) the total of any increases in loan value for non property-investment residential mortgage loans that are a qualifying increase in mortgage loan value made by the registered bank in a loan-to-valuation measurement period.

"residential mortgage loan" means a loan or lending facility that—

(i) if made or provided by an IRB bank, has the same meaning as in section 4.7(a) of BS2B;

(ii) if made or provided by any other registered bank, has the same meaning as in section 43(e) of BS2A; and

(iii) for the purposes of this document, does not include a reverse residential mortgage loan as defined in section 4.7(a) of BS2B or section 43(e) of BS2A.

11. Guidelines—qualifying new mortgage lending amount

Overview

(1) The LVR restrictions apply to every qualifying new mortgage lending amount that the registered bank creates during each loan-to-valuation measurement period. A qualifying new mortgage lending amount can arise from a commitment to provide a new residential mortgage loan, a commitment to provide an increase on an existing residential mortgage loan, or an increase that arises in the loan value associated with a residential mortgage loan without going through a formal commitment process. Measurement of the amounts is based on the "loan value" associated with the residential mortgage loan, as used by the bank for the purpose of its capital adequacy framework, or in the case of overseas-incorporated banks, for the disclosure of mortgage lending by LVR. If the qualifying new mortgage lending amount does not arise from a commitment for a new mortgage, the amount is measured as the increase in the loan value associated with the mortgage. Qualifying new mortgage lending amounts do not include commitments to provide a new

residential mortgage loan, or increases in the loan value of an existing loan, that the bank treats as exempt under one of the exemption categories.

Timing—commitments for new mortgages

(2) For the purposes of this policy, a bank enters into a qualifying mortgage loan commitment for a new residential mortgage loan when the bank offers an applicant the loan in final form. This is typically the day on which the bank sends the loan documentation to the applicant's solicitor, or an equivalent stage in the process if the applicant is not using a solicitor. By this point the credit risk should be regarded as being the same as if the asset was already on the balance sheet.

(3) Commitments do not include loan pre-approvals that may or may not lead to a final offer of a loan. Necessary (but not sufficient) conditions for a qualifying mortgage loan commitment for a new mortgage are that a specific property has been identified and that an amount has been agreed for the loan that the customer will draw down or, in the case of a lending facility, for the facility limit.

Timing—increases in mortgage lending

(4) In cases where an increase in lending on an existing residential mortgage loan requires amendment to the loan or mortgage documentation, the date on which the increased loan amount applies corresponds to that for a new mortgage loan, namely the date that the bank sends the loan documentation to the borrower's solicitor, or the equivalent stage in the process. In other cases, the increase in lending over the loan-to-valuation measurement period is the total increase in the drawn-down balance from the beginning to the end of the period.

Relation to switch-on date

(5) If the registered bank has entered into a qualifying mortgage loan commitment before the date on which the LVR conditions of registration come into force (the "switch-on date"), the conditions do not apply to that commitment. Conversely, if a bank has given a customer a mortgage pre-approval before the switch-on date of the conditions, but the pre-approval does not result in a qualifying mortgage loan commitment until after the switch-on date, the conditions do apply to that commitment.

Treatment of loan draw-downs

(6) In cases where a new residential mortgage loan is included in the LVR restriction calculation in respect of its commitment date, or where a top-up on an existing residential mortgage loan requires updated documentation in line with sub-section (4), the date (if any) on which amounts are subsequently drawn down is not relevant. In the case of other increases in existing residential mortgage loans, the relevant date (or dates) are those of actual amounts being drawn down during the period.

(7) Committed but undrawn amounts on an existing mortgage lending facility that was established before any period defined in conditions of registration are not included in new commitments for that period. Amounts drawn down during the period under revolving mortgage facilities are not included as an increase in lending provided the loan balance remains within the facility limit. If the borrower requests an increase in the facility limit, the amount of the increase is included in the LVR restriction calculation on the date determined as above.

Loans not included

(8) To avoid any doubt, a Kainga Whenua loan provided by Housing New Zealand is not a residential mortgage loan.

12. Exemption categories

(1) A registered bank may treat a residential mortgage loan as exempt only if the loan qualifies under one of the subsections (a) – (g) below. A registered bank may treat an increase in the loan value of a residential mortgage loan previously provided by the registered bank as exempt if the increase qualifies under one of the subsections (e) – (h) below.

