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MORTGAGE ADVISERS SURVEY

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The credit crunch continues

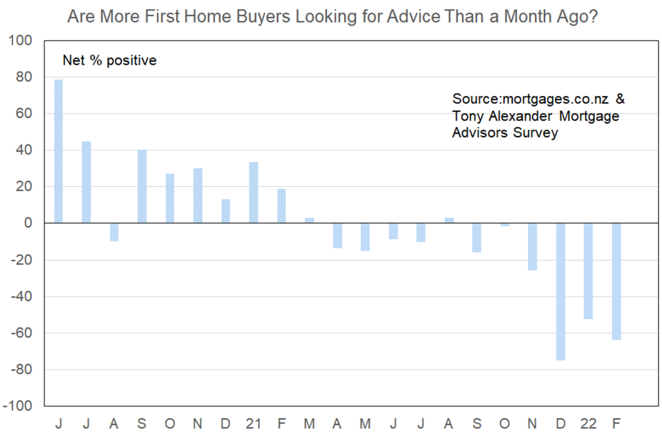
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey undertaken last week shows weak results again across all our measures.

All results from this month's survey show a continuing dearth of credit flowing from lenders due to the tightening of LVR and CCCFA regulations late last year.

The strong preference of borrowers remains for the two and three year fixed rate terms.

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

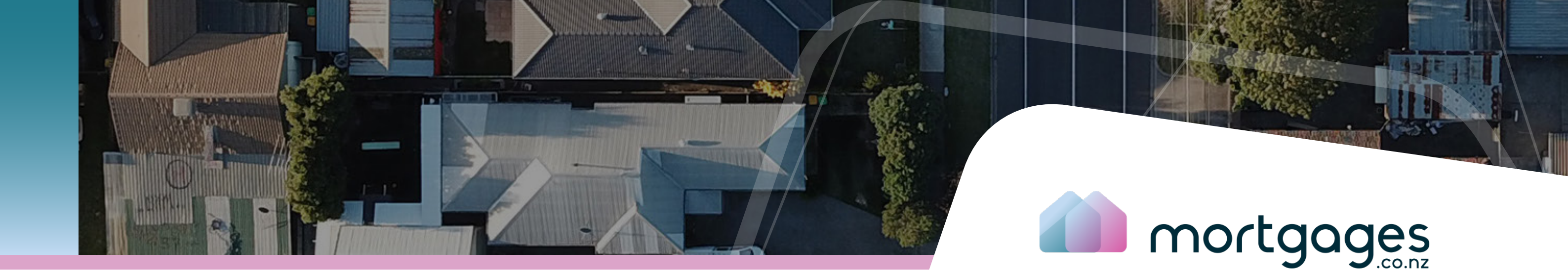
A net 64% of our 66 responding mortgage advisers this month have reported that they are seeing fewer first home buyers in the market. This net outflow of potential home buyers is the third large negative in a row with no sign as yet that the withdrawal of young buyers is easing off.



As was the case last month in particular, advisers note the role being played by the Credit Contracts and Consumer Finance Act changes effective from December 1 making banks turn down far more applications than before. Advisers note that many first home buyers have seen the many media stories and are no longer bothering to start discussions with advisers because of an expectation that their applications will be declined.

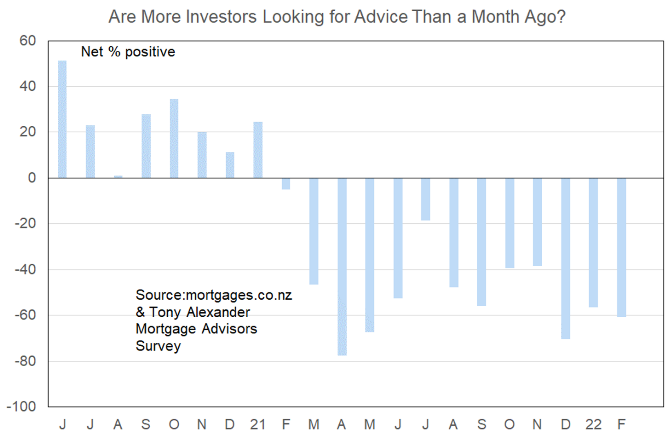
Some of the comments made by advisers with specific regard to first home buyers include the following.

