

Review of bank capital adequacy requirements for housing loans (stage two)

Proposed policy wording for BS2A and BS2B

Proposed consequential amendments to BS19

Proposed revisions to BS2A and BS2B arising from commencement of Financial Reporting Act 2013

Submissions and enquiries about this consultation should be addressed to:

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Background

1. On 26 March 2013, the Reserve Bank announced a staged review of bank capital adequacy requirements for residential mortgage loans. Stage one of the review addressed the calibration of the correlation coefficient for ‘internal models’ banks.¹ Since 1 September 2013, internal models banks have to apply a correlation factor of 20 percent for high loan-to-value ratio (LVR) loans where the LVR is greater than 80 percent but less than 90 percent, and 21 percent for LVR loans greater than 90 percent.
2. The Reserve Bank consulted on stage two of the review between 20 September and 25 October 2013. The consultation proposed refinements to definitions contained in the banking capital requirements, as well as the formalisation of the internal models approval process. The Reserve Bank published its summary of submissions and policy decisions on stage two of the housing review on 20 December 2013.
3. Following on from the policy decisions paper, this paper concerns the wording of the textual changes the Reserve Bank proposes to make to its Banking Supervision Handbook and specifically to the capital adequacy framework documents BS2A and BS2B. Interested parties are invited to submit comments and suggestions on the technical aspects of the proposed changes.
4. The Handbook document “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) includes a number of terms that are defined by reference to BS2A or BS2B. The proposed definition changes in BS2A and BS2B (set out in Part I below) have implications for these defined terms in BS19. This paper includes proposed consequential changes to BS19. These changes, and the related changes in BS2A, **will be of interest to branches of overseas-incorporated banks that are subject to LVR restrictions**, as well as to New Zealand-incorporated banks.
5. On an unrelated matter, the Financial Reporting Act 2013 will shortly replace the Financial Reporting Act 1993. The Reserve Bank is taking this opportunity to consult on necessary updates to a few terms in BS2A and BS2B that are defined by reference to the Financial Reporting Act 1993.
6. **The deadline for comments and suggestions on all these proposed changes is 28 April 2014.**

¹ ‘Internal models’ banks calculate their capital requirements according to the Banking Supervision handbook BS2B, whereas ‘Standardised’ banks use BS2A:
http://www.rbnz.govt.nz/regulation_and_supervision/banks/banking_supervision_handbook/

Part I Definition issues

Definition of the loan amount for calculating the residential property LVR

7. The consultation paper noted that ‘standardised’ and ‘internal models’ banks currently do not apply the same definition of the loan amount when calculating the loan to value ratio of residential mortgages. The Reserve Bank’s goal was to ensure that both groups of banks use the same definition as far as possible and to ensure that the capital treatment reflects economic substance.
8. The summary of submissions paper (SoS) released in December 2013 stated the Reserve Bank’s decision to harmonise industry requirements as regards the definition of the loan amount for the loan-to-value ratio calculation based on an amended version of the existing definition of BS2B, i.e. the requirements that apply to internal models banks. Concretely, this means that unsecured lending such as credit cards or personal loans do not generally have to be added to the mortgage loan amount. This is already the case for internal models banks but it represents a change for the standardised banks that so far have been required to add unsecured lending to the mortgage loan amount for customers with an all obligations mortgage.
9. In order to implement these policy decisions, the Reserve Bank proposes the following changes to BS2A and BS2B:

BS2A

Updated Section 37

(1) The loan-to-valuation ratio for a residential property is calculated by the formula:

*Loan-to-valuation ratio (LVR) = (loan value/property value)*100*

(2) In the formula—

“loan value is the total amount, as at balance date, of:

- (i) all claims secured by way of first ranking mortgage over the residential property; and*
- (ii) all undrawn commitments to the borrower that when drawn down will be secured by way of first ranking mortgage over the residential property.*

(3) Lending facilities that are treated as unsecured lending and not tied to, nor managed as part of, the residential mortgage, such as credit cards or personal loans, are not normally secured over the residential property and do not need to be included in the LVR calculation.”

BS2B

New section 4.150A

“The loan-to-valuation ratio for a residential property is calculated by the formula:

*Loan-to-valuation ratio (LVR) = (loan value/property value)*100*

In the formula—

“loan value is the total amount, as at balance date, of:

- (i) all claims secured by way of first ranking mortgage over the residential property;*
and

(ii) the EAD amount of any off-balance sheet exposures secured by way of first ranking mortgage over the residential property and consistent with sections 4.155 to 4.158.

