RESERVE BANK

OF NEW ZEALAND

TE PŪTEA MATUA

Response to submissions on adjustments to restrictions on high-LVR Residential Mortgage Lending.

Sep 2016

Ref #6667693

Summary of Final Policy Position

The Reserve Bank is tightening LVR restrictions for investors (nationwide) to a 5 percent speed limit for lending above LVRs of 60 percent from 1 October. Owner occupiers will be subject to a 10 percent speed limit for LVRs above 80 percent.

- The implementation date has been delayed until October 1 (from the September 1 start date initially proposed), on the basis of submissions from banks about pre-approval pipelines and implementation issues (see ‘Implementation and timeframes’ below).

The existing exemptions and other rules for the policy continue to apply, with some exceptions. On the basis of feedback, the Reserve Bank has refined the case for LVR restrictions in some ways (as discussed below and in the forthcoming Regulatory Impact Statement), and corrected the wording of the relevant section of the Banking Supervision Handbook (BS19) in a couple of places. In particular:

- The scope of the construction exemption has been broadened to include properties purchased within six months of their completion from the original developer (see ‘Construction and Remediation exemption scope’ section below).

- The scope of remediation exemption has been broadened to clarify that bringing properties up to a newly required standard for use (e.g. insulation standards for rental properties) can be within the scope of the exemption (see ‘Construction and Remediation exemption scope’ section below).

Introduction

1. On July 19, the Reserve Bank published a consultation paper with proposals to apply nationwide limits on investor and owner occupied lending by registered banks. The new proposed limits are tighter than those that are currently in place under the LVR restriction framework. The move to nationwide restrictions would remove the current geographical distinctions in LVR limits. Submissions on the initial package of proposals closed on 10 August 2016. 37 submissions were received, including seven from registered banks that offer residential mortgage lending, six from building industry participants and four from housing-related industry organisations.

2. Feedback from banks through their submissions indicated that more time would be required to enable them to meet the new restrictions that apply to investor loans nationwide, given the pipeline of loan pre-approvals made prior to the policy announcement in July. In response and to provide the banks with as much as notice as possible, the Reserve Bank announced its intention on 12 August to extend the start date for new LVR restrictions by one month to 1 October 2016.

3. This document reports on the submissions received and explains the anticipated changes to BS19. In the Annex we list the names of respondents to the 19 July consultation paper. A revised draft of BS19 has been published alongside this response to submissions and a Regulatory Impact Statement (RIS) will follow shortly.

Rationale for revised LVR restrictions

4. Respondents were generally supportive of the rationale presented for further adjustments to LVR restrictions.

5. Some respondents noted scepticism that New Zealand house prices are at a rising risk from a crash, pointing to their expectations that structural drivers such as immigration and relatively slow housing supply growth would continue for an extended period.

6. Several respondents argued that historical New Zealand downturns have tended to be shallow and short-lived and that the current environment does not present an elevated threat to the stability of the financial system in New Zealand.

7. Several submitters argued that New Zealand large banks' ability to pass recent RBNZ macroeconomic stress tests suggested further macro-prudential restrictions would not be appropriate currently.

8. Some respondents argued that tighter New Zealand credit/origination policies, together with capital buffers (including higher capital that will be required following the establishment of a new asset class for residential investment properties), geographic spread of mortgages, and personal debt liability in New Zealand make banks better equipped to deal with a housing downturn than is the case in other jurisdictions/episodes.

9. By contrast, other respondents attributed recent house price growth in part to excessively loose mortgage origination practices and light credit regulation in New Zealand.

10. Respondents generally agreed that LVR restrictions since 2013 have helped build bank balance sheet resilience, reducing the financial system impact of a severe housing downturn.

11. Several submitters noted a preference for further tightening of LVR restrictions in Auckland only. Respondents suggested that Auckland housing demand pressures and supply constraints were particular to the Auckland region. Recent growth in housing demand had been welcomed in some smaller provincial areas following their relative underperformance versus larger centres post-GFC.