- Dumb questions = Dumb answers. We had a bank ask if a bungy jump on a client's statement on the second of January in Queenstown (client lives in Auckland) was an ongoing expense or not. Then had to get the client to email confirming that this was in fact a one off expense. Feels like any common sense has been removed from the system and trust in borrowers has hit an all time low.
- No funds available for over 80% deals on existing properties.
- Very strict affordability calculations around expenses.
- Essentially there is no funding for low deposit borrowers which is the causing the biggest hurdle to help them. Very little change, 1 bank has today opened up a small amount of capacity for selected clients.
- More in-depth look at discretionary spending. that said, we have had NO declines. We mitigate things well and the banks have been really good with this. I think it is how you tell the story - be open and upfront, admit what has happened and then show that it won't take much reduction in coffee or craft beers to make the wheel turn.
- Need a deposit at 20% and good monthly surplus after all expenses.



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

A net 61% of advisers this month have reported seeing fewer investors looking for finance. As is the case above for first home buyers this is consistent with the stepping back of investor loan enquiries over the previous two surveys. Again, no improving trend is yet apparent.



The interesting difference with first home buyers is that investors started stepping back from the market after the March 23 2021 announcement of tax changes. Unlike first home buyers they have not freshly withdrawn because of LVR and CCCFA tightening.

Having said that, logic would suggest that most of those no longer engaging with the market would have already disappeared by now and the net proportion of advisers reporting extra weakness would have gravitated back towards zero.

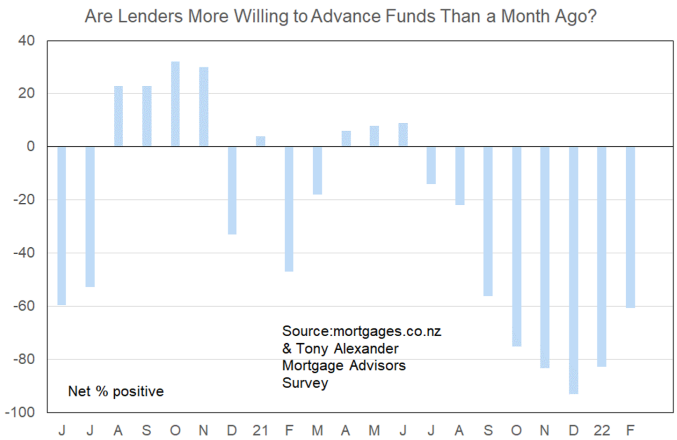
Therefore, it seems reasonable to conclude that the credit crunch is having an impact on investors as well as young buyers.

Comments made by advisers include the following.

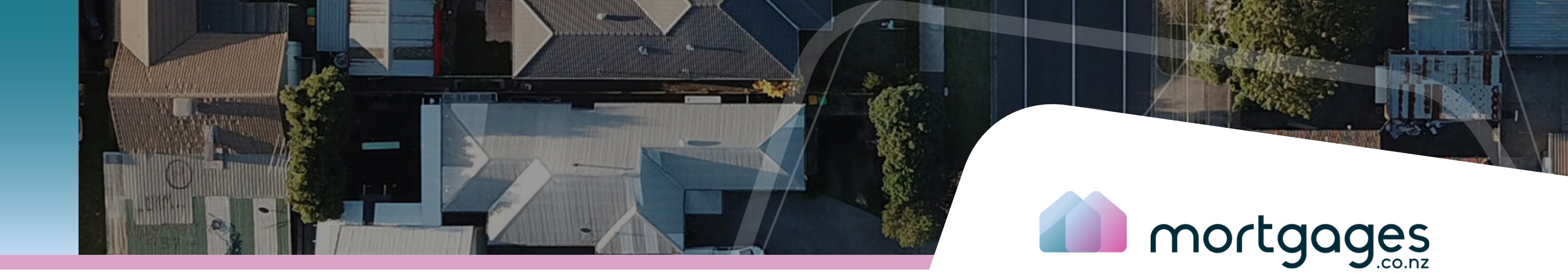
- DTI is biggest killer for the banks using it.
- Not seeing many investors unless it is new builds. In which case the banks are a bit wary of developments especially if they have a long time to complete. Justified too as many clients reporting developers cancelling projects or asking for more money to complete.
- More scrutiny of personal and investment expenses but this is now standard.
- Including more expenses like rates & insurance on rentals when historically the scaling of rental income accounted for those expenses.
- Investment lending is tougher than it was compared to last year as most banks are adding in more expenses and scaling the rent more than in the past.

