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MORTGAGE ADVISERS SURVEY

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CCCFA changes crush borrower hopes

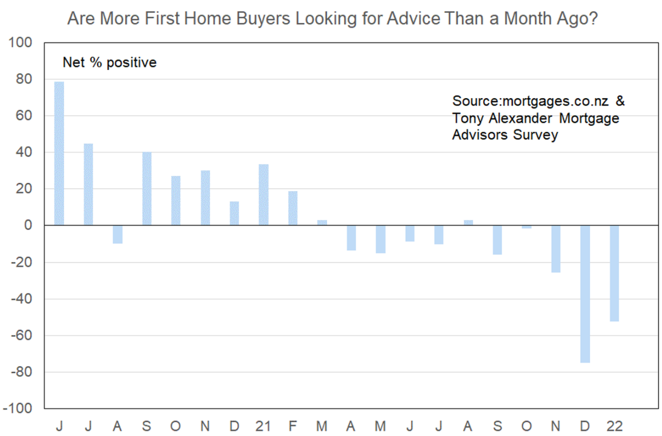
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey undertaken last week shows weak results again across all our measures.

A net 52% of the 69 mortgage advisors responding said that they are seeing fewer first home buyers coming forward for finance. A net 57% are seeing fewer investors, and a net 83% report that banks have reduced their willingness to lend.

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 52% of mortgage advisors responding in our first survey for 2022 have reported that they are seeing fewer first home buyers coming forward for a mortgage. This is an improvement from a net 75% seeing fewer in December but continues to indicate extra backing away by first time buyers.



Advisors strongly noted the impact of changes to the Credit Contracts and Consumer Finance Act effective from December 1 as making mortgage acquisition extremely difficult for first home buyers.

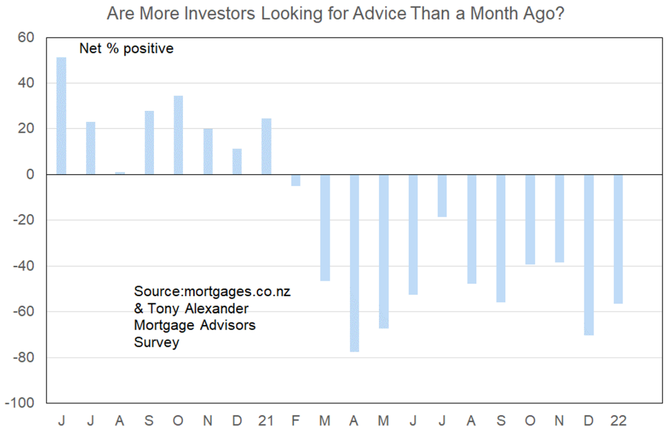
The reduction in the proportion of bank lending able to be undertaken where the borrower has less than a 20% deposit was also frequently cited.

Some of their comments include the following.

- The recent changes to the CCCFA are having the biggest impact compared with LVR restrictions, interest deductibility removal etc. Banks are now taking a forensic look at client's expenses; trust has been eroded between the bank and client around how they should live their lives.
- No over 80% lending. Must have 20% deposit at the moment and cautious spending habits.
- First home buyers with less than 20% deposit are virtually cut out, unless they have a live deal and that's quite scary for them.
- Things are pretty tough right now and I'll say 9 out of 10 FHB's are directly impacted with the new CCCFA changes.
- Most banks are not lending at all to people with less than a 20% deposit.
- Employment terms - must be no less than 6 months with one employer as long as the occupation is the same or 12 months with one employer if new occupation. Must have employer letter, payslips and 12 month IRD earnings for income verification.

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

As is the case for first home buyers, there has been a small reduction this month in the net proportion of agents reporting that fewer investors are stepping forward for a mortgage. A net 57% are seeing fewer investors compared with a net 70% in December.



