

Residential loan-to-value lending restrictions

14 December 2016

Loan-to-value ratio (LVR) restrictions on bank home loan lending were introduced in October 2013 by the Reserve Bank of New Zealand to slow housing-related credit growth and house price inflation, and to protect the financial system.

Since then banks have had to restrict new residential mortgage lending of more than 80 percent of a property's value to no more than 10 percent of their new housing lending flows.

LVR lending restrictions are now tighter for loans secured by investment property, in response to the growing housing market risks in that area. In October 2016, restrictions to low deposit (high-LVR) bank lending were tightened and residential property investors now generally need a 40 percent deposit for a mortgage loan. Banks are still allowed to make a small number of loans to borrowers with smaller deposits.

Banks are permitted to make no more than 5 percent of their investor lending to high-LVR (less than 40 percent deposit) borrowers, and no more than 10 percent of their residential owner occupier mortgage lending to high-LVR (less than 20 percent deposit) borrowers.

New Zealand banks are competitive and each has its own approach to securing and growing business within the lending restrictions. Banks need to keep within the high LVR lending limit or risk using their banking licence.

The [Reserve Bank website](#) has detailed information about loan-to-value lending restrictions. People considering getting a home loan can also read our quick guides on [lending](#) to ensure they are informed about what else they need to take into consideration.

Is any home loan borrowing exempt from LVR restrictions?

Low-deposit first home loans under Housing New Zealand's Welcome Home Loan scheme are exempt from the Reserve Bank's LVR restrictions.

Loans to people building a new residence are also exempt. The borrower must either commit to the purchase at an early stage of construction, or be buying the residence from the developer (within six

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months of completion). The exemption applies for both owner-occupiers and residential property investors.

How are LVR house valuations calculated?

Whether you are affected by the restrictions is determined by your loan-to-value ratio: the value of your loan divided by the value of the property or properties that are mortgaged. For example, if your property is worth \$400,000 and you can provide a \$100,000 deposit, your loan to value ratio will be \$300,000/\$400,000, or 75%. At this rate, your LVR will not exceed the 80% level, though any other personal lending or credit card debt you have may affect this.

If you need to borrow more than 80% of the mortgaged property's value, you may still be able to borrow the amount you need, but this will depend on whether your bank's new home loan lending is under the limits for total new lending greater than 80% of LVR. Generally speaking, the closer the bank is to its limits, the less capacity it will have to provide lending.

What is included in loan value calculations?

Each bank has its own policy on loan-to-value calculations – ie including just housing borrowing or non-housing borrowing too. We recommend you talk to your bank about your situation.

I want to buy a house – do the restrictions apply to me?

If you want to buy a house, on your own or along with others, and seek a loan of more than 80% of the purchase property value, you could be affected. Banks will consider low-deposit home loan applications within their lending limit at that point in time. We recommend you check the situation with your bank.

Are first home buyers affected by the restrictions?

Home buyers, including first-home buyers, with a deposit of less than 20% of the value of their house purchase are affected by the restrictions, except those who secure lending through Housing New Zealand's Welcome Home Loan scheme which is exempt from the LVR restrictions.

Will the restrictions affect me if I already have a mortgage, or want a housing loan to buy a business or take a holiday?

The restrictions will affect you only if you wish to top up your loan *and* the new loan amount takes your debt to more than 80% of the property value.

If you are selling and buying another home, your bank can (at its discretion) let you transfer your loan to the new property at a new LVR over 80 percent, provided you don't increase your loan.

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If your loan increases to more than 80% of the residential property value, regardless of whether you are increasing it to buy a house, business or holiday, your bank has to consider your application within its high LVR lending limit. You will need to talk to your bank to see if it is prepared to lend to you from within its lending limit capacity.

What should I do if I am a low-deposit borrower seeking a home loan?

Home loan applicants should “shop around” to compare different options from different banks. We recommend asking lots of questions when you approach banks about residential lending, including about finance pre-approvals.

Case note 1

Ms T claimed she sold a property after the bank gave her unclear information about how much of the proceeds she could keep if she sold it. Ms T was considering selling a property due to difficulty meeting loan repayments and other external debt. She discussed this with her bank saying that a real estate agent had told her she would get about \$200,000 for the property if she sold it.

She left the meeting believing that if she sold the property for \$200,000 she would have \$40,000 after sale proceeds were applied to her bank lending. This would be enough to pay her external debts so she decided to paint the property and put it on the market.

It sold for \$200,000. However, when the property settled, she received nothing because the bank applied the full sale proceeds to her bank debt to reduce the overall loan-to-value ratio (LVR) below 80%.

The bank agreed to release \$10,000 to pay the housepainter but Ms T was also behind in her payments to non-bank creditors. Ms T said that if she had known she would get nothing from the sale she would have kept the property tenanted.

A bank meeting note made it clear the bank officer had considered Ms T’s LVR position and noted if she sold a property the bank needed her LVR to be 80 percent or lower. Though the meeting note reflected the correct position, we were concerned that Ms T had left with a genuine and fundamental misunderstanding of the situation.

At the time Ms T met with the bank she had an LVR of 115%. This meant that if she sold the property for \$200,000 the bank would need the full sale proceeds to reduce her LVR. It should have been very clear to the bank that even if she sold the property for the best possible price Ms T would not be able to retain any of the sale proceeds.

We thought the bank could have clearly warned Ms T of this to enable her to make an informed decision and to prevent any misunderstanding. The bank agreed and offered Ms T \$4,000 for inconvenience, which she accepted.

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Case note 2

Mr C owned two properties, Property A and Property B, which he funded through separate bank loans (Loan A and Loan B). When he sold Property A, he thought he would repay Loan A and keep the extra money. But the bank repaid Loan A in full and used the remaining sale proceeds to reduce Loan B. The bank explained it had to do this because of Reserve Bank restrictions which meant the loan-to-value ratio (LVR) of Property B had to be less than 80%.

Mr C was unhappy the bank used the sale proceeds to reduce Loan B. He said the LVR restrictions shouldn't apply because his lending was approved before LVR restrictions were introduced. He wanted the bank to return the extra sale proceeds to him.

We queried the bank for retaining the sale proceeds to reduce Loan B. The bank acknowledged it was incorrect to use the LVR restriction as the reason, but maintained it had the right to apply the sale proceeds to the other loan. This was because both loans were secured by all obligations mortgages over the properties.

The bank's terms and conditions gave it the right to do this. The bank was concerned that after Property A's sale, Mr C's LVR was very high and it had used its commercial judgment when deciding to reduce Loan B. Under our Terms of Reference, we can't consider complaints about a bank's commercial judgement.

Mr C asked the bank to reconsider its position if he could demonstrate Property B has increased in value, which would decrease its LVR. The bank agreed and obtained a favourable valuation of Property B.

The bank couldn't return the sale proceeds money it applied to Loan B. Instead, it approved an equivalent loan to Mr C. He was satisfied with this outcome and the complaint was resolved.

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