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

A net 61% of advisers have reported that banks have become less willing to advance funds. The graph below clearly shows the sharp reduction in credit availability from lenders which started in July, deepened tremendously in September, and reached peak withdrawal in December.

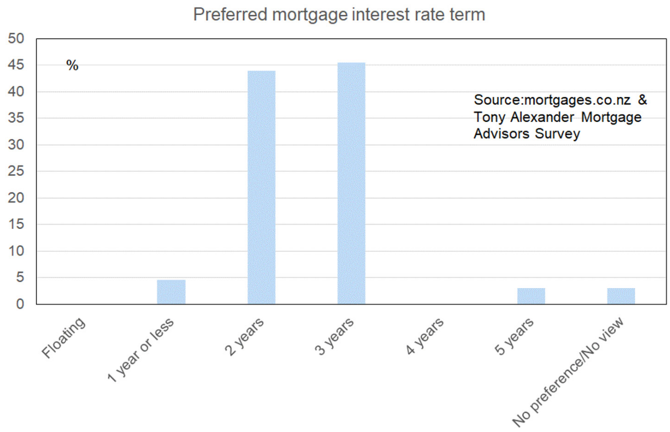


There is a small improving trend underway, perhaps helped by banks and advisers figuring out how to better apply the new CCCFA criteria. But overall, the result here shows the credit crunch remains underway.

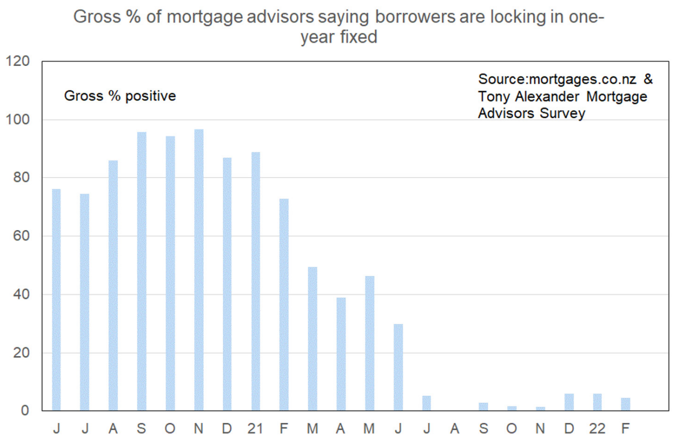


WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

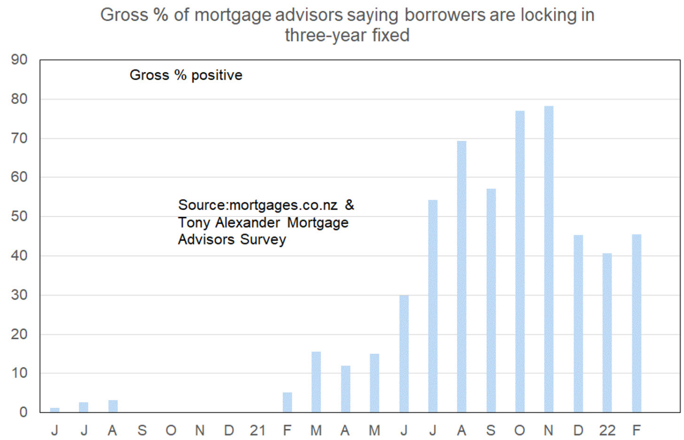
The strong preference for the term at which to fix one's interest rate remains in the 2-3 year area, almost to the complete exclusion of all other terms.



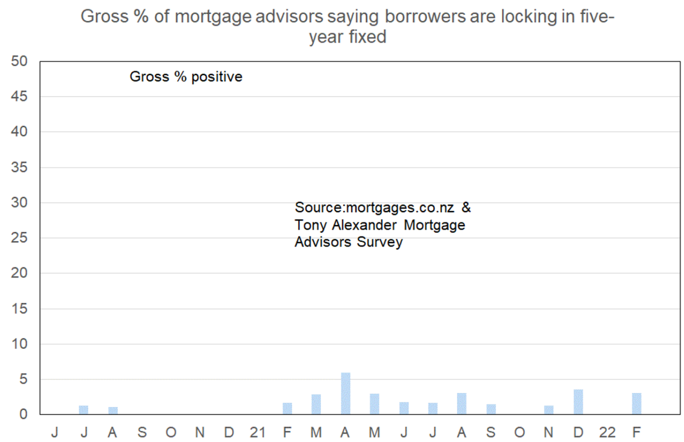
The preference for fixing one-year has been near zero since July, having fallen from being the most highly preferred rate up until early 2021.



