

DRAFT FOR CONSULTATION

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- peer review:
- proof reading:
- editorial, minor, and other relevant changes.

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Deposit Takers (Lending) Standard 2027

This standard is issued under section 72 of the Deposit Takers Act 2023 by the Reserve Bank of New Zealand after—

- complying with section 75(1) of that Act; and
- having regard to the matters set out in section 92(3) of that Act; and
- being satisfied of the matters set out in sections 72(1) and 92(4) of that Act; and
- the board of the Reserve Bank of New Zealand having regard to the matter set out in section 49(1) of the Reserve Bank of New Zealand Act 2021.

Contents

	Page
1 Title	2
2 Commencement	2

Part 1

Preliminary provisions

3 Interpretation	3
4 Application	4

Part 2

Lending criteria

5	Criteria to be applied	4
6	Nature of security	4
7	Nature of lending	4
8	Bridging finance	5
9	Equity release	5
10	Kāinga Ora first home purchase	5
11	New build finance	5
12	New build purchase	5
13	Ordinary finance	6
14	Refinancing	6
15	Remediation finance	6
16	Security substitution	6

Part 3

Loan-to-value and debt-to-income ratios

<i>Loan-to-value ratio</i>		
17	Requirement to determine loan-to-value ratio	7
18	Loan-to-value ratio	7
<i>Debt-to-income ratio</i>		
19	Requirement to determine debt-to-income ratio	7
20	Debt-to-income ratio	7
21	Calculation of debt	7
22	Calculation of income	8

Part 4

Lending restrictions

23	Restrictions by licence condition	8
24	Calculation of qualifying credit under this Part	9
25	Calculation of qualifying credit for limit relating to debt-to-income ratio	9
26	Calculation of qualifying credit for limit relating to loan-to-value ratio	10
27	Loan-to-value ratio applicable in certain circumstances	10

Standard

- 1 Title**
This is the Deposit Takers (Lending) Standard 2027.
- 2 Commencement**
This standard comes into force on 1 December 2028.

Part 1

Preliminary provisions

3 Interpretation

In this standard, unless the context otherwise requires,—

Act means the Deposit Takers Act 2023

BNPL contract has the same meaning as in regulation 3 of the Credit Contracts and Consumer Finance Regulations 2004

building work means work for, or in connection with, the construction, alteration, demolition, or removal of a building

code compliance certificate means a certificate issued by a building consent authority under section 95 of the Building Act 2004

credit contract has the same meaning as in section 7 of the Credit Contracts and Consumer Finance Act 2003

credit limit has the same meaning as in section 5 of the Credit Contracts and Consumer Finance Act 2003

debt-to-income ratio has the meaning set out in clause 20

debtor has the same meaning as in section 5 of the Credit Contracts and Consumer Finance Act 2003

dwellinghouse means a building, or an apartment, a flat, or a unit within a building, that is used as a private residence

entity has the same meaning as in section 6 of the FMCA

investment property, in relation to a residential housing loan, means residential land on which a dwellinghouse is, or is intended to be, let to a tenant

Kāinga Ora means Kāinga Ora—Homes and Communities established under section 8 of the Kāinga Ora—Homes and Communities Act 2019

loan-to-value ratio has the meaning set out in clause 18

market value, in relation to an owner-occupied property, an investment property, or both, means—

- (a) the purchase price; or
- (b) the value as determined by a valuation carried out by a registered valuer; or
- (c) the value as estimated by a person in the business of providing a valuation service

owner-occupied property, in relation to a residential housing loan, means residential land on which a dwellinghouse is, or is intended to be, used—

- (a) by an individual who is—
 - (i) the debtor or a relative of the debtor; or
 - (ii) if the debtor is an entity, a beneficial owner of the debtor or a relative of the beneficial owner; and

- (b) regardless of whether any other person uses, or intends to use, that or any other dwellinghouse on the land

residential housing loan means a credit contract secured by a first mortgage over residential land on which a dwellinghouse is erected or, if no dwellinghouse is erected, the credit provided under the loan is to be used, in whole or in part, for the erection of a dwellinghouse

revolving credit contract has the same meaning as in section 5 of the Credit Contracts and Consumer Finance Act 2003

student loan has the same meaning as in section 4 of the Student Loan Scheme Act 2011

unpaid balance has the same meaning as in section 5 of the Credit Contracts and Consumer Finance Act 2003

4 Application

This standard applies to a licensed deposit taker if a condition of its licence states that this standard applies.