Housing New Zealand

(a) the loan is made or will be made under Housing New Zealand's Mortgage Insurance Scheme, including the Welcome Home Loan scheme;

Refinancing

(b) the loan is taken out or will be taken out to refinance an existing residential mortgage loan, and the new loan is to the same borrower as under the existing loan or to a related party of the borrower, is secured on the same property, and the value of the new residential mortgage loan is no more than that of the existing residential mortgage loan;

Portability

(c) a natural person or a related party of the natural person uses the loan to purchase a residential property that the natural person intends to occupy as their principal residence, and the natural person is either currently occupying, or has occupied within six-months of the date of the new residential mortgage loan commitment, another residential property for which the natural person or a related party of the natural person is or was a borrower under a residential mortgage loan, and—

(i) if the previous residential mortgage loan has been repaid, the value of the new residential mortgage loan is no more than the corresponding value for the previous residential mortgage loan at the time that it was repaid and before the application of the final payment; or

(ii) the value of the new loan is no more than the corresponding value for the existing residential mortgage loan on the property that the natural person is moving out of, on the date that the new commitment is made;

Bridging finance

(d) the loan ("bridging finance") is to enable a person to complete the purchase of a residential property (the "new property") on a date before the date on which that person completes the sale of another residential property (the "old property") provided that—

(i) a natural person, who is either the person purchasing the new property or a related party of that person, intends to occupy the new property as his or her principal residence after the completion date of the sale of the old property, and has occupied the old property as his or her principal residence until the completion date of the purchase of the new property;

(ii) the registered bank requires the bridging finance to be repaid as soon as the sale of the old property has been completed;

(iii) this exemption lasts until the date one year after the date on which the bank first committed to providing the bridging finance, and on that date the value of the increase in lending to the borrower arising from the bridging finance must be included in the LVR restriction calculation for loan-to-valuation measurement periods including that day; and

(iv) to the extent that a residential mortgage loan is expected to remain outstanding on the new property once the bridging finance has been repaid, the calculation of the LVR restrictions must include the loan value associated with a commitment for a new residential mortgage loan, dated when the bank is first committed to providing that loan. The new loan may be treated as exempt if it meets the conditions for any of the other exemptions listed in this section;

Construction loan

(e) the loan, or any increase in the loan value of a residential mortgage loan previously provided by the registered bank ("construction loan"), meets all of the following conditions:

(i) the purpose of the loan, or of the increase in loan value, is one or more of the following:

a. to finance the construction or purchase of a new residential dwelling;

b. to finance the ownership of land, or to prepare land, including the demolition or removal of existing structures on the land or provision of services necessary for using the land as residential property, where the loan is also for the purpose of financing the construction or purchase of a new residential dwelling on that land, provided that construction is expected to be completed no more than 24 months after the loan commitment date; or

c. to fund unexpected or additional costs to undertake or complete the construction of a new residential dwelling, including cost overruns or resource or building consents;

(ii) either the borrower committed to the construction or purchase of the new residential dwelling prior to the commencement or at an early stage of construction of the dwelling, or the borrower is purchasing the completed property from the original developer within 6 months of the property's completion, or the borrower is purchasing the property as part of the Government's Kiwibuild programme; and

(iii) the loan, or, in the case of an increase in loan value, the full amount of the previously made loan and the increase, is secured by a mortgage over the residential property on which the dwelling will be, is being, or has been, constructed. For the avoidance of doubt, it may also be secured by mortgages over other properties;

Combined collateral

(f) the loan, or any increase in the loan value of a residential mortgage loan previously provided by the registered bank, meets all of the following conditions:

(i) the loan is secured over more than one residential property;

(ii) if the loan were split into multiple loans, each secured by only one of those residential properties, then not all of these loans would be subject to the same LVR limit; and

(iii) the total value of loans secured by those properties divided by the total value of those properties is less than or equal to the weighted average of the LVR limits that apply to that loan.

For the purpose of this section, the weighted average of the LVR limits is calculated as the sum over all properties of each LVR limit applicable to a property multiplied by the weight of each property, that is:

∑(LVR limit applicable to a property* weight)

Where:

"LVR limit applicable to a property" means the LVR limit that would apply to a loan that was only secured by that property.