Lending facilities that are treated as unsecured lending and not tied to, nor managed as part of, the residential mortgage, such as credit cards or personal loans, are not normally secured over the residential property and do not need to be included in the LVR calculation.”

Property valuation policy requirement

10. As reported in the December 2013 paper, the Reserve Bank has decided to have a common definition for all banks of how the property value of a residential property is to be determined. The Reserve Bank believes that all banks should have a valuation policy that ensures that valuations are done by appropriately qualified professionals, that they are appropriate for the loan or property concerned and that valuations are updated symmetrically through the housing cycle. The latter means that the frequency of updates does not depend on whether property prices are in the process of rising or falling. The December paper also clarified that the Reserve Bank does not intend to disallow the use of reliable valuation tools. The Reserve Bank does, however, expect a valuation policy to specify what the appropriate use of different valuation tools is within a bank.
11. Building on the valuation policy requirement currently included in BS2A, the Reserve Bank proposes to update BS2A and BS2B respectively as follows:

“Property value is the value of the residential property determined under a bank’s residential property valuation policy when a residential mortgage loan is originated”.

“A property valuation policy means a policy governing how a property value is determined for a residential mortgage loan that - (i) is approved by a bank’s board of directors; (ii) includes the requirement that only property valuations by independent valuers or a professional valuation service are used for the purpose of calculating the loan-to-valuation ratio; (iii) includes guidance on the appropriate credit risk-related use of different valuation products; (iv) includes guidance on the use of the purchase price of a residential property; (v) includes guidance on the determination of the origination date; and (vi) ensures that its application is invariant to the direction of the movement of residential property prices.”

“independent valuer means a person who is not associated with a person who has an interest in the residential property for which a valuation is made and who is: (i) a registered valuer as defined in the Valuers Act 1948; or (ii) another person approved to provide valuation services by rules made under the Rating Valuations Act 1998:”

“For the purpose of this section, a professional valuation service means a service that provides either a statistical or modelled valuation based on market sales price data or a valuation carried out by appropriately qualified valuation personnel overseen by an independent valuer.”

Other clarifications to the LVR requirements

12. Further clarifications to the definitions include the treatment of residential mortgage loans whose LVR exceeds 100 percent in BS2A. Instead of treating them as other loans with a risk weight of 100 percent, they will now be treated as residential mortgages with a risk weight of 100 percent. This will be implemented by amending Table 4.11 and by deleting section 36 (2) of BS2A.

BS2A

New Table 4.11

Loan-to-valuation ratio	Risk weight (%)	
	If there is lender's mortgage insurance that qualifies under section 38	If there is no lender's mortgage insurance or lender's mortgage insurance that does not qualify under section 38
Does not exceed 80%	35	35
Exceeds 80% and not 90%	35	50
Exceeds 90% and not 100%	50	75
Exceeds 100 %	100	

And to be deleted

Section 36 (2)

“Residential mortgage loans with loan-to-valuation ratios of more than 100% are treated as “other assets” and risk weighted at 100%.”

13. It has also been decided to update the definition of a residential mortgage by removing the word “fully” from the BS2A definition to read as follows:

BS2A section 43 (e)

“...a loan ~~fully~~ secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor.” (section 43 (e))

Distinction between a residential mortgage exposure and other types of exposure

14. This concerns the definition of a residential mortgage loan as opposed to other types of loans such as corporate lending. As outlined in the December 2013 paper, the Reserve Bank has decided to use a definition that reflects the purpose for which a property is used and marketed and the source of the income used for repaying the loan. Moreover, customers who have mortgage loans for more than five properties may not be treated as retail mortgage customers. Accordingly, BS2A and BS2B are to be amended as follows:

BS2A section 43 (e)

“Residential mortgage loan” means a loan secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor.

