



Reserve Bank
of New Zealand
Te Pūtea Matua

Lending Standard

Guidance Note

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Use and status of the Guidance

The purpose of this Guidance is to assist licensed deposit takers (or **deposit takers**) to interpret and comply with the Lending Standard (the **Standard**). This recognises the Standard is a technical instrument that is not always straightforward to interpret and there may be no case law or other external reference points to assist. Guidance will assist individual deposit takers with their own compliance and a more consistent approach across the industry.

The Guidance assists by:

- Outlining our motivations and intentions for the Standard. Technical content is better understood with awareness of the policy intent at the time it was drafted.
- Outlining our preferred interpretation in relation to some clauses, where we have been made aware of differing interpretations by deposit takers.
- Provides examples of actions deposit takers could take in complying with the requirements in the Standard.

To assist in using the Guidance:

- Terms that are defined in the Standard or the Deposit Takers Act 2023 (the **DTA**) are italicised in this Guidance and have the same meaning.
- The Guidance is designed to be read alongside the Standard. Sections of this Guidance have the same headings as sections of the Standard. Clause numbers are those from the Standard.
- The Guidance will not necessarily cover every clause in the Standard. Given its status as an interpretation aid, where we feel a Clause (when read in conjunction with the explanatory note attached to the Standard) is sufficiently self-explanatory, no additional Guidance is being provided.
- In event of any conflict between the text of the Standard and this Guidance, the Standard prevails. The Standard is secondary legislation made under the DTA, while the Guidance does not have formal status. The Guidance represents our view and is therefore an authoritative indicator of that view. However, ultimately, the correct interpretation of the Standard is determined by a Court.
- The Reserve Bank will periodically review and update the Guidance. We may change our guidance or our interpretation of the Standard if we consider this appropriate. We do not do this lightly and will endeavour to notify deposit takers in advance if we are considering amending the content of the Guidance.
- This Guidance is not legal advice. We encourage deposit takers seek their own professional advice, as it is their responsibility to determine their obligations and ensure that they comply with the requirements of the Standard.
- The Guidance relates to the version of the Standard as at [day month year].
- We welcome feedback on the Guidance at any time.

Glossary

Term	Meaning
Borrower-based macroprudential policy	Borrower-based macroprudential policy tools restrict the amount that deposit takers can lend to borrowers based on certain criteria, such as deposit size or income. These tools include DTI and LVR restrictions.
Debt-to-Income (DTI) ratio	The ratio of a person's debt to their annual income.
DTI restrictions	DTI restrictions limit the amount of lending deposit takers can provide to borrowers who have a large amount of debt relative to their income (above high-DTI thresholds).
Loan-to-Value Ratio (LVR)	The ratio of a residential housing loan to the value of the property.
LVR restrictions	LVR restrictions limit how much lending a deposit taker can provide to borrowers where the loan amount is large relative to the value of the property used as collateral (above high-LVR thresholds).
Lending criteria	These criteria determine which residential housing loans are to be included in the calculation of qualifying credit amounts, based on the: • Nature of the security. • Nature of the lending.
Nature of the security	Determines whether the mortgage securing the residential housing loan is over an investment property, an owner-occupied property, or both.
Nature of the lending	Different categories that determine which residential housing loans are subject to LVR and/or DTI restrictions and how these loans must be included in the calculation of qualifying credit amounts.
Qualifying credit amounts	The value of residential housing loans provided by a deposit taker that are subject to LVR or DTI restrictions. There are separate qualifying credit amounts for investors and owner-occupiers.
Speed limit	The percentage of qualifying credit amounts that is permitted to exceed the high-LVR or high-DTI thresholds. Different speed limits can be applied to lending to investors and owner-occupiers.
Threshold	The LVR or DTI ratios that deposit takers can lend up to without any LVR or DTI restrictions applying (that is, high-LVR thresholds or high-DTI thresholds). Different thresholds can be applied to lending to investors and owner-occupiers.

Part A: About this Standard

Overview

1. The [Deposit Takers (Lending) Standard 2027] (the **Lending Standard**) contains requirements for borrower-based macroprudential policy tools. The Reserve Bank uses borrower-based macroprudential policy to reduce systemic risks to the stability of the financial system related to the residential property sector. The specific tools in the Lending Standard are:
 - 1.1. Loan-to-value ratio (**LVR**) restrictions, which limit the amount of lending deposit takers can provide to borrowers where the loan amount is large relative to the value of the property used as collateral (for example, where the borrower has a low deposit). LVR restrictions reduce the risk to the financial system that borrowers will not be able to fully repay their loans if they default on their mortgages. Requirements for calculating the LVR are set out in Part 3 of the Lending Standard.
 - 1.2. Debt-to-income (**DTI**) restrictions, which limit the amount of lending deposit takers can provide to borrowers who have a large amount of debt relative to their income. DTI restrictions reduce the risk of borrowers defaulting on their mortgages or being forced to sell their houses. Requirements for calculating the DTI ratio are set out in Part 3 of the Lending Standard.
2. LVR and DTI restrictions generally apply to all new residential housing loans. However, some residential housing loans will not be subject to LVR and/or DTI restrictions if they meet certain requirements (as per the calculation of qualifying credit amounts outlined in Part 4 of the Lending Standard).

Context and purpose of the Lending Standard

3. Macroprudential policy, in particular borrower-based measures, are reasonably common internationally. International regulators have increasingly embraced the role of borrower-based measures (such as LVR restrictions and debt serviceability restrictions (**DSRs**)) in containing systemic financial stability risks related to the residential property sector. LVR restrictions came to prominence earlier than DSRs, becoming more commonly used amongst regulators after 2009 as a key response to the vulnerabilities exposed by the Global Financial Crisis. DSRs became more widely used from 2015 onwards. The Reserve Bank uses LVR restrictions and DTI restrictions (which are a type of DSR) to address systemic risks related to the residential property sector.
4. The Reserve Bank introduced LVR restrictions in 2013 and has adjusted the settings in response to systemic risks in the financial system (related to the residential property sector) since then.¹ LVR restrictions have been effective in promoting financial stability by reducing the risks stemming from a build-up of highly leveraged residential property sector loans in the financial system.
5. However, LVR restrictions relate mainly to one dimension of systemic risk related to the residential property sector – namely, the losses faced by deposit takers and borrowers in case of a default, known as ‘loss given default’. The other key component of systemic risk related to the residential property sector is a borrower’s capacity to service a loan, which in turn affects the ‘probability of default’. DSRs are the main macroprudential policy instrument used

¹ [Timeline for loan-to-value ratio restrictions - Reserve Bank of New Zealand - Te Pūtea Matua](#)

internationally to address this second dimension of systemic risk related to the residential property sector. After considering the relative merits of different types of DSRs, the Reserve Bank published a framework for DTI restrictions in April 2023², before introducing them in July 2024.³

6. By limiting both high-LVR and high-DTI residential property lending, the Lending Standard aims to reduce systemic risks associated with a build-up of highly leveraged residential property loans in the financial system. This helps to mitigate the risk of contagion, where extremes in residential property sector cycles can lead to adverse events in the financial system, which may spillover and lead to a severe downturn in the broader economy. The settings for LVR and DTI restrictions are flexible and can be adjusted over time in response to changes in systemic risks related to the residential property sector.

² [Debt serviceability restrictions - Reserve Bank of New Zealand - Te Pūtea Matua](#)

³ [Reserve Bank activates Debt-to-Income restrictions - Reserve Bank of New Zealand - Te Pūtea Matua](#)

Part B: Guidance on the Lending Standard

Part 1: Preliminary provisions

Interpretation (Clause 3)

7. Consistent with section 20 of the Legislation Act 2019, words or expressions used in the Lending Standard have the same meaning as the Deposit Takers Act 2023 (DTA) or referring legislation. For example, the definition of *debtor* can be found in section 5 of the Credit Contracts and Consumer Finance Act 2003 (CCCFA).

