mortgages.co.nz

&

Tony Alexander

MORTGAGE ADVISERS SURVEY

December 2022

ISSN: 2744-5194

More buyers withdraw

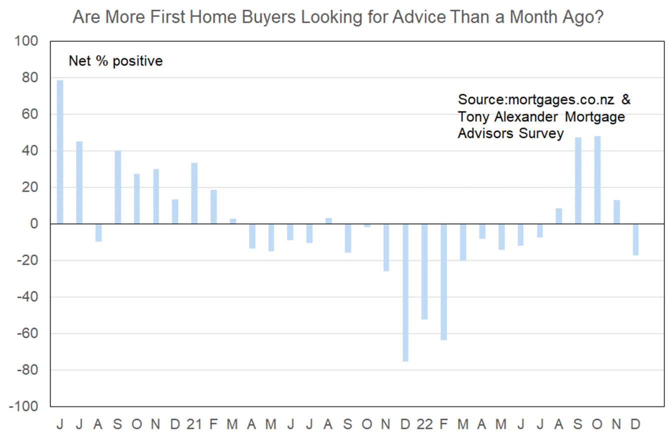
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 52 responses.

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

- For the second month in a row increases in mortgage interest rates have made buyers step back from the market. Many no longer qualify for a loan.
- A theme in adviser comments about bank willingness to lend is that outside of test rates rising, banks are loosening credit criteria and more actively welcoming business.

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

The net proportion of respondents in our monthly survey saying that they are seeing more first home buyers coming forward for advice has fallen back into negative territory for the first time since July. A net 17% now are seeing fewer young buyers as opposed to a net 13% last month seeing more and a strong net 48% in both September and October.

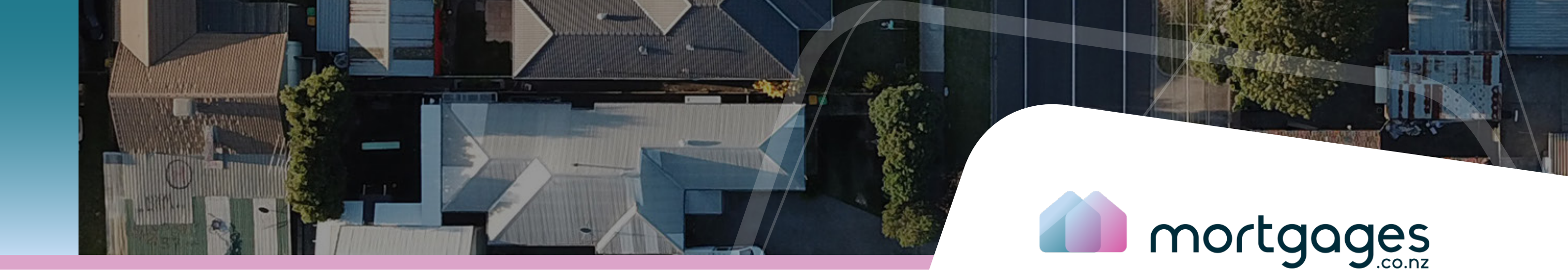


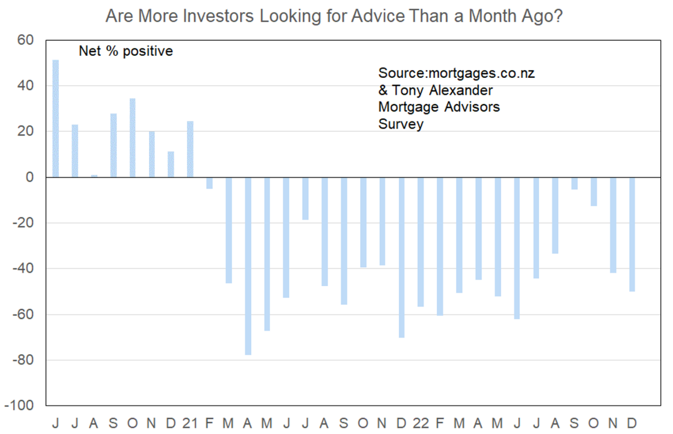
Comments on lending to first home buyers submitted by advisers include the following.

- Test rates have increased to 8.60%.
- LVR restrictions is still the killer. If clients do not meet First Home Loan criteria its very difficult to get funding. There are willing participants but the limitations on low deposit funding as well as aggressive affordability tests are hamstringing many potential borrowers
- Slight loosening underway. Flatmate income increased x 2 lenders.
- If they don't have 20% deposit or a family supporting property don't bother applying.
- No change, but I notice everyone seems happier and therefore more willing to take the time to try and work out ways of reducing the obstacles to the approval and getting declines overturned.

