26 August 2024

Debt-to-Income (DTI) data

Background

In April 2022, we announced our decision to add Debt-to-Income (DTI) to our macroprudential policy toolkit. This announcement was followed by a public consultation on the exposure draft of the DTI framework in November 2022. We released the updated DTI reporting framework in April 2023. This new framework set out the technical specifications that banks need to comply with if the DTI restriction tool was activated. Banks were given 12 months to prepare their systems for possible implementation of DTI restrictions. Subsequently, in April 2024, the new DTI reporting framework was activated, and banks were required to report under the new technical specifications. Due to system constraints a couple of banks provided DTI reporting under the new framework prior to April 2024. However, now all banks are submitting under the new framework as of April 2024. DTI restrictions were activated from 1st July 2024. The new lending restrictions allow banks to lend:

- 20% of owner-occupier lending to borrowers with a DTI ratio greater than 6
- 20% of investor loans to investors with a DTI ratio greater than 7.

While the new framework process has been developing from creation to implementation, we had still been collecting DTI data under the previous framework and publishing data on the Reserve Bank website. The release of the data on the 26th of August 2024 will have a series break with data up to March 2024 under the previous DTI framework and from April 2024 data published under the new DTI framework.

Table 1: Summary of additional changes to DTI reporting framework

Variables	Old DTI procedure	New DTI procedure
Business income/ self employment	Classified as only income from self employment.	After significant consultation it is now classified as both business income and self employment income. There was also clarification around defintions of business income reporting.
Student loan debt	Respondents had a choice to deduct from income or report as debt.	Treated as its own debt type and no longer deducted from income.
Rental income	A 25 per cent haircut was applied.	Treated as gross rental income.
Exemption data	Not collected.	Collection of exemption variables being – Kāinga Ora loans, Refinancing a mortgage,

Variables	Old DTI procedure	New DTI procedure
		Portability, Bridging finance, Property remediation, Construction loans.
Consumer debt	Personal loans and consumer debt	Greater clarity around the defintion of consumer debt. Broadly speaking this now includes: credit cards; personal loans; and overdraft debts.
Business debt		Greater consistency and clarification of definitions regarding business debt.

Data publication and observations

As outlined in our special note alongside publication of the DTI data on the 15th May 2024, we have been working with banks to ensure that data reporting fully aligns with the new definitions in the updated DTI framework. From our investigations, we have not found anything that leads to major series breaks in the current published series so far. Most of the substantial shifts occur prior to the introduction of the new DTI reporting definitions and lending restrictions. For example, in Figures 1 and 2 below we see the proportion of DTI >5 and DTI > 7 lending, relative to the total, decrease substantially well before the implementation of the framework and restrictions.

