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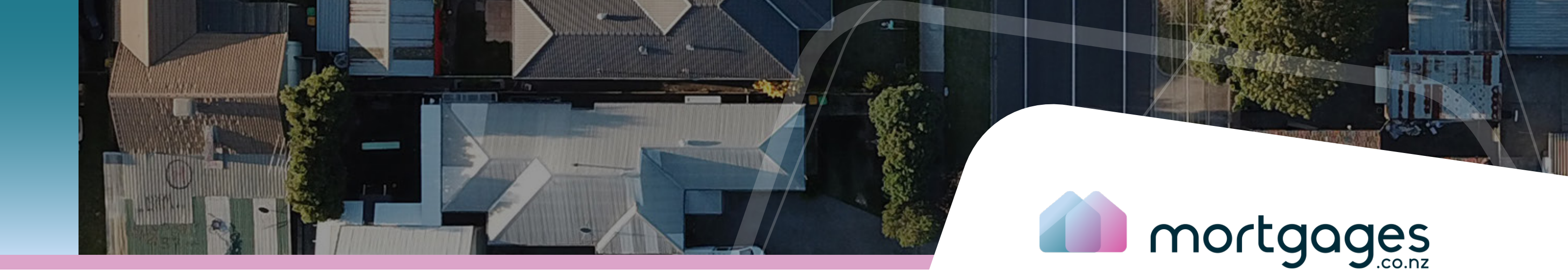
Tony Alexander

MORTGAGE ADVISERS SURVEY

August 2022

ISSN: 2744-5194



Turning of the tide

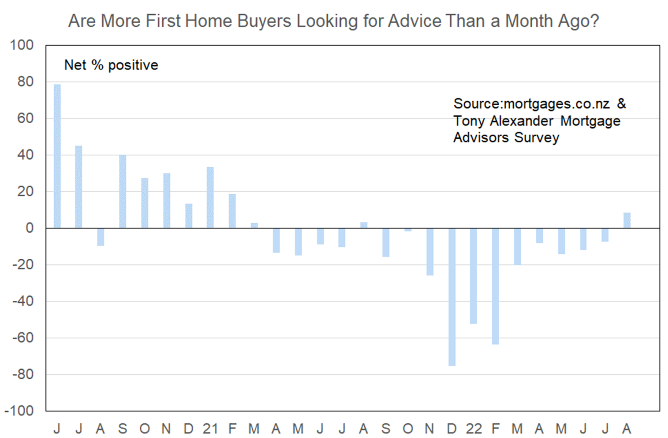
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 68 responses.

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

- Advisers report that first home buyers are returning to the market.
- Investors are still existing, but at the slowest pace since July last year.
- The fixed rate term preference is near evenly balanced now between one and two years.
- A firm net 25% of advisers report that banks have become more willing to advance funds

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

For the first time since August last year our survey has found that more mortgage advisers are reporting increased enquiries from first home buyers than are reporting decreases. In fact, at a net positive 8% the result is the strongest since February 2021 right before Loan to Value Ratio lending restrictions were reintroduced by the Reserve Bank.

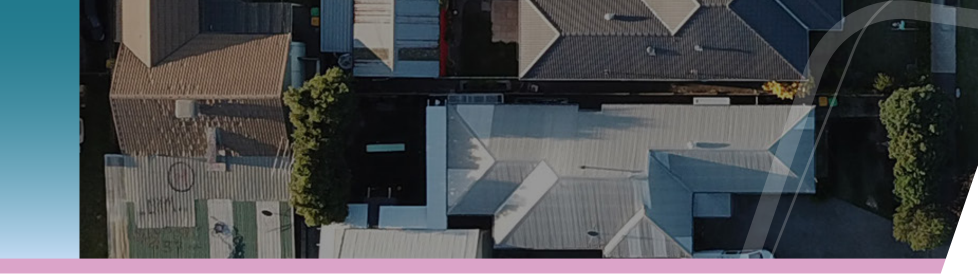


The result is the first solid statistical evidence to back up anecdotal reports recently appearing in printed media regarding a few more first home buyers choosing to re-enter the market.

