Reserve Bank of New Zealand
Te Pūtea Matua

PROCEDURES & DEFINITIONS

Debt-to-Income – New Commitments Survey

April 2024

Please contact the Reserve Bank Statistics Unit (statsunit@rbnz.govt.nz) to discuss these procedures and definitions if in any doubt about their meaning or if following them will produce an internal inconsistency with your available financial data.

Introduction

Purpose of Data Collection

The purpose of the RBNZ Debt to Income – New Commitment Survey is to monitor risk in banks mortgage portfolios and in the overall New Zealand financial system. The data also helps to measure the impact of the recent Loan to Value restrictions, to better measure risks across different buyer types and allows insights to debt serviceability.

General Requirements

Data provided in the template must be from the entity named on the contact page.

Date of reporting

This return is due by the 15th working day of the month following the end of the reference period.

Framework for Restrictions on High Debt-To-Income Residential Mortgage Lending

The document BS20 (Framework for Restrictions on High Debt-To-Income Residential Mortgage Lending (rbnz.govt.nz)) sets out the Reserve Bank of New Zealand's (the Reserve Bank) framework for imposing restrictions on high debt-to-income (DTI) loans by registered banks to the residential property sector (DTI restrictions). Loans to the residential property sector include loans secured by owner-occupied residential property and loans secured by residential investment property.

Reporting Instructions

(1) Only newly committed residential mortgage loans are to be reported in this survey.

(2) Report the number of commitments as one per loan application regardless of the number of mortgage loan products the borrower chooses to use e.g. a fixed portion and floating portion should be counted as one commitment.

(3) Report the value of commitments as the gross increase in credit associated with new commitments this month. Include increases to residential mortgage loans, including revolving credit limits (or similar facilities).

(4) Report dollar figures in millions to three decimal points, i.e. to the nearest hundred thousand New Zealand dollars. For example, $1,234,567.89 is reported as 1.234.

(5) Report values in white cells only. The grey cells will derive from data entered in white cells.

(6) Please review the high-level results and sign-off before submitting to the Reserve Bank.

(7) Submit all returns via the Secure Upload Facility. Please also submit any revisions via the Secure Upload Facility, with the reason for and full explanation of the revision clearly highlighted under "Revisions" in the "Sign-Off" tab of the return.

(8) Please clearly explain any "Significant Variances" or "Changes in Practice" in the fields provided in the Sign-Off tab. Please provide as much detail as possible regarding the changes, particularly in the initial stages of the survey implementation, when systems and the extent of data capture may be changing.

Definitions

New Commitment

A bank enters into a new commitment for a residential mortgage loan on the day that the bank sends the loan documentation to the applicant's solicitor. This is typically the day on which the bank has made an irrevocable offer to an applicant for a residential mortgage loan and the borrower has accepted the offer. By this point in the process the credit risk should be regarded as being the same as if the asset were already on the balance sheet.

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

Origination

The origination date is the time that a loan is committed to by the bank and includes any point in time at which there is a credit event in respect of a borrower.

Residential mortgage loan

Report all Property Investment and Non-property investment residential mortgage loans. These terms are formally defined in BS19 (BS19 - Framework for LVR restrictions - 2017 changes marked (rbnz.govt.nz)). Note that *reverse residential mortgage loans* do not need to be reported.

Business loans secured by residential mortgage

These commitments are made to borrowers in the form of a residential mortgage loan but are intended for business purposes. They are included as new commitments.

Unknown DTI

In extraordinary cases, it may not be possible to determine the debt-to-income ratio, and therefore to allocate a commitment to an DTI band. Such commitments should be reported in the "DTI unknown" bands. For policy purposes, including the application of DTI restrictions, these commitments will be treated as "DTI > 10".

First home buyer

A first home buyer is a borrower entering the home ownership market in New Zealand for the first time and purchasing or building a property they (or a related party) intend to owner-occupy. In the case of a borrowing party consisting of more than one borrower, then the borrowers are classified as first home buyers only if none have previously drawn down on housing finance for owner occupation.

