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MORTGAGE ADVISERS SURVEY

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Credit crunch shuts out first home buyers

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 shows the weakest results for almost all our measures since the first survey was undertaken in June 2020.

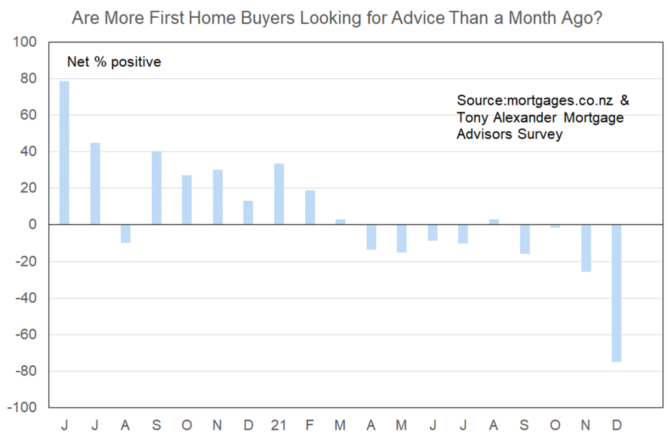
First home buyers are finding it almost impossible to buy with less than a 20% deposit now. Because over 40% of their borrowing previously did involve a small deposit this change in bank policy is shutting almost half of FHBs out of the market, especially when the new assessment regimes for expenses and income stability are applied to meet CCCFA requirements.

Investors are having rental incomes shaded, expense calculations lifted, and debt to income ratios of 6 are being applied by some lenders. The impact is less severe than for first home buyers with the bigger impact on activity levels being the March 23 tax announcement.

93% of our 86 respondents this month have reported that lenders have become less willing to advance funds. None reported that things have become easier and just 6 felt lending willingness was the same as last month. This 93% figure provides justification for describing the current state of home lending affairs as a credit crunch.

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

A net 75% of our responding mortgage advisers report that they are seeing fewer first home buyers looking for mortgage advice. This is a complete reversal of the net 79% in June 2020 who were reporting more enquiry.



Back then mortgage rates had just been cut to record lows, house prices had fallen 3% on average, loan to value ratio requirements had been removed, and expectations were high of plentiful listings and little competition from investors.

Now, mortgage rates have just undergone their most rapid increases since shortly after being introduced in the early-1990s. More significantly, the combined effects of changes to LVR rules, the requirements of the Credit Contracts and Consumer Finance Act, and banks experimenting with Debt to Income ratios (DTIs), have led to many potential house buyers no longer qualifying for a loan

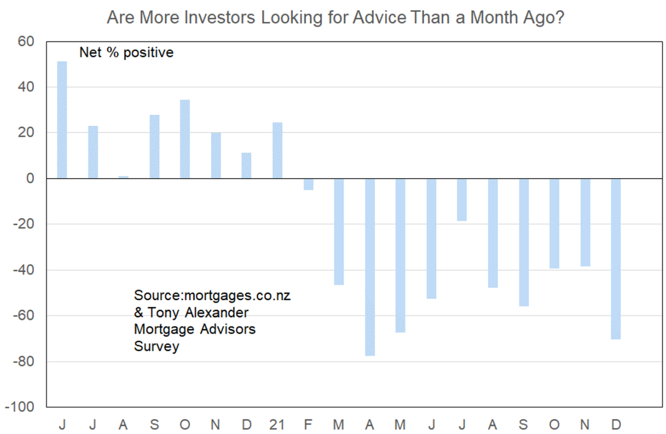
The comments made by mortgage advisers regarding lending policies towards first home buyers were numerous and include the following.

- Major focus on living expenses and use of DTI is causing chaos.
- 80% maximum lending, no long term preapprovals for over 80% lending, more valuation requests at the customer's expense even for under 80% deals.
- If you have regular savings of $100 per week - this suddenly becomes an expense even though clients have stated this will cease and be applied to the mortgage once the purchase is complete.
- Closer than ever scrutiny. Removing pre-approvals in place, which is despicable

especially when someone is halfway through a purchase.
- If you don't have 20% deposit don't bother applying at this stage. Hopefully it will settle down in a few months once the banks get back to the right weighting on their total housing lending.

