



17 September 2021

Mr Cavan O'Connor-Close
Financial System Policy and Analysis Department
Reserve Bank of New Zealand
P O Box 2498
Wellington 6140

By email: macroprudential@rbnz.govt.nz

Dear Cavan

ANZ submission on the September 2021 Consultation Paper: Tightening Loan-to-Value Ratio Restrictions.

ANZ Bank New Zealand Limited (ANZ) supports the Reserve Bank of New Zealand's (RBNZ) Loan-to-Value (LVR) restrictions as an appropriate macroprudential measure to help mitigate risks related to the current New Zealand housing market environment.

ANZ appreciates the opportunity to comment on the latest proposed adjustments to LVR restrictions, and has provided responses to the individual consultation questions in the Appendix to this letter.

Of the two speed limit options proposed for owner-occupier mortgage lending, ANZ has a clear preference for Option A (that is, the LVR threshold remains at 80%, and the speed limit reduces to 10%).

Should Option A be adopted, ANZ's main concern is the short time frame between final policy decisions and implementation date. To support a smooth transition, ANZ suggests the first compliance period is extended from the proposed three months (ending 31 December 2021) to six months (31 March 2022).

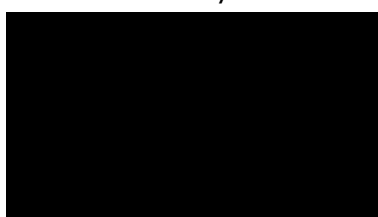
With regard to Option B, ANZ has several concerns about the level of complexity associated with implementation for both staff and customers; these concerns are explored further in the Appendix.

From an implementation perspective, the two proposed options require very different solutions to be developed to ensure compliance. ANZ believes this level of uncertainty at one week before go-live will be challenging for both the bank and its customers.

Contact for submission

ANZ is happy to discuss its submission directly with RBNZ officials. To arrange this, please contact [REDACTED]

Yours sincerely



Chief Risk Officer

Appendix – ANZ’s responses to the consultation questions

RBNZ Questions		ANZ Response
1	Do you have any comments on the problem definition for this policy?	ANZ has no comments on this question.
2	Are there any other issues we should consider regarding the problem definition?	ANZ has no comments on this question.
3	Are there other macroprudential policy options that would better address the risks in the problem definition? Please explain your reasons and the pros and cons of your alternative suggestion.	ANZ has no comments on this question.
4	Do you have any comments on our assessment of the impacts of reinstating LVR restrictions?	ANZ has no comments on this question.
5	Do you have any comments on any aspect of our policy proposal?	<p>Option A</p> <p>Overall ANZ is comfortable with the RBNZ’s preferred Option A, but requests a longer initial compliance period of 6 months to mitigate the short interval between the final policy decision and the implementation of the new LVR speed limit.</p> <p>Option B</p> <p>ANZ considers Option B more problematic to implement, particularly in relation to the Combined Collateral Exemption, staff training and communications, customer education, internal processes and policies, and internal LVR modelling.</p> <p>Due to the current level of pre-approvals and approvals between 75% and 80% LVR, ANZ also believes that Option B would exacerbate the issues associated with managing the pre-approval pipeline within the first reporting period.</p> <p>Complying with the spirit of the Option B restrictions by 1 October 2021 would introduce additional risk with changes to lending policies and processes all having to be made manually, and with minimal time available for communications and training of staff.</p> <p>Also, Option B would likely mean that ANZ would be unable to honour all approvals currently out in the market, which is disruptive and creates uncertainty for customers.</p>

RBNZ Questions	ANZ Response
	<p>There is a further challenge with Option B that, due to the size and manual nature of the change, ANZ would be unable to deliver this effectively to the Auckland region by 1 October 2021. If the Auckland region remains under COVID-19 restrictions (be it Level 2, 3 or 4), training on that scale and at speed would be challenging with staff not working from their usual locations and limited facilities / resources for coaching of frontline staff.</p>
6	<p>Do you have any comments this timeline?</p> <p>ANZ has no issues with a commencement date of 1 October 2021 for Option A.</p> <p>If Option B is adopted, ANZ believes a commencement date of 1 October is not achievable.</p> <p>ANZ has concerns about the short time frame between the announcement of final outcomes in late September, and the commencement date of 1 October. The two options proposed are very different and will require different solutions to be developed by banks to ensure compliance, some of which will have to go through the usual technology change framework and associated governance. This level of uncertainty at one week before go-live is challenging.</p> <p>ANZ recommends a longer initial compliance period of 6 months is needed in order to mitigate the short interval between the end of the consultation and the implementation of the new speed limit. ANZ suggests an extension of the first compliance period from three months (ending 31 December 2021) to six months (31 March 2022).</p> <p>The requested reporting period extension would enable ANZ (and the industry) to honour approvals to customers that have already been made, whilst reducing the proportion of >80% LVR lending in the spirit of the new restrictions from 1 October 2021.</p>

Submission

to the

Reserve Bank of New Zealand

on the

Consultation Paper: Tightening
Loan-to-Value Ratio Restrictions

17 September 2021

About NZBA

1. The New Zealand Bankers' Association (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.
2. The following seventeen registered banks in New Zealand are members of NZBA:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - China Construction Bank
 - Citibank N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - Industrial and Commercial Bank of China (New Zealand) Limited
 - JPMorgan Chase Bank N.A.
 - Kiwibank Limited
 - MUFG Bank Ltd
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

Introduction

3. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand (**RBNZ**) on its Consultation Paper: Tightening Loan-to-Value Ratio Restrictions (**Consultation Paper**). NZBA commends the work that has gone into developing the Consultation Paper.

Contact details

4. If you would like to discuss any aspect of this submission, please contact:

Antony Buick-Constable
Deputy Chief Executive & General Counsel
[REDACTED]

Brittany Reddington
Associate Director, Policy & Legal Counsel
[REDACTED]

Summary

NZBA supports RBNZ's 'Option A' proposed in the Consultation Paper, to decrease the owner-occupier speed limit from no more than 20 percent of new lending at Loan-to-Value Ratios (**LVRs**) above 80 percent, to no more than 10 percent of new lending at LVRs above 80 percent.

We are concerned that the 1 October implementation date combined with a three-month first reporting period will make it difficult for banks to manage their existing pre-approvals, which are skewed to high LVRs. We propose that RBNZ extend the first reporting period from three months (ending 31 December 2021) to six months (ending 31 March 2022), to enable banks to manage the high LVR applications already in the pipeline.

These points are discussed further below.

NZBA prefers Option A

We prefer RBNZ's proposed Option A over Option B. We agree with RBNZ's assessment that Option A will have a lesser impact on first home buyers. In our experience, many first home buyers already struggle to save a 20% deposit. A shift to a 25% deposit (as proposed under Option B) is likely to significantly impact first home buyers' ability to access the market.

Additionally, we consider that Option A is better targeted to the problem definition. While both Options A and B restrict borrowers with a high LVR, Option B would not necessarily reduce the size of the over 80% LVR band. In our view, reducing the size of the over 80% band is more effective in mitigating financial system risk than increasing the deposit threshold.

Option B will be much harder for banks to implement, particularly in relation to the Combined Collateral Exemption, staff training and communications, customer education, internal processes and policies, and internal LVR modelling. Frontline staff are already familiar with the concepts within Option A and are able to clearly explain these concepts and their rationale to customers. Ease of implementation is particularly important in this instance given the short timeframe between finalisation of decision and implementation.

Due to the current level of pre-approvals and approvals between 75% and 80% LVR, NZBA is also concerned that Option B would exacerbate the issues associated with managing the pre-approval pipeline within the first reporting period (discussed further below).

We would welcome an extended first reporting period

Our members expect that they will be able to implement Option A by 1 October 2021. However, we would welcome a transitional reporting period to enable banks to manage the existing pipeline of pre-approvals with an LVR above 80%. We suggest the first reporting period is extended from three months (ending 31 December 2021) to six months (ending 31 March 2022).

Our members consider it important that they honour their pre-existing commitments; they do not want themselves or their customers in a position where pre-approvals have to be unilaterally withdrawn. An extended reporting period will allow banks to alter their acquisition strategy to achieve a steady level within the new LVR speed limit, which will naturally taper down and meet the averaging period requirements. Without this period, banks will need to temporarily slow high LVR lending in a much more dramatic way to meet the new requirements, which, as discussed above, banks are reluctant to do. A dramatic slowing of high LVR lending will adversely impact first home buyers and create uncertainty in the property market, particularly when this strategy will only be temporary and will moderate again in the next reporting period. A longer first averaging period allows banks to select sustainable acquisition settings that reduce availability of high LVR lending without creating a yo-yo effect.

Consultation period

We note that the final LVR decisions will not be published until late September, leaving little time until the 1 October implementation. The two options proposed are very different and will require different solutions to developed by banks to ensure compliance, some of which will have to go through the usual technology change framework. This level of uncertainty at one week before go-live is challenging. We understand that the RBNZ is trying to quickly respond to the issue for the benefit of New Zealand and the stability of our financial system. However, we note that there are practical difficulties in implementing change in such a short period of time.

20 September 2021

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A member of the
Commonwealth Bank
of Australia Group

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Dear Cavan

ASB submission – LVR Consultation September 2021

ASB Bank Limited (ASB) welcomes the opportunity to provide feedback to the Reserve Bank on the tightening of Loan to Value Ratio (LVR) restrictions.

