



Reserve Bank
of New Zealand
Te Pūtea Matua

Additional risk weights review

Policy proposals for feedback

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Consultation
paper



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Chapter 1: Introduction

Introduction

1.1 Introduction

Risk weights

Capital requirements express the amount of capital a deposit taker must have as a percentage of its risk-weighted assets (**RWAs**). Risk weights are percentages applied to a deposit taker's loans and other exposures to translate them into RWAs.¹

Deposit takers are required to have more capital (such as equity) for riskier loans to provide a larger buffer to absorb potential losses, reducing the risk of a deposit taker failing. Risk weights help determine the amount of capital the deposit taker is required to have by reflecting the risks of underlying lending.

There are two approaches used to calculate risk weights:

- The **standardised approach**, where risk weights are set based on the broad characteristics of loans, such as the loan-to-value ratio (**LVR**) for residential mortgage lending.
- The **internal ratings-based (IRB)** approach, where deposit takers accredited by the Reserve Bank are authorised to calculate credit risk weights using their own internal risk models, enabling them to get a more precise measure of the riskiness of lending. Currently the only deposit takers approved to use this approach are those that will be Group 1 deposit takers once the DTA commences, but others can apply.²

The main purpose of the Deposit Takers Act 2023 (**DTA**) is to promote the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy by protecting and promoting the stability of the financial system. A misalignment between risk weights and actual risk weakens the connection between risk and capital requirements. In turn, this reduces efficiency in the financial system through the misallocation of capital.

Scope of this review of risk weights

In December 2025 we announced decisions following the 2025 Capital Review.³ An important component of the review was to refine the standardised approach to increase granularity including residential mortgage lending (**RML**). This led to reductions in risk weights in a number of areas, including RML and small and medium enterprise (**SME**) lending.

The 2025 Capital Review led to better alignment between risk weights and actual risk. It resulted in larger relative reductions in capital requirements for Group 2 and Group 3 deposit takers (compared to Group 1 deposit takers). Overall, the changes from the 2025 Review support a proportionate approach to regulation and help to maintain competition. Most of the changes have been implemented through updates to the Banking Prudential Requirements (**BPRs**) and changes to non-bank deposit takers' (**NBDTs**) conditions of licence, which commenced on 1 October 2026.

¹ See the Reserve Bank Bulletin 'How risk weights affect bank lending' by Cassino and Lilly: rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/bulletins/2024/how-risk-weights-affect-bank-lending.pdf

² Our Proportionality Framework categorises locally incorporated deposit takers into three groups, depending on their size: Group 1 deposit takers (total assets of NZ\$100 billion or more); Group 2 deposit takers (total assets of NZ\$2 billion or more, but less than NZ\$100 billion); and Group 3 deposit takers (with total assets of less than NZ\$2 billion).

³ rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/capital-review/2025/20251212-decision-document-formatted-version.pdf.

Following feedback during the 2025 Capital Review, we identified a number of topics in the standardised approach that warranted further investigation based on new evidence, international changes and stakeholder feedback. As a result, in the December 2025 decision document we committed to reviewing the following topics in 2026: reverse residential mortgage lending (**RRML**), commercial property lending, infrastructure lending and warehouse facilities (a limited form of securitisation). While developing the 2025 Review Summary of Submissions document in early 2026 we identified two further topics where risk weights may not be accurately reflecting risk – personal lending and credit conversion factors (**CCFs**).

To help inform our analysis about the connection between risk weights and risk across these topics, we sent deposit takers a voluntary information request in late-March 2026. We received 14 responses to the information request from deposit takers which provided useful evidence to support our analysis.

1.2 Policy proposals

Table 1 summarises the proposals covered in more detail in Chapters 2 to 7 of this paper. Our overall assessment is that the proposals more accurately reflect risk and therefore support greater efficiency in the financial system, without compromising financial stability.

The package of proposals includes relatively narrow and technical changes to the standardised approach and builds on the more substantive changes we made following the 2025 Capital Review. We consider that together the changes support efficiency in the financial system and bring us into closer alignment with international peer regulators and the Basel international standards.

We are keen to hear feedback on the proposals and are open to revising them based on evidence received during the consultation process. For commercial property in particular, we have provided a range of risk weights that we consider could be suitable based on the limited evidence we have. We will use consultation feedback to help calibrate the settings at the most suitable level.

Table 1: Summary of policy proposals

Topic	Current standardised treatment	Policy proposal
Personal lending refers to retail non-mortgage products like credit cards, personal loans and overdrafts.	All personal lending currently receives a 100% risk weight, as part of “other assets”.	Introduce a lower risk weight of 75% for credit cards and retain a 100% risk weight for all other personal lending (secured and unsecured) as part of the “other assets” category of exposures.
Credit Conversion Factors convert off-balance sheet exposures (such as undrawn limits on a credit card or revolving mortgage facility) into an on-balance sheet credit equivalent amount.	Conversion factors depend on the characteristics of the off-balance sheet arrangement. They currently range from 0% to 100%. A 0% category is available for “unconditionally cancellable commitments” (UCC).	Refine the definition of commitment, apply a 40% conversion factor to all “other commitments”, and remove the UCC category. Require the use of standardised CCFs under the IRB approach except for certain retail exposures.

Topic	Current standardised treatment	Policy proposal
Commercial property lending refers to the financing of non-residential property.	Commercial property exposures currently attract a 100% unrated corporate standardised risk weight.	Increase granularity by introducing lower risk weights for low LVR lending and higher risk weights for high LVR lending, with: • 70% risk weight for less than 60% LVR; • 90-105% risk weight for 60 to 80% LVR; • 110-125% risk weight for above 80% LVR; and • 150% risk weights for commercial property development lending.
Infrastructure lending covers public-private partnerships, Infrastructure Funding and Financing Act 2020 special purpose vehicles and regulated asset base utilities.	Infrastructure exposures currently attract a general corporate risk weight based on their credit rating, with risk weights ranging from 20% to 150%.	Introduce specific risk weights for eligible large domestic public infrastructure projects, with: • 50% for rating grade 3 and unrated; • 100% for rating grade 5; and • all other risk weights aligned with corporate rating grade.
Warehouse facilities are large revolving credit facilities, usually provided by Group 1 deposit takers to smaller deposit takers or non-deposit taking lending institutions.	Warehouse facilities currently generally attract a 100% unrated corporate standardised risk weight.	Use a look-through approach, which allows the risk profile of the underlying exposures in a warehouse facility to determine risk weights.
Reverse residential mortgage lending are loans secured by residential property where no principal or interest payments are due until the property is vacated or sold.	Risk weights are currently based on the LVR of the loan and range from 40% to 100%.	Increase granularity for low LVR RRML by introducing a new 25% LVR band with a 30% risk weight.

1.3 Expected impact of the proposals

These proposals are designed to improve the risk sensitivity of our capital framework. This helps ensure more capital is required for higher risk exposures, and less capital for lower risk exposures. The proposals are not intended to increase or decrease the total amount of capital in the system by large amounts.

While most of the individual changes are estimated to slightly reduce the amount of capital deposit takers are required to have, the CCF changes would increase the amount of capital that deposit takers need, although we expect the impact will differ across different deposit takers.

We estimate that the cumulative impact of the proposed changes will be roughly neutral on the system level of capital, though this is based on incomplete data. The impact is expected to vary by Group and by individual deposit taker. It will also vary depending on the exact calibration following consultation, particularly for commercial property where a sizable overall reduction in risk weights would be likely at the low end of the illustrated ranges. We are interested in feedback from deposit takers on their expectations for the impact of these changes and will take additional evidence received during the consultation into account before making final decisions.

The impacts are small compared with the sizable reductions in capital requirements that result from the decisions made as part of the 2025 Review. We estimated Group 1 would see a reduction in RWA of 5.8%, Group 2 would see a reduction of 15.3%, and Group 3 would see a reduction of 16% as a result of the 2025 Review changes.⁴ Most of those 2025 Review changes are in the process of being phased in for banks and non-bank deposit takers.

