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&

Tony Alexander

MORTGAGE ADVISERS SURVEY

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Investors back off - slightly

Apart from sports competitions at certain times of the year, there is perhaps more attention paid to developments in the residential real estate markets around New Zealand than any other subject. In discussions about the markets commentators and analysts have substantial bodies of data to choose from including from REINZ, Valocity, CoreLogic and Trademe in particular.

But these data sources all have one thing in common. They focus on recorded turnover in the real estate market but from a backwards looking perspective.

With this survey and others in the Tony's View sphere we are attempting to gain some insight into what turnover and prices will be doing in the near future by asking market participants at the coalface what it is that they are seeing.

The unique aspect of the mortgages.co.nz & Tony Alexander Mortgage Advisors Survey is that we gain insight into bank lending willingness and practices which is not available from any other source. And we get to see things from the perspective of Mortgage Advisors and this can deliver some greater insight into the specific issues besetting buyers of property which don't always come out in our other main real estate survey with REINZ.

This month we have received responses from 59 mortgage advisors around the country and they tell us the following.

ARE MORE FIRST HOME BUYERS LOOKING FOR ADVICE THAN A MONTH AGO?

In February (last week) a net 19% of advisors reported that they are seeing more first home buyers in the market. This tells us that despite the high levels of prices around the country young people continue to step forward to make their first property purchase.

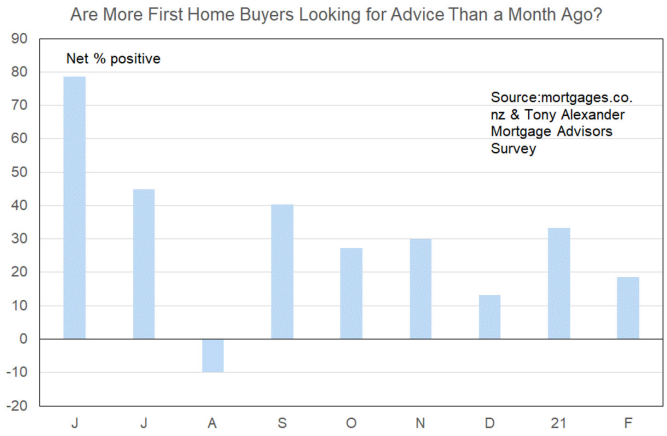
However, this reading of a net 19% is down from a net 33% who in January were seeing more first home buyers.

That earlier result for January, in hindsight, looks like a simple bounceback after many buyers took a breather heading into Christmas after many months of searching for properties, attending Open Homes and auctions.

The trend in this measure of activity is only slightly downward so it would be difficult to run any argument currently that first home buyers are backing away from the market.

We cannot draw that same conclusion however for investors.

Our latest survey has drawn a response from mortgage advisors that a net 5% are seeing fewer investors in the market. That is, in net terms investors are starting to back away.



ARE MORE INVESTORS LOOKING FOR ADVICE THAN A MONTH AGO?

In the absence of any rise in interest rates, prices continuing to go up and encourage expectations for capital gains, and rents rising, there is only one strong candidate to explain this change – and maybe one weak possibility.

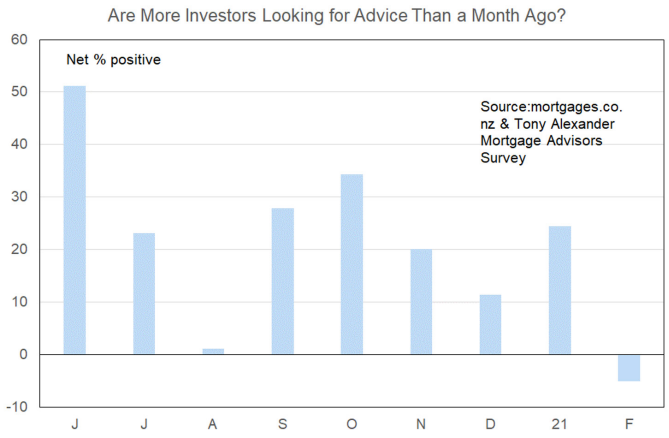
The most likely explanation for investors starting to back away is the announcement from the Reserve Bank that effective from February 11 all loans to investors which had not already been approved will need to incorporate a 40% deposit. Plus, actual lending from March 1 will require 30% and actual lending from May 1 40%.