Our key feedback is:

- ASB wants to see a balanced and sustainable housing market and supports the aim of restricting higher LVR lending to reduce the impacts of a potential house price correction and help to build resilience in the financial system.
- We prefer the Reserve Bank's Option A, being a move to a 'speed limit' of no more than 10 percent of new lending at LVRs above 80 percent. We think this will meet the policy aims better than Option B, in which the speed limit would remain the same but the threshold would be reduced to 75 percent. Option B would have a greater impact on first home buyers, who tend to borrow within the 75-80 percent LVR bracket.
- We support a longer initial reporting period for banks to show compliance with new requirements, as we believe this will provide better customer outcomes, by allowing banks to reduce availability of high LVR lending in an orderly way.

These points are discussed further in the enclosure to this letter.

We acknowledge that ASB's submission may be published on RBNZ website and may be released in response to a request under the Official Information Act. ASB does not seek confidentiality for any aspect of this submission, other than the figures provided on ASB's proportion of pre-approvals at above 80% LVR, as these are not publicly available, and my direct contact details below.

If you require any further information in relation to this submission, please do not hesitate to contact me.

Yours faithfully,

Jennifer Bourne
Senior Manager, Government Relations & Regulatory Affairs
ASB Bank Limited

[Redacted signature block]

Enc.

ASB submission to the Reserve Bank's consultation on tightening Loan-to-Value Ratio restrictions

ASB wants to see a balanced and sustainable housing market and supports the aim of restricting higher LVR lending to reduce the impacts of a possible house price correction and help to build resilience in the financial system.

Options for tightening LVR restrictions

We support the Reserve Bank's main proposal (Option A) to tighten LVRs by decreasing the owner-occupier 'speed limit' from no more than 20 percent of new lending at LVRs above 80 percent, to no more than 10 percent of new lending at LVRs above 80 percent.

Option B, in which the speed limit would remain the same but the threshold would be reduced to 75 percent, would have a disproportionate impact on first home buyers, who tend to borrow within the 75-80 percent LVR bracket. We therefore prefer Option A.

We agree that reinstating the LVR restrictions as proposed will see primarily first home buyers impacted. It may be that LVR restrictions, as a macroprudential tool, have now been fully utilised. Further demand reduction may need alternative thinking, and we note that the Reserve Bank will shortly be consulting on implementing Debt-to-Income (DTI) restrictions and/or interest rate floors.

Timeline for implementation

We recognise the need for the Reserve Bank to act promptly to address financial stability concerns. However, the short consultation period, together with a week between finalisation of the decision on 22 September, and implementation from 1 October, is unusually fast. This has consequences, as banks' typical lending pre-approvals stretch forward 90 days and will therefore be caught in the first averaging period. Pre-approvals are skewed to high LVR lending. [REDACTED]

With no, or shortened lead time, banks will need to temporarily slow high LVR lending in more pronounced way to ensure they meet the new requirements. A significant slowing of high LVR loan flows, followed by a relaxation to the settings that produce a steady state of compliance with the proposed 10% speed limit level (if this option is chosen) will create difficulty for a group of New Zealanders trying to borrow at this time, many of whom will be first home buyers.

To manage the flow, in a worst case, banks will need to consider cancelling pre-approvals. This is not a preference, given the implications for customers who, on the basis of a pre-approval, are progressing a property purchase. However, it may be needed if the settings chosen, combined with market flows do not result in the flow proportions expected. The flow of low LVR lending is always difficult to predict but even more so with lockdown periods and uncertainty about the volume that will occur in the remaining months of 2021. The extra uncertainty means banks are likely to choose settings that are initially even more conservative, in order to ensure they are compliant with the new requirements.

A transitional first reporting period

To help address the challenges described above, we are supportive of the NZBA's proposal of transitional reporting period running from 1 October 21 to 28 February 2022, then three months rolling thereafter with the next period ending for the three months to 31 March 2022.

With this lead time, banks can alter their acquisition strategy to what is required to achieve a steady state level within a new LVR flow limit and can naturally taper down and meet the averaging period requirements.

We recognise that the Reserve Bank expects banks to act in the spirit of new prudential requirements from the point finalised changes are announced and that it would be concerning if banks appeared to use a longer reporting period to maximise high LVR lending or continue as they had previously. We welcome direction by the Reserve Bank that, if they were to provide a concession for a longer first reporting period, it would be specifically provided to accommodate pre-approvals with banks expected to immediately implement acquisition strategies that will result in a compliant steady state flow level.

An alternative implementation option is to apply a stepped approach to complying with the 10% speed limit, which could be less disruptive to customers, for example, higher LVR lending reducing from 20% to 15%, from October to December, then 15% to 10% from January to March, and ongoing. We would be happy to engage further with the Reserve Bank on either of these options.

RBNZ consultaion on Tightening Loan-to-Value Ratio Restrictions submission

Ian Harrison
Tailrisk Economics

Contact [REDACTED]
Ph. [REDACTED]

Submission

Introduction

It is clear that from the content of the consultation paper and the time given for submissions, the consideration of submissions, and final decision making, that this is not a serious consultation, and that submissions will mostly be ignored. In that vein not all of this submission is entirely serious. Part A discusses some key elements of the Bank's analysis. It shows that the Bank's concerns appear to be driven by a data error and a lack of understanding of how loan portfolios evolve over time.

The Bank has suppressed lending to housing investors following the Minister's wish to give first time homebuyers a better chance of securing a property. Now that this demand has emerged the Bank wants to choke it off.

This is based on an almost irrational obsession with housing lending risk. Even when high LVR loans are just a small part of banks' portfolios, and its own 2020 stress testing shows that housing losses will account for a relatively small part of overall losses in fairly extreme stress events (about 28 percent), the Bank does not seem to be able to resist tinkering with quantitative interventions.

The easiest and most effective solution to the identified problems would be to increase housing interest rates, but that option is not even mentioned.

Part B of this submission provides a different professional perspective on the Bank's behavior.

Part A

We have focused on the Bank's preferred option, option A, which involves targeting lower income first time home buyers. Borrowers from well-to-do families will be able to fall back on 'mom-and-dad' bank. Others cannot. They will be disproportionately Maori and Pasifika.

We first identify three key issues with the analysis. There are plenty more issues, but as we are fairly sure that our comments will be ignored there is little point in raising them.

We then review the Bank's summary assessment of costs and benefits, which gives seven ticks and three crosses to option A. Our assessment is 1.5 ticks and 9 crosses.

Issue one: The Bank's LVR calculations

The Bank's argument for LVR restrictions depends, in part, on its data on the stock of lending by LVR, set out in their figure 5 and used in the analysis presented in figure 9. The Bank does not explain the source of the data, and in particular whether house values have been adjusted to market value. For regulatory purposes LVRs are calculated using the original purchase price, and the current loan exposure. The house value will only be adjusted to a conservative estimate of market value when there is a credit event, such as a 'top-up' loan. As a consequence LVRs calculated from regulatory data will be higher than market price LVRs when there is a general increase in house prices. It appears that the Bank been using regulatory LVR information, because that is how it collects data from the banks. The information it presents is not compatible with a market value approach.

This is not a minor technical issue. The market price LVR is obviously what is relevant to assessing portfolio risk. For example, assume that a \$600,000 home was purchased with a \$540,000 loan. The original LVR was 90 percent. Over the year \$10,000 is repaid but the house price has gone up by 30 percent to \$780,000. The Bank's apparent approach records the LVR as $\$530,000/\$600,000 = 88.2$ percent, because the original house price is not adjusted to market. If it is then assumed that house prices retrace to their starting point (about a 23 percent fall), the house price is assumed to fall to \$462,000 and the borrower will have negative equity of \$68,000 ($\$462,000 - 530,000$), because the Bank is marking down the original price, not the market price.

The correct assessment is that at the end of the year the LVR is $\$530,000/\$780,000 = 68$ percent. After the 23 percent fall the LVR is 87 percent and equity is \$68,000.

The Bank's apparent error is systematic and it has affected all of their data, calculations and risk assessments. Looking at their figure 5, the 30 percent price increase over the last year should have wiped out all historical high LVR loans, and some of this year's high LVR lending, but we do not see this in the data.