If the borrower, or at least one of the borrowers, has previously drawn down on housing finance for owner occupation they should not be classified as a first home buyer.

The borrower declares whether they are a first home buyer as part of the loan application.

Owner occupier (no investment collateral)

Owner occupiers are borrowers who own or are in the process of buying or building a house or flat they (or a related party) will live in, or are borrowing against properties that meet that definition, are not first home buyers, and are not borrowing against any investment properties. An owner can occupy more than one property, e.g. a family home and a holiday home.

The definitions of related party and the criteria for a secondary home to count as owner occupied (essentially that rental income should be minimal) are described in BPR131.

Owner occupier (investment collateral)

Owner occupiers with investment collateral are borrowing for the purpose of purchasing or building a house or flat they (or a related party) will live in and are securing that loan at least partly against investment property collateral. An owner occupier with investment property collateral can occupy more than one property e.g., a family home and a holiday home.

Investor

Investors are entities or persons borrowing for the purpose of building or purchasing residential property to rent. The borrower is securing the loan at least partly on a non-owner occupied property and the borrower does not intend to live in the property (if any) they are seeking to build or purchase.

Regional split

Auckland loan

A loan is an Auckland loan if it qualifies as an Auckland loan (APIL or ANPIL) as defined by BS19 (note that BS20 does not define Auckland vs non-Auckland loans; however, we capture this in the DTI survey to give additional insights). This includes any loan that has any Auckland investment property as collateral. It also includes any loan that has an Auckland owner occupied property as collateral unless that loan also has investment property as collateral and those investment properties are all outside Auckland.

Non-Auckland loan

A loan is a non-Auckland loan if it does not qualify as an Auckland loan (so it is NAPIL or NANPIL as defined by BS19). This includes any loan that does not have Auckland collateral. It also includes loans which have investment property collateral if those investment properties are all outside Auckland, even if the loan also has Auckland owner occupied property as collateral.

The following instructions refer to the DTI new commitments survey. Please report by completing *Part 2 –TDTI totals* and *Part 3 – LTI totals, part 4- by BGI, part 5- by LVR and part-6 income and debt.* Please review the high-level results in part 1- summary and validation and sign-off before submitting to the Reserve Bank.

Instructions for completing *Part 2* – TDTI totals

2.1 to 2.14 Report the number and value of loans that are secured over Auckland property.

Please refer to page 3 of this document to see if it qualifies as an Auckland loan under the regional split. If this qualifies as an Auckland loan, please refer to the definitions in page 3 of this document to see if it qualifies as a first home buyer, owner occupier loan without any investment collateral, owner occupier loan with investment collateral or investor.

2.2 to 2.24 Report the number and value of loans that are secured over non-Auckland property.

Please refer to page 4 of this document to see if it qualifies as a non-Auckland loan under the regional split. If this qualifies as a non-Auckland loan, please refer to the definitions in page 3 of this document to see if it qualifies as a first home buyer, owner occupier loan without any investment collateral, owner occupier loan with investment collateral or investor.

2.3 Derived by adding 2.1 and 2.2.

2.4 Derived by adding the exemptions from 2.1 and 2.2.

Instructions for completing *Part 3* – Loan-to-income (LTI) totals

3.1 Include the value of all Auckland commitments (as defined in page 3 of the definitions document) for each of the LTI brackets from column G to O. For commitments where the LTI is not known, please include those values under the LTI unknown bracket (column P). Refer to the reporting instructions in part 2 for each type of Auckland loan. Refer to the Appendix for more detailed examples on LTI calculation.

3.2 Include the value of all non-Auckland commitments (as defined in page 4 of the definitions document) for each of the LTI brackets from column G to O. For commitments where the LTI is not known, please include those values under the LTI unknown bracket (column P). Refer to the reporting instructions in part 2 for each type of non-Auckland loan. Refer to the Appendix for more detailed examples on LTI calculation.