12. A few respondents urged tighter LVR restrictions on investors than proposed, suggesting that proposed LVR settings were equivalent to relatively accommodative debt to income restrictions and investor yield assumptions. Tighter LVR requirements (together with other policy action such as debt servicing) were seen as reducing bank depositor exposure to rising mortgage credit risk.

Response

13. The Reserve Bank agrees that external migration flows throughout New Zealand and the apparent shortage of housing supply in Auckland have been important factors underpinning a sustained increase in national house price levels. However, the Bank remains of the view that these factors could change in the future and make high LVR lending at the current level of house prices relatively risky, particularly amongst investors.

14. The Bank acknowledges that there is little hard statistical evidence from New Zealand showing that investors are riskier at any given LVR, but considers this to be a natural consequence of the housing market having had no severe downturns in recent history (since the early 1990s at least). The absence of a severe housing market downturn in the last 20 years is not evidence that one could not occur. House prices have also reached, or are rapidly approaching, unprecedented levels relative to income, and mortgage origination standards have eased substantially since the 1990s. Overall, we consider that historical New Zealand downturns may not be a good guide to the consequences of a future severe downturn. This leads us to look at other countries that have had severe downturns.

15. While origination practices in the US and Ireland pre-GFC differ from New Zealand in important ways (e.g. mortgages in some US states are formally non-recourse, and the originate to distribute model appeared to have led to some poor origination practices pre-GFC), we still consider that the empirical evidence from those downturns is relevant to considering what would happen in a severe New Zealand downturn, given there is no relevant New Zealand example to consider.

16. Stress tests conducted by the Reserve Bank, in conjunction with the Australian Prudential Regulatory Authority, suggest that banks would remain solvent under stress scenarios involving a severe downturn in the housing market. However, the tests also highlight the likelihood that banks would remain solvent partly by cutting back on new lending. This would tend to exacerbate the downturn in the housing market by making it more difficult for prospective house buyers to access credit, at the same time as the number of distressed sales is likely to be rising. The resulting oversupply of listings in the housing market could reinforce the economic downturn by amplifying the fall in house prices and increasing debt overhang among distressed borrowers. The reduced availability of credit to other sectors would also reinforce the economic downturn. Dampening this amplification of the financial cycle is a key objective of macro-prudential policy. In our judgement, these amplification channels had an important impact on economies like the US and Ireland: even though the

key financial institutions in those countries had their solvency assured (via government support if necessary), the tightening of credit standards and coincident housing downturn still had a big impact on the economy.

17. The Reserve Bank's legislative objective is promoting "soundness and efficiency" of the financial system. In the context of macro prudential policy, the Memorandum of Understanding on Macro-Prudential Policy (MOU) agreed between the Minister of Finance and the Governor creates two specific intermediate objectives, namely providing additional resiliency buffers in the financial system, and also (where possible) dampening extremes in credit cycles. LVRs directly affect credit origination practices (that we consider are currently quite permissive).

18. In a severe downturn, even if the banks did not face a solvency threat, they would be likely to sharply tighten home loan origination standards. The impact of this tightening on the housing market and individual borrowers will be greater if standards have been unusually permissive prior to the downturn. Thus, as discussed above, even if we could be entirely confident that the financial system would remain solvent following a sharp housing downturn, a role for macro-prudential policy remains.

19. Following several years of house prices tracking broadly in line with household incomes, the house price-to-income ratio outside of Auckland has recently rapidly increased to around the pre-GFC peak of 5.3. Rapid increases in house prices could continue, given recent falls in mortgage rates, market forecasts that interest rates will remain low for some time, increases in regional migration, and very low secondary market inventories. This could present a risk to banks as (i) recent house buyers may struggle to make mortgage repayments if interest rates or unemployment rates increase and (ii) house prices are likely to fall further in a housing downturn if house price fundamentals (such as the house price to income ratio) are further from historical averages.

