mortgages.co.nz

&

Tony Alexander

MORTGAGE ADVISERS SURVEY

April 2023

ISSN: 2744-5194

Banks more willing to lend

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, attracted 55 responses.

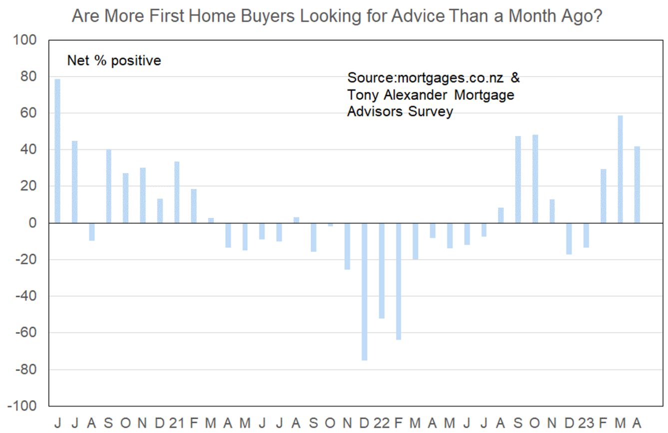
The main themes to come through from the statistical and anecdotal responses include these.

- First home buyers remain active, but investors continue to stand back.
- Bank willingness to lend is improving and some criteria are being eased.
- There are a few more signs of vendors getting more realistic on prices while buyers who put off purchasing last year are increasingly stepping forward.
- Interest in new builds is low.

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

For three months now mortgage advisers have noted in our survey that they are seeing more first home buyers in the market. The latest result is a net 42% seeing more young buyers from 59% last month and 3% in February.

This is consistent with what real estate agents are also seeing and likely reflects a number of factors rather than one overwhelming influence. Job security remains good, wages are rising, deposits have grown, house prices are much lower, rents however continue to rise, and banks have become more willing to lend.



Will this upsurge in first home buyer interest disappear as quickly as that which happened over September and October last year? Probably not unless we get another unusually high inflation outcome and extra tightening of monetary policy by the Reserve Bank.

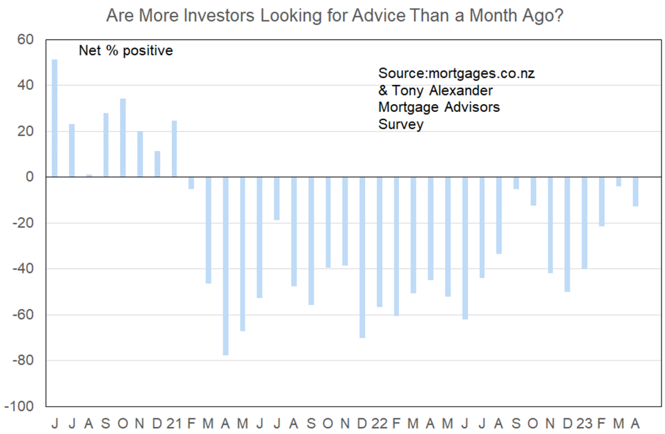
Comments on bank lending to first home buyers submitted by advisers include the following.

- Banks are trying to be creative around CCCFA rules, to loosen up some income servicing criteria so customers can offset high service test rates at present.
- No material change - although policies are loosening slightly around the likes of boarder income amounts that can be used (as an example).
- Less "nit-picking" over small expenses evident
- Banks more open to First Home Buyers and are already removing the discretionary spending barriers in preparation for the changes to CCCFA in May.

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

A net 13% of brokers responding in our survey have said that they are seeing fewer investors in the mortgage market. This is broadly consistent with

the small 4% of March and better than the period from December to February when monetary policy concerns were strong and talk of recession rife.



