RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA

Framework for Restrictions on High-LVR Residential Mortgage Lending

Prudential Supervision Department
Document BS19

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Part 1—Introduction

1. Objectives for residential mortgage lending restrictions

(1) This document sets out the Reserve Bank of New Zealand's (Reserve Bank's) framework for imposing quantitative restrictions on the share of high loan-to-valuation ratio (LVR) loans by registered banks to the residential property sector.

(2) The Reserve Bank has powers under Part 5 of the Reserve Bank of New Zealand Act 1989 (the Act) to register banks and undertake prudential supervision of registered banks.

(3) Section 68 of the Act requires the powers under Part 5 of the Act to be exercised for the purposes of:

(a) promoting the maintenance of a sound and efficient financial system; or

(b) avoiding significant damage to the financial system that could result from the failure of a registered bank.

(4) As set out in the Memorandum of Understanding (the "Memorandum") on "Macro-prudential policy and operating guidelines" between the Governor of the Reserve Bank and the Minister of Finance, quantitative restrictions on the share of high loan-to-value ratio loans to the residential property sector may be deployed to address systemic risks to financial stability.

(5) The objective of the framework set out in this document is to help maintain financial stability, by providing the Reserve Bank with the practical means of imposing restrictions on the share of high-LVR residential mortgage lending undertaken by registered banks. Any decision to impose such restrictions will be taken within the operating guidelines for macro-prudential policy set out in the Memorandum, for the purposes of section 68 of the Act.

2. Entities subject to this policy

This policy applies to all New Zealand registered banks. However, for overseas-incorporated banks that have a branch in New Zealand, any high-LVR restrictions that are imposed would only apply to mortgage lending originated by the branch in New Zealand.

3. Conditions of registration

Section 74 of the Act permits the Reserve Bank to impose conditions of registration that relate to, among other things, the matter referred to in section 78(1)(fa) of the Act namely "risk management systems and policies or proposed risk management systems and policies".

4. Public disclosure

Under section 81 of the Act, the Governor General may, on the advice of the Minister of Finance and in accordance with a recommendation by the Reserve Bank, prescribe information or data that registered banks must publish in disclosure statements.

5. Regulatory reporting

Under section 93 of the Act, the Reserve Bank may require a registered bank to provide information, data or forecasts to the Reserve Bank. A notice under section 93 may specify:

(a) the periods for which, and form in which, the information, data or forecasts must be supplied; and

(b) the time by which the information, data or forecasts must be supplied.

Part 2—Conditions of registration

6. Standard conditions

(1) One of the Reserve Bank's policy tools within its macro-prudential framework is the use of quantitative restrictions on the share of high loan-to-valuation ratio (LVR) loans by registered banks to the residential property sector. If the Reserve Bank were to implement this tool under the decision-making processes of the macro-prudential framework, it would normally do so by imposing standard conditions of registration on all New Zealand registered banks. Appendix 1 sets out the standard forms of the conditions the Reserve Bank may impose.

(2) Condition 1 restricts the share of a bank's new residential mortgage lending over each specified period that falls within the specified higher-LVR ranges.

(3) The version of condition 1 in Appendix 1 is indicative only. The condition will normally fall within the following parameters:

(a) The condition will include one or more LVR restrictions, each specifying a permissible proportion of new high-LVR lending as a percentage of all new or increased mortgage lending made in the specified time period: for example, of the total value of such lending in a three month period, no more than 5 percent may relate to loans with LVRs of more than 95 percent.

(b) The lower boundaries of the LVR ranges will be set in multiples of 5 percent from 60 percent upwards. Every LVR range will exclude its lower boundary, that is, it will be expressed as new lending with an LVR of more then X percent.The maximum percentage levels for each range may in principle be any amount.

(4) The restrictions will normally apply over a three-month rolling period for banks with new mortgage lending flows of more than $100 million per month, and a six-month rolling period for other banks. Conditions will normally apply from the first day of a month, and the first period during which the restrictions would apply would be the three or six calendar months starting from that date. The second period would be the three or six months starting one month later, and so on. The Reserve Bank will use the cut-off limit of $100 million per month to determine which banks are subject to LVR restrictions on a three month basis, and which on a six month basis. This judgement will be made at the time that it imposes LVR restrictions, on the basis of recent housing lending data. While LVR restrictions are in place a bank may be switched from one category to the other if the Reserve Bank judges that its monthly mortgage lending has persistently fallen below or risen above $100 million.

