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MORTGAGE ADVISERS SURVEY

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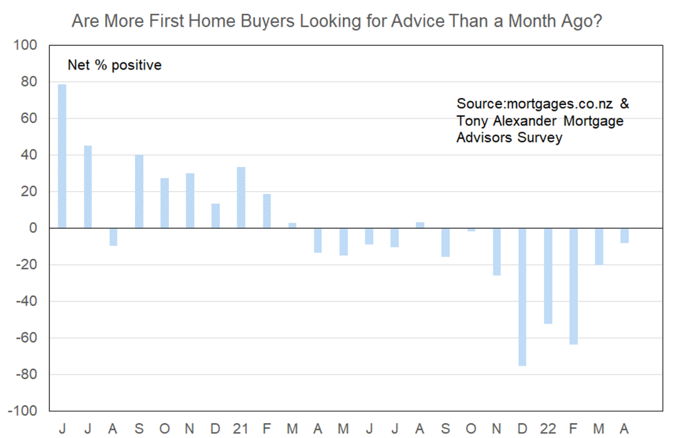
Credit availability improves

Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week and yielding 49 responses, (lower than usual because of Easter) shows

- bank willingness to lend has solidly improved over the past two months,
- the two year term is increasingly favoured by borrowers, and
- first home buyers are becoming less inclined to desert the market,
- but bank implementation of tightened lending rules remains highly variable.

COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER FIRST HOME BUYERS LOOKING FOR MORTGAGE ADVICE?

In this month's survey we have seen a further slight easing in the net proportion of mortgage advisers observing first home buyers stepping back from the market. The result of a net 8% is still negative, but it is the least so since October last year. That was the month just before banks started pulling loan pre-approvals because of worries about breaching new Loan to Value Ratio rules, and before the CCCFA changes became effective in December.



Things have come a long way since the initial days of the pandemic when many people tried all at once to purchase property. First home buyers initially led the rush towards the end of the first nationwide lockdown in 2020, but investors quickly took over as they saw prices were not falling as had been expected.

The sharp jump in prices then return of LVRs from February 2021 meant many first home buyers were taken out of the market before this time last year. The next change was investor buyers stepping back substantially after tax rules were changed at the end of March 2021.

Some measures show first home buyers then filling up the gap left by those investors. But our survey shows that this was not due to a new rush of first home buyers returning to the market after March 2021. Instead, they naturally accounted for a higher percentage of sales simply because there were fewer investor buyers.

The next change affecting first home buyers was the newly tightened LVR rules from November 2021 then implementation of Credit Contracts and Consumer Finance Act changes from December. The credit crunch created by these changes prevented many first home buyers from making a purchase and as word spread of new financing difficulties these buyers stopped making enquiries.

Now, there is an easing in the credit crunch underway and the new situation is this. Credit access is becoming less of a barrier to first home buyers making a purchase. But will they still stay away from auctions etc. because of falling prices and talk of people shifting to Australia? We shall see.

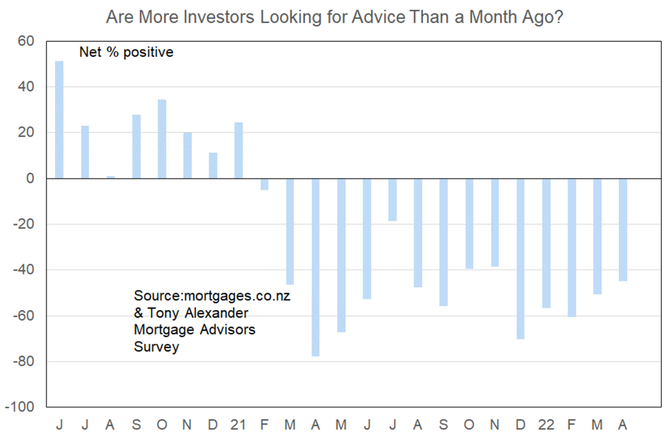
Comments submitted by advisers indicate that implementation of CCCFA rules remains inconsistent between the banks and credit availability overall to first home buyers is tight. However, some easing is evident including greater availability of low deposit lending.

- "There still seems to be confusion between mainstream banks on how to interpret the CCCFA rules, all mainstream banks have applied the rules in drastically different ways.
- Changes weekly depending on funding position, impossible for advisers/clients to operate.
- The banks seem more reasonable when looking at expenses over the past 3 months.
- LVR over 80% is back on the table."

COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER INVESTORS LOOKING FOR MORTGAGE ADVICE?

As is the case with first home buyers, mortgage advisers note that the pullback of investors is becoming less intense. But the negativity remains with a net 45% of advisers saying that they are seeing fewer investors.

