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MORTGAGE ADVISERS SURVEY

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Borrowers flock to 3 years

This month's survey of mortgage brokers around New Zealand received 65 responses with half before the Tuesday lockdown announcement and half after. Because the survey asks advisors about what they are seeing we would not expect observations to shift - and broadly results are similar for the two groups.

They show a fresh decline in the net proportion of advisors seeing business from investors, but a rise in first home buyer activity. There has been a noticeable jump in the proportion of brokers noting that buyers are preferring the three-year fixed rate term for their mortgage interest rates.

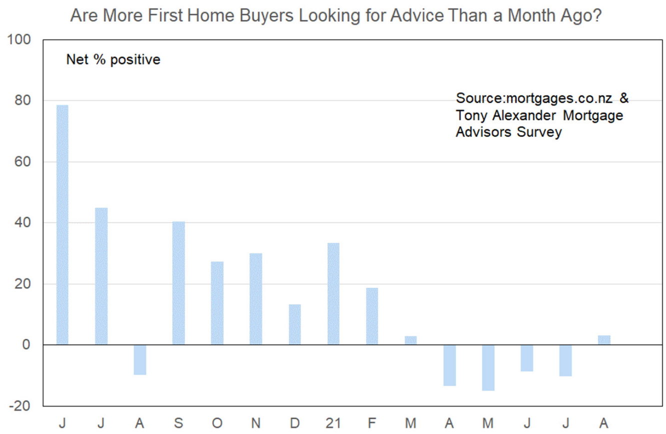
The Reserve Bank have held off raising the official cash rate for now in light of uncertainty surrounding the latest nationwide lockdown duration and impact. But they have made it clear that they see the economy as growing at a pace faster than resources can keep up. That means rising inflation from the already high 3.3% rate reported in mid-July.

It is highly likely that the cash rate will be raised at the next review on October 6, if not earlier, and the Reserve Bank have signalled their expectation that the cash rate will now have to rise by about 0.25% more than they were thinking in May.

With increasing talk of mortgage rates rising a lot more, our survey shows a clear shift by borrowers to protect themselves against the rate rises to come. The latest Covid-19 outbreak has actually provided them an increased length of time in which to get that protection before the official rate rise cycle commences.

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

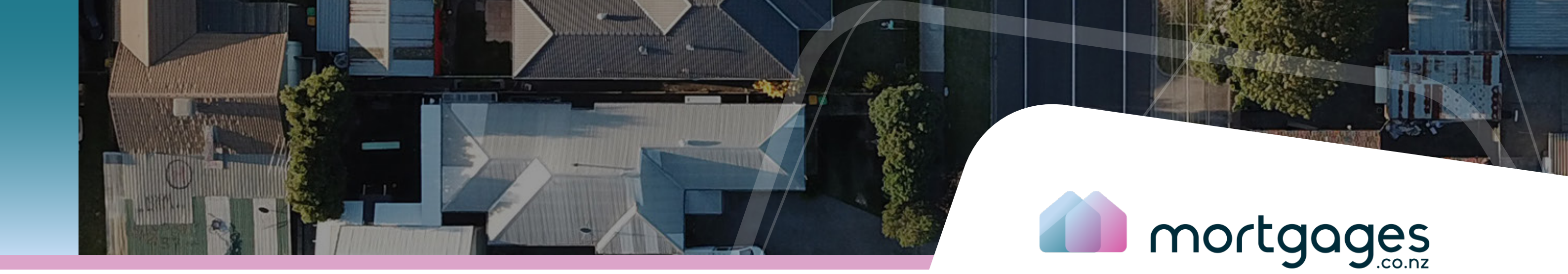
For the first time since just before the March 23 tax announcement, there are more mortgage advisors saying that they are seeing more first home buyers seeking advice than fewer. A net 3% have reported more compared with a net 10% reporting few first-time buyers last month and a net 15% in May.



This result is consistent with many other results from similar surveys of market activity in that there is recovery underway after the initial sentiment slump from late-March.