A loan may not be classified as a residential mortgage loan if:

- (i) the mortgaged property would be marketed as a farm or a commercial property; or*
- (ii) the mortgaged property is predominately used for farming or commercial activities; or*
- (iii) the principal or interest payments are predominantly serviced from the income generated by the use of the property for farming or commercial activity, except for rental income unless (iv) applies.*
- (iv) if the bank has recourse to, or is aware of, more than five properties owned and let by the borrower directly or through a company or any other ownership structure of the*

borrower, and the loan is predominantly serviced from the rental income those properties generate, then the loan can no longer be classified as a residential mortgage loan but should be classified as either income producing real estate or SME retail lending. The bank is required to verify whether the customer has any other rental properties or residential mortgage loans with another lender or lenders as part of its credit origination process.

For the purpose of this section, predominantly means more than 50 percent.

BS2B section 4.7 (a)

Exposures secured by residential mortgages

Residential mortgages are eligible for retail treatment regardless of exposure size. "Residential mortgage loan" means a loan secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor.

A loan may not be classified as a residential mortgage loan if:

- (i) the mortgaged property would be marketed as a farm or a commercial property; or*
- (ii) the mortgaged property is predominately used for farming or commercial activities; or*
- (iii) the principal or interest payments are predominantly serviced from the income generated by the use of the property for farming or commercial activity, except for rental income unless (iv) applies.*
- (iv) if the bank has recourse to, or is aware of, more than five properties owned and let by the borrower directly or through a company or any other ownership structure of the borrower, and the loan is predominantly serviced from the rental income those properties generate, then the loan can no longer be classified as a residential mortgage loan but should be classified as either income producing real estate or SME retail lending. The bank is required to verify whether the customer has any other rental properties or residential mortgage loans with another lender or lenders as part of its credit origination process.*

For the purpose of this section, predominantly means more than 50 percent.

Part II Internal models requirements

15. Following on from the Reserve Bank's decision to formalise existing internal model change requirements and to agree a "Compendium of Models" with each of the internal models banks BS2B will be amended to include the following new sections:

New section (XY)

Types of changes

Banks must advise the Reserve Bank of all proposed changes to their estimates and models before implementing them. There are two types of changes:

- a. Periodic changes driven by new data (e.g. changes reflecting compositional changes in the loan book). The Reserve Bank should be informed of these, so it can consider whether they need to be approved. In principle compositional changes are not likely to need approval. Notification of these changes provides the opportunity to check for plausibility to satisfy the Reserve Bank that they do relate to compositional shifts, and to track changes through time.

- b. **Changes to model structures, estimates or judgments (including any changes proposed to PD, LGD and EAD estimates).** These changes require Reserve Bank approval and include, but are not limited to, the recalibration of a model due to, for example, material portfolio changes, the omission or addition of variables, the re-estimation of variables or the reclassification of asset classes or segments within a model. These changes are subject to the formal submission requirements set out below.

Content of submissions

Submissions must clearly set out the following in relation to each proposed change:

- a. The rationale for the change, including the reasons as to why the new model is an improvement on the existing model, and supporting material.
- b. 'Before' and 'after' comparisons with respect to the risk parameters affected (PD, LGD, EAD). Unless otherwise agreed, these comparisons should cover at least four consecutive periods, e.g. quarters or at the half year.
- c. The risk weighted asset² and regulatory capital impacts, and how these impacts are calculated.
- d. Any linkage to the bank's ongoing accreditation requirements.
- e. Confirmation that what is proposed is consistent with the bank's conditions of registration.
- f. A comparison with the capital outcome under the standardised approach.

And

New section (XY)

Illustrative Compendium of Models					
Date					
Model	Date approved	Key risk drivers	Key parameters	Capital impact and RWA when approved	Conditions of approval
Credit risk					
Corporate					
<i>Corporate LGD (version X)</i>	Jun-12	Interest rate	Downturn LGD =X%	+\$Xm capital impact RWA= X%	None
<i>Large agribusiness rural PD (version X)</i> Mathematical model that mimics the outcome based on expert judgement.	Jan-13	Profit record	Long run PD: X% Central Tendency: X%	+\$Xm capital impact RWA = X% when approved.	PD must not fall below X%
Sovereign					
<i>Sovereign LGD (version X)</i> Expert judgement and	Mar-09	Sovereign credit rating	Downturn LGD = X%	-\$Xm capital impact RWA=X% when	None.