Essentially, there is no change in the underlying level of investor interest in making a new purchase – low – ever since the March 23 2021 announcement of tax changes.



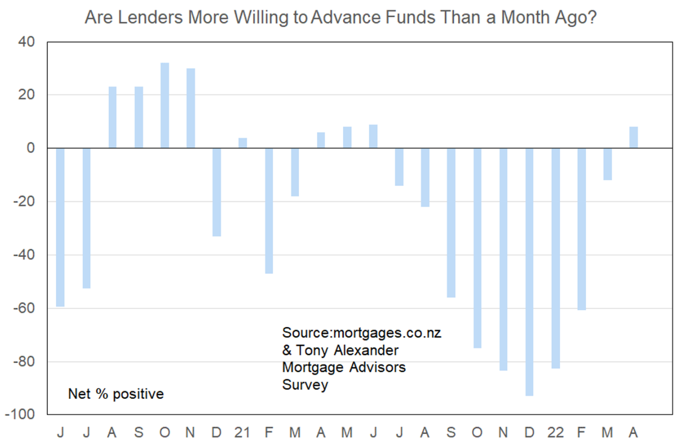
Comments made by advisers regarding bank lending to investors can be summarised as showing

- "Getting tougher in terms of scaling rental income. Essentially clients have to be more able to service the lending on their own bat.
- Age of investment property is needing to be provided i.e., before 27 March 2020 or after 27 March 2020.
- One lender has relaxed some of their criteria slightly but not enough to make a significant difference. The lender is not scaling rent as much as they were and no longer require evidence of rates & insurance costs for investment properties (although they still take into account the declared costs in the debt servicing calculation."

COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

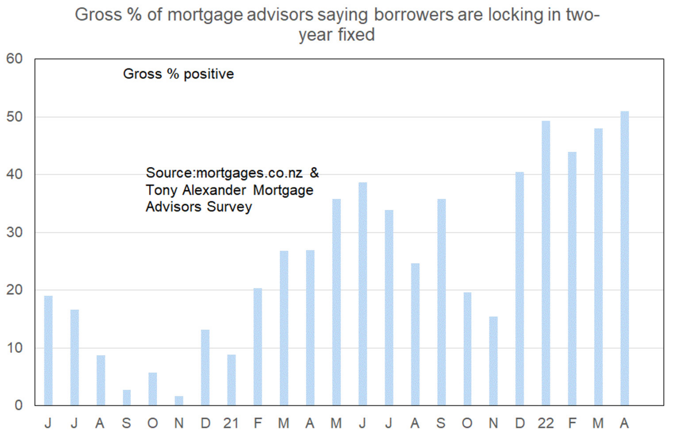
For the first time since June last year there are more mortgage advisers reporting that banks have eased their lending criteria than those reporting a tightening.

This likely reflects the passage of time away from introduction of tougher LVR and CCCFA rules and banks coming to grips on how to more reasonably apply such rules.

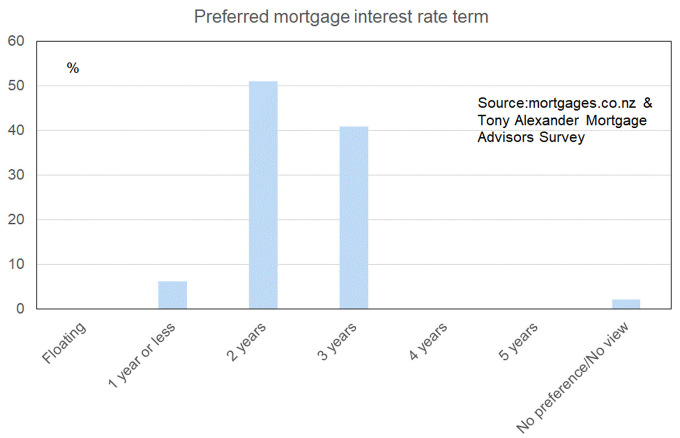


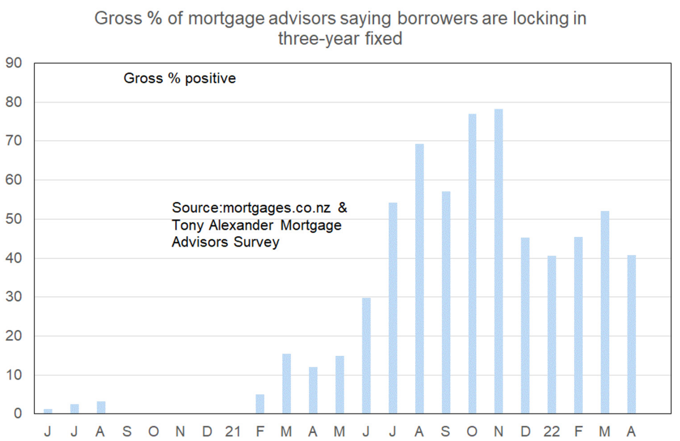
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

Mortgage advisers report that the preference for fixing shown by borrowers is shifting more and more to the two year term.