Given the high levels of house prices around the country these are not small amounts for the majority of investors who purchase property with a mortgage. Data from CoreLogic released this week for instance tell us that in January 30% of property transfers were to owners of multiple properties borrowing money, while another 11% was to multiple property owners paying with cash.

This development will please both the banks who in many instances had applied a 40% minimum deposit requirement some months or weeks back, and the Reserve Bank which has been reluctantly dragged by the banks into officially restoring the 40% minimum which was last applied in 2018.

This development reduces the chances that the Loan to Value Ratio for investors will need to be changed to a deposit of 50%. But these are early days and next month and the month after as people have had more time to digest the change, we will gain far better insights via this survey.

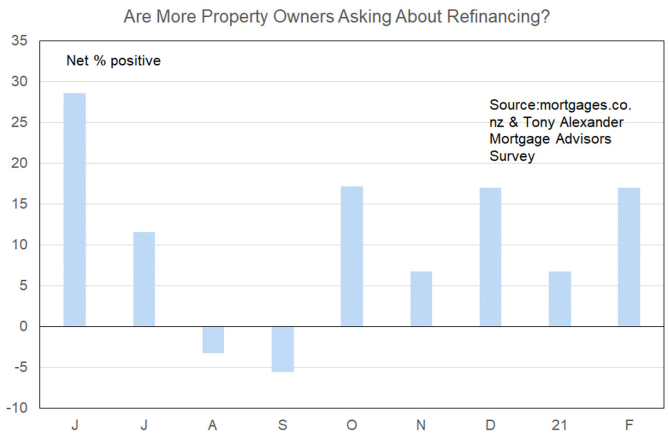
The potential small reason for the easing of investor demand is commencement of new Residential Tenancy Act rules. However, no advisor noted any relevance of these changes in their responses.



ARE MORE PROPERTY OWNERS ASKING ABOUT REFINANCING?

Each month we also ask mortgage advisors if they are seeing more people seeking to refinance their existing mortgage. This may happen because people wish to use some of their equity (borrow more money) to fund a purchase. Or they may be seeking to alter the term at which their mortgage interest rate is set.

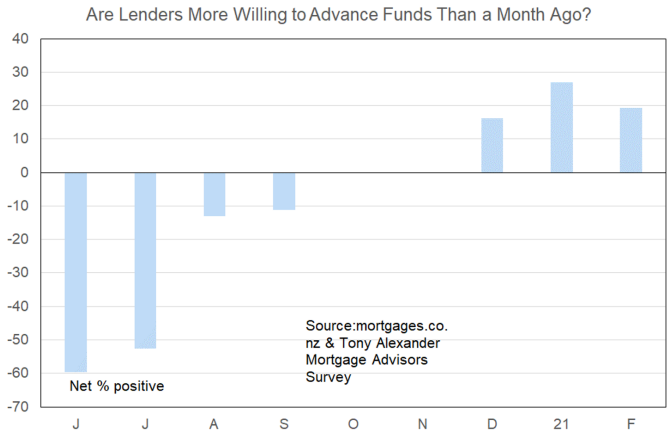
This month a net 17% of advisors have said that they are seeing more requests for refinancing information. This is equal to the result in December and suggests that the strong levels of retail spending which have been observed across numerous categories in recent months are likely to continue.



ARE LENDERS MORE WILLING TO ADVANCE FUNDS THAN A MONTH AGO?

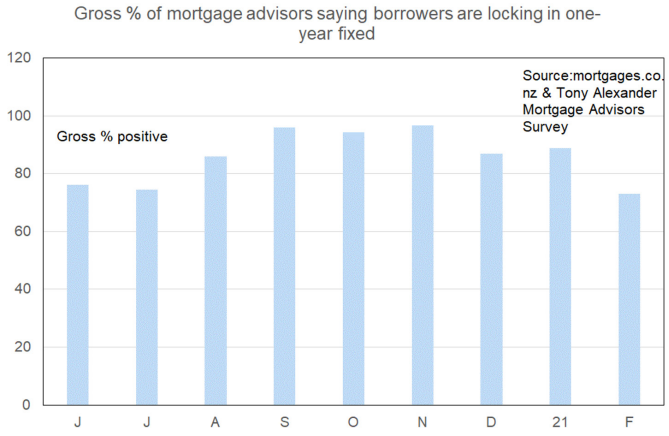
As noted earlier in this report, we can gain insight from mortgage advisors regarding bank willingness to lend which is not available from any other source. In that regard this month we have seen a slight dip in the net percentage of respondents saying that banks are becoming more willing to lend – to a net 19% from 27% in December.