(5) Condition 2 in Appendix 1 requires a bank to include in its standard terms and conditions for any new residential mortgage loan a requirement of the loan contract or

the mortgage terms and conditions, as applicable, that the borrower may not grant any additional security over the property without the bank's prior agreement.

(6) Condition 3 requires that the bank must not give such agreement unless the total of the loan value of the bank's existing mortgage loan and the value of the lending against the additional security taken over the property, as a percentage of the property value, remains at or below the lowest point of the restricted LVR ranges specified in condition 1.

(7) Condition 4 in Appendix 1 prevents a bank from making a new loan secured by a second or lower ranking mortgage over residential property if there is an existing mortgage over the property held by another lender, unless the total LVR of all lending secured on the property, including the new loan, would remain at or below the lowest point of the restricted LVR ranges specified in condition 1 once the new loan is drawn down.

(8) Conditions 1 to 4 will apply to each New Zealand-incorporated registered bank as a legal entity. For branches of overseas-incorporated banks, these conditions will apply to the New Zealand business of the registered bank. This reflects the significant burden that would be imposed on an overseas bank by requiring it to be able to identify all New Zealand residential mortgage lending booked in the bank in any other jurisdiction. The Reserve Bank expects that such lending would be immaterial unless the bank deliberately used its New Zealand operations to facilitate it.

(9) Condition 5 is intended to reduce the scope for a registered bank to use other parts of the banking group (in the case of New Zealand-incorporated banks), or overseas offices of the bank (in the case of overseas-incorporated banks) to undermine the intent of high-LVR restrictions. The version of this condition applying to overseas-incorporated banks allows for the situation where an overseas branch of the bank may provide a New Zealand mortgage loan to an individual without the knowledge of anyone in the New Zealand branch, but may then reasonably ask the New Zealand branch to help finalise the loan. The notification requirement will allow the Reserve Bank to monitor how often this happens.

(10) After imposing such conditions, the Reserve Bank will keep under review the impact on high-LVR residential mortgage lending, and on the credit and housing price cycle more generally. In light of changing circumstances the Reserve Bank may remove the conditions, or may vary them in order to tighten or loosen their settings as appropriate.

7. Anti-avoidance

(1) A registered bank should not enter into any arrangement to avoid the LVR restrictions in its conditions of registration.

(2) The Reserve Bank has identified the following activities as a non-exhaustive list of methods that a bank could use to actively avoid the impact of LVR restrictions:

   (a) entering into a series of separate contracts to create what in substance is a single residential mortgage loan transaction;

   (b) entering into an arrangement with a borrower to channel funding to the borrower through a third party, to enable the borrower to purchase a residential property with total borrowing which would count as a high-LVR loan for the bank if it was all provided by the bank;

(c) directing the borrower to another lender who lends the borrower an amount such that the bank can provide a new residential mortgage loan to the borrower with an LVR less than the LVR restriction threshold; or

(d) arrangements involving the use of additional collateral to hold the LVR on a residential mortgage loan below the LVR restriction threshold.

(3) The Reserve Bank recognises that arrangements of the type identified in subsection (2) can be used for legitimate business purposes, and as such is not ruling out those uses. Rather, the Reserve Bank's expectation is that banks will not exploit or promote such arrangements to avoid the LVR restrictions. Should concerns arise, the Reserve Bank would look closely at the extent to which, and over what period, any registered bank was increasing its use of such arrangements, measured by total volume or as a proportion of all of its residential lending. The Reserve Bank would also be concerned about more prominent marketing of products based on such arrangements.

(4) If at any point it appears to the Reserve Bank, taking into account the considerations above, that an individual bank is entering into arrangements to avoid any LVR restrictions, or, for example, is systematically exploiting definitions, the Reserve Bank would consider taking action against that bank. Such action could address the concern directly by varying the standard LVR conditions or by imposing an additional condition relating to LVRs, or could take some other form as appropriate.

8. Variations to standard conditions of registration

(1) The Reserve Bank will give registered banks at least two weeks' notice of its intention to impose, vary or remove such conditions. (Section 74(3) of the Act requires the Reserve Bank to give at least seven days' notice.)