Part 2

Lending criteria for residential housing loans

5 Criteria to be applied for residential housing loans

When deciding whether a person qualifies for a residential housing loan, a deposit taker must determine the following:

- (a) the nature of the security:
- (b) the nature of the lending.

6 Deposit taker must determine nature of security

A deposit taker must determine whether the mortgage securing the loan is over an investment property, an owner-occupied property, or both.

7 Deposit taker must determine nature of lending

A deposit taker must determine for which of the following the credit is to be used:

- (a) bridging finance:
- (b) equity release:
- (c) a Kāinga Ora first home purchase:
- (d) new build finance
- (e) a new build purchase:
- (f) ordinary finance:
- (g) refinancing:
- (h) remediation finance:

- (i) security substitution.

8 Bridging finance

The credit is to be used for bridging finance if—

- (a) the deposit taker is already a mortgagee of an owner-occupied property; and
- (b) the loan is to be secured by the existing mortgage; and
- (c) any amount advanced under the loan is to be—
 - (i) used for the purchase of another owner-occupied property; and
 - (ii) repaid within 12 months of the first advance.

9 Equity release

The credit is to be used for equity release if the loan does not require any payment of interest or any repayment of principal until the mortgage securing the loan is discharged.

10 Kāinga Ora first home purchase

The credit is to be used for a Kāinga Ora first home purchase if—

- (a) the loan is to be secured by a mortgage over an owner-occupied property; and
- (b) Kāinga Ora has indemnified the deposit taker for any loss that may occur in connection with the loan.

11 New build finance

The credit is to be used for new build finance if—

- (a) any advance to the debtor is to be used for the erection of a dwellinghouse, including the purchase of residential land, building work, design work, consent costs, and legal expenses; and
- (b) the loan is to be secured by a mortgage over residential land on which—
 - (i) the dwellinghouse is erected; and
 - (ii) any existing dwellinghouse is demolished; and
- (c) the loan is entered into before the completion of any building work other than demolition and site work, such as foundations and connections to services; and
- (d) the deposit taker is satisfied that the code compliance certificate for all building work will be issued within 2 years of the first advance under the loan.

12 New build purchase

The credit is to be used for a new build purchase if—

- (a) the loan is to be secured by a mortgage over residential land on which—
 - (i) a dwellinghouse is newly erected; and
 - (ii) any existing dwellinghouse has been demolished; and

- (b) the debtor enters into the loan no later than 6 months after the date on which the code compliance certificate for the building work was issued.

13 Ordinary finance

The credit is to be used for ordinary finance if—

- (a) the loan is to be secured by a mortgage over an investment property, an owner-occupied property, or both; and
- (b) no other lending category applies.

14 Refinancing

The credit is to be used for refinancing if—

- (a) the debtor is to repay in full a residential housing loan (the **existing loan**); and
- (b) the credit provided under the loan does not exceed the sum of—
 - (i) the unpaid balance of the existing loan at the time of repayment; and
 - (ii) an amount the deposit taker is satisfied is to be used for incidental or ancillary costs, such as the payment of legal expenses.

15 Remediation finance

The credit is to be used for remediation finance if—

- (a) the deposit taker is already a mortgagee of an investment property or an owner-occupied property, or both (the **existing mortgage**); and
- (b) buildings or improvements on the mortgaged land are destroyed or damaged; and
- (c) the credit provided under the loan is to rebuild or repair the buildings or improvements; and
- (d) the loan is to be secured by the existing mortgage.

