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To whom it may concern

Framework for imposing restrictions on high-LVR residential mortgage lending

The New Zealand Bankers' Association (NZBA) is grateful for the opportunity to comment on the proposed framework for imposing restrictions on high-LVR residential mortgage lending. NZBA would like to make a number of high level comments. A number of our members will also be providing you with separate submissions.

NZBA would like to reiterate the industry's concerns around the use of LVRs to cool housing markets. As previously submitted,¹ deploying the LVR tool may not curb asset price growth or provide greater stability as intended. Furthermore, as the Reserve Bank has noted there may be unintended consequences as a result of implementing this policy.

If this tool is to be used, NZBA emphasises it is essential that:

- the regime is as simple to implement and workable as possible, and
- the industry is given adequate time to implement the necessary changes.

Implementing the proposed solution is likely to be complex and costly due to the systems and business process changes which will be required. If the regime is further complicated, for example if there are a number of exemptions and reporting requirements involved in the solution or if definitions are unclear or changed during the implementation or post implementation stages, changes required will be even more challenging to implement.

¹ NZBA submission on the RBNZ Consultation Paper: Macro-prudential policy instruments and frameworks for New Zealand available at <http://www.nzba.org.nz/assets/Uploads/NZBA-Submission-RBNZ-Macroprudential-Tool-Consult-130419.pdf>

It is essential that steps are taken to ensure that the regime is practically workable, so that implementation and ongoing compliance do not pose unnecessary challenges. For example, existing pre-approvals should be excluded from any calculation of new lending. Significant volumes of pre-approvals are held for up to six months by most banks. This creates a risk for banks that they will inadvertently breach the policy as they will not be able to control when borrowing is confirmed and drawdown occurs. NZBA suggests that transitional provisions be included in the regime to alleviate this concern.

In order to effectively implement the regime, it is also essential all necessary policy work, including clarity around definitions and any relevant guidance, is finalised well in advance of any implementation date. In particular, NZBA submits the analysis of “loan” and “value” definitions in phase two of the capital adequacy requirements for housing loans should be determined and form the basis for any high-LVR restriction. While the Reserve Bank is offering IRB banks the opportunity to use existing definitions to comply with BS19, the lack of a standardised approach between BS2A and BS2B will mean future cost and re-work for banks that would ideally be avoided. Definitional uncertainties will also require banks to hold higher internal buffers than would otherwise be the case. This should be considered by the Reserve Bank when setting any limits.

Finally, given the pace of regulatory reform currently impacting on the banking sector, NZBA strongly suggests that sufficient time needs to be given to allow banks to implement these changes. In our view, the condition should not be put in place until early 2014 at the earliest, to give banks sufficient time to prepare. While all banks will prioritise this work, the potential complexity, and the corresponding need to obtain input from a large number of people within the banks, limits the pace at which the changes required to support a speed-limit could be implemented.

If you would like to discuss any of these points further, please feel free to contact me.

Yours sincerely



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