(2) The Reserve Bank will normally apply the standard conditions of registration across all registered banks in New Zealand (with the variants shown for overeas-incorporated banks and banks with lower amounts of mortgage lending). In particular, if a new bank is registered during a period when LVR restrictions are in force, the standard LVR condition would be included in the new bank's conditions of registration from the date that it is first registered.

(3) The Reserve Bank may in exceptional cases exclude a registered bank from the general imposition of the standard conditions. This would for instance be the case if the bank was prevented from originating mortgage loans by its existing conditions of registration.

9. Transitional arrangements

(1) At the point that the Reserve Bank first decides to impose restrictions on high-LVR lending, it will do so by imposing conditions of registration in line with Appendix 1, with the definition of "loan-to-value measurement period" for condition 1 as shown.

(2) This means that when the restrictions are first imposed, the first period over which the amount of high-LVR lending will be measured will be the six calendar months starting on the date on which the conditions take effect. This will apply to all registered banks that are subject to the conditions, regardless of the amount of mortgage lending they carry out. For banks with mortgage lending over $100 million per month, the second measurement period will be the three months ending one month after the first measurement period, and subsequent measurement periods will be three months long using this standard monthly rolling pattern. For other banks the measurement periods will remain six months long on a monthly rolling pattern.

(3) On subsequent occasions when the Reserve Bank imposes restrictions on high-LVR lending, the first measurement period for banks with more than $100 million of monthly mortgage lending will be the three months starting from the day that the conditions take effect, and the rolling monthly measurement will continue from then. Other banks will be subject to six month measurement periods.

10. Definitions

For the purposes of this document, including for conditions of registration imposed under the Act,—

“BS2A” means the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” dated March 2013

“BS2B” means the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” dated May 2013

“exempt”, for a residential mortgage loan, means the residential mortgage loan is treated by the registered bank as exempt under section 12

“IRB bank” means a New Zealand-incorporated bank that is accredited by the Reserve Bank to use the internal ratings-based approach to credit risk for capital adequacy purposes

“loan value”, for a residential mortgage loan,—

(a) if made by an IRB bank, is the “current loan balance” used to calculate the “loan to value ratio” under section 4.150A of BS2B for the security to which the residential mortgage loan relates, using the registered bank’s approach to determining capital requirements for credit risk as accredited by the Reserve Bank; and

(b) if made by any other registered bank, has the same meaning as “loan value” as defined for the purpose of defining “loan-to-valuation ratio” in section 37 of BS2A for the residential property on which the residential mortgage loan is secured

“loan-to-valuation 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-to-valuation ratio”, in relation to a residential mortgage loan—

(a) if made by an IRB bank, has the same meaning as “loan to value ratio” as defined in BS2B; or

(b) if made by any other registered bank, has the same meaning as in BS2A

“property value”—

(a) for an IRB bank, has the same meaning as the value of the security referred to in section 4.150A of BS2B; or

(b) for any other registered bank, has the same meaning as in BS2A

“qualifying mortgage loan” means a residential mortgage loan that is made by a registered bank and is not exempt

“qualifying mortgage loan commitment”, as evidenced by the loan documents provided by the registered bank to the borrower, means the finalised offer given by the registered bank to a borrower to—

(a) provide a qualifying mortgage loan; or

(b) increase the loan value of an existing residential mortgage loan

"qualifying new mortgage lending amount" is the sum of—
(a) the total of any loan values associated with a qualifying mortgage loan commitment made by the registered bank in a loan-to-valuation ratio measurement period; and
(b) the total of any increase, during a loan-to-valuation ratio measurement period, in the loan values associated with a residential mortgage loan previously made by the registered bank

"residential mortgage loan" means a loan or lending facility that—
(a) if made or provided by an IRB bank, is fully or partially secured by a mortgage over a residential property in New Zealand and is included in the bank's "residential mortgage" category under its internal ratings based approach to credit risk; or
(b) if made or provided by a registered bank that is not an IRB bank, is fully or partially secured by a first ranking mortgage over a residential property in New Zealand that is used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor

11. Guidelines—qualifying new mortgage lending amount

Overview

(1) The LVR restrictions apply to every qualifying new mortgage lending amount on a residential property that the registered bank creates during each loan-to-valuation measurement period. A qualifying new mortgage lending amount can arise from a commitment to provide a new residential mortgage loan, a commitment to provide an increase on an existing residential mortgage loan, or an increase that arises in the loan value associated with a residential mortgage loan without going through a formal commitment process. Measurement of the amounts is based on the "loan value" associated with the residential mortgage loan, as used by the bank for the purpose of its capital adequacy framework, or in the case of overseas-incorporated banks, for the disclosure of mortgage lending by LVR. If the new mortgage lending amount does not arise from a commitment for a new mortgage, the amount is measured as the increase in the loan value associated with the mortgage. Qualifying new mortgage lending amounts do not include commitments to provide a new residential mortgage loan that the bank treats as exempt under one of the exemption categories.