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

The net proportion of mortgage advisers saying that they are seeing fewer investors has gone back to levels in place since early-2021. The months of September and October now stick out as aberrations. The reduced negativism then came about before mortgage interest rates were raised 0.5% for two months in a row.





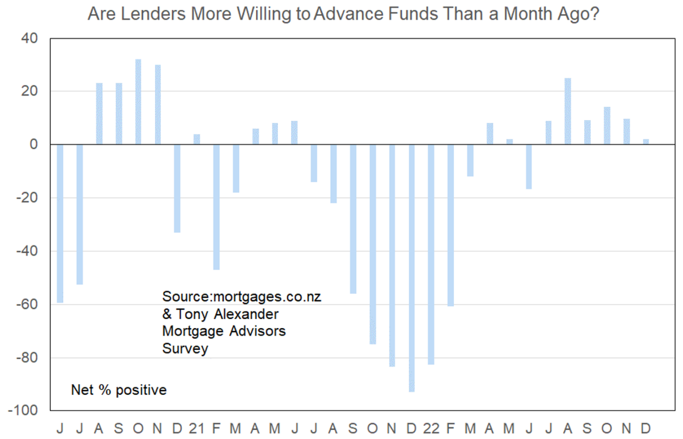
Comments made by advisers regarding bank lending to investors include the following.

- The removal of tax deducibility has significantly removed huge amounts of servicing capacity, as a result it pushes a lot of investors to use 2nd tier/nonbanking lending.
- Slight loosening underway. Better rental shading starting to be implemented by one lender.
- No investment loans completed last 6 weeks.
- Nonbank lenders look to be providing alternative options here. As the interest rates go up the nonbank lender products seem more suitable for investors.

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

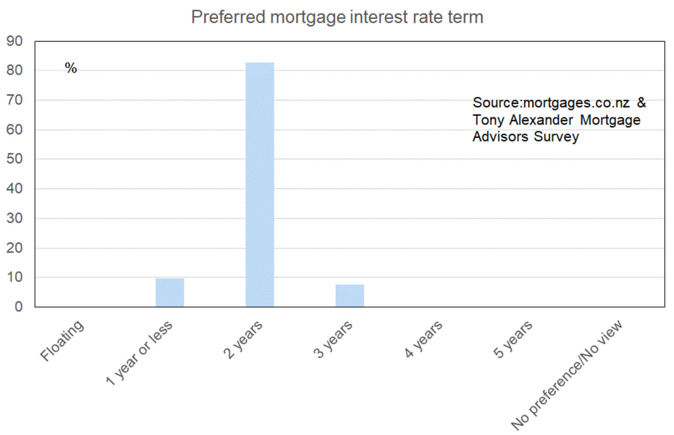
This question gives us insight into something no other survey does – bank willingness to lend. At a time when all other indicators have deteriorated in this survey, that of real estate agents plus my Spending Plans survey, we see a still positive result here. A net 2% of advisers have reported that bank willingness to lend is improving. This is down from a net 10% last month, but the fact that the reading is still positive when so much other woe is out there tells us something important.

Banks are becoming used to working with the tougher Credit Contracts and Consumer Finance Act, and their desire to make loans to meet sales targets and make profits means they are pulling back bit by bit on criteria such as the proportion of rent they will count in income calculations, and allowance of boarder income being included.