We have assessed this package of proposals against the criteria used in the 2025 Review.⁵ The criteria reflect the purposes and principles of the DTA. Table 2 below summarises our analysis of the package of proposals against the status quo using those criteria, where the status quo consists only of the December 2025 decisions and no further changes to risk weights. It is useful to note that this is a much smaller package of changes than those in the 2025 Review and does not have a material impact on many of the criteria. However, we consider the package better reflects risk, improves consistency between approaches taken by different deposit takers and improves international alignment.

Table 2: Assessment of proposed changes against the 2025 Capital Review criteria

Recommended package versus status quo			
Financial stability criteria	Going concern loss absorbency	0	The recommendations involve introducing greater granularity in the risk weights framework and we think these better reflect actual risk, which is the underlying principle for the risk weights framework. They reduce the amount of capital some individual deposit takers are required to have and increase it for others. However, the overall level of capital in the system remains close to the status quo.
	Crisis management	0	The recommended package will not have any material impact on crisis management.

⁴ Please refer to the 2025 Capital Review Cost-Benefit Analysis: rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/capital-review/2025/cost-benefit-analysis.pdf

⁵ Please refer to pages 17 and 18 of the 2025 Capital Review Consultation Paper for a description of the criteria: consultations.rbnz.govt.nz/prudential-policy/review-of-key-capital-settings/user_uploads/consultation-paper-review-of-key-capital-settings.pdf

Recommended package versus status quo			
Other criteria	Proportionality	0	The recommendations are not expected to have a material impact on proportionality, although we note that changes to the standardised risk weights tend to benefit the smaller, non-IRB deposit takers more.
	Competition	+	The package will impact different entities differently, depending on their business model – with some seeing a reduction and others seeing an increase in funding costs, depending on net impact of the risk weight changes. Aspects of the package, such as CCFs and warehouse facilities, help to support competition by creating a level playing field by introducing greater consistency in the approaches used. The proposals also bring the standardised and IRB approaches closer together.
	Simplicity/achievability	-	On the whole, the recommendations will involve systems and process changes and some of the proposals are more complex than the status quo.
	Funding costs	0	The recommended package will increase funding costs for some deposit takers and decrease costs for other deposit takers (depending on their business models) and subsequently impact lending capacity in a similar way. Overall, the net impact is expected to be close to zero.
	International alignment	+	The recommended package brings the New Zealand standardised approach into closer alignment with international counterparts such as APRA, and with the Basel international standards.

1.4 Next steps

Following public consultation, we will analyse submissions, consider any additional evidence and make final decisions. Final decisions will be incorporated into the Capital Standard which is due to be issued in late May 2027 and come into effect in December 2028.

Drafting of the proposals

Due to the timeline for developing the Capital Standard, there is limited opportunity following final decisions to implement drafting changes. Therefore, we have included some initial drafting of the proposals in Annex 1.

We note that this drafting does not pre-empt any formal decisions. However, we are seeking feedback on the drafting in addition to the policy proposals to help with implementation into the Capital Standard in 2027. We ask that submitters provide any technical feedback on the drafting alongside their feedback on the proposals.

Chapter 2: Personal lending

Personal lending

2.1 Introduction

Personal lending

Personal lending generally refers to retail non-mortgage lending products provided to individuals and includes credit cards, overdrafts and secured or unsecured personal loans. Secured personal lending can include lending for motor vehicles and other assets, such as work tools.

Personal lending represents a relatively small share of total deposit taker lending in New Zealand, at around 1.2%. However, the composition of portfolios varies across deposit takers, and some deposit takers have a greater concentration of particular products, including motor vehicle finance.

Current risk weight treatment

Under the current standardised credit risk framework, all personal lending receives a 100% risk weight, regardless of the product type or whether the exposure is secured. This is set out in *BPR131: Standardised Credit Risk RWAs*,⁶ in the 'other assets' category.

From 1 October 2026, the same treatment will apply to non-bank deposit takers (**NBDTs**), replacing their previous risk weights of 100% for secured personal lending and 150% for unsecured personal lending.⁷

Through feedback to the 2025 Capital Review, respondents generally supported introducing greater granularity for personal lending. However, respondents opposed the concept of increasing the risk weight for unsecured lending (such as to 150%) and some advocated for a lower risk weight for secured lending. Some stakeholders suggested introducing a separate 75% risk weight for credit card lending, consistent with the approach used by APRA.

2.2 Proposal for personal lending risk weights

Proposed change

We propose introducing greater granularity to personal lending risk weights by:

- introducing a new, lower risk weight for credit card lending at 75%; and
- retaining the 100% risk weight for all other personal lending.

The proposal would not create separate categories for secured and unsecured personal lending.

Analysis

We are proposing this change based on the following considerations:

⁶ rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/banking-supervision-handbook/bpr131-standardised-credit-risk-rwas-oct-2026.pdf

⁷ This has been implemented through licencing Conditions imposed on NBDTs. Further information is available at rbnz.govt.nz.

Alignment with risk

Bank stress test data from 2021 and 2022 shows an average loss rate of approximately 1.5% for credit card lending, compared with approximately 5.7% for other personal lending.⁸ This demonstrates a lower level of risk associated with credit cards and therefore supports a lower risk weight for these products. It also supports retaining the current treatment for other personal lending due to the higher levels of risk associated with these products.

Information provided by deposit takers using the IRB approach also showed an average risk weight of approximately 63% for credit card exposures. A 75% standardised risk weight would therefore reduce the difference between the standardised and IRB approaches. We considered a further reduction to lower than 75% in order to eliminate the gap to IRB results. We discounted this option on the basis that IRB modelling provides more capacity to reflect granular risk, which is not available in the standardised approach, so we consider alignment with the Basel and APRA approaches to be appropriate.

We also considered reducing risk weights for secured personal lending. Although security may reduce losses in some circumstances, the evidence available did not support a distinct calibration that could be applied consistently across the range of secured products and collateral. Separating personal lending into secured and unsecured categories would also add complexity without the necessary evidence base to justify this, as well as being inconsistent with the approach taken by APRA and Basel. We consider retaining the 100% risk weight for personal lending outside of credit cards to be the most justifiable setting based on available data.

Interaction with CCFs

The proposal should be considered together with the proposed changes to CCFs in Chapter 3. Under that proposal, the undrawn portion of credit card limits would receive a 40% CCF rather than the current 0% treatment available for unconditionally cancellable commitments.

Together, the proposals would better recognise both the relatively low observed losses on drawn credit card balances and the potential for customers to draw further amounts before or during financial stress.

International alignment

A 75% risk weight for credit card lending would align with the approach used by APRA. The Basel framework also sets lower risk weights for credit card exposures, although its detailed eligibility requirements differ. We consider the proposed treatment to be more appropriate for the New Zealand system, as our business models do not justify the additional complexity of the Basel approach.

Notably, APRA and Basel both set risk weights for all other personal lending at 100% without any differentiation between secured and unsecured personal lending.

⁸ See figure 21 on page 82 of the Review of Key Capital Settings Consultation Paper: consultations.rbnz.govt.nz/prudential-policy/review-of-key-capital-settings/user_uploads/consultation-paper-review-of-key-capital-settings.pdf

Competition

The proposal would reduce capital requirements for credit card lending under the standardised approach and bring that approach closer to IRB outcomes.

- Q1** Do you agree that credit card lending should receive a 75% risk weight while all other secured and unsecured personal lending retains a 100% risk weight?
- Q2** Do you have any feedback on the drafting of the proposal in section 1 of Annex 1?

Chapter

Chapter 3: Credit conversion factors

Credit conversion factors

3.1 Introduction

Off-balance sheet credit risk

Deposit takers face off-balance sheet credit risk from committed but undrawn lending facilities (such as credit cards or revolving mortgages). Although these facilities may create little or no current balance sheet exposure, they can become actual exposures if customers draw on them, especially during financial stress. For example:

- Customers may increase use of available credit when under financial pressure – a customer may draw on a revolving mortgage or credit card to meet other loan repayments, while business customers may rely more heavily on credit lines as cashflows weaken.
- A deposit taker's exposure can also increase after a missed payment or default. Even if the deposit taker restricts further borrowing, interest may continue to accrue on the defaulted loan.