"Weight" means the value of the property divided by the total property value.

An example of this exemption is provided in section 13;

Loan granted in error

(g) the loan, or any increase in the loan value of a residential mortgage loan previously provided by the registered bank, is a high-LVR loan and the following conditions are met:

(i) the bank committed to the loan without a full understanding of how it would affect their high-LVR lending proportions;

(ii) this exemption has not been applied to any other loan in the calendar month; and

(iii) the bank writes a letter to the Reserve Bank within 20 working days of the end of the calendar month to explain how the error occurred;

Property Remediation

(h) the amount of an increase in the loan value of a residential mortgage loan previously provided by the registered bank ("property remediation loan"), is exempt if it meets all of the following conditions:

(i) the purpose of the loan is to fund a repair or remediation of a residential property;

(ii) the bank has already provided a loan to the borrower, or a related party of the borrower, secured by that residential property; and

(iii) the repair or remediation is not routine or deferred maintenance. The need for the lending for repair or remediation arises because of:

a. an event such as a fire or natural disaster (where the insurance cover does not fully fund needed repairs);

b. significant weather-tightness issues; or

c. a need to improve a building to meet currently accepted standards (e.g. Seismic strength standards or rental property standards around matters like heating and insulation).

(2) For the purposes of this section, a person is a related party of another person if:

(a) one person is a trust, or a trustee of a trust and the other person is a beneficiary of the trust; or

(b) one person is a company or an unincorporated body of persons and the other person is a shareholder of, or otherwise controls, the first person; or

(c) one person is a natural person and the other person is the spouse, civil union or de facto partner of the first person or is the administrator of the estate of the deceased spouse, civil union partner or de facto partner of the first person.

13. Guidelines—exemption categories

(1) When applying the exemptions, a bank should take a "substance over form" approach, taking into account the intention of each of the exemptions, as described in this section.

(2) The exemption of a loan is framed so that if a bank is unable to, or opts not to determine conclusively whether or not a particular loan commitment falls within one of the exemption categories, the loan will be a qualifying mortgage loan or qualifying increase in mortgage loan value. It is not necessary for the registered bank to exempt loans that are not high-LVR loans that meet the criteria for the exemption. The exemption categories in subsections 12(1)(b) and (c) are intended to allow transferability of existing high-LVR lending. Under subsection 12(1)(b), if a person has a high-LVR loan, that person will be able to switch to a different lender or to new mortgage terms on the same property, and still borrow up to the same amount without being affected by the restrictions. Subsection 12(1)(c) similarly allows a person who is moving house to borrow up to the same amount on the new property without being affected by the restrictions, but in this case the exemption is only available where there is an intention to occupy the purchased house as a principal residence, and there is a time limit of six months on this transferability. Both of these exemptions apply only to the amounts of the old and new residential mortgage loans, that is, they exclude additional borrowing by the customer that may fall within the registered bank's definition of "loan value" associated with the residential mortgage loan. If either the old or the new mortgage loan is in the form of a revolving lending facility, the exemption applies to the facility amount.

(3) The exemption in subsection 12(1)(d) is intended to allow a person who is changing their principal residence to take out a bridging loan for up to one year if they have not been able to sell their existing property before completing the purchase of their new property, without the total bridging loan amount being caught within the restrictions of the policy. The LVR restrictions are intended to apply to the mortgage loan on the new property as it will be once the bridging finance has been repaid. The new loan may in turn be exempted from LVR restrictions if it satisfies the conditions for one of the other exemptions. If the person has not been able to repay the bridging loan after one year, it is treated at that point in the same way, for the purpose of LVR restrictions, as it would have been treated if it had not been exempt originally.

(4) The exemption in subsection 12(1)(e) is intended to apply where a person has firmly committed to the construction or purchase of a new residential dwelling, either prior to the commencement of the construction, when the dwelling is in the early stages of construction, or within 6 months of the completion of the development when purchasing from the original developer, and finances that construction or purchase through a residential mortgage loan.