Bank's figure 5

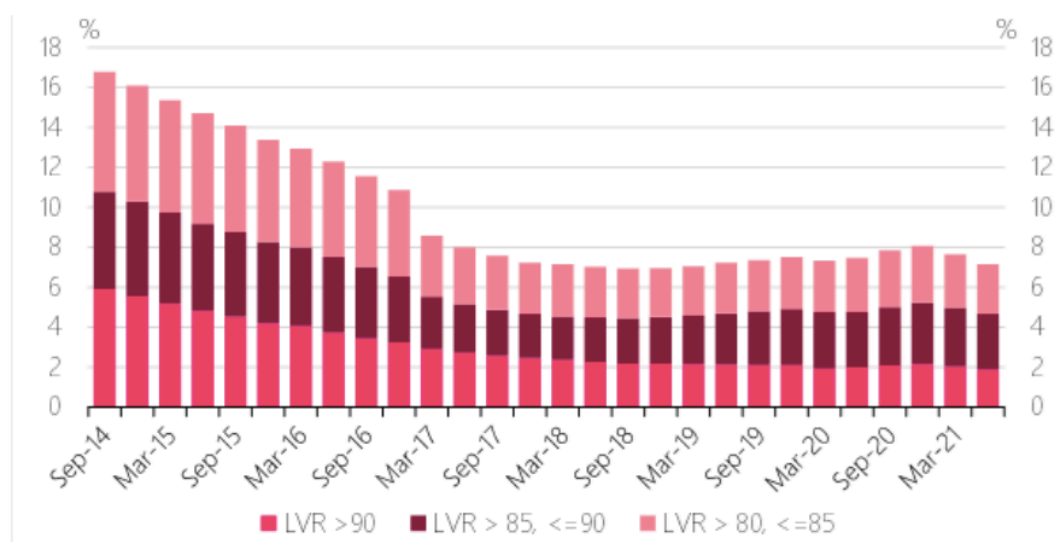
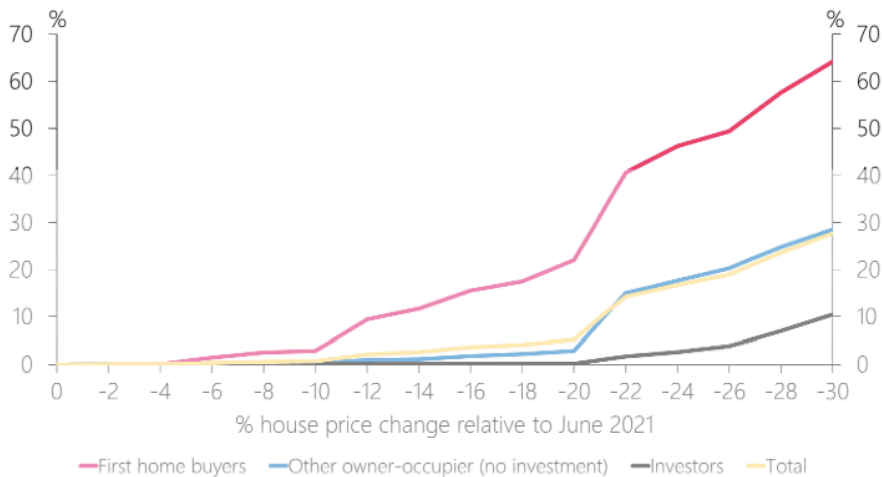


Figure 9 also shows that the bank has got its data and logic wrong. It says that about 30 percent of 'other homeowners' will be in negative equity if there is a 30 percent fall in house prices. But the bulk of those would have been borrowers in June 2020 with LVRs below 80 percent. There has been a subsequent 30 percent increase in house prices, which will have substantially reduced market value LVRs. If the market retraces by 30 percent then these borrowers will be in much the same position¹ as they were a year ago. It is difficult to see how 30 percent could be in negative equity. But this analysis seems to be what is stressing the Bank about systemic stability risks.

The problem with the data should have been obvious but it appears that the Bank was more interested in 'evidence' that supported its emerging risk narrative than getting the analysis right. We address this dysfunction in part B.

¹ As the absolute value of a 30 percent fall following a 30 percent rise is larger than the absolute value of the rise they will be a little worse off, but not by enough to tip other than the odd extremely highly leveraged borrower into negative equity.

Figure 9: Mortgage lending in negative equity, by buyer type (percentage)



Simply put, the Bank appears to have made a major data blunder. Its analysis is based on the wrong LVR measure, which has led it into thinking that major risk problems could emerge. The Bank should come clean on its housing stock/ LVR methodology. If it has made an error, the Bank should admit to it, and withdraw the consultation proposal.

The odds of this happening are slim.

Issue two: No analysis of how the ‘high risk’ portfolio would evolve over time

Over time higher risk LVR’s will naturally migrate from that status as principal is reduced by contractual and voluntary repayments. For example, if real house prices are stable but increasing by 2 percent per year in nominal terms, and principle repayments are 2 percent of the loan value per year, a 90 percent LVR loan will become a 77percent LVR loan in five years. This is how portfolios naturally evolve. Lending to first time homebuyers is riskier than to mature borrowers, but only for a period, and is balanced by the lower risk in the rest of the loan horizon.

The portfolio could be made even lower risk by banning first time buyers altogether, but bye and bye the owner-occupier loan portfolio would disappear.

With a risk based capital regime, of course, higher LVR lending does not present a higher risk to the soundness of the lending bank. The higher risk is matched by the higher capital.

The Bank has not presented any analysis on how banks’ portfolios will evolve with continued higher LVR lending, but it almost seems to be assuming that ongoing high LVR lending will be continued to be added to the current fixed stock of LVR loans.

Issue three: Impact of interest rate rises

A large share of New Zealand mortgages are on a shortterm fixed interest rate, putting a large share of borrowers at risk of sharp increases in mortgage costs, if interest rates rise before they next reset their fixed term.

Most mortgages have been assessed at test rates of around 6 percent. Likely interest rate rises will be manageable in most cases. The Bank's argument is based on the proposition that a loan is 'stressed' if there is a need to cut back consumption as mortgage interest rates rise, and that this is a bad thing. Generally, the reason that mortgage rates are rising is that the Bank has increased the OCR to restrain inflationary forces. Inducing borrowers to cut back on consumption is a predictable and desirable outcome in this circumstance, not undesirable as the Bank suggests.

Costs and benefits summary

The following presents the Bank's cost and benefit summaries and assessments, and our reassessments. The Bank's ticks and crosses approach is an amateurish effort that suggests that it has not done any serious thinking on quantifying the costs and benefits.

Benefits

Strengthening bank and borrower balance sheets: Three ticks

Tightening LVRs will limit the amount of high LVR lending on banks' balance sheets. The restrictions will also lower the number of highly leveraged households relative to current levels. Therefore, the financial system will have greater resilience to economic or housing downturns

LVR restrictions do not strengthen bank balance sheets. The expectation is that the decrease in higher LVR loans is offset by a lower capital requirement, leaving the bank's risk unchanged. The Bank is aware of this but ignored it in their assessment.

Would-be borrowers will have less debt than if they are forced to continued renting, but will still be vulnerable if they lose their job in a downturn. They may struggle to pay their rent. Over time societies with lower home ownership rates, which is what the Bank is pushing, are almost certainly less resilient to a range of stresses than a high ownership society. Overtime owner occupiers tend to move to a more resilient position. Renters tend to be stuck in a higher risk position. Higher rates of owner occupation is desirable for a host of economic and social reasons

Assessment: One tick

Reducing the amplitude of the financial cycle: One tick

This effect was not analysed by the Bank, but is probably too small to notice and to justify a tick.

Assessment: No ticks

Medium-term economic performance: Two ticks

tighter LVR restrictions will decrease the number of highly leveraged households. This, in turn, reduces the risk of a pro-cyclical cut to consumption and the financial system's ability to amplify shocks if banks experience large losses (which would lead to damage to the real economy).

As noted above renters can have high operational leverage which can have financial consequences. The 2020 stress test found that aggregate credit card losses were half that on home loans, despite the portfolio being a fraction of the size.

Assessment: No ticks

Moderates house price growth: one tick

Tightening LVR restrictions is likely to moderate house price growth, against a counterfactual where the restrictions are not tightened. Past experience shows that tightening LVRs is likely to have a small impact on house prices and that the effect only lasts around 12 months.

As option A impacts on only part of the market it will have a lesser effect than previous efforts. So what is the point?

Assessment: 0.5 tick

Summary of costs

Short term economic performance: One cross

There may be a small negative effect on consumption in the short term, due to a decrease in the wealth effect as house price inflation slows.

Increases or decreases in consumption cannot be presumed to be a cost or a benefit.

Assessment: No crosses

Efficiency: One cross

Efficiency costs of LVR restrictions include reduced credit access for credit-worthy borrowers with low deposits and high incomes. Efficiency costs will be higher the tighter that the LVR restrictions are – this is especially the case for a reduction in the LVR threshold.

The Bank makes no effort to assess the importance of these costs. We think that over time that these costs will be high relative to the benefits of the Bank's proposal.

Assessment: Three crosses

Disintermediation: No crosses

The use of macroprudential instruments including LVR restrictions can also create incentives for financial institutions to avoid the policy by operating outside of the regulatory perimeter. Reserve Bank research (Lu, 2019) has found that historically disintermediation has been too small to significantly erode the effectiveness of the LVR restrictions.

This does not mean that the efficiency costs are not material relative to the very small benefits. There has been a large amount of evasion and avoidance of the existing measures, that has not gone through non-bank financial institutions. Maxing out credit cards to augment a deposit is hard to spot if done carefully, and 'mum-and-dad bank' loans are impossible to police.

Assessment: One cross

Impact on first time home buyers: One cross

Tightening LVR restrictions on owner-occupiers will negatively impact first home buyers ability to purchase a house. Figure 15 shows that option B will prevent roughly twice as many first home buyers from purchasing as option A.

The relative impacts of options A and B is not the point. What should have been assessed is the adverse effect of imposing more stringent restrictions on first time homeowners, relative to not imposing more stringent limits.

The Bank mentions the following 'mitigants' to the impact on first time home buyers.