Therefore, deposit takers need sufficient capital to cover the risk that undrawn commitments become funded exposures and generate losses.

CCFs

CCFs convert the off-balance sheet credit risk (the undrawn amount) into a credit equivalent amount (**CEA**). Both the on-balance sheet exposure and the CEA are then multiplied by the relevant borrower risk weight to determine RWA.

Under the standardised approach, deposit takers apply Reserve Bank-prescribed CCFs. The CCF depends on the type of transaction.

Under the IRB approach, deposit takers use internal models to estimate a single Exposure at Default (**EAD**), which captures both drawn and undrawn exposures and is used directly in RWA calculations.

Current risk weight treatment

The current framework contains credit conversion factors ranging from 0% to 100%, depending on the type and characteristics of the commitment. For example, a commitment where the drawdown is certain (such as a term loan for a house purchase that will settle within a month's time) generally attracts a 100% factor. A 0% factor may apply to commitments classified as unconditionally cancellable, including some credit card and revolving credit limits. There is also a catch-all category for "other commitments" that do not fit within the specified categories.

Information provided by deposit takers indicates that the current categories are not applied consistently. Similar products may receive different treatment depending on how cancellation rights are interpreted or implemented. The 0% category may also understate risk because customers can draw available limits before a deposit taker identifies deterioration and cancels the commitment.

Both Basel and APRA have reviewed their approach to CCFs in recent years and made changes to their frameworks, specifically the 0% unconditionally cancellable category, and the "other commitment" categories. The table below compares the New Zealand approach to CCFs with Basel and APRA settings.

Table 3: CCFs across NZ, Basel and APRA approaches

Type of transaction	CCF % in RBNZ BPR131	CCF % in Basel III	CCF % in APRA APS 112
Other commitment where original maturity is more than 1 year	50	40	40
Other commitment where original maturity is less than or equal to 1 year	20	40	40
Other commitment that cancels automatically when the creditworthiness of the counterparty deteriorates or which can be cancelled unconditionally at any time without prior notice	0	10	40

3.2 Proposal for CCFs

Proposed change

We propose applying a 40% CCF for all other commitments, regardless of original maturity, and removing the unconditionally cancellable commitment category. This would provide a more consistent approach across deposit takers and align our approach with APRA's.

The table below summarises our current approach with the proposed option, including particular design features that we are seeking feedback on.

Table 4: Status quo versus proposal for CCFs

	Status quo (BPR131/BPR133)	Proposal (align to APRA APS 112/APS 113)
Credit conversion factor applied to "other commitments"	50% CCF for original maturity greater than 1 year 20% CCF for original maturity less than or equal to 1 year 0% CCF for unconditionally cancellable or cancels automatically when creditworthiness deteriorates	40% CCF for all other commitments, irrespective of original maturity - This results in the removal of the unconditionally cancellable commitment category.
Definition of commitment	Based on Basel II (2008).	Based on Basel III (2017) and APRA's APS 112 Attachment C paragraph 3. A key change is to exclude arrangements with corporate borrowers where the borrower is required to apply to the bank for each drawdown, and the bank decides on a drawdown only after assessing the borrower's creditworthiness.

Status quo (BPR131/BPR133)		Proposal (align to APRA APS 112/APS 113)
Modelling of off-balance sheet exposures (EAD modelling) under IRB approach	Deposit takers model EAD for retail exposures and can either model EAD or apply Standardised CCFs for non-retail exposures. Historically, NZ IRB deposit takers modelled EAD across all portfolios. IRB banks have migrated to using the standardised CCFs for non-retail portfolios in recent years.	Apply similar requirements to APRA's APS 113 Attachment B paragraphs 35 and 37: - EAD modelling restricted to revolving retail exposures (e.g. credit cards), with a floor of at least 50% of the applicable standardised CCF. - Non-revolving retail (e.g. residential mortgage) applies a 100% CCF on off-balance sheet amounts. - All other off-balance sheet exposures use the applicable standardised CCF.

Analysis

We are proposing this change based on the following considerations:

Alignment with risk

In practice, customers may draw available limits quickly, including as their financial position deteriorates. Operational processes, customer-notification requirements, and the timing of risk information can also limit a deposit taker's ability to prevent further drawings.

Although the empirical data on New Zealand banks' experience available to us was limited, our assessment of realised CCF experience and modelling by IRB banks supports removal of the 0% CCF category in the current standardised approach, consistent with the changes the Basel Committee and APRA have made in recent years.

A 40% factor better recognises the risk associated with this while remaining below the treatment for a commitment with certain drawdown. It also reduces the scope for materially different capital outcomes for economically similar products. We welcome submissions on calibration of this 40% factor, including any empirical evidence on the realised drawdown rates of relevant products in the New Zealand market.

Consistency, simplicity, and achievability

Removing the unconditionally cancellable category would reduce reliance on judgement about whether contractual cancellation rights are effective in practice. A single 40% factor for other commitments would be easier for deposit takers to apply consistently and for the RBNZ to supervise.

International alignment

The proposal aligns our approach with APRA's and with the revised Basel framework.

Competition

More consistent classification would support a level playing field by reducing the ability for similar products to receive different capital treatment because of differences in interpretation. The proposal may increase capital requirements for deposit takers that currently apply a 0% factor to a material volume of commitments, however other deposit takers may see a decline in capital requirements if they currently apply a 50% factor on some other commitments.

- Q3** Do you agree that the unconditionally cancellable commitments category should be removed and a 40% credit conversion factor be applied to other commitments, irrespective of original maturity?
- Q4** Are there particular products or contractual arrangements for which a 40% factor would materially overstate or understate the likelihood of drawdown?
- Q5** Do you have any feedback on the drafting of the proposal in section 2 of Annex 1?

Chapter

Chapter 4: Commercial property

Commercial property

4.1 Introduction

Commercial property lending

Commercial property lending refers to the financing of non-residential property.

Current risk weight treatment

The standardised approach does not currently include a specific treatment for commercial property lending. In practice, most unrated commercial property loans held by deposit takers using the standardised approach are likely to be classified as “corporate” or “other assets” under *BPR131: Standardised Credit Risk RWAs* and receive a 100% risk weight. If the borrower has a “corporate” credit rating, the risk weight is based on that rating.

Deposit takers using the IRB approach – who currently do the majority of commercial property lending – use approved internal models to calculate risk weights for these exposures.

From 1 October 2026, NBDTs can apply a 100% risk weight to commercial property lending. From the same date, all deposit takers may apply lower risk weights of 75% for eligible small and medium-sized enterprise (**SME**) retail exposures and 85% for eligible SME corporate exposures.

During feedback to the 2025 Capital Review, some respondents suggested replacing the flat 100% risk weight with a more detailed approach. Most preferred an approach similar to the one used by APRA. We subsequently advised deposit takers that we would consider further changes to standardised risk weights for commercial property lending in 2026.

4.2 Proposal for commercial property lending risk weights

Proposed change

We propose introducing a more granular framework for commercial property lending based on LVRs with a separate category for commercial property development, as shown in the table below. This is a simplified version of the framework used by APRA and Basel.

For two of the categories – the lowest LVR category and commercial property development – we have proposed aligning risk weights with those used by APRA.

For the other two categories we have proposed a range of possible risk weights and are seeking feedback and additional evidence to support final decisions on calibration. The low points of the ranges are the risk weights used by APRA and Basel for income-producing real estate. However, we have some concerns about whether these settings are appropriate for New Zealand. Therefore, we are also consulting on slightly higher risk weights calibrated to deliver a similar average risk weight as the status quo (which is broadly in line with the average outcome of IRB models).