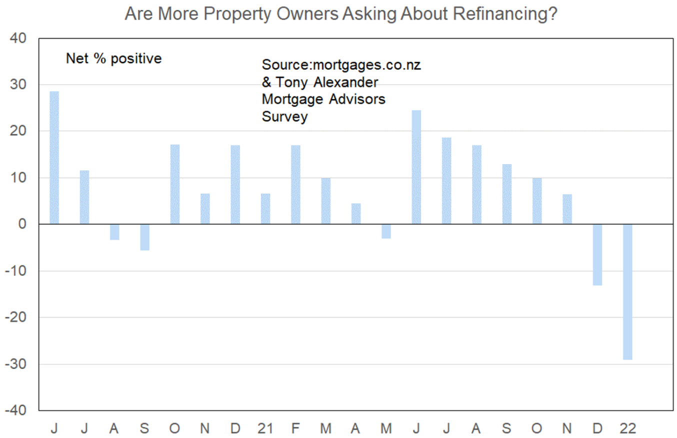
Comments made by advisers include the following.

- No over 60% LVR lending.
- Significant reduction in rental income allowed for servicing.
- Using less of the rent to service debt, including more expenses for the rental property.
- All have brought their sensitivity on rental income back to about 60-65% of gross income. If an investor operates through a company, they are looking at historic financials 31 3 2021 instead of current rental streams. To get them to use current rental they want YTD financials and 12 months projections.
- Changes being applied on average 65% of rental income as opposed to 75% before.
- Extensive review of actual expenditure over three months.
- Stronger requirements for reviewing expenses /excessive scaling of rental incomes plus the capturing of expenses for rental property so being hit with double whammy.

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

The biggest change recorded in our survey this month is a substantial decline in the net proportion of advisors receiving requests for refinancing advice. This has deteriorated to a net 29% down from 13% at the end of 2021.

As the graph shows this situation is quite different from all other periods in our survey from June 2020.

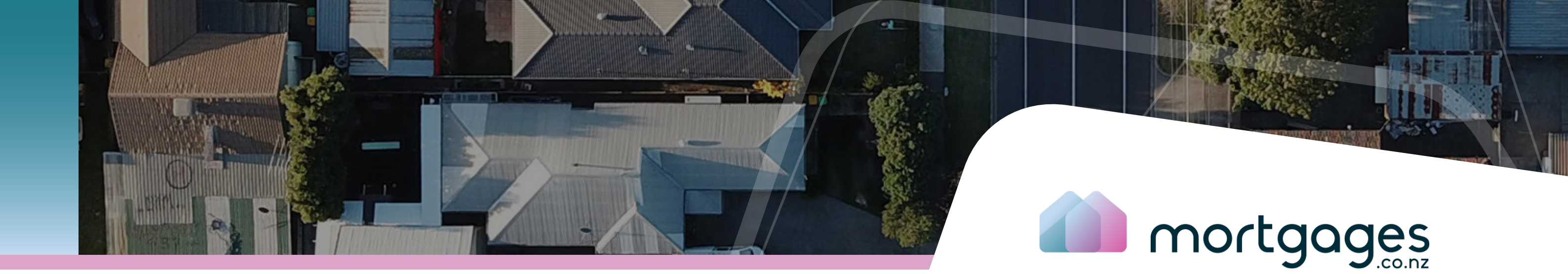


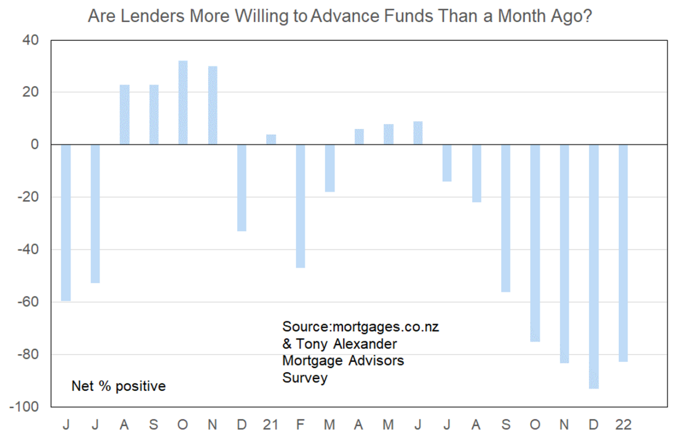
Despite the seeming logic of interest rate worries potentially accelerating people's decisions to rearrange their interest rate exposure, this measure looks more and more like a gauge of the confidence investors have regarding getting mortgage changes made.

