NZ Property Pulse

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Mortgage lending trends: 10 things to know right now

Interest rates, credit rules, and shifting buyer behaviour are inextricably entwined with the health of the housing market. In line with the recent slowdown in property sales activity, mortgage lending has lost significant momentum – with growth dipping near zero in May and June marking a nearly three-year low. Below, we break down 10 key trends currently shaping the market.

1. **Interest-only (I-O) lending remains 'under control'.** At around 14% of new loans to owner-occupiers in June and 28% to investors (by value), I-O activity is running at its lowest levels for more than a decade. This could signal reduced willingness by banks to lend on this basis and/or reduced demand for it, but it also shows that people aren't generally needing to look at I-O finance to assist with cashflow pressures.
2. **Repayment problems are low.** Another indicator showing that households are generally managing to keep up with their debt commitments is that only 0.6% of the value of outstanding loans is 'non-performing' (either 90+ days overdue or considered impaired by the bank, i.e. that they won't recover at least some of the interest or principal). This is around half the level seen after the GFC.
3. **Banks' allowances for bad debts have eased downwards.** As a proportion of all outstanding loans, RBNZ figures suggest an industry-wide bad debt provision worth about 0.21%, back down to late 2022 levels.
4. **The loan to value ratio rules are not a *major* restraint right now.** In June around 16% of lending to owner-occupiers was done at less than 20% deposit, well below the cap of 25% and even the banks' potentially self-enforced threshold of 20%.
5. **First home buyers continue to take full advantage of conditions.** Even though we're operating below the overall LVR caps, FHBs are still ploughing in, accounting for around 70% of all low-deposit/high LVR lending in June – or put another way 55% of all FHB loans are being done at less than 20% deposit (or greater than 80% LVR).

Chart 1: Share of lending at high LVR (low deposit)
Source: RBNZ

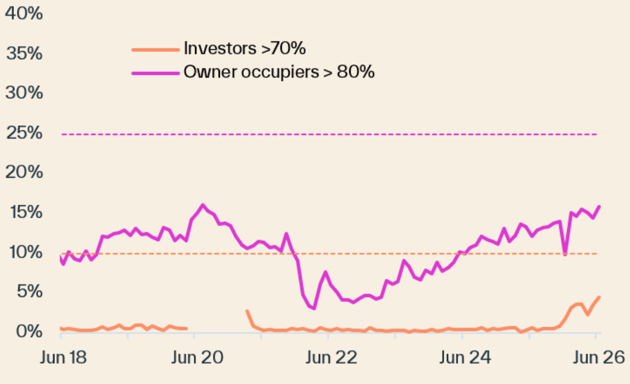
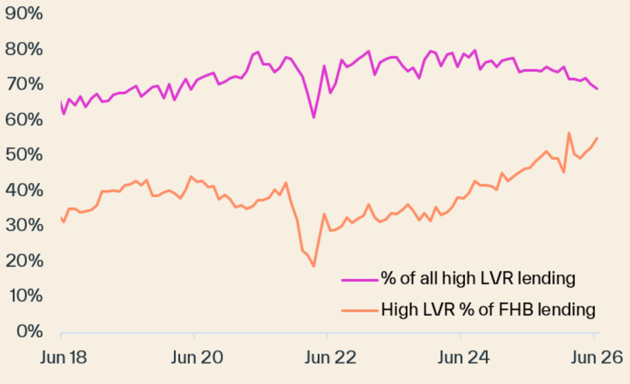


Chart 2: High LVR lending to FHBs
Source: RBNZ



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6. **Investors may be nearing the limit for low-deposit finance.** Nearly 5% of lending to investors in June was done below 30% deposit (>70% LVR), which is a lot less than owner-occupiers/FHBs, but still testing the speed limit for investors of 10% officially or, of more relevance, the banks' own self-enforced limit of perhaps 5%.
7. **Serviceability testing is a bigger factor than debt to income limits.** Recently only around 10% of lending has been done at high DTIs (after exemptions, such as new-builds), well below the speed limit of 20%. In other words, anyone finding they can't get a loan is probably being turned down because of banks' own internal affordability assessments (e.g. could the borrower afford the loan at a theoretical rate of perhaps 7%) rather than the official credit rules themselves.
8. **Loan choices are getting longer.** In late 2024, less than 10% of new loans were being fixed beyond 12 months and that number was still less than 20% as recently as November 2025. But it's jumped up to the mid-50%'s for the past five months (with the two-year rate very popular), as borrowers look to protect against any further interest rate increases in a world of higher inflation and heightened uncertainty. The shift longer will generally be applying to people re-fixing existing mortgages as they roll over too.
9. **Existing borrowers are still shopping around.** Meanwhile, given that 10% of current loans are floating and 30% are fixed but due to reprice within the next six months, there's still quite a bit of flexibility to switch lenders – and often take an attractive cashback incentive. Aside from the switching/refi bonanza in December 2025 when all the banks offered 1.5% cash, June's figure of $2.3bn remained the highest since July last year (and the fourth highest on record back to 2017).
10. **NZ's LVR is low but it's concentrated.** Recently the stock of outstanding mortgages went above $400bn for the first time, having only gone above $300bn as recently as December 2020. Compared with our estimate of the value of NZ's housing stock (almost $1.7trn), mortgage debt is low – or 'paper equity' is high. But for the estimated one-third of households that carry all of that debt, the swings and roundabouts of mortgage rates and credit policy are more acute.

Looking ahead, with interest rates potentially coming under renewed upwards pressure in the next few months, overall new lending activity may remain in a slowdown. But at least repayment stresses are at a low base, and first home buyers look likely to remain a fruitful group for lenders. The constant need to retain existing borrowers as their fixed rates expire will be a focus, while simultaneously competing to win market share from rival banks.

Chart 3: % of existing debt by time to rate change
Source: RBNZ

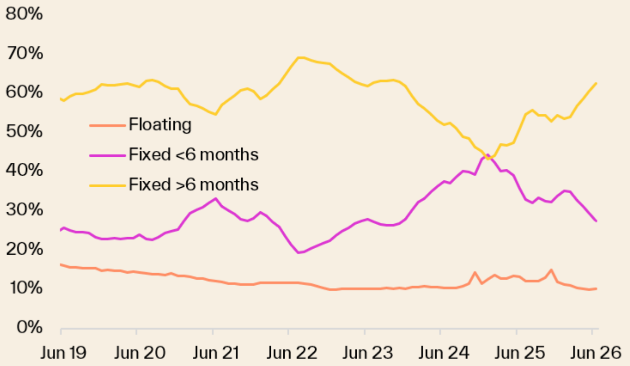

Chart 4: $m value of lending by type
Source: RBNZ