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

A net 70% of mortgage advisers have reported that they are receiving fewer enquiries from investors. This is a deterioration from November when a net 38% reported fewer investor enquiries but not as negative as the net 78% of April. That result came after the government had changed tax and brightline regulations affecting property investors and every month since then advisers have reported reduced investor enquiry.

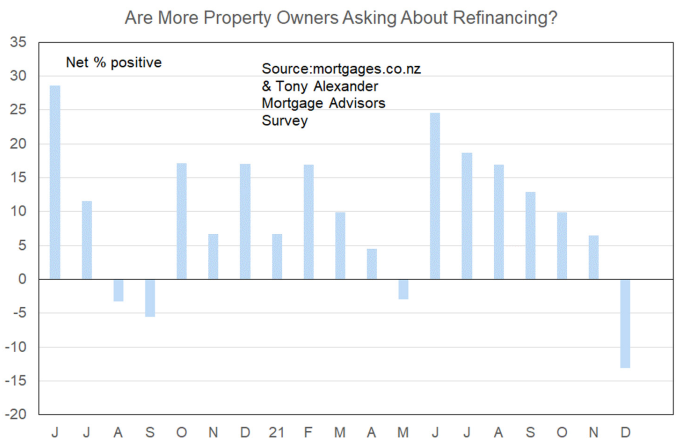


Comments made by mortgage advisers regarding bank lending to investors include the following.

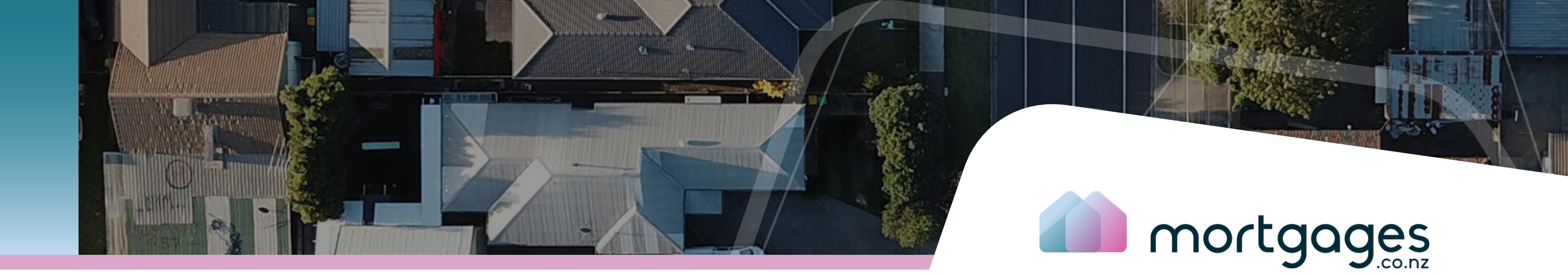
- More aggressive discounting of rental income, higher test interest rate being used, and adding rates expense on top which is making numbers less workable.
- I have had one lender advise that all properties providing rental income for an investor must be held as security by them.
- Focus on exit strategy if investor is going to be over 70 when loan paid off - previously could ask for 30 year loan term, now need to justify with an actual exit strategy.
- Servicing requirements for all insurances, maintenance are now required rather than just scaled rental income.
- Wanting good cashflow and looking harder at the buildings and types of tenancies.
- Tougher criteria. Only using 60% of rental income and CCCFA is causing strong clients to be declined.
- Anecdotally, lenders are going to have to push Professional Investors into Commercial where RBNZ rules don't apply.
- Most deals for existing Investors with multiple properties that are already highly leveraged are failing servicing; so no new money for them.
- Much more difficult now cccfa is in place. More stringent bank statement reviews. Now adding rates, insurance, other property investment costs, and only taking 60-70% of the gross rental income. Making investor lending almost impossible unless you have a very strong income elsewhere from salary or business.