3.3 Derived by adding 3.1 and 3.2.

Instructions for completing *Part 4* – by BGI

4.1 to 4.4 Report the value of new commitments to first home buyers, owner occupier loan without any investment collateral, owner occupier loan with investment collateral, or investor to purchase or build a residential property, in the appropriate total DTI bucket also grouped with the borrower's gross income (BGI). In the event of multiple borrowers, income proportions are aggregated and included in the bucket the approximate income falls under. Example: Borrower A and Borrower B have a combined income of $100,000 and a combined mortgage of $120,000 for their first home. TDTI= ($120,000/100,000) =1.2. The new commitment will be reported in cell G21, row (d) BGI - 90,000 ≤ BGI ≤ 114,999 and under TDTI<=3.

4.5 Derived by adding the values in 4.1, 4.2, 4.3 and 4.4.

4.6 Derived from the totals in 4.1 and 4.2.

4.7 Derived from the totals in 4.3 and 4.4.

4.8 Report the value of total residential new commitments grouped by the appropriate BGI and LTI buckets. For example: Borrower A and Borrower B have a combined income of $100,000 and a loan worth total $160,000. LTI= $160,000/$100,000=1.6. The value of the new commitment will be reported in cell G129, row (d) where BGI - 90,000 ≤ BGI ≤ 114,999 and LTI<=3.

Instructions for completing *Part 5* – by LVR

Part 5 is structured in the same way as Part 4. For Part 5, reporting is based on the loan-to-value ratios of the new commitments. Report new commitment values in the appropriate LVR buckets from column G to P. Refer to the Appendix for more detailed examples on LVR calculation.

Instructions for completing *Part 6* – income and debt

Income

Report the value of gross income for each borrower type that falls within the appropriate DTI bucket with income categorised into wages and salaries, business income/self-employed income, boarder income, rental income, superannuation and govt. benefits and other income. These gross incomes should also be reported in the appropriate cells in questions 6.1, 6.2, 6.3 and 6.4. For example: First home buyers Borrower A earns a salary of $100,000 gross, they also have $8,000 rental income and an additional $20,000 income from selling potteries on their Instagram page. Borrower A's mortgage is $200,000 and they have no other debt. Borrower A's TDTI= $200,000/$128,000= 1.6. The value of gross income of $100,000 to be reported under the category wages and salaries, $8,000 to be reported as rental income and $20,000 to be reported as business income/self-employed income, all in row (a) TDTI<=3 bucket as their TDTI is 1.6.

Wages and salaries

Report all income earned through wages and salaries.

Business/Self-employed

Report all self-employed income including business income that is earned through personal income from business (e.g., shareholder salary or wages to business owners) or business surplus where the borrowing party has direct influence over the distribution of profits. Refer to example 8 in the appendix of this document (page 14) for more details on calculating business surplus.

Boarder income

Report all boarder income without any haircut.

Rental income

Report all rental earnings without any haircut.

Superannuation & other govt benefits

Report all income earned from superannuation & other govt benefits.

Other

Report all other income not specified.

6.5 Derived by adding 6.1, 6.2, 6.3 and 6.4.

Debt

6.6 Similar to 6.1-6.4, report the value of total debt for each borrower type that falls within the appropriate DTI bucket categorised into mortgage, consumer lending, student loans, business loans and other. These gross debt values should also be reported in the appropriate cells in questions 6.6, 6.7, 6.8 and 6.9.

Mortgage at own bank

Report values of borrowers' debt for mortgages held at reporting bank.

Mortgage elsewhere

Report values of borrowers' debt for mortgages held at other institutions.

Consumer lending

Report values of borrowers' debt for term loans, credit card loans, and overdrafts.

Business debt

When business debt and personal debt cannot be separated in a reasonable manner, then report the value of the full amount of the debt in the business debt bucket. Refer to appendix for a detailed example and page 4 of this document for detailed definition.

Student loans

Report student loans as debt.

Other

Report all other loans not defined.