Application (Clause 4)

8. The Lending Standard includes provisions for LVR and DTI restrictions. LVR and DTI restrictions relate to residential housing loans, as defined in clause 3 of the Lending Standard. As per clause 4, the standard applies to a licensed deposit taker if stated in its licence conditions.
9. Specifically, a deposit taker's licence conditions will specify settings for LVR and/or DTI restrictions – namely, thresholds and speed limits (see paragraphs 91 to 98 of this Guidance for more detail on thresholds and speed limits). If a deposit taker's licence conditions do not specify any thresholds and speed limits, then LVR and/or DTI restrictions do not apply.
10. The Reserve Bank intends to apply the Lending Standard to all Group 1 and Group 2 deposit takers so that they are subject to LVR and DTI restrictions. The Reserve Bank does not intend to apply the Lending Standard to Group 3 deposit takers at this time. However, the Reserve Bank will monitor Group 3 deposit takers and if they start to pose a systemic risk to financial stability, the Reserve Bank will re-evaluate the approach and could apply the Lending Standard (and therefore LVR and DTI restrictions) to Group 3 deposit takers in the future.

Part 2: Lending criteria

Criteria to be applied (Clause 5)

11. The requirements set out in Part 2 of the Lending Standard determine whether a person qualifies for a residential housing loan. Note that a 'person' may include an individual or a group of people, given that words in the singular include the plural (and vice versa).
12. The criteria set out in the Lending Standard relate to:
 - 12.1. the nature of the security; and
 - 12.2. the nature of the lending.
13. These criteria determine which residential housing loans are to be included in the calculation of qualifying credit amounts and therefore subject to LVR and DTI restrictions. The calculation of qualifying credit amounts is outlined in Part 4 of the Lending Standard. It is noted that residential housing loans made by a deposit taker's subsidiaries are also included in the calculation of qualifying credit amounts for that deposit taker.

Nature of security (Clause 6)

14. Clause 6 of the Lending Standard requires a deposit taker to determine whether the mortgage securing the loan is over an investment property, an owner-occupied property, or both.

15. This has implications for the calculation of qualifying credit amounts, given that qualifying credit amounts are to be separated based on security (as discussed in paragraphs 116 to 121 of this Guidance). Figure 1 outlines how this relates to the different borrower types that deposit takers may encounter.

Figure 1: Breakdown of lending by nature of security, borrower and purpose

By nature of security	By borrower	By purpose
Owner-occupied property	First-home buyer	Owner-occupier
	Owner-occupier (without investment collateral)	
Investment property (including loans secured by both an investment property and an owner-occupied property)	Owner-occupier (with investment collateral)	
	Investor	Investor

16. Loans only secured over owner-occupied property include "First-home buyers" and Owner-occupiers" (without investment collateral)".
17. An owner-occupier can occupy more than one property at once (that is, a secondary residence). A secondary residence includes a holiday home or a second home that is primarily for the use of that person and no rental income is derived from that property, except to the extent that the rental income is minimal (for example, where the secondary residence is a bach that is rented out for six weeks a year). In this case, the security is treated as an owner-occupied property and included in the "non-property investment" category.
18. Loans secured (at least partially) over an investment property include "Owner-occupier (with investment collateral)" and "Investor". In the case where both types of security are used to secure the loan, this is included in qualifying credit amounts for investors (as discussed in paragraph 116 of this Guidance).
19. Licence conditions relating to LVR and/or DTI restrictions will not reference the borrower type and will not distinguish first-home buyers from other owner-occupiers. These categories are included in Figure 1 to explain the reporting template only.

Nature of lending (Clause 7)

20. Clause 7 of the Lending Standard requires a deposit taker to determine the use of credit based on nine categories. The different categories determine which residential housing loans must be included in the calculation of qualifying credit amounts and therefore subject to LVR and/or DTI restrictions. The calculation of qualifying credit amounts is set out in Part 4 of the Lending Standard (see paragraphs 116 to 121 of this Guidance for further detail).
21. The policy intent of the Lending Standard is to not restrict the amount of lending deposit takers can provide for bridging finance, equity release, Kāinga Ora first home purchases, new build finance, new build purchases, refinancing, remediation finance or security substitution, regardless of LVR and/or DTI restrictions. It achieves this by defining the specific types of

lending that are not intended to be subject to LVR and/or DTI restrictions, creating a residual "ordinary finance" category, and then only applying the LVR and/or DTI restrictions to that "ordinary finance" category.

22. The nature of these lending categories are defined in clauses 8 to 16 of the Lending Standard.

Bridging finance (Clause 8)

23. Clause 8 of the Lending Standard defines situations where credit is advanced to a debtor who has not been able to sell their existing owner-occupied property before completing the purchase of their new owner-occupied property (**bridging loans**). In practice, this means that the settlement date of the new property is before the settlement date on the existing property and the debtor still has a mortgage on the existing property.

24. If there is an unpaid balance on the residential housing loan once the bridging loan has been repaid, it is expected that the unpaid balance be treated as ordinary finance (unless it meets the criteria for any of the other nature of lending categories described).

25. If the debtor has not repaid the bridging loan within 12 months, then clause 8 of the Lending Standard will no longer apply and the loan is expected to be treated as ordinary finance (unless it meets the criteria for any of the other nature of lending categories described).

Equity release (Clause 9)

26. Clause 9 of the Lending Standard defines situations where credit is used for reverse mortgages. Reverse mortgages allow a debtor to borrow against the equity in their property without the requirement to pay interest or repay any of the principal until the mortgage securing the loan is discharged. In practice, this means that the property would likely be sold and the proceeds from the sale used to repay the loan. By that stage, the loan would have likely accumulated interest that would also be required to be paid when the loan is discharged.

Kāinga Ora first home purchase (Clause 10)

27. Clause 10 of the Lending Standard defines situations where credit is used to purchase a property under Kāinga Ora's first home loan scheme. Under this scheme, Kāinga Ora indemnifies the deposit taker for any loss that may occur in connection with the loan, which reduces the risks associated with the loan.

New build finance (Clause 11)

28. Clause 11 of the Lending Standard defines situations where the debtor wishes to finance the construction of a new residential dwelling (**new build**). New build finance covers any advance needed to complete the new build, including the purchase of residential land, building work, design work, consent costs, and legal expenses. This may also include staged drawdowns and any further advances under the loan to cover any overrun in the cost of the new build compared to the debtor's original budget, provided that the other criteria in clause 11 of the Lending Standard are met.

29. New build financing also covers financing to prepare land for the new build – for example, the demolition or removal of existing structures or the provision of services necessary for using the land to construct a new residential dwelling (including provision of vehicle access and essential services such as water and sewerage).

30. As per clause 11(c) of the Lending Standard credit only falls under the new build finance category if the loan is entered into before any building work is completed other than

demolition and site work. This allows for the case where work may have been undertaken to prepare the site for development prior to the buyer committing to the new build – for example:

- 30.1. obtaining resource or building consents to undertake the construction;
 - 30.2. providing essential services to the site, such as a driveway, and connections to utilities; or
 - 30.3. preparation of the site, such as demolition and clearing or earth works.
31. As per clause 11(d) of the Lending Standard, credit only falls under the new build finance category if 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. The intent of this clause is that the loan is not expected to be used to finance speculative purchases of land, where there is a planned start date for construction of a new residential dwelling on the section. As a matter of prudential best practice, a deposit taker is encouraged to inspect resource or building consents.
32. Credit used for new build finance may include the purchase of residential land as long as the credit is also used to finance the construction of a new residential dwelling on that land. For example, financing for 'buying off the plan' and builders' land/build packages would be classified as new build finance, provided that the other criteria in clause 11 of the Lending Standard are met.

New build purchase (Clause 12)

33. Clause 12 of the Lending Standard defines situations where credit is used for a new build purchase provided that the debtor enters into the loan no later than 6 months after the date the code compliance certificate for the building work was issued. In practice, this means that the property has been completed. As a matter of prudential best practice, a deposit taker is encouraged to inspect code compliance certificates to obtain proof of the date of the property's completion.

Ordinary finance (Clause 13)

34. As mentioned above, the "ordinary finance" category defined in Clause 13 of the Lending Standard captures all other residential housing loans that do not meet the criteria of any of the other nature of lending categories. Unlike loans in the other nature of lending categories, deposit takers may be restricted in the amount of ordinary finance lending they can provide to debtors that exceed the applicable high-LVR and high-DTI thresholds.