Figure 1: Share of new commitments to each borrower type with DTI > 5

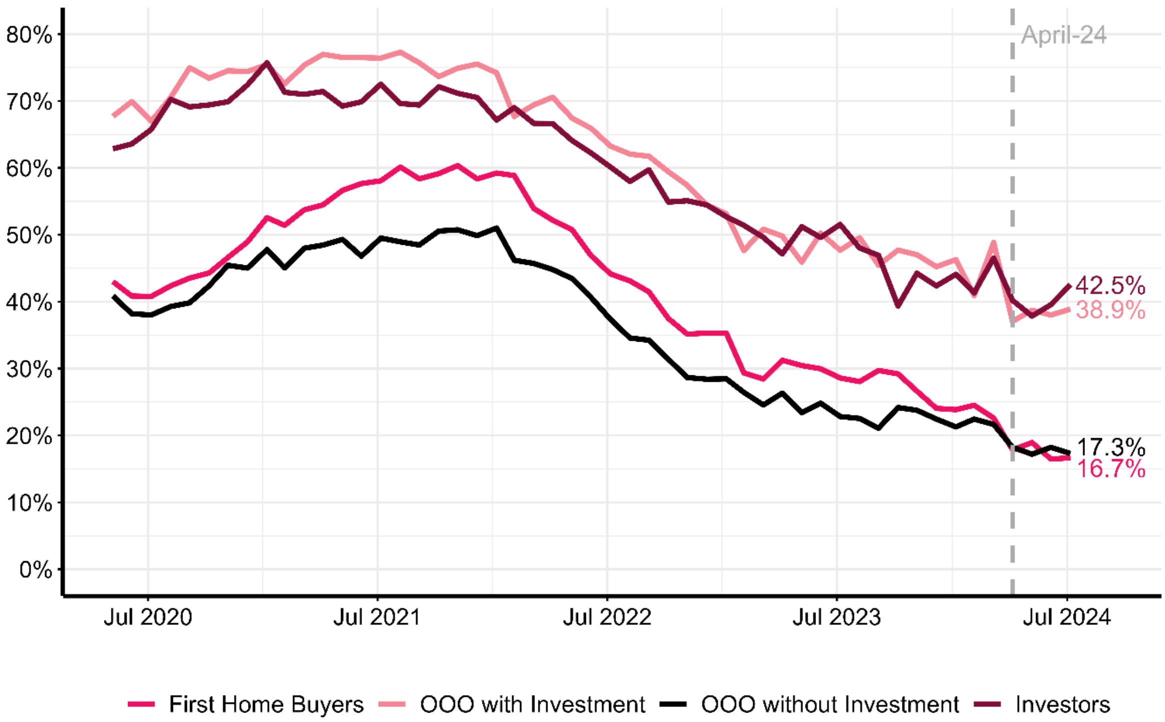


Figure 2: Share of new commitments to each borrower type with DTI > 7

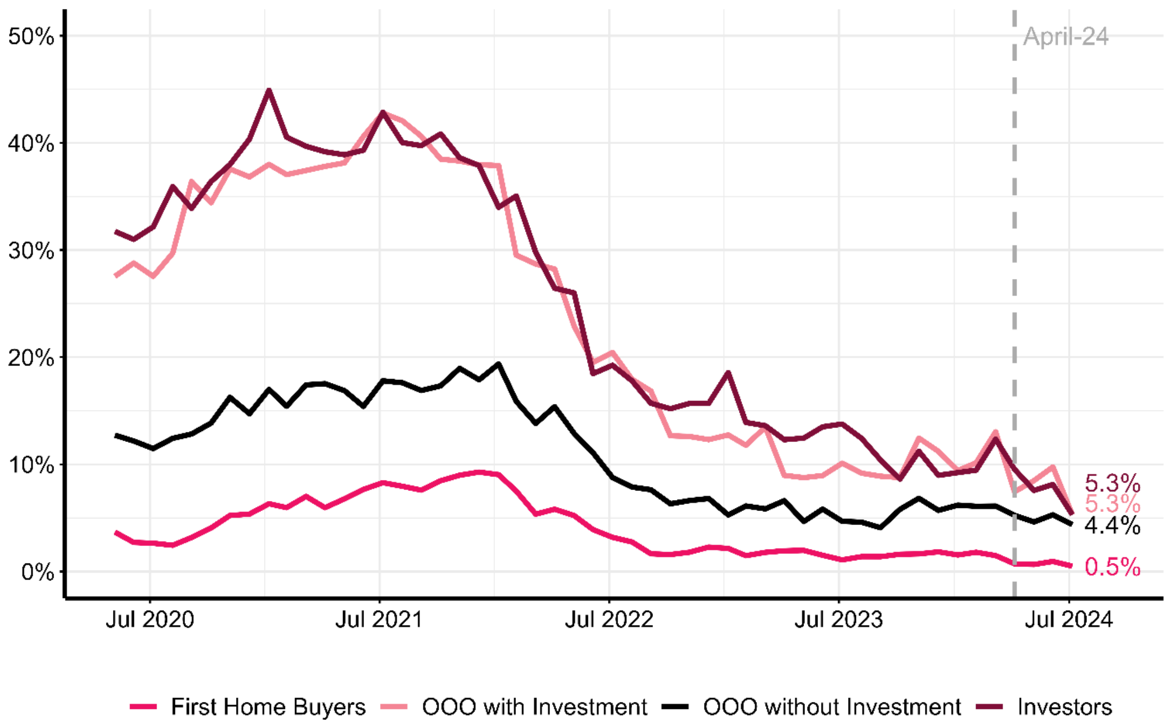
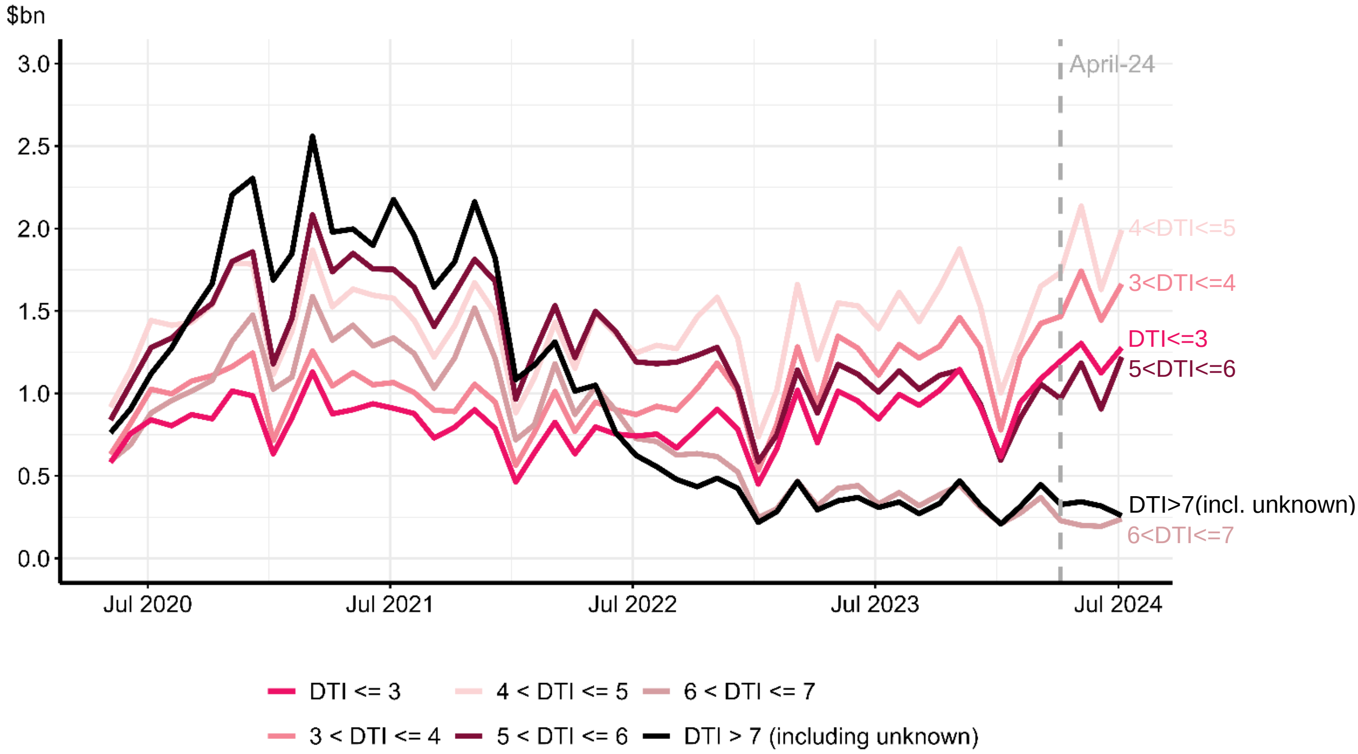