16 Security substitution

The credit is to be used for security substitution if—

- (a) the deposit taker is already a mortgagee of an owner-occupied property; and
- (b) the existing mortgage is to be replaced with a mortgage over another owner-occupied property (the **replacement mortgage**); and
- (c) the replacement mortgage is to be registered within 6 months of the discharge of the existing mortgage; and
- (d) the credit provided under the loan does not exceed the sum of—
 - (i) the unpaid balance of the existing mortgage at the time of discharge or the market value of the replacement property, whichever is less; and
 - (ii) an amount the deposit taker is satisfied is to be used for incidental or ancillary costs, such as the payment of legal expenses.

Part 3

Loan-to-value and debt-to-income ratios

Loan-to-value ratio

17 Requirement to determine loan-to-value ratio

When determining whether a person qualifies for a residential housing loan, a deposit taker must determine the loan-to-value ratio.

18 Loan-to-value ratio

A **loan-to-value ratio** is the ratio, expressed as a percentage, of the credit limit of a residential housing loan to the market value of the investment property or the owner-occupied property, or both, over which a first mortgage secures the loan.

Debt-to-income ratio

19 Requirement to determine debt-to-income ratio

When determining whether a person qualifies for a residential housing loan, a deposit taker must, if practicable in the circumstances, determine the person's debt-to-income ratio.

20 Debt-to-income ratio

- (1) A person's **debt-to-income ratio** is the ratio, expressed as a quotient, of the person's debt to the person's income.
- (2) A deposit taker must make reasonable inquiries to enable the deposit taker to calculate a person's debt and a person's income for the purposes of determining the person's debt-to-income ratio.

21 Calculation of debt

- (1) A deposit taker must include in its calculation of a person's debt the following as at the day of calculation:
 - (a) the credit limit of the residential housing loan the person is seeking to enter into;
 - (b) the credit limit of any revolving credit contract under which the person is a debtor;
 - (c) the unpaid balance of any of the following credit contracts, other than a revolving credit contract, under which the person is a debtor:
 - (i) a personal loan;
 - (ii) a student loan;
 - (iii) a residential housing loan;
 - (d) any other debt that, in the opinion of the deposit taker, may affect the person's ability to meet their obligations under the residential housing loan.
- (2) A deposit taker may exclude the following from its calculation of a person's debt:
 - (a) the unpaid balance of a BNPL contract;

- (b) the unpaid balance of a personal loan for which the person used more than 50% of the credit, or used the credit to obtain goods or services to be most used, for business or investment purposes, or for both purposes:
- (c) the unpaid balance of a credit contract under which—
 - (i) no fees or charges, including interest charges, are or may be payable; and
 - (ii) no principal is, or may be, repayable before the last amount to be paid under the residential housing loan, that the person is seeking to enter into, becomes payable:
- (d) subject to a limit of \$5,000, any combination of the following:
 - (i) the credit limit of a revolving credit contract if it is \$1,000 or less:
 - (ii) the unpaid balance of a credit contract if it is \$1,000 or less.

22 Calculation of income

A deposit taker may include only the following in its calculation of a person's income:

- (a) the person's income in the year preceding the day of calculation:
- (b) additional income for the year beginning on the day of calculation if it is any of the following:
 - (i) income the person has a right to receive (for example, an increase in the wages to which the person is entitled):
 - (ii) rental income the person reasonably expects to receive from an investment property.

Part 4 Lending restrictions

23 Restrictions by licence condition

- (1) A condition of a deposit taker's licence may restrict the deposit taker's lending for residential housing loans if the credit is to be used for ordinary finance.
- (2) The licence condition may specify any of the following:
 - (a) a limit on the percentage of qualifying credit that a deposit taker may provide to—
 - (i) a debtor with a debt-to-income ratio exceeding a specified ratio; and
 - (ii) a debtor for whom the deposit taker has not determined a debt-to-income ratio:
 - (b) a limit on the percentage of qualifying credit that a deposit taker may provide under loans with a loan-to-value ratio exceeding a specified ratio (subject to clause 27):
 - (c) a class of residential housing loan to which a limit applies:
 - (d) a lending period for which a limit applies.