Table 5: Current and proposed risk weights compared

	Assumed current risk weight* (%)	Proposed risk weight (%)
LVR ≤ 60%	100	70
60% < LVR ≤ 80%	100	90-105
LVR > 80%	100	110-125
Commercial property development	100	150

Note: SME retail and SME corporate exposures qualify for 75% and 85% risk weights respectively from 1 October 2026.

We propose all commercial property exposures be required to use these risk weights. This means that deposit takers would not be allowed to apply the SME retail and SME corporate categories (which qualify for 75% and 85% risk weights respectively from 1 October 2026) to commercial property lending and would instead be required to apply the relevant risk weight for the commercial property exposure. This approach moves us closer to the approach taken by APRA and the Basel framework.

Analysis

We are proposing this change based on the following considerations:

Alignment with risk

This framework should support greater risk sensitivity in two main ways:

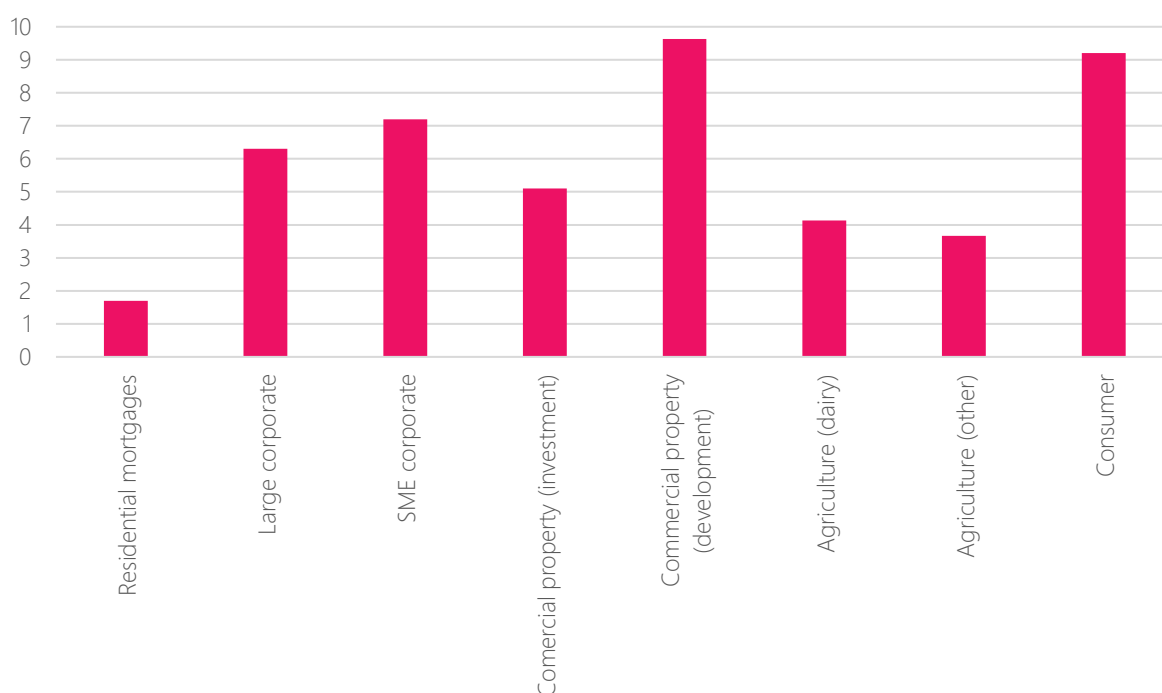
- We would expect lower LVR lending to have a lower loss given default than higher LVR lending. While there are a range of factors that affect the credit risk of commercial property lending, LVRs are commonly used by banks when assessing commercial property borrowers and in international frameworks.
- Figure 1 shows loss rates by sector based on stress test results, with commercial property development having the highest loss rate. Therefore, putting it into its own (higher) category better reflects the underlying risk.

The correct calibration of commercial property risk weights with this framework depends on our assessment of the relative riskiness of the sector and each category of lending within that sector. We are seeking feedback and any additional evidence to support final decisions on the calibration.

Generally, commercial property lending carries a higher risk profile than many other types of lending. Exposures are often characterised by concentrated borrowers, large individual exposures, and dependence on rental income and refinancing conditions. A relatively small and less liquid commercial property market may also mean that collateral values can adjust sharply when market sentiment deteriorates, particularly in stressed conditions.

The current standardised risk weight of 100% is similar to the outcomes from IRB models for income-producing real estate (which tend to range from around 95% to 105%). The upper end of the ranges of risk weights in this consultation would be consistent with an assessment that the current calibration is broadly appropriate, but would introduce increased granularity.

Figure 1: Estimated loss rates by sector (%)



Source: RBNZ stress tests

International alignment

The proposal would bring our framework closer to alignment with APRA and Basel (see Table 6) – but, to support simplicity, does not differentiate based on whether lending is dependent on cashflows.⁹ The lower ends of the ranges would result in closer alignment with APRA than the upper ends.

Table 6: Commercial property risk weights comparison (%)

Risk weight bucket		Basel	APRA	RBNZ (proposed)
Dependent on property cash flows	LVR ≤ 60%	70	70	70
	60% < LVR ≤ 80%	90	90	90-105
	LVR > 80%	110	110	110-125

⁹ Loans are usually classified as dependent on cash flows when the borrower's ability to repay is primarily reliant on the income generated by the property securing the loan (such as rental payments), rather than on the borrower's independent income or business activities.

Risk weight bucket		Basel	APRA	RBNZ (proposed)
Not dependent on cash flows	LVR $\leq$ 60%	min (60%, counterparty RW)	60, or the risk weights set by credit rating in APS 112 ¹⁰	70
	LVR > 60%	counterparty risk weight	Risk weights set by applicable risk weight in APS 112 ¹¹	90-105 for LVR<80 110-125 for LVR>80
Commercial property development		High-volatility commercial real estate: 150	150	150

Note: These are APRA's standard commercial property risk weights. APRA has separate (higher) risk weights for non-standard exposures if specific risk factors are triggered, including failing bank underwriting criteria, lack of robust, independent and timely valuation at time of origination and/or lack of clear visibility or reliance on cash flows without adequate secondary support.

Competition

While smaller deposit takers' commercial property lending portfolios are small relative to those of larger deposit takers, more granularity in commercial property risk weights may support involvement in this type of lending by a wider range of deposit takers by providing a more accurate assessment of the risk of the particular exposure, and reducing the difference between modelled and standardised outcomes. This could help improve competition.

- Q6** Do you agree with the proposal for commercial property lending standardised risk weights?
- Q7** Are there additional categories that you think it would be useful to include that would be relatively easy to administer and would be used in practice?
- Q8** Do you have any data or evidence to support the specific calibration of commercial property risk weights, particularly where we are consulting on a range?
- Q9** Do you have any feedback on the drafting of the proposal in section 3 of Annex 1?

¹⁰ Australian Prudential Regulation Authority. (2025). *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk*. apra.gov.au/sites/default/files/2024-07/Prudential%20Standard%20APS%20112%20Capital%20Adequacy%20Standardised%20Approach%20to%20Credit%20Risk%20-%20Clean.pdf

¹¹ Australian Prudential Regulation Authority. (2025). *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk*. apra.gov.au/sites/default/files/2024-07/Prudential%20Standard%20APS%20112%20Capital%20Adequacy%20Standardised%20Approach%20to%20Credit%20Risk%20-%20Clean.pdf

Chapter

Chapter 5: Infrastructure lending

Infrastructure lending

5.1 Introduction

Infrastructure lending

Infrastructure lending includes funding for large eligible domestic public infrastructure projects that provide essential services to the economy, such as special purpose vehicles set up in partnership with the government to fund projects. Many of these arrangements do not have credit ratings.

The table below provides an overview of the types of infrastructure lending undertaken by New Zealand deposit takers.