While the monthly survey I run of real estate agents shows that buyers are concerned about high interest rates, access to finance, and prices falling after buying, it appears first home buyers may be focussing on the thing most important to them. That is securing a house to live in and raise a family rather than trying to get the last 5% or so of price declines in the housing market.

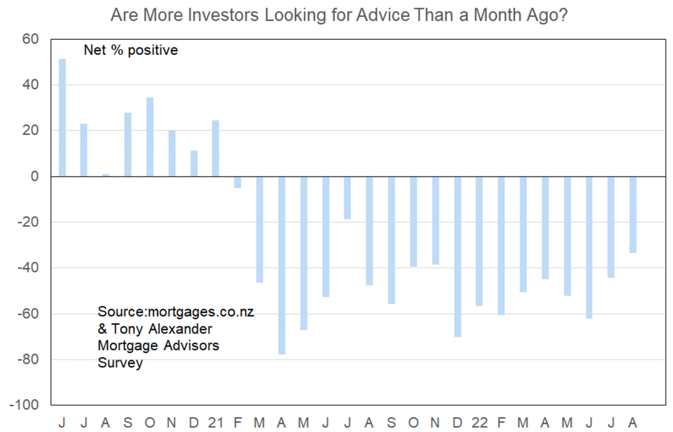
Comments on lending to first home buyers submitted by advisers include the following.

- We are mostly needing to do Kainga Ora First Home Loans as a lot of the banks aren't doing over 80% LVR lending and if they are, the required surplus is not possible for 80% of clients.
- Assessors are trying to help, appears the seriousness of the CCCFA rules a year ago has now diminished to a more normal way of assessing, and time frames have dropped to 1-3 days maximum.
- A trickle of sub-20% lending available. Banks cherry picking the highest income earners.
- 20% deposit, clean credit history and servicing is now becoming a big issue as the stress test rate is now about 8%. Some pre-approvals that are having to be rolled over after 90 days have had the pre-approval amount reduced.



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

A net 33% of mortgage advisers this month have reported that they are seeing fewer investors coming forward for mortgage advice. The result strongly suggests a lack of investors in the market. However, the result is the least weak since July last year and is moving in the same direction as that above for first home buyers.



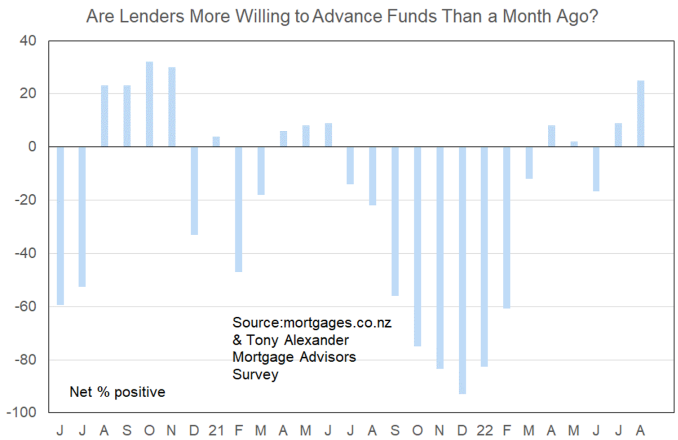
It is likely that some investors are starting to think about the implications of National winning next year's general election and restoring the ability of investors to deduct interest expenses from gross income. Borrowing costs have also eased slightly and prices have fallen 10% - 15% in many parts of the country.

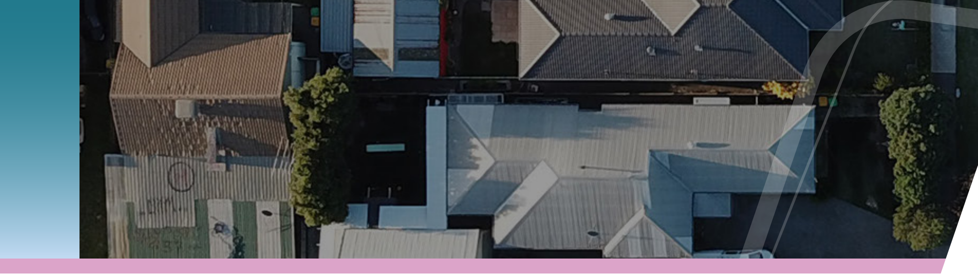
Comments made by advisers regarding bank lending to investors include the following.