20. The risk of a price correction in the rest of New Zealand could indeed become significant well before price-to-income ratios reach similar levels to Auckland, as there is currently less evidence of a fundamental shortage of housing. Regional evidence from the United States during the GFC suggests that a region need not necessarily reach a high price-to-income to experience a housing bust, especially if building activity rises sharply during the boom.

Policy effectiveness

21. The non-Auckland owner occupied housing credit impact of the policy was seen as potentially larger than the national-level estimates in the consultation paper. The impact was seen as dependent on the extent to which banks allocated the new proposed nationwide owner-occupied speed limit of 10 percent across Auckland and Non-Auckland regions.

22. Submitters expected that the impact of proposed changes to LVR restrictions in dampening the housing market and mortgage lending would be relatively modest and short-lived. Existing homeowners were seen as likely to continue leveraging near term gains in property collateral to meet LVR requirements, given submitter expectations that underlying strength in house price inflation will persist.

23. Specific pre-conditions for the removal of temporary LVR policy were requested to provide guidance on the operation of the policy in a downswing phase of the housing cycle.

Response

24. As discussed in the consultation paper and above, the revised LVR restrictions are designed to enhance the soundness and efficiency of the financial system during a severe housing market downturn. New restrictions are expected to improve bank balance sheet resilience, reducing banks' mortgage loan losses and helping to limit the extent that credit standards could tighten in a sharp housing market downturn. The restrictions are also expected to decrease the number of households that would be forced to sell properties in such a severe downturn. When the policy is enacted the RBNZ expects a small, transitory impact on house price inflation that will help reduce the probability and severity of any downturn at the margin.

25. Risks associated with the housing market have increased for a much longer period than expected at the time that the LVR policy was introduced in 2013. However, the policy remains a temporary measure. There are a range of criteria that we will be looking for when deciding to remove LVR restrictions, including that house prices and credit return to a more sustainable path, and that the risk of resurgence in housing pressures following removal is acceptably low. In addition, the Reserve Bank will continue to monitor for signs that the policy is creating significant market distortions, such as a material and growing share of mortgage credit being financed by non-bank institutions that are not subject to the policy.

Unintended consequences

26. Non-regulated entities were seen as having a greater opportunity and incentive to enter the residential mortgage lending market under proposed changes to LVR restrictions. The RBNZ was encouraged to monitor the non-regulated market for signs of increasing disintermediation.

27. One registered bank submitted that LVR limits could materially reduce their lending to medium sized enterprises that utilise residential property as security. The concern stemmed from the fact that 'standardised' banks (subject to BS2A capital requirements), unlike internal ratings based (IRB) banks, do not maintain a separate corporate asset class excluded from residential mortgage speed limit calculations. Prior LVR limits had less impact given the higher threshold for restrictions.

28. Concern was raised that higher LVR requirements will reduce the relative supply of rental properties, increasing growth in rents.

29. The new rules were seen to add to the risk that customers may look to split their banking relationships across several banks.

Response

30. To date, there is limited evidence that previous LVR restrictions have resulted in substantial disintermediation, or substantial pressure on rents. The Reserve Bank acknowledges that these new tighter restrictions could increase disintermediation further, and will monitor this. We will also continue to monitor the rental market, but remain sceptical that LVRs will affect

the rental market much (as properties that are not sold to investors will be sold to owner occupiers, reducing both the supply and demand of rental properties).

31. In general, banks sometimes have discretion as to which asset class a particular exposure is placed in under the current regulations set out in BS2A and BS2B. We have applied LVR restrictions to the residential mortgage asset class, and asked banks not to use classification policies in order to avoid the impact of the LVR restrictions. The RBNZ intends to investigate further the nature of the loans to businesses (secured on residential mortgage) which are being classified in the residential mortgage asset class, and how material a constraint on business finance this may currently be.