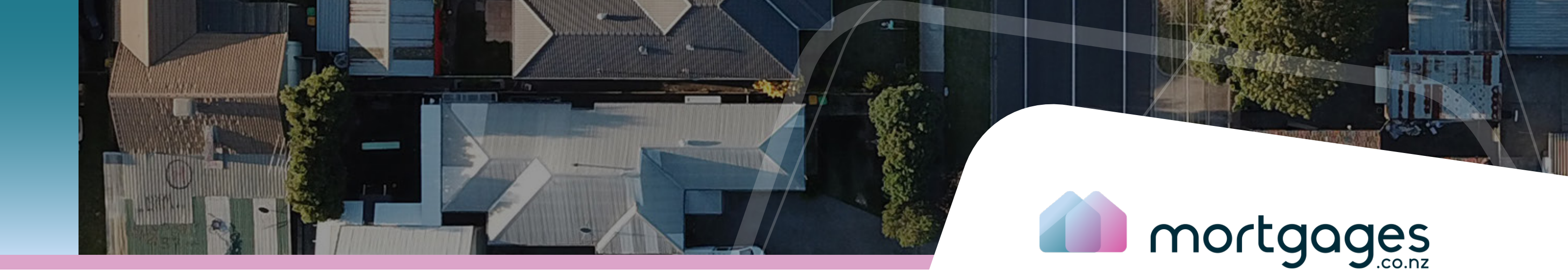


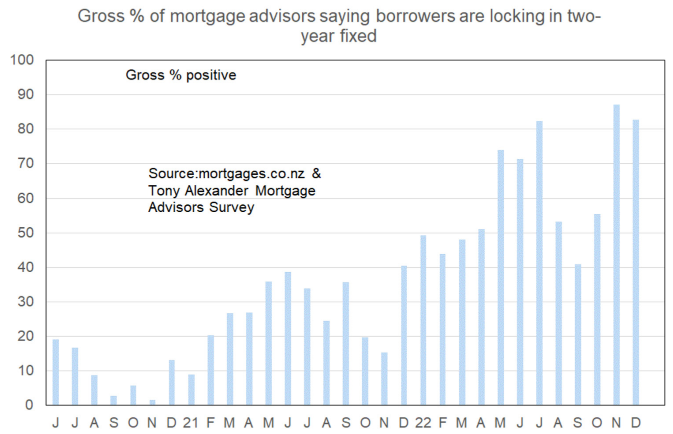
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

Almost all advisers report that borrowers favour fixing for two years. Only 10% say the preference is for one year and 8% that the preference is three years. None mention four or five year terms being preferred.

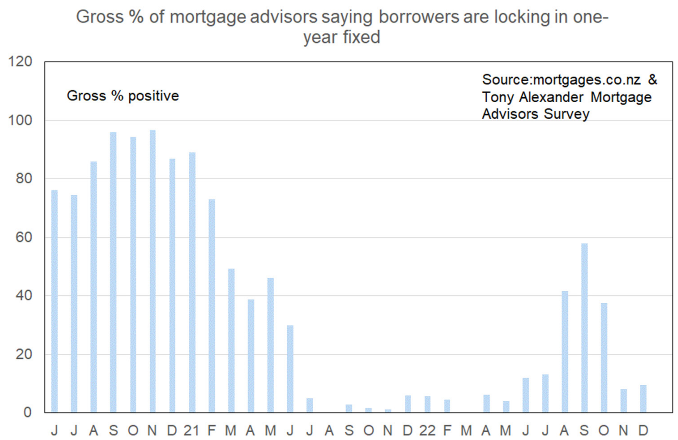


Preference for fixing two years has rebounded strongly following the two rounds of fixed rate rises.

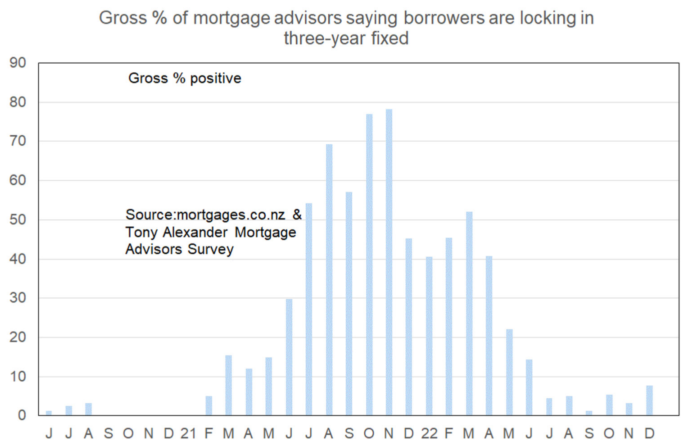




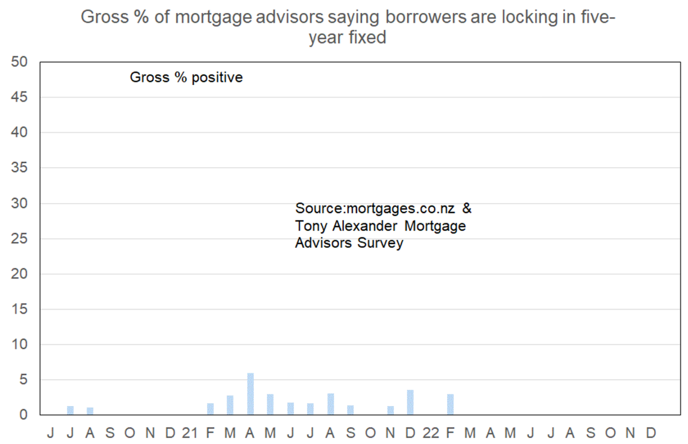
The preference for fixing one year is a long way from the glory days of 2020 into mid-2021.



