Reserve Bank of New Zealand
Te Pūtea Matua

Enhancing the efficiency of macroprudential policy: activating DTIs and loosening LVRs.

Summary of submissions

28 May 2024

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Background

The Reserve Bank of New Zealand – Te Pūtea Matua – uses macroprudential policy to reduce systemic risk associated with 'boom-bust' credit cycles in which the financial system amplifies a severe downturn in the real economy. This in turn helps us to meet our statutory objective of "promoting the maintenance of a sound and efficient financial system" as set out in the Banking (Prudential Supervision) Act 1989. The Reserve Bank's macroprudential tools are set out in a Memorandum of Understanding (**MoU**) between the Minister of Finance and the Governor of the Reserve Bank.

Currently, the Reserve Bank uses Loan-to-Value Ratio (**LVR**) restrictions as the main tool to address systemic financial stability risks related to the housing market. An LVR is a measure of how much a bank lends against mortgaged property, compared to the value of that property, and sets the minimum deposit required. Since introducing LVR restrictions in 2013, we have adjusted the settings in response to housing market-related risks in the financial system.

Debt Serviceability Restrictions (**DSRs**), including Debt-to-Income (**DTI**) restrictions, were added to the MoU in August 2021. We issued a consultation paper in November 2021 seeking feedback on the merits and potential design of two types of DSRs:[1]

- DTI restrictions, which impose a cap on a borrower's debt as a multiple of their income; and
- A floor on the interest rates used by banks in their debt serviceability tests, which assess the ability of a borrower to continue repaying their loan if mortgage rates rise to a certain level.

Our assessment of the impacts of the two tools indicated that DTI restrictions were likely to be more effective than a test interest rate floor in supporting financial stability and sustainable house prices.

In April 2022, following consideration of submissions on the consultation, we announced our intention to proceed with designing a DTI restrictions framework and in April 2023, we issued the final framework - BS20.[2] This followed a consultation on an exposure draft in November 2022, as well as ongoing engagement with industry.

Publication of the framework did not activate DTI restrictions. The framework's purpose was to set the technical specifications that banks need to comply with if we activated DTI restrictions in the future. We also gave banks 12 months to prepare their systems for the possible activation of DTI restrictions.

We published a consultation paper in January 2024 setting out our proposal to activate DTI restrictions and calibrate the DTI and LVR restrictions' settings in tandem.[3] Since the close of that public consultation, we reviewed all submissions before making our final decisions. Specifically, this involves activating DTI restrictions and loosening LVR restrictions, where it has been decided that the calibrations will be the same as those set out in the consultation paper. This document summarises the submissions we received and our responses to the main points raised. The final decisions are summarised in the *Summary of Decisions* section.

[1] The consultation paper is available at: https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/debt-serviceability-restrictions/debt-serviceability-consultation.pdf

[2] The DTI Framework document is available at: https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/debt-serviceability-restrictions/dti-framework.pdf

[3] The consultation page is available at: https://www.rbnz.govt.nz/hub/news/2024/consultation-on-dti-and-lvr-settings

Consultation process

The consultation on "Enhancing the efficiency of macroprudential policy: activating DTIs and loosening LVRs" lasted from 23 January to 12 March 2024. The Reserve Bank received 28 submissions as follows:

- The New Zealand Bankers' Association (NZBA), who made a submission on behalf of its 18 members (registered banks);
- 2 NZBA members (registered banks), who made individual submissions to supplement the NZBA submission;
- The Financial Services Federation;
- 15 from members of the public; and
- 9 from other interested parties (including property investor groups, community housing groups and consultants).

This paper responds to the themes and views raised in those submissions and is not intended to be an exhaustive response to all points raised. Readers are encouraged to refer to the full, non-confidential published submissions for further details.

This *Summary* document largely follows the format of the consultation paper published in January 2024, covering questions 1 to 7 of the consultation paper. The table in the following section summarises the key issues and the associated decisions made by the Reserve Bank. The table is not exhaustive and other issues raised by submitters are described in more detail throughout the *Summary*.