32. Under the combined collateral exemption investor borrowers who have their own home as part of the collateral package will be able to borrow 80 percent against their own home and 60 percent against investment property. This exemption greatly reduces a borrowers' incentive to 'split-bank' or create stand-alone loan structures in order to borrow more, but there may be some limited circumstances where the LVR policy encourages customers to establish multiple banking relationships. The RBNZ notes that respondents were supportive of the proposal to retain the combined collateral exemption. Collateralisation of lending across multiple residential properties was also seen to reduce overall lending risk in the financial system.

Exemption and definition awareness

33. Respondents strongly encouraged the retention of all current exemption categories.

34. Many individual private submitters expressed uncertainty surrounding the use and/or availability of LVR restriction exemptions and the scope of restricted lending. Some particular issues that drew comment were uncertainty stemming from:

    - the interpretation of the combined collateral exemption,
    - the status of the refinancing of loans under LVR restrictions,
    - the definition of an investor loan, and
    - whether all lending-types backed by residential property would be within scope

35. The need to increase borrower awareness of some exemption categories was highlighted by building industry submitters (see construction and remediation exemption scope below) and was also raised by trading banks at the RBNZ workshop on proposed restriction changes held in August.

Response

36. The current revision of LVR restrictions is an opportunity to remind and highlight to stakeholders the exemption categories available under the LVR framework. The Reserve Bank's web resource material relating to LVRs (including new exemption definitions) will be updated prior to the implementation of the new restrictions.

37. The current scope of the exemptions is described in BS19. However, it is important to note that banks are not obligated to provide lending using the exemptions (or any other lending). RBNZ policy allows certain loans to be exempt from LVR restrictions, but it is up to banks whether they think particular loans also fit their risk appetite. For example, some banks appear to have deliberately tightened internal credit policies by making their approach to some LVR rules more restrictive than the requirements set out in BS19.

38. An example of the issues that can arise are reports that banks are not willing to allow owner-occupying customers to buy a second home to owner occupy (with the intention of selling the first), without being classified as a property investor. The definition of a property investor in BS2A/BS2B clearly does not require someone with this intention to be treated as a property investor. We would expect banks to undertake some due diligence with customers whose described intentions do not appear plausible (e.g. claiming more than two properties are owner occupied, or frequently buying new properties at different banks could be risk factors), but would be comfortable in general with banks treating customers buying a second owner occupied home as non-investors. However, banks have discretion to adopt a more stringent approach if they choose to, as with any other credit decision.

39. Similarly, some public feedback has suggested that banks are requiring customers to reduce the LVR on a portfolio of rental properties below 60 percent when they sell one of the properties, before the customer takes any of the proceeds of the sale in cash. The Reserve Bank considers that repaying part of a mortgage (selling one of a pool of securities) does not need to constitute a new commitment as defined by the Reserve Bank, therefore it need not be in scope for the LVRs. However, more generally, how the proceeds are split between borrower and bank when a property is sold will depend on the mortgage contract and the policies of the bank.

Construction and Remediation exemption scope

40. Submitters widely encouraged the retention of a construction exemption to LVR restrictions to assist in the creation of new housing stock, particularly in Auckland. Several submitters encouraged the RBNZ to increase public awareness of the construction exemption.

41. Several submitters noted that some lenders are applying combined collateral limits to investors looking to leverage existing portfolio collateral for the construction of new dwellings. These submissions requested clarification of the eligibility of this type of lending for the construction exemption under revised LVR restrictions.

42. Other submissions suggested that the RBNZ should consider broadening the scope of the exempt construction lending. Specifically, submitters suggested that conditions surrounding off-the-plan development should be extended beyond pre-sales of residential dwellings prior to or in the early phases of construction, to include all stages of construction including recently-built housing. Similarly, allowable timeframes from approval and/or new commitment to final drawdown on completion could be extended to acknowledge extended timeframes involved in the case of off-the-plan Greenfield housing developments.

43. These amendments were seen to not only increase the new housing supply potential nationwide but also simplify the interpretation of the exemption by banks and their customers. The potential for speculative supply to develop into housing oversupply was seen

to be mitigated by banks internal risk management and lending practices and ongoing RBNZ monitoring of exemption usage.