6.10 Derived by adding 6.6, 6.7, 6.8 and 6.9.

Commitments for top-ups and refinancing more generally

These commitments should be reported as described above, based on the nature of the underlying collateral (they will either be "Owner occupier (no investment collateral)", owner occupier (investor collateral) or (Investor" loans). If a borrower is topping up or refinancing based on a mixture of investor and owner-occupied collateral, report them as owner occupier (investor collateral) if the majority of collateral value is owner occupied, otherwise as an "Investor".

Relationship to BPR131 "Property Investment" and "Non-Property Investment" loan

For the purposes of the DTI survey template and BS20, "First home buyer" and "Owner occupier (no investment collateral)" should sum to match the BPR131 and BS19 "non-property investment" concept. Similarly, the "Owner occupier (investment collateral)" and "Investor" categories should sum to match the BPR131 and BS19 definition of a "Property Investment" residential mortgage loan for the purposes of the DTI survey template and BS20. See Figure 1 below. In this way, we are collecting a breakdown of borrowers according to the purpose of their current borrowing and the nature of their collateral.

Figure 1

BS19	Reporting in template	Purpose
Non-property investor	First home buyer	First Home buyer
	Owner occupier (no inv collateral)	Owner Occupier
Property investor	Owner occupier (investment collateral)	
	Investor	Investor

Loan to Income ratio (LTI)

LTIs are conceptually like DTIs, but since they do not include total borrower debt, we can expect the DTI distribution of the mortgage portfolio to be higher than the LTI distribution.

Loan-to-income ratio = [loan value / total gross income]

Unknown LTI or TDTI

We are aware that in some rare instances banks may not have precise details on income for some borrowers. In these cases, banks should use the best available proxy, or if no reasonable proxy is available, the loan should be described as unknown LTI/TDTI. Examples of proxies that would not be reasonable include:

- Income data based on regional or suburb-level averages,

- Debt or income data based on portfolio medians or averages,
- Information not tied specifically to the individual customer.

Proxies should only be based on information about the individual borrower, where the information held is in not quite the right form. Proxies that would be reasonable include:

- Computing gross wages and salary income by re-inflating a regular fortnightly net payment to a matching expected gross annual salary.

We expect the need for proxies, and for reporting of unknown LTI/TDTIs, to decline over time as bank systems improve.

Borrowing party

A borrowing party may consist of a single borrower or a group of borrowers that is seeking a residential mortgage loan from a registered bank.

The scope of borrowing parties can also be complex, especially where one or more borrowers already have existing properties and debts.

Banks should seek to include all the debts of the same borrowers whose income is included in the calculation of the borrowing party. This includes the full amount of any joint debt that the borrowers hold with other parties outside of the borrowing party.

Further to this, income that does not belong to or is not attributable to the borrowing party must only be included if it will be used to service the new residential mortgage loan of the borrowing party.

See section 13 in BS20 for more detail.

Guarantors

If a guarantor is being excluded when computing income of the borrowing party (for example, the guarantor is not expected to service the new residential mortgage loan), the bank must not include the guarantor's debts in the total debt of the borrowing party.

If the 'guarantee' reduces the LVR of the borrowers, but it is expected that the main borrowers will service the whole loan, the guarantor's income should not be included, but the full loan should be included when computing LTI and TDTI.

An exception to this would be a loan that is interest free and does not require repayment until the sale of the associated property can be excluded from debt in the DTI calculation for the borrowing party. An example of this type of loan would be when parents gift the deposit for the purchase of a property, where the gift may be documented as a loan and secured with a second charge mortgage in order to protect these sums in case of a future marital separation.

Loan to valuation ratio (LVR)

DTI is part of a larger dataset that provides insights into the risk of new mortgage lending. It joins the loan-to-value ratio (LVR) survey, which measures new mortgage commitments by the value of mortgage loans relative to the valuation of the property. The LVR indicates the credit loss to banks in the event the borrower cannot service their debt.

- Loan-to-valuation ratio = [loan value / property value] x 100

Total gross income

Total gross (pre-tax) income includes wages and salaries, business/self-employment income, boarder income, rental income, superannuation and other government benefits and other income. Some of the key definitions for income are outlined below. For further detail on the measurement of income, see section 12 in BS20.