Few borrowers have wanted to fix for three years since the middle of this year.



Kiwis prefer the uncertainty of short-term fixed interest rates to the security provided by fixing for five years. This easily explains why banks in NZ do not offer to fix rates for longer than five years, let alone the 30 years prevalent in the United States.



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

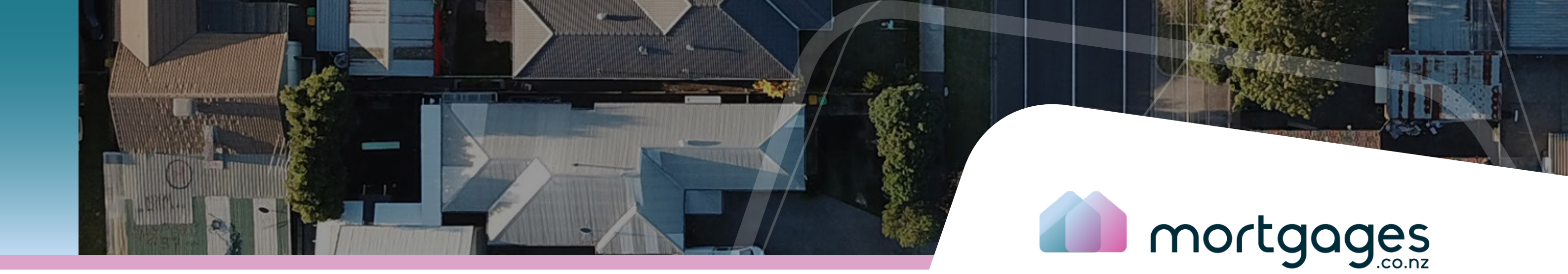
- The market has dropped off a cliff in past week or so with people taking a break I think until the new year.
- It has felt like less enquiry again after another round of interest rate increases. Spooks the market again while they digest. More enquiry about refixing and a lot of gulping at the new repayments.
- Servicing rates is killing off deals, more pain to come when construction deals go to settle and clients dont pass banks servicing tests. 2 x clients not able to make payments due to reduced business income and fending off mortgagee sale.
- Alternative lending is faring well as more people get rejected from mainstream banks. Interest

rates although important are not always a deal breaker.

- Uptick in refi applications, especially from those that needed Non Bank funding to get into a property, looking to get back into main bank, and possibly some debt consolidation as well. A couple of banks more willing than others to assist with these refi's as long as client will be in a better position, and past "mistakes" have not been repeated. Sell/Buy applications on the up, but vendor/purchaser expectations still not lining up to current market conditions.
- Banks seem to be visiting developers telling them they are open for business, however... these are the same bank staff who were saying they wouldn't lend 6 months ago. Who would trust them now?
- Quite the hardest time to lend in a very long time. Some clients are surprised how little banks might lend them even with a strong income stream.
- We are seeing a move towards selling existing properties and replacing with new properties - but the sale price is less than anticipated and not many buyers out there. We are also seeing a trend towards loan top-ups for improvements or repairs, but many cannot afford the new calculators.
- Buyers looking for a bargain - as they (wrongly) assume all vendors are under financial stress.
- It is very quiet. Most buyers can't afford to buy so they are stepping down until bank criteria loosens up.
- Most new business is for small increases on existing mortgages. This is typical behaviour when cash-flow is squeezed.
- Lenders want to lend - but they are constrained by the CCCFA. Those rules, now a year old, as well as rising interest rates, mean that although lenders are really willing to lend, it's the loan amount offered that can be difficult for borrowers. Some clients do not qualify for the loan size that they want - or think they need. in uncertain times, is that such a bad thing?
- People simply can't borrow as much as they could even 2 or 3 months ago, let alone last year, before the CCCFA came in.
- If people cannot borrow as much, they can't pay as much for a property. So, demand goes down and prices fall, and it takes longer to sell a property. This is, however, a great time for first home buyers, if they qualify for a loan, as they don't have to compete at auction. The higher price caps to qualify for the First Home Grant (from May 2022) mean more people can qualify for this extra grant; buyers can make a conditional offer on a property, and only when their price is accepted do they have to spend money on builder's reports etc.
- Many more properties are now listed with a price, which is what most buyers want to know, anyway.