Summary of Decisions

Table 1: Key issues and decisions

Issue	Decision
Should DTI restrictions be activated in mid-2024?	DTI restrictions will be activated from 1 July 2024.
Should DTI restrictions apply to both owner-occupiers and investors, albeit not at the same level for both groups?	DTI restrictions will apply to both owner-occupiers and investors at the calibration set out in the next row.
Should DTI restrictions be activated at a: • a threshold of 6 with a speed limit[4] of 20 percent for owner-occupiers; and, • a threshold of 7 with a speed limit of 20 percent for investors.	DTI restrictions will be activated at the settings as set out in the consultation.

[4] 'Speed limit' means that a proportion of the registered banks qualifying new mortgage lending amounts can exceed the DTI or LVR threshold.

Issue	Decision
Should the initial DTI measurement period of 6 months apply for all banks?	The initial DTI measurement period will be 6 months for all banks. After the initial 6 months, the DTI measurement period will revert to the standard measurement periods outlined in BS20 (further described in Q5 of this *Summary*).
Should LVR restrictions be loosened from: • a 15 percent limit on new lending to owner-occupiers with an LVR above 80 percent; and, • a 5 percent limit on new lending to investors with an LVR above 65 percent. to: • a 20 percent limit on new lending to owner-occupiers with an LVR above 80 percent; and, • a 5 percent limit on new lending to investors with an LVR above 70 percent.	LVR restrictions will be loosened to the settings as set out in the consultation.

Part One: Responses to consultation Questions

The consultation paper asked 7 questions relating to activating DTI restrictions and loosening LVR restrictions. Below is a summary of the feedback received in response to these questions and the Reserve Bank's response to the feedback.

Q1: Do you have any comments on the proposed approach to using the DTI restriction? That is:

a) activating DTI restrictions at a setting which is 'binding' during a boom but minimally binding at other times;

b) activating the DTI restrictions as soon as practical; and

c) applying the policy to both owner-occupiers and investors, albeit not at the same level for both groups.

In general, submitters from the banking industry supported the proposed approach to using DTI restrictions. These submitters agreed that this would mean that DTI restrictions would likely be in place before the next housing market boom and act as a "guardrail" when the market is starting to overheat. Relatedly, it was agreed that this strategy would mean that DTI restrictions are activated at a time when they are not likely to be binding.[5] The submitters agreed that this will help to minimise

[5] 'Binding' means restrictive of lending compared with not having the policy in place.

disruptions to borrowers and lenders as they get used to the new policy, aligning with the strategy of the policy being binding during booms and minimally binding at other times.

Other submitters expressed a range of views on the DTI policy and the proposed approach. Broadly, some felt that the policy was unnecessary and/or misguided, whereas others felt that the policy should go further in terms of its objectives and strategy.

- Submitters that were against DTI restrictions in general felt that they were unnecessary. Specifically, these submitters felt that banks had adequate risk management policies in place, as evidenced by the lack of widespread defaults following the high rate of high-DTI lending that occurred during 2020-2021. Some submitters also shared concerns about some of the rules underlying the policy (such as which types of debt should be included in the DTI calculation) and the potentially adverse impacts of the DTI tool in general. Those comments were not in the direct scope of the consultation; however, we summarise some of these in *Part Two: Other Comments*.

- Submitters that argued that the policy should go further indicated that housing was unaffordable for many New Zealanders and that credit risk related to the housing market was generally too high in New Zealand. There was also a suggestion that the DTI restrictions should directly target house price or credit growth.

There were also some comments on the impacts of DTI restrictions on different groups, which related to part (c) of Q1 (applying the policy to both owner-occupiers and investors, albeit not at the same level for both groups).

Submissions from the banking industry supported the idea that DTI restrictions should be applied to owner-occupiers and investors separately (for example, each group would have a separate speed limit bucket) and that the settings should be similarly binding on each group.

Other submitters also generally agreed that DTI restrictions should be applied to owner-occupiers and investors separately but they had mixed views on how this should occur. For example:

- Some of these submitters felt that the proposed calibration for investors was too restrictive, and this would have adverse impacts on the supply of rental property and the wider economy. Furthermore, there were some suggestions that DTI restrictions should not apply to investors because residential property investment should be classified as a business and be exempt from the restrictions.

- Other submitters suggested that the proposed calibration for investors was too loose and should at least be the same as the proposed calibration for owner-occupiers. Concerns were raised that by having a higher threshold for investors, the policy inadvertently favours investors over owner-occupiers. Some submitters suggested the problem with advantaging investors is the effect of their speculative behaviour, including property investment, on financial stability.