However, though this may be a decrease, it still means that willingness to lend is improving and this situation stands in stark contrast to the early days post-lockdown when advisors reported that willingness to lend was worsening.



GROSS % OF MORTGAGE ADVISORS SAYING BORROWERS ARE LOCKING IN ONE YEAR FIXED

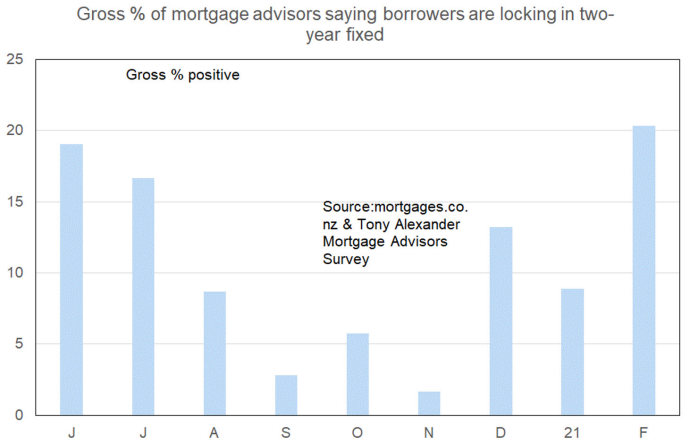
Finally, we ask mortgage advisors to indicate the term which their customers are tending to favour for fixing their mortgage interest rate. For the first time we have observed a decent change in this measure. There has been a decline in the proportion of advisors saying that clients prefer the one-year term down to 73% from 89% in January, 87% in December, and 97% in November.



GROSS % OF MORTGAGE ADVISORS SAYING BORROWERS ARE LOCKING IN TWO YEAR FIXED

What term is it that people are shifting towards? Two years. A gross 20% of advisors now say that is the preferred term for their clients.

Are many people fixing even longer than that? Not many. Only 5% of advisors report people favouring three years, 0% four years, and just 2% for five years.



Advisors Comments

Following are the comments which mortgage advisors volunteered in this month's survey, grouped by the region in which the advisor primarily works. Enjoy. I always find these insights across my four monthly surveys to be very useful for placing flesh around the bones of the numerical indicators.

The key themes which I have picked up include these.

1. Advisors continue to experience long delays in response times from banks.

2. A new problem is differences in LVR rule application between lenders with changes often not advised to brokers until an application is submitted.

3. The 40% investor deposit is having an impact, but mainly on small investors and less so for those already owning properties who can use accumulated equity.

4. Overall property demand remains extremely high with many young buyers trying to buy a section to build on but finding high prices and limited supply.

NORTHLAND

- Being in the Far North, where clients who have been in the market have rode some spectacular capital gains the last three years, and the economy has been stable through the last 12 months, I am still working with clients who are looking at purchasing their first or second investment property and the channels we are going down is main bank. So, there is still lots of market pressure on the bottom end of stock and this is still creating the same headaches for low deposit first home buyers whose finance conditions need to also reflect the two weeks it can take to get an RV performed. All in all, the LVR shifts haven't had too much of an effect on the enquiries I am getting - if anything it has made it easier to vet clients early as there are fewer options. Something I am appreciative of given that things have been nuts the last four months.

AUCKLAND

- Banks are very choosy in which customers they will help. Response times are terrible, even for simple requests. Clients who own businesses are being required to have all their lending with the same bank. yyy very tough on this and making investors have 40% deposit even on new builds.

- Normally the problem is finding enough people to advise on mortgages. In 2021 the problem has been too many people finding us and needing to be careful now not to take on too much, overload my team, and make sure our standards do not slip.

- I work with a big immigrant population. Good servicing but deposits generally in 10% space. This means bank options limited as banks limit the "pool" of funding for low deposit byers to their own main-bank clients. Meaning pre-approvals can be delayed. Land - this has been one big challenge nationally. Over 70% of my clients are in the regions. Getting access to land and then house and land options is proving hard. In Tauranga section prices are going up with a waiting list for buyers. This is becoming a real serious issue. Title issuing is also taking a long time across the country. I do get a sense of helplessness with some buyers just feeling that the deposit is a bridge to far. Common customer theme is I can afford rent and all expenses and even save 10% of Kiwisaver but I still can't get a mortgage due to deposit size. Then house prices outpace savings growth.

