

Submission

to the

Reserve Bank of New Zealand

on the

Consultation on adjustments to restrictions on high-LVR residential mortgage lending

13 July 2015

Submission by the New Zealand Bankers' Association to the Reserve Bank of New Zealand on the Consultation on adjustments to restrictions on high-LVR residential mortgage lending

About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes which contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.
2. The following fifteen registered banks in New Zealand are members of NZBA:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - Bank of Tokyo-Mitsubishi, UFJ
 - Citibank, N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - JPMorgan Chase Bank, N.A.
 - Kiwibank Limited
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited.

Background

3. NZBA is grateful for the opportunity to submit on the Reserve Bank's consultation on adjustments to high-LVR lending restrictions.
4. NZBA commends the commitment to meaningful consultation and engagement, and appreciates the invitation to participate in this consultation.
5. The following submission makes some brief comments on particular questions raised in the consultation paper.
6. If you would like to discuss any aspect of the submission further, please contact:

Kirk Hope
Chief Executive
04 802 3358 / 027 475 0442
kirk.hope@nzba.org.nz

Response to select questions

Q1: Do you have any comments on this analysis or the Reserve Bank's rationale?

7. NZBA does not agree with the Reserve Bank's assessment that residential property loans are a distinct and riskier category of loans, and we refer to our response to the RBNZ Housing Review Stage 2 Consultation Paper. NZBA suggests that the RBNZ use New Zealand specific property cycle data available from Core Logic or Data Insight to more adequately inform its policy development process.

Q5: Do you have any comments on the proposed speed limit definitions?

8. The speed limit is too low regardless of size of bank. The speed limit at 2% as a condition of registration is particularly unworkable.
9. We propose at least a 5% limit, or that the RBNZ consider a materiality threshold in bank conditions of registration to ensure that the policy is workable and that minor and incidental breaches do not constitute a breach of the conditions of registration.
10. Alternatively, the RBNZ could choose not to impose the additional restrictions as a condition of registration, but to police the policy through other anti-avoidance mechanisms.

Q7: Do you have any comments on the calibration of other speed limits?

11. NZBA considers that the non-Auckland speed limit should be higher, and that there is a risk of negatively impacting economic growth, even at the revised limit.

Q8: Do you have any comments on these proposed definitions?

12. The definition of 'Related Party' does not map to existing legislative or regulatory concepts. It would be better to align to a common definition such as that in Accounting Standards.

Q9: Do you agree that banks should be able to split loans with combined collateral across speed limit classes?

13. NZBA supports this proposal.

Q10: What is your view on the proposed approach to splitting new commitments (and the simpler alternative also suggested)?

14. NZBA considers that the simpler alternative is not practical.

Q11: Does the combined collateral exemption appear appropriate? Do you have any comment on how it has been designed?

15. NZBA supports this proposal. We query whether the example provided in BS19 is accurate. RBNZ may need to give more guidance to assist in implementation, and also provide more scenario analysis to assist with managing compliance.

Q12: Will the proposed implementation timeframes and transition arrangements create any significant difficulty?

16. Based on the settings in the Consultation Paper the timeframe for implementation of October 2015 will be challenging. NZBA considers that RBNZ needs to finalise the policy as soon as possible and make no material changes (as was the case recently) to provide certainty to ensure banks have the confidence and ability to meet the timeframes specified.

Q13: Is the \$100m boundary for monthly lending for having shorter (3 month) speed limit periods still appropriate?

17. If the RBNZ chose to impose the restrictions as a condition, or conditions of registration then NZBA suggests a 6 month rolling average approach irrespective of volume of lending to help mitigate the risks of inadvertent breach as discussed in our response in paragraphs 8-10.

Q18: How should the risks of the 'intention to owner occupy' being misrepresented by customers be handled? How often do banks typically become aware that customers who initially said they would owner occupy are not actually owner occupying? Would it be reasonable to expect banks to count loans that change category as new commitment in some circumstances? Is there another way of dealing with this avoidance risk?

18. NZBA suggest that this is most appropriately left to banks to determine.

Q19: Do loan contracts typically require borrowers to inform banks if their owner occupancy status changes? Would it be appropriate for this to become standard practice (if it is not already?)

19. Bank loan contracts do not require customers to inform banks of owner occupancy changes.

Q20: Would there be a material risk of second mortgage activity if the relevant conditions of registration were replaced by an anti-avoidance clause?

20. There would not be a material risk of second mortgage activity if the relevant conditions of registration were replaced by an anti-avoidance clause. NZBA also notes the disproportionate consequences for a single breach.