Over the past three months the preference for fixing two years has become increasingly popular relative to an earlier preference for fixing three years. The two terms are now level pegging in popularity.



As is normal for Kiwis since fixed rates first appeared in the early-1990s, very few people opt for fixing five years. Why track this one might then ask? Because of what is going to happen perhaps next year when the yield curve turns inverse with short term rates above the five year rate as happened in 1998 and 2008.



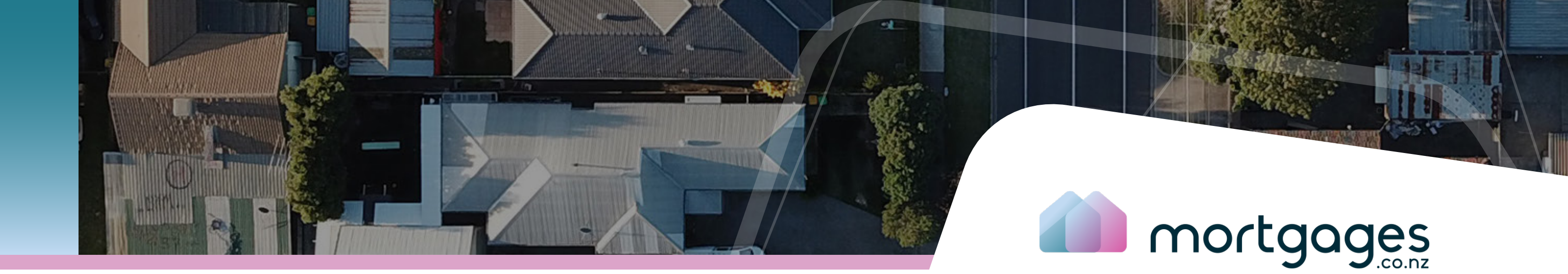
Mortgage Adviser's Comments

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.
- Many potential buyers are no longer even contacting mortgage advisers because of stories of finance no longer being available due to CCCFA rules.
- People are finding ways around the rules such as parents lending kids their Eftpos cards to use in order to make bank statements look better.
- Some vendors are having to capitulate on price.

AUCKLAND

- One of the biggest areas of concern is around tithing. Many New Zealanders currently tithe or give donations weekly and are being hit hard by the new regulations.
- The amended CCCFA regulations that came into effect at the end of last year, combined with the general inability to lend over 80% LVR (unless exempt activity) mean that the banks are starting to catch up on their workloads. Turnaround times have reduced back to normal; I had a preapproval done in one day last week, and a live deal assessed same day this week (at different banks). However, this indicates there is a lot less loan applications being put into the pipeline and in fact highlights the reduced availability of credit compared to a few months back.
- I'm seeing a huge jump in movers which I expected, people now able to make an offer subject to their house selling as less going to auction. It was very hard for movers to do this before as bridging finance is hard to get and it was too risky selling without buying as they could be left homeless or needing to buy in an even more increased market.
- The CCCFA is a joke. I have had people tell me that parents are giving their kids their Eftpos or debit cards to live on while heading towards submitting a loan app. The parents are simply running a tab, kids keep their personal transaction history to a bare minimum and banks assess kids' statements only.
- No preapprovals for FHB's with less than 20% deposit has all but excluded the FHB market from purchasing. Tougher lending rules has reduced borrowing limits and many now find property purchasing completely out of grasp. Lending policy favours the new build market which is extremely unpredictable- where fixed price contracts are rising in price; turnkey properties are running extremely delayed, and lending is difficult to obtain when builds have delayed title. The risks involved and anxiety of signing a build contract knowing that lending policy may well change, if you need to extend approval during the build process, is overwhelming. Investors are starting to come back into the market while FHB's have withdrawn.
- While only 6-7% of banks are claiming loan are being declined they do not mention the number of loans approved but at a much lower level as they apply more strict criteria to income and expenses. I have maintained a 100% approval record, but loan approval amounts are anywhere between $5k and $100k lower then for the same bank 3 months ago.
- REA Agents and the media are stating that the market is slowing but we are still as busy as ever.
- Mortgage lending enquiry has pretty much dried up to nothing. I have never been so quiet - either a wait and see approach is happening and at some point in the future a silent trigger will set off the enquiry level again, or too hard, not doing it.
- For those who are approved there is more choice and less competition.
- Anecdotally I've had a handful of buyers put in a cheeky offer that the vendors have accepted. Especially true of vendors who have already bought somewhere else.
- CCCFA doing nothing to help the buyers that needed help, in fact forcing borrowers to the type of lenders it was supposed to regulate.