Self-employed income can take the form of personal income (for example, a shareholder's salary, or wages to business owners), plus business surplus where the borrowing party has direct influence over the distribution of profits. These amounts must be gross of tax. Business income and self-employment income are to be pooled together for the purposes of the template.

Business surplus can be included after accounting for personal income taken out of the business income (e.g. shareholder salary that is consistent over time is classified as personal income). The business might have extra profits on top of that, which the business owner could use to supplement the personal income that they take out.

For specific details on calculating business surplus, see section 12(9) in BS20. Some of the key points are:

- If a business has multiple shareholders, then business surplus should be apportioned according to the borrowing party's equity share.
- The bank may also adjust the business surplus in line with any determination it makes on whether the business surplus is sufficiently sustainable for ongoing servicing of the of the residential mortgage loan.

Projected business income and projected self-employment income must not be used when calculating income of the borrowing party. Specifically, estimates of business income and self-employment income should be based on historical data.

Rental income should be based on actual rent for properties that are currently rented, or a market estimate for properties that are not currently rented.

Variable income

- If one or more of the borrowing party's sources of income vary over a period of time, then the bank may use an estimate of the borrowing party's variable income in the calculation of total gross income for the purposes of this document. The bank may use its discretion and follow its standard lending assessment processes when deriving an estimate of the customer's variable income, whilst adhering to other regulatory requirements.
- Examples of income that may be variable include bonuses and commissions. For the purposes of this document, a bank may not treat the following as variable income: self-employed income, business income or rental income.

Foreign income may be included if it is acceptable to your bank's serviceability policy. It is recommended that the net foreign currency amount is converted to New Zealand dollars, and then the gross amount is calculated applying New Zealand tax rates.

Debt

The unweighted sum of all loan values (the limits of any revolving credit facilities plus the balance of outstanding loans) that the borrowing party is legally responsible for, at the time of application for the residential mortgage loan that the registered bank provides. It includes the new residential mortgage loan (and any other residential mortgage loans), personal loans (such as credit cards and overdrafts), student loans, and other debt. Some of the key definitions for debt are outlined below. For further detail on the measurement of debt, see section 11 in BS20.

Consumer lending: include values of borrowers' debt for term loans, credit cards, overdrafts.

Student loans: student loans are to be reported as debt.

Revolving credit facilities: facility limits, not the balance, should be included in the DTI calculation for the borrowing party. Examples of revolving credit facilities include credit cards, overdrafts, and revolving credit mortgages.

Business debt: business debt including business debt secured by residential property, must be excluded from debt in the DTI calculation for the borrowing party if clearly demonstrated the business debt is serviced fully by the business.

For the purposes of the template, if business debt and personal debt cannot be separated in a reasonable manner, then the full amount of the debt should be recorded in the business debt bucket at the banks' discretion.

Debt-to-income (DTI) ratio: in relation to a residential mortgage loan, is calculated by the following formula:

- Debt-to-income ratio $= \frac{\text{debt}}{\text{income}}$

Debt-to-income measurement period has the same meaning as in the registered bank's conditions of registration, for example, a three-month, six-month, or other period.

- loan value, for a residential mortgage loan-if made or provided by an IRB bank, has the same meaning as in section D3.3 of BPR133 (except that, when incorporating any off-balance sheet exposures in the loan value, the bank may apply a credit conversion factor of 100% rather than using its own EAD estimates); and
- if made or provided by any other registered bank, has the same meaning as in section C3.5 of BPR131.

Exemption categories

When DTI restrictions are in force, the number, and values of new commitments that a bank treats as "exempt" (see BS20 criteria) must be reported in this section.

There are seven types of exemptions, which should be reported as follows:

Kāinga Ora

These include loans made under Kāinga Ora First Home loan scheme or Kāinga Whenua programme. Refer to section 14(3)(a) in BS20 for details.