Refinancing (Clause 14)

35. Clause 14 of the Lending Standard defines situations where a debtor switches to a different lender or to new mortgage terms on the same property (**refinancing**). In practice, this means that the existing mortgage will be discharged and replaced by a new mortgage.
36. As per clause 14(c) of the Lending Standard, credit only falls under the refinancing category if the debtor borrows an amount that does not exceed the sum of the unpaid balance of the existing residential housing loan at the time of repayment and incidental or ancillary costs.
37. The Reserve Bank considers the following to be examples of costs incidental or ancillary to refinancing:

- 37.1. Legal expenses.
 - 37.2. Breaking fees.
 - 37.3. The previous lender reclaiming cash contributions.
38. As a matter of prudential best practice, a deposit taker is encouraged to obtain information from the debtor on the unpaid balance on the existing loan (that will be discharged and replaced by a new loan) if they have not been the provider of that loan. For example, a deposit taker could obtain copies of recent loan statements to verify the unpaid balance.

Remediation finance (Clause 15)

39. Clause 15 of the Lending Standard defines situations where credit is to be used to finance the rebuild or repair of buildings or improvements on the mortgaged land if they are destroyed or damaged – for example, following a fire, natural disaster or other similar event (including severe weather events). It is expected that credit will be used for remediation finance when insurance does not fully cover the cost of rebuilding or repairs.
40. Foreseeable replacement of parts of a dwelling is expected to be regarded as routine work and not considered for remediation finance. For example, re-roofing after the roof has achieved a normal lifespan and worn out, and periodically repainting, would be routine work. In contrast, replacing a roof that has failed without achieving a normal lifespan and created weather-tightness issues, would be non-routine work.
41. It is expected that remediation finance will not be used to cover lending for extensions, or for the purchase of items (such as movable furniture or appliances) that are not normally retained in a property when it is sold.

Security substitution (Clause 16)

42. Clause 16 of the Lending Standard defines situations where a debtor is moving to a new residential property and is seeking a replacement mortgage from their current lender, where the credit provided does not exceed the sum of:
- 42.1. the unpaid balance of the existing mortgage at the time of discharge or the market value of the new residential property, whichever is less; and
 - 42.2. incidental or ancillary costs.
43. This allows a deposit taker to provide credit for a replacement mortgage to a debtor who is moving to a new property, provided that the replacement mortgage is registered within 6 months of the discharge of the existing mortgage. In practice, this means that the property used as security is changing, but the replacement mortgage could be on the same terms and conditions of the existing mortgage. However, it is at a deposit taker's discretion to offer these same terms and conditions.
44. As a matter of prudential best practice, a deposit taker is encouraged to confirm that the debtor has occupied the old property and will occupy the new property. For example, a deposit taker could obtain a signed statement to that effect from the debtor.

Part 3: Loan-to-value ratios (LVR) and debt-to-income (DTI) ratios

LVR (Clause 18)

45. Cause 18 of the Lending Standard outlines the LVR calculation, which is the same as for the Capital Standard. There are two aspects to the LVR calculation – (1) loan value and (2) property value.

$$46. LVR = \frac{\text{loan value}}{\text{property value}} * 100$$

where:

“loan value” is the credit limit of a residential housing loan, where residential housing loan is defined in clause 3 of the Lending Standard; and

“property value” is the market value of the property, where market value is defined in clause 3 of the Lending Standard.

47. This calculation relates to LVR restrictions, which limits the percentage of a qualifying credit amount that deposit takers can lend above a specified high-LVR threshold. This is outlined further in Part 4 of the Lending Standard.

48. As a matter of prudential best practice, a deposit taker is encouraged to establish an internal process in determining the source of deposit funds, including checks on the use of any unsecured lending that they have provided in the case that the debtor intends to use those funds for their deposit.

Requirement to determine DTI ratio (Clause 19)

49. As per clause 19 of the Lending Standard, a deposit taker is required to determine the person’s DTI ratio, if practicable in the circumstances. In some situations, it may not be practicable to determine the DTI ratio – for example, there may be complex structures and multiple debtors involved. In such situations, the DTI ratio is expected to be recorded as undetermined. Loans with an undetermined DTI ratio are included in the calculation of qualifying credit, regardless of which nature of lending category that they are classified as (see paragraph 97 of this Guidance).

DTI ratio (Clause 20)

50. As per clause 20(1) of the Lending Standard, there are two aspects to the DTI ratio – (1) debt and (2) income – which are discussed further in the forthcoming subsections.

$$51. DTI = \frac{\text{debt}}{\text{income}}$$

52. This calculation relates to DTI restrictions, which limits the percentage of a qualifying credit amount that deposit takers can lend above a specified high-DTI threshold. This is outlined further in Part 4 of the Lending Standard.

53. Clause 20(2) of the Lending Standard requires a deposit taker to make reasonable inquiries to enable the calculation of a person’s debt and income. To comply with clause 20(2) of the Lending Standard, a deposit taker is expected to take reasonable steps to verify a person’s debt and income.

Verification of debt

54. In verifying a person's debt, a deposit taker is expected to obtain copies of recent loan statements (showing the unpaid balances), where the person is listed as a debtor.
55. A deposit taker would also generally be expected to make reasonable inquiries into other loans that the person intends to enter into (where the credit has not been advanced to the person at the time of the DTI calculation). For example, a deposit taker could obtain a copy of the credit contract and seek confirmation from the intended lender of the amount of the loan that the person intends to enter into.

Verification of income

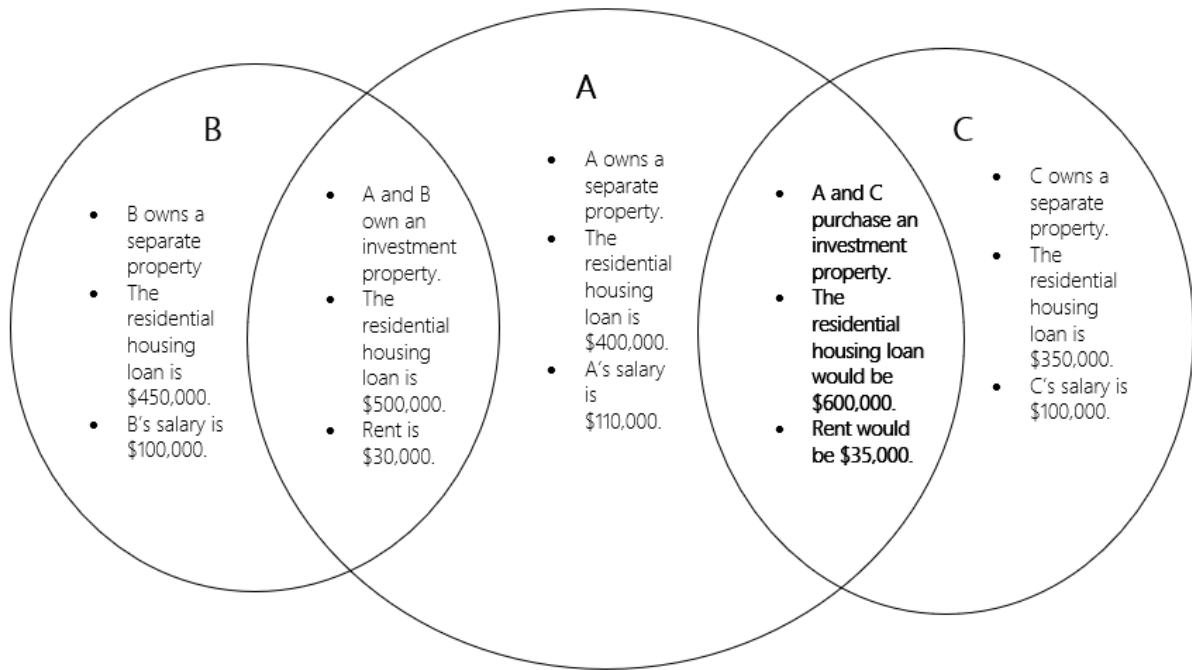
56. The following are (non-exhaustive) examples of ways in which a deposit taker could verify a person's income:
 - 56.1. Confirming employment status (for example, whether permanent, casual, part-time, contractor or fixed term contract).
 - 56.2. Reviewing recent payslips detailing regular salary or wage income of the person.
 - 56.3. Reviewing employment contracts or remuneration review letters.
 - 56.4. Seeking written advice from the person's employer, accountant or tax advisor confirming actual or likely income levels.
 - 56.5. Reviewing income tax assessment notices and returns.
 - 56.6. Reviewing bank statements that confirm regular salary credits.
 - 56.7. Reviewing market appraisals for rental income on prospective investment properties.
 - 56.8. Reviewing other documents pertaining to income (for example, business activity statements).
 - 56.9. Making independent enquiries into the person's credit history (for example, through credit reporting bodies).
57. Different methods of income verification (other than those listed above) could form part of a deposit takers standard lending assessment process.