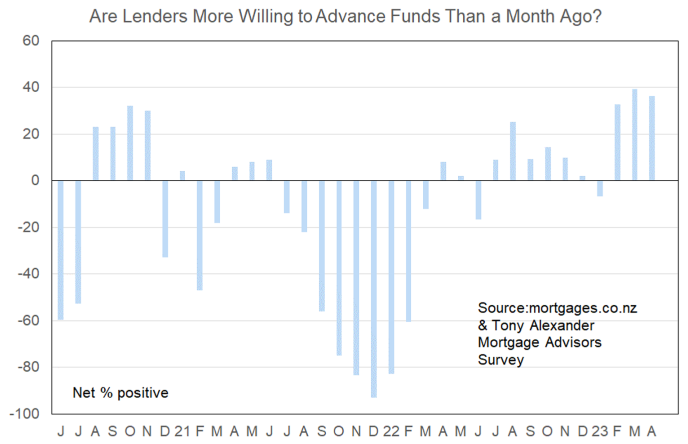
But unlike first home buyers investors still remain out of the market. Few are willing to stretch themselves to pay current high mortgage rates when ability to deduct that expense against rental income is declining courtesy of the tax changes announced in March 2021.

Comments made by advisers regarding bank lending to investors include the following.

- One main bank removed double counting of rental expenses.
- Flexible to 60%, nonbank for over.
- Continue to discount the rental income and then (in most banks cases) further deduct fixed costs. New tax year, so new calculators sent by banks representing the change in interest claimability (IRD).
- Slight change in the rental income % used. Only a small change but positive.

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

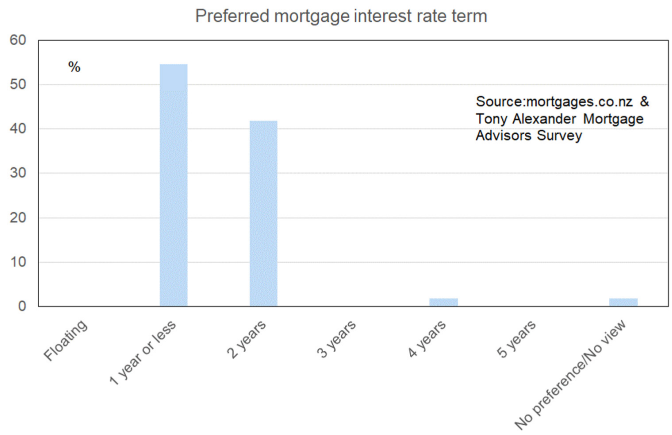
For the third month in a row a strongly positive net proportion of mortgage brokers have said that banks are becoming more willing to lend. This comes through in the comments they have submitted, some of which are listed above.



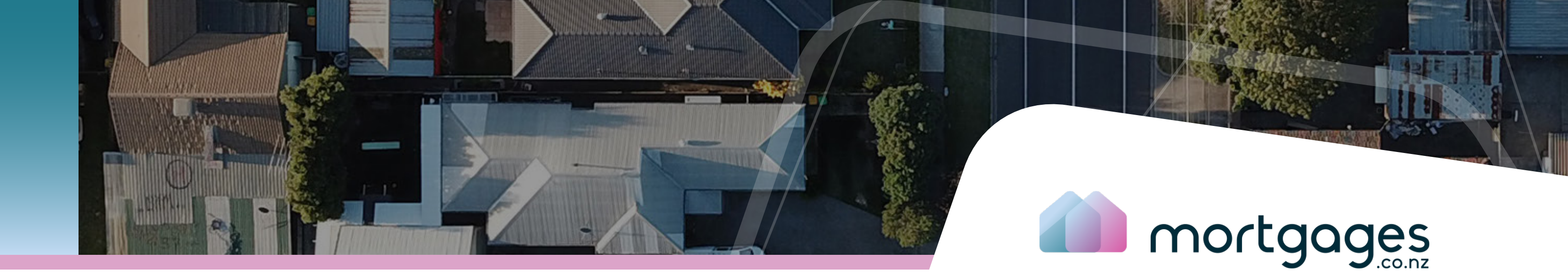
The increased willingness of banks to lend funds likely reflects failure to achieve sales targets in a near record weak residential real estate market. The strong labour market and completion of the expected bulk of this cycle's decline in house prices are also likely to be playing a role.