There are several exemptions to the LVR restrictions that will mitigate the distributional impacts. For example, new builds are exempt from LVR restrictions. Government backed "First Home Loans", which are only available to first-home buyers, are also exempt from LVR restrictions. These exemptions will help first-home buyers to borrow for their first home despite the proposed tighter restrictions.

It is difficult to understand the Bank's 'logic'. The point of option A is to target first-home buyers, but substituting new home and government backed loans that unwind the impacts of the policy, is regarded as a desirable mitigant. At the limit all affected loans would transfer either to new homes or government backed loans. The only impact would be that more first time owners would own new homes, which

are more vulnerable to price corrections in a downturn, because that is where the oversupply comes from.

By pushing the potentially most vulnerable borrowers into the riskiest assets the proposal would increase system risk.

To the extent that the proposal limits home owner ownership this is an undesirable outcome. As the Bank is seeking to have a material and ongoing impact on banks' balance sheets, this attack on home ownership is intended to be sustained.

Assessment: Five crosses

Overall assessment:

RBNZ overall: Seven ticks, three crosses

Our assessment: 1.5 ticks, nine crosses.

Part B

Meduni Vienna, Department of Psychiatry and Psychotherapy
Währinger Gürtel 18-20
1090 Vienna, Austria

Consultation report

Patient : R. Bank

Date: 7/9/2021

Diagnosis:

From our consultation with the patient R. Bank we observed the following clinical symptoms. Our consultation conclusions are based on the patient's writings (in particular the document loan-to valuation ratio restrictions) and our observations of behavior over the last three years.

Moderate paranoia: The patient had a tendency to blowup the risks of everyday life into impending disasters.

Hyperactivity: There was a pronounced tendency to do things when nothing needs to be done.

Megalomania: The patient exhibits the classic signs of megalomania: overestimation of one's abilities, feelings of uniqueness, inflated self-esteem, and a drive to maintain control over others.

Misplaced empathy: The patient exhibited some concern that others may make mistakes, but uses this as a reason to exercise control over them.

Irrationality: There is a lack of capacity to identify real problems and connect them with solutions.

Unwillingness to listen to others: The patient will pretend to listen to alternative views but this is almost always a sham.

Treatment:

- Heavy sedation
- Counselling

The patient should be removed from positions of authority until there is a pronounced improvement in behavior.

Albert Pystaek Phd., MD, DPM, FRCPsych
Head of Clinical Psychiatry

From: Emilie S [REDACTED]
Sent: Friday, 17 September 2021 4:06 pm
To: macroprudential <macroprudential@rbnz.govt.nz>
Subject: LVR Consultation September 2021

Hi there,

I have a general question/thought about property lending in NZ, following reading the proposed options of the tightening LVR ratio restrictions report. In particular, relevant to the risks to financial system resilience (and touches on summary question 3).

The government has increased LVR to 60% for investors (for existing builds etc), to reduce the number of investors investing in property, and have more owner occupiers. This may impact newer investors, but people with equity/existing property can still easily make this 40% equity requirement (especially now with the increase in property prices this past year). To further reduce investors from purchasing existing builds, the Government has also removed the ability to claim interest as a tax-deductible expense, for existing builds. New builds aren't impacted.

It is now being proposed to change the LVR of 80%, to 75% for owner occupiers. I understand that this owner-occupier change is to reduce the chances of owner occupiers to have negative equity in the house they reside in.

This will make it much more difficult for first home buyers, like myself, to purchase a property. We are not at level playing fields with existing property owners, and in my opinion, this gap will likely increase if house prices continue to increase.

Has the Government analysed the option of removing (or reducing) the ability for equity (from properties that are owned) to be used when obtaining for a new loan?

There will definitely be pushback from the community, however, increasing investor LVR to 40%, removing interest deductions of existing builds, and the 75% LVR for owner occupiers have all been met with pushback when it was announced as options.

I think this will reduce the amount of debt New Zealanders get in (as the loan will require realised cash, not unrealised equity), and the playing field will be more balanced between first home buyers, existing owner occupiers, and property investors ('mum & dad' investors, property investors, speculators, etc). Instead of making it more difficult for first home buyers in the present market, it will make it more difficult for property investors & owner-occupiers wanting a second house (e.g., holiday home).

It would also decrease the unsustainable growth that property investors and existing home owners are having.

In saying all this, one question that may be raised, is how will owner-occupiers or investors which are wanting to sell their existing house and purchase another be able to do this? Bridging finances currently use the equity in the house as the deposit (that was agreed upon), and then this amount is given to the bank once the existing house is sold & settled on. This means the bridging loan uses equity, but the home loan's deposit for the new house is paid for in realised cash.

I haven't thought of this in detail, so other issues would arise, but I thought this idea should be presented to you.

Kind regards,
Emilie

From: Eric Short [REDACTED]
Sent: Wednesday, 8 September 2021 9:55 pm
To: Brendan Manning <Brendan.Manning@rbnz.govt.nz>
Subject: Reducing the amount of high Loan-to-Value Ratio (LVR) lending to owner-occupiers

The Deputy Governor and General Manager for Financial Stability, Geoff Bascand

Ki Ora

I haven't completed a formal submission but want to share my belief that we have overlooked in your extensive study the factors contributing to the overheated property market. T

We need to use all measures to prevent more damage including what you are proposing if it will help. I do think the proposal is treating a consequence rather than the triggers and that LVR's should apply to all loans for a period, as explained below, like keeping the lid on the pressure cooker until the pressure has leaked out slowly.

The main trigger was the outlook for the economy, without prior knowledge of a pandemic, was doom and gloom, leading RBNZ to correctly reduce interest rates but not responding as quick as it should have to signal a reversal when our expectations proved unfounded. Unfortunately the August 2021 Level 4 lockdown beat RBNZ by one week to start this.

Agreed, investor activity has eased but it does not warrant overlooking as the low mortgage rate was the first trigger but another was the sectors of the economy that could take advantage of this that did the most damage, even though the growth in property has acted as a replacement support for the economy.

It is now catch up time. Online Auctions during the last two weeks that I expressed interest in attending were robust and competitive with senior citizens seeming to not need to limit prices paid. One went to 55% above CV before all others were worn down. They looked like owner occupiers who already were well settled, so thereby I would classify them as investors that don't need to borrow.

These buyers have a lot of equity and the way forward has to equalise competition to stop another take-off. Don't leave Investors out of the loop but I think the only thing that may limit seniors a tiny bit is not wanting to pay too much over market but that will be determined by less competition. A further surge is more likely first.

Other notes on Reserve Bank and instability copied and pasted. Apologies if they duplicate the above in parts.

RBNZ document out for submissions on LVR for 1st Home Buyers. This will effectively merge the group of those dissatisfied with living standards because of insufficient income with those disgruntled because of insufficient family stability whilst having sufficient income.

The latter have more choices like staying single, keeping household a two income family, delaying family growth, or moving offshore (some parents have resources from massive growth up to 2007 and up to 2021 to set children up in homes.)

Is there another solution other than increasing the pool of dissatisfied citizen / clients with tighter LVR's on 1st Home Buyers? Singling out potential new and future families ONLY for LVR treatment because of an economic outcome they didn't cause is not right. Families are powerless to stop the treatment but the voice against distortions attributed to them will get louder over 1-2 years.

Hypothesis

Retirees that say are earning 1% would settle for more with a much longer term just to have stability and Prospective 1st Home Buyers that have to pay say 3.5% for 1st home mortgage but can't compete for a house even though they have sound serviceability incomes would rather pay more interest, say a stable 5.5% and not be excluded because of LVR.

Can these two groups of citizens needs be matched through a RBNZ and BANK policies.

The outcome desired being a dead flat property value market for a while, interest rates tip toe up, young family growth not be artificially delayed until 1st Home Buyers can see stability of non-dependence on landlords, couples with good combined income not be shut out of the market because of:

1. Artificial LVR's for 1st Home Buyers to reign them in when they only got sick because of the actions of others taking advantage of an ultra low pandemic OCR / Mortgage Rate that in hindsight was due to an expected economic crash not eventuating.
2. Property prices that surged after 2020 pandemic

Best regards
Eric Short
Help Biz Grow Ltd



No reply required but I hope this will help in your policy considerations.

I do believe if you see merit in LVR's it should apply across the board and even be less onerous for 1st Home Buyers. The whole wider family will be impacted by an LVR imposition on them alone. It will come to seen as a, 'China-like' RBNZ Policy.

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From: James Andrew [REDACTED]
Sent: Friday, 3 September 2021 11:38 am
To: Brendan Manning <Brendan.Manning@rbnz.govt.nz>
Subject: Proposed tightening of LVR

Dear Brendan

Kindly inform the Governor and other Directors of the RBNZ that Central banks should be fully independent and not take instructions nor accommodate interference from politicians or any one else to achieve their own agenda.

In our case, the government has no bloomin' idea as to how to encourage the building of more houses as well as the use of modern techniques to accelerate the builds. just as many cities around the world that are now highly priced and booming, these were once infantile towns that grew and grew because there was something special in wanting to be there, e.g. New York, Frankfurt and even Guangzhou in the province of Guangdong (Canton) China.