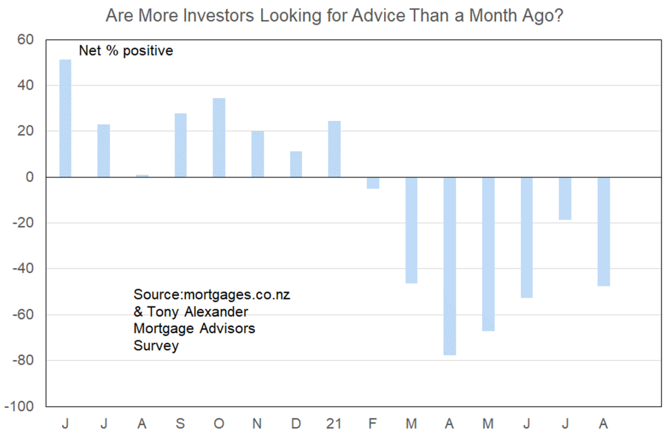
But at just 3% the outcome is considerably weaker than all bar one month in the period from June last year to February. The exception was August last year when Auckland was in lockdown. This suggests that the current lockdown may also cause a dent in first time buyer engagement with the residential real estate market in the very near future.

The recovery from September 2020 however suggests that this possible imminent withdrawal of buyers will be temporary.



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

In contrast to the improvement in market presence of first home buyers, there has been a decrease in enquiry to mortgage advisors from investors. A net 48% of brokers have reported that they are seeing few investors seeking advice. This reverses the improvement to -19% in July and takes the decline in investor activity back to near the -53% net result of June.

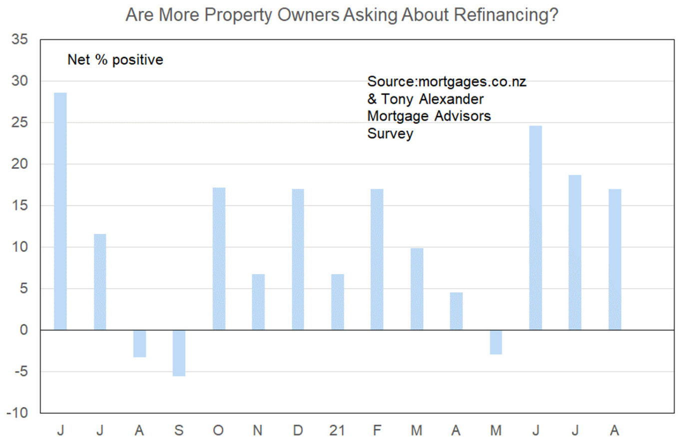


This is our first coalface examination of investor sentiment since the Reserve Bank's recent announcement that low deposit lending by banks would be further curtailed. But given that almost no lending to investors occurs with a deposit less than 20% of the property's value, this policy change may not much explain the easing back of investors.

Perhaps the edging up of interest rates is having an impact, or perhaps many investors are simply feeling high prices make purchasing less safe currently than has been the case for some time.

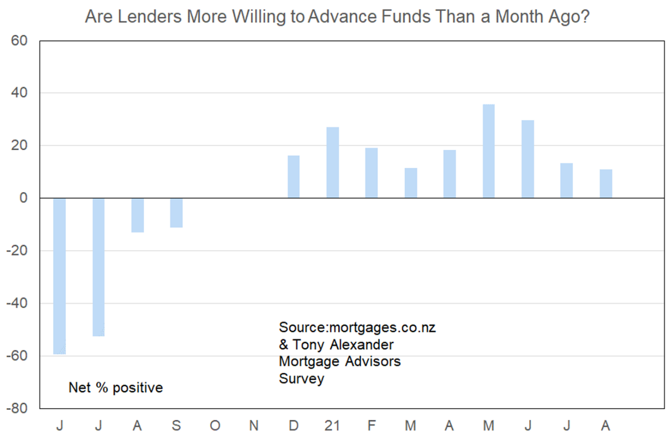
COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER PROPERTY OWNERS LOOKING FOR REFINANCING?