- (3) A specified limit must not exceed 30%.
- (4) A specified ratio must not be,—
 - (a) in the case of a debt-to-income ratio, less than 5 or more than 8; or
 - (b) in the case of a loan-to-value ratio, less than 60% or more than 90%.
- (5) A specified class must be 1 or more of the following:
 - (a) a residential housing loan to be secured by a mortgage over an investment property;
 - (b) a residential housing loan to be secured by a mortgage over an owner-occupied property.
- (6) A specified lending period—
 - (a) must be 3 or 6 months beginning on the first day of any month (which may be the date on which a specified limit applies); and
 - (b) may continue indefinitely in periods of 3 or 6 months, with each subsequent period immediately following the preceding lending period.

24 Calculation of qualifying credit under this Part

- (1) A deposit taker must include only the following in its calculation of qualifying credit:
 - (a) the credit limit of a residential housing loan that the deposit taker or a subsidiary entered into during the lending period;
 - (b) any increase during the lending period in the credit limit of a residential housing loan that the deposit taker or a subsidiary entered into before the lending period;
 - (c) in the case of a limit under clause 23(2)(a) (which relates to debt-to-income ratio), a residential housing loan described in clause 25;
 - (d) in the case of a limit under clause 23(2)(b) (which relates to loan-to-value ratio), a residential housing loan described in clause 26.
- (2) Despite subclause (1), a deposit taker must not include a residential housing loan in its qualifying credit if the credit is to be used for equity release.

25 Calculation of qualifying credit for limit relating to debt-to-income ratio

- (1) In the case of a limit under clause 23(2)(a) that applies to an investment property, a deposit taker must include a residential housing loan only if—
 - (a) the loan is to be secured by a mortgage over—
 - (i) an investment property; or
 - (ii) both an investment property and an owner-occupied property; and
 - (b) 1 or more of the following apply:
 - (i) the credit is to be used for ordinary finance;
 - (ii) the debtor does not exceed the specified debt-to-income ratio;
 - (iii) the deposit taker has not determined the debtor's debt-to-income ratio.

- (2) In the case of a limit under clause 23(2)(a) that applies to an owner-occupied property, a deposit taker must include a residential housing loan only if—
 - (a) the loan is to be secured by a mortgage over only the owner-occupied property; and
 - (b) one or more of the following apply:
 - (i) the credit is to be used for ordinary finance;
 - (ii) the debtor does not exceed the specified debt-to-income ratio;
 - (iii) the deposit taker has not determined the debtor's debt-to-income ratio.

26 Calculation of qualifying credit for limit relating to loan-to-value ratio

- (1) In the case of a limit under clause 23(2)(b) that applies to an investment property, a deposit taker must include a residential housing loan only if—
 - (a) the loan is to be secured by a mortgage over—
 - (i) an investment property; or
 - (ii) both an investment property and an owner-occupied property; and
 - (b) one or more of the following apply:
 - (i) the loan does not exceed the specified loan-to-value ratio;
 - (ii) in the case of a loan described in paragraph (a)(i), the credit is to be used for ordinary finance;
 - (iii) in the case of a loan described in paragraph (a)(ii) that exceeds the loan-to-value ratio applicable under clause 27, the credit is to be used for ordinary finance.
- (2) In the case of a limit under clause 23(2)(b) that applies to an owner-occupied property, a deposit taker must include a residential housing loan only if—
 - (a) the loan is to be secured by a mortgage over only the owner-occupied property; and
 - (b) either—
 - (i) the credit is to be used for ordinary finance; or
 - (ii) in any other case, the debtor does not exceed the specified loan-to-value ratio.

27 Loan-to-value ratio applicable in certain circumstances

- (1) This clause applies if—
 - (a) a limit under clause 23(2)(b) is specified in relation to a residential housing loan to be secured by a mortgage over an investment property; and
 - (b) a residential housing loan is to be secured by a mortgage over both an investment property and an owner-occupied property.
- (2) The ratio that applies to the loan is the solution of the following rounded to 2 decimal places:

$$ipr \times \frac{ipv}{ipv + opv} + opr \times \frac{opv}{ipv + opv}$$

Where—

ipr is the specified loan-to-value ratio, expressed as a decimal, for the investment property

ipv is the market value of the investment property

opr is the specified loan-to-value ratio, expressed as a decimal, for the owner-occupied property

opv is the market value of the owner-occupied property.