Timing—commitments for new mortgages

(2) For the purposes of this policy, a bank enters into a qualifying mortgage loan commitment for a new residential mortgage loan when the bank offers an applicant the loan in final form. This is typically the day on which the bank sends the loan documentation to the applicant's solicitor, or an equivalent stage in the process if the applicant is not using a solicitor. By this point the credit risk should be regarded as being the same as if the asset was already on the balance sheet.

(3) Commitments do not include loan pre-approvals that may or may not lead to a final offer of a loan. Necessary (but not sufficient) conditions for a qualifying loan commitment for a new mortgage 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 lending facility, for the facility limit.

Timing—increases in mortgage lending

(4) In cases where an increase in lending on an existing residential mortgage loan requires amendment to the loan or mortgage documentation and involve the borrower

instructing a solicitor, the date on which the increased loan amount applies corresponds to that for a new mortgage loan, namely the date that the bank sends the loan documentation to the borrower's solicitor, or the equivalent stage in the process. In other cases, the increase in lending over the loan-to-valuation measurement period is the total increase in the drawn-down balance from the beginning to the end of the period.

Relation to switch-on date

(5) If the bank has entered into a qualifying mortgage loan commitment before the date on which the LVR conditions of registration come into force (the "switch-on date"), the conditions do not apply to that commitment. Conversely, if a bank has given a customer a mortgage pre-approval before the switch-on date of the conditions, but the pre-approval does not result in a qualifying mortgage loan commitment until after the switch-on date, the conditions do apply to that commitment.

Treatment of loan draw-downs

(6) In cases where a new residential mortgage loan is included in the LVR restriction calculation in respect of its commitment date, or where a top-up on an existing residential mortgage loan requires updated documentation in line with sub-section (4), the date (if any) on which amounts are subsequently drawn down is not relevant. In the case of other increases in existing residential mortgage loans, the relevant date (or dates) are those of actual amounts being drawn down during the period.

(7) Committed but undrawn amounts on an existing mortgage lending facility that was established before any period defined in conditions of registration are not included in new commitments for that period. Amounts drawn down during the period under revolving mortgage facilities are not included as an increase in lending provided the loan balance remains within the facility limit. If the borrower requests an increase in the facility limit, the amount of the increase is included in the LVR restriction calculation on the date determined as above.

Loans not included

(8) To avoid any doubt, a Kainga Whenua loan provided by Housing New Zealand is not a residential mortgage loan.

12. Exemption categories

(1) A registered bank may treat a residential mortgage loan as exempt only if:

Housing New Zealand

(a) the loan is made or will be made under Housing New Zealand's Mortgage Insurance Scheme, including the Welcome Home Loan scheme;

Refinancing

(b) the loan is taken out or will be taken out to refinance an existing residential mortgage loan, and the new loan is to the same borrower as under the existing loan or to a related party of the borrower, 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;

Portability

(c) a natural person or a related party of the natural person uses the loan to purchase a residential property that the natural person intends to occupy as their principal residence, and the natural person is either currently occupying, or has occupied within six months of the date of the new residential mortgage loan commitment, another residential property for which the natural person or a related party of the natural person is or was a borrower under a residential mortgage loan, and—

(i) if the previous residential mortgage loan has been repaid, the value of the new residential mortgage loan is no more than the corresponding value for the previous residential mortgage loan at the time that it was repaid and before the application of the final payment; or
(ii) the value of the new loan is no more than the corresponding value for the existing residential mortgage loan on the property that the natural person is moving out of, on the date that the new commitment is made; or

Bridging finance

(d) the loan ("bridging finance") is to enable a person to complete the purchase of a residential property (the "new property") on a date before the date on which that person completes the sale of another residential property (the "old property") provided that—