44. Other submitters suggested that exempt construction lending should be broadened to include other forms of construction that boost housing supply, such as existing dwelling modifications (e.g. minor dwelling construction).

45. Several submitters requested that the exemption for remedial work on housing collateral (restoration of value to dwellings in exceptional circumstances, such as leaky homes) be extended to include remediation on rental properties to reach new minimum standards for rental housing (e.g. insulation).

Response

46. The RBNZ continues to highlight the fact that growing imbalances in the housing market require policy action on a number of fronts. A broad range of initiatives are necessary to increase the long-term housing supply response, particularly in Auckland, and to help ensure housing demand is kept in line with supply capacity. The construction exemption is designed to prevent any negative impact of the LVR policy on the supply-side response to housing supply shortfalls.

47. The RBNZ acknowledges that some widening in the scope of the construction exemption would be useful in assisting the financing of new dwelling construction. All newly-built entire dwellings completed fewer than six months before the mortgage application will be eligible for the construction exemption, where the dwelling is being purchased from the original developer.

48. For the avoidance of doubt, the new construction exemption applies to both owner occupiers and investors. Regardless of whether the borrower owns investment property, a loan that qualifies for the construction exemption can be exempted.

49. Renovation and re-development of homes on their existing site are out of the scope for the construction exemption. A new building will need to increase the aggregate housing stock of dwellings to be considered under the exemption. Construction forms more closely resembling an extension/renovation of the existing housing stock are outside the scope of the exemption.

50. The RBNZ stresses that construction loans continue to be subject to individual banks' internal lending guidelines, with individual banks establishing their own practices and policies relating to construction lending. The LVR policy does not prescribe a required deposit level for new builds. However, banks are likely to require a deposit that reflects the risks associated with new construction projects.

51. The RBNZ also acknowledges that standards for residential rental property have been increased around aspects of insulation. The remediation exemption has been reworded slightly to make it clear that this is within the scope of the exemption.

First Home Buyer LVR requirements

52. Several submitters requested more accommodative first home buyer LVR requirements. This request reflected concerns that LVR restrictions are a relatively broad-based tool that could both prevent first home buyers from entering the housing market and increase demand for rental accommodation.

53. A few submitters requested that first home buyers purchasing houses subject to tenancy agreements (or New Zealand citizens using single investment property collateral for offshore owner occupier purchases) be exempted from investor restrictions.

Response

54. LVR restrictions affect all high-LVR borrowing against residential property. The restrictions do not discriminate between owner-occupier types, other than on the size of their LVR, as there is no evidence to suggest they present different levels of risks to the banking system. However, while reasonably broad application is necessary to maximise effectiveness, the LVR framework incorporates two potential ways of mitigating potential efficiency costs/distortions. The first is through the use of speed limits rather than outright limits. The second is through the limited use of exemptions.

55. With regards to speed limits, banks will continue to have discretion to allow some first home buyer high-LVR lending as part of the (nationwide 10 percent) limit on high-LVR owner occupied lending. This speed limit is substantially larger than allowed for high-LVR investor lending nationwide (5 percent).

56. There is also some special treatment for low-deposit first-home buyers under Housing New Zealand's Welcome Home Loan scheme. These mortgages are exempt from the Reserve Bank's LVR restrictions. Borrowers remain subject to any conditions applying under the Welcome Home Loan scheme, and individual bank lending guidelines.

57. Tighter borrowing constraints under the LVR policy could potentially constrain the housing choices of some first home buyers. However, First Home Buyers (as measured by CoreLogic) appear to currently account for a similar share of new home sales in New Zealand as that seen just prior to the introduction of the LVR restriction framework in October 2013.

Speed limits

58. Submitters noted that the removal of non-Auckland property investor lending from the new combined national owner occupied speed limit denominator will result in a tightening in the availability of high-LVR loans for owner-occupiers.