The specific settings are discussed further in the summary for Q3.

Reserve Bank response:

We have decided to proceed with the proposed approach to using DTI restrictions as outlined in the consultation paper. It is noted that whilst most submitters agreed with our proposed approach, some submitters expressed reservations against DTI restrictions in general. These submissions were largely outside the scope of the consultation, which is focused on the activation and calibration of DTI restrictions and loosening LVR settings. Our rationale for supporting the introduction of DTI restrictions is set out in our previous consultation documents and communications.[6]

Our strategy for the DTI policy is about mitigating systemic financial stability risks and the amplitude of the housing cycle, rather than other objectives (such as house price affordability). In other words, the aim is to have DTI restrictions that are binding when the housing market is booming and associated financial stability risks are elevated.

Our view remains that having different settings for owner-occupiers and investors is the best way to address the different risks the two groups pose to financial stability. Having the same settings for owner-occupiers and investors would mean that settings would either be too loose for owner-occupiers and not adequately address the systemic financial stability risks they present, or too tight for investors increasing the efficiency costs of the DTI policy for no significant additional benefit to financial stability. This is further discussed in the consultation document and the Regulatory Impact Statement (RIS).

Q2: Do you see any major risks or issues with activating the DTI restriction in mid-2024?

Most submitters did not see any major risks or issues activating the DTI restriction in mid-2024. The only major objection was that some submitters wanted to see a more thorough cost-benefit analysis before DTI restrictions are activated.

Specifically, there were suggestions that there needed to be sufficient time for borrowers and lenders to better understand DTI restrictions, how they interact with other policies (for example, LVR restrictions and the Credit Contracts and Consumer Finance Act 2003 (CCCFA) and potential unintended consequences of the DTI policy. Therefore, it was felt that activating DTI restrictions in mid-2024 seemed too soon, as conducting a more thorough cost-benefit analysis would take longer than the time available before the proposed activation date.

Reserve Bank response:

We have published a RIS on the DTI and LVR calibrations that sets out a cost-benefit analysis of the calibrations suggested. Furthermore, it must be noted that multiple cost-benefit analyses have already been carried out as part of the process to activate a DTI restriction. These include:

- The *Serviceability Restrictions as a Potential Macroprudential Tool in New Zealand* consultation paper which set out the costs and benefits of the DTI tool and how it could complement the LVR tool;[7]

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[6] Available at: https://www.rbnz.govt.nz/have-your-say/debt-serviceability-restrictions and https://www.rbnz.govt.nz/hub/news/2023/04/reserve-bank-releases-debt-to-income-framework

[7] Available at: https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/dti/consultation-paper-dtis-june-2017.pdf

- The *Debt Serviceability Restriction* consultation paper which analysed the impact of the different possible debt serviceability tools and decided on the DTI as our preferred tool;[8]
- The *Framework for Debt-to-Income Restrictions – Design Elements and Exposure Draft* consultation paper which laid out our proposed framework for the DTI restriction including the design of the DTI tool;[9]
- The *Framework for Debt-to-Income Restrictions – Regulatory Impact Assessment* which provided a more detailed analysis of the finalised design of the DTI tool and addressed feedback received during submissions;[10] and
- The consultation paper for the consultation just completed, which included an analysis of the impact of activating the DTI from mid-2024 and of the specific DTI and LVR calibrations being proposed.[11]

Therefore, we consider that we have provided sufficient cost-benefit analysis to support our decision to activate the DTI restriction from mid-2024.

Q3: Do you have any feedback on our proposed DTI calibration of:

- **a DTI threshold of 6 with a speed limit of 20 percent for owner-occupiers; and,**
- **a DTI threshold of 7 with a speed limit of 20 percent for investors.**

Q4: Do you have any comments on whether the proposed DTI calibration best achieves the policy objectives and approach of the policy?

We summarise Q3 and Q4 together as most of the comments on these two questions overlapped with each other.

There was a range of views from those that commented on the proposed DTI calibration.

Submissions from the banking industry were largely supportive of the proposed thresholds but suggested that there needed to be looser speed limits for both owner-occupiers and investors. They suggested that the speed limit for owner-occupiers be set at 25% (instead of the proposed 20%). This was because banks generally operate with more conservative speed limits internally (approximately 3-5% below the regulatory speed limit) to ensure that they remain within the regulatory requirements. Furthermore, it was suggested that the speed limit for investors be set at 30% (instead of the proposed 20%) to account for complex lending cases where calculating a DTI ratio may not be feasible (in which case banks would use their speed limit).