(i) a natural person, who is either the person purchasing the new property or a related party of that person, intends to occupy the new property as his or her principal residence after the completion date of the sale of the old property, and has occupied the old property as his or her principal residence until the completion date of the purchase of the new property;
(ii) the registered bank requires the bridging finance to be repaid as soon as the sale of the old property has been completed;
(iii) this exemption lasts until the date one year after the date on which the bank first committed to providing the bridging finance, and on that date the value of the increase in lending to the borrower arising from the bridging finance must be included in the LVR restriction calculation for loan-to-valuation measurement periods including that day; and
(iv) to the extent that a residential mortgage loan is expected to remain outstanding on the new property once the bridging finance has been repaid, the calculation of the LVR restrictions must include the loan value associated with a commitment for a new residential mortgage loan, dated when the bank is first committed to providing that loan. The new loan may be treated as exempt if it meets the conditions for any of the other exemptions listed in this section.

(2) For the purposes of subsections (1)(b) and (1)(c), a person is a related party of another person if:

(a) one person is a trust, or a trustee of a trust and the other person is a beneficiary of the trust; or

(b) one person is a company or unincorporated entity and the other person is a shareholder of, or otherwise controls, the first person; or

(c) one person is a natural person and the other person is the spouse, civil union or de facto partner of the first person or is the estate of the spouse, civil union partner or de facto partner of the first person.

13. Guidelines—exemption categories

(1) When applying the exemptions, a bank should take a "substance over form" approach, taking into account the intention of each of the exemptions, as described in this section.

(2) The exemption of a loan is framed so that if a bank is unable to, or opts not to determine conclusively whether or not a particular loan commitment falls within one of the exemption categories, the loan will be a qualifying mortgage loan. The definition of "qualifying new mortgage lending amount" means that exemptions are only available for commitments to make new residential mortgage loans, not for increases in lending on existing residential mortgage loans.

(3) The exemption categories in paragraphs 12(1)(b) and (c) are intended to allow transferability of existing high-LVR lending. Under 12(1)(b), if a person has a residential mortgage loan falling within one of the LVR ranges that is restricted, that person will be able to switch to a different lender or to new mortgage terms on the same property, and still borrow up to the same amount without being affected by the restrictions. Paragraph 12(1)(c) similarly allows a person who is moving house to borrow up to the same amount on the new property without being affected by the restrictions, but in this case the exemption is only available to owner-occupiers, and there is a time limit of six months on this transferability. Both of these exemptions apply only to the amounts of the old and new residential mortgage loans, that is, they exclude additional borrowing by the customer that may fall within the registered bank's definition of "loan value" associated with the residential mortgage loan. If either the old or the new mortgage loan is in the form of a revolving lending facility, the exemption applies to the facility amount.

(4) The exemption in paragraph 12(1)(d) is intended to allow an owner-occupier who is moving house to take out a bridging loan for up to 12 months if they have not been able to sell their existing house before completing the purchase of their new house, without the total bridging loan amount being caught within the restrictions of the policy. The LVR restrictions are intended to apply to the mortgage loan on the new property as it will be once the bridging finance has been repaid. The new loan may in turn be exempted from LVR restrictions if it satisfies the conditions for one of the other exemptions. If the person has not been able to repay the bridging loan after 12 months, it is treated at that point in the same way, for the purpose of LVR restrictions, as it would have been treated if it had not been exempt originally.

(5) The definition of the term "related party" in subsection 12(2) and the way it is used in the exemptions in subsection 12(1) are intended to capture commonly used ownership vehicles for residential property, and cases where ownership may be transferred without any actual new lending occurring. For example, in the case of loan refinancing on the same property (subsection 12(1)(b)), the exemption allows cases such as a husband transferring ownership to his wife (or vice versa), ownership being transferred into a family trust, or ownership transferring from the estate of a recently deceased person to their widow(er). In the exemptions which involve moving house (12(1)(c) and 12(1)(d)), a key requirement is that there is one natural person who was living in the former house and is living in the new house, but beyond that, the wording allows a range of alternative combinations of owner, borrower and occupier, provided that they are all related as per the definition of related party.

14. Guidelines–verification of third-party information

(1) The registered bank will need to obtain adequate verification of third-party information in any of the following circumstances:

(a) If the bank wishes to exempt a residential property from the high-LVR restrictions using the refinancing exemption (subsection 12(1)(b)) or the loan portability exemption (subsection 12(1)(c)), and if the bank has not been the provider of the previous residential mortgage loan, the bank will need to obtain information from the borrower on the previous loan amount.