(a) the exemption covers the full amount of the financing needed to complete the construction or purchase of the property, including staged draw-downs and any increases in the loan value to cover any overrun in the cost of construction compared to the original construction budget. If the total financing is structured as a series of separate loans, the exemption is applicable to each separate loan in the series. The exempt financing may also be used to fund costs necessary for the construction of the dwelling, such as building and resource consents, architects' and engineers' fees, and the provision of vehicle access and essential services such as water and sewerage;

(b) the value of the section may be included in the exempt financing only where the loan finances both the section and the new residential dwelling. For example, financing for builders' land/build packages is exempt, provided the buyer meets the other criteria for the exemption. The 24 month deadline means that the exemption is not available for financing speculative purchases of sections where there is no planned start date for construction of a dwelling on the section;

(c) the new residential dwelling may be constructed on a section occupied by an existing dwelling. The exemption will cover financing to demolish or remove an existing building;

(d) financing will not be considered to fall within any of the purposes of paragraph 12(1)(e)(i) where the purpose of the financing is the renovation, remediation or extension of an existing property or the purchase of items (such as movable furniture or appliances) that are not normally retained in a property when it is sold;

(e) the lending bank should use a common sense approach to determining whether the property is being purchased from the original developer within 6 months of the property's completion, potentially inspecting code compliance certificates or similar documents.

(f) if not purchasing from the original developer within 6 months of the property's completion, the borrower must commit to the purchase of the dwelling by an early stage in the construction of the dwelling. This allows for the case where work may have been undertaken to prepare the site for development prior to the buyer committing to the construction of the dwelling. For example the following may occur before the borrower makes a commitment:

(i) obtaining resource or building consents to undertake the construction;

(ii) providing essential services to the site, such as a driveway, and connections to utilities;

(iii) preparation of the site, such as clearing or earth works, and putting in place the building's substructure and framing.

(5) The exemption in subsection 12(1)(f) is intended to exempt a loan that is secured against multiple residential properties, where the loan would not have been a high-LVR loan if the lending was not done on a cross collateralised basis. The exemption will apply if the total borrowing secured by the properties is less than, or equal to, the weighted average LVR limit applicable to the properties multiplied by the total value of the properties.

For example, assume a customer has an investment property in Auckland valued at $1,000,000 and a loan valued at $600,000.

Assume that that customer takes out an additional loan of $850,000 and purchases a property outside Auckland, in which the customer will live, valued at $1,000,000 and that the total value of the loans is secured over both properties.

The loan is considered to be an APIL loan. However,

The total value of loans divided by the total value of the properties is 1,450,000/2,000,000 = .725.

Assume that the conditions of registration mean that non-property investment lending becomes high LVR at an LVR above 80%, while property investment lending becomes high LVR at 65%. The weighted average LVR limit is then (.65*.5 + .80 *.5) = .725.

The loan can be treated as exempt.

(6) The exemption in subsection 12(1)(g) is designed in recognition of the possibility that a single loan made in error by a bank with relatively low levels of residential mortgage origination within one of the speed limit categories could lead to a breach of the speed limit that would not be particularly material in terms of economic impact. It allows the bank to exempt one loan per month on the grounds that the loan occurred in error, to make relatively minor breaches of the condition less likely. Because the exemption is designed to allow for infrequent errors, the Reserve Bank would be concerned if a bank used this exemption frequently or for very large loans.

(7) The exemption in subsection 12(1)(h) is intended to apply when a bank and/or borrower are aware that a property that is collateral for the loan requires major non-routine work to ensure it remains habitable and safe and thus sound collateral for the loan.

(a) the exemption covers the full amount of financing needed to make the property habitable and safe less any other sources of financing that are available specifically for the remediation. Other sources may include insurance pay-outs, or funding or settlements provided by other entities (in the case of a weather-tight home, this could include Government, local Government or people involved in the initial construction);

(b) the foreseeable replacement of parts of a dwelling should be regarded as routine work. For example, re-roofing after the roof has achieved a normal lifespan and worn out, and periodically repainting, would be routine work. In contrast, replacing a roof that has failed without achieving a normal lifespan and created weather-tightness issues, or repainting as part of re-cladding a property, would be non-routine work;

(c) the exemption should not be used to bring buildings up to the current building code unless generally accepted standards require that for the building to be considered habitable and safe;

(d) the exemption will not cover lending for extensions, or for the purchase of items (such as movable furniture or appliances) that are not normally retained in a property when it is sold.

