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KEI MUA I TE AROARO O TE RŌPŪ WHAKAMANA  
I TE TIRITI O WAITANGI

BEFORE THE WAITANGI TRIBUNAL

WAI 2750

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IN THE MATTER OF                      the Treaty of Waitangi Act 1975

AND

IN THE MATTER OF                      Kaupapa inquiry into claims concerning  
Housing Policy and Services

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**CROWN BUNDLE OF EVIDENTIAL FACT SHEET FOR  
RESERVE BANK OF NEW ZEALAND**

5 Poutū-te-rangi | March 2021

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<b>RECEIVED</b> Waitangi Tribunal
<b>8 Mar 2021</b>
Ministry of Justice WELLINGTON

**CROWN LAW**

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## INDEX

RESERVE BANK OF NEW ZEALAND	
Tab	Document
1.	Loan to Value Ratio (LVR) restrictions

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EVIDENTIAL FACT SHEET  
LOAN-TO-VALUE RATIO (LVR) RESTRICTIONS  
(RESERVE BANK OF NEW ZEALAND)  
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1.	<b>Basic information</b>	<p><b>TITLE OF POLICY / PROGRAMME: LOAN TO VALUE RATIO (LVR) RESTRICTIONS</b></p> <p><b>Year introduced:</b> 2013</p> <p><b>Still current?:</b> Yes. The LVR restrictions were removed in April 2020 for 12 months in response to Covid-19,<sup>1</sup> but have been re-imposed from 1 March 2021.</p> <p><b>Administering agency(ies):</b> Reserve Bank of New Zealand (RBNZ)</p> <p><b>High level summary of policy/programme:</b> LVR restrictions are temporary limits on banks to reduce the amount of low-deposit mortgage lending.</p> <p><b>Overlapping/Related policies/programmes:</b> First Home Loan scheme, Kiwibuild programme, Kāinga Whenua loans.</p> <p><b>Other agencies involved in development, implementation, or ongoing administration:</b> All registered banks are required to implement the LVR restrictions.</p>
2.	<b>Description of Policy / Programme</b>	<p>An LVR is a measure of how much a bank lends against mortgaged property, compared to the value of that property. Borrowers with LVRs of more than 80 percent (less than 20 percent deposit) are often stretching their financial resources. They are more vulnerable to an economic or financial shock, such as a recession or an increase in interest rates. The LVR restrictions provide a buffer in the face of a sharp housing downturn, which would particularly affect highly-indebted home owners and investors.</p> <p>The policy clarifies that Kainga Whenua loans are not residential mortgages, so are outside of the scope of the policy which only applies to residential mortgages. But there are also some types of residential mortgages that have been exempted from the policy. Most notably First Home Loans,<sup>2</sup> which are Government guaranteed mortgages to first home buyers, and loans for the purpose of constructing a new dwelling.</p> <p><b>Impact of Covid-19</b></p> <p>LVR restrictions were temporarily removed from 1 May 2020 to ensure that they didn't have an undue impact on borrowers or lenders as part of the mortgage deferral scheme implemented in response to the COVID-19 pandemic. LVR restrictions were re-</p>

<sup>1</sup> See news release <https://www.ReserveBank.govt.nz/news/2020/04/reserve-bank-removes-lvr-restrictions-for-12-months>

<sup>2</sup> See separate Evidential Fact Sheet concerning First Home Loans.