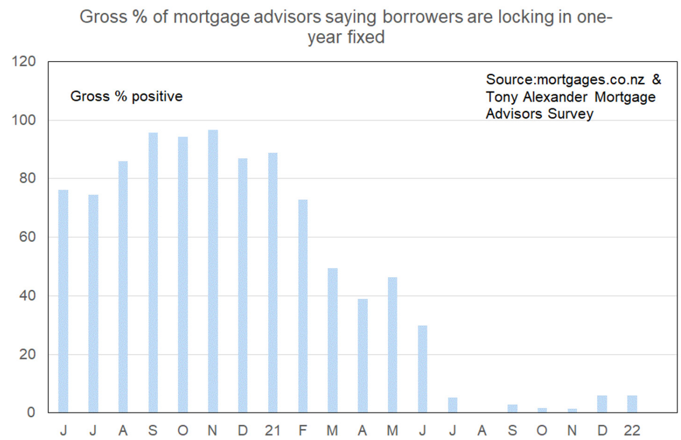
COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

As has already been reported from many other sources, perceptions of bank willingness to lend have substantially deteriorated in recent months. Our survey gave the first statistical indication of bank willingness to lend changing back in July, well before implementation date changes for LVR rules and CCCFA requirements.

This month a net 83% of advisors say that banks have become less willing to lend to borrowers. This is the same proportion as in November and little changed statistically from the record net 93% of December.



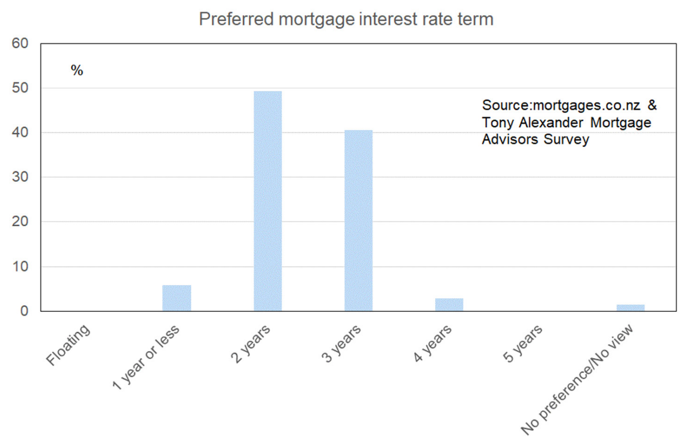




The turnaround in lending willingness from the latter period of 2020 is quite stark.

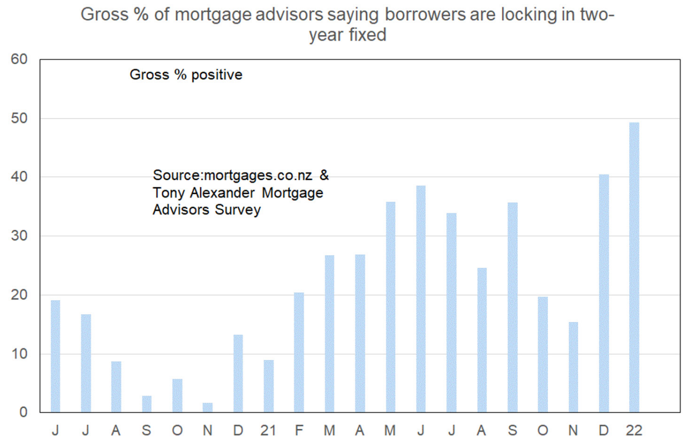
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

The strong preference for the term at which to fix one's interest rate is in the 2-3 year area.

