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# Tony Alexander

## MORTGAGE ADVISERS SURVEY

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# Conditions still tough