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

There has been a sharp decline in the net proportion of advisers reporting that more people are seeking to refinance their loans.

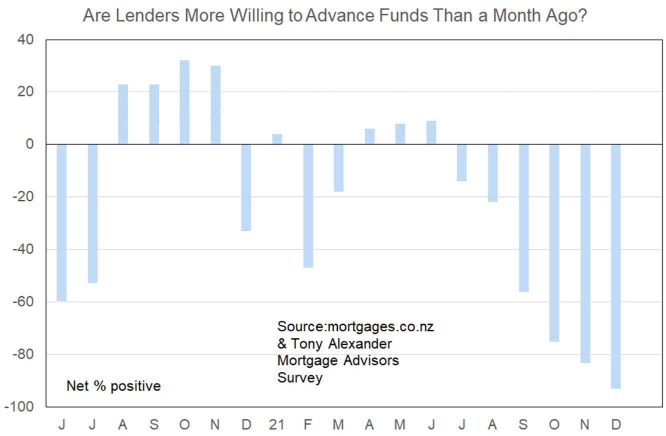


This development runs counter to what one would expect with other data showing listings rising. It looks like this measure is acting as a gauge of the confidence which borrowers may have about getting new financing. That confidence is likely to be low as people encounter information on tighter bank lending criteria and outright refusal of new lending.



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

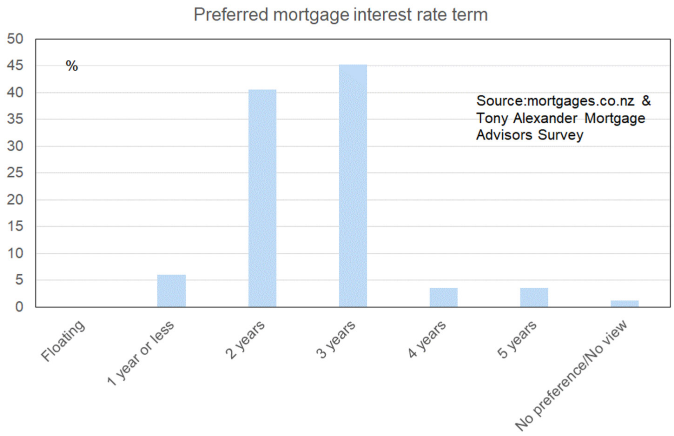
The overall situation regarding availability of credit and the ultimate justification for our comment that a credit crunch is underway come from this measure. A net 93% of our 86 respondents have replied that they are finding lenders less willing to advance funds.



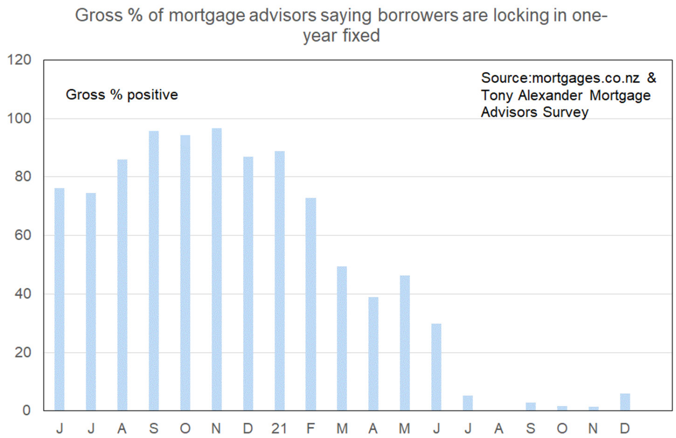
Compare this near 100% negative result with the jump in perceptions of willingness to lend in the middle of 2020 as the housing market surprised with its strength and many people sought to make a property purchase.