- Heavy shading is applied to rental income with many also including the property rates and insurances as expenses. Although xxx reduced this shading by 3% this week (to 27% from 30% for properties built before 27th March 2020).
- Strictly max 60% LVR, assessing all lending on high test rates based on P&I. Rental income is scaled more than it used to be, plus banks are including extra rates and insurance cost in expenses. Does not make it easy to meet affordability criteria.
- Difference between banks and they way they scale income. Some include rates and insurance as part scaling some don't - but all scale at similar rates.
- Investors with several investment homes are just out of the mortgage market. The Banks used to calculate the remaining term on Interest only, once this went to P&I and over the terms remaining for the clients' loans, this just took them away from the mortgage market and the ability to purchase anything further.

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

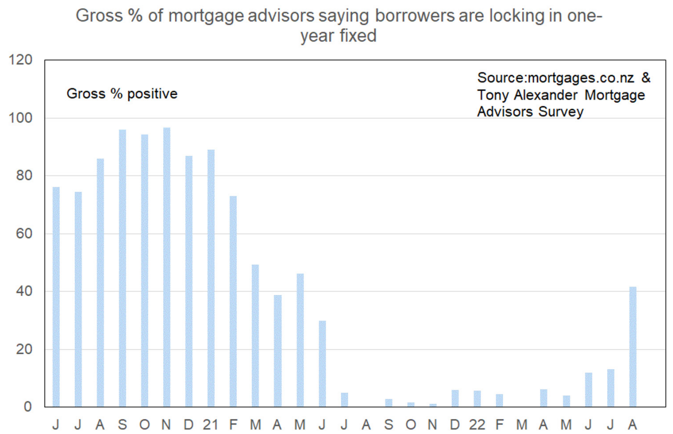
Over the past two months there has been a strong lift in the net proportion of mortgage advisers reporting that banks are becoming more willing to advance funds. Back in June a net 17% reported banks becoming less willing to lend. Now, a net 25% report that lending willingness has risen. This is the strongest result since November 2020 – but does not mean that credit availability is what it was back then.





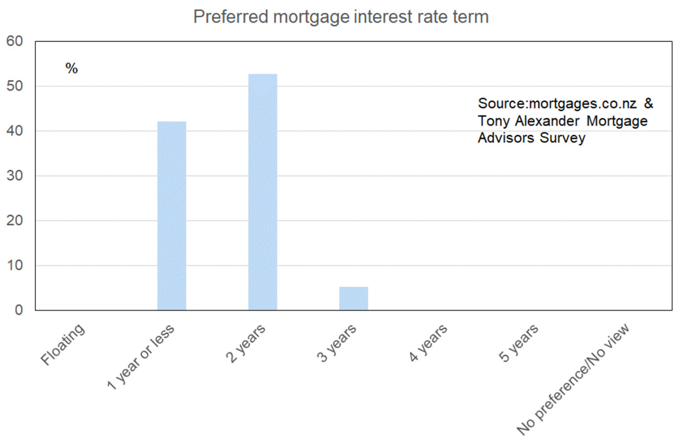
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

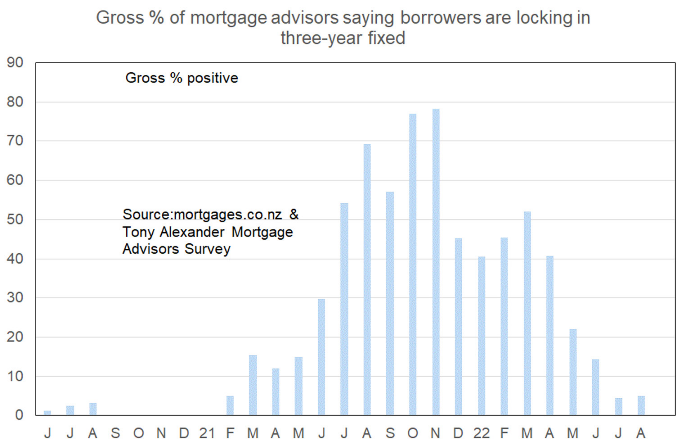
Over the past month there has been a strong rise in the proportion of mortgage advisers saying that borrowers prefer the one year term for fixing – from 13% to 42%. This is the highest proportion since May last year.

