

The Treasury

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

Release Document

June 2015

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www.rbnz.govt.nz/research_and_publications/official_information/lvr-restrictions

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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 policies

4 May 2015

Additional material: definition of investors

1. Treasury definition

- There is currently no definition of 'investor' for tax purposes. Investment in housing is captured through tax on rent.
- One of the current proposals on housing measures is the brightline test. This would involve income tax to be paid on any gain where residential property is bought and sold within two years, unless
 - the property was the seller's principal place of residence and
 - was not used as a rental property

Next steps

- Treasury and IRD are in the process of developing a definition for owner occupiers in order to provide non-investors an exemption from the brightline test. You will be receiving additional information on this tomorrow (Tuesday 5th May). They note that the scope of the exemption requires careful definition to allow for movement between owner occupied dwellings and rent being charged prior to settlement ('rent to settle').

2. RBNZ definition

- The RBNZ consulted on the definition of residential property investors as part of its Housing Review. This part of the review aims to
 - define a new asset class for property investor loans that is separate to that for owner-occupier mortgage loans
 - apply stricter risk-weighting methodologies to better align capital requirements with underlying credit risk.
- Originally, the RBNZ proposed a count-based definition of property investor – starting at four properties, later increased to five. However, the latest consultation document proposed two alternative definitions:
 - whether the borrower was an owner occupier (allowing for borrowers to occupy multiple properties should this be the case)
 - whether or not rental income would be necessary to service the mortgage.
- The proposed LVR policy changes have been based on the first definition. However, the RBNZ has not yet published a response on the latest Housing Review consultation, and the new definitions are yet to come into effect.

Next steps

- The final round of consultation closed in April 2015. The consultation document indicated that the new asset class would take effect from July 2015 with a phase-in period of nine months.