As these cities grow, the inner limits and areas eventually become more expensive as the population get to be wealthier and more discernible and we get areas of preference where the wealthy live. This is very noticeable in all countries, rich or poor and even in socialist and communist countries. There is absolutely nothing this government can or should do because we are but human. What this government is now trying to do is to fragment the areas of wealth and middle income with Kianga Ora, hoping that New Zealand will be the only country that has the rich and poor living side-by-side. It will never happen. Don't dream of the impossible. If it was that simple, the bigger and wealthier nations would have succeeded in doing it first. Not even China can do it.

What this government is doing is extremely dangerous by allowing Kianga Ora, btw this should have remained as Housing New Zealand (a name change doesn't change anything), to be exempt from practically all the rules and regulations that the rest of us must follow. Isn't that separatism? Are we not dividing the country instead by having different strokes for different folks?

This is a very immature and young government, just like a small kid, crying and yelling because they can't have their way and will try all ways and means to do so, to the extent of changing laws and rules to suit their fallacy.

Now, the Governor of the RBNZ is a very astute person having guided Westpac previously on the right track. This time on, he has to stand up against those pressing on him to do THEIR thing, not what is right. All markets rise and fall and like water, will find its own level and this should be done without any interference from anyone. The moment we poke our noses into what we think is right, it has always been proven that we are or were wrong and there goes our nose.

Governments come and governments go and so do politicians who are there for their own agenda and fame (fortune might come later). It takes the MAN to stand up to them and elll them to buzz off.

If the RBNZ reduces the % of new buyers from 20% to 10% it would defeat the purpose, in the first place, of trying to help first-time buyers into the market, which is questionable because it discriminates between buyers. This should never ever happen. There should always be one law and R & R for all. This is equality and democracy.

For some rhyme or reason, the government and the RBNZ is putting road cones in our paths to ensure that we do not invest into the housing market and put our money into the capital markets, especially the stockmarket. Biggest folly! Stockmarkets can be and are manipulated by the BIG BOYS and it is always the small man who loses out. We are but investors are the mercy of those who own a majority share and several owners who hold enough stock to connive to outwit the poor guy looking to make some money in the market. This is true in all markets where the BIG eat the small. The small only get the crumbs. Reason - you do not call the shots because you don't own 50.1% of the stock.

Now, whereas, if and when I invest into the housing market, immaterial of whether it is up or down, I call the shots because I am the owner and no one, save a bank call, can force me to sell. Decision is mine and mine alone. Maybe, the RBNZ might now realise as to why so many people buy properties and sit on it. I am not a puppet.

Another thought that the RBNZ might have is even worse than the LVR. It is the DTI. If implemented, this will have a disastrous effect on the banking industry and economy. What is the RBNZ going to do if the ratio is not within their specs? Ask the banks to recall the outstanding? Where is the money coming from? Better to have a runaway housing problem than a dead economy. Your choice!

Kind regards

Andrew Labrooy

From: Valera [REDACTED]
Sent: Thursday, 9 September 2021 12:41 pm
To: macroprudential <macroprudential@rbnz.govt.nz>
Subject: LVR Consultation September 2021

Good day,

As a member of the public I support the proposed tightening of the LVR restrictions. The housing market has rebounded beyond all predictions and the debt-fueled price levels seem unsustainable. I agree that tightening of high LVR lending will likely remove some of this fuel, moderating price increases and lowering the risk of a significant correction that would put highly leveraged home owners at risk.

Furthermore I wish to draw RBNZ's attention to the fact that access to high LVR low interest lending is only one side of the equation. The current interest rates being below the rate of inflation are effectively encouraging the reallocation of investment capital from low-risk low-return financial investments into the housing market, with higher risk investments being the only other viable alternative. The bank should consider how its current settings are pushing savers and low risk investors into the housing market. Viable low risk alternatives to investing in housing need to be maintained. To put it simply, discouragement has limited effectiveness when there's a lack of good alternatives.

Regards,

Valera Koltsov

Tightening Loan-to-Value Ratio Restrictions

Submission to Reserve Bank of New Zealand

Michael Reddell

17 September 2021

1. This submission will be brief. It is quite clear from the consultation document that this is a Potemkin-village type of consultation, designed solely to give the appearance of consultation to jump through the bare minimum of legal hoops. This is evident in (a) the two-week period for submissions, (b) the less than two weeks the Bank says it will take before releasing its final decision, (c) the already-announced implementation date, (d) the Bank's stated expectation that banks will just apply the restrictions now anyway, and (e) the absence of any serious or rigorous cost-benefit analysis. However, there are significant flaws and omissions in your document - which appears to be more about spin than substance - and it is as well to put at least some of them on record.
2. Among the many problems with the document is the open acknowledgement that the current situation itself is not a financial system stability problem, and that the banking system now would be robust to even a substantial fall in house prices. Your worry, we are told, is some sustained continuation of recent lending patterns. But if so, why the urgency and absence of robust supporting analysis? Why the need for an "immediate response" (you claim LVR restrictions are "the most suitable tool for an immediate response")? The additional time it might have taken to produce a credible and transparent case for additional controls simply cannot, on your own reasoning, jeopardise the stability of the financial system. The internal evidence suggests that the Bank (the Governor, still the sole decisionmaker) simply wants more LVR controls for their own sake, or for purposes that are outside those Parliament has provided these powers for.
3. More substantively, there is no discussion at all in the consultation document of the Reserve Bank's capital requirements or the capital positions of the banks you are putting more controls on. As you will be well aware, the risk-adjusted capital ratios of New Zealand banks are high by international standards, and will be increased further – as a regulatory requirement - over the next few years. Capital is, and always should be, the key buffer against loans going bad, and we know that the New Zealand framework imposes relatively (by international standards) high capital requirements in respect of housing loans, including high LVR ones. It is simply unserious - or a desire to operate *ultra vires* – not to engage with the capital position of the banking system. That is especially so as your consultation document acknowledges that tighter LVR controls will impair the efficiency of the financial system. Given that acknowledged cost, there has to be a clear gain to financial system soundness (the other limb of your statutory goals/purposes) from any new regulatory impost, but your document makes no effort to quantify such a gain (reduced probability of failure), or to demonstrate that tighter LVR controls are the least-cost way to generate such a reduction. There is not, I think, even any attempt to engage with the "1 in 200 years" failure framework that the Bank dreamed up a few years ago to support the capital proposals it was then consulting on.

4. Your document makes much - far too much - of the potential implications of a reversal of the sharp rise in house prices over the past year or so. It does so in a tendentious and ungrounded way (including supported by a discussion of the housing market itself that seems to give no weight to the way land-use restrictions underpin the prices of house and land, no matter how many new houses come on the market in the next couple of years).
5. Thus, in paragraph 31 you claim that “a 20 per cent house price decline from the current level would still mean more than \$4 billion of lending would be to borrowers in negative equity, and the majority of those impacted would be first-home buyers who borrowed in the last year”. But what of it? First, \$4 billion of loans is less than 2 per cent of the mortgage book of the banking system. Second, the actual negative equity in such a scenario is far far less than \$4 billion (and some small proportion of banking system capital) - since little or no lending at anything like 100 per cent LVRs has taken place. And third, and perhaps most important, there is no sign that the Bank has made any attempt to look at risk across the whole mortgage book (let alone the entire loan book). It is no doubt true that a pullback in house prices from current levels would create some stress for some individual borrowers. On the other hand, for good or ill (and from a narrow financial stability perspective - only - it must be good) the rise in house prices over the last year has created a much bigger equity buffer for most existing borrowers. The document never betrays any sense that it is typically prudent for first-home buyers to borrow 80 or even 90 per cent of the value of a first home, or that direct controls on access to finance are one of the ways governments skew the market further towards the already-wealthy (noting, as the consultation document does, that LVR restrictions make little sustained difference to house prices, and so really just provide cheaper entry levels for other buyers).
6. The Bank’s consultative document also attempts to make quite a bit of an argument that somehow LVR restrictions now can dampen the size of future “boom-and-bust cycles” in the economy, even going so far as to claim these incremental restrictions will improve the medium-term performance of the economy. But none of this argument engages with the (very healthy) capital position of the banking system and at times it seems internally contradictory. Thus, in paragraph 47 the Bank worries about dampening effects on consumption and economic activity from “increased serviceability stress” as a result of some future increase in interest rates, but never seems to recognise that the reason the monetary policy arm of the Bank would be raising interest rates is to dampen demand and inflationary pressures. If anything, the Bank’s argument would seem to suggest that more high-LVR lending would, if anything, and in those circumstances **increase** the potency of monetary policy, and reduce the extent of any required OCR increases. More generally, the Bank continues to place a considerable reliance on claims about a significant housing wealth effect on consumption that appear inconsistent with New Zealand macroeconomic data over many decades, and which appear to over-emphasise existing homeowners while largely ignoring the loss of wealth/purchasing power for those who do not (yet) own a house.
7. The Bank notes that the extent of disintermediation as a result of LVR controls has been less, over the eight years the tool has now been used, than many had expected. That is certainly true, but actually suggests that the efficiency costs of the restrictions have been greater than had initially been expected. Fewer readily-visible alternative credit providers have developed or expanded, suggesting either that more potential purchasers have simply been

forced out of the market, or that much less visible credit provision (notably that within families, with no diversification risks) has taken its place. Absence of disintermediation may be attractive to a regulator, but it isn't obvious it is a good thing for the wider economy or society.