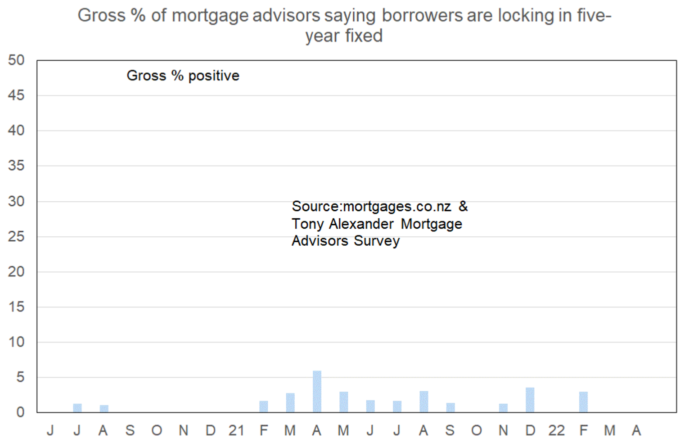


Just over 50% of our adviser respondents report that two years is the preferred term, compared with 41% for three years.

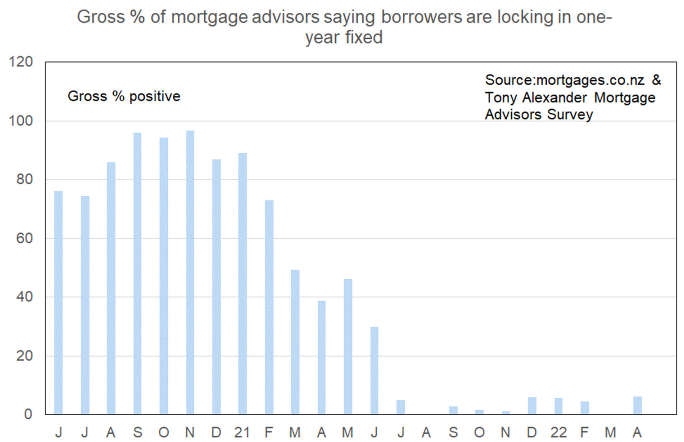




There is no interest in fixing for five years.



And only mild interest in fixing one year..



Mortgage Adviser's Comments

Following are the comments which mortgage advisors volunteered in this month's survey, grouped by the region in which the advisor primarily works. These insights can be very useful for placing flesh around the bones of the numerical indicators.

Key themes this month include the following.

- Access to credit is improving but highly variable.
- First home buyers face good purchasing opportunities but are unwilling to act on them.
- Buyers generally have stepped back, especially

in Wellington.
- Christchurch continues to receive interest from outside the city.

AUCKLAND

- Credit crunch continues to stall NZ's biggest industry - residential property
- Have done a couple of "high value" loans recently. Met all policy and servicing requirements and noticeably the assessors have been reluctant to approve them. Getting it through but a very noticeable change in trend from last year. Additionally, have noticed that there is not much urgency at the banks. We are a busy office that does a lot of lending and turn around times have blown out massively. Hopefully it gets better but feels like there are a few things happening that show low appetite right now.
- Overseas Kiwis still very strong in buying here and staying away.
- People are concerned by rising interest rates and the current outlook.
- There is still a divide between vendor and buyer expectation with buyers prepared to wait rather than meet vendor expectation.
- Many investors are looking at development options on their current properties rather than purchasing another IP.
- Banks seem to have settled into new normal having adjusted to new CCCFA rules.
- More clients asking for refinances trying to find better rates.
- Many clients are happy to break their 2.29% rate a few months early to secure a 2yr 4.79% rate before rates go up further.

BAY OF PLENTY

- I have many young homeowners getting very nervous about increased loan repayments as their fixed rates expire throughout the rest of this year.
- Approvals will come...but a lot harder and having to touch the ball a lot more times
- Still tough out there. One bank withdrawing their new build low interest rate product due to over demand from clients.
- More banks willing to lend in over 80% space- but still very tough to meet the criteria.
- Buyers have disappeared. No urgency to buy now, as many properties to choose from.
- 6 months ago, 3 FHB on every property, outbidding each other. Now got 3 properties for each FHB and still they won't buy.
- Waiting for cheaper prices later on - but we have heard that before.
- Phones have stopped ringing.