Made at Wellington on [day month year].

Reserve Bank of New Zealand

Explanatory note

This note is not part of the standard but is intended to indicate its general effect.

This standard comes into force on 1 December 2028.

The standard is issued under section 72 of the Deposit Takers Act 2023 (the **Act**) and prescribes matters relating to a deposit taker's business of lending money, as contemplated by section 82 of the Act.

The standard applies to deposit takers if it is a condition of their licence that this standard applies.

The standard requires deposit takers to apply certain criteria when determining whether a person qualifies for a residential housing loan.

First, a deposit taker must determine the nature of the lending by deciding whether the mortgage securing the loan is over an investment property, an owner-occupied property, or both.

The deposit taker must then consider the nature of the lending for which the credit is to be used. The standard lists the categories of lending that must be considered and provides definitions of each of the types of lending.

The deposit taker must then determine the loan-to-value ratio and debt-to-income ratio.

The loan-to-value ratio is the ratio, expressed as a percentage, of the credit limit of a residential housing loan to the market value of the property securing the loan. The loan may be secured over an investment property, an owner-occupied property, or both.

The debt-to-income ratio is the ratio, expressed as a quotient, of the person's debt to the person's income. A deposit taker must make reasonable enquiries when calculating the person's debt and income to determine their debt-to-income ratio.

The standard lists what must be included when calculating a person's debt and what may be excluded. When calculating a person's income, a deposit taker may only include certain types of income, which are set out in the standard.

The standard provides that a condition of a deposit taker's licence may restrict the deposit taker's lending for residential housing loans and sets out the limits that a licence condition may specify. These limits relate to the following:

- the percentage of qualifying credit that a deposit taker may provide to a debtor with a debt-to-income ratio exceeding a specified ratio or for whom the deposit taker has not determined a debt-to-income ratio, or under loans with a loan-to-value ratio exceeding a specified ratio;
- a class of residential housing loans relating to an investment property or an owner-occupied property;
- a lending period that must be 3 or 6 months and may continue indefinitely in periods of 3 or 6 months.

The standard provides for an amount of qualifying credit and how to calculate it. The type of credit limit that is allowed to be included in a deposit taker's calculation is limited to—

- the credit limit of a residential housing loan that the deposit taker or a subsidiary entered into during the lending period; and
- any increase during the lending period in the credit limit of a residential housing loan that the deposit taker or a subsidiary entered into before the lending period.

It also includes limits relating to the type of property that can be used to secure a residential housing loan. Regardless of the type of property, a deposit taker must not include in its calculation credit that is to be used for equity release.

In relation to a loan-to-value ratio where there is a limit on the percentage of qualifying credit that a deposit taker may provide and the loan is to be secured by a mortgage over both an investment property and an owner-occupied property, a different calculation of the loan-to-value ratio applies.

This is secondary legislation issued under the authority of the Legislation Act 2019 .	
Title	Deposit Takers (Lending) Standard 2027
Principal or amendment	Principal
Consolidated version	No
Empowering Act and provisions	Deposit Takers Act 2023 Section 72
Replacement empowering Act and provisions	Not applicable
Maker name	Reserve Bank of New Zealand
Administering agency	Reserve Bank of New Zealand
Date made	[day month year]
Publication date	Click or tap to enter a date

Notification date	Click or tap to enter a date <i>[Insert date notified. If there is no requirement to notify, state "Not applicable"]</i>
Commencement date	1 December 2028
End date (when applicable)	Click or tap to enter a date <i>[Insert the date the legislation was or will be revoked. If the legislation has some form of self-revocation or expiry, this date can be inserted when the instrument is first published. In other cases, insert "Not applicable" until the date is known]</i>
Consolidation as at date	Not applicable
Related instruments	Not applicable

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