Therefore, they argued that the proposed DTI settings will be tighter than the Reserve Bank might otherwise think, as in practice the proposed speed limits would be more restrictive than outlined in the consultation. This would seem to contradict the objectives and strategy of DTI restrictions being binding during booms and minimally binding during other times. As an alternative to a looser speed limit, there was also a suggestion that the DTI threshold for investors be set at 8 rather than 7.

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8 Available at https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/debt-serviceability-restrictions/debt-serviceability-consultation.pdf

9 Available at https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/debt-serviceability-restrictions/framework-for-debt-to-income-restrictions-consultation-paper.pdf

10 Available at https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/debt-serviceability-restrictions/dti-framework-regulatory-impact-assessment.pdf

11 Available at: https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/dti-and-lvr-settings/enhancing-the-efficiency-of-macroprudential-policy-consultation-paper.pdf

As outlined in Q1, there were a range of views from outside of the banking industry. Some of these submitters thought that the policy should go further in order to target house price affordability. In terms of specific settings, it was suggested that DTI restrictions should be tighter than the proposed settings to help make housing more affordable or to deal with long-term financial stability risks. One submitter argued based on previous data during booms that the proposed DTI settings were too loose to act as a binding constraint in many cases even during booms, potentially causing the policy to be a 'nullity'. In contrast, a few other submissions argued that the proposed DTI thresholds were so low they would bind many cases even outside booms, basing this view on 2017-2019 data.

There were also suggestions that the DTI threshold for investors should align with the proposed DTI threshold for owner-occupiers. This is because it was felt that a higher threshold for investors unfairly favoured investors and so would squeeze owner-occupiers, and in particular first-home buyers and low-income households, out of the market.

There were numerous other comments in response to Q3 and Q4 related to how DTI restrictions should apply to both owner-occupiers and investors and the rules underpinning the policy. However, these comments were mostly generalisations, rather than specific comments on the proposed calibrations. As such, we summarise those comments in *Part Two: Other Comments*.

Reserve Bank response:

We acknowledge the range of views on this, including having the same settings for owner-occupiers and investors and looser speed limits.

Our reasoning for having different settings for owner-occupiers and investors is set out in the response to Q1, with further detail in the consultation paper and RIS. As such, we remain comfortable in our view of the DTI thresholds proposed, including having a higher DTI threshold for investors than owner-occupiers.

When we consulted on the proposed calibration, we were aware that banks apply an internal buffer to speed limits when we proposed the calibration given that banks apply similar internal buffers to the LVR restriction. Therefore, we factored that into our proposed DTI calibration. Furthermore, we noted that there will be complex lending cases where calculating a DTI ratio may not be feasible and the speed limit may need to be used for these cases.

However, banks have been preparing their systems to report DTI data under the new DTI framework, where the rules are slightly different from the original DTI data. The main changes include the removal of haircuts on rental/boarder income (which will increase the amount of income used in the DTI calculation, particularly for investors) and exemptions (which will not be subject to DTI restrictions). As outlined in the RIS, we expect that the aggregate impact of these changes will mean that high-DTI flows will be lower than the original data shows. This means that speed limits will not be as binding as suggested (even after accounting for complex lending cases).

We will activate the DTI policy at the calibration that was proposed (and reflected in final decisions). We acknowledge that this calibration may have been binding outside of the 2021 boom, particularly during the period of 2017-2019. However, it is noted that during 2017-2019 interest rates were relatively low and the housing market was relatively heated, leading to higher amounts of lending at high-DTI ratios.

Therefore, our view is that this calibration best achieves the policy objectives and approach of the policy. If we have looser settings than were proposed in the calibration, they would likely not be binding during booms, so would not help alleviate systemic financial stability risks. However, if settings are tighter, they would likely bind through the entire cycle and lead to greater efficiency costs. We will review this as more data is collected under the new DTI framework.

Q5: Do you have any comments on our proposed initial DTI measurement period of 6 months for all banks?