- Investors with properties are relying on capital gain to extract equity for the 40% deposit. The new 40% deposit rule does not seem to dampen their desire to buy more. However, meeting the bank's loan servicing criteria is more of a challenge rather than the reality of paying

2.29% for 1 year interest only. With investor yields decreasing it will only get tougher. The experienced investors are pushing to do more whereas the smaller investors are seeing the challenges. There is no let up in the number of property investor seminars and investor groups in the market. I'm seeing a number of investors looking to add value to current properties they own rather than buy new ones i.e., add another dwelling, subdivide, conversions, adding bedrooms. Everything to increase the yield off the property. The banks lending policies are just getting more challenging across the board.

- Quick turnaround is benefiting first home buyers. Definitely 40% deposit is hurting small size investors but not big investors.

- The 40% is causing people to rethink their plans somewhat.... but not all. Still, lots of enquiries from people that have enough equity. Bank turn around times terrible still.

- Investors and some first home buyers are looking for new builds; investors to beat the LVR speed limits. Lenders are looking at customers' expenses with a microscope. LVR speed limit reintroduction has had an impact on the number of applications coming through.

- Communication from lenders to brokers is appalling, often we find out about a change of policy from a processor or in the case of xxx, the press! zzz no better, no official notification at all around policy changes. This has caused all sorts of issues with clients and brokers taking the brunt of frustrated people. Poor show all round.

- The buyers are still out there, but there are very few properties for sale and due to this fact, they are still selling well over their value, which takes most preapproved buyers out of the equation. Lenders criteria is getting more difficult by the week and assessment times are out to 2-3 weeks at most mainstream lenders, which doesn't help our credibility with our clients.

- Banks are definitely reviewing applications with a fine-tooth comb; minor transgressions result in a decline. Wonder if banks are not lending to their limits, so have a bit of ley-way for when Reserve Bank limits come into force.

- The impact will be minimal. Customers who bought their first home between 2012 to 2015 have got enough equity to purchase their first rental property or leave the current owner occupied as a rental and upgrade to a better property. The 40% deposit rule is going to be minimal impact.

- Still FOMO out there.

- The banks are now looking at the intent around new build or off the plans purchase. If the intent is to use as an investment property, they are imposing the 40% LVR deposit.

- The latest Covid lock down has put a few people into a spin. Clients with properties on the market going to auction over the next week are in a panic. Other clients gung-ho and overly confident about putting in an offer on an existing property without having sold their own 1st. A classic disaster waiting to happen. And finally, the banks still have not gotten the message through to the public that guarantors are a thing of the past. They need to convey the message to clients that they cannot use their 80-year-old parents to act as guarantors because they have good equity in their freehold homes.

BAY OF PLENTY

- Inconsistent assessment by different advisors and when challenged, often changing decision but without any acknowledgement of error/ waste of time this has caused. One lender still standing out for pragmatism and engagement/ responsiveness versus most others who are still clearly completely disorganised and still haven't adapted to the increased demand we have been experiencing for at least a year (pre-Covid too).

- The response times are ludicrous for simple requests - i.e., rates/restructure/security release or simple increases to approval when surplus is massive and LVR low - it's stuck with credit and disparate processes resulting from banks trying to push out the work to branches and then not

having a working process for any changes after approval. Really frustrating and inconsistent experience.

- The change in LVR has knocked a few prospects out of the market straight away. zzz are being difficult so other banks are picking up the investors. Non-bank bridging remains strong, developers are busy, wannabe developers are starting to look at the completing developments, normally, never a good ending when they do.

- Rotorua has a distinct lack of property stock. Buyers are very frustrated missing out on multiple attempts to buy a property. Out-bid and out-manoeuvred. Bank turnaround times appalling. zzz disgusting at 3 weeks. I have sold my business and will leave the industry.

- Banks squashing investors with LVR's, but this will impact only new IP - long term investors have equity from the market rises but aren't buying. Hardest part is FHB's do online calculation of loan repayments and think they can afford a mortgage as its comparable to the rent they are paying. But they fail to take into account debt servicing. Such as bank test rates (still between 5.5-7%). Lot of FHB have short term debt in forms of car loans, consolidation loans and no genuine savings outside of Kiwisaver. I have seen some comments from lenders on this no savings outside KS!