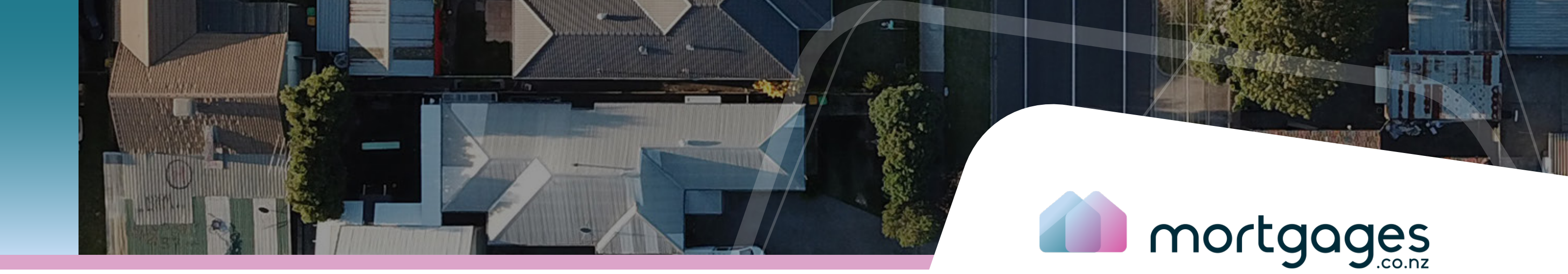


This shift has come mainly at the expense of preference for fixing two years which has declined to 53% from 82%.

As the next graph shows, very few people are preferring to fix for three years and there is essentially no interest in the four and five year terms.







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.

NORTHLAND

- Return of first home buyers up north sick of waiting. Dealt with one in Wgtn this week though who wants to wait and see due to FOOP. Looking at stupid Facebook groups - comments about timing of market dominate. Absolutely meaningless of course for most owner occupiers people planning to be in the market for years.

AUCKLAND

- Even though submission volumes have dropped dramatically, no or very little improvement in turnaround times from the lenders.
- New bank servicing calculators come out every other week which is incredibly frustrating if I'm about to hit send on a deal and a new one pops out 'effective immediately' and it fails the amount the client was needing to borrow.
- Buyers aren't willing to overpay for property and are putting in a lot of market research to establish a reasonable offer. Very dubious of auctions. But there's still a massive disconnect between vendor expectations and actual market value - vendor mindset seems to be stuck in November 2021.
- Investors change to buy commercial property and joint with group funding to achieve it
- I do a lot of planning or readiness to buy work and just this week alone almost double digit enquiries.
- Banks starting to realise that they have to lend to make money, some common sense starting to creep in. 8% P&I test rates are still a stretch too far when 5yr rates are 6%.
- Banks are still slower than expected with their turnaround times.
- Commercial property purchases are still being strongly scrutinised and there appears to be minimal interest in this security type.
- Large numbers of overseas Kiwi's enquiring about buying back home and staying overseas
- Seems to be less competition for my clients looking for homes in the lower price brackets. No urgency so more time to do due diligence and make a sound decision.
- Buyers continue to be relaxed and in no rush to commit as they feel prices still have a way to fall and shorter term interest rates have now started to pull back. Pre-approvals are left to expire and not automatically being renewed as the sense of urgency to buy has gone.
- Refinancing enquiries abound as people want to take advantage of the cashback incentive payments that are on offer when their fixed rates expire, however these are getting harder to approve for many clients as bank servicing test rates are now close to 8%.
- Lenders still get bogged down analysing living expenses and outgoings. I'm yet to see any meaningful change in this space.
- Overall, still quiet but seeing a lift in new enquiry. Hard to say whether this is just seasonal, buyers adjusting to the new normal or a bit of both.
- Build Completion dates are still experiencing delays. xxx still providing a heavily discounted variable interest rate for new builds. yyy has discontinued its similar product.
- Banks continue to apply a margin above the build cost for servicing purposes as a contingency for cost overruns. Gaining loan approval to access funds for overruns is still onerous.
- We are seeing some of the more savvy borrowers/buyers beginning to come out of the woodwork and are starting to hunt as though they are recognising the potential bottom of the cycle.
- Private equity funders are still very nervous, we have had some buyers recently looking for good resi buys in the Qtown market and having been cashed up after selling down late last year - private equity funders we have spoken to seem only willing to advance up to around 45% of PP for a 12 month facility. In this space Auckland locations are also very tight, with private equity type lenders only willing to advance to an absolute max of 60% inc fees and any cap interest. They are also starting to shy away from