This month there has been little change in the net proportion of mortgage advisors noting more people seeking discussions about refinancing. But compared with the past year the increase in discussion activity (a net positive 17%) is notable and understandable in light of the recent increases in mortgage rates and expectations of further rises over the coming 1-3 years.



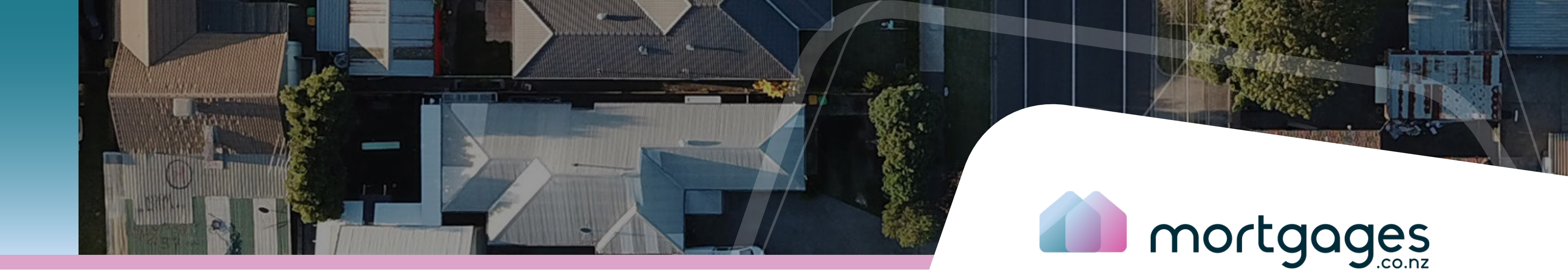
COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

Last month we noted a substantial decline in advisor perceptions of how willing banks are to advance finance to only a net 13% positive from 30% in June. That decline has been reinforced with this month's result of just a net 11% of brokers feeling banks are more generous in their lending assessments.



Since the very end of last year there has been no firm trend in advisor perceptions of bank willingness to lend. But the decline in recent months could signal that much as desires for business and market share are keeping banks actively engaged in seeking customers, their lending momentum is easing.

It will be interesting to see if this measure turns negative as we approach a period when the

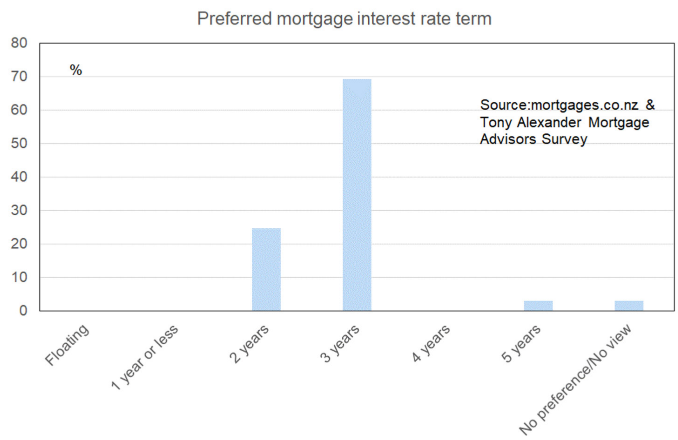


Reserve Bank will talk more about implementation of new lending controls such as Det to Income ratios.