BAY OF PLENTY

- Business is currently the quietest I've seen in 6 years as a Financial/Mortgage Adviser
- Enquiries are still low, buyers have more choice of properties, and seem in no rush to make a decision. They can take their time, and no bid at auction, make conditional offers.
- More properties are being listed with a price, which provides certainty to the buyers. But in most situations, vendors are still being unrealistic on sale price.
- Divorcing couple with wife buying out husband. She has a significant income and was assessed as being able to borrow $490,000. As a direct result of the Reserve Bank announcement the bank increased rates. Revised assessment as being able to borrow $450,000- can no longer buy him out of the family home now placed on the market but with her deposit can still buy . Bank increased the rates again and her borrowing capacity reduced to $340,000. In the space of 1 week.
- We have noticed far less enquiry over the last 3 months. The interest rates are making it hard for clients to sign up. We are going through the interest costs far deeper and really vetting clients so that we don't waste our time.
- General enquiry is very low, putting deals together is now so much more labour intensive. Lots of real concern from clients regarding 2023 - still unknown when the market will actually turn.



WAIKATO

- Servicing is the biggest issue. Test rates at 8.5% means people have to be earning a lot to borrow anything at all. A lot of people can't afford to service what they already have in the bank's opinion.
- Bank test rates are increasing. This means overall a loan is harder to obtain. Some banks have recently eased some boarder/flatmate criteria to offset this. Meeting bank affordability criteria is a handbrake that will flow to less approvals, and therefore vendors needing to lower price expectations.
- Generally existing homeowners are very worried about interest rates, which is fair enough. Most people very comfortable with 5% but 6.5% and higher has people concerned.
- Everything is fine while jobs are intact. But if we see some job losses there will be genuine problems for a lot of people.

MANAWATU-WANGANUI

- First home buyers are still out there! Lack of pre-approval ability over 80% LVR means majority are Kainga Ora/Homes & Communities loans. Refinancing lots of clients away from nonbank lenders to main bank as nonbank interest rates soar.

WELLINGTON

- There is a big gap between borrowers' affordability and sellers price expectations
- Bank turn around times are now at record times! Shows us how quiet they are.
- There are buyers out there, they have time on their side. Banks are willing to work through applications to make them work.
- Great concern regarding the interest rates - both existing customers renewing and new customers.
- Buyers are able to have conditions in a purchase agreement which would have been unthinkable 12 months ago - like subject to sale of existing property.
- The banks are being very cautious at the moment with lending despite the fact that they have high stress tests and UMI for most FHB. The reason I say this is most FHBs are in the over 80% category and also outside of the criteria for Kainga Ora/Homes & Communities which is making it difficult for the FHB to be able to get the amount of funding they require to purchase their First Home. Investors seem to have left the market and waiting until next year to see if they can pick up a bargain. We have spent the last month mainly doing refinance as well as some top up loans so that clients can renovate.   One major bank has come out to say that the max LVR for their construction and off plan turnkey has been reduced from 90% to 80% due to increasing number of customers who are experiencing significant cost overruns. The turnkey with an LVR up to 90% will still be considered where the property has been completed and simply waiting on title or code of compliance. So looks like the construction loan industry is going to be tough throughout next year also.

CANTERBURY

- Affordability is the biggest hurdle right now, with some banks assessing loans at 8.60% up from 6.15% at one stage from memory.
- Buyers are feeling a lot more confident in their ability to negotiate. Earlier this year my clients were afraid to "challenge" the vendor on things like builder's report issues. Now, I'm seeing it happening & with confidence.
- Banks appear to be making a big effort to try and make a deal work (presumably as their volumes are down). Approvals are being achieved that need some massaging into policy. The biggest limiting factor for the banks though is affordability tests and access to funds for low deposit borrowers. Turn around times are about 3 days which is refreshing!
- Smaller banks are still suffering staff shortages and taking too long to assess loan deals - meaning we now have to look at two options in case option one cannot meet timelines.

OTAGO EXCL. QUEENSTOWN

- Good quality deals with good surplus, quality employment and within 80% LVR are sailing through. Difficulties start when a mixture of too much secondary debt, av/poor credit report and inconsistent income flows due to variations in working hours. Banks like to see an effort has been made to manage finances in advance of buying, rather than just saying they will change once house is bought. This may mean working with a client for 4 months before submitting an application.

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.