Refinancing

A loan that is taken out or will be taken out to refinance an existing residential mortgage loan that is to the same borrowing party as under the existing loan or to a related party of the borrowing party, is secured on the same property, and the value of the new residential mortgage loan is no more than that of the existing residential mortgage loan. Refer to section 14(3)(b) in BS20 for details.

Portability

These include owner-occupier housing loans that are taken out to finance the purchase of a new property, within three months of sale of the borrower's previous property. Refer to section 14(3)(c) in BS20 for details.

Bridging finance

These include loans that are taken out to complete the purchase of a residential property (the "new property") on a date before the date on which the borrower completes the sale of another residential property (the "old property"). Refer to section 14(3)(d) in BS20 for details.

Construction loan

These include loans to finance the construction or purchase of a new residential dwelling. Refer to section 14(3)(e) in BS20 for details.

Loan granted in error

These include loans where the bank committed to the loan without full understanding of the impact on the banks total high-DTI proportion. Should this exemption be applied the Reserve Bank of New Zealand needs to be informed in writing on how the error occurred. Refer to section 14(3)(f) in BS20 for details.

Property remediation

These include loans to finance residential property repair or remediation work, such as rectifying leaky buildings or seismic strengthening. The repair or remediation is not routine or deferred maintenance. Refer to section 14(3)(g) in BS20 for details.

Appendix

Below are a series of sample transactions that illustrate how we would expect banks to calculate and report the relevant metrics. The first two examples include detailed information on how to complete the key fields in the template. The remaining examples simply illustrate the expected TDTI calculations.

1) The pre-existing debt obligation including any other financial obligations declared by a borrower or borrowing parties across all lenders is $400,000 and the value of the new

commitment is $275,000. The annual gross income (as defined earlier in this document) is $150,000. The new loan is used to buy an investment property in Auckland (valued at $320,000) and is solely secured on that.

The Total Debt to Income Multiple is calculated as:
TDTI = ($400,000 + $275,000) / $150,000 = 4.5.

Because the new loan is only secured on the new property, it has a loan value of $275,000. So, the loan would also be reported as having a LTI of 1.8 ($275,000/$150,000) and an LVR of 86% ($275,000/$320,000).

The value of commitment ($275,000) should be reported as follows:

Instructions for completing *Part 2* – TDTI totals

- Table 2.1 row (d) in the TDTI >4<=5 bucket.

Instructions for completing Part 3 – LTI totals

- Table 3.1 row (d) in the LTI <=3 bucket

Instructions for completing Part 4 – by BGI

- Table 4.4 row (f) in the TDTI >4<=5 bucket
- Table 4.8 row (f) in the LTI <=3 bucket

Instructions for completing Part 5 – by LVR

- Table 5.4 row (d) in the TDTI >4<=5 bucket
- Table 5.8 row (d) in the LTI <=3 bucket

Instructions for completing Part 6 – income and debt

- The composition of the $150,000 annual borrower gross income should be reported in Table 6.4 in the TDTI >4<=5 bucket (row (c)).
- The composition of the $675,000 total debt obligations should be reported in table 6.9 in the TDTI >4<=5 bucket (row (c)).

One new commitment should be reported in Table 2.4 (2.3) row (d) in the TDTI >4<=5 bucket

2) **Student loans**

A customer has $100,000 in gross wage and salary income. They have $80,000 student loan and a $450,000 mortgage. They have no other income or debt. Their annual student loan deductions are $10,000.

Student loans are to be reported as debt and not as a deduction from income. This would give a TDTI of $530,000/$100,000 or 5.3.

3) **Consolidating borrowers**

A customer (2 borrowers, not necessarily related parties) has 4 rental properties held in an LTC, and one borrower also owns their own home (held in a trust). The combined wage and salary income of the customers is $300,000. The rental properties generate $100,000 in annual rent. Both customers have completely guaranteed the debt of the LTC, and the bank also has a mortgage over the customer's own home (in the trust).

The total mortgage debt is $1.5 million, and there are no other debts.