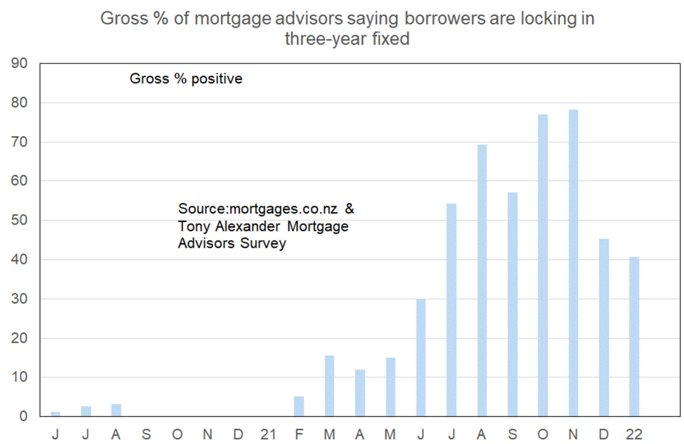


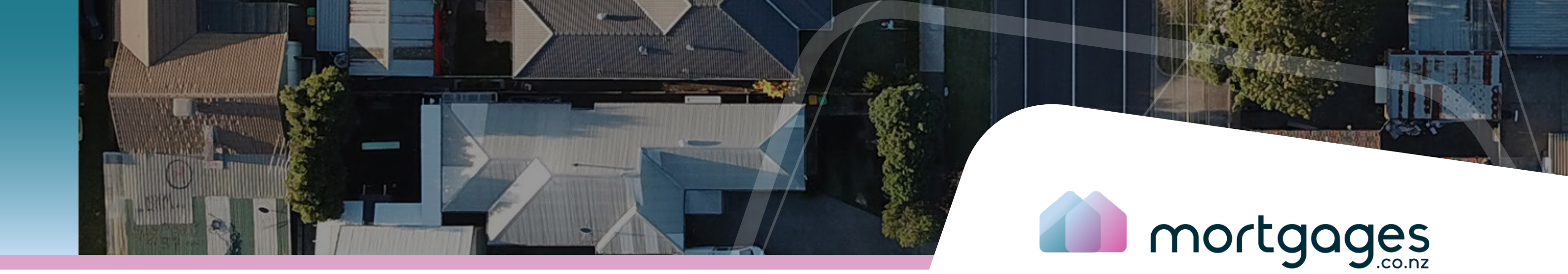
The one-year fixed rate was very popular until the middle of last year when the commencement of rate rises and deepening concern about inflation and tightening monetary policy made people increasingly consider longer terms.

There has been a strong resurgence these past two months in the proportion of people preferring the two year term.

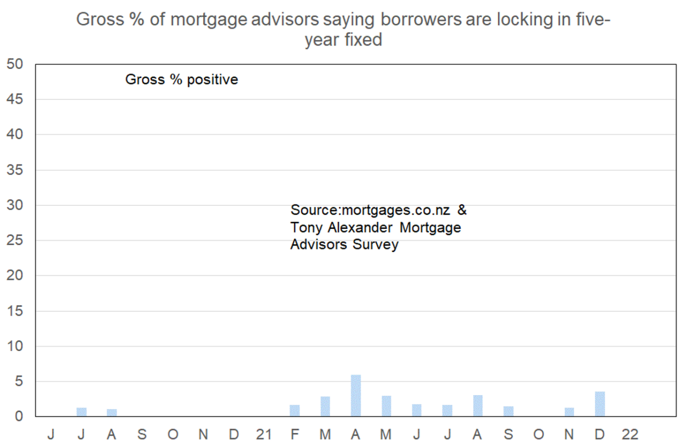


This recent surge has come at the expense of fixing three years.





As ever, very few borrowers favour fixing five years, especially now that the rate commonly charged by banks is about 2% higher than in the middle of 2021.



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.

- Turnaround times for mortgage applications have improved sharply.
- But this reflects quick rejections based on CCCFA changes or failure to meet new LVR rules.
- Discontent with the CCCFA changes is immense.
- Frustrated borrowers are shifting to high cost lenders.

