New Zealand Banking Association
Te Rangapū Pēke

Submission

to the

Reserve Bank of New Zealand

on the

Consultation: *Enhancing the efficiency of macroprudential policy: activating DTIs and loosening LVRs*

12 March 2024

NEW ZEALAND BANKING ASSOCIATION – TE RANGAPŪ PĒKE
PO Box 3043, Wellington 6140, New Zealand
www.nzba.org.nz

About NZBA

1. The New Zealand Banking Association – Te Rangapū Pēke (**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 eighteen 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.
- KB Kookmin Bank Auckland Branch
- Kiwibank Limited
- MUFG Bank Ltd
- Rabobank New Zealand Limited
- SBS Bank
- TSB Bank Limited
- Westpac New Zealand Limited

Contact details

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

Antony Buick-Constable
Deputy Chief Executive & General Counsel
antony.buick-constable@nzba.org.nz

Sam Schuyt
Associate Director, Policy & Legal Counsel
sam.schuyt@nzba.org.nz

Introduction

4. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand (**RBNZ**) on the Consultation: *Enhancing the efficiency of macroprudential policy: activating DTIs and loosening LVRs* (**Consultation**). NZBA commends the work that has gone into developing the Consultation.

5. Overall, the NZBA supports the RBNZ's conclusions. We do remain cognisant that the full operational effects will not be known unless or until the policy is implemented, and encourage the RBNZ to keep communication channels open with our members to determine whether negative or unanticipated operational impacts occur.

6. We have provided our views below on three key areas of the consultation: implementation of the proposed DTI restrictions, calibration of the settings, and ongoing public education.

Implementation Timing

7. We recognise that the RBNZ intends to issue its final decision on the Consultation in June and, if the decision is to approve the policy, implement it as soon as possible. We understand that the RBNZ expects banks to be operationally prepared for the new reporting from 1 April 2024.

8. Our expectation from the consultation material is that any DTI restrictions would not be imposed until July at the earliest. We note that allowing a minimum of three months from 1 April 2024 is important in enabling banks to ensure they have their systems calibrated and producing the new reporting efficiently and effectively.

9. The initial six-month regulatory measurement window is in our view a practical approach as lenders navigate the new regulatory framework and the scale of complex lending scenarios.

Calibration

10. We acknowledge the intent of the proposed settings to support the RBNZ's objective of having the DTI provide a "handbrake" during particularly hot markets, which are most likely to occur in low interest rate environments.

11. At the current proposed settings, we observe:

    11.1. There may be some impact to owner-occupier borrowers under the current proposal of a DTI of 6 with a speed limit of 20%, due to some banks' internal (more conservative) thresholds. We submit that a higher limit should be set for this borrower group, at a minimum of 25%, to allow for any additional conservatism.

11.2. There may, in our view, be some impact to investor flow at the current proposal of a DTI of 7 with a speed limit of 20% due to complex lending scenarios. We submit that a higher limit should be set for this borrower group, i.e. 30%, to allow for these borrowers to still participate in the market as their DTIs tend to be higher.

12. NZBA supports the easing of LVR settings as set out by the RBNZ in the Consultation.

Public Education

13. For the policy to be successful long-term, we submit that further education and discussion on the topic is needed. We encourage the RBNZ to fully explain the policy to the public, as some public comments have likened the introduction of the DTI framework to a full handbrake that will chill lending, especially for first home buyers.

14. For instance, some commentators have asked questions about whether implementing a DTI could inadvertently bias lending toward high-income earners, since the focus is only on income and not on expenses, or whether it could inadvertently affect small businesses since banks may secure business loans with personal guarantees tied to the owner's residential property.

15. To maintain confidence in the banking system, we submit it is important for the RBNZ to be clear about whether these kinds of effects are likely or possible and, if unlikely, explain why. In particular, the following points would in our view benefit from further public clarification:

    15.1. Banks do not necessarily have to lend if an assessment falls within the DTI setting.

    15.2. Banks are legally required to ask certain prescribed questions.

    15.3. Banks cannot, when calculating business income for DTI, use forecasted or projected income (rather, the calculations must always be based on historical data).

16. Further, we understand that the Government intends to make changes to the Credit Contracts and Consumer Finance Act 2003 (**CCCFA**) this year. Impending changes to the CCCFA may create uncertainty or confusion for front-line lenders and consumers if these changes and the activation of DTI restrictions are rolled out in quick succession. This is particularly so given that the two changes pull in opposite directions (with CCCFA changes loosening restrictions and DTI implementation tightening restrictions). It would be useful if the RBNZ were to remain cognisant of these other changes when activating its proposed DTI restrictions.