Calculation of debt (Clause 21)

58. The policy intent of clause 21 of the Lending Standard is to capture a person's 'total debt' on the day of the DTI calculation, where the calculation of a person's debt includes credit that has been provided, or may be provided, under a credit contract to that person. If a person is listed as a debtor in a credit contract, they are liable to repay the debt.
59. This includes situations where properties may be owned by look-through companies, trusts, or other structures, where the person is listed as a debtor in the credit contract and is ultimately responsible for servicing the debt. This means that in most cases the use of look-through companies, trusts, or other structures are not expected to lead to a different amount of debt (to be included in the DTI calculation), by comparison with a situation where properties are directly purchased by the person.

60. A person's total debt also includes the full amount of any joint debt that a person holds with another person under joint and several liability. This is because if the other person can no longer meet repayments on their portion of the joint debt, then the person is liable to meet those repayments. An example of this situation is where multiple debtors do not share all of the same properties, as shown in Figure 2.

Figure 2: Multiple debtors who do not share all of the same properties



61. If person A and person C are seeking to enter into a residential housing loan together, then their DTI ratio is calculated as follows:

Step 1: Aggregate all debt of person A and person C, including full amounts of any joint debt.

Total debt: \$400,000 (person A's residential housing loan) + \$350,000 (person C's residential housing loan) + \$500,000 (person A and person B's joint residential housing loan) + \$600,000 (the amount that person A and person C seek to borrow) = \$1,850,000

Step 2: Aggregate income from person A and person C.

Total income: \$110,000 (person A's salary) + \$100,000 (person C's salary) + \$30,000 (rental income on person A and person B's investment property) + \$35,000 (rental income on person A and person C's prospective investment property) = \$275,000

Step 3: Calculate the DTI ratio as $\$1,850,000 / \$275,000 = 6.73$

62. The types of loans captured in the calculation of debt are discussed further below.

Residential housing loan (new)

63. DTI restrictions are intended to apply to the credit limit of new residential housing loans, except where they are not included in the calculation of qualifying credit amounts as outlined in Part 4 of the Lending Standard. DTI restrictions do not apply to other types of debt if the

person is seeking credit for those types of debt (as listed below). However, clauses 21(1)(b) and 21(1)(c) of the Lending Standard require the unpaid balances of other types of debt (under which the person is a debtor) to be included in the calculation of a person's debt for the purposes of the DTI calculation.

64. For example, a person may be seeking to enter into a new residential housing loan with a credit limit of \$500,000. They have an existing residential housing loan with an unpaid balance of \$100,000, a personal loan with an unpaid balance of \$20,000, a student loan with an unpaid balance of \$10,000 and no other debt. Therefore, for the purposes of the DTI calculation, the person's debt is \$630,000.

Residential housing loan (existing)

65. DTI restrictions are intended to apply to increases in the credit limit of existing residential housing loans, except where they are not included in the calculation of qualifying credit amounts as outlined in Part 4 of the Lending Standard. Further, clause 21(1)(c)(iii) of the Lending Standard requires the unpaid balances on existing residential housing loans (under which the person is a debtor) to be included in the calculation of a person's debt.
66. For example, if a person has an existing residential housing loan with an unpaid balance of \$100,000 (and no other debt) and is seeking an increase in the credit limit of their residential housing loan (a top-up of the existing residential housing loan) of \$100,000, their debt will be calculated as \$200,000 for the purposes of the DTI calculation.

Revolving credit contracts

67. Clause 21(1)(b) of the Lending Standard requires the credit limits of any revolving credit contracts (under which the person is a debtor) to be included in the calculation of a person's debt. The credit limits (and not the unpaid balance) of a revolving credit contract more accurately reflect a person's total debt given that they can access amounts up to the credit limit. Examples of revolving credit facilities include credit cards, overdrafts, and revolving credit mortgages.
68. For example, if a person has a credit card limit of \$5,000 (and no other debt) and is seeking to enter into a new residential housing loan of \$600,000, their debt will be calculated as \$605,000 for the purposes of the DTI calculation.
69. The credit limits of revolving credit contracts are not subject to DTI restrictions, unless a new (or increase in existing) residential housing loan is a revolving credit mortgage. For example, if a person is seeking a new credit card with a credit limit of \$5,000, DTI restrictions do not apply to the new credit card regardless of the person's other debts.
70. However, if a person has an existing residential housing loan with an unpaid balance of \$100,000 (and no other debt) and is seeking an increase in their residential housing loan of \$100,000 that will be a revolving credit mortgage, DTI restrictions apply to the revolving credit mortgage. The person's debt will be calculated as \$200,000 for the purposes of the DTI calculation (even if they do not draw down the entire \$100,000 of the revolving credit mortgage).

Personal loans

71. Clause 21(1)(c)(i) of the Lending Standard requires the unpaid balances of any personal loans (under which the person is a debtor) to be included in the calculation of a person's debt. For example, if a person has a personal loan with an unpaid balance of \$10,000 (and no other

debt) and is seeking a new residential housing loan of \$600,000, their debt will be calculated as \$610,000 for the purposes of the DTI calculation.

72. Personal loans are not subject to DTI restrictions. For example, if a person is seeking a new personal loan of \$20,000, DTI restrictions do not apply to the new personal loan regardless of the person's other debts.

Student loans

73. Clause 21(1)(c)(ii) of the Lending Standard requires the unpaid balances of any student loans (under which the person is a debtor) to be included in the calculation of a person's debt. For example, if a person has a student loan with an unpaid balance of \$20,000 (and no other debt) and is seeking a new residential housing loan of \$600,000, their debt will be calculated as \$620,000 for the purposes of the DTI calculation.
74. Student loans are not subject to DTI restrictions. For example, if a person is seeking a new student loan of \$30,000, DTI restrictions do not apply to the new student loan regardless of the person's other debts.

Exclusions

75. Clause 21(2) of the Lending Standard enables deposit takers to exclude some types of debt from the calculation of a person's debt.

BNPL contracts

76. The unpaid balance of a buy-now pay-later (BNPL) contract may be excluded from the calculation of a person's debt. BNPL contracts are generally small amounts and likely to be repaid within a short period of time after the person's DTI ratio is calculated.

Loans predominately used for business or investment purposes

77. The policy intent of clause 21(2)(b) of the Lending Standard is to exclude debt predominantly used for business or investment purposes from the calculation of a person's debt. If more than 50% of the debt is used for business or investment purposes, it may be excluded from the calculation of a person's debt. The 50% test aligns with sections 11(1A) and 13 of the CCCFA.
78. This allows for a situation where it may be difficult to separate debt according to its purpose. For example, business debt and residential debt may be intertwined, which could add complexity to the calculation of a person's debt given that business debt is not required to be included in the calculation.
79. The policy intent is also to capture debt secured by a mortgage over an investment property (or debt intended for the purchase of an investment property) in the calculation of a person's debt. As such, debt for investment purposes does not include debt secured by a mortgage over an investment property.

Interest free loans

80. The policy intent of clause 21(2)(c) of the Lending Standard is that an interest free loan that does not require repayment until the sale of the associated property may be excluded from the calculation of a person's debt. An example of this type of loan would be when parents gift their child a deposit for the purchase of a property, where the gift may be documented as a loan and secured with a second charge mortgage in order to protect these sums in case of a future marital separation.

Materiality threshold

81. The policy intent of clause 21(2)(d) of the Lending Standard is to allow a deposit taker discretion in excluding debts with small unpaid balances (of \$1,000 or less) from the calculation of a person's debt. However, if a debt has an unpaid balance of more than \$1,000, the total unpaid balance of that debt is required to be included in the calculation of a person's debt. For example, if a debt has an unpaid balance of \$10,000, then \$10,000 must be included in the calculation of a person's debt.
82. The Lending Standard does not limit the number of debts that can be placed into the materiality threshold category as long as the unpaid balances of the debts do not exceed \$1,000 and the total amount of debt placed into the materiality threshold category does not exceed \$5,000. For example, five debts could be included in the materiality threshold if they each had an unpaid balance of \$1,000, or ten debts could be included in the materiality threshold if they each had an unpaid balance of \$500, and so on.