WAIKATO

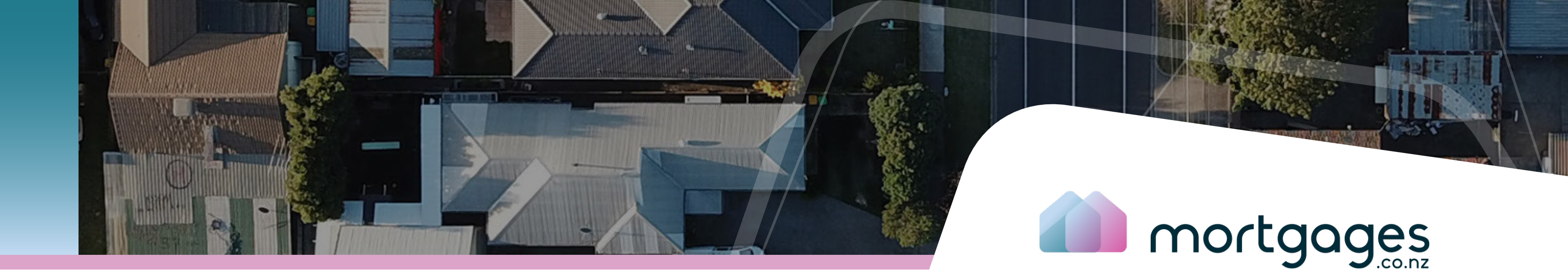
- Mixed messages - We had one of the big four approach us asking for more business. I sent an application to that bank that day as they promised great turnaround times and a good deal for the client. Application got pushed back by the broker unit saying can't do xyz for a new to bank customer and no promises on time frames. Disconnect.
- Overall, I feel the banks are wanting to lend more, but there is a lag between banks wanting to lend and the individual assessors changing their attitude from no first to take a look. This will take a while, but signs are promising.

MANAWATU-WANGANUI

- Banks are taking a far more common sense approach than they were three months ago re discretionary spending. Nearly all lenders are doing pre-approvals again for over 80% existing clients which is awesome

WELLINGTON

- Inquiries for lending pre-approvals have dropped dramatically, its dead out there.
- The property value declines are bigger than the media have portrayed, probably due to the lag in information from sale to recording. The market has gone dead, and vendors don't acknowledge this yet.
- On holiday, like most people. The buyer sentiment for property has gone. Those that want to buy, mainly investors, smell blood in the water so want to get pre-approved. Problem is most are already at max servicing.
- First home buyers are taking a wait and see approach too.



NELSON/TASMAN/MARLBOROUGH

- Steady volume of new enquiry despite media coverage of higher rates coming. Less competition at open homes is helping FHB and many vendors seem willing to accept more realistic prices.
- There are still some who are sitting tight and waiting for prices to drop whereas others (the more realistic ones) are identifying properties at a fair price with value still to be added.
- It's good having most banks back in the game for high LVR lending again.
- The CCCFA changes have been a huge waste of time for the finance industry.

CANTERBURY

- Open bridging is almost unachievable for most buyers wanting to go to Auction without confirmed sale on existing property
- Feedback from clients and contracts coming across my desk show less competition, vendors now accepting offers with conditions and negotiating more. Bidder numbers in auctions also appear slightly down, with more success from my clients in the past month when comparing with prior months.
- Generally, market is very quiet!
- Some customers getting what they consider good buying with a drop off of new enquiry as some first home buyers decide it is too hard to get a mortgage, or that prices will be better if they hold off. Poor media coverage risks creating a reality of a hard landing for the property market.
- Worst week in lending 2 weeks ago. 4 declines in one week.
- Pretty demoralising and tough on the clients.
- Although we are seeing rising interest rates, the halt in house prices rising is giving hope to both existing homeowners and first home buyers wishing to purchase
- Momentum good here in Christchurch with plenty people moving from Auckland every day
- Around 100,000 people will get their one-off residence visa and so far we have done 20 applications in the last 2 months for people getting quick residency.
- A lot of our existing clients are moving to Brisbane for better pay rates.
- Lending is down but confidence is still there

OTAGO EXCLUDING QUEENSTOWN LAKES

- Buyers still there but worried about rising interest rates and cost of servicing. For many not sustainable at the level they need to buy at, to get a house not requiring expensive repairs or improvements. Another reason to be cautious is the rising costs of owning a house rates, insurance, maintenance/repairs, power waste disposal.

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This publication is written by Tony Alexander, independent economist.
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