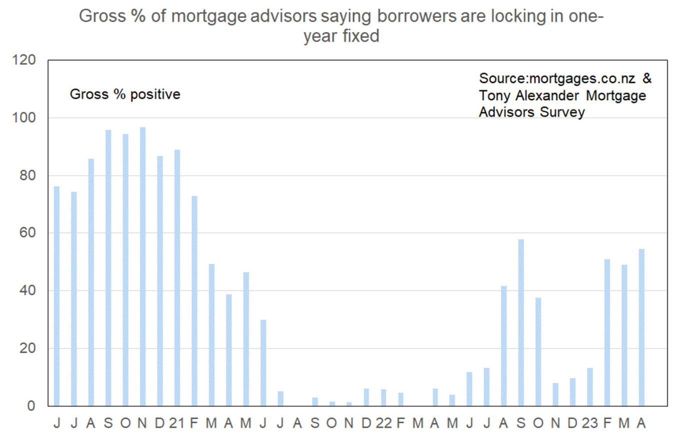
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

The proportion of mortgage advisers saying that buyers are most favourable to the one year fixed interest rate term has risen this month to 55% from 49% in March.

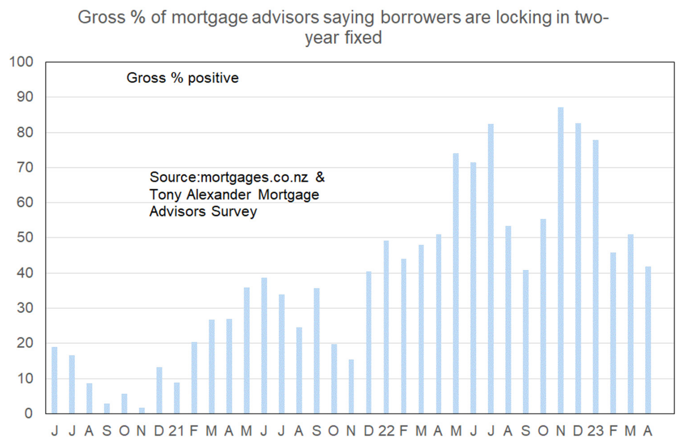


The one year term preference is not as strong as it was during the pandemic buying frenzy of mid-2020 to mid-2021.

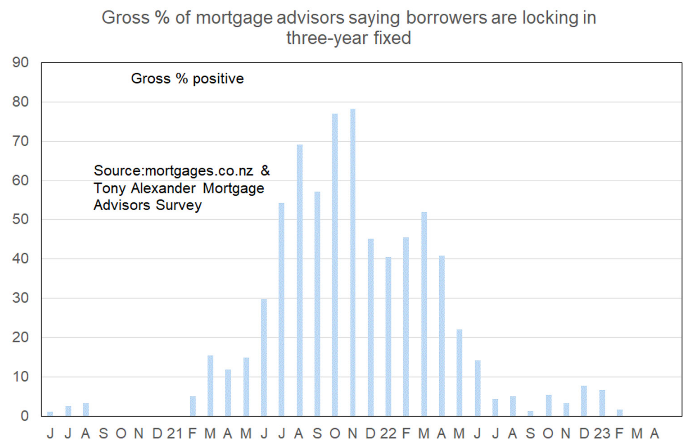




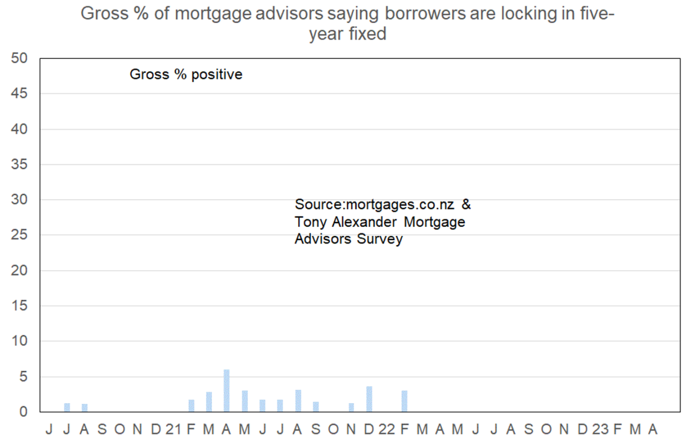
Preference for the the two year fixing term stepped down in February and has remained close to 40% for three months now. The earlier lift in preference for this term likely reflected very intense interest rate fears following the shock inflation number released late in October and then the Reserve Bank's strong response late-November.



