Lending restrictions

The Reserve Bank's lending restrictions aim to take the pressure off house price increases by making it harder for people with small deposits to buy houses. We explain how the restrictions work, and who is exempt.

Loan-to-value-ratio restrictions on banks' home loan lending are a Reserve Bank measure to slow rising house prices. For banks, it means no more than 20 per cent of their total new home loan lending can be for loans that exceed 80 per cent of a property's value.

For borrowers, it means they must have a deposit equal to at least 20 per cent of the value of the property they wish to buy. If, for example, a borrower wanted to buy a house valued at $500,000, he or she would need a deposit of at least $100,000.

A bank may still give a loan to someone who has saved less than that because the restrictions don't apply to every home loan, but rather to 80 per cent of a bank's total new home loan lending. A bank may decide to include such a loan in the 20 per cent of lending that is outside the restrictions. The decision is a commercial one for banks to make. A bank will take into account other factors about a borrower's loan application, such as how close the borrower is to a 20 per cent deposit, his or her credit history, and the extent of any other debts.

Another factor will be how many other loans a bank already has that exceed the 80 per cent loan-to-value ratio. The closer a bank gets to reaching the permissible maximum of 20 per cent, the less likely it will be to approve such a loan.

The Reserve Bank also has loan-to-value-ratio restrictions on property investment loans. Investors need at least a 30 per cent deposit to get a loan, although up to 5 per cent of a bank's loans can be to investors with a deposit below that minimum. Banks that do not comply with the restrictions risk losing their banking licence.

See the **Reserve Bank website** for detailed information on the restrictions. See also our **lending** Quick Guides.

Exemptions

The Reserve Bank's restrictions do not include low-deposit, first-home loans under Housing New Zealand's Welcome Home Loan scheme.

Loans to people building their own new home are also exempt, as are loans to people buying a new home from a developer, and investors building new homes. People buying from a developer must commit to buying early in construction or within six months of completion to qualify for the exemption.

Calculating loan-to-value ratio

There are various ways to establish the value of a home – the asking price, the government valuation or a registered valuation. A bank can choose how it wants to determine a property's value to ensure it meets its loan-to-value obligations.

Your minimum deposit is 20 per cent of the property's value. Use an **online calculator** if it's not easy to work out what a fifth of your proposed loan would be. Bear in mind that each bank has its own policy on how it works out loan-to-value calculations. Some include just the home loan, others non-housing borrowing too. Clarify this with your bank before you begin your property search.

Existing borrowers

The restrictions affect customers who want to top up an existing home loan only if the extra amount borrowed takes their debt to more than 80 per cent of the property's value.

In the case of customers selling their home to buy another one, a bank can, at its discretion, let them transfer the loan to the new property at a loan-to-value ratio exceeding 80 per cent, as long as there is no increase in the size of the loan.

If increasing an existing home loan would push the loan-to-value ratio above 80 per cent, a bank must consider the application as one for a loan that would fall within its permitted 20 per cent of exempt lending.

Generally the bank will require you to deposit at least 20% of the value of the property you are purchasing – however there are exceptions.