10 August 2016

Mr Bernard Hodgetts
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Reserve Bank of New Zealand
P O Box 2498
Wellington 6140

By email: macroprudential@rbnz.govt.nz

Dear Bernard

ANZ submission on the Consultation Paper: Adjustments to restrictions on high-LVR residential mortgage lending.

Thank you for the opportunity to respond to the Reserve Bank of New Zealand's (RBNZ) further proposed changes to Loan to Value Ratio (LVR) restrictions framework.

ANZ Bank New Zealand Limited (ANZ) considers the LVR restrictions are an appropriate macro-prudential measure to help mitigate the risks around the current New Zealand housing market environment, and fully supports the further adjustments to high LVR residential mortgage lending proposed by the RBNZ on 19 July 2016. As requested by RBNZ, ANZ has acted within the spirit of the revised LVR framework and imposed the amended restrictions for new lending approvals from 21 July 2016.

However, ANZ shares the generic industry issue of a residential mortgage pre-approval pipeline that contains LVR lending in excess of the new rules. These pre-approved agreements need to run their course before full compliance with the new restrictions can be achieved. As the most practical approach to managing this transition, ANZ proposes formal implementation be delayed until 1 October 2016, and an initial reporting period commencing 1 April 2017 based on the three month rolling average to 31 March 2017. [redacted]

ANZ considers the debt-to-income (DTI) measures suggested by RBNZ are unnecessary, and recommends RBNZ undertakes further discussion with the industry on this topic. A DTI framework presents significant design and implementation challenges, and as acknowledged by RBNZ, borrower DTI ratios will naturally ease as a result of tighter LVR restrictions.

ANZ has also reviewed the draft BS19 policy document, and, as raised in previous LVR restriction feedback, ANZ believes some of the terminology used in BS19 is unnecessarily complex. ANZ suggests this banking standard could be redrafted to provide clarity and that these updates to the LVR framework present a good opportunity to address this.

The three key messages which we would like to specifically draw to the RBNZ's attention are summarised in the following table. More detail on these points is provided in Appendix I, followed by responses to the specific questions from the Consultation Paper in Appendix II, and comments on draft changes to BS19 in Appendix III.

Key messages

1. **ANZ proposes the formal implementation date for the new restrictions be postponed from 1 September 2016 to 1 October2016, with the initial reporting period commencing 1 April 2017 based on the three month rolling average to 31 March 2017.**

2. **ANZ considers that RBNZ should work closely with industry to consider the relevance and operational implications of DTI ratio measures as a macro-prudential tool, in order to determine whether this is an appropriate tool to achieve a reduction in risks currently seen in the housing market.**

3. **ANZ recommends the updating of the BS19 should include simplifying terminology, and provides some suggested wording alternatives.**

About ANZ

ANZ is the largest financial institution in New Zealand. The ANZ group comprises brands such as ANZ, UDC Finance, ANZ Investments New Zealand, ANZ New Zealand Securities and Bonus Bonds.

ANZ offers a full range of financial products and services including a significant range of financial advisory services, personal banking, institutional banking and wealth management products and services. ANZ is a Qualifying Financial Entity and employs one of the largest QFE Adviser networks as well as Authorised Financial Advisers.

Contact for submission

ANZ is keen to discuss our submission directly with RBNZ officials. Please contact [redacted] Head of Capital, Provisioning and Portfolio Reporting on [redacted] to arrange, or email [redacted]

Once again, we thank RBNZ for the opportunity to provide feedback on the LVR proposals.

Yours sincerely

[redacted]

Chief Risk Officer

Appendix I – Key messages

ANZ addresses each of the key messages in turn.

1. **ANZ proposes the implementation date for the new restrictions be postponed from 1 September 2016 to 1 October 2016, with the initial reporting period commencing 1 April 2017 based on the three month rolling average to 31 March 2017.**

ANZ has acted in the spirit of RBNZ's proposals, having implemented the changes effective from 21 July 2016, and fully supports the RBNZ's proposed adjustments to the restrictions to high-LVR lending. The proposed LVR restrictions apply a consistent approach across New Zealand, removing the distinction between Auckland and the rest of the country. ANZ welcomes this simplified approach.