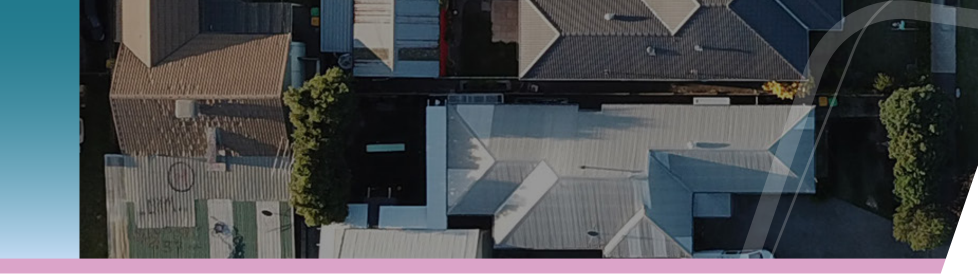
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

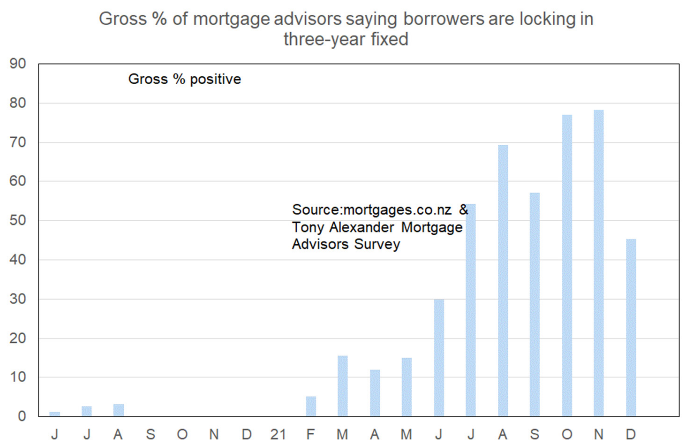
The spread of Omicron bringing new worries about global economic growth, inflation, and rising interest rates, may account for a slight shift in fixed term preferences this month. 45% of our respondents note that borrowers prefer the three year fixed rate term. Last month that was 78%.

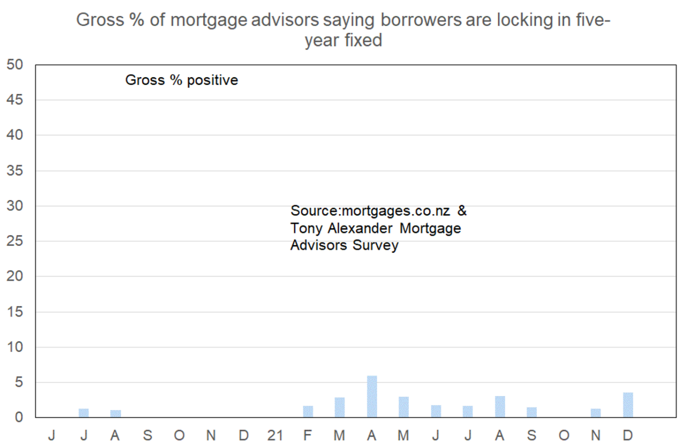


In contrast, 40% this month say borrowers prefer fixing for two years as compared with 15% last month. The result overall is that almost all borrowers are opting for the two and/or three year terms for fixing their mortgage rates.









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.

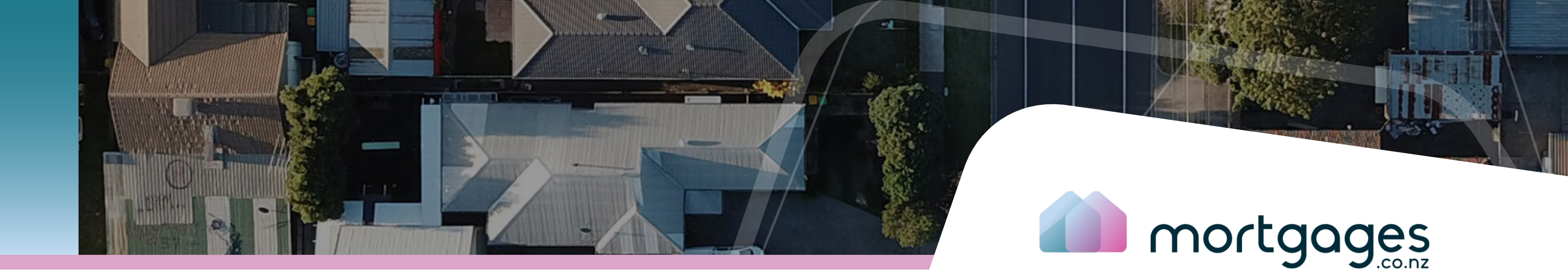
- There is extreme discontent with the new CCCFA regulations and implementation by banks.
- Many people seeking to purchase a property can no longer access bank finance to do so.
- More people are shifting to nonbank lenders.
- There are hopes that banks will eventually ease up criteria and awareness that bank staff are under tremendous stress from those higher up.
- Conditions are slowing in the real estate sector.

