

# Small lift in low-LVR lending

**There has been a small increase in the proportion of lending going to borrowers with small deposits, new data from the Reserve Bank shows.**

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In April, 4.3% of new lending was to people with a deposit of less than 20%, after exemptions such as Welcome Home Loans were taken into account.

Under the loan-to-value restrictions, banks must lend no more than 10% of their new loans to those borrowers.

It's the first time since December the percentage after exemptions has topped 4%.

The Reserve Bank has hinted recently that it may look to remove the restrictions towards the end of this year. They have been more effective at reducing the flow of high-LVR lending than had been expected.

But it wants to see evidence that the pressure has come off the housing market, including that rising interest rates are slowing demand.

One BNZ economist says the bank may not be pleased with the effects of its interest-rate hiking so far. Craig Ebert said, despite the two upward tweaks in the OCR in March and April, there had been very little movement in retail lending and deposit rates beyond the variable terms.

"This is partly because there has been an ongoing lessening in bank funding costs. But also because of a reduction in the wholesale interest rates the funding costs are priced on top of. Most swap rates are now little different to where they were late last year and some are actually lower."

Data later this week will likely show a continuing shift of mortgage holders on to fixed rates. Most are still on floating or short-term rates.

Ebert said: "If the Reserve Bank was hoping to see generally higher mortgage and deposit rates as a result of the start of its OCR tightening cycle, and accompanying talk of "normalisation" ahead, then it's probably been sorely disappointed."

Those mulling whether there might be a pause in the hiking strategy should keep that in mind, he said. "If the RBNZ is contemplating a near-term pause in its OCR cycle it will surely be weighing this against the risks that it could lose its initiative with New Zealand's interest rate curves, no matter how much the Bank tries to back this up with tough talk about the OCR for 'later down the track'. Some credibility might be on the line, yet again.