(8) The definition of the term “related party” in subsection 12(2) and the way it is used in the exemptions in subsection 12(1) are intended to capture commonly used ownership vehicles for residential property, and cases where ownership may be transferred without any actual new lending occurring. For example, in the case of loan refinancing on the same property, the exemption allows cases such as a person transferring ownership to their spouse (or vice versa), ownership being transferred

into a family trust, or ownership transferring from the estate of a recently deceased person to their widow(er). In the exemptions which involve moving house, a key requirement is that there is one natural person who was living in the former house and is living in the new house, but beyond that, the wording allows a range of alternative combinations of owner, borrower and occupier, provided that they are all related as per the definition of related party.

14. Guidelines–verification of third-party information

(1) The registered bank will need to obtain adequate verification of third-party information in any of the following circumstances:

(a) if the bank wishes to exempt a residential mortgage loan from the high-LVR restrictions using the refinancing exemption (subsection 12(1)(b)) or the loan portability exemption (subsection 12(1)(c)), and if the bank has not been the provider of the previous residential mortgage loan, the bank will need to obtain information from the borrower on the previous loan amount;

(b) if the bank wishes to exempt a residential property from the high-LVR restrictions using the loan portability exemption (subsection 12(1)(c)) or the bridging finance exemption (subsection 12(1)(d)), the bank will need confirmation that the individual in question has occupied the old property and will occupy the new property;

(c) if the bank wishes to exempt a residential property from the high-LVR restrictions using the construction loan exemption (subsection 12(1)(e)), the bank must determine that the loan is for one of the purposes in 12(1)(e)(i) and that the borrower has firmly committed to the construction or purchase of the property prior to the commencement of, or at an early stage in, construction of the dwelling;

(d) if the bank wishes to permit one of its existing residential mortgage loan borrowers to take out a loan from a third party secured by a lower-ranking charge, it should verify the amount of the new loan and the property valuation at the time and give consideration to subsection 7(2)(h);

(e) if the bank wishes to provide a loan secured on a residential property which is already used as security for a loan from a third party it should verify the amount of all third party lending secured on the property and the property valuation at the time and give consideration to subsection 7(2)(h).

Verification of third-party loan amounts

(2) The bank must take reasonable steps to verify the amount of an actual or intended loan from a third party. For example an acceptable approach would be to obtain copies of recent loan statements from the borrower. If the loan is an intended rather than an existing loan acceptable verification would include confirmation from the intended lender of the amount of the loan that the borrower has applied for.

Verification of occupation of property

(3) To confirm that an individual has occupied a property as their principal place of residence, or to confirm an individual's intention to occupy a property as their principal or secondary place of residence, acceptable practices include the registered bank obtaining a signed statement to that effect from the individual.

Determination of deposit funds

(4) A bank should establish and follow internal procedures to determine whether any borrower has sourced the funds to be used for the deposit on a residential property for which the bank has provided, or may provide, a residential mortgage loan from unsecured lending with that registered bank. Where the bank determines that the source of deposit funds is unsecured lending that it has provided to the borrower, the Reserve Bank will consider that the bank is aware that it has provided unsecured lending to fund the customer's deposit for the purposes of subsection 7(2)(k).

15. Illustrative example of LVR restrictions

(1) The following is an example of how LVR restrictions would apply in a particular case. This example is not calibrated to the actual requirements, but is for explanatory purposes. Assume that the condition of registration is specified as such:

That, for a loan-to-valuation measurement period, the total of the registered bank's qualifying new mortgage lending amounts must not—

(a) for residential properties with a loan-to-valuation ratio of more than 90%, exceed 5% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period; and

(b) for residential properties with a loan-to-valuation ratio of more than 80%, exceed 12% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

Time period: the three calendar months from 1 February 2015 to 30 April 2015 inclusive.

A bank takes on 150 commitments to provide new residential mortgage loans during this period (that is, the date on which each of these becomes a commitment in terms of section 11 of this document falls on a date within the three-months).

Twelve of these commitments are for mortgage loans falling within the exemptions in section 12 (eg Welcome Home loans).