Calculation of income (Clause 22)

83. The policy intent of clause 22 of the Lending Standard is to capture a person's income that is available for servicing their debts on the day of the DTI calculation. The calculation of a person's income is a gross (pre-tax) annual amount, where a deposit taker is generally expected to calculate a person's income based on historical amounts.
84. The Reserve Bank does not expect a deposit taker to obtain payslips (or other forms of income verification) for the person dating back a full year in order to calculate the person's annual income. Given this, a deposit taker may follow its standard lending assessment processes when calculating a person's income (in conjunction with making reasonable inquiries to verify a person's income as per clause 20(2) of the Lending Standard) For example, in line with its standard lending assessment processes, a deposit taker may decide to aggregate a person's income from the past three months (as evidenced by payslips or other forms of income verification), then multiply by four to calculate an annual amount for the purposes of the DTI calculation.
85. Note that weightings or 'haircuts' do not apply when calculating a person's income for the purposes of the DTI calculation.⁴ The Reserve Bank considers that using an unweighted measure for all sources of income (that is, the full amount of income) is the simplest approach and ensures as much consistency across deposit takers as possible. However, a deposit taker may consider applying weightings or 'haircuts' to different sources of income as part of its own standard lending assessment (separate from the DTI requirements).
86. A person's income may include the full amount of rental income that a person shares with another person that is not entering the residential housing loan. This is because the full amount of rental income would still be received even if the other person can no longer service their portion of the joint debt that they hold with the person.

Business income

87. Deposit takers may include income that a person derives from a business in the calculation of a person's income. For example, this may include a shareholder's salary, wages to business owners or a business surplus where the person has direct influence over the distribution of

⁴ Weightings or "haircuts" mean that income would be discounted from its full amount.

profits. If a business surplus is included in the calculation of a person's income, deposit takers are expected to:

- 87.1. take a gross amount (such as, net profit before tax);
- 87.2. deduct serviceability costs (that is, principal and interest) related to business debt; and
- 87.3. apportion according to the person's equity share (if the business has multiple shareholders).

Future income

88. The policy intent of clause 22(b) of the Lending Standard is to allow future income (in addition to current income) to be included in the calculation of a person's income when it is clear that the person has a right to receive that additional income (or reasonably expects rental income from an investment property) in the year after the DTI calculation. Examples of additional income include where:

- 88.1. The person has a contractual agreement to receive an increase in their wages or salary over the next year.
- 88.2. The person expects to receive rental income for properties that they intend to purchase and rent out.

89. As a matter of prudential best practice, a deposit taker is encouraged to obtain a copy of the contract where the person can show the increase in their wages or salary or a market appraisal for rental income on prospective investment properties.

Part 4: Lending restrictions

Restrictions by licence condition (Clause 23)

90. As per clause 23(1) of the Lending Standard, a deposit taker's licence conditions may restrict its lending for residential housing loans based on DTI and LVR restrictions. Specifically, a deposit taker's licence conditions may specify settings for DTI and/or LVR restrictions – namely a specified ratio (also known as a **threshold**), a limit (also known as a **speed limit**) and a lending period, which are discussed further below.

Thresholds (specified ratios)

- 91. Clause 23(4)(a) of the Lending Standard sets out a range of DTI ratios, known as high-DTI thresholds, that may be specified in a deposit taker's licence conditions. A high-DTI threshold refers to the specific DTI ratio that a deposit taker can lend up to without DTI restrictions applying. Residential housing loans with DTI ratios that exceed these thresholds would be classified as high-DTI loans and the deposit taker would be restricted in how much lending they can do above these thresholds (based on the applicable speed limits).
- 92. Clause 23(4)(b) of the Lending Standard sets out a range of LVRs, known as high-LVR thresholds, that may be specified in a deposit taker's licence conditions. A high-LVR threshold refers to the specific LVR that deposit takers can lend up to without LVR restrictions applying. Residential housing loans with LVRs that exceed these thresholds would be classified as high-LVR loans and the deposit taker would be restricted in how much lending they can do above these thresholds (based on the applicable speed limits).

Speed limits

93. Clause 23(3) of the Lending Standard sets out a maximum limit, where any number (in the form of a percentage) up to that limit may be specified in a deposit taker's licence conditions (**speed limit**). A speed limit is the percentage of a qualifying credit amount that is permitted to exceed the high-DTI threshold or high-LVR threshold.
94. In other words, a speed limit allows a deposit taker to still make ordinary finance loans that exceed the high-DTI threshold or high-LVR threshold up to the percentage specified in its licence conditions. Speed limits aim to reduce the efficiency costs of DTI and LVR restrictions by giving deposit takers some flexibility to make these loans if the underlying risk characteristics of the debtor justify it, allowing some debtors to still access loans that exceed the high-DTI threshold or high-LVR threshold.
95. Clauses 23(2)(a) and 23(2)(b) of the Lending Standard provide for separate speed limits for each of the DTI and LVR restrictions. For example, if a residential housing loan exceeds both the high-DTI and high-LVR thresholds, it will count towards the speed limits for both DTI and LVR restrictions (if it is included in a qualifying credit amount). If a residential housing loan exceeds the high-DTI threshold but not high-LVR threshold it will count towards the DTI speed limit but not the LVR speed limit (and vice versa). Having separate DTI and LVR speed limits allows the Reserve Bank to adjust DTI and LVR settings independently and so better manage different types of risks through the cycle.
96. Further, owner-occupiers and investors are grouped separately when calculating qualifying credit amounts (see paragraphs 116 to 121 of this Guidance), which means that owner-occupiers and investors are not subject to the same speed limit. Given this, owner-occupiers and investors may have different DTI and LVR settings (that is, thresholds and speed limits) to each other. For example, owner-occupiers could be subject to an LVR speed limit of 20% over a high-LVR threshold of 80% and investors be subject to an LVR speed limit of 10% over a high-LVR threshold of 70%.
97. The policy intent of clause 23(2)(a) of the Lending Standard is to also treat all residential housing loans that have an undetermined DTI ratio as if they exceed the high-DTI threshold. These loans are to be included in relevant qualifying credit amounts for DTI restrictions, regardless of which nature of lending category that they are classified as. For example, if there is a high-DTI threshold of 6 for owner-occupiers and if a residential housing loan to an owner-occupier has an undetermined DTI ratio, then that residential housing loan is required to be included in the qualifying credit amount for owner-occupiers (regardless of the nature of lending category) and treated as if it exceeds the high-DTI threshold of 6. In other words, this residential housing loan is required to count towards the DTI speed limit for owner-occupiers.
98. The Reserve Bank could use DTI and LVR settings (that is, thresholds and speed limits) outside of the range set out in the Lending Standard if market conditions warranted other settings. However, the Lending Standard would need to be amended to enable this; hence lengthening the process when it comes to adjusting DTI and LVR settings.