Preference for fixing three years remains at zero.



So too does the preference for five years.



Is it likely that the large gap which is this week starting to open up between the newly higher one year fixed mortgage rate and longer terms will encourage people to fix for 3-5 years? Maybe for some people for whom immediate interest costs will determine whether they can remain in their house or not. But the bulk of people are likely to overwhelmingly continue favouring the 1-2 year periods.

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

AUCKLAND

- Increase in top up applications, or refi to extend terms out or look for interest-only options for Owner Occupiers. High rates really starting to bite those new on the ladder in the past couple of years with a large mortgage. More clients considering selling now, and looking to repurchase once rates drop back down as can't afford repayments, especially if income or family situation has changed. Client expectation on sub 6% rates off the back of the news articles on 4.99% and 5.99% rates that were offered for

2 weeks. Banks reputations now taking a hit as clients feeling hard done by that they are not being offered these rates while profits are still $1b plus

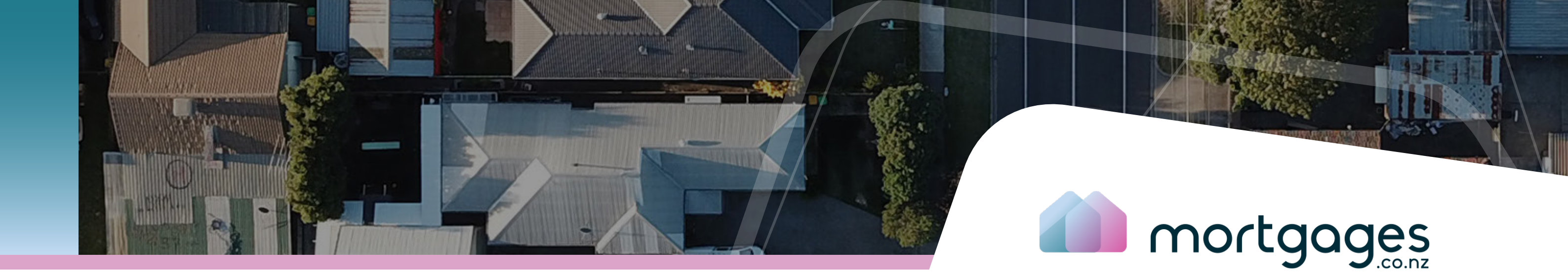
- Unique and special properties the demand is high. Properties that have ""Warts"", stigma, unpermitted or unconsented works are problematic for sellers but create opportunities for buyers who can see value in rectifying problems. Plaster cladded properties still and will remain a stigma and in principle generally sell about 20% below other non plaster properties even if the builders report comes out clean.
- One bank increased servicing rates by 0.25% when rates are decreasing.
- The OCR change has not been reflected as yet in higher lending rates. Rather it will slow down any reductions.
- A little bit of softening in criteria with banks tweaking with pending CCCFA changes. Around the fringes at this stage, but sign of better things on the way potentially.
- Inconsistency is the key with the banks at the moment - turnaround times have been pushed out to up to 15 working days with some banks whereas others are turning around applications in 24 hours or less
- I am seeing buyers miss out on properties, especially at entry level prices.
- Banks are competing hard for refinance business. The housing market is quiet, so they are trying to take business from the competition.
- Some further relaxation on interrogating expenses with recent round of CCCFA adjustments.
- Buyers more aggressive with cheeky offers
- For FHB, the Kainga Ora product is still strong and an easy selling point to offer a pre-approval. Those with low equity that don't fit into that product due to high incomes, they are in a strange spot. While options are still available, buyers tend to be more tentative without a pre-approval.
- Lots of clients are looking at refi options, with the 1% cash being a big factor. Lenders continue to extend this so will be interesting to see who pulls it first and when. Competition on low interest rates seems to be fading from the main banks and are no longer matching some of the other banks who are positioned better for rates. But it seems to really depend on the scenario of the deal.
- There are a lot of clients coming with impaired credit and options for this are scarce until they can prove credit history is mending.
- Finding 18 month fixed term option becoming more popular, one bank is offering slightly better rates in this area then other banks.
- 1% cash contributions for new business have been extended another month across the majority of banks.
- Visited a neighbouring open home and was quite surprised by the amount of traffic through the property - First home buyers are still out and about along with Next Home buyers, people seeing a good opportunity to upsize and take advantage of falling house prices
- Over the last couple of weeks one bank has increased their test rate and another has decreased theirs.

