

# Tighter LVR restrictions for owner-occupiers

The Reserve Bank plans to tighten LVR restrictions for owner-occupiers as it clamps down on low deposit home loans.

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The RBNZ wants to limit lending to those with less than a 20% deposit to 10% of bank lending.

Currently, banks can lend up to 20% of their book at >80% LVR.

The move will force NZ lenders to limit loans to low deposit borrowers, impacting the first home buyer market.

Reserve Bank deputy governor Geoff Bascand said the proposal was prompted by soaring house prices.

"Our analysis indicates that house prices are above their sustainable level, and the risks of a housing market correction are continuing to rise. The proposed tightening of LVR restrictions will over time help reduce the number of highly leveraged borrowers and help to build resilience in the financial system."

The proposal comes after the central bank reimposed LVR restrictions, with tighter conditions for investors, in March.

The central bank and Government also introduced a raft of lending reforms to curb investor activity, such as the removal of deductibility of interest for landlords, and an extension of the bright-line test.

Glen McLeod of Edge Mortgages hit out at the proposals, labelling them "extremely disappointing but not surprising".

"Everything being done completely misses the basic point of economics. Supply and demand. We have an under supply of housing which is making things unaffordable. Increase supply, reduce demand.

"The government has no ideas that are fresh to increase the supply and therefore have pushed the responsibility to the Reserve Bank."

In a consultation document, the RBNZ said the new rules could come into effect from October 1.

The Reserve Bank noted fears that the new rules could dampen first home buyer activity, but said they would also flatten house prices.

"We acknowledge that tightening LVR restrictions on owner-occupiers is likely to reduce the number of first home buyers with low deposits who are able to enter the housing market in the short term. However, reducing house price inflation will improve affordability for first-home buyers.

It pointed out that exemptions to LVR restrictions, such as the Kāinga Ora First Home Loan and loans for new builds, would "continue to support access for first-home buyers".

A consultation document on the LVR changes can be found [here](#).