Of the 138 qualifying mortgage loan commitments, 17 have LVRs in the 80 percent-and-over range, of which 10 have an LVR in the 90 percent-and-over range.

The total loan value associated with the 138 loans is $70 million. The total loan value associated with the 17 loans is $6 million, with 10 of these loans having LVRs in the 90 percent-and-over range and a total value of $4 million.

In this case the bank –

- breaches sub-clause (a) of the condition (the loan value associated with LVRs over 90 percent ($4 million) is 5.7 percent of the total qualifying new mortgage lending amount ($70 million): the maximum allowed is 5 percent), and
- complies with sub-clause (b) of condition 1 (the loan value associated with LVRs over 80 percent ($6 million) is 8.6 percent per cent of the total qualifying new mortgage lending amount ($70 million): the maximum allowed is 12 percent).

Part 3—Requirements for public disclosure and regulatory reporting

16. Disclosure requirements

(1) A registered bank must comply with the Reserve Bank's requirements for public disclosure in relation to LVRs. These requirements apply to branches of banks incorporated overseas as well as to New Zealand-incorporated banks. Further, directors of a registered bank, and the New Zealand chief executive officer for a registered bank incorporated overseas, must attest in disclosure statements that the registered bank has, at the reporting date and over the accounting period, complied with the requirements set out in the bank's conditions of registration.

(2) The requirements for public disclosure are set by Orders in Council, from which the following subsection summarises the LVR-related disclosure requirements applying to registered banks.

(3) In its disclosure statement made each quarter, a registered bank must disclose a breakdown of its stock of housing lending broken down by LVR category. Loans for which no LVR figure is available must be included in the over-90 percent LVR category.

(a) IRB banks disclose the total exposure amounts, including the credit-equivalent amount of any off-balance sheet exposures as used in their capital calculation. The valuation used in the LVR ratio is the value of the property at the origination date of the loan. The LVR categories are LVR≤60%, 60%<LVR≤70%, 70%<LVR≤80%, 80%<LVR≤90%, and LVR> 90%.

(b) Other New Zealand-incorporated banks and branches of overseas-incorporated banks disclose the amount of residential mortgage loans in accordance with the definitions in BS2A. The LVR categories are LVR≤80%, 80%<LVR≤90%, and LVR> 90%.

(4) The Reserve Bank intends to review these disclosure requirements in the future in light of experience with the new regulatory reporting on LVRs.

17. Reporting to the Reserve Bank

(1) The Reserve Bank collects a breakdown by LVR of banks' residential mortgage lending in the new commitment survey. This will be expanded to provide further detail in order to assess compliance with the new more detailed LVR restrictions (e.g. Auckland lending data).

(2) We use these reports generally to monitor credit conditions and the build-up of credit risk in the housing market. During periods when LVR restrictions are in place, we also use these reports to help monitor compliance with the restrictions, and to assess other impacts they may have, for instance on the availability of credit to small businesses.

(3) While this data is provided to the Reserve Bank on a confidential basis, we publish a subset of the data aggregated across banks.

Appendix 1 – Standard conditions of registration

The following are the standard conditions of registration for quantitative LVR restrictions and do not necessarily represent the actual conditions applying to a particular bank.

Conditions for locally incorporated registered banks

1. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than xx%, must not exceed xx% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

2. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than xx%, must not exceed xx% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

3. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration—

"loan-to-valuation ratio", "non-Auckland loan", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:

"loan-to-valuation measurement period" means—
(a) the three calendar month period ending on the last day of [month year]; and
(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of [(month+1) year].

[Alternative for banks with lower mortgage lending:
"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of [month year]]

Conditions for overseas incorporated registered banks

1. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than xx%, must not exceed xx% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

2. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than xx%, must not exceed xx% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

3. That the business of the registered bank in New Zealand must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration—

"loan-to-valuation ratio", "non property-investment residential mortgage loans", "property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019, and where the version of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) referred to in BS19 for the purpose of defining these terms is that dated November 2015.

"loan-to-valuation measurement period" means—
(a) the three calendar month period ending on the last day of [month year]; and
(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of [(month+1) year].

[Alternative for banks with lower mortgage lending:
"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of [month year].]