BAY OF PLENTY

- Still exceptionally quiet on the mortgage front. Seems people still sitting on the hands waiting.
- It is hard but it is happening

WAIKATO

- Lots of buyers that enquired last year are now deciding to make moves. Those that were sitting on pre-approvals or weren't quite ready to buy are now actively in the market and signing up on properties.
- We have even had several clients miss out on properties under multi-offer which has not happened for quite some time.
- Interest rates and house prices have seemed to plateau which is giving buyers more confidence in the market. We have also found that vendors are meeting the market with price expectations. We have had several clients offer under asking price on properties that have been sitting on the market for a month or two and their offers have been accepted.
- People are wanting to take the next step so are far more flexible than they were this time last year.



MANAWATU-WANGANUI

- Slight pick up on queries from first home buyers although only a few are ready to start the process. Build requests are dead in the water. Not had a single query for this for a couple of months now. Slight increase in requests for advice around fixed rate roll overs

WELLINGTON

- More and more of the younger generation want to purchase with friends or existing flatmates however banks policies don't really allow for this as in most cases banks need each individual/ couple to be able to service the entire loan which is very difficult to do. Fortunately, a couple of banks have figured this out and are obtaining the lion's share of these applications.
- Clients refixing at current rates are only just waking up to the cost and the dent in their budget this creates.
- Banks have continued to show a willingness to work with an application to secure an approval.
- Stressed buyers that have purchased off the plans are worried as the value of the assets have gone down and worried about how they are going to settle
- One lender has amended their living expenses benchmark to reflect the changes they are seeing to the current cost of living in today's environment. This will obviously have an effect on some clients especially FHB's as they will not be able to loan as much.
- Xxx bank are being a little more responsible when it comes to existing clients' mortgages and allowing clients to switch securities even when the settlement dates don't align to allow for clients to keep their existing interest rates. This is on a case by case basis and the net proceeds from the sale of the existing security needs to be put into a temporary term deposit.
- Buyers are not in a hurry unless it comes close to their expiry date on their pre-approval as they are aware that they may not be able to loan as much due to changes in test rates.

TOP OF THE SOUTH ISLAND

- 18m fixed term proving popular
- Higher test-rates are the main limiting factor now with less focus on irregular household expenses from most lenders.
- Starting to see people who have recently gained their residency coming in with low deposits and seeing an opportunity to purchase a home via Kainga Ora.
- A lot of hands-on help with clients coming off low-interest rates onto the new higher interest rates and looking at guidance rather than just picking a number online.
- Clients who had been previously pre-approved are now finally starting to enter into contracts as they are seeing housing prices decrease.

CANTERBURY

- I was very quiet in the last quarter of 2022 but have been very steady this first quarter and enquiry levels continue at a steady pace. It is quite difficult to get a loan to service with the high test servicing rates unless the clients have minimal debt and good incomes.

ISSN: 2744-5194

This publication is written by Tony Alexander, independent economist.
Subscribe here https://forms.gle/qW9avCbaSiKcTnBQA
To enquire about having me in as a speaker or for a webinar contact me at tony@tonyalexander.nz
Back issues at www.tonyalexander.nz

Tony's Aim
To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

Feel free to pass on to friends and clients wanting independent economic commentary.