NORTHLAND

- The banks have gone over the top to ridiculous levels with the criteria and level of detail now required to attain lending.

AUCKLAND

- As the banks struggle to cope with CCCFA and RBNZ the non-bank sector is on fire. This is leading to issues with funding with several players willing to do the deals but don't have the funds to settle until February 2022
- Lenders have tightened up and are asking detailed questions in areas that do not make any sense apart from caution on being audited for decisions. Have had detailed questions on body corporate insurance cover.
- Some buyers are still active in the market, and they still have good amount of affordability even after the new regulations came into effect.
- At this stage it only seems to be an issue in Auckland but buyers and buyers from Auckland looking to move elsewhere have become very cautious. It appears the tide turned as soon as the traffic light system was announced. Vendors are finding properties being passed in at Auction, RE agents conditioning them to expect lower offers and a bit of panic in the air for many who have already purchased with long settlement dates expecting their house to sell easily. I am now having to get clients to work on bottom line worst case scenario's and accepting these prices to ensure they move on and don't lose a sale. That is a better option than to panic over Xmas because they are 'still on the market"
- In most cases the prices are $300k - $400k less than they originally expected to sell for. The price band that I am referring to is generally $1.8 - $2.6 mill range. At this stage the lower prices are selling well and not an issue. These vendors are all over the city, Kohimarama, to Ponsonby, Grey Lynn, Takapuna, and elsewhere on the North Shore. Now is not the time to take bold gambles.
- Each bank is applying its own understanding of the CCCFA changes, and some assessors taking it a step further. It almost has a feel that no one



wants to approve a "tight" deal. Having to supply "reimbursement" proof where 1 person shops for a flat, or housemates, as these expenses counted as "theirs" as all comes from their account. Proof that medical or dental treatments have stopped if they show up on a bank statement or counted as ongoing. Business lending getting trickier for SME/Self Employed with new changes. First Home buyers and low income earners now having to "clean up" bank statements for 3 months before applying for a loan. There is a real danger of buyers not being able to complete purchase of off the plans or new builds if they have to be reassessed