AUCKLAND

- Tough Market for Home Lending.
- CCCFA needs to be removed from mortgages, there has never ever been reckless mortgage lending in New Zealand and lenders already have other checks and balances in place.
- Seems to be more sellers coming to market, after delays of lockdown, preventing people preparing property for sale. Some are selling to buy bigger homes, changing for schooling, the normal reasons people buy and sell, so let's hope this continues for everyone.
- As an industry Mortgage Advisers have completed an online Petition for change to the CCCFA, as the unintended consequence of a regulation that was designed to protect consumers from Pay Day/short term lenders/HP etc has meant the residential mortgage market has ground to a halt.
- The mortgage lending system was not broken, the Responsible Lending code (the banks took to their hearts) was ensuring that mortgage lending was being assessed with a fine tooth comb and consequently very responsible loan approvals were being provided.
- I would venture to say that in the 24 years that I have been a Mortgage Adviser, the banks had never been so careful/cautious and the industry as a whole, had adopted this stance and Advisers were educating each consumer as each deal was prepared. The new Regulation is just not needed for mortgage lending.
- Enquiries for mortgages have dropped off the cliff. Turnaround time is a maximum 48 hours. First home buyers locked out of the market.
- It's pretty well documented that the CCCFA rules have been terribly worded. But some banks have taken this to a much harsher extreme than others. It pays to check with multiple banks as often one bank will approve much, much more than others.
- Don't get me started ...... the impact of CCCFA has been significant and we are now seeing applications that would have been approved being declined because they 'go out to dinner too often' or buy Lotto tickets.
- Buyers looking to include an adult employed child to assist with servicing.
- The CCCFA has completely changed the lending landscape. It is much more time consuming to put an application together (which is also frustrating as we don't get paid more for our time). Banks' lending criteria are the toughest they have ever been, and we are seeing an increase of declines, approvals not being extended, or approvals being at a reduced amount. The level of frustration expressed from

customers has increased significantly as a result.
- Hoping to see some changes made more in line with the previous responsible lending code that I thought were granted and displayed some form of common sense. The CCCFA is an interesting take, all banks are treating it differently in some ways.
- Overly intrusive approach to lending assessment and an attitude where the banks feel obliged to overly scrutinise and tell people how they should live. This is fundamentally wrong in all aspects as you have bank employees telling seasoned savvy people that they do not know how to pay a mortgage when they have in fact probably paid off multiple mortgages over many years.
- The whole system and legislation need a complete overhaul again.
- Going on parental leave has affected your ability to get a mortgage for years. This is not new.
- It is tougher to get finance and banks are asking more questions but if you hold your ground and answer the questions you can convince them (sometimes).

BAY OF PLENTY

- If a client had a pre-approval from before the CCFA changes, no rollover of the pre-approval, as bank needs to assess the CCCFA changes to the client, with a full new application.
- One lender asked what a $12 Eftpos receipt was from 2 months ago - it was 2 glasses of house red at the local bar.
- Another lender (same bank) queried the source of a deposit to the bank account from 9 months earlier!
- Nonbank lenders - more space here but their turnaround times have blown out.
- The banks are very nervous but definitely only looking after their risk position as a result of the CCCFA/Government Legislation. So, at least now when we are dealing with them, I have an element of sympathy with their credit teams as it really isn't their fault, they have to be overly zealous in terms of how they apply the new rules.

WAIKATO

- CCCFA is a nightmare. It's Killed off FHB along with the 20% deposit minimum.
- Banks are trying to apply an opinion on spending habits across the past 3 months of spending which is probably the worse period to do this with Christmas, holidays and lock downs. Some common sense has to be applied to the new law and let's hope the review in February brings this.

HAWKE'S BAY

- CCCFA creating further work for lenders, resulting in slower turnaround times. Harder benchmarks for borrowers to meet and much more verifying information required which is causing some frustrations on both sides.
- More clients interested in building. A pickup in enquiry in the new year.

MANAWATU-WANGANUI

- We are gearing up to take a fairly significant hit income wise this year, as a result of the legislative/reserve bank changes. Our first home buyers are basically going on a wait and see list as there isn't much we can do for them for the coming months until banks can drop below the new 10% thresh hold.
- The banks need to revisit their policies around people who own a home and want to build a new one. Most of them are families with kids and/or pets who want to stay in their existing home till their new one is finished and ideally put their current home on the market about 8 weeks before they move into their new build. This keeps disruption to schooling to a minimum and means they don't need to go and rent on the other side of town AND find a place that will accept pets. The irony is market rent is typically more than (or pretty close to their current mortgage but the bank tests them across all debt at the outset and it will just never work.

