

21 April 2020

*[Version for all registered banks subject to LVR restrictions, ie all except ANZ branch, Bank of China branch, CCB branch]*

Dear CEO,

### **Proposed changes to your bank's conditions of registration**

This letter is to advise you of changes the Reserve Bank intends to make to your bank's conditions of registration.

The proposed changes will remove the three conditions that impose restrictions on your bank's new residential mortgage lending at high loan-to-valuation ratios (LVRs).

### **Reasons for proposed removal of high-LVR limits**

The LVR policy is aimed at reducing the risks to financial stability from a severe correction in house prices. The Reserve Bank introduced LVR restrictions in October 2013 in response to high levels of high-LVR mortgage lending, and has adjusted policy settings as risks have evolved.

The current economic conditions resulting from the COVID-19 crisis have caused the Reserve Bank to consider the removal of LVR restrictions, given the counter-cyclical nature of the LVR policy. This action will also avoid any uncertainty around the implications of LVR limits from the mortgage deferral scheme. It is important that banks continue to provide support to borrowers during these extraordinary times.

The Reserve Bank intends to remove the LVR restrictions for a period of one year, until 1 May 2021. We have not yet determined what, if any, LVR limits will be needed in the future. This will be further considered ahead of the end of the 12 months, and will be consulted on as necessary.

Please note the following two matters:

- First, while LVR restrictions are being removed, the LVR surveys on new commitments remain in place for statistical and continuity purposes.
- Second, to avoid doubt, the removal of the LVR restrictions means that the anti-avoidance guidance set out in section 7 of BS19 ("Framework for Restrictions on High-LVR Residential Mortgage Lending") no longer applies.

### **New conditions of registration**

Section 74(2) of the Act provides that the Reserve Bank may, by notice in writing to a registered bank:

- (a) impose conditions of registration (whether or not the registration of the bank is subject to conditions of registration); or
- (b) vary, remove, add to or substitute any conditions of registration.

Under section 74(3) the Reserve Bank must not exercise a power referred to in subsection (2) unless:

- (a) the Reserve Bank gives the registered bank not less than 7 days' notice in writing of the Reserve Bank's intention to do so; and
- (b) the notice contains, or is accompanied by, a statement of the Reserve Bank's reasons; and
- (c) the registered bank has a reasonable opportunity to make submissions to the Reserve Bank; and
- (d) the Reserve Bank has regard to those submissions.

I enclose a copy of your current conditions of registration, marked up to show the proposed changes.

We would welcome any comments you may have by close of business on Wednesday 29 April.

If you have any questions or require any additional information please contact the analyst for your bank in the first instance.

Yours sincerely

Geoff Bascand  
Deputy Governor / GM Financial Stability