- The governments CCCFA changes are so badly implemented. I can only describe it as incompetence. There will be far fewer first home buyers now. I know of people at the major banks who have gone on stress leave because of this. I am also hearing of more advisers leaving the industry lately.
- It's become a painful exercise - seeking an approval for any kind of loan (FHB versus investor). The above 80% LVR loans from banks has dried up - to ZERO.
- Credit crunch is not a myth. There is a credit crunch. First home buyers less than 20% deposit shut out of market. Then forced to compete with investors for new builds (no chance) so essentially left renting or asking for family help. Then those with 20% deposit can have stated expenses vs verified expenses be out by as much as $1000 per month as lenders measure what you spent for breakfast. Gone are the days of allowing for discretionary expenses. Everything is accounted for meaning borrowing capacity severely impacted. DTIs are not an issue as CCCFA basically eliminates that as an issue due to high expense capture affecting servicing and lending amounts.
- I am looking forward to seeing the lay of the land after the dust has settled on the CCCFA and other Govt imposed changes to NZ's finance industry. It appears that our industry (Lenders included) are running around trying to comply with Govt rules while doing the right thing for our clients. Navigation through these new regulations and restrictions (R&R LOL) is like the blind leading the blind because the R&R leave no room for common sense or individual situations. Under current Rules & Regulations all NZ borrowers must be tarnished with the same brush and treated as though they are financially illiterate. I have been in this industry for over 20 years and have never seen this amount of control and disempowerment for people who want to buy their own home and for people who want to build a retirement portfolio so they are not a burden to the taxpayers later in life.
- Frustration from buyers, due to new changes
- I have been a Mortgage Adviser for 24 years and the recent regulation changes (especially the CCCFA) has by far seen the biggest shake up I have experienced. The prescriptive onus on expenses defies logic, treating each potential borrower as an imbecile who is unable to manage their own affairs in a responsible manner. It is like the RB feels they need to protect the borrowers from themselves, which in the mortgage lending arena is just not warranted, we already had (have) more than adequate checks and balances driven by experienced and responsible Advisers and Bankers, to ensure responsible lending is being provided.
- The fact that the banks can be penalised (in the unlikely event something is proven to be negligence) and are unable to insure against such penalties, has created a climate of fear within each organisation and punitive treatment of applicants has resulted, overnight.
- Seeing clients selling properties for big money and wanting to repay debt. Unless 100% of sale proceeds go to bank A with the security being sold, they make you go through a full loan application to service greatly reduced debt. Have example where property sold for $902k, repaying $775k loan (Bank A), remaining $80k to repay r/c balance at Bank B (used to renovate and develop another property secured by Bank A & doubled property value). Remaining loan with Bank A of $220k on fixed term interest rate. Bank A want to charge ERR if $80k repaid early. Resulting LVR after repaying large loan is 8%. Loan servicing is very easy. Full loan application sent to Credit Dept. Bank being dreadful - worse than applying for funding to buy. Client vowed to sell 2 more properties next year (leaves 6) to repay ALL debt as can not stand the banks any longer.

- It would appear the umbilical cord of lending has been severed or at best a tourniquet has been applied that shuts down the main flow of funding. First home buyers have been annexed from this market at this time.
- Large number of clients now prepared to go to auction hoping not to bid to then be able to make a conditional offer.
- Purchasers are now trying to think they can snap a bargain.

BAY OF PLENTY

- Majority of Nonbanks are short of cash. CCCFA is very hard............lending will slow down now, and the property market will slow down at a comparable rate.
- xxx pulled 3 of my approvals because they did not have the funding. They said that they approached the RBNZ for leniency but this declined. Banks are far less willing to lend and the way that they overlook expenses is very frustrating.
- CCCFA changes mean more scrutiny of bank statements, lenders have bots/robots analysing bank statements. One lender now requires PDF of statements from the banking system, so their bot can a get to work. No longer accepting jpg, or screen shots, or photos from phone as bank statements.
- Another lender has stated that they now need 4 months bank statements to get a good reflection of the customer spending habits.
- Evidence needs to be supplied for fixed commitments - i.e. invoices/statements for childcare costs, education costs, rates (evidence to Council website, not estimate) and insurances etc
- Most lenders have closed up shop to pre-approvals with lending over 80%, as they struggle to get their books.
- Tougher requirement from lenders regarding additional documentation and proof for loan affordability with a tightening on borrowers having external debts (A lot more loan offers are coming with requirements to clear or cancel other borrowing facilities).
- A lot more buyers using our services due to a lack of support from their own bank.
- Lenders have tightened up considerably. They are going through statements with a fine toothed comb, pulling up one-off payments and wanting confirmation/extra details for these payments. No pre-approvals for applicants with less than 20% deposit is tough, and because of the banks increasingly tight criteria and constant policy changes it is very much cart before the horse because applicants in this situation have to find a property or enter a contract before they even have confidence around what they can achieve for finance.

