

# The Treasury

## 2015 Loan-to-Value Ratios/Macroprudential Policy Information Release

### Release Document

June 2015

[www.treasury.govt.nz/publications/informationreleases/financialsector/lvr](http://www.treasury.govt.nz/publications/informationreleases/financialsector/lvr)

[www.rbnz.govt.nz/research\\_and\\_publications/official\\_information/lvr-restrictions](http://www.rbnz.govt.nz/research_and_publications/official_information/lvr-restrictions)

This document has been proactively released. Redactions made to the document have been made consistent with provisions of the Official Information Act 1982.

#### Key to Redaction Codes

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [2] appearing where information has been withheld in a release document refers to section 9(2)(b)(ii).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

## Treasury Briefing for the Minister of Finance on the RBNZ proposed macroprudential policy package

4 May 2015

The RBNZ are considering the following macroprudential policy package:

1. Restricting loans to property investors in the Auckland region with an LVR of greater than 70 percent (ie a speed limit close to zero)
2. Retain the current speed limit of 10 percent of lending on loans to owner occupiers in the Auckland region with an LVR of greater than 80 percent
3. Relax the speed limit to 15 percent (from 10 percent) of lending on loans to owner occupiers outside of the Auckland region with an LVR of greater than 80 percent.

### Objectives and impact of RBNZ policies

- The RBNZ cite two primary objectives for the changes:
  - To reduce the growth rate in Auckland house prices to limit the **probability and magnitude of a significant correction**
  - To improve the resilience of household balance sheets to **minimise the damage to the wider economy** should the Auckland market fall considerably.
- The RBNZ cite the **significant likelihood of a substantial increase in Auckland property prices over the next two years** as the rationale for this intervention.
  - Auckland recently ranked as the 14<sup>th</sup> least affordable market by Demographia, with increasing housing demand driven by record net immigration and a reduction in fixed mortgage rates.
  - Property investors form a larger and growing share of property transactions than elsewhere (34% in 2013 growing to over 37% now)
  - International evidence suggests property investors default more frequently once in negative equity.
- The RBNZ expect the following impacts:
  - **A fall in Auckland house price inflation by up to 4 percentage points over the coming year** relative to not introducing the policies.
  - A 'significant' impact on purchases of property by investors (-20%) and a 'modest' reduction in high-LVR lending by owner occupiers in Auckland
  - A potential 'modest' increase in house prices outside of Auckland
  - A 1 percent fall in net credit growth, given offsetting effects inside and outside of Auckland
  - An improvement in bank balance sheets as the share of high LVR investor loans falls from a third to a quarter over a year

- The RBNZ has identified the following risks:
  - A 'limited' effect on rental inflation in the Auckland region
  - Potential impacts on new supply to be addressed through an exemption for construction loans

#### Policy coordination with Treasury

- Treasury have worked up a number of tax options as part of a wider package of measures to address potential instability stemming from current housing market dynamics, to be announced at Budget 2015.
- Consideration must be given to the overall impact of likely RBNZ actions on LVRs along with these tax options.
- Treasury's view is that the best package of changes include the brightline test, the collection of IRD numbers from property buyers, and the RBNZ LVR changes for investors.

#### Next steps

- The precise definition of investor class has yet to be determined. The RBNZ are reviewing submissions to its consultation with the banking sector on a definition of investors for capital purposes.
- The RBNZ will announce a consultation with the banking industry on the proposed policies in the Financial Stability Report (13 May), release the consultation document by mid-June, with the policies expected to be effective by 1 August at the earliest.
- The RBNZ have stated an intention to consult on bank capital settings at some point in the future