ANZ has communicated to all staff, and has implemented process and system changes to cease new approvals in excess of the newly proposed restrictions set by RBNZ. So although compliant with the new restrictions from a new lending flow perspective, there exists a common industry problem of the pre-approval pipeline that extends through to mid-January 2017. [redacted]

While there remains uncertainty in the market place as to how customers with pre-approvals will ultimately act, [redacted]

As a result, the proposed formal implementation date of 1 September 2016 and first measurement period ending 30 November 2016 are too soon for ANZ's pre-approved lending above the new thresholds to be within the new LVR restrictions. This timing is also too soon to gauge how expiring pre-approvals are likely to work out from now through to mid-January 2017.

[redacted]

In its Consultation Paper RBNZ states that a six month initial window for large banks is not going to be made available. However, ANZ is firmly of the view that this flexibility of initial reporting period combined with implementation postponed to 1 October 2016, is in fact the most practical way of dealing with the pre-approval pipelines issue, noting ANZ has ceased all new lending approvals under the previous rules as requested by RBNZ. With this in mind, ANZ believes the following options are the most appropriate to address the pre-approval pipeline issues:

Current pipeline

ANZ recommends a six month transitional window commencing 1 October 2016 is required in order [redacted]

[1] RBNZ Consultation Paper; Adjustments to restrictions on high-LVR residential mortgage lending, July 2016, Figure 9 Distribution of Investor Lending by LVR (November 2015 – current)

[redacted] This is the most practical and least complex approach, and can be structured as follows.

- Official compliance to new restrictions to commence 1 October 2016.
- Initial reporting to commence 1 April 2017 based on a three month rolling average (1 Jan 2017 to 31 March 2017).
- Monthly commitment data could be provided during the transitional period to demonstrate the over 60% RIL pre-approval pipeline is reducing as intended; and the new LVR restrictions are being adhered to.

[redacted]

2. **ANZ considers that RBNZ should work closely with industry to consider the relevance and operational implications of DTI ratio measures as a macro-prudential tool, in order to determine whether this is an appropriate tool to achieve a reduction in risks currently seen in the housing market.**

ANZ believes the suggested debt-to-income (DTI) ratio restrictions as a possible macro-prudential tool to complement LVR restrictions are unnecessary. Robust and proven measures of customer debt servicing ability (includes minimum levels of uncommitted income) and propensity to pay are already in place in ANZ as prominent components of credit assessment and decision-making, and ANZ opposes the introduction of DTI measures.

However, as RBNZ has indicated an intention to further investigate DTI restrictions as a macro-prudential option, ANZ strongly recommends early and extensive consultation with the banking industry due to the complexities and challenges that abound in such a framework.

Examples of the types of challenges associated with developing a DTI framework include:

- In order to ensure consistency across the industry, the definition and treatment of income will need to be clearly defined at a granular level to accommodate elements such as:
    - Discounts applied to Rental Income;
    - Non-Regular Income Sources, e.g. overtime, commission, bonus income; and
    - Disbursements from businesses and trust, e.g. Drawings.
- Debt to Income restrictions would be a blunt tool that does not factor in a customer's expenses. A single ratio cannot be applied across Owner Occupied and Residential Investment Lending.

- For DTI to be effective as a measure, accurate and verifiable loan balance data for customer borrowing at other institutions will be required, otherwise customers may actively pursue split-banking arrangements in order to circumvent the restrictions. This means the Credit Reporting Privacy Code will need to allow the sharing of customer loan balance information (in addition to the five fields currently shared: Loan Opening Balance/Limit, Product, Open Date, Account Status and Account Performance).
- Reaching industry agreement on a proposed methodology will be a protracted process.
- DTI measures would add a substantial level of complexity for both customer and staff understanding; design and delivery of effective education and communication would take considerable effort.
- Consistency of application across the industry will be challenging; while this may not be a priority for RBNZ from a housing market risk mitigation perspective, bank customers deserve to be confident that the rules are consistent.

Attempting to overcome these barriers is impractical when banks already have effective debt-servicing assessment criteria and processes. ANZ proposes that the existing LVR restrictions framework should instead be modified if required.

3. ANZ recommends the updating of the BS19 should include simplifying terminology, and provides some suggested wording alternatives.