WAIKATO

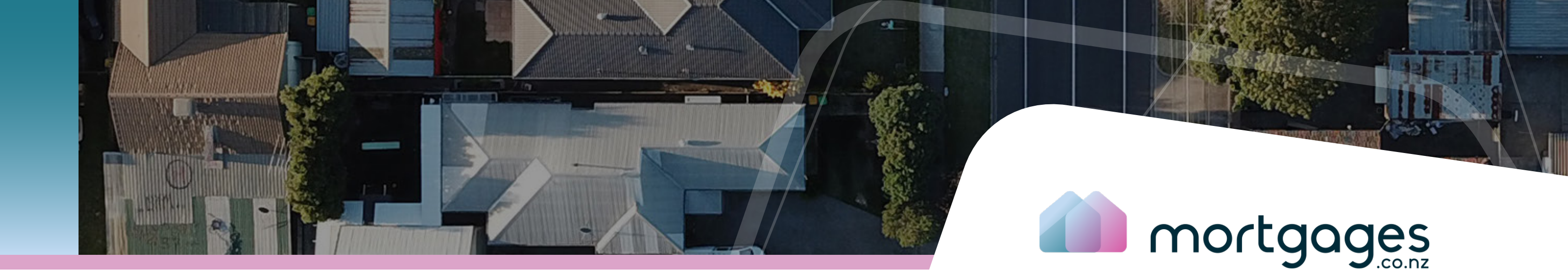
- Lenders: CCCFA has had a major impact on the Banks who in reality are not the lenders that the Law change was targeting but in their usual over cautious approach they have embraced the new law to the enth degree. The specialist higher cost lenders are the winners with the law change. This coupled with LVR restrictions, DTI has made it tough on first home buyers.
- Buyers: Are seeking us out for help as the Banks are causing them so much confusion as is the media. Still appetite from first buyers if we can find a solution for them. Investors focused on new builds and not much appetite for existing rental investment homes. A slowdown in buyers for Auctions, the Banks are throwing out so many conditions they are preferring to look at properties that are priced.

HAWKE'S BAY

- The new policies brought about by the government to protect vulnerable borrowers should be aimed directly at pay day lenders, short term loan companies, finance companies and Afterpay not at banks already complying with existing responsible lending criteria.
- These new rules are nonsense, apparently removing any responsibility of the borrower to know and understand their finances and making it harder to buy a house.
- Combined with the over 80% tighter restrictions, first home buyers are well and truly stuffed.

WELLINGTON

- Big disconnect between borrowing ability and land agents still expecting cash offers at



Auctions and tenders.

- More often than before, my clients are the only offer on the table and they are able to negotiate and complete thorough due diligence
- Expense details are getting too detailed. CCCFA requirements are mind-numbing so putting applications together is far more demanding & time consuming. Applications are taking longer to get approved.
- Approval from a bank 27 days after presentation they expressed at day 10 no escalation at all for any client any adviser for any reason at all.
- Just received confirmation this evening thanking me for my application (business channel) confirming bank will now be taking 15 working days before the application is allocated to an assessor.
- So it sits in the queue with no action gathering dust before they allocate and then the two weeks of questions start maybe end of January.
- Again - simple deal but banks have no capacity
- CCCFA interpretations by the banks seem to be extremely harsh, even to the point of small top-up for clients are getting declined as they have spent more in the last couple of months than they normally do. Home buyers are unfairly punished with this expense calculation along with the weighted test rate that the lenders also use, this having an over all impact on the amount that people can normally borrow or just a straight out decline.
- Anecdotally, many houses now appearing for sale in Wellington, many former Investment Properties now advertised as Home and Income. Many not selling. I personally know of an excellent 3 flat rental in the Aro Valley with a good yield which didn't get any offers at Closed Tender just last week. The Vendors have taken it off the market.
- Very difficult to put into words how significant the changes in lending have been over the last 3 months. The mental toll it has taken on borrowers, advisers & bank staff has been enormous.
- Banks are ultra conservative questioning everything and looking for a reason to decline
- A big pain point is those wanting to build and are having difficulty obtaining a Fixed Price Contract for the bank. Not only that, but the timeframe also to get a new build completed is not guaranteed to be completed within 12 months. This is frustrating many clients.
- Buyers are definitely taking a slower approach and waiting to see what the housing market is going to do. I work with a strong real estate company and their open home attendee numbers are very much in the single digits and under 5 for most properties that they have for sale at the moment. Auctions for these properties have also not been successful in the past 2 weeks. A lot more properties are now being advertised buyer enquiry over, so it is very much a case of buyers just waiting to see what the market is going to be doing. I am having more and more first home buyers' applications decline due to the new changes that have come in. Bank staff seem to also be very reluctant to work through a deal like they used to.