Table 7: Types of infrastructure lending

Type of lending	Description	Examples
Public Private Partnerships (PPPs)	- Special purpose vehicles are set up to participate in a PPP transaction. - The private sector designs, builds, finances, maintains and may operate an asset (or assets) over a long contract period (typically 25 to 30 years). The government, in turn, usually pays for the asset and service provision over time, based on the asset and services meeting certain performance standards.	- Transmission Gully - Puhoi to Warkworth motorway
Infrastructure Funding and Financing Act (IFFA) 2020 special purpose vehicles	- Special purpose vehicles are set up to enable transactions under the IFFA. - They are single-project entities created to raise private capital to fund urban infrastructure, thus keeping the debt off local councils' balance sheets. - Transactions are supported by an Order in Council that enables a levy to be charged to properties that benefit.	Moa Point Sludge Minimisation Facility
Regulated Asset Base (RAB) utilities	- RAB is a valuation methodology (rather than a customer class), defined under financial reporting standards. - This type of lending relates to 'Regulated Utilities' which include borrowers that are operators of domestic large public infrastructure assets or utilities that provide essential services to the economy. - They have tripartite agreements with central or local government, or the borrower's revenue is subject to rate-of-return regulation, and the lender deems the operation to be a natural monopoly within the service region with high barriers to entry for an alternative supplier.	- Chorus' fibre network - Transpower - Vector

Current risk weight treatment

The standardised approach does not currently include a specific treatment for infrastructure exposures. Deposit takers apply the standardised corporate risk weights to infrastructure lending of all types, as set out in *BPR131 Standardised Credit Risk RWAs*, which range from 20% to 150% depending on credit rating.¹²

During the 2025 Capital Review, respondents proposed lowering infrastructure risk weights. Some noted that large-scale public infrastructure projects benefit from strong credit enhancement frameworks such as PPPs and the IFFA, which reduce loss severity in default scenarios through structured agreements and legislative support.

For borrowers in the RAB utilities sector (such as water, energy distribution and transmission, gas pipelines and fibre), regulatory oversight and pricing mechanisms help mitigate default risk, while the essential nature and defensible value of the assets further reduce potential losses. Respondents to the 2025 Capital Review further noted that these borrowers' services are non-discretionary, demand is stable across economic cycles, and these assets are highly secure. This reduces default risk and supports the case for a lower standardised risk weight.

5.2 Proposal for infrastructure lending risk weights

Proposed change

We propose introducing a new category of standardised credit risk weights for eligible large domestic public infrastructure project exposures. In our proposal, this lending would be classified as a sub-component of corporate lending within the standardised approach. IRB-accredited deposit takers would continue to use their approved corporate models to calculate risk weights for such lending. Our proposal, as shown in Table 8 below, is for a reduction in risk weights for rating grade 3 and unrated exposures from 100% to 50%, and for rating grade 5 from 150% to 100%.

Table 8: Long-term corporate and proposed infrastructure lending credit rating grades

Rating grade ¹³	1	2	3	4	5	6	Unrated
Corporate risk weight (%)	20	50	100	100	150	150	100
Proposed infrastructure risk weights (%)	20	50	50	100	100	150	50

¹² There are currently no NBDTs that provide infrastructure lending. From 1 October 2026 our standardised corporate risk weights will apply to any future infrastructure lending under updated conditions of licence.

¹³ Rating grades map to long-term credit ratings. For example, using S&P ratings, rating grade 1 maps to AAA to AA-, rating grade 2 maps to A+ to A-, rating grade 3 maps to BBB+ to BBB-, rating grade 4 maps to BB+ to BB-, rating grade 5 maps to B+ to B- and rating grade 6 maps to CCC+ to D.

Analysis

We are proposing this change based on the following considerations:

Alignment with risk

We consider that infrastructure lending poses a relatively low risk compared with other types of corporate lending. This is because the structured agreements and legislative support (in the case of PPPs and IFFAs) and essential, demand-stable nature (in the case of RABs) reduce the probability and severity of loss. Introducing an infrastructure risk weights framework should improve risk sensitivity and address asymmetry by better aligning capital requirements with underlying risk. Our initial assessment is that this change is unlikely to have a significant impact on total capital requirements or increase financial stability risks.

International alignment

This proposal brings us into closer alignment with international counterparts. It particularly brings us closer to APRA's proposed framework for infrastructure lending on which they have recently consulted.¹⁴ We will monitor the outcome of APRA's review following the close of its consultation.

Q10 Do you agree with the proposal for infrastructure lending standardised risk weights?

Q11 Do you have any feedback on the drafting of the proposal in section 4 of Annex 1?

¹⁴ apra.gov.au/getting-balance-right-financial-resilience.

Chapter 6:

Reverse residential mortgage lending

6.1 Introduction

RRML

RRML is lending secured by residential property where no principal or interest payments are due until the property is vacated or sold. The homeowner has access to the loan amount immediately (although further drawdowns are often available) and makes no payments until they permanently leave the property or pass away. The loan balance therefore increases over time as interest is capitalised, with repayment made from the property sale proceeds.

Many RRML products include customer protections such as a right to remain in the home for life and a commitment from the lender that the amount required to repay the loan will never exceed the net sale proceeds of the home. This means the customer or their estate is not required to repay more than the sale proceeds of the property, even if the outstanding loan balance exceeds the property's value.

These features give RRML a different risk profile from standard residential mortgage lending. Because customers make no regular repayments and interest is capitalised, loan balances generally increase over time. As a result, credit risk increases over time, and lenders are more exposed to future property values.

Current risk weight treatment

The current RRML framework applies standardised risk weights according to the loan-to-value ratio of the loan. Risk weights currently range from 40% to 100%, with a deduction from Common Equity Tier 1 (**CET1**) capital where the loan's value exceeds the property value.

The framework also requires a 20% discount to be applied to property values when calculating the loan's LVR.¹⁵

6.2 Proposal for reverse residential mortgage risk weights

Proposed change

We propose retaining the existing reverse residential mortgage framework, with one targeted change, which is to introduce a new 30% risk weight for reverse residential mortgages with a loan-to-value ratio at or below 25%.

All other risk-weight bands, the valuation adjustment and the CET1 deduction would remain unchanged.

¹⁵ If the current value of the property exceeds the value of the property at origination, the value of the property for the purposes of the loan's LVR cannot fall below the value at origination, even once the 20% discount is applied.

Table 9: Proposed RRML risk weight

LVR	Risk weight
LVR ≤25% (new)	30% (new)
25% < LVR ≤ 30%	40%
30% < LVR ≤60%	50%
60% < LVR ≤80%	80%
80% < LVR	100%

Analysis

We consider the proposal to reduce the lowest LVR band as the preferred option, compared to the status quo, based on the following:

Alignment with risk

RRML has historically had low loss rates. However, we are cautious about using this past performance to predict the performance of reverse mortgages going forward. This is because RRML performance is highly contingent on residential property prices. Over the past 25 years, New Zealand has experienced high property price growth, averaging 6.5% per year. This has also coincided with a relatively low interest rate environment. These have created benign conditions for reverse mortgages.

As shown in Table 10, modelling a scenario with limited house price growth (for example 2% nominal growth annually), alongside a moderate interest rate for reverse mortgages (8.5% per annum) shows that a deposit taker would be highly exposed to losses (in red) if the borrower remains in the property for 25 years or longer after origination of the loan. This would apply to loans with initial drawdowns of 20% or more.

Our analysis also shows that because interest is capitalised, RRML loan balances grow over time and can rise quickly relative to the property value. The rate of loan growth is especially stark once the loan's LVR is above 50-60%.

Therefore, the valuation adjustment, risk weights above 30% LVR, and CET1 capital deductions above 100% LVR remain important safeguards.

However, the lowest LVR segment appears less risky. Introducing a 30% risk weight for exposures at or below 25% LVR would recognise the high-quality collateral of these loans (residential property) and the substantial equity buffer, while preserving the framework for higher-risk exposures.

