NEW ZEALAND BANKERS ASSOCIATION

Submission

to the

Reserve Bank of New Zealand

on the

Consultation Paper: Tightening Loan-to-Value Ratio Restrictions

17 September 2021

NEW ZEALAND BANKERS ASSOCIATION
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About NZBA

1. The New Zealand Bankers' Association (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.

2. The following seventeen 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
   - China Construction Bank
   - Citibank N.A.
   - The Co-operative Bank Limited
   - Heartland Bank Limited
   - The Hongkong and Shanghai Banking Corporation Limited
   - Industrial and Commercial Bank of China (New Zealand) Limited
   - JPMorgan Chase Bank N.A.
   - Kiwibank Limited
   - MUFG Bank Ltd
   - Rabobank New Zealand Limited
   - SBS Bank
   - TSB Bank Limited
   - Westpac New Zealand Limited

Introduction

3. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand (**RBNZ**) on its Consultation Paper: Tightening Loan-to-Value Ratio Restrictions (**Consultation Paper**). NZBA commends the work that has gone into developing the Consultation Paper.

Contact details

4. If you would like to discuss any aspect of this submission, please contact:

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Summary

NZBA supports RBNZ's 'Option A' proposed in the Consultation Paper, to decrease the owner-occupier speed limit from no more than 20 percent of new lending at Loan-to-Value Ratios (**LVRs**) above 80 percent, to no more than 10 percent of new lending at LVRs above 80 percent.

We are concerned that the 1 October implementation date combined with a three-month first reporting period will make it difficult for banks to manage their existing pre-approvals, which are skewed to high LVRs. We propose that RBNZ extend the first reporting period from three months (ending 31 December 2021) to six months (ending 31 March 2022), to enable banks to manage the high LVR applications already in the pipeline.

These points are discussed further below.

NZBA prefers Option A

We prefer RBNZ's proposed Option A over Option B. We agree with RBNZ's assessment that Option A will have a lesser impact on first home buyers. In our experience, many first home buyers already struggle to save a 20% deposit. A shift to a 25% deposit (as proposed under Option B) is likely to significantly impact first home buyers' ability to access the market.

Additionally, we consider that Option A is better targeted to the problem definition. While both Options A and B restrict borrowers with a high LVR, Option B would not necessarily reduce the size of the over 80% LVR band. In our view, reducing the size of the over 80% band is more effective in mitigating financial system risk than increasing the deposit threshold.

Option B will be much harder for banks to implement, particularly in relation to the Combined Collateral Exemption, staff training and communications, customer education, internal processes and policies, and internal LVR modelling. Frontline staff are already familiar with the concepts within Option A and are able to clearly explain these concepts and their rationale to customers. Ease of implementation is particularly important in this instance given the short timeframe between finalisation of decision and implementation.

Due to the current level of pre-approvals and approvals between 75% and 80% LVR, NZBA is also concerned that Option B would exacerbate the issues associated with managing the pre-approval pipeline within the first reporting period (discussed further below).

We would welcome an extended first reporting period

Our members expect that they will be able to implement Option A by 1 October 2021. However, we would welcome a transitional reporting period to enable banks to manage the existing pipeline of pre-approvals with an LVR above 80%. We suggest the first reporting period is extended from three months (ending 31 December 2021) to six months (ending 31 March 2022).

Our members consider it important that they honour their pre-existing commitments; they do not want themselves or their customers in a position where pre-approvals have to be unilaterally withdrawn. An extended reporting period will allow banks to alter their acquisition strategy to achieve a steady level within the new LVR speed limit, which will naturally taper down and meet the averaging period requirements. Without this period, banks will need to temporarily slow high LVR lending in a much more dramatic way to meet the new requirements, which, as discussed above, banks are reluctant to do. A dramatic slowing of high LVR lending will adversely impact first home buyers and create uncertainty in the property market, particularly when this strategy will only be temporary and will moderate again in the next reporting period. A longer first averaging period allows banks to select sustainable acquisition settings that reduce availability of high LVR lending without creating a yo-yo effect.

Consultation period

We note that the final LVR decisions will not be published until late September, leaving little time until the 1 October implementation. The two options proposed are very different and will require different solutions to developed by banks to ensure compliance, some of which will have to go through the usual technology change framework. This level of uncertainty at one week before go-live is challenging. We understand that the RBNZ is trying to quickly respond to the issue for the benefit of New Zealand and the stability of our financial system. However, we note that there are practical difficulties in implementing change in such a short period of time.