We would expect all these accounts to be consolidated for LVR purposes, and for DTI purposes as well. Thus, debt is $1.5 million and TDTI is $1,500,000/$400,000= 3.75

4) **Case where consolidation is not appropriate**

A customer is buying a first home for $500,000. Their parents provide a $100,000 limited guarantee secured against their own home (also mortgaged to the bank). The bank lends $480,000 to the customer, who has no other debts.

The LVR may be reduced by the guarantee provided by the parents, but as the customer is responsible for servicing the entire loan, parental income should not be incorporated into computations of LTI or TDTI. If the customer's income is $100,000, their LTI and TDTI should be computed as $480,000/$100,000 = 4.8. LVR=$380,000/$500,000=0.76

5) Limits to residential mortgage asset class

A company has been approved for total loans and credit limits with your bank of $21 million dollars. The exposure is individually managed, and the credit limits are based on projected cash flow rather than business collateral. As added surety, the bank has taken security over 2 residential properties owned by the controlling shareholder (total value $3 million). The exposure is not classed as a residential mortgage in your capital modelling.

We would not expect this to be treated as a residential mortgage loan or reported in LVR or DTI reporting.

6) Multiple borrowers and complex case example

Please refer to section 13 of BS20 for more detailed examples.

7) Where business debt cannot be separated

A customer runs a business out of their own home. The total debt secured against the home is $600,000, which includes debt that has been loaned to the business.

The business EBIT is $100,000. The business pays $15,000 in interest on the debt provided against the mortgage security.

The customer is responsible for servicing $600,000 in debt and this should all be included as the business portion of the debt cannot easily be separated from the residential portion. Their income should be computed as $100,000 (since the debt is being counted in the borrower's total debt, the business income should be calculated without deducting the interest costs of servicing that debt, and tax should also not be deducted, but expected reinvestment needs are deducted in line with policy). This gives TDTI = 6.

8) Use of business surplus

A customer owns their own business and wishes to purchase a house worth $650,000. Their business debt is: $400,000

They will use the surplus from their business to service the mortgage. The business surplus should be calculated as follows:

	Step		Comment
Step 1	Start with Net Profit After Tax (NPAT)	$150,000	The starting NPAT figure will already have accounted for shareholder salaries, and/or any salary/wages on a pay as you earn basis paid to the business owner(s); these items are part of the personal income assessment.
Step 2	Subtract sensitised serviceability costs (principal and interest) related to business debt	$50,000	As per the individual banks internal affordability framework
Step 3	Add back interest	$30,000	As per the borrower's profit and loss statement
Step 4	Add back depreciation	$10,000	As per the borrower's profit and loss statement (at the banks discretion)
Step 5	Gross up for tax	$140,000/(1-0.28) =$194,444	The business surplus should be grossed up

			using company tax rates.

The income would be reported in the self-employment bucket. The TDTI is: $650,000/$194,444 = 3.34

Amendments made to this document

The changes to this definitions document have been made in consideration of the feedback received from banks.

Business loans secured by residential mortgage	The definition for business loans secured by residential mortgage has been added to this document under new commitments (as per the LVR definition). For the purpose of reporting the value of new commitments, business loans secured by residential mortgage are included.
Auckland and non-Auckland loans	Provided further clarification on the reporting instructions for the treatment of Auckland and Non-Auckland loans.
Consumer lending category	To better align with our current surveys, the consumer lending category in DTI has been added and defined to include term loans, credit cards and overdrafts. All other loans not defined are to be reported in the "others" bucket. This document now has this clarification reflected.
Property and non-property investor split	To align our DTI survey closely with LVR, it has been decided to put owner-occupiers with collateral with investors for the DTI speed limit calculation. Previously, the template pooled owner-occupiers with collateral with owner-occupiers without collateral and first-home buyers. This update means that if a borrower has any investment collateral, then they are classed as an investor. This change is only for the purpose of calculating DTI speed limit and does not impact DTI reporting. Figure 1 and the definition of speed limits in this document has been modified to reflect this change and a paragraph relating to the relationship to BPR131 "Property Investment" and "Non-Property Investment" loan has been added.
Other minor changes	Other minor changes have been made around wording for better clarification.