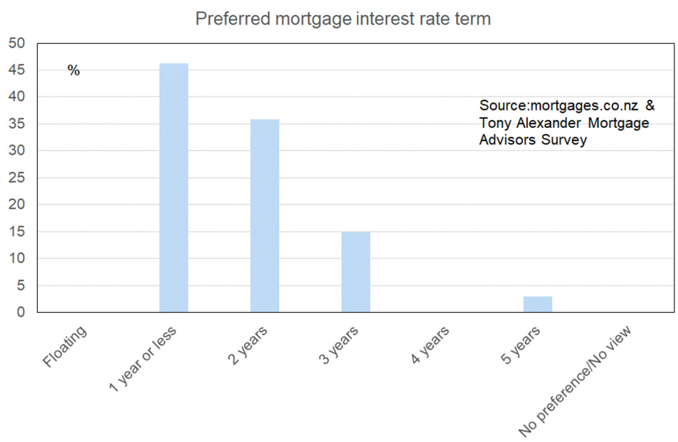
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

Mortgage interest rates are rising and there are widespread predictions of further rises to come – though delayed for now by the Covid outbreak staying the Reserve Bank's hand. Unsurprisingly, mortgage advisors are noticing a sharp decrease in willingness of borrowers to continue with the previously successful strategy of fixing one-year. Preference has strongly shifted to three years.

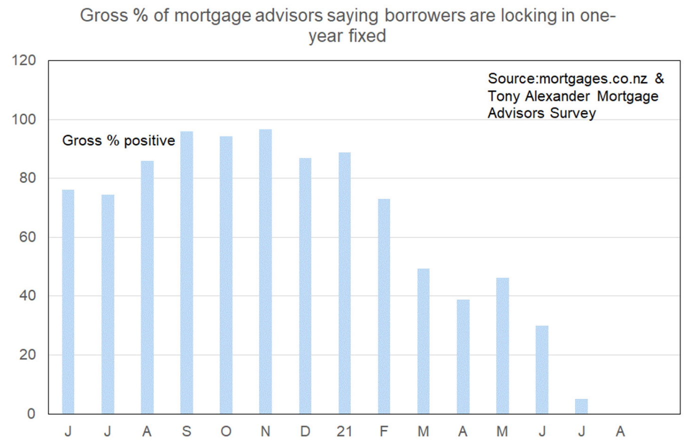
The following graph shows the gross proportion of advisors noting customer preferences for each term in our August survey.



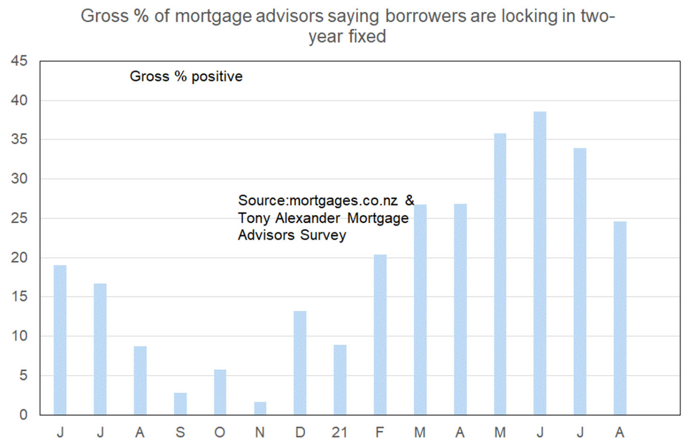
This next graph shows what the preference structure looked like just three months ago in May. The shift is clear to see.



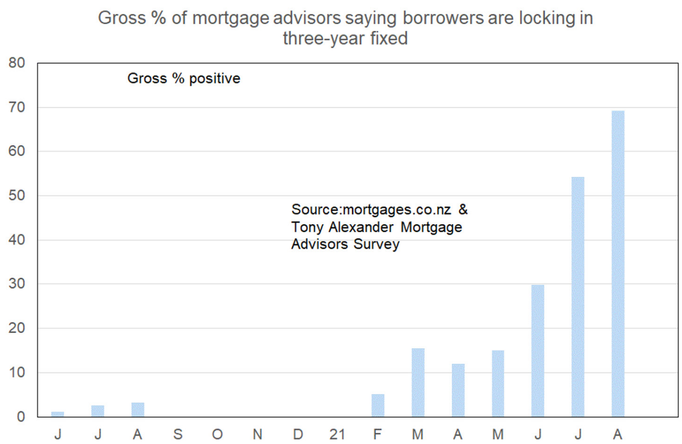
The erosion of preference for the one-year term is shown here, with no respondents now saying that borrowers mainly prefer fixing for just 12 months.