(b) If the bank wishes to exempt a residential property from the high-LVR restrictions using the loan portability exemption (subsection 12(1)(c)) or the bridging finance exemption (subsection 12(1)(d)), the bank will need confirmation that the individual in question has occupied the old property and will occupy the new property.

(c) If the bank wishes to permit one of its existing residential mortgage borrowers to take out a loan from a third party secured by a lower-ranking charge, within the restrictions of standard condition 3, it will need to verify the amount of the new loan, and the property valuation at the time.

(d) If the bank wishes to provide a loan secured on a residential property which is already used as security for a loan from a third party, within the restrictions of standard condition 4, it will need to verify the amount of all third party lending secured on the property, and the property valuation at the time.

Verification of third-party loan amounts

(2) The registered bank must take reasonable steps to verify the amount of an actual or intended loan. For example, if the loan has been repaid or is still outstanding, an acceptable approach would be to obtain copies of recent loan statements from the borrower. If the loan is an intended rather than an existing loan (in relation to condition 3), acceptable verification would include confirmation from the intended lender of the amount of the loan that the borrower has applied for.

Verification of occupation of property

(3) To confirm that an individual has occupied a property as their principal place of residence, or to confirm an individual's intention to occupy a property as their principal place of residence, acceptable practices include the registered bank obtaining a signed statement to that effect from the individual.

Verification of property value

(4) The circumstances where the property value has to be determined involve either the bank or a third-party lender providing a new loan secured on the property. The Reserve Bank therefore expects that the borrower will be required to obtain a new valuation of the property. To verify the property value, the registered bank must obtain a copy of a current valuation. The valuation must be carried out to a standard consistent with the approach the bank uses to value residential properties for—

(a) determining its capital adequacy requirements in the case of a New Zealand-incorporated bank; or

(b) meeting its LVR disclosure requirements in the case of an overseas-incorporated bank.

15. Illustrative example of LVR restrictions

The following is a worked example of how LVR restrictions would apply in a particular case:

Time period: the three calendar months from 1 February 2013 to 30 April 2013 inclusive.

A bank takes on 150 commitments to provide new residential mortgage loans during this period (that is, the date on which each of these becomes a commitment in terms of Section 11 of this document falls on a date within the three months).

Twelve of these commitments are for mortgage loans falling within the exemptions in Section 12 (eg Welcome Home loans).

Of the 138 qualifying mortgage loan commitments, 17 have LVRs in the 80 percent-and-over range, of which ten have an LVR in the 90 percent-and-over range.

The total loan value associated with the 138 loans is $70 million. The total loan value associated with the 17 loans is $6 million, with 10 of these loans having LVRs in the 90 percent-and-over range and a total value of $4 million.

Assume that LVR restrictions are in force with the settings exactly as shown in Appendix 1.

In this case the bank –

- breaches sub-clause (a) of condition 1 (the loan value associated with LVRs over 90 percent ($4 million) is 5.7 percent of the total qualifying mortgage loan value ($70 million): the maximum allowed is 5 percent), and
- complies with sub-clause (b) of condition 1 (the loan value associated with LVRs over 80 percent ($6 million) is 8.6 percent per cent of the total qualifying mortgage loan value ($70 million): the maximum allowed is 12 percent).

Part 3—Requirements for public disclosure and regulatory reporting

16. Disclosure requirements

(1) A registered bank must comply with the Reserve Bank's requirements for public disclosure in relation to LVRs. These requirements apply to branches of banks incorporated overseas as well as to New Zealand incorporated banks. Further, directors of a registered bank, and the New Zealand chief executive officer for a registered bank incorporated overseas, must attest in disclosure statements that the registered bank has, at the reporting date and over the accounting period, complied with the requirements set out in the bank's conditions of registration.

(2) The requirements for public disclosure are set by Orders in Council, from which the following paragraph summarises the LVR-related disclosure requirements applying to registered banks.

(3) In its disclosure statement made each quarter, a registered bank must disclose a breakdown of its stock of housing lending broken down by LVR category. Loans for which no LVR figure is available must be included in the over-90 percent LVR category.