WELLINGTON

- Bank interpretations to the changes to CCCFA are causing no end of problems.
- Spending on items such as Netflix, Spotify,

Disney TV etc, hobbies, gym memberships, hairdressers or being considered as ongoing and non-discretionary.
- No ability to mitigate expenses in the last 3 months despite being obvious explanations for these.
- Benchmark amounts in the banks' servicing calculators being higher than customers evidenced amounts but lenders not willing to admit their expense allocation is unrealistic.
- CCCFA has definitely stopped the FHB's along with FHB's requiring a 20% deposit. The government need to address the issues of CCCFA, LVR rules and limit's that the RBNZ have in place for FHB's.
- What we are seeing is more potential clients contact the mortgage adviser channel rather than deal directly with the bank. They are finding the banks harder to get hold of and communication very bad.
- Most clients who own land are finding it impossible to get a Fixed Price Contract to build their home. Preparing to wait it out.
- Two xxx assessors have called to say that they have had a rev from their bosses and that they have been asked to exercise reason in treatment of expenses and avoid declining willy-nilly. It seems that they will be avoiding high-handedness and claiming a sort of moral high-ground when implementing CCCFA guidelines.

NELSON/TASMAN/MARLBOROUGH

- I sent an application to xxx and received a response "UMI is not met, customers living expenses are much higher than declared". I asked which expenses in particular are higher and received a 23 page report! This included three income and expense summaries (all with the same figures), and three and a half pages of banking transactions.
- Lenders from all of the banks are coming back with expenses/outgoings on clients' bank statements with queries on these that are very nit-picking and very much looking backwards rather than forwards for spending - Christmas period is obviously an expensive time for additional spending on food/presents/travel and a bit of discretion together with common sense would be appreciated - just terribly tough going with current environment.
- Very invasive move by banks recently, examining bank statements and questioning very personal expenditure on clients' bank statements.
- Banks & Bank Managers often seem scared to lend money, not wanting to breach the rules.
- Far too much emphasis placed on discretionary expenditure which clients are able to modify, once they obtain a home loan. Mortgage Default rates in NZ are less than 0.5% and having Netflix is not going to put someone into mortgage default - it is going to be a major life event/crisis that causes this. Banks are looking & spending far too much time on the wrong risk factors when assessing.

CANTERBURY

- Less than 20% deposit - almost impossible to get pre-approval with most lenders including the FHL lenders.
- The turnaround times are good, and I've had a few surprising pre-approvals, but it is taking a lot longer to prepare an application as you need to verify every expense.
- Clients are reading about the impact of the CCCFA policy and are disheartened before they even arrive to our meeting - they are however starting to think about their spending habits.
- 5 out of 10 applications we are doing at present are from people moving from Auckland and Tauranga/Hamilton so I believe Christchurch market is going to stay strong but no way near what we say last year in terms of capital growth, will be lucky to have 5 or 7% growth this year. A lot of clients are moving to Brisbane for some strange reason as you can still buy your first home with 10% deposit and earn a lot more than what you can here
- FHB are very aware of the feedback in the media so are more aware of what they need to do to qualify.
- First home buyers really needing to look outside the square to buy property. Parental guarantors are now part of everyday conversation and a requirement to reach the 20% threshold!
- Back in the office Monday and phone has been running red hot. Struggling to find options for low equity lending.
- Service at the lenders is terrible currently. Not

getting back, taking 3-4 days to come back to a question.
- Applications seems to be picked up faster. They seem to be looking for reasons to decline though.
- I had a client the other day, applied for $10,000 top up main bank to install new (second hand) kitchen, declined due to servicing, which was tight but affordable (she is single Mum working, getting child support and government support, and the increase to mortgage minimal). within 2 hours she had a finance company loan at 45% interest rate, $1500 of fees to get that money. Tell me how that's responsible lending and looking after consumers ... constant frustrations!

QUEENSTOWN LAKES

- Lots of concerned clients at present, mainly that they won't be able to get a loan or that their existing approvals will be cancelled when they try to reapply. All banks are implementing the CCCFA changes slightly differently, but all very cautiously. Processing times remain slow due to these changes. Lending over 80% has effectively stopped. When you add the gains in property over the past 12 months, first home buyers are up for a challenge to enter the property market at present and need careful planning with expert support.

OTAGO EXCLUDING QUEENSTOWN LAKES

- A client changing employers (no 90 day clause in the new contract) and industry continuity, was declined finance as the bank wanted them to work in the new role and demonstrate three month of income – ridiculous.

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