ANZ suggests that RBNZ takes this opportunity to simplify the wording of all terms used in both BS19 and BS2B that are currently unnecessarily complex. For instance, the terms ‘non property-investment residential mortgage loan’ and ‘property investment residential mortgage loan’ are used throughout the definitions of ANPIL, APIL, NAPIL, and NANPIL. As property-investment residential mortgage loan is defined as not being a non property-investment residential mortgage loan, the interpretation becomes convoluted.

To assist with making these terms easier to understand, ANZ provides some suggested wording changes in: Appendix III - Comments on draft changes to RBNZ BS19 policy document.

Appendix II – Responses to questions in the Consultation Paper: Adjustments to restrictions on high-LVR residential mortgage lending

#	Question	ANZ response
1	Do you have any comments on the problem definition for this policy?	No.

2	Do you have any comments on the analysis of possible macro-prudential options or the rationale for the proposed LVR restrictions?	ANZ considers that RBNZ should work closely with industry to consider the relevance and operational implications of DTI ratio measures as a macro-prudential tool, in order to determine whether this is an appropriate tool to achieve a reduction in risks currently seen in the housing market.
		
		ANZ believes the suggested debt-to-income (DTI) ratio restrictions as a possible macro-prudential tool to complement LVR restrictions are unnecessary. Robust and proven measures of customer debt servicing ability (includes minimum levels of uncommitted income) and propensity to pay are already in place in ANZ as prominent components of credit assessment and decision-making, and ANZ opposes the introduction of DTI measures.
		
		However, as RBNZ has indicated an intention to further investigate DTI restrictions as a macro-prudential option, ANZ strongly recommends early and extensive consultation with the banking industry due to the complexities and challenges that abound in such a framework.
		
		Examples of the types of challenges associated with developing a DTI framework include:
		
		• In order to ensure consistency across the industry, the definition and treatment of income will need to be clearly defined at a granular level to accommodate elements such as:
		  o Discounts applied to Rental Income;
		  o Non-Regular Income Sources, e.g. overtime, commission, bonus income; and
		  o Disbursements from businesses and trust, e.g. Drawings.
		• Debt to Income restrictions would be a blunt tool that does not factor in a customer's expenses. A single ratio cannot be applied across Owner Occupied and Residential Investment Lending.
		• For DTI to be effective as a measure, accurate and verifiable loan balance data for customer borrowing at other institutions will be required, otherwise customers may actively pursue split-banking arrangements in order to circumvent the restrictions. This means the Credit Reporting Privacy Code will need to allow the sharing of customer loan balance information (in addition to the five fields currently shared: Loan Opening Balance/Limit, Product, Open Date, Account Status and Account Performance).
		• Reaching industry agreement on a proposed

		methodology will be a protracted process. • DTI measures would add a substantial level of complexity for both customer and staff understanding; design and delivery of effective education and communication would take considerable effort. • Consistency of application across the industry will be challenging; while this may not be a priority for RBNZ from a housing market risk mitigation perspective, bank customers deserve to be confident that the rules are consistent. Attempting to overcome these barriers is impractical when banks already have effective debt-servicing assessment criteria and processes. ANZ proposes that the existing LVR restrictions framework should instead be modified if required.
3	Do you have any comments on the expected impact of the policy in increasing financial system resilience or dampening house price and credit growth?	ANZ considers the proposed policy will support financial system resilience and will help dampen credit growth, and believes this is the best framework to continue managing these risks.
4	Do you have any comments on possible unintended consequences from the policy?	Overall, ANZ considers the unintended consequences to be little different to the current regime, although the tighter LVR restrictions could possibly exacerbate the following: • Risk of higher rental levels for residential investment properties; • Reduced availability of parental/family support for first home buyers; • The propensity of borrowers to actively pursue split banking; and • Focus on housing supply not being addressed.
5	Is the construction exemption still suitable with the proposed policy changes?	Yes.
6	For regulated entities, please quantify costs in relation to implementing this proposed policy change.	[redacted] [redacted] [redacted]