BAY OF PLENTY

- I feel that my first home buyer base is down 80%. The main barrier is the 20% deposit and the CCCFA legislation. We are having to coach people a lot more into buying a home.
- We have noticed an increase in refinance business. I also put this down to CCCFA. Banks are declining deals for stupid reasons. I reposition the deal and send to another bank and it gets approved.
- The comments re banks only declining 6% of loan applications is probably due to us as advisers not sending them in at all if it doesn't look like they will fly. I am finding after a 'fact find' meeting I am not progressing as many FNB applications knowing they just wont fit current criteria.
- Applications need to be fine tuned and the Banks will approve them
- Purchasers seem more reluctant to pay asking prices and many choosing to stick to a figure and not get pushed higher. Anecdotal would seem to be more houses for sale by negotiation or deadline sale and perhaps declining number of properties going to auction.
- Some investors thinking of buying new IP and selling existing, for interest deductibility, plus 5 year Brightline (with 5 years interest only) and 80-85% LVR
- Some first time Investors, who own a OO and want a second property, are not up to date with the rule changes from last year - so education is the key. When I tell them they need 40% deposit, 10 year Brightline, and no interest deductibility, they run for the hills! Then I tell them about buying a new build, and they get enthused, until I tell them there are usually waiting lists for new builds, and the supply changing issues for when completed.

WAIKATO

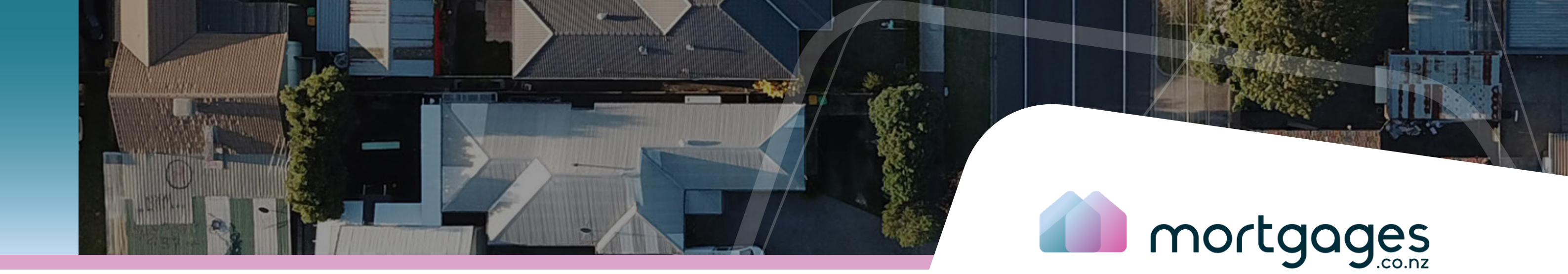
- Banks may be saying it is only 6% decline rate but what about the deals we aren't even sending up for assessment now because of the new rules. That 6% figure is way off in real terms.
- A lot of first home buyers are getting shut out of the market by not having a high enough deposit. Most of the clients that are first home buyers are receiving support from family so they can get into the market. Lenders appear scared of the CCCFA changes and not necessary declining more but being excessively thorough on applications on silly issues which just slows the entire process down.
- Significant cooling in the air. FOMO completely gone. Buyers cautious, lenders even more cautious. Not much fun at the moment in a very challenging environment,
- I'm still getting approvals for the right clients, but they are hard work, so many questions on the expenses which drags out assessment turnaround and leads to a lot of frustrations from clients. If the banks are saying they are only declining 6% of loans I would assume they are approving loans for less than they would have re CCCFA. Borrowers are having to settle for less which depending on where they live maybe a useless approval to use if its to low to buy with in their location.
- Buyers hesitant to enquire compared to late last year. Lending is harder but not impossible, they need to get advice from good advisers and make goals and steps to getting into home ownership - particularly with the price of rents.

HAWKE'S BAY

- Not a lot has changed in the last month, it is a case of the same as last month with the new regs lack of over 80% lending. Certainly nothing has improved.
- Much harder to sell a house compared to last year. Prices are under buyer pressure.