Submissions that had a view on this proposal all agreed that there should be an initial DTI measurement period of 6 months for all banks. Submissions from industry noted that this period will allow banks time to adjust to the new policy and navigate treatment of complex lending cases. There was also support for a review of both DTI and LVR restrictions after 12 months to determine how the two tools are interacting with each other and if they are operating as expected.

Reserve Bank response:

We will set the initial DTI measurement period at 6 months for all banks, as outlined in the final decisions. After the initial 6 months, the DTI measurement period will revert to the standard measurement periods outlined in BS20.[12] That is, after the first 6 months the larger banks would be required to meet the rolling 3 month DTI measurement period.

Q6: Do you have any feedback on our proposed LVR calibration of:

- **a 20 percent limit on new lending to owner-occupiers with an LVR above 80 percent; and,**
- **a 5 percent limit on new lending to investors with an LVR above 70 percent.**

The submissions were largely supportive of the proposal to loosen the current LVR settings for both owner-occupiers and investors. The banking industry also largely supported this view; though there was a suggestion that speed limits for investors should also be loosened from the existing speed limit of 5%.

Reserve Bank response:

The Reserve Bank remains comfortable with the loosening of LVR restrictions that was proposed in the consultation and reflected in final decisions. However, we will continue to monitor the housing market to ensure that the looser policy setting for the LVRs remain appropriate. Furthermore, we will be conducting a full review of the DTI and LVR policies 12-months after the DTI activation.

Q7: Do you have any comments on our initial assessment of impacts?

Comments on the initial assessment of impacts were largely related to conducting a more thorough cost-benefit analysis that considered the unintended consequences of the policy in more detail and how DTI and LVR restrictions will work together in practice. However, it was acknowledged that it is difficult to accurately determine the different impacts of the policy, especially before DTI restrictions

[12] As per BS20 the Reserve Bank will use the cut-off limit of $100 million lending per month to determine which banks are subject to DTI restrictions on a three-month basis, and which on a six-month basis. Banks with lower lending flows tend to have more volatile lending flows, which makes it more difficult to comply with speed limits over a shorter timeframe, hence the longer compliance period.

are activated. Some submitters suggested continual assessment of the impacts is necessary given this uncertainty, although this should not mean that the Reserve Bank frequently changes its settings as this would also create uncertainty.

Some submitters also expressed opinions on DTI restrictions in general and the impact that they may have in specific situations. These comments are summarised in the 'other comments' section.

Reserve Bank response:

We refer to the multiple cost-benefit analyses related to the process of activating DTI restrictions in our response to Q2. Furthermore, we have also published a RIS on the DTI and LVR calibrations set out in our final decisions, which considers the costs and benefits of these calibrations in greater detail and compares to alternative calibrations.

Part Two: Other Comments

Some respondents expressed general opinions on DTI restrictions, rather than commenting on the specific proposals. We reiterate that these comments were largely outside the scope of the consultation, which is focused on the activation and calibration of DTI restrictions and loosening LVR settings. Our rationale for supporting the introduction of DTI restrictions is set out in our previous consultation documents and communications.[13] Specifically, we consulted on the rules underlying the DTI policy in late 2022 and published the DTI framework in April 2023. However, we summarise and respond to the main themes of these comments in order to provide clarification.

We also note that some submitters had questions around the types of lending that would be exempt from DTI restrictions (e.g., new construction lending). We have released some material to help people better understand the exemptions and the DTI rules in general.

Impacts on first-home buyers and low-income borrowers

Some submissions claimed that DTI restrictions would unfairly restrict first-home buyers and low-income borrowers, making it harder for them to enter the market. It was also suggested that including student loans as debt in the DTI calculation will further disadvantage first-home buyers.

Reserve Bank response:

We acknowledge the concern that DTI restrictions may adversely impact first-home buyers and lower-income borrowers. The design of the policy seeks to avoid these potential impacts where possible (via speed limits and exemptions); however, the primary focus of the policy is on mitigating systemic financial stability risks.

We also reiterate that the rules underlying the policy have been consulted on previously and have been published in the DTI framework. This includes including student loans as debt in the DTI calculation, which is one of a number of rules that have been implemented to help to ensure that the DTI calculation is as consistent as possible across banks.