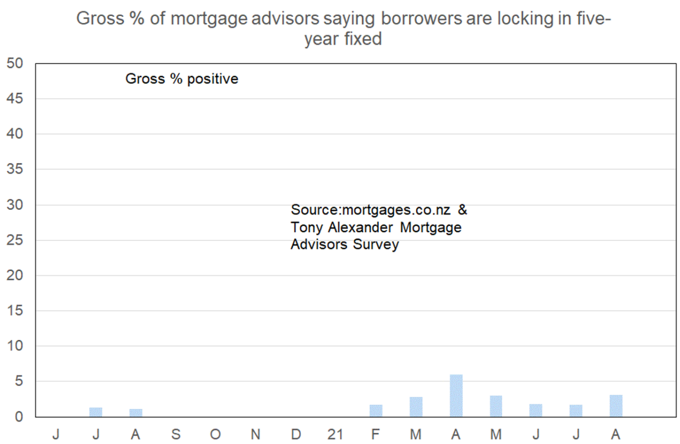
The preference to fix two years has enjoyed a strong time in the sun since the start of the year. But that preference has now fallen for two months in a row.



The strong preference now is for fixing three years with a strong surge in this term over the past two months in particular.



When it comes to fixing five years, no-one is much interested still. But when the yield curve goes inverse sometime down the track (short fixed rates higher than long fixed rates), history tells us that is when people will shift to fixing five years – at exactly the wrong point in the rates cycle.



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.

- Brokers have to spend far more time discovering the true level of applicant expenditure, especially for the likes of Afterpay facilities. Bank expense assessment is becoming more detailed and focussed on actual spending – not stated plans.
- Some more investors are backing away, wary of talk of a property over-supply down the track when they may then look to make a purchase.
- Banks have sharply toughened up on low deposit lending.

NORTHLAND

- Still good activity out there from across the board however I would say that inquiry is easing up finally, possibly due to the average weather and time of year. It will be interesting to see if the banks unwind the rate increases from the last few weeks or if they will bank their margin increase. Incredibly slow turnaround with business deals at the moment, one bank out to 15 working day turnaround for a simple top up for a strong client.

AUCKLAND

- The fact is the lending criteria being adopted is getting tougher and tougher. Lenders are also introducing new parameters to their decisions, which are in stark contrast to the Broker adviser guides that we hold on file. Things are being amended regularly and to be honest, it is hard to get a grasp on what is required on a "day to day" basis.
- Most people never mention buying apartments; however I have noticed a trend towards first home buyers considering purchasing an apartment due to them being more affordable.
- More interest in builds, both for investors and FHB. Refi and short-term debt consolidation on the rise. Some panic over rising rates from FHB who have only ever seen rates that start with a 2 or mid-low 3.
- A lot of noise is unsettling many potential buyers both owner occupiers and investment. Banks declining deals that a year ago would have gone through.
- Bank service is slower than ever and just appalling.
- Nothing has changed in the last few weeks from both buyers and lenders.
- Still issues with construction costs going up, Turnkey contracts extending well past 12 months (max bank approval).
- Banks are hammering low equity borrowers (FHB) with stricter criteria and higher interest rates are making this worse. As usual they are quick to bump up the rates but were slow to implement the reductions for existing borrowers.