8. In conclusion, the Bank has simply not made any sort of compelling case for further tightening of LVR restrictions. At very least, such a case would have to involve a careful and documented cost-benefit analysis, that included engagement with the bank capital regulatory regime. There is no pressing financial stability risk, and so this proposal - in practice, these new rules - has the feel of action taken for the sake of action, perhaps to provide some cover for a government that fails to address the house price issue at source, or to fend off (misguided) critics of the Bank's LSAP monetary policy programme. That isn't a good or acceptable use of the powers of the state.
9. To the extent the initiative is about protecting borrowers from themselves - as your communications sometimes suggests - it may be nobly intended but is no part of the Bank's statutory responsibility (and thus not a legitimate basis for use of regulatory powers). Perhaps as importantly it seems to assume the current crop of central bankers and regulators knows more about the risks of house prices falling substantially and sustainably than (a) borrowers and their bankers (each with money on the lines) and (b) than their central banking predecessors over 30 years did (each Governor having at some point or other anguished about the risks of falls, even as central and local government policy continued to underpin the decades-long scandalous lift in real house prices). No evidence is advanced for either proposition.

Submission on Proposed LVR Tightening Sep 2021

The results of the LVR policy to date are not able to be conclusively assessed due to the problem of correlation versus causation. This also applies to the LVR tightening now proposed by the Reserve Bank.

It is the 2% inflation targeting which has driven the lax monetary policy of interest rate suppression and money supply growth over the last 12 years and has been a key driver in the purchase of assets especially residential property and shares.

Further intervention in the Trading Banks is not the answer to the economic risk now seen. It is the Reserve Bank's monetary policy that needs to change.

An asset based monetary policy which is meaningful, easy and accurate to measure, doesn't require any prediction, would be far better at managing the risk by reducing the scale of the boom/busts.

Savings are critical to growth and the Reserve Bank needs to ensure real rates of return on them. If the norm of 2% above the rate of inflation to ensure saving is used then that would have the OCR at 5.30 % instead of currently 0.25 %.

The Reserve Bank is stating that the present inflation is transitory. Not only is it not possible to claim this, but with the current monetary policy the Reserve Bank is anchoring the public's view of expectations of future inflation. The public is also well aware that the CPI is being understated as to the housing component which adds an estimated 1% to the rate of inflation.

In reality the true inflation rate is around 4.3% and rising. This means the value of a dollar of savings halves in 16 years. How can this possibly be called price stability which is meant to be a key function of Reserve Bank. Even at the targeted 2% inflation rate it halves in 36 years. This is not price stability.

Reinhart & Rogoff in 2011 in a paper *This Time is Different A Panoramic View Of Eight Centuries of Financial Crisis* explain how history has repeated itself via easy money pumped into the system by Central Banks and Sovereigns, distorting financial decisions, so encouraging malinvestment of capital and causing prices to rise beyond their productively useful value, a debt crisis results, with the boom leading to bust. The more intervention the bigger the distortion and the bigger the bust. Interest rates impact on all financial pricing in the world and the Central Banks have distorted all these prices.

Isn't it time to stop the monetary heroin and let the interest rates be market driven?

Conclusion: The Reserve Bank not the Trading Banks is the problem. Prediction is simply not possible so instead of further intervention the Reserve Bank should scrap the 2% inflation targeting and let the market determine the interest rates including the OCR.

Alistair Coster

8 September 2021

17 September 2021

Cavan O'Connor-Close
Financial System Policy and Analysis Department
Reserve Bank of New Zealand
Wellington

Submission on RBNZ consultation document: Tightening Loan-to-Value Ratio Restrictions

This is a submission to the Reserve Bank of New Zealand (RBNZ) in relation to its consultation paper entitled: *Tightening Loan-to-Value Ratio Restrictions*.

I will keep this submission very brief, as it is obvious that this is not an authentic consultation process. No government agency with any credibility, professionalism or accountability would consult on a policy of this nature and only allow two weeks for submissions to be made. This is a sham of a consultation process and, sadly, reflects the serious deterioration that has occurred in the RBNZ over recent years, and especially under the governorship of Adrian Orr, in terms of quality of policy formulation, quality of consultation process, adequacy of cost/benefit assessment of policy proposals, and accountability. There is absolutely no need for a rushed consultation on this policy proposal. The house price surge does not create an urgency for this particular initiative to be taken, especially given that it is far from likely that this initiative will actually make much difference at all to the cause of excessive house price inflation.

The RBNZ should have allowed for at least a six-week consultation period. It should then publish a response to consultations and explain its position in respect of points raised in consultation submissions. The RBNZ should allow for a second consultation round on residual matters, and only after that has been concluded should proposed policy changes be implemented.

Instead of following an appropriate due process, the RBNZ is rushing this through at an absurd pace, with no meaningful consultation occurring on the proposals being put forward. Clearly, this reflects that the RBNZ has already made up its mind to implement the LVR change, and that the consultation is largely a sham. This is dishonest and unprofessional. It makes a mockery of the image that Orr (the great Tane Mahuta, as he calls himself) and his colleagues like to promote – of being open to dialogue, of being transparent, and of being accountable. I can only hope that the new governance model, once implemented, will impose a discipline on Orr and his colleagues to prevent such a shameful abuse of power from occurring in the future.

Now, to the substance of this consultation paper. And here, one only needs to be quite brief in response to it, for there is little of substance in the paper on which to comment. It is poorly argued, with no sufficient policy rationale advanced in support of the LVR policy change. There is no cost/benefit assessment of any meaningful kind.

The RBNZ is arguing that a change to the LVR requirements is necessary in order to address supposed financial stability risks associated with house price inflation and the risk of an increase in loan defaults if house prices fall sharply. However, as the RBNZ notes in its paper, and as stress tests run by the RBNZ have previously demonstrated, the banking system is resilient to even quite severe falls in residential property prices. Stress tests have shown that, even with a fall in residential property prices of around 40%, the banking system remains stable. The RBNZ makes no rational argument for increasing the LVR restrictions on financial stability grounds.

If there is a risk posed to banking system stability and individual bank financial soundness as a result of a future fall in residential property prices, this risk is substantially addressed already by the high level of capital held by banks. The RBNZ's (unjustifiable) requirement for banks to hold even greater levels of capital relative to their risk-weighted assets will further bolster the stability of the banking system and the resilience of individual banks without the need for any LVR requirements. Indeed, the increase in capital ratios mandated (foolishly) by the RBNZ will leave the banking system over-capitalised and over-insured against risks, and will have adverse impacts on the real economy by weakening the appetite and willingness of banks to lend, especially to small and medium-sized businesses and to highly leveraged households.

To the extent that high LVR loans pose a risk to banks' capital positions, this is already taken into account in the capital framework through the higher risk weights applicable to high LVR loans. There is no need to use 'speed limits' on high LVR lending to achieve financial stability outcomes when the capital framework already adequately addresses the risks in question.

If one strips away the (false) argument of financial stability as the justification for the increased restriction on LVR lending, one is left with the impression that the real reason the RBNZ is embarking on this path is for some kind of 'welfare' purpose – i.e. to protect highly leveraged households from a fall in house prices. That is not part of the RBNZ's statutory mandate. It has no role to promote the financial resilience of households; its sole mandate is to promote the resilience (and efficiency) of the financial system. Given that there is no evidence at all that a fall in house prices would cause financial system instability, despite the fact that some households might suffer financially in a falling house price market, then there is no statutory basis for the proposed policy change.

The proposed LVR policy will not make much of a difference to house price inflation; at best, it will only make a marginal difference to buying pressure in the housing market. However, it will hurt the very people who are already suffering from house price inflation – first home buyers. It will make it more difficult for first home buyers to purchase a home, adding to their existing stress. Even those with an ample capacity to service a debt above the LVR line set by the RBNZ will be hurt by this policy. This is the consequence of setting such arbitrary and poorly conceived regulatory restrictions. The LVR policy makes no allowance for the debt servicing capacity of the borrower; it applies in an unintelligent and arbitrary manner. It also makes no allowance for a bank's ability to differentiate between high LVR borrowers with the capacity to service the debt comfortably (on a stress tested basis) and those who would struggle to do so. These are decisions that are best left to the banks to make. They have the data, the tools, the capacity and the incentives to make the call as to whether a loan should be granted to a borrower at any particular LVR. The RBNZ has no valid case to argue for imposing arbitrary restrictions on LVR lending.

If there is a concern over excessive house price inflation – and there is ample reason to be concerned – then the policy responses that would be most cost-effective in actually addressing the problem do not lie in LVR or DTI ratios. The sensible policy options that should be considered by the *government* (with advice from Treasury, RBNZ and others) might possibly include:

- an interest rate surcharge on residential lending, focused on investment housing (other than new housing);
- a stamp duty or transaction tax on house sales;
- initiatives to free up land supply for urban development;
- relaxation of building consents to enable in-fill housing and high-rise housing, subject to appropriate restrictions;
- simplification of building consent processes generally;
- opening up the ability of building firms to import skilled workers through an upscaling of Covid-19 quarantine facilities.

None of these initiatives lie within the purview of the RBNZ. They are matters for the government to determine. Instead, what we see is the RBNZ contorting the macroprudential policy framework to apply it to achieve policy goals that go well beyond the RBNZ's mandate and well beyond the cost-effective capacity of the tools in question. Macroprudential policy should only be used to achieve financial stability outcomes; they should not be used for wider purposes. And they are definitely not a substitute for the much more effective policy tools available to the government to address excessive house price inflation.