Lending periods

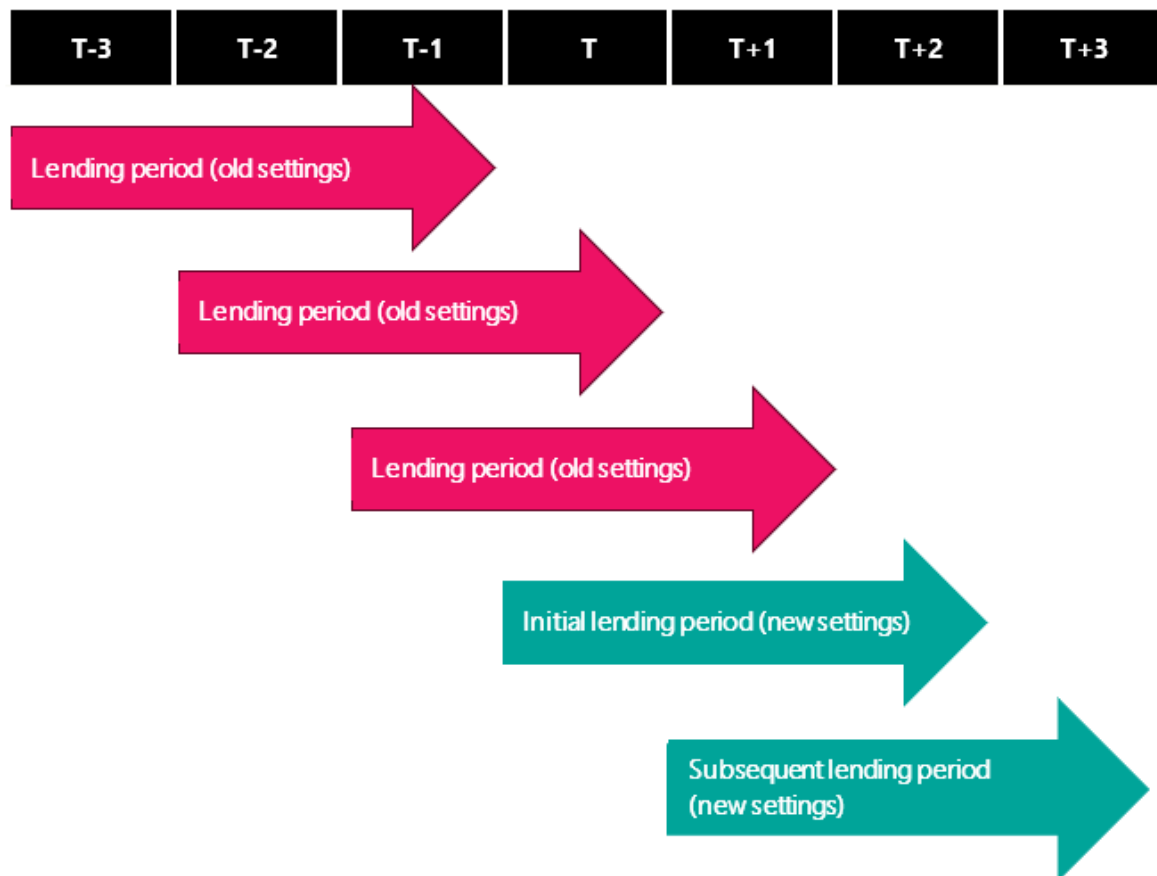
99. When imposing DTI and/or LVR restrictions via a deposit taker's licence conditions, the conditions will also specify the lending period to which the DTI and/or LVR settings apply.
100. As per clause 23(6) of the Lending Standard, lending periods will begin on the first day of any calendar month, and the relevant initial lending period during which DTI and/or LVR settings apply would be the three or six calendar months starting from that date.

101. The subsequent lending period would be the three or six calendar months starting one month after the initial lending period, and so on. These are known as rolling lending periods. The rolling lending periods may continue indefinitely, notwithstanding changes to DTI and/or LVR settings. This is set out in Figures 3, 4 and 5 below, where the LVR and/or DTI settings apply at the tip of the arrow in respect of the lending period spanned by the arrow.

102. Changes in DTI and/or LVR settings will be set out in revised licence conditions, which will also state when the initial lending period ends for the new settings. As stated previously, the initial lending period that applies to the new settings would be three or six calendar months starting from when the new settings apply. Therefore, the new settings will not become binding until the initial lending period ends.

103. The Reserve Bank intends for three-month rolling lending periods to apply to Group 1 deposit takers (see Figure 3), which will be set out in licence conditions for Group 1 deposit takers.

Figure 3: Lending periods for Group 1 deposit takers (three months)



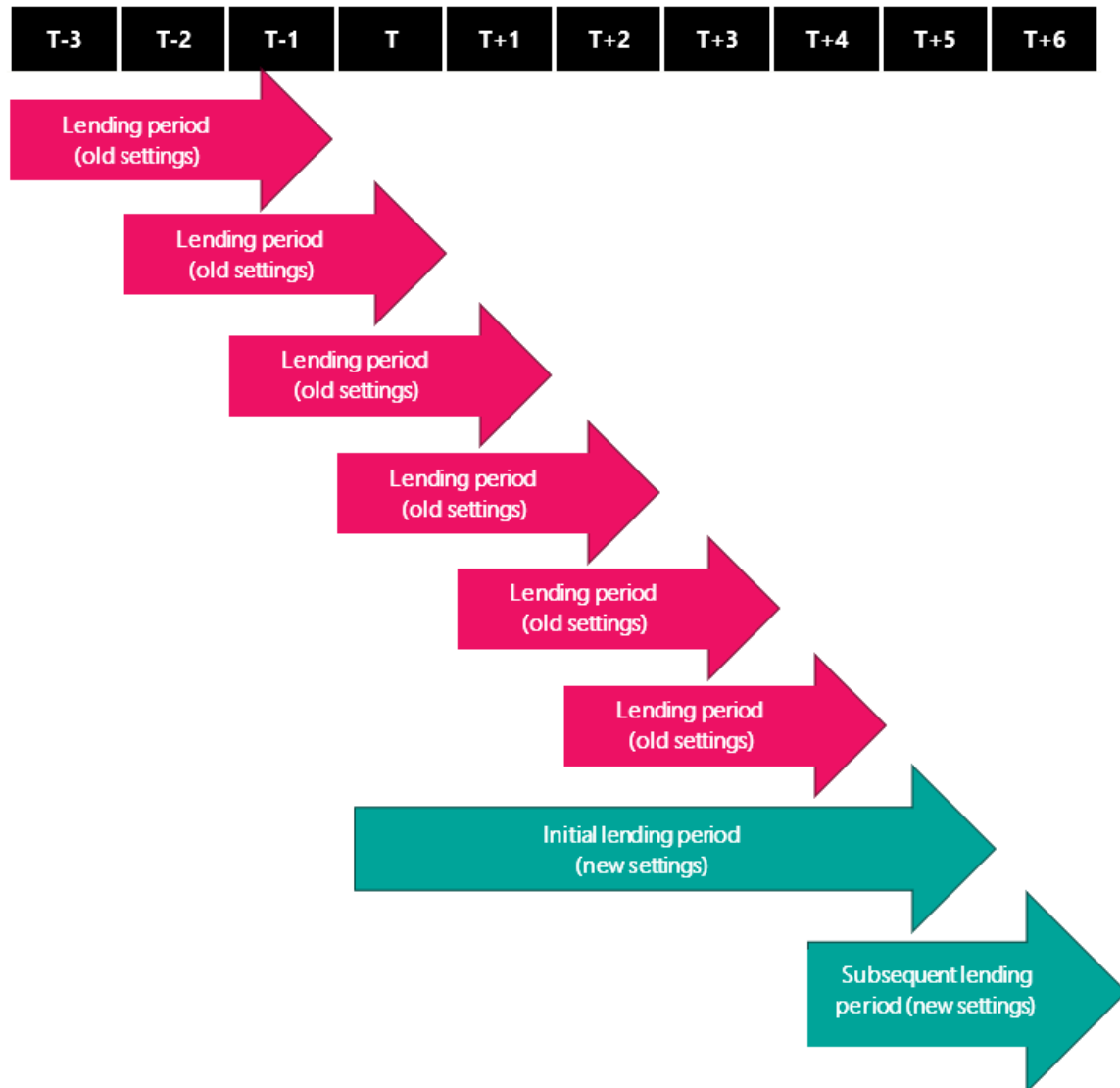
Notes:

Lending periods are three months. Lending periods for the old DTI and/or LVR settings apply up until periods ending on the last day of T+1. T is the month when new settings come into effect, where the initial lending period for the new settings apply to the period ending on the last day of T+2 (and includes the months T, T+1 and T+2). Note that the new settings will not become binding until the initial lending period ends on the last day of T+2. Subsequent lending periods for the new settings are three month rolling periods, the first of which ends on the last day of T+3 (and includes the months T+1, T+2 and T+3).

104. However, a six-month rolling lending period could be applied to Group 1 deposit takers. The Reserve Bank only intends to apply a six-month lending period to Group 1 deposit takers in the initial lending period after stricter DTI and/or LVR settings come into effect if it feels as if it is

warranted. The subsequent lending periods would be expected to revert to three-month rolling periods (see Figure 4), which would be set out in licence conditions for Group 1 deposit takers.