BAY OF PLENTY

- There is less FOMO. But the market has not slowed down. Confidence is high and clients are doing things. A 0.50% OCR rise may impact for 2 weeks then confidence will over-run this and volumes will continue.
- With the CCFA rules changes coming in, there is more onus on brokers to review spending and make comments on changes in habits from the past. Likely that the commentary won't be enough, lenders now want to see proof that clients have changed habits. Getting more queries around clients wanting to buy (at auction) before selling - don't want to be homeless or needing to rent. Bridging finance is getting harder with the main banks - but still appetite for nonbank lenders.
- We are seeing bank processing time frames explode again. This is really crimping for FHB, as typically they see a place, call us and want to make an offer. Any offers subject to finance with an unusually long finance condition, is seeing those offers rejected in most cases, in preference for buyers who don't need that condition or have a shorter condition time frame to meet.
- Low deposit FHBs also require a registered valuation ordered through bank approved valuation ordering systems. The cost of valuations is skyrocketing, if you can get someone that is available to do the valuation to start with, and then within the required time frame. Its a real problem.
- Some banks have already brought in Debt-to-Income restrictions at 6x income. This includes proposed flatmate / rental income, however the banks shade / discount these income sources usually, and sometimes don't accept them at all given a borrower's circumstances. Some banks are not in the market for completing preapprovals in some cases, and only considering live deals.
- Still the same activity.... fewer tyre kickers....but interesting to see if Level 4 changes confidence levels.
- Refixed around 2 - 3 years most popular.

There's lots of activity to prepare for the revised Responsible Lending Code / CCCFA coming into effect on 1st October. This means more questions on what you are using the money for, on affordability and tighter controls around loan product & terms. Tightening will be particularly noticeable for 50+ age group and 1st home buyers. Revolving credits will be harder to get.

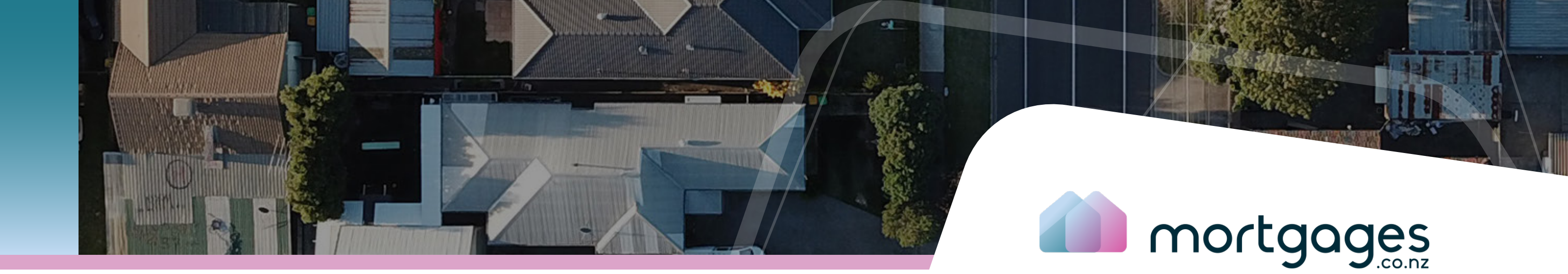
- Banks are increasing compliance forms required from advisers due to potential cccfa requirements.
- The inquiries are steady or even increasing from the potential buyers, but the turnaround times are still around 8-10 working days. If the borrowing is more than 80% there will invariably be a Valuation condition and the Valuers are taking a long time to turnaround the reports. There is also a distinct difference in the way the Rate Re-fixes are handled by the direct channel as opposed to Mortgage brokers where at least one bank is making life difficult for the Brokers and is not following the same stringent requirements if it is done through the direct channel.

WAIKATO

- I have been advised new regional LVR limits are in effect for investors, the lender was not good enough to tell me what they were but impacted investor clients' ability to borrow.

HAWKE'S BAY

- Higher servicing index required for build contracts (not limited to just investors).
- There is an increase in turnaround times again and a flurry of activity around re-fixes after the rates increases were announced. A definite toughening around existing spending - if it is going out of the bank account it is used for servicing --afterpays - even when paid off and closed xxx bank insist on the average of the last 3 months. Regular giving/donations - look at the last 3 months not what the client states they will be doing moving forward.