- Still huge prices in Mount Maunganui, Papamoa and even Te Puke. Property sold in the Mount today almost $300k above pre-auction offer accepted. Supply/demand imbalance is as present as ever.

- yyy seem to not really want business. xxx also controlling heavily what applications they will assess. I think there will be an impact of 40% rule - would be great to see some leniency for new builds for investors to help increase supply.

WAIKATO

- Really struggling to find places for pre-approvals, and approval time frames are still way pushed out. Also, registered valuations are so slow and are causing massive issues for meeting finance dates.

- A lot of confusion out there for the public around when the LVR changes kick in. Media saying May but the banks have all gone immediately or earlier (as requested by the RBNZ). A rush of clients trying to get in before the change have been disappointed. Still massively a seller's market leading to big offers which are sometimes not being backed up by the valuations essentially due to the lag effect. Banks are getting a little better but their turn around times are still disgusting. They seriously need to invest in some technology and improve processes.

- 40% deposit rule where RBNZ exemptions apply is frustrating.

HAWKE'S BAY

- A few clients desperate to use pre-approvals for investment properties at 80% LVR before they expire. Others getting very frustrated at the overinflated prices. Everyone seems to be wanting to push the limits of serviceability and looking at strategies to get them more e.g., bringing parents in as guarantors. Quite a few looking at building as a way to get a better-quality house for slightly more than an existing, older dwelling.

MANAWATU-WANGANUI

- Still seeing first home buyers on a regular basis wanting to do something. Often due to shortage in rental options as well and out of desperation. Most approvals fall short of the house prices at the moment so its hard going for them. I probably have about 16mil in pre-approvals. 25 clients roughly all looking under $500K.

Just not enough stock. By the same token not many clients are able to go much higher so at some point surely the lack of income increase will result in house prices having to plateau eventually.

- One of my investor clients has found a way around the 40% rule such as building an investment instead of buying existing. Otherwise, I have had one pushed out of being able to buy his first investment for that reason. Otherwise, I haven't had a lot of other enquiries since the announcement.

WELLINGTON

- Definite cooling to come of investors as we all rework numbers around the 60% LVR. This will flow through I suspect in the next few months as the mum and dad investors may slow down.

- Investors are just starting to look at new build options, maybe selling one existing with deferred maintenance and committing to 2 new builds - again pushing prices up.

- It has been 2 weeks since an FHB had an offer accepted - unheard of for me this time of year. Most properties in Wellington going over $1m. Decent properties (2 bedrooms and above) going for $1.2m. FHBs are disillusioned. They then look to buy land and build to see that land is being sold by tender and going for well over $400k so by the time they add build costs, uneconomic to pursue.

- LVR rules - who knows. Banks are not giving us timely communications, often we find things out in the media. Not a surprise as there is inconsistent application of the policies from branch to branch. It's a mess. Put it this way, Investors are not the flavour of the month.

- Funny thing with the 60% LVR for Investment Properties, many are using the equity in their first home and are happy to pay for the $900 Registered Valuation to show that their property is worth $1m+, so the equity is there.

- More business coming the way of Mortgage Brokers as a result of the inconsistency in policy and banks not being able to make in-person appointments until at least 5-7 days (this was before the current lockdowns). It seems like everyone want to buy property.

- As you say, we are very busy, and each case requires a lot of thought and communication as first home buyers struggle to access the market and the rules change for investors. It feels as if we are doing a lot of work and handholding but not much is getting to settlement! I had never come across the principle that if a person lives in NZ but works remotely for a salary in Australia, there are special rules regarding LVR [xxx 70%, other banks more negotiable] - this is happening as Kiwi people return home. All new stuff to many of us.

- xxx decision made on the 5th of February to limit investors to a 60% mortgage effective immediately left many of their customers seeking finance approval at the time high and dry. Most customers at xxx are now having to wait at least 10 to 15 days to receive a finance approval. I have never seen a lender in 18 years not honour existing applications already in their assessment pipeline. xxx seem to have a severe shortage of staff to assess new mortgage applications which is bizarre given that they have now closed so many of their branches!

- House prices in Wellington continue to be out of control. We are seeing a lot of family money ($300,000+) now been gifted to first home buyers as many parents feel it wiser to help their sons and daughters purchase a property which will then deliver a much better return on their investment than anything the banks can offer them currently on term deposit. This is impacting now on house prices paid as couples can afford to pay a lot more to secure a property than they could before.