Figure 4: Lending periods for Group 1 deposit takers (initial six-month lending period)

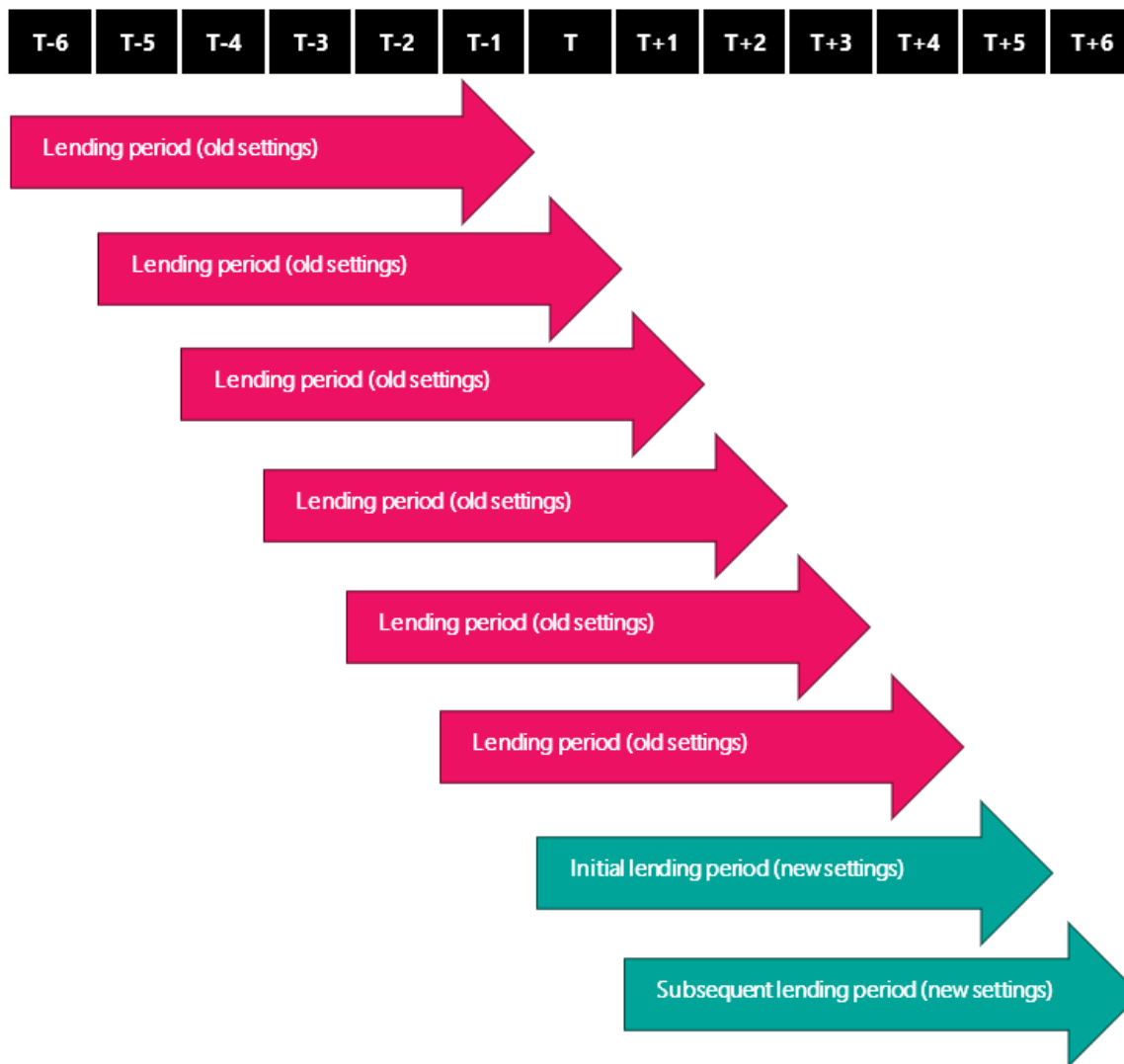


Notes:

Lending periods are three months, except for the initial period after DTI and/or LVR settings are tightened (which is six months). Lending periods for the old DTI and/or LVR settings apply up until periods ending on the last day of T+4. T is the month when the new settings come into effect, where the initial lending period for the new settings apply to the period ending on the last day of T+5 (and includes the months T, T+1, T+2, T+3, T+4 and T+5). Note that the new settings will not become binding until the initial lending period ends on the last day of T+5. Subsequent lending periods for the new settings are three month rolling periods, the first of which ends on the last day of T+6 (and includes the months T+4, T+5 and T+6).

105. The Reserve Bank intends for six-month rolling lending periods to apply Group 2 deposit takers (see Figure 5), which will be set out in licence conditions for Group 2 deposit takers.

Figure 5: Lending periods for Group 2 deposit takers (six months)



Notes:

Lending periods are six months. Lending periods for the old DTI and/or LVR settings apply up until periods ending on the last day of T+4. T is the month when new settings come into effect, where the initial lending period for the new settings apply to the period ending on the last day of T+5 (and includes the months T, T+1, T+2, T+3, T+4 and T+5). Note that the new settings will not become binding until the initial lending period ends on the last day of T+5. Subsequent lending periods for the new settings are six month rolling periods, the first of which ends on the last day of T+6 (and includes the months T+1, T+2, T+3, T+4, T+5 and T+6).

Licence conditions specific to deposit takers

106. The Reserve Bank intends to apply the Lending Standard to all Group 1 and Group 2 deposit takers, where they will generally be subject to the same settings for DTI and LVR restrictions. That is, the same high-DTI and high-LVR thresholds and speed limits are intended to apply to all Group 1 and Group 2 deposit takers as specified in licence conditions.

107. However, the Reserve Bank has the option to apply different DTI and LVR settings to a deposit taker, compared to other deposit takers. That is, different high-DTI and high-LVR thresholds and speed limits may be applied to a deposit taker as specified in its licence conditions. The Reserve Bank would consider using this option if a deposit taker was engaging in activities to actively avoid DTI and LVR restrictions. In such cases, the Reserve Bank may impose stricter DTI and/or LVR settings on that deposit taker.

108. Examples of potential avoidance activities include:

- 108.1. entering into a series of separate contracts to create what in substance is a single residential housing loan transaction;
- 108.2. entering into an arrangement with a debtor to channel funding to the debtor through a third party, or to guarantee their debt to another lender, to enable the purchase of a residential property with total borrowing which would count as a high-LVR loan for the deposit taker if it was all provided directly by the deposit taker;
- 108.3. directing the debtor to another lender where that lender:
 - a. lends the debtor an amount such that the deposit taker's new residential housing loan to the debtor would have an LVR less than the high-LVR threshold;
 - b. provides a new residential housing loan to the debtor that exceeds high-DTI or high-LVR thresholds, where that loan is financed by the deposit taker (for example, through a warehousing arrangement).
- 108.4. arrangements involving the use of additional collateral to hold the LVR on a residential housing loan below the high-LVR threshold;
- 108.5. providing lending primarily reliant on residential property as security that is treated as outside the residential housing loan asset class (for example, in the corporate asset class), where the lending would be high-DTI or high-LVR lending if it was treated as a residential housing loan;
- 108.6. providing a residential housing loan against a property already subject to a charge in favour of another person, where if the lending secured by the charge had been part of the residential housing loan, the residential housing loan would have counted as high-LVR lending for the deposit taker;
- 108.7. permitting a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan, where if the lending secured by the charge had been part of the residential mortgage loan, the residential mortgage loan would have counted as high-LVR lending for the deposit taker;
- 108.8. acting as a broker or arranging a residential housing loan, which is ultimately provided by an associated person or holding entity (as defined in clause 7 of the DTA); or
- 108.9. providing a residential housing loan to a debtor where the deposit taker is aware that the debtor's deposit for the purchase of the residential property to which the residential housing loan relates, has been, or will be, funded by unsecured lending, including credit cards, provided by that deposit taker in the case where, had the unsecured lending been part of the residential housing loan, the residential housing loan would have counted as a high-LVR loan for the deposit taker.

109. The Reserve Bank intends to monitor a deposit taker's use and promotion of products based on such activities (measured by the total volume or as a proportion of its residential housing lending).