WELLINGTON

- Bank response times are increasing. Servicing is becoming a real issue so having to manage expectations for both FHB & Investors. Most clients are aware that the low rate period is over and hoping that may mean fewer buyers, however it is the opposite! More and more enquiries each week. Lack of quality listings an issue. Some disclosures on properties are not being made available until the last minute, meaning buyers are emotionally vested with purchasing the property making it difficult to get finance or insurance on the nature of the disclosures.
- I am getting more FHBs pre-approved while the under 20% deposit flexibility exists. More and more clients are having offers accepted subject to multiple conditions. This was not the case a few months ago when everyone was going unconditional. Happy that conditions and due diligence is returning. All hoping that spring will bring a lift of new listings. Some investors are taking a complete break - saying there will be an over supply of houses in a few years so that will be the time to re-enter the market.
- There is still plenty of enquiry and activity, it's still very busy. The banks turn around times have generally improved. The bank staff are asking a lot of questions confirming anything and everything seemed to be very concerned about missing anything regarding applications.
- I have already seen some property investors purchase property in Australia.
- Still a shortage of listings and even though there are fewer buyers in the market, multi-offer scenarios are still prevalent. Bank turnaround times have stretched out again – xxx bank now back to 12 days!
- Buyers still very busy and rushing to get deals approved with DTIs looming and interest rates increasing, demand is surging as a result. Buyers who put down off the plans deposits concerned about settling (first home buyers more so, investors can just on-sell and cash the capital gain).
- Lots of clients looking to break and refix loans for longer terms in expectation of rates rising. Still big demand for investors buying new Reserve Bank exempt properties. Now seeing a trend of developers selling units off the plans by tender rather than offering fixed prices due to the demand. Banks starting to indicate changes are coming with the new CCCFA requirements which will require significantly more information having to be provided to the banks and potentially making lending harder to get.
- Market (prices) are cooling but not freezing FOMO has pulled back a bit.
- The new low floating interest offerings for construction/turnkey is attracting quite a bit of interest.

NELSON/TASMAN

- Xxx bank are now requiring clients who are requesting an account restructure when their current fixed rate is expiring and looking to rejig their lending around and that this now needs to be a full application with their current SOP. For example, even for a floating facility to be changed to an Orbit type account for a $30k limit after a lump sum repayment reducing to this amount.
- First home buyers listen to the media a lot more than other groups so believe that at some stage house prices will crash and they will then buy a home cheaply. Unfortunately this has meant some have sat back while prices keep rising and have missed out on recent property value gains. Also some investors I have heard from are being very carful in selecting tenants given how hard it is to move on a bad tenant. Some are considering selling or leaving their house empty until they get the right tenant.

CANTERBURY

- Lenders are requiring more documents than previous to assess particularly around employment and ID/residency.
- Overall, I have seen a large number of my first home buyers lose hope and stop their search for property entirely. These clients tend to mention they will rent and then wait for the market crash/ reduction in prices (despite my reference to past performance of property over the long-term).
- Market remains very difficult for first home buyers especially. Properties are selling at

hugely inflated prices compared to start of 2021. Auctions are a "no go" for FHB due to cost of getting ready to bid with little chance of success.

- Banks are still pretty slow and very picky about what they are lending for.
- The phone is certainly quieter over the last 10 days. Finding it harder to get a yes for deals over 80% LVR. Banks very stringent on account conduct and amount of short-term debt.
  But in saying that, the applications that I am getting approved are at a higher average loan amount due to the increases in prices here in Christchurch. With one application I was starting to feel what it must be like to be an Auckland Adviser!
- Finding all my time scrolling through bank statements to make sure I have every expense included - buy now pay later is a real issue. Clients getting very frustrated with delays and level of drilling into their expenditure. processing times crazy slow and I've lost a deal this week as the bank has taken so long to come back with more and more questions they could have asked right at the start. It’s taking weeks and weeks in some cases to get an offer on paper.
- The banks continue to be extremely slow and are very strict on how they want information sent to them. 2 banks are wanting us to get clients to re-fix their interest rates online through mobile banking - in fact xxx bank are insisting on it.

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