NELSON/TASMAN/MARLBOROUGH

- Things seem to have dried up in Nelson. Not sure if it's December, Covid in the community, or just the end of a hard year and everyone putting things on hold until next year. I have a number of first home buyers giving up as it's all too hard. Prices are still soaring, and they are tired of missing out on properties. To be fair, some of them could lower their standards a little and just get on the property ladder, they can always get the three-bedroom, double-garage home in a few years.
- Huge increase in forensic accounting of clients' bank statements, meaning the bank is querying any and all expenditure down to the wire.
- Banks are very nervous currently to lend for fear of breaching rules and requiring a lot more information and it is taking a lot more time to obtain an approval.
- Too much focus on Netflix expenses, rather than analysing the real risk factors in lending to a client.
- Lenders are as frustrated as advisors about the new CCCFA changes and how they give no improvement to client outcomes but just add to time spent on administration

CANTERBURY

- Lenders are pickier than I have seen in over

22 years. Applications are taking so much longer to prepare, and then assess by lenders. The volume has to drop, as there simply is not enough time in the day to process as many as you could have previously. Seems to be an approach of 'why should we not do this deal' rather than how can we make this work, or at what level will this work? Very disheartening as an Adviser.

- Where do I start! $40k top up - LVR on completion of top up only 8% - $2156 surplus each month. But the lender wants to see evidence of house, contents and car insurance paid. It was accounted for in expenses but that is not good enough. It's paid from the bank account annually. Stupidity is endemic at the moment, and they are all blaming the CCCFA, This is a very small sample of what is happening on a daily basis.
- Poor turnaround times, poor attitude to applying common sense and I can see more customers choosing adviser channel as a result. But we still need solutions that are workable and what a great chance for the nonbanks to find a more sensible approach to grow their market share. I sense a difficult 3-4 months ahead until a new normal is found.
- I have put quite a few FHB off until next year and given them strict instructions about their spending. And the saddest thing this last week, is that 3 of the bank assessors I have been working with on applications are off on extended leave. One till March next year. Several have been saying how hard it is with multiple policy changes. One told me that they had 3 policy updates that morning and it was only 11.30am.
- I think it's been just as hard on those working in banks as it has on us, the advisers the last couple of months.
- 4 applications rejected last week alone from clients who have had a recent overdraft or what the bank deems as overspending. 20% deposit minimum has dropped a lot of buyers out of the market for now.
- The CCCFA is an absolute nightmare and a farce. I had a client who I applied for a small top-up ($5000) to complete kitchen, declined at her bank as it was above DTI; she got a finance company at 45% and $1600 of fees to approve within 2 hours. Not sure how that demonstrates responsible lending ....
- Everyone seems to be feeling the pressure right now - I'm finding lenders seem to be rushed and are not reading files properly - asking for information that has been supplied already or missing vital notes that have been included. This is wasting precious time for clients who have already experienced a delay in their deal being picked up in the first place. I'm noticing that there seems to be quite different interpretations of the new CCCFA and a lack of understanding - this is causing undue delays for clients and putting stress on process further down the line.

OTAGO EXCLUDING QUEENSTOWN LAKES

- I am finding regular inconsistencies between lenders at the same bank when applying rules, not sure if this is lack of knowledge from some or they are simply under the pump and not taking time to understand or read the proposal in full.
- The market has certainly cooled down, no urgency from buyers. But when talking to sellers they still have high expectations. Business a lot quieter leading into Xmas this year will leave a tidy office for xmas instead of just shutting the door behind mayhem like last year. Higher number of listings starting to come through which will also be good for the buyers.

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