MANAWATU-WANGANUI

- We've had all the targets, rewards and recognition taking away from us. The CCCFA has added an unreasonable amount of time to each and every deal. Lenders are declining/ deferring deals and clients are jumping through increasing amounts of hoops. Some clearer heads are needed to make lending more realistic



WELLINGTON

- Good time for property investors with good equity and high income to buy = opposite to what the Govt wanted.
- Banks are wanting to lend but struggling to do so once they analyse the last 3 months bank statements - I am not sending some deals to the banks as I discuss with my clients that it doesn't work so send them away to improve. So we (Advisers) are also a gate keeper not sending deals we know will no longer work under the new strict criteria.
- A huge slow down in the market. A lack of understanding from the clients of the reasons - frustration, annoyance
- Enquiries have dropped off a cliff,
- People have been scared off by stories in the media.
- Generally we have been getting everything we have asked for. I know that CCCFA is getting a lot of media interest but if applications are properly handled and we do as we are told, things get approved without drama.
- Applications are taking longer to compile before submission - but I think I'm being more exacting than prior to 1 December so that I don't get a no. Buyers are getting the message that they need everything squeaky clean. I think they are getting the message that banks won't entertain anything above 80% LVR unless there is a live property in play. Talking to prospects about using a non-bank option is something that is quite foreign to them - which shouldn't come as a surprise to any of us. Generally low deposit borrowers seem to have vanished. Construction/turnkey still ok above 80% - as it should be.
- I'm getting more enquiry from clients especially existing ones to discuss how best they can get around CCCFA after reading all the articles in the media. Due to their Christmas spending. Other than this nothing really has changed much this month other than more first time investors i.e. existing clients wanting to purchase their first investment property. First home buyers' enquiries are low. Real Estate Agents have been saying to me that their open home numbers are way down and they are having property not sell at deadline. So things most definitely have slowed down.

NELSON/TASMAN/MARLBOROUGH

- I'm hearing a lot of buyers afraid to even apply after what they are hearing in the media. It's completely overblown.
- My work has dried up. I deal mostly with first home buyers and the media has portrayed that the CCCFA changes means first home buyers can't get a mortgage. That's not true, even with a 10% deposit there are options, possibly more expensive, but still options.

CANTERBURY

- First home buyers: One client had an automatic payment into a savings account. This client had to tell the bank they will stop the auto-payment in order to get approved (the bank was taking this payment as an expense, and even said they knew it was savings, but had to account for it as an expense).
- With investors these cccfa changed become an impossible hurdle, as the banks now only use 60% of gross rent, but then also want to include all expenses, e.g. rates, insurance, etc, all while having a servicing test rate above 6% (which I agree is fair, but not when taking 60% of rent and including all expenses).
- Banks are starting to consider mitigants on client expenditure and planned changes in the future to allow adjustment to actual spending noted on bank statements. Still very painful and hard but positive to see some movement there.
- Access to funding atrocious for FHB.
- Government needs to lift house price caps under the First home Loan scheme to allow more clients to qualify under this product which is exempt from LVR restrictions.
- Seeing fewer sale and purchase contracts since 1 January.
- Common sense no longer seems to be applied to decision making - having to provide a quote for house insurance for a proposed new build which has not even started yet, before the bank will provide an updated approval - the insurance company was staggered when the client asked for this. Client also had to evidence new rates amount, title has only been struck and as house is not built as yet, council cannot provide rates amount - bank will not move on this! We're going

around in circles.
- Clients very concerned about getting a mortgage. Some lenders are just being plain stupid with their questions, these I avoid, others are great if you provide all the info they require and comment on it.

OTAGO EXCLUDING QUEENSTOWN LAKES

- CCCFA lending changes have made it even challenging to secure additional finance for longstanding existing bank clients.
- A number of first home buyers appear to be disillusioned and have given up for now.
- A review of the CCCFA lending rules can't come fast enough (sacking the twit who signed off on them might not hurt either).
- Banks say 6% of applications not approved, but that doesn't include what we are declining and not sending that we previously would have. Difficult to put a number on that, I am declining a lot more proposals myself, where expenses are higher than acceptable now, or income a little weak. But also purely from and income and work perspective. I can no longer afford to spend time of any deals that are marginal or have a less chance of success. The extra work now required for all deals no longer gives me that luxury. Now only doing what I am confident of getting approved. Which is a shame as defeats the benefits a little of using a broker. But business is business.

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