In conclusion, the LVR proposals are not justified by any financial stability policy objectives. They are arbitrary and ill-conceived. They are not supported by cost/benefit analysis. They will have only a limited impact on house price inflation. They will hurt first home buyers, including many who could quite prudently afford to service a high LVR loan. The LVR policy is reminiscent of the insanity of the Muldoon regulatory interventions in the early 1980s and will have just the kind of adverse impact that many of his absurd policy interventions had.

The policy should not proceed. More generally, the RBNZ should lift its game in policy formulation and consultation. It clearly lacks the people with the intellectual calibre and judgement to develop macroprudential policy. It clearly lacks senior management, including a governor, with the professional intellectual substance and judgement to preside over the policy formulation process. And it lacks a governing body to oversee the process and to hold senior management to account. Much needs to be changed in the RBNZ to address these serious weaknesses. A good start would be to abandon the LVR policy.

Regards

Geof Mortlock
International Financial Consultant



Submission on change in Bank LVR restrictions.

The RBNZ have asked for submissions on changes to LVR restrictions for mortgage lending by New Zealand banks. I make the following submission based on over 30 years of banking experience in New Zealand and overseas and having spent ten years most recently as the Treasurer of a major NZ Bank.

1. Executive Summary

- 1.1. While LVR speed limits introduced over the last 8 years have moderated buyer behaviour the RBNZ are now proposing a “fine tuning” of the limits which are at best a “blunt tool” impacting borrower financing behaviour and options.
- 1.2. The RBNZ have not sought to quantify the impact of proposed changes on borrowers or the broader economy. The RBNZ proposal is devoid of any quantitative analysis on which a cost benefit analysis can be undertaken.
- 1.3. The proposals do not consider any onflow effect from removing high LVR buyers, on housing build and supply.
- 1.4. There is no consideration given to the social consequences of excluding first time buyers from the housing market.
- 1.5. The proposals have not quantified the extent to which housing price falls will impact either bank stability or the broader economy.
- 1.6. There is no consideration of the impact of non-bank lenders.
- 1.7. Rather than approaching this issue on an apparently piecemeal basis the RBNZ should be considering a broader range of alternatives to bring together as a consolidated solution. This would put the RBNZ in a stronger position to consider all likely outcomes for banks, consumers, and the broader economy.

2. Introduction

- 2.1. The premise on which the RBNZ has base their proposals on LVR changes is that the restriction on high LVR (for the purpose of this submission we will focus this as being lending on excess of 80% LVR, i.e., borrower equity of less than 20% of the house value), protects banks from making excessively risky housing loans in a housing market with unsustainable pricing. The stated implication being that in the (inevitable) event of a price correction in the housing market, such high LVR lending will lead to significant constraints on bank lending which will lead to a broader economic downturn
- 2.2. The Initial imposition of LVR speed-limits in 2013 have been credited with both moderating the housing market and improving the quality of the banks’ housing loan books. More

recent changes to lending for Investor-owned housing, has changed the borrower mix from investors to owner-occupied mortgages.

- 2.3. Given the higher proportion of lower LVR lending, along with the change in borrower mix, bank balance sheets have benefited by way of stronger collateral standards on their largest asset.

3. Shortfalls in the RBNZ case

- 3.1. The RBNZ have not presented a meaningful case for the need for further restrictions, nor have they provided any cost benefit analysis to support the changes. While further changes to the LVR speed limits for owner occupied lending may present an understandable path to further resilience for bank balance sheets, a number of questions arise from the proposal:
 - 3.1.1. It is not clear from the RBNZ proposal paper if the changes are primarily targeted at bank stability or consumer (borrower) protection?
 - 3.1.2. What is the cost of this proposal to consumers and to the broader economy?
 - 3.1.3. What impact will the proposal have on the continued housing crisis in the form of under supply?
 - 3.1.4. Is “fine tuning” of LVR limits an effective tool in managing bank resilience while also maintaining economic stability through this period of economic challenge associated with Covid?

4. Current LVR mix

- 4.1. While bank housing loan drawdowns data¹ shows that quarterly new mortgage drawdowns with high LVRs (>80%) typically are around 12% of total mortgage drawdowns, outstanding balances show high LVRs are only around 7%. The accelerated rate at which higher LVR mortgages are paid down is a rational action by borrowers, that allow them to access lower mortgage borrowing rates typically only available to borrowers below 80% LVR.
- 4.2. These low outstanding balances would suggest that bank balance sheets would be less significantly impacted by a fall in property prices than quarterly drawdown data might otherwise suggest.

5. Default impact

- 5.1. Given the rapid paydown of high LVR mortgages coupled with escalating house prices over recent years, housing prices can fall substantially over future years before substantial numbers of buyers are faced with the prospect of negative equity.
- 5.2. The rapid paydown demonstrates that many higher LVR borrowers have the capacity to service higher payments if required. This being the case, the extent to which reducing the banks capacity to lend is justified with respect to borrower resilience in the face of higher payment requirements needs to be questioned.
- 5.3. While negative equity does present a less than ideal scenario, in of itself this does not directly lead to mortgage defaults. Negative equity has meaningful outcomes for lenders in the event of a default, however the likely level of defaults that New Zealand banks would face even in a scenario as dramatic as a 20% fall in housing prices would not lead to bank losses beyond which their current profitability and capital base could withstand.
- 5.4. Housing data² through GFC (2008-2010) show house price falls peaked at 9%. The same period showed bank non-performing housing loans peak below 0.8% with bank loan losses lower again. Given changes in bank balance sheets already in place following the aforementioned LVR changes, losses in the same pricing scenario would be anticipated as lower than 2010.

6. Broader economic and social impact of lower LVRs

- 6.1. With the current limit on higher LVR lending set at 20% of total mortgage drawdowns, banks have operated at a substantially lower level, driven primarily by internal risk appetite focused on operational risk and credit risk.

¹ RBNZ Statistics C30 Data to July 2021

² Core Logic housing price index

- 6.2. A bank's LVR limit is driven by drawdowns provided by that bank over a given time period (a 3-month or 6-month lending period, depending on bank size). Drawdowns cannot be precisely forecast, (typically banks model drawdowns over a period after loan approvals), the exact numerator and denominator for any period remains difficult to predict. This may mean that a bank risks a number of high LVR drawdowns coinciding with a low point in low LVR drawdowns, meaning the reported high LVR percentage is substantially higher than expected. If a bank's high-LVR residential mortgage lending exceeds the speed limit it is in breach of its conditions of registration, as such, banks must treat such risk as a serious matter and therefore operate a significant safety margin, hence the current 8% operating buffer.
- 6.3. If such a buffer were to be maintained with a 10% speed limit, this would imply an operating level of 2%, which effectively eliminates low LVR lending in New Zealand. Even assuming a smaller buffer, it is unlikely that risk appetite would extend beyond a 5% internal limit.
- 6.4. An operating limit of 5% would effectively leave most first home buyers out of the housing market. With the introduction of higher limits on investors, first time buyers now make up around 75% of high LVR lending. Restrictions on first home buyers would have long term social impacts as a generation of potential homeowners are destined to become lifetime renters. If house price inflation remains above the returns from savings accounts, the gulf between the have and have nots will widen.

7. Bank stability

- 7.1. As discussed above, while high LVR lending represents c.12% of drawdowns, this lending only represents around 7% of total lending balances. This is the result of higher LVR borrowers repaying at an accelerated pace to gain access to banks "special" rates only available to lower LVR borrowers.
- 7.2. Based on bank disclosures, it would appear that the majority of lending above 80% is still below 85% LVR. This highlights that the banks' own internal risk appetites continue to operate to insure financial prudence.
- 7.3. New Zealand banks are well capitalised. They entered the Covid environment in a strong position³ and with RBNZ restrictions on dividend and capital distribution last year have grown stronger.

³ PricewaterhouseCoopers International comparability of the capital ratios of New Zealand's major banks – update paper (17 May 2019).

- 7.4. Bank performance over the last 12 months demonstrates that New Zealand banks have managed this balancing act well.
- 7.5. While the RBNZ proposals include concern that housing price falls could impact bank stability and flow through to broader economic impacts, there is no attempt to justify or quantify this statement, e.g. to what extent a fall in housing prices would have a negative impact.
- 7.6. The proposals have not considered the impact of borrowers moving to non-bank lenders. This sector of the finance industry has already grown substantially over the last few years as banks have tightened lending standards (including LVR restrictions). The GFC experience in New Zealand was one based not on bank failure, but that of Finance company collapses⁴. While Finance companies do not fall under the RBNZ regulatory mandate it is still an important requisite upon the RBNZ to consider this impact.

8. Social Responsibility of lenders.

- 8.1. Last year, in a Stuff article Adrian Orr was quotes as saying..." support given to customers today will help to ensure better customer and bank outcomes tomorrow. Banks need to make the appropriate risk-reward decisions that endure over time. This is being courageous⁵".
- 8.2. Banks balance the risk of lending at higher LVRs against the borrower's ability to service the debt, and the banks broader social obligations as a responsible lender and as a facilitator of home ownership.
- 8.3. The proposed shift in LVR limits would prevent banks from lending to borrowers who do have the capacity to service a mortgage and buy their own home.