59. Large banks considered that the proposed nationwide investor and owner occupied speed limits would be adequate to accommodate errors and exceptional/appropriate cases in these borrower groups.

60. Some smaller banks noted that it could be more challenging for them to accommodate exceptional cases and manage errors under the new proposed investor speed limit. These banks typically have less ability to smooth exceptional high-LVR cases over total lending flows given lower lending volumes.

61. One respondent noted that the defined speed limit in BS19 is based on "qualifying mortgage lending", which excludes exempted loans. This is true for numerator and denominator, which means that exempting low-LVR lending would be disadvantageous to banks (it would reduce the total lending that is being used to calculate the speed limit).

Response

62. As in the 2015 changes, the Reserve Bank sees less need to allow a flow of lending at higher LVRs to property investors. We consider that a 5 percent speed limit for investors (as with the current Auckland investor limit), in combination with the available exemptions, will allow for special cases or errors.

63. For the non-property investment limit, 10 percent of lending will be allowed at LVRs above 80 percent. This allows a more material amount of high-LVR lending to owner occupiers. We have been pleased generally with how banks have appeared to use this limit since 2013, with a high proportion of lending under the speed limit going to first home buyers and relatively low DTI customers. Relative to the current restrictions, the 10 percent limit results in a tightening for non-Auckland non-property investors, particularly as they are now separated from the non-Auckland investor lending.

64. The RBNZ will maintain the six month speed limit calculation for smaller banks to help these lower-volume lenders smooth their high-LVR lending flows. The large bank speed limit calculation period will remain 3 months.

65. In practice, the Reserve Bank assumes that banks do not elect to exempt low-LVR loans even if they meet the criteria for the exemption. BS19 section 13 gives discretion to banks as to whether to apply the exemption to individual loans, and there is no advantage to doing so if the loan is not high-LVR: "*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 or qualifying increase in mortgage loan value. It is not necessary for the registered bank to exempt loans that are not high-LVR loans that meet the criteria for the exemption*".

Non-retail residential mortgage lending

66. Reporting on non-retail residential mortgage lending may require data system/process modifications from some banks, but should be possible.

67. In many cases banks' internal reporting of non-retail residential mortgage lending is not yet fully automated. The level of detail required, provision timelines, and amount of backdating would determine the costs involved in providing this reporting item.

68. Banks submitted that anti-avoidance provisions in current rules, capital treatment of loans, and internal guidance/policy/monitoring/pricing of loans should be sufficient to offset the risk of LVR restriction avoidance via re-classification outside the retail residential mortgage asset class.

Response

69. The RBNZ will consider reporting requirements for non-retail residential mortgage lending after further banking industry consultation.

Implementation and timeframes

70. Banks supported the consistent implementation of proposed LVR restrictions nationwide. The simplified approach was seen to reduce system and process complexity for banks in administering LVR restrictions.

71. The largest implementation challenge for banks surrounded their ability to meet their pre-approval pipelines by 1 September 2016 following the announcement of the new proposals in July. Failure to adequately run-down these pipelines would likely require the cancellation of some of these pre-approvals. Banks were concerned that such cancellations would cause reputational damage and inconvenience to customers and/or potentially frustrate chains of sale and purchase for houses.

72. Banks requested the implementation date be delayed by at least one month to better run-down these pre-approval pipelines. An extension was also seen to assist with small banks' limiting resourcing available to accommodate system and process adjustments associated with the proposed policy changes and new data collections. The risk of a pre-restriction surge in lending was seen as low given that banks have moved quickly to follow the spirit of restrictions.

73. Large banks also requested that their proposed three month speed limit be extended to a six month window for the first compliance period to better manage their pipeline of approvals. Some banks also suggested excluding existing pre-approvals from initial speed limit calculations, or allowing an informal three month monitoring period before compliance measurement begins.

74. Implementation costs for banks were seen as relatively minor. Data systems built for regional LVR restrictions would generally be able to deliver proposed national-level compliance data. Most costs would revolve around process, policy and communication of changes to the lending staff.