- zzz and yyy wanting a Registered Valuation on a property even when a purchaser has a full 20% deposit if the E Valuation happens to be too low is driving us nuts. In a rising market if a borrower

has at least 20% deposit what purpose does an RVR serve the bank?

- Due to house prices going for crazy money, most first home buyers are 10% deposit and not meeting their own bank criteria but would meet another bank criteria. However other banks are saying no to them as they are new to bank. With one saying that they need to have had a product for at least 6 months or more with them before they would even consider looking at an application. It's a real shame as the banks and govt are saying they are wanting to help first home buyers but rarely are they. Govt needs to relook urgently at housing stock and the first home buyers grant. Forget putting measures in for the investors as this really isn't going to help.

- Some banks policies around valuation requirements are impacting on buyers ability to meet deadlines. Bank turnaround times are slowing down again. One bank has communicated turnaround time is 14 days irrespective if it is a live deal or not, no urgent applications considered.

NELSON/TASMAN

- When the Reserve Bank announced last week that they were reinstating LVR restrictions at 1 March, I had two over 80% pre-approved clients contact me in a panic, thinking they had to increase their deposit to 20%!! I wonder how many first home buyers think they now 'have to' have a 20% deposit and won't even seek advice.

- I've had 4 potential investors (2nd property or more) fall short of the new rules in the last week, so they are now parked up until their equity position increases. First Home Buyers are still very active, and I've had no trouble securing 90% funding with main bank channels and 90-95% with First Home Loan, so no obvious changes in bank appetites yet.

- The recent change from xxx of max LVR for new builds of 85% is a bit concerning, especially if others follow suit, as this is an increasingly popular option for first home buyers in Nelson due to the low supply of existing properties and intense competition.

- Over the last 3 months I've had more overseas purchasers than ever before - Kiwis who are planning on returning so are keen to purchase now, rent it out and then have a home to come back to in due course. The 60% LVR will slow this somewhat but many seem cashed up enough to make the numbers work.

- I'm seeing a little more interest in the longer fixed terms currently (3 years appears more palatable than 4-5) with more clients keen to split their lending across 1–3-year periods to hedge their bets where appropriate.

CANTERBURY

- Non-bank space has gone crazy with so many applications as they are still doing investment lending at 20%, I reckon this space is only going to get busier going forward. xxx has changed a lot of policies and basically not supporting any new to the bank client. Staffing is a huge issue and turnarounds are still poor.

- Outrageous wait times through broker channel when they can go to branch and get fast. This week zzz has given us 12-day turnaround and I had a client go to a mobile and got same day approval. Can't get a valuation in timeframes either - lost a deal in Akld because valuers couldn't do in time through platforms - got the ok to go direct to valuer, client called 37 valuers and none could do it. Incredibly frustrating at the moment.

- Banks are still struggling to meet service level standards, and this is creating pressure on clients, as they are doing everything they can to get their ducks in a row.

- Time frames are still a major concern - there is no uniformity of time frames from deal to deal with the same lender some are 2 days, some are 7-10 day. A lot more pre-approval applications coming in. I have numerous pre-approvals sitting

on my books with clients continually missing out on properties they put offers on - lots of Auctions and Deadlines.

- Bank turn around times still really poor. There does not seem to be any desire to address this. Quite a varied response across banks with the LVR changes. xxx and yyy now at 60% LVR for all investors even for exempt purchases. Other lenders still seem to be OK at 80% LVR for exempt purchases. Issue has also been approvals expiring for clients buying new exempt properties where they also had existing properties at the same bank. The change in LVR requirements now means they cannot get the same amount of lending approved even though the new property is exempt the LVR restrictions. More clients looking to fix for 5 years but still the most popular rate is 1 year.

- Banks are getting slower and slower, its as if you answer a question and it goes back to the bottom of the 2-week queue, clients getting frustrated, spend all my time chasing banks for timeframes! most frustrating.

ADVISOR COMMENTS FROM THE MONTHLY BUSINESS SURVEY

- I am seeing many people with varied needs every day. With prices through the roof, it has cut out a lot of first home buyers but there are still a lot of people still actively doing things with property and needing assistance with their lending. Things have become more complex and demanding but also challenging and exciting.

- Escalating monthly house prices compounded by lack of properties for sale. First home buyers missing out to developers buying up ex-state quarter acre sections removing the house and erecting 4 townhouses.

- First home buyers very active. Investors looking for loopholes in the system to beat the reintroduced LVR speed limits.

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