9. Alternatives

- 9.1. LVR restrictions do little to protect borrowers from over commitment, they are ultimately more about protecting banks in the event of a mortgage failure. The RBNZ are currently considering several other solutions to moderate higher risk lending. These measures focus on borrower serviceability.
- 9.2. Borrower serviceability measures help prevent borrowers from taking on more debt than can be managed in the event of adverse events.
- 9.3. Two key focuses for the RBNZ are minimum mortgage rates in assessing serviceability, and debt to income (DTI) ratios. The RBNZ does not currently have further serviceability tests

⁴ More than 40 Finance Companies entered some form of receivership or liquidation from 2007 to 2010 at substantial loss to retail investors.

⁵ Stuff 06 September 2020



but may well consider some of the measures imposed by Australian regulators faced with similar issues.

- 9.4. The major New Zealand banks, as a consequence of their Australian ownership, are subject to Australian regulatory oversight, and as such a required to meet Australian mortgage conditions including minimum interest rates, along with serviceability tests based around income and living expenses.
- 9.5. The Australian tests are designed to ensure borrowers are better placed to withstand unexpected economic outcomes including higher interest rates or lower household incomes.



www.thefirsthomebuyersclub.co.nz

15 September 2021

Submission to Reserve Bank of New regarding proposed Tightening of Loan to Value Ratio Restrictions

About Us:

Established in 2013, The First Home Buyers Club was setup with the purpose of educating, assisting, and advocating for first home buyers. Our current membership is over 11,000 members from across New Zealand.

Our Submission

On behalf of our members, we wish to respond to the Reserve Banks consultation paper with respect to the proposed LVR changes.

Points to Raise

There is no doubt that the changes proposed will have a huge impact on predominantly First Home Buyers and will add another massive hurdle for First Home Buyers who are already struggling to get into the market.

We have difficulty in understanding the logic that affordability will be improved by eliminating approx. \$300 million in funding monthly to first home buyers.

We do however fully appreciate the role the Reserve Bank must play in maintaining financial stability and its concerns regarding the risks associated with High LVR lending and would like to comment further on 2 points of detail.

1. Percentage change proposed in option A (from 20% to 10%)
2. Allocation of High LVR loans to First Home Buyers by Banks

Percentage Change from 20% to 10%

Concern

The consultation document comments that 'risk is rising slowly' and that NZ 'is well placed to weather shocks'. Given this tone, we question the need to implement a 50% reduction in the value of High LVR loans. This response does not appear to be commensurate with the level of risk stated.

Suggestion

We suggest that a tiered system be implemented which would allow for regular reviews, perhaps in line with OCR reviews. This way small changes can be made on more regular basis (either way up or down) dependent on market behavior. This would also create more certainty in the market as to when LVR restrictions are to be reviewed and possibly changed. A further suggestion might be to manage this on a traffic light system with tiers aligned to restriction levels and associated risk.

Allocation of High LVR loans to First Home Buyers by Banks

Concern

Allocation of High LVR loans is currently made by banks as they choose. Whilst this currently averages around a 75% allocation to first home buyers, there are no guidelines or transparency as to 'how' banks prioritise first home buyers.

Our concern is that the current 25% allocated to non-first home buyers will still be allocated to this group leaving the first home buyer group with only 50% rather than the current 75% level,

Suggestion

Given the pool of funds available for high LVR loans will shrink by 50% We suggest that banks be required to specify how priority is given to first home buyers and that an agreed percentage is ring fenced for allocation to only first home buyers.

First Home Buyer Feedback

As part of this submission we requested feedback from our membership. Here is a selection of their feedback.

As a first home buyer myself, I think it is important for the people designing this policy to actually hear from the ground sentiment. I feel that the proposed restrictions will negatively impact first home buyers.

My personal experience was that I went from being able to afford a 2-bedroom townhouse in South Auckland to not being able to afford one in the space of 6 months.

What the Reserve Bank is proposing will create intergenerational wealth gap that divides homeowners and renters which can create many possible social problems. Having a home should be an aspiration to any hardworking kiwis that want to afford one. Moving goal posts with a stroke of a pen will drive many of the younger generation to leave offshore as house prices become simply unachievable.

Back to the LVR proposal, it is my strongest recommendation that first home buyers should not be subjected to the tightening of LVR restrictions. This is to ensure that purchasing a property remain accessible for years to come.

"There will be minimal/no impact to rising house prices as long as there are investors able to purchase at these prices. The changes just serve to further cut first home buyers from the market which will reduce competition for investors going forward. Borders won't stay shut forever so eventually immigration will catch up again. To first home buyers, invest in another country, this one clearly doesn't give a shit."

"More first home buyers will have less of a chance of purchasing and would benefit buyers who already own properties or looking for investment properties."

"Making it even harder for first home buyers to buy a HOME. We are not speculators; we just want the security of owning our own home to bring up our almost teenage children."

"Feels a lot like 2014 when the Reserve Bank imposed LVRs "for our own good"
- haven't we learnt since then? This will make it harder for first home buyers trying to buy on a less than 20% deposit to get into the market - which is a lot of us"

"I cannot grow my deposit quickly enough that it keeps up with rising house prices"

"I am in the high earning category planning to buy a house with 10-12% deposit in Hamilton and think that the lowering of the speed limit for under 20% deposit will reduce my chances to buy our first home by 50% which is a huge disadvantage for me. Increasing the required deposit % will also have a negative impact on our ability to buy our first house. I totally feel disappointed in the Reserve Bank and disadvantaged as a first home buyer. People who are already in the property investment game will be unduly advantaged as there will be more people to rent a property as they will suffer further delays in buying their first house as they will need more deposit. They will have to continue paying rent rather than paying towards their mortgage. The rent and the mortgage are roughly the same amount. Not to mention the fact that the property prices will keep rising and the need for a higher deposit will keep rising too. The rich are getting richer and the poor are getting poorer. VERY UNFAIR!

"The barriers for first home buyers to owning a home is the deposit, with house prices having increased so much it's a lose-lose situation, it is becoming increasingly unrealistic to be able to save with a deposit particularly if you have to rent. "

"We have gone unconditional on a turn-key development that has not yet been built. We have paid our deposit of 10%. If the deposit required rises, not only will we not be able to buy our first home, but we risk losing all of our savings already paid."

"I don't think that responsible lending should be greater than 80% of the value of the property. I already comfortably have a 20% deposit for the price range I'm looking to buy in, so this isn't negative for me (although it might be for others who are willing to take on more risk)."

"With house prices increases to extremely high prices, especially those in Auckland. The gap is getting bigger and bigger. Having to provide a deposit of \$250,000 is extreme, a lot of kiwis will no longer have a chance. "

"I would prefer option A as that would allow scope for banks to prioritize remaining LVR percentage for first home buyers. Reaching current 20% is extremely challenging and an additional 5% will have a significant impact. The exemption for new builds may be of less relevance as building costs and uncertainty rises making them harder to reach for first home buyers"



17 September 2021

Cavan O'Connor-Close
Financial System Policy and Analysis Department
Reserve Bank of New Zealand

By email: macroprudential@rbnz.govt.nz

Confidential and commercially sensitive

Dear Cavan

Tightening Loan-to-Value Ratio Restrictions

Thank you for the opportunity to provide feedback on the Reserve Bank’s consultation *Tightening Loan-to-Value Ratio Restrictions*. We acknowledge the steps the Reserve Bank is taking to bring house price growth to a more sustainable level so as to better ensure financial system stability.

Any changes to loan-to-value (**LVR**) settings will impact some borrower groups more than others. The challenge with the design of these changes is to ensure that any negative impacts on particular borrower groups are minimised as much as possible – in this case, impacts on first home buyers. Of the two options proposed, Kiwibank supports decreasing the owner-occupier speed limit from no more than 20 percent of new lending at LVRs above 80 percent, to no more than 10 percent (Option A). That is because it:

- is specifically targeted at borrowers with lower equity levels who have less capacity to weather income loss in any future economic downturns;
- will have a lesser impact on first home buyers compared with Option B;
- will be simpler to implement within a short timeframe, both in terms of systems changes and frontline staff training.

Kiwibank’s lending at LVRs above 80 percent [REDACTED]
 [REDACTED]
 [REDACTED], in order to comply
 with Option A, [REDACTED]
 [REDACTED]
 [REDACTED].

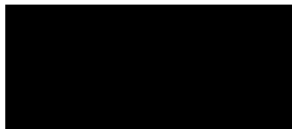
We actively monitor Kiwibank’s pre-approvals pipeline to minimise the risk that we will exceed agreed speed limits, but as this proposed change will occur over a very short timeframe, we

may experience some challenges. Kiwibank has pre-approvals in place for prospective buyers which still have up to 90 days to run before they expire. We wish to honour the commitments we have made to our customers who are in various stages of the home buying process. It is very likely that some of those customers may already be going unconditional on the strength of Kiwibank's pre-approval commitments. In order to meet those commitments, and to remain within the proposed speed-limits, we request that the applicable reporting period ends on 31 March 2022 which will allow those existing pre-approvals to be honoured.

We note that Kiwibank has also contributed to and supports the New Zealand Bankers' Associations submission on this consultation.

Please do not hesitate to get in touch if you have any questions or would like to discuss.

Yours sincerely



Liz Knight
Chief Risk Officer