		imposed from 1 March 2021 in response to rising housing lending risk.
3.	<b>Outline of the process to develop this Policy / Programme</b>	<p>The RBNZ proposed the imposition of LVR restrictions in late 2012 after having observed international experience (as of 2018, 62 countries have imposed some form of LVR restriction). Consultation with Housing New Zealand (as it then was), New Zealand registered banks and the general public was undertaken which involved specific workshops with the banking industry; seeking feedback from a range of public agencies (including Housing New Zealand, the Treasury and the Ministry of Business, Innovation and Employment (MBIE)); discussions with international agencies who had enacted similar fiscal tools; and formal consultation with the Treasury and the Minister of Finance prior to final decisions being made.</p> <p><b>Public Consultation</b></p> <p>When LVRs were introduced in 2013, there were two rounds of formal public consultation. The first round was a technical consultation of exactly how LVR restrictions would be implemented – essentially the regulation that would apply to banks. This was primarily around the scope of the restrictions (i.e. residential mortgages by registered banks only, which loans would be exempted) and matters such as how compliance with the rules would be measured. A second consultation was around the exact calibration of the restriction – that is, how many low deposit loans banks would be allowed to grant. In addition to formal consultation, the Reserve Bank engaged with a range of other interested parties and international experts on specific aspects of the policy.</p> <p>Data on mortgage lending and home buying patterns (for example, purpose of loans - first house purchase, moving house, property investor) as well as risk characteristics of loans was used to support the development of the LVR restrictions. Broadly the data showed that there was an increasing level of mortgage activity, and that there were signs that the risk level of this lending was increasing. Most notably, the volume of mortgage lending being undertaken with low deposits was increasing, and a growing proportion of low deposit loans were being approved in favour of property investors (a higher risk group).</p>
4.	<b>Aims or Objectives of the Policy / Programme</b>	LVR restrictions were introduced under the RBNZ's statutory purpose to promote the soundness and efficiency of the financial system. A high concentration of low deposit loans can threaten the soundness of the financial system, as a sharp downturn in the housing market can lead to a large share of these loans defaulting, in turn compounding the housing market downturn. Losses that banks sustained on these loans could ultimately threaten their viability. LVR restrictions are designed to guard against this risk.
5.	<b>Outline of steps taken to implement the Policy / Programme</b>	In August 2013, the RBNZ announced its intention to implement restrictions on high LVR lending. From 1 October 2013, banks had to restrict new residential mortgage lending at LVRs over 80 percent (a deposit of less than 20 percent) to no more than 10 percent of the dollar value of their total new residential mortgage lending. The RBNZ also released a Regulatory Impact

		<p>Assessment of this policy.</p> <p>The RBNZ consulted on the policy, then implemented it by adjusting the conditions of registration for banks. These are the rules that banks must adhere to as a condition of being allowed to operate in New Zealand. The banking supervision handbook<sup>3</sup> outlines these rules in detail, and BS19 is the specific section of the handbook that describes the LVR restrictions.</p> <p><b>Consultation and modification</b></p> <p>The RBNZ has modified the policy a number of times since it was first implemented, in response to market developments:</p> <ul style="list-style-type: none"> <li>• In June 2015, the RBNZ published a consultation paper on proposed changes to the LVR policy, including tighter restrictions on Auckland investor lending.</li> <li>• In August 2015, the RBNZ finalised changes to the capital adequacy requirements for residential mortgage loans for investment properties. This included defining owner-occupied property for the purposes of new LVR restrictions. The RBNZ published a response to submissions on changes to the LVR restriction rules (Delium Document ID RES.002.0064) and released a Regulatory Impact Assessment as part of the response to submissions.</li> <li>• In July 2016, the RBNZ published a consultation paper on further adjustments to the LVR policy.</li> <li>• In September 2016, the RBNZ published a response to submissions on changes to the LVR restriction rules. The changes were reflected in an updated version of BS19 of the Banking Supervision Handbook.</li> <li>• In January 2018, LVR restrictions were eased after a short consultation with industry. This resulted in minor revisions to BS19 of the Banking Supervision Handbook.</li> <li>• At the start of 2019, LVR restrictions were further eased after a short consultation with the banking industry. This resulted in minor revisions to BS19 of the Banking Supervision Handbook effective from 1 January 2019.</li> <li>• In April 2020, LVR restrictions were temporarily removed to ensure that they didn't have an undue impact on borrowers or lenders as part of the mortgage deferral scheme implemented in response to the COVID-19 pandemic (RES.002.0041).</li> <li>• In March 2021 LVR restrictions were re-imposed, with tighter restrictions for property investors taking effect from 1 May 2021. This followed a public consultation that was released in November 2020.</li> </ul>
6.	<b>Outline of monitoring and</b>	The RBNZ is required to report on the impact of the policy in its Financial Stability Reports which are published every six

<sup>3</sup> <https://www.rbnz.govt.nz/regulation-and-supervision/banks/banking-supervision-handbook>

	<b>evaluation built in to Policy / Programme</b>	<p>months on the RBNZ website.<sup>4</sup> The LVR policy has been amended a number of times (as discussed in section 5 above) since it was first introduced, in response to emerging developments.</p> <p>Banks manage their own compliance, and the RBNZ monitors compliance via data that the banks submit to the RBNZ on a monthly basis.</p>
7.	<b>Availability of quantitative or qualitative data to demonstrate success or failures of the Policy / Programme to achieve its stated aims</b>	<p>There is strong evidence to show that the policy has reduced the proportion of housing loans that are at higher risk of default during an economic downturn, which has improved overall financial system soundness. There is also some evidence that the policy contributed to slowing house price growth, which reduced the likelihood of a subsequent housing market correction (RES.002.0079).</p>

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<sup>4</sup> Available at [Error! Hyperlink reference not valid.](#)