		[redacted]
7	How large are the systems changes required to reclassify property investors that have an Auckland owner-occupied property?	[redacted]
8	Is the proposed speed limit for property investment loans suitable to achieve desired objectives?	ANZ believes a 5% speed limit for residential investment mortgage lending over 60% LVR is appropriate.
9	Do you have any comments on the calibration of the owner-occupier speed limits?	ANZ believes a 10% speed limit for owner-occupied residential mortgage lending over 80% LVR is appropriate. ANZ also supports the removal of the distinction between Auckland and the rest of New Zealand, to apply a consistent approach across the country.
10	Do you have any comments on the effectiveness and appropriateness of the combined collateral exemption, or any of the other exemptions within BS19?	The Combined Collateral and other exemptions remain effective and appropriate.
11	Will the proposed implementation timeframes and transition arrangements create any significant difficulty?	ANZ proposes the implementation date for the new restrictions be postponed from 1 September 2016 to 1 October2016, with the initial reporting period commencing 1 April 2017 based on the three month rolling average to 31 March 2017. ANZ has acted in the spirit of RBNZ's proposals, having implemented the changes effective from 21 July 2016, and fully supports the RBNZ's proposed adjustments to the restrictions to high-LVR lending. The proposed LVR restrictions apply a consistent approach across New Zealand, removing the distinction between Auckland and the rest of the country. ANZ welcomes this simplified approach. ANZ has communicated to all staff, and has implemented process and system changes to cease new approvals in excess of the newly proposed restrictions set by RBNZ. So although compliant with the new restrictions from a new lending flow perspective, there exists a common industry problem of the pre-approval pipeline that extends through to mid-January

		2017. [redacted] While there remains uncertainty in the market place as to how customers with pre-approvals will ultimately act, [redacted] As a result, the proposed formal implementation date of 1 September 2016 and first measurement period ending 30 November 2016 are too soon for ANZ's pre-approved lending above the new thresholds to be within the new LVR restrictions. This timing is also too soon to gauge how expiring pre-approvals are likely to work out from now through to mid-January 2017. [redacted] In its Consultation Paper RBNZ states that a six month initial window for large banks is not going to be made available. However, ANZ is firmly of the view that this flexibility of initial reporting period combined with implementation postponed to 1 October 2016, is in fact the most practical way of dealing with the pre-approval pipelines issue, noting ANZ has ceased all new lending approvals under the previous rules as requested by RBNZ. With this in mind, ANZ believes the following options are the most appropriate to address the pre-approval pipeline issues: **Current pipeline** ANZ recommends a six month transitional window commencing 1 October 2016 is required [redacted] This is the most practical and least complex approach, and can be structured as follows. • Official compliance to new restrictions to commence 1 October 2016. • Initial reporting to commence 1 April 2017 based on a three month rolling average (1 Jan 2017 to 31 March 2017). • Monthly commitment data could be provided during the transitional period to demonstrate the over 60% RIL pre-approval pipeline is reducing as intended; and the

[2] RBNZ Consultation Paper; Adjustments to restrictions on high-LVR residential mortgage lending, July 2016, Figure 9 Distribution of Investor Lending by LVR (November 2015 – current)

12		new LVR restrictions are being adhered to. [redacted]
12	Will there be any significant difficulty associated with reporting lending to large scale residential property investors as defined in clause 7(2)f of BS19?	Based on ANZ's interpretation that "large scale residential property investors" equates to lending to [redacted] this reporting is reasonably straightforward, however, ANZ proposes that any additional reporting on lending that meets the BS19 7(2)f criteria is unnecessary. For [redacted] lending, [redacted] Therefore reporting related to speed limit restrictions is of no value. The anti-avoidance section of BS19 contains behavioural guidance, including item 2 (f). [redacted] The higher capital requirement (via slotting) for the 7714 portfolio (compared to the Retail Mortgage Basel Asset Class) obviates any perceived advantage in attempting to avoid LVR restrictions. [redacted]

Appendix III – Comments on draft changes to RBNZ BS19 document, Framework for Restrictions on High-LVR Residential Mortgage Lending

BS19 - Conditions of Registration
Loan-to-valuation measurement period Both of the new conditions of registration in Appendix I of BS19 use the defined term 'loan-to-valuation measurement period', and ANZ notes that RBNZ proposes changing this defined term, so it means 'the three calendar month period ending on the last day of November 2016.' This implies the LVR restrictions imposed on RILs and Owner-Occupied properties only apply up to the end of November