Table 10: Risk profile of RRML under specific assumptions – each cell records LVRs of RRML over time by LVR at origination

		Loan maturity										
		0 yrs	3	6	9	12	15	18	21	24	27	30
LVR at origination	10%	10%	12%	15%	18%	22%	26%	32%	39%	47%	58%	70%
	15%	15%	18%	22%	27%	33%	40%	48%	59%	71%	87%	105%
	20%	20%	24%	30%	36%	44%	53%	64%	78%	95%	115%	140%
	25%	25%	30%	37%	45%	54%	66%	80%	98%	119%	144%	175%
	30%	30%	36%	44%	54%	65%	79%	96%	117%	142%	173%	210%
	35%	35%	43%	52%	63%	76%	93%	113%	137%	166%	202%	245%
	40%	40%	49%	59%	72%	87%	106%	129%	156%	190%	231%	280%
	45%	45%	55%	66%	81%	98%	119%	145%	176%	214%	260%	315%
	50%	50%	61%	74%	90%	109%	132%	161%	195%	237%	288%	350%

International alignment

Comparable regulators, such as APRA, apply less granular risk weights for reverse mortgages and have higher rates than New Zealand at lower LVR levels. APRA notes in its guidance that reverse mortgage loans give rise to unique operational, legal and reputational risks, and that reverse mortgage lending may require sophisticated modelling and high levels of monitoring.¹⁶

The valuation discount in our framework makes comparisons difficult across jurisdictions. However, analysis using an adjusted measure to take into account the valuation discount shows that New Zealand's risk weights at low LVRs are comparable with other jurisdictions (as shown in the table below), while being slightly higher at high LVR levels.

Table 11: Comparison of New Zealand and international settings

LVR	Risk weights			
	New NZ-adjusted**	NZ-adjusted**	Australia	Canada
20%	30%	40%	50%	30%
30%	40%	50%	50%	30%
40%	50%	50%	50%	35%
50%	80%	80%	50%	35%
60%	80%	80%	50%	45%

¹⁶ See [APG 223 Residential Mortgage Lending](#) | APRA, paragraph 68.

LVR		Risk weights		
70%	100%	100%	100%	60%
80%	100%	100%	100%	60%
90%	100%*	100%*	100%	100%*
100%	100%*	100%*	100%	100%*

*CET1 deductions apply.

****NZ-adjusted** calculates what risk weight would apply after taking into account the 20% valuation discount. It assumes the 20% discount applies to the reverse mortgage. For example, a reverse mortgage of \$500,000 on a property recently valued at \$1,000,000 has a "50% LVR" but would have a risk weight of 80% because its post-discount LVR of 62.5% would place the loan into the 60-80% LVR risk weight band.

The targeted change would mean New Zealand's RRML risk weights would have a high degree of granularity (low at low LVR levels, while high at high LVR levels). We consider this appropriately reflects the unique nature of RRMLs.

Competition

RRML is a small part of the system but is concentrated in a limited number of deposit takers. Greater granularity may support new entrants into the market for RRMLs, especially at those lower risk levels, while not compromising the soundness of individual deposit takers.

Complexity

Retaining the existing framework would minimise implementation costs because no new features would be introduced or changed.

However, the current valuation discount is more complex than approaches used overseas. We currently do not have evidence that this creates unnecessary compliance costs, noting that a small up-front cost in setting up the discount formula may be present for new entrants. Additionally, the valuation discount can impact the transparency of the framework.

We are therefore interested in feedback on whether the valuation adjustment should be removed. Feedback should outline to what degree administrative costs would be reduced or explain other benefits or reduced costs, for example supporting transparency. It is expected that removal of the discount would require adjustments to the LVR bands to ensure RRML is appropriately risk weighted.

- Q12** Do you agree with introducing a 30% risk weight for reverse residential mortgages with a loan-to-value ratio at or below 25%, while retaining the remainder of the current framework?
- Q13** Do you have any feedback about other changes that could be made to reduce implementation costs, for example, removal of the valuation discount alongside adjustments to the LVR bands?
- Q14** Do you have any feedback on the drafting of the proposal in section 5 of Annex 1?

Chapter 7:

Warehouse facilities – securitisation

7.1 Introduction

Warehouse facilities

Warehouse facilities are large revolving credit facilities provided by deposit takers, currently principally Group 1 deposit takers, to smaller deposit takers or non-bank lending institutions (**NBLIs**). The warehouse facility user originates residential mortgages, motor vehicle loans, and other secured or unsecured lending through the warehouse funding.

The parties agree eligibility requirements for loans included in the warehouse, such as property or collateral quality, loan-to-value ratios, loan size, term, and insurance. When the warehouse reaches an agreed threshold, eligible loans may be pooled and issued to investors as residential mortgage-backed securities or asset-backed securities. This releases capacity in the facility for further lending by the warehouse user.

Current risk weight treatment

The current framework does not specify a distinct treatment for warehouse facilities. In practice, they are generally treated as unrated corporate exposures and receive a 100% standardised risk weight. Group 1 deposit takers accredited to use the IRB approach can use internal models for these corporate exposures.

This approach does not reflect the characteristics of the underlying loans. It can result in the funding deposit taker holding capital as though the exposure were an unsecured corporate loan, while a deposit taker originating the same underlying loans would calculate capital using the risk weights applicable to those loans.

Respondents to the 2025 Capital Review provided feedback that this treatment increases funding costs, reduces lending capacity, and leads to inconsistent capital treatment for economically similar exposures.

7.2 Proposal for warehouse facilities risk weights

Proposed change

We propose allowing deposit takers funding eligible warehouse facilities to look through to the underlying exposures for risk-weighting purposes.

Under this approach, we propose:

- the underlying exposures would receive the same risk weights treatment that would apply if they were held directly by the funding deposit taker, including the use of internal models, where eligible for that treatment;¹⁷
- the undrawn portion of the warehouse facility would receive the applicable credit conversion factor, proposed to be 40% under Chapter 3; and

¹⁷ Please refer to the following subsection, 'implementation considerations', for more detail about how this could operate in practice.

- eligibility requirements would apply to ensure the funding deposit taker has sufficient information, controls, and contractual rights to identify and monitor the underlying exposures and calculate the capital required.

For example, in the standardised approach residential mortgage loans in an eligible warehouse would receive risk weights based on their LVRs, while personal lending would receive the applicable personal lending risk weight.

Implementation considerations

While we consider the look-through approach to better reflect risk than the status quo, we are open to feedback about how best to implement this. Section 6 of Annex 1 includes some initial drafting of the proposal.

In particular, we are seeking feedback about how the look-through approach could apply when the warehouse facility user is also a deposit taker. In that circumstance, the warehouse facility user would also risk weight the exposures and, for RML, be required to apply its own Board-approved valuation policy. In these circumstances we propose that the warehouse facility provider (typically a Group 1 deposit taker) would be required to review and endorse the warehouse facility user's valuation policy. We are interested in feedback about whether it would be practical to use IRB models for risk weights in these circumstances, or whether the warehouse facility provider would then use the same standardised risk weights as the warehouse facility user.

Analysis

We consider this proposal the preferred option, compared to the status quo, based on the following considerations:

Alignment with risk

The warehouse facility provider is exposed to the warehouse facility user, rather than directly to borrowers in the underlying loan pool. However, the quality and performance of the underlying loans are important drivers of the warehouse facility user's ability to meet its obligations. Also, if the user defaults, the underlying loans can effectively become assets of the provider. We therefore consider that using the risk profile of the underlying exposures provides a more risk-sensitive basis for determining capital requirements than applying a flat 100% corporate risk weight.

The proposal would also reduce inconsistent outcomes where the warehouse facility provider and warehouse facility user hold different amounts of capital against the same underlying lending. Eligibility requirements would remain necessary to ensure that the warehouse facility provider can verify the composition and quality of the pool and that the warehouse structure provides effective controls over the assets in the pool.

International alignment

Both the APRA and Basel frameworks permit a look-through approach for eligible warehouse facilities. The proposal would therefore bring New Zealand closer to international practice.

Competition

Lower and more risk-sensitive capital requirements may reduce the cost of warehouse funding and support lending by smaller deposit takers and NBLs. This may increase customer choice and make warehouse funding attractive to a wider range of providers.