anything that is owned by a Trust or Company (non-reg) and owner occupied even if sound exits are available.
- Bankers/Credit assessors seem to have very little discretion for approvals now compared to what they did over the last few years, every approval seems to require credit approval which tends to bottleneck and slow credit proposals down.
- When the RBNZ eventually open the valve on high LVR there will be a swathe of wannabe borrowers willing (and capable) of soaking up that capacity.
- Still the banks scared to open up lending as no real changes to good lending / cccfa they are afraid of the regulators coming down on them for not doing proper individual due diligence on each lending proposal
- Test rates continue to rise making less funding available. Banks are opening and closing doors to First Home Buyers with less then 20% deposit, both xxx and yyy have recently re-opened but have such tough criteria with uncommitted monthly income not many people are eligible. Changes to the property caps for Kainga Ora First Home Loan Grants and Lending mean more FHB are eligible and having more success in this space.

BAY OF PLENTY

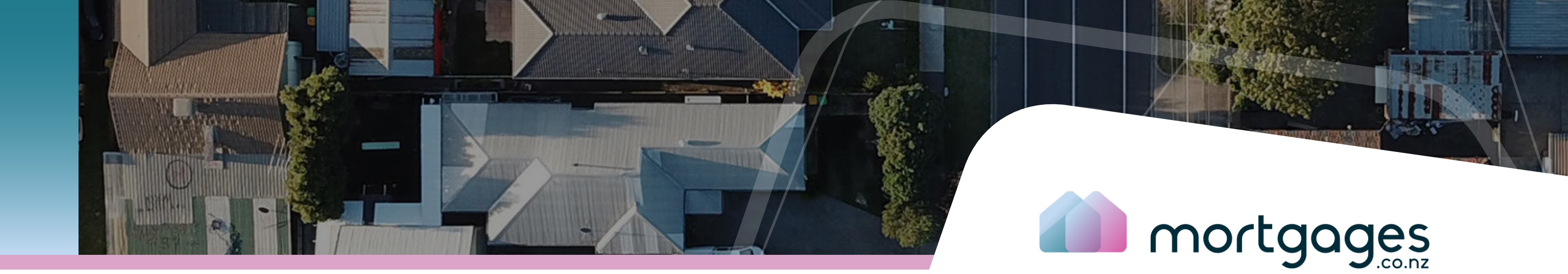
- Enquiries from prospective buyers of all types has definitely slowed down in recent weeks although its quite good to be back to normal work loads and not the manic pressure we were under last year.
- Very very low activity. Not seen this quiet in 7 years.
- The banks are clearly keen to be more open for business and they are clearly trying very hard to be more pragmatic in their application and interpretation of CCCFA etc.

WAIKATO

- Credit is getting harder to obtain. The previous interpretation of the CCCFA rules have relaxed but test rates have increased so overall meeting the bank affordability is more difficult. This will see lower loan amounts approved, and flow to people not being able to offer as much for a new house purchase. House prices will continue to drop.
- Feels like hitting the bottom of the trough with buyers actually being quite optimistic. Does feel like a good time to be buying a house.