Calculation of qualifying credit under Part 4 of the Lending Standard (Clause 24)

110. As per clause 24(1) of the Lending Standard, the calculation of qualifying credit includes the credit limits of residential housing loans (plus increases in the credit limits of existing residential housing loans) that a deposit taker (or a subsidiary) has entered into during the lending period. There are separate qualifying credit amounts for DTI and LVR restrictions, where the calculations are outlined further in clauses 25 and 26 of the Lending Standard.
111. For the purposes of clause 24 of the Lending Standard, a deposit taker enters into a new residential housing loan (or increase of an existing residential housing loan) when it is committed to providing the loan. This is the point when the deposit taker offers the debtor the loan in final form (or when the deposit taker sends the (amended) loan documentation to the debtor for an increase of an existing residential housing loan).
112. A loan in final form is generally offered the day on which a deposit taker sends the loan documentation to the debtor's solicitor, or an equivalent stage in the process if the debtor is not using a solicitor (for example, sending the loan documentation directly to the debtor). By this point the credit risk is regarded as being the same as if the residential housing loan was already on the balance sheet of the deposit taker.
113. The lending period that applies to a qualifying credit amount associated with a new residential housing loan (or an increase in an existing residential housing loan) relates to when a deposit taker enters into a commitment to provide the residential housing loan, not when the residential housing loan is subsequently drawn down.
114. There may be some instances where a new residential housing loan (or an increase in an existing residential housing loan) may not be drawn down for a period after it was committed. For example, a debtor may have a long settlement period when purchasing a property, such that the settlement date is not in the same period as the lending period when the new residential housing loan was committed. Therefore, the DTI and/or LVR settings that apply to that loan are the settings in place when the new residential housing loan is committed to.
115. Further, when entering into a commitment for a new residential housing loan, it is expected that a specific property has been identified and an amount agreed for the residential housing loan that will be advanced to the debtor (or, in the case of a lending facility, for the facility limit).

Calculation of qualifying credit for limit relating to DTI ratio (Clause 25)

116. Clause 25 of the Lending Standard sets out the calculation of the two qualifying credit amounts for DTI restrictions, where investment properties (**investors**) and owner-occupied properties (**owner-occupiers**) are separated. Residential housing loans secured by a mortgage over both an investment property and an owner-occupied property are included in qualifying credit amounts for investors (which is the case for both DTI and LVR restrictions). This includes "Owner-occupiers (with investment collateral)", as outlined in paragraph 18 of this Guidance.
117. The calculation of the two qualifying credit amounts for DTI restrictions is based on the nature of lending, where:
 - 117.1. Residential housing loans that are classified as ordinary finance are included in the calculation of qualifying credit amounts.
 - 117.2. Residential housing loans that are classified as equity release are not included in the calculation of qualifying credit amounts.

- 117.3. Residential housing loans that are classified as any other nature of lending category (as outlined in paragraphs 23 to 44 of this Guidance) are included in the calculation of qualifying credit amounts if they have a DTI ratio less than or equal to the high-DTI threshold.
- 117.4. Residential housing loans that have an undetermined DTI ratio are included in the calculation of the two qualifying credit amounts, regardless of the nature of the lending (except for equity release).

118. This is set out in Figure 6 below.

Figure 6: Qualifying credit amount calculation for DTI restrictions (owner-occupier and investor)

Nature of lending	DTI	Included in qualifying credit amount	
		Owner-occupier	Investor
Ordinary finance	High	Y	Y
	Low	Y	Y
	Undetermined	Y	Y
Equity release	High	N	N
	Low	N	N
	Undetermined	N	N
Bridging finance	High	N	N
New build finance	Low	Y	Y
New build purchase			
Refinancing			
Remediation finance	Undetermined	Y	Y
Security substitution			
Kainga Ora first home loan	High	N	N/A
	Low	Y	N/A
	Undetermined	Y	N/A

Notes: High DTI means that the residential housing loan has a DTI ratio greater than high-DTI thresholds (as specified in a deposit takers licence conditions). Low DTI means that the residential housing loan has a DTI ratio less than (or equal to) high-DTI thresholds (as specified in a deposit takers licence conditions). Undetermined DTI means that the residential housing loan has an undetermined DTI ratio.

Calculation of qualifying credit for limit relating to LVR (Clause 26)

119. Clause 26 of the Lending Standard sets out the calculation of the two qualifying credit amounts for LVR restrictions, where investors and owner-occupiers are separated.
120. The calculation of the two qualifying credit amounts for LVR restrictions is based on the nature of lending, where:
- 120.1. Residential housing loans that are classified as ordinary finance are included in the calculation of qualifying credit amounts, except if:

- a. the loan is secured by a mortgage over both an investment property and an owner-occupied property;

- b. the loan has an LVR greater than the high-LVR threshold for investor loans; and
- c. the loan has an LVR less than or equal to the weighted average LVR threshold (as per clause 27(2) of the Lending Standard).

- 120.2. Residential housing loans that are classified as equity release are not included in the calculation of qualifying credit amounts.
- 120.3. Residential housing loans that are classified as any other nature of lending category (as outlined in paragraphs 23 to 44 of this Guidance) are included in the calculation of qualifying credit amounts if they have a LVR less than or equal to the high-LVR threshold.

121. This is set out in Figure 7 below.

Figure 7: Qualifying credit amount calculation for LVR restrictions (owner-occupier and investor)

Nature of lending	LVR	Included in qualifying credit amount	
		Owner-occupier	Investor
Ordinary finance	High	Y	Y
	Low	Y	Y
Ordinary finance (weighted average LVR) ⁵	All	N/A	See Figure 8
Equity release	High	N	N
	Low	N	N
Bridging finance	High	N	N
New build finance			
New build purchase	Low	Y	Y
Refinancing			
Remediation finance			
Security substitution	High	N	N/A
Kainga Ora first home loan			
	Low	Y	N/A

Notes: High LVR means that the residential housing loan has a LVR greater than high-LVR thresholds (as specified in a deposit takers licence conditions). Low LVR means that the residential housing loan has a LVR less than (or equal to) high-LVR thresholds (as specified in a deposit takers licence conditions).

Loan-to-value ratio applicable in certain circumstances (Clause 27)

122. The intent of clause 27 of the Lending Standard is to clarify how a residential housing loan is to be treated when it is secured by a mortgage over both an investment property and an owner-occupied property (**cross-security finance**), where the high-LVR threshold differs for investors and owner-occupiers.

123. To determine the treatment of these loans, a weighted average of the high-LVR thresholds applies as per clause 27(2) of the Lending Standard. The weighted average of the high-LVR

⁵ Where a residential housing loan is to be secured by a mortgage over both an investment property and an owner-occupied property.

thresholds is calculated as the sum over all properties of each high-LVR threshold applicable to a property multiplied by the weight of each property.

124. In general, the full amount of a cross-security finance loan counts towards the qualifying credit amount for investors (given that there is investment collateral involved). However, as noted in paragraph 120.1, there are circumstances in which cross security finance does not count towards either qualifying credit amount for LVR restrictions. Note that whether a loan is treated as cross-security finance does not affect qualifying credit amounts for DTI restrictions as collateral is not considered in the DTI calculation.
125. Figure 8 outlines the different treatments of qualifying credit amounts for cross-security finance depending on the debtor's LVR relative to the investor high-LVR threshold and the weighted average LVR threshold.

Figure 8: Qualifying credit amounts for cross-security finance

LVR	Included in qualifying credit amount
Greater than the weighted average LVR threshold (if ordinary finance)	Y
Less than (or equal to) the weighted average LVR threshold and greater than the investor high-LVR threshold	N
Less than (or equal to) the investor high-LVR threshold	Y

126. For example, assume a debtor has a property that they live in valued at \$1,000,000 and a residential housing loan valued at \$550,000. That debtor then seeks an increase in the credit limit of the residential housing loan by \$850,000 to purchase an investment property, which is also valued at \$1,000,000. The total value of the residential housing loan is secured over both properties. The residential housing loan is an investor residential housing loan as investment collateral is being used as security for part of the residential housing loan.
127. The total value of the residential housing loans divided by the total value of the properties is $1,400,000/2,000,000 = 0.7$. Assume that owner-occupier lending becomes high LVR at an LVR threshold of greater than 80%, while investor lending becomes high LVR at an LVR threshold of greater than 65%. The weighted average LVR threshold is then $(.65 \times .5 + .80 \times .5) = 0.725$.
128. The debtor has an LVR of 70%, which is above the investor high-LVR threshold of 65% and less than the weighted average LVR threshold of 72.5%. This means that the increase in the credit limit of the debtor's residential housing loan (\$850,000) is not included in the calculation of the qualifying credit amount.