The proposal could increase lending capacity materially, although estimates are uncertain and depend on the composition of warehouse pools, IRB modelling, the output floor, and the extent to which lower capital costs are reflected in lending.

- Q15** Do you agree that eligible warehouse facilities should use a look-through approach based on the risk weights of the underlying exposures?
- Q16** What minimum eligibility, information, control, and reporting requirements should apply before a deposit taker may use the look-through treatment?
- Q17** Do you agree that the undrawn portion of an eligible warehouse facility should receive the proposed 40% credit conversion factor?
- Q18** Do you have any feedback on the drafting of the proposal in section 6 of Annex 1. For example, how should we approach risk weights when both the warehouse facility provider and user are deposit takers? In particular, is it feasible to use IRB models in these circumstances? And is it necessary to specify that facilities are “revolving”

Annex 1: Draft extracts of Capital Standard and Internal Models Standard

This annex includes draft extracts of the Capital Standard and Internal Models Standard with edits to illustrate the proposals set out in this consultation. This drafting does not pre-empt any formal decisions. However, we are seeking feedback on the drafting in addition to the policy proposals to help with implementation into the Standards in 2027. Unless specifically noted as applying to the Internal Models Standard, the edits below are otherwise from the Capital Standard.

Section 1: Personal lending

151 Other assets

- (1) A 100% risk weight must be applied to any on-balance-sheet asset—
- (a) that is within the scope specified in clause 101; and
 - (b) for which the deposit taker has not calculated a credit risk RWA under this Part or the internal models standard.
- ~~(2) Despite subclause (1),—~~
- ~~(a) —a risk weight of 20% applies to a Kāinga Whenua loan product (regardless of whether the loan is past due) if the lender's mortgage insurance covers 100% of the potential loss faced by the deposit taker; and~~
- ~~(b) —a risk weight of 75% applies to a credit card exposure to an individual.~~
- ~~(2) Subclause (2) applies regardless of whether the loan is past due.~~

Section 2: Credit conversion factors

Capital Standard

166 Risk weight and credit conversion factor for off-balance-sheet exposure

- (1) For an off-balance-sheet exposure of a type specified in the first column of the table in subclause (2),—
- (a) the risk weight must be calculated according to the corresponding classification in the second column of the table; and
 - (b) the credit conversion factor is the corresponding percentage in the third column of the table.
- (2) The table is as follows:

Type of off-balance-sheet exposure	Classification for determining risk weight	Credit conversion factor (%)
Direct credit substitute	Counterparty type	100
Asset sale with recourse	Type of asset, or issuer of securities as appropriate	100
Forward asset purchase	Type of asset	100
Commitment with certain drawdown	Counterparty type	100
Note issuance facility	Counterparty type	50
Performance-related contingent item	Counterparty type	50
Trade-related contingent item	Counterparty type	20

Placement of forward deposit	Counterparty type	100
Undrawn commitment to New Zealand Business Growth Fund	Equity exposure under clause 138(b)	20
Other commitment ~~(except for a commitment to a corporate borrower under which a drawdown is conditional on a satisfactory creditworthiness assessment) if original maturity is more than 1 year~~	Counterparty type	~~450~~
Other commitment if original maturity is less than or equal to 1 year	Counterparty type	20
Other commitment that cancels automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice	Not applicable	0

Internal Models Standard

60 Contingent liabilities

- (1) An internal models deposit taker must reflect a credit exposure arising from an transaction of a type described in this clause off-balance sheet corporate exposure in its credit risk RWAs.
- ~~(2) For the following types of transaction, the deposit taker must use a credit conversion factor of 100%:~~
 - ~~(a) an asset sale with recourse:~~
 - ~~(b) a forward asset purchase:~~
 - ~~(c) a direct credit substitute:~~
 - ~~(d) a commitment with certain draw-down:~~
 - ~~(e) a placement of forward deposit.~~
- ~~(3) For a transaction of a type specified in the first column of the table below, the deposit taker must —~~
- ~~(4) produce its internal estimate of the credit conversion factor; or~~
- ~~(5) use the minimum credit conversion factor applicable to the transaction in the second column of the following table:~~
- ~~(6) —~~

~~Credit conversion factors~~	
~~Type of transaction~~	~~Credit conversion factor (%)~~
~~Note issuance facility~~	~~75~~
~~Revolving underwriting facility~~	~~75~~
~~Performance-related contingency~~	~~50~~
~~Trade-related contingent item~~	~~20~~

~~Other commitment where original maturity is more than 1 year~~	~~50~~
~~Other commitment where original maturity is less than or equal to 1 year~~	~~20~~
~~Other commitment that cancels automatically when the credit worthiness of the counterparty deteriorates or which can be cancelled unconditionally at any time without prior notice~~	~~0~~

~~(7)~~

~~(8)(2)~~ For the types of transaction an off-balance sheet corporate exposure referred to in subclause (2)(a) and (b) which is an asset sale without recourse or a forward asset purchase, the deposit taker must use the RWA calculation methodology that—

- (a) is applicable to the type of asset; or
- (b) for an asset that is a security, is applicable to the issuer of the security rather than to the transaction counterparty.

~~(9)(3)~~ The value of EAD in subclause ~~((2)4)~~ must feed into the applicable RWA methodology. For all other ~~transaction types listed in subclauses (2) and (3)~~ off-balance sheet corporate exposures, the deposit taker must include estimated EAD as part of the total EAD estimated for the counterparty under this subpart.

~~(10)(4)~~ To estimate the value of EAD for ~~the transaction types listed in subclauses (2) and (3)~~ an off-balance sheet corporate exposure, the deposit taker must calculate the equivalent exposure amount by multiplying the notional exposure amount by a credit conversion factor.

~~(11)(5)~~ For the calculation in subclause (4)~~(6)~~, the deposit taker must use a notional exposure amount that—

- (a) is the gross exposure before taking account of any provision for expected credit losses or partial write-offs; and
- ~~(b)~~ in the case of a commitment, is the undrawn amount on the commitment.

~~(b)(6)~~ The credit conversion factor for an off-balance sheet corporate exposure is the factor specified for that type of exposure in the table in clause 166(2) of the Deposit Takers (Capital) Standard 2027.

Section 3: Commercial property

SME exposure ~~means~~

- (a) means an exposure to an unrated corporate counterparty (whether directly or through a related party)—
 - ~~(i)~~ that has a total annual revenue of less than \$50 million; or
 - (ii) if the counterparty is part of a corporate group, whose group has a consolidated annual revenue for the group of less than \$50 million; ~~but~~

- (a) does not include a commercial property loan or commercial property development loan.

147 Commercial property loans

- (1) The risk weight for a commercial property loan that is not a 90-day past due asset must be determined as follows:
 - (a) if the LVR for the loan is less than 60%, the risk weight is 70%:
 - (b) if the LVR for the loan is 60% or greater but does not exceed 80%, the risk weight is [90%-105%]:
 - (c) if the LVR for the loan exceeds 80%, the risk weight is [110%-125%].
- (2) The risk weight for a commercial property development loan that is not a 90-day past due asset is 150%.
- (3) See clause 136 for determining the risk weight for a commercial property loan that is a 90-day past due asset.
- (4) The LVR for a commercial property loan is calculated according to the following formula:

$$(\text{loan value})/(\text{property value}) \times 100$$

where—

loan value is the total amount of—

- (a) all claims secured by way of a first ranking mortgage over commercial property;
and
- (b) all undrawn commitments to the borrower that when drawn down will be secured by way of first ranking mortgage over commercial property

property value is the value of the commercial property that is security for the loan, determined, when the loan is originated, under the deposit taker's commercial property valuation policy

- (5) If the property value for a commercial property loan has not been determined in accordance with subclause (4), the LVR of the loan for risk-weighting purposes is 150%.
- (6) In this Part,—

commercial property means real property that is not residential property or farm property

commercial property loan means a loan secured by a first ranking mortgage over commercial property

commercial property development loan means a loan—

- (a) made for the purpose of financing the development of commercial property; and
- (b) secured by a first ranking mortgage over land being developed into commercial property

commercial property valuation policy means a policy of the deposit taker that meets the requirements in clause 148.