Figure 3 below shows the total value of new commitments by DTI groupings. It reinforces that higher DTI lending, which is those new commitments with DTI > 7 (including unknown), started trending downward well before the introduction of the new framework outlined above. A considerable proportion of the new lending has shifted out of the higher DTI buckets, which is DTI > 7 (including unknown), into the lower DTI buckets.

For example, total new commitments with DTI > 7 (including unknown) for July 2024 was 16.3 per cent lower when compared to the value observed in July 2023. Additionally, when compared to July 2022 this is 58.6 per cent lower. Whereas the value of new commitments with DTI < = 3, 3 < DTI <= 4, 4 < DTI <= 5, and 5< DTI <= 6 have increased by 72.8, 90.9, 59.9 and 2.5 per cent respectively over the same two-year period.

These changes may, in part, be driven by anticipated changes to the DTI framework; however, prior to the introduction of the framework some survey respondents self-imposed DTI limits on their lending.

Figure 3: Total value of new commitments by DTI grouping



Future publication plans

Due to the updated DTI reporting framework creating greater consistency in the data reported by registered banks, we are also looking at publishing additional aggregated time series data. Our team has been investigating income, debt and exemption data to ensure that, after implementation of the new reporting framework, it is suitable for publication. We are aiming to publish new tables in the coming months with additional data from our DTI survey and at more timely intervals to complement our monthly Loan-to-valuation data releases.