(a) IRB banks disclose the total exposure amounts, including the credit-equivalent amount of any off-balance sheet exposures as used in their capital calculation. The valuation used in the LVR ratio is the value of the property at the origination date of the loan. The LVR categories are LVR≤60%, 60%<LVR≤70%, 70%<LVR≤80%, 80%<LVR≤90%, and LVR> 90%.

(b) Other New Zealand-incorporated banks and branches of overseas-incorporated banks disclose the amount of residential mortgage loans in accordance with the definitions in BS2A. The LVR categories are LVR≤80%, 80%<LVR≤90%, and LVR> 90%.

(4) The Reserve Bank intends to review these disclosure requirements in light of experience with the new regulatory reporting on LVRs, and after considering what additional public information the financial markets and commentators may be interested in during periods when high-LVR restrictions are in force.

17. Reporting to the Reserve Bank

(1) The Reserve Bank is putting in place reporting requirements on the LVR breakdown of banks' residential mortgage lending. This will provide a more detailed breakdown than is currently in the disclosure requirements, and will cover monthly data on new commitments as well as the outstanding stock of housing lending.

(2) We intend to use these reports generally to monitor credit conditions and the build-up of credit risk in the housing market. During periods when LVR restrictions are in place, we will also use these reports to help monitor compliance with the restrictions, and to assess other impacts they may have, for instance on the availability of credit to small businesses.

(3) While this data will be provided to the Reserve Bank on a confidential basis, we expect to publish a subset of the data aggregated across banks when consistent, standardised data are available.

Appendix 1 – Standard conditions of registration

The following are the standard conditions of registration for quantitative LVR restrictions. The figures used here are purely illustrative, and should not be taken as an indication of what the Reserve Bank would impose in any particular circumstance.

Conditions for locally incorporated registered banks

1. That, for a loan-to-valuation measurement period, the total of the registered bank's qualifying new mortgage lending amounts must not—
   (a) for residential properties with a loan-to-valuation ratio of more than [90%], exceed [5%] of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period; and
   (b) for residential properties with a loan-to-valuation ratio of more than [80%], exceed [12%] of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

2. That the registered bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

3. That the registered bank must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed [80%] of the property value of the residential property when the lending secured by the charge is drawn down.

4. That the registered bank must not provide a residential mortgage loan if the residential property to be mortgaged to the registered bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed [80%] of the property value when the residential mortgage loan is drawn down.

5. That the registered bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

In conditions of registration 1 to 5,—

"loan-to-valuation ratio", "loan value", "property value", "qualifying new mortgage lending amount" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated [month year]:

"loan-to-valuation measurement period" means—
(a) the six calendar month period ending on the last day of [month year]; and
(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of [month+1 year].

[Alternative for banks with lower mortgage lending:
"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of [month year]]

Conditions for overseas incorporated registered banks

1. That, for a loan-to-valuation measurement period, the total of business of the registered bank in New Zealand's qualifying new mortgage lending amounts must not—
   (a) for residential properties with a loan-to-valuation ratio of more than [90%], exceed [5%] of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period; and
   (b) for residential properties with a loan-to-valuation ratio of more than [80%], exceed [12%] of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

2. That the business of the registered bank in New Zealand must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

3. That the business of the registered bank in New Zealand must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed [80%] of the property value of the residential property when the lending secured by the charge is drawn down.

4. That the business of the registered bank in New Zealand must not provide a residential mortgage loan if the residential property to be mortgaged to the registered bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed [80%] of the property value when the residential mortgage loan is drawn down.

5. That the business of the registered bank in New Zealand must not—
   (a) act as broker or arrange a residential mortgage loan for the business of the registered bank outside New Zealand or for an associated person of the registered bank outside New Zealand; or
   (b) facilitate the drawdown of a residential mortgage loan the registered bank originated as part of its business outside New Zealand or by an associated person of the registered bank outside New Zealand without notifying the Reserve Bank of this activity in the manner and form specified by the Reserve Bank.

In conditions of registration 1 to 5,—

"loan-to-valuation ratio", "loan value", "property value", "qualifying new mortgage lending amount" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated [month year]:

"loan-to-valuation measurement period" means—
(a) the six calendar month period ending on the last day of [month year]; and
(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of [month+1 year].

[Alternative for banks with lower mortgage lending:

“loan-to-valuation measurement period” means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of [month year]]