75. Limited system modifications would be required to re-classify property investors that have an Auckland owner-occupied property. Moreover, this change means that data could now be harmonised with capital requirements associated with the creation of the new residential mortgage asset class in 2015.

76. The implementation timeframes were generally seen as technically feasible given existing data systems.

Response

77. The RBNZ acknowledges that banks have acted quickly to follow the spirit of the restrictions. This action reduces the risks of a pre-restriction surge in high-LVR lending. As such, the RBNZ announced on August 12 that the start date for new restrictions will be delayed one month to 1 October 2016 to help banks manage their pipeline of pre-approvals.

78. The RBNZ notified banks of the new start date for revised restrictions shortly after submissions on the changes closed. This advance notice should assist banks with planning the run-down of their pre-approval loan pipelines accordingly. We expect that customers who had firm plans to use their pre-approvals may often be able to complete their loan to new commitment stage by 1 October. In some cases banks may consider it necessary to inform some other customers that their unused pre-approval needs to be reconsidered.

79. The RBNZ notes that at least one bank plans to shorten the period of their pre-approvals for residential mortgage loans, while some other banks had relatively short time periods already. This shortening will help mitigate the risk of recurring issues surrounding long pre-approval pipelines in the event of further macro-prudential policy adjustments.

Possible debt servicing tools and capital restrictions

80. Respondents generally supported RBNZ initiatives to investigate debt servicing further, including the possible development of standardised data metrics around mortgage serviceability.

81. Several submitters noted that existing internal bank assessments and processes already consider a range of factors in assessing the mortgage serviceability of borrowers. The RBNZ was encouraged to consider these procedures when exploring the possibility of a DTI tool.

82. Early and extensive banking industry consultation was encouraged to consider the relevance and operational costs/unintended implications of any debt-to-income ratio tool. The RBNZ was requested to consider the scope of other regulatory changes under implementation when assessing timeframes for implementation of any DTI tool.

83. Some submitters suggested that capital requirements were already relatively high by international standards and that bank balance sheet resilience had improved as a result of LVR restrictions. Stricter capital requirements were seen as unlikely to deliver a substantial reduction in housing market price pressures.

84. Many submitters encouraged the RBNZ to assess the impact of proposed LVR changes (and recent residential mortgage capital changes) before considering the implementation of further macro-prudential tools.

Response

85. In coming months, the Reserve Bank will be investigating the case for using a debt serviceability tool. The Reserve Bank is planning to engage with banks on any issues that arise as part of this investigation, and begin collecting DTI data from all mortgage lending banks.

86. The Reserve Bank is undertaking a fundamental review of prudential capital requirements for registered banks over the next year. The possibility of introducing macro-prudential capital buffers will be considered as part of this process.

Annex: Submission respondents

Below is a list of respondents to the Reserve Bank of New Zealand consultation paper “Adjustments to restrictions on high-LVR residential mortgage lending” dated 19 July 2016.

ANZ Bank New Zealand Limited

ASB Bank Limited

Bank of New Zealand

Blomkamp Cox

Bluekiwi Property Consulting

Creating Communities Ltd

Desmond Knowles

George Taylor

Grant Burson

Jasvir Singh

Jennian Homes Ltd

Justin Coe

Kiwibank Limited

Michael Reddell

NewBuild Home Finance Limited

New Zealand Bankers Association

New Zealand Property Investors’ Federation Inc

Property Council New Zealand

Rawa Limited

Real Estate Institute of New Zealand

Registered Master Builders Association

Results Mentoring Pty Ltd

Rothbury

Sean Keane

SBS Bank

Scott Brydon

Southside Group Management Ltd

James Swarbrick

Talk Property Limited

The Co·operative Bank Ltd

The Home Loan Shop Ltd

Triple A Property Investments (2015) Ltd

Westpac New Zealand Limited

Four other private individuals also provided submissions on condition of confidentiality of their identities.