² Information on risk weighted assets should include the impact in terms of dollars (e.g. 'increase from \$10m to \$12m') and as a percentage of exposures (e.g. 'increase from 20% to 24%').

statistical model				approved	
Bank					
Retail					
<i>Residential mortgages PD (version X)</i>	Mar-11	Interest rate	Long run PD: X% Central Tendency: X%	+Xm capital impact. RWA = X%	PD must not fall below X%.
<i>Credit cards PD and LGD (version X)</i>	Jun-10	Application score	Long run PD: X% Central Tendency: X% Downturn LGD = X%	Neutral capital impact. RWA = X%	None.
Equity					
Operational risk					
<i>AMA operational risk</i>	Dec-11			\$Xm	Subject to a floor of \$Xm for operational risk capital

The compendium should include the following information for each model:

- Model name (as reported in the internal documentation supplied to the Reserve Bank) and a brief description of the model.
- Version number of the model: this should be the version number of the model document submitted to the Reserve Bank and will be the one that has also gone to the most senior internal group that authorised the submission of the model change request to the Bank.
- Date approved: the date the bank received official confirmation from the Reserve Bank of New Zealand to use the model.
- Key risk drivers: the key variables that drive the outcomes in the model, for example interest rates.
- Key parameters: the key outcomes expected from the model, the example, the long-run expected PD, the downturn LGD etc.
- Capital impact when approved: the change in capital that occurred when the model was approved.
- RWA when approved: the resultant RWA of the relevant portfolio or sub-portfolio when the model was approved.
- Conditions of approval: any conditions that the Bank may impose at time of approval. Without limiting the type of conditions that may be imposed, these could include a capital floor, a requirement that a variable stays within a certain band, an RWA floor etc.

Part III Consequential updates to BS19

Definition of “loan value” – IRB banks

- BS19 defines “loan value” by reference to BS2A and BS2B. The proposal to amend the BS2A/BS2B definitions of loan value creates minor consequential changes to the definition of loan value within BS19. The rewording of BS2B allows the rewording of the BS19 definition of loan value for IRB banks, to align it with the definition for other banks as follows:

“loan value”, for a residential mortgage loan,-

(i) If made by an IRB bank, has the same meaning as “loan value” as defined for the purpose of defining “loan-to-valuation ratio” in section 4.150A of BS2B for the residential property on which the residential mortgage loan is secured.

Definitions of “loan-to-valuation ratio” and “property value” – IRB banks

17. Under the proposed revisions to BS2B, these would both be explicitly defined terms. This allows the definition of these terms for IRB banks in BS19 to mirror those for non-IRB banks, as follows:

“loan-to-valuation ratio”, in relation to a residential mortgage loan –
(i) if made by an IRB bank, has the same meaning as in BS2B;

...

“property value”, in relation to a residential mortgage loan –
(i) if made by an IRB bank, has the same meaning as in BS2B;

Definition of “residential mortgage loan” – IRB banks

18. The definition of residential mortgage loan for IRB banks in BS19 effectively maps to the residential mortgage category for the capital calculation of IRB banks. The scope of this category is being refined in minor ways within BS2B. We consider that these amendments do not present any material difficulties for the LVR policy and so we propose that the BS19 definition of residential mortgage loan remain the same for IRB banks.

Definition of “residential mortgage loan” – non-IRB banks

19. The current BS19 definition of residential mortgage loan does not reference BS2A/BS2B, but instead uses a broader definition that includes any lending “fully or partially secured” by a first ranking mortgage. The proposed amendment to the BS2A definition would no longer be limited to fully secured loans (that is, it may include loans where the loan value exceeds the collateral value). It is thus now possible to harmonise the concept of residential mortgage loan between BS19 (for non-IRB banks) and BS2A. We propose to do this as follows (deleted text is shown with strike-through):

“residential mortgage loan” means a loan or lending facility that—

...

(ii) if made or provided by a registered bank that is not an IRB bank, is fully or partially secured by a first ranking mortgage over a residential property in New Zealand that is used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor and meets the criteria in subsection 43(e) of BS2A for being treated as a residential mortgage loan.

20. The Reserve Bank has noted on several occasions that banks are expected to not change their lending classification policies in order to avoid LVR restrictions. This remains the case.