2016, which ANZ understands is not the intent. To address this, and in view of ANZ's proposed 6 month initial measurement period, ANZ recommends the BS19 definition of 'loan-to-valuation measurement period' be amended to: 'The three month period ending on the last day of March 2017. Thereafter, periods of three months, ending on the last day of each month.'
Qualifying new mortgage lending amount in respect of a defined category The definition of the term 'qualifying new mortgage lending amount in respect of a defined category', is unclear. This term appears only in Appendix I (Standard the conditions of registration) of BS19, and only in the section that refers to where the terms used in the conditions of registration are defined. That section says a 'qualifying new mortgage lending amount in respect of a defined category' has the meaning set out in BS19, however ANZ notes: • BS19 doesn't specifically define 'defined category'; instead uses a footnote saying defined categories include non property-investment residential mortgage loan, property-investment residential mortgage loan, APIL, ANPIL, NAPIL, or NANPIL • The term itself is not used anywhere in the conditions of registration. The term amends or replaces the definition of 'qualifying new mortgage lending amount in respect of APIL', used in the November 2015 conditions of registration, and ANZ seeks clarification.
BS19 - Terms and definitions
ANZ suggests that RBNZ takes this opportunity to simplify the wording of terms used in both BS19 and BS2B that are currently unnecessarily complex. For instance, the terms 'non property-investment residential mortgage loan' and 'property investment residential mortgage loan' are used throughout the definitions of ANPIL, APIL, NAPIL, and NANPIL. As property-investment residential mortgage loan is defined as not being a non property-investment residential mortgage loan, interpretation becomes convoluted. ANZ suggests the following changes: **ANPIL** RBNZ: 'a non property-investment residential mortgage loan…secured against at least one Auckland property'. Suggest: 'A standard residential mortgage loan secured over only owner-occupied property that includes at least one owner-occupied property in Auckland.' Reason: On first reading of the RBNZ definition it isn't clear that only owner-occupied properties are caught by this definition. The definition should be understandable on a stand-alone basis; currently both elements have to be read together. **APIL** RBNZ: 'a property-investment residential mortgage loan that is secured against at least one Auckland investment property'. Suggest: 'A standard residential mortgage loan secured against at least one Auckland investment property.' Reason: A property-investment residential mortgage loan is defined as not being a non property-investment residential mortgage loan. It is simpler to state what it is, rather than what it is not. **NAPIL**

RBNZ: ‘a property-investment residential mortgage loan that…is not secured against any Auckland investment property.’

ANZ has no issues with this definition.

NANPIL

RBNZ: ‘a non property-investment residential mortgage loan that…is not secured against any Auckland property.’

Suggest: ‘A standard residential mortgage loan secured over only owner-occupied property outside of Auckland.’

Reason: Easier to understand

Property-investment residential mortgage loan

RBNZ: ‘A standard residential mortgage loan that is not a non property-investment residential mortgage loan.’

Suggest: ‘A standard residential mortgage loan secured over at least one property that is not an owner-occupied property.’

Reason: ANZ recommends avoiding defining one thing as not another thing; definition needs to be more direct and clear as to what this category is.

Non property-investment residential mortgage loan

RBNZ: ‘A standard residential mortgage loan secured over only owner-occupied residential property’

Suggest: Replace term ‘non property-investment residential mortgage loan’ with ‘Owner-occupied residential mortgage loan’ and define that as ‘a standard residential mortgage loan secured over only owner-occupied residential property’.

Reason: ANZ recommends avoiding defining one thing as not another thing; definition needs to be more direct and clear as to what this category is.

Qualifying new mortgage lending amount

There is no need to refer to loan-to-valuation measurement period’ within the definition itself as ‘qualifying new mortgage lending amount’ is used in conjunction with loan-to-valuation period’ within BS19.

Suggest: ‘The sum of:

1) All new loan values associated with a qualifying mortgage loan made by a registered bank in accordance with a qualifying mortgage loan commitment; and
2) All qualifying increases in mortgage loan value made by the registered bank.’

Reason: At the moment this definition refers to the loan-to-valuation measurement period when determining the qualifying new mortgage lending amount. However, the term ‘qualifying new mortgage lending amount’ is used in conjunction with the loan-to-valuation measurement period in relevant sections of BS19, so including that terminology in the definition itself is redundant.