First-home buyers tend to borrow at lower DTI ratios (even when accounting for student loans) than other borrowers and so they will be less affected by DTI restrictions than other borrowers. It is also

[13] Available at: https://www.rbnz.govt.nz/have-your-say/debt-serviceability-restrictions and https://www.rbnz.govt.nz/hub/news/2023/04/reserve-bank-releases-debt-to-income-framework

noted that lower-income borrowers generally face serviceability constraints in their lending, regardless of DTI restrictions. This is because they have a lower net income surplus after essential expenses.

Furthermore, with the easing in LVR restrictions, first-home buyers might be more able to enter the market as saving a deposit is often the greater hurdle.

Non-bank deposit takers

There was some feedback about how activating DTI restrictions would affect non-bank deposit takers (NBDTs). This feedback took several forms. Some argued that DTI restrictions should apply to NBDTs and not just banks, as the proposed settings would give NBDTs a commercial advantage over the banks as they will be able to lend to a higher percentage of high-DTI borrowers.

Other submitters argued if borrowers cannot get loans with banks because of DTI restrictions they might source loans from NBDTs who will charge higher interest rates than banks, which would lead to more financial instability. Moreover, there was a suggestion that DTI restrictions would increase borrowing costs for NBDTs as they tend to fund their loans from banks, who might add a premium for borrowers who have high DTIs.

Reserve Bank response:

Currently, macroprudential tools are applied to registered banks only. This means that NBDTs will not be subject to LVR and DTI restrictions.

We are aware that the more macroprudential restrictions that are placed on banks, the greater the chance of more risky lending going NBDTs, who are currently outside of the regulatory perimeter of macroprudential tools. However, the risk is reduced by the easing of LVR restrictions and the non-binding level of the DTI calibration. Therefore, large scale movement of risky lending to NBDTs is unlikely to occur during most of the credit cycle but may be more likely at the peak of the credit cycle when DTI restrictions become more binding.

NBDTs are also currently a very small share of the residential mortgage lending market. Further, we did not observe a significant movement of borrowers outside the regulatory perimeter when LVRs were introduced. Therefore, we do not foresee DTI restrictions causing movement of risky lending outside of the regulatory perimeter of the scale necessary to be a concern. However, we will monitor this and can move to address this if it occurs. Additionally, we will consider how macroprudential policy operate across all types of deposit takers as part of the upcoming DTA standards consultations.

Regional impacts

Potential regional disparities were mentioned by some submitters, noting that DTI restrictions might affect regions in New Zealand differently when the DTI restriction is binding. For example, regions with relatively low DTI ratios will be mostly unimpacted even when DTI restrictions are binding at the national level, but in regions with high DTI ratios the restrictions will be more binding than elsewhere.

Reserve Bank response:

As DTI restrictions are measured at the national level for each bank, they can allocate any lending above the DTI threshold as they see fit and will likely allow some of the speed-limit to borrowers in each high-DTI region. Moreover, the goal of the policy is to help protect the financial system at the national level, and this will be best achieved by lowering the volume of high-DTI lending across the country.

Additionally, if we were to set DTI restrictions differently by region, this would be likely to create distortions in the market, leading to financial instability. For example, the previous Auckland-specific LVR restrictions deployed between 2015 and 2016 contributed to a spillover of housing demand from Auckland to neighbouring regions, pushing up prices just outside of the Auckland boundary. This led to greater amounts of high-LVR lending outside of Auckland and created a degree of distortion.[14]

Small business owners

Some submitters expressed concerns around how DTI restrictions would affect small business owners. Specifically, it was stated that small business owners often borrow against their house to fund their business, and DTI restrictions might restrict them from doing so.

Reserve Bank response:

DTI restrictions do not apply to business lending. However, in some instances, lending to smaller businesses (e.g., sole proprietors) is fully secured by a residential mortgage and banks treat it as residential lending rather than business lending. In such cases, these loans would also be subject to DTI limits under our rules. If borrowers wished to borrow beyond those limits, then banks could choose to use their speed limits to allow them to do so. Alternatively, borrowers have the option to instead apply for a business loan, however this would usually come with a higher interest rate. It would not meet the Reserve Bank's policy objectives to change the DTI policy so that it did not apply to borrowers using residential mortgage lending that was for business purposes, as the policy is designed to apply to all borrowers regardless of what it is used for, and business lending tends to be higher risk than other residential lending.

[14] See page 17 of the Reserve Bank Bulletin available at: https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/bulletins/2019/rbb2019-82-06.pdf