148 Valuation policy for commercial property loans

For the purposes of clause 147, a deposit taker's commercial property valuation policy must—

- (a) be approved by the deposit taker's board of directors; and
- (b) require the deposit taker, when calculating the LVR for a loan secured by a mortgage over a commercial property, to use 1 of the following methods of valuation:
 - (i) the purchase price of the property;
 - (ii) a property valuation provided by a valuer who meets the requirements in clause 156;
 - (iii) a property valuation that is provided by a professional valuation service that meets the requirements in clause 157; and
- (c) include guidance on the appropriate credit risk-related use of different valuation products under the policy; and
- (d) include guidance on the use of the purchase price of a commercial property under the policy; and
- (e) include guidance on the determination of the origination date under the policy; and
- (f) ensure that the policy applies in the same manner, notwithstanding the direction of movement of commercial property prices.

Section 4: Infrastructure lending

149 Infrastructure loans

- (1) The risk weight for an infrastructure loan that is not a 90-day past due asset is determined by the rating grade for the loan as follows:
 - (a) if the rating grade is 1, 20%;
 - (b) if the rating grade is 2, 50%;
 - (c) if the rating grade is 3, 50%;
 - (d) if the rating grade is 4, 100%;
 - (e) if the rating grade is 5, 100%;
 - (f) if the rating grade is 6, 150%;
 - (g) if the rating grade is unrated, 50%.
- (2) See clause 136 for determining the risk weight for an infrastructure loan that is a 90-day past due asset.
- (3) In this clause, **infrastructure loan** means a loan to a borrower for the purpose of—
 - (a) designing, building, maintaining or operating infrastructure under a public-private partnership agreement between the borrower and the Crown; or
 - (b) designing, building, maintaining or operating infrastructure that is eligible infrastructure (as that term is defined in the Infrastructure Funding and Financing Act 2020); or

- (c) the borrower providing a service that is subject to regulation under Part 4 of the Commerce Act 1986 or Part 6 of the Telecommunication Act 2001.

Section 5: Reverse residential mortgage lending

161 Risk weight for reverse RML

- (1) The risk weight for a reverse RML must be determined in accordance with the following table:

Loan-to-value ratio for RML	Risk weight (%)
<u>LVR is equal to or less than 25%</u>	<u>30</u>
<u>LVR exceeds 25% but is less than 30%</u>	40
<u>LVR is equal to or exceeds 30% but does not exceed 60%</u>	50
<u>LVR exceeds 60% but does not exceed 80%</u>	80
<u>LVR exceeds 80%</u>	100

- (2) A reverse RML may only be recognised in the RML category up to the value of the residential property used as security for the loan.
- (3) **See** clause 48 regarding the deduction of any excess of a loan over the property value from tier 1 capital.

Section 6: Warehouse facilities – securitisation

Capital Standard

162 Warehouse lending facilities

- (1) A deposit taker may determine the risk weight for an amount drawn under a warehouse lending facility as the weighted average of the risk weights that apply to the loans in the loan pool.
- (2) The risk weights that apply to the loans in the loan pool must be determined by the deposit taker in accordance with this standard as if the loans were made by the deposit taker.
- (3) If the deposit taker cannot determine a risk weight for a loan in the loan pool in accordance with this standard, the deposit taker must—
- (a) not include a risk weight for the loan in the calculation of the weighted average of the risk weights under subclause (1); and
- (b) exclude an amount equal to the amount of the loan from the amount drawn under the warehouse lending facility-and risk weight the excluded amount in line with 131 or 142 in accordance with the characteristics of the warehouse user.
- (4) In this clause—

loan pool, in relation to a warehouse lending facility, means the pool of loans that are made or acquired by the person borrowing under the facility using the money lent under the facility

warehouse lending facility means a revolving credit facility in relation to which the following conditions are met:

- (a) the person borrowing under the facility uses the money lent to make or acquire loans:
- (b) lending under the facility is secured by the loans in the loan pool:
- (c) the person borrowing under the facility is not a related entity of the deposit taker:
- (d) the deposit taker does not provide credit protection in relation to the facility.

Internal Models Standard

32 Warehouse lending facilities

In this Part and Part 4—

warehouse lending facility means a revolving credit facility in relation to which the following conditions are met:

- (a) the person borrowing under the facility uses the money lent to make or acquire loans:
- (b) lending under the facility is secured by the loans in the loan pool:
- (c) the person borrowing under the facility is not a related entity of the deposit taker:
- (d) the deposit taker does not provide credit protection in relation to the facility.

loan pool, in relation to a warehouse lending facility, means the pool of loans that are made or acquired by the person borrowing under the facility using the money lent under the facility

43 Calculation of RWAs for warehouse lending facilities

- (1) Despite clause 42, a deposit taker may calculate RWAs for an amount drawn under a warehouse lending facility as the sum of RWAs for the loans in the loan pool.
- (2) The RWAs for the loans in the loan pool must be determined by the deposit taker in accordance with this standard as if the loans were made by the deposit taker.
- (3) If the deposit taker cannot determine an RWA for a loan in the loan pool in accordance with this standard, the deposit taker must:
 - (a) not include an RWA for the loan in the calculation of the sum of RWAs under subclause (1); and
 - (b) exclude an amount equal to the amount of the loan from the amount drawn under the warehouse lending and risk weigh the excluded amount in line with the relevant part of Part 4.

Annex 2: Consolidated consultation questions

Chapter 2: Personal Lending

- Q1** Do you agree that credit card lending should receive a 75% risk weight while all other secured and unsecured personal lending retains a 100% risk weight?
- Q2** Do you have any feedback on the drafting of the proposal in section 1 of Annex 1?

Chapter 3: Credit conversion factors

- Q3** Do you agree that the unconditionally cancellable commitments category should be removed and a 40% credit conversion factor be applied to other commitments, irrespective of original maturity?
- Q4** Are there particular products or contractual arrangements for which a 40% factor would materially overstate or understate the likelihood of drawdown?
- Q5** Do you have any feedback on the drafting of the proposal in section 2 of Annex 1?

Chapter 4: Commercial property

- Q6** Do you agree with the proposal for commercial property lending standardised risk weights?
- Q7** Are there additional categories that you think it would be useful to include that would be relatively easy to administer and would be used in practice?
- Q8** Do you have any data or evidence to support the specific calibration of commercial property risk weights, particularly where we are consulting on a range?
- Q9** Do you have any feedback on the drafting of the proposal in section 3 of Annex 1?

Chapter 5: Infrastructure lending

- Q10** Do you agree with the proposal for infrastructure lending standardised risk weights?
- Q11** Do you have any feedback on the drafting of the proposal in section 4 of Annex 1?

Chapter 6: Reverse residential mortgage lending

- Q12** Do you agree with introducing a 30% risk weight for reverse residential mortgages with a loan-to-value ratio at or below 25%, while retaining the remainder of the current framework?
- Q13** Do you have any feedback about other changes that could be made to reduce implementation costs, for example, removal of the valuation discount alongside adjustments to the LVR bands?
- Q14** Do you have any feedback on the drafting of the proposal in section 5 of Annex 1?

Chapter 7: Warehouse facilities – securitisation

- Q15** Do you agree that eligible warehouse facilities should use a look-through approach based on the risk weights of the underlying exposures?
- Q16** What minimum eligibility, information, control, and reporting requirements should apply before a deposit taker may use the look-through treatment?
- Q17** Do you agree that the undrawn portion of an eligible warehouse facility should receive the proposed 40% credit conversion factor?
- Q18** Do you have any feedback on the drafting of the proposal in section 6 of Annex 1. For example, how should we approach risk weights when both the warehouse facility provider and user are deposit takers? In particular, is it feasible to use IRB models in these circumstances? And is it necessary to specify that facilities are “revolving”