WELLINGTON

- Seeing more investors looking to refinance where Interest Only periods are expiring, and lenders will not extend due to debt servicing changes. These investors are being double hit with increased interest rates and having to pay Principal & Interest.
- Wellington is as quiet as it was in the months following late March 2020 - the combined effects of a decent declines in property values, relatively higher rates, and lender credit settings have all combined to reduce my business levels to almost nil.
- Buyers are becoming selective and 'not in a rush'. They're happy to take their time in the hope the market will fall.
- Purchasers trying to get bargain purchasers, but vendors currently holding out.
- Banks playing with cash incentives to lure customers for new builds.
- Pre-approved buyers are all waiting to see price drops further.
- Buyers with a 10% deposit are desperately waiting for the LVRs to be relaxed.
- Bank turn around times are a record best. Same day answer on some applications! Unheard of - bank staff don't have the volumes of work so the entire industry is at a low point. Calm before the storm?
- I am finding that I am using more specialist lenders and obtaining more Welcome Home Loan Pre-Approvals for FHB's now as most banks have closed their doors to the 10% deposit plus the banks UMI requirements are way too high. We have had more FHB's have managing to secure property this month which is great. Most clients were re-fixing for 2 years plus, but since the banks dropped their interest rates recently they are now opting for the 1 year again. Even those clients who had rate locked prior to the interest rates dropping, have requested to change to a 1 year and have paid



the bank the rate lock fee to break.

- Very quiet out there. People selling really taking a hit if they want to actually sell and move on. Quite a few of my customers have decided to stay in their property and ride out the nil or negative equity situation they find themselves in as job security will allow them to do this.
- I'm seeing more first home buyers with good deposits being able to buy. Often on the first property they offer on due to the buyer's market which is great for them as they are taking a long view and dont worry if values dip as they are buying a long term home. A lot of people holding off still trying to time the market, which will cause its own problems down the track.
- Bank lending criteria seems to have eased in the last 6 weeks with a far more common sense approach from good assessors. Enquiry has picked up across the board.
- Ran up against 80% LVR limitation with a couple of prospective borrowers - even with a live property in play
- Bank lending (pre-approvals) are significantly down at the moment for home loans, especially in Wellington where I am based.

NELSON/TASMAN/MARLBOROUGH

- New enquiry volumes have reduced from previous months despite more houses for sale and prices settling. It appears the interest rate increases are starting to bite.
- Bank turn-around times are far better, indicating their volumes have reduced.
- Some banks are offering unadvertised special cash incentives for good business with up to 2% cash available for a limited time.

CANTERBURY

- Test rates are still one of the biggest hurdles to overcome for lending, especially once you have an investor with a few properties- running them all at 7.95%, repayments over the term post interest only and scaling back rental incomes plus adding in $6k costs per year per property is a real killer.
- Banks have lifted cost overruns for builds and pulled back on 90% progressive builds to allow buffers for overruns
- Buyers feel like they are cautiously coming back into market - seeing lower interest rates as a good sign but very confused as to if the market will continue to drop or not.
- Overall enquiry is much lower than this time last year across all borrowing groups. The banks are being very difficult and overall reluctant to lend except for the strongest of deals. First home buyers now competing with Kainga Ora on properties they could potentially afford. Very low first home buyer enquiry. Some young clients have already sold early and moved to Australia. The worst market conditions I have seen in 10 years of mortgage broking. If it is strong, clean deal finance is possible. Everything else is a battle with the banks to try and secure a finance option.
- Market has definitely slowed but in saying that I have had more inquiry this month so maybe there is a glimmer that the market may pick up a bit.
- Still very difficult for first home buyers, no reprieve in sight.

OTAGO EXCL. QUEENSTOWN

- Buyers still very cautious given all the media commentary around falling house prices. Agents are reporting it is tough to get buyers to put pen to paper. Also, lowish numbers still going through open homes.
- Seeing existing clients keen to refinance to take advantage of larger cash incentives being offered by banks.
- Banks keen to lend, a little more flexible with expenses as long as you have been fair. First home buyers still in no hurry. Without seeing any significant gain to be made in property at the moment buyers seem happy to wait, as rent in some cases is a cheaper option. Cost of ownership (rates, insurance, maintenance) increasing and now a major cost to be added to interest cost.

QUEENSTOWN LAKES

- Getting more enquiry from buyers.

ISSN: 2744-5194

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