21. It is proposed that the changes to BS2A and BS2B come into force on 1 July 2014, and that the corresponding definition changes in BS19 take effect on the same date. The Reserve Bank intends these new definitions only to apply to the calculation of new mortgage loan values with commitment dates on and after 1 July 2014, for the purpose of LVR restrictions. There will therefore be some LVR measurement periods where banks will need to calculate total qualifying new mortgage lending amounts over the period using a mixture of the old and new definitions (eg for assessing compliance with the speed limit as at 31 July, large banks would use the old

definitions for the May and June new lending commitments, and the new definitions for the July new lending commitments).

22. The Reserve Bank considers that this is more efficient than requiring banks to recalculate loan values using the new definitions, on mortgage commitments for which they have previously calculated loan values using the old definitions. The attached annex shows how the definitions section of BS19 would handle this need to combine old and new definitions in the same LVR measurement calculation.

Part IV Updates for Financial Reporting Act 2013

23. Following the recent making of the Financial Reporting Legislation Commencement Order 2014, the Financial Reporting Act 2013 (“FR Act 2013”) will come into force on 1 April 2014. BS2A and BS2B depend on certain terms which are defined by reference to the Financial Reporting Act 1993 (“FR Act 1993”). These definitions therefore need to be updated to refer to equivalent sections of the FR Act 2013.
24. However, the transitional arrangements in Part 3 of the FR Act 2013 mean that it will apply to each bank from the first day of the bank’s first accounting period that starts on or after 1 April 2014: until that date, the FR Act 1993 will continue to apply to the bank. So for instance, a bank with a balance date of 30 September will be subject to the FR Act 2013 from 1 October 2014.
25. We propose to handle this staged switching-on of the FR Act 2013 by including two legs in each of the affected defined terms in BS2A and BS2B: one leg that will apply to each bank while it is still subject to the FR Act 1993, and one leg that will apply once the FR Act 2013 applies to the bank. We believe this is the most efficient approach, as the alternative would be to keep old and new versions of both BS2A and BS2B in place during the transitional period, and switch each bank from the old to the new version at the start of the bank’s next financial year. We plan to remove the leg of these definitions that refers to the FR Act 1993 in due course, as and when there are other reasons for updating BS2A and BS2B.
26. The proposed revisions to the definitions are shown below. The intention of these updates is to leave the practical impact of the capital adequacy requirements unchanged as far as possible – with the caveat that the underlying legislation on which these defined terms rely has been replaced.
27. We propose the following revisions to defined terms for the Capital Definition section (Part 2 in both BSA and BS2B) –
- (1) Insert the following, as a new defined term in Paragraph 5 of BS2A, and as a new subparagraph 2.2(ba) in BS2B –
- “applicable financial reporting standard”—**
- (i) has the same meaning as in the Financial Reporting Act 2013 (unless paragraph (ii) applies); or**
- (ii) if the Financial Reporting Act 1993 applies to the registered bank, has the same meaning as in the Financial Reporting Act 1993.**
- (2) Replace the existing definition of “subsidiary” in paragraph 5 of BS2A, and replace the existing sub-paragraph 2.2(o) in BS2B, with the following –

“subsidiary”—

(i) unless paragraph (ii) applies, means a subsidiary within the meaning of sections 5 to 8 of the Companies Act 1993, and includes any entity that—

(A) falls within paragraphs (a), (b) or (c) of the definition of “entity” in section 5(1) of the Financial Reporting Act 2013; and

(B) is classified as a subsidiary in any applicable financial reporting standard; or

(ii) if the Financial Reporting Act 1993 applies to the registered bank, means a subsidiary within the meaning of sections 5 to 8 of the Companies Act 1993 and includes any company or body corporate or association of persons that is classified as a subsidiary in any applicable financial reporting standard.

28. We propose the following revisions to defined terms for the section entitled “Insurance Business” (which is Part 7 in BSA, Part 6 in BS2B) –

(1) Replace sub-paragraph 107(2) in BS2A with the following –

For the purposes of these definitions,—

(a) the terms “parent”, “associate” and “joint venture” are determined in accordance with generally accepted accounting practice, where “generally accepted accounting practice”—

(i) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (ii) applies); or

(ii) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the bank is required to prepare financial statements in accordance with that practice;

(b) the term “subsidiary” has the same meaning as in paragraph 5 in “Part 2 – Capital Definition”.

(2) Replace the end section of paragraph 6.1 in BS2B with the following –

For the purposes of these definitions,—

(a) the terms “parent”, “associate” and “joint venture” are determined in accordance with generally accepted accounting practice, where “generally accepted accounting practice”—

(i) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (ii) applies); or

(ii) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the bank is required to prepare financial statements in accordance with that practice;

(b) the term “subsidiary” has the same meaning as in subparagraph 2.2(o) in “Part 2 – Capital Definition”.

29. Finally, we propose the following revision in the defined terms for the Operational Risk section of BS2A (Part 9) as follows. (There is no equivalent revision needed in BS2B.)

Replace sub-paragraph 119(1)(b) with the following –

“generally accepted accounting practice”—

(i) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (ii) applies); or

(ii) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the bank is required to prepare financial statements in accordance with that practice;

Timing

30. The Reserve Bank intends for all changes to take effect on 01 July 2014.
31. Interested parties are invited to make a submission on the technical aspects of the proposed changes by **28 April 2014**.

ANNEX

Proposed new layout of Section 10, “Definitions”, in BS19

10. Definitions

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

(a) for any residential mortgage loan or increase in the loan value of a residential mortgage loan for which the associated date is on or before 30 June 2014, the following definitions apply –

“BS2A” means the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” dated September 2013

“BS2B” means the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” dated September 2013

“loan value”, for a residential mortgage loan,—

- (i) if made by an IRB bank, is the “current loan balance” used to calculate the “loan to value ratio” under section 4.150A of BS2B for the security to which the residential mortgage loan relates, using the registered bank’s approach to determining capital requirements for credit risk as accredited by the Reserve Bank; and
- (ii) if made by any other registered bank, has the same meaning as “loan value” as defined for the purpose of defining “loan-to-valuation ratio” in section 37 of BS2A for the residential property on which the residential mortgage loan is secured

“loan-to-valuation ratio”, in relation to a residential mortgage loan—

- (i) if made by an IRB bank, has the same meaning as “loan to value ratio” as defined in BS2B; or
- (ii) if made by any other registered bank, has the same meaning as in BS2A

“property value”—

- (i) for an IRB bank, has the same meaning as the value of the security referred to in section 4.150A of BS2B; or
- (ii) for any other registered bank, has the same meaning as in BS2A

“residential mortgage loan” means a loan or lending facility that—

- (i) if made or provided by an IRB bank, is fully or partially secured by a mortgage over a residential property in New Zealand and is included in the bank’s “residential mortgage” category under its internal ratings based approach to credit risk; or
- (ii) if made or provided by a registered bank that is not an IRB bank, is fully or partially secured by a first ranking mortgage over a residential property in New Zealand that is used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor

(b) for any residential mortgage loan or increase in the loan value of a residential mortgage loan for which the associated date is on or after 1 July 2014, the following definitions apply –

“BS2A” means the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” dated July 2014

“BS2B” means the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” dated July 2014

“loan value”, for a residential mortgage loan,—

- (i) if made by an IRB bank, has the same meaning as “loan value” as defined for the purpose of defining “loan-to-valuation ratio” in section 4.150A of BS2B for the residential property on which the residential mortgage loan is secured; and
- (ii) if made by any other registered bank, has the same meaning as “loan value” as defined for the purpose of defining “loan-to-valuation ratio” in section 37 of BS2A for the residential property on which the residential mortgage loan is secured

“loan-to-valuation ratio”, in relation to a residential mortgage loan—

- (i) if made by an IRB bank, has the same meaning as in BS2B; or
- (ii) if made by any other registered bank, has the same meaning as in BS2A

“property value”—

- (i) for an IRB bank, has the same meaning as in BS2B; or
- (ii) for any other registered bank, has the same meaning as in BS2A

“residential mortgage loan” means a loan or lending facility that—

- (i) if made or provided by an IRB bank, is fully or partially secured by a mortgage over a residential property in New Zealand and is included in the bank’s “residential mortgage” category under its internal ratings based approach to credit risk; or
- (ii) if made or provided by a registered bank that is not an IRB bank, meets the criteria in subsection 43(e) of BS2A for being treated as a residential mortgage loan

(c) the following definitions apply –

[existing definitions from the March 2014 version of BS19 for all other terms, namely: “exempt”, “IRB bank”, “loan-to-valuation measurement period”, “qualifying increase in mortgage loan value”, “qualifying mortgage loan”, “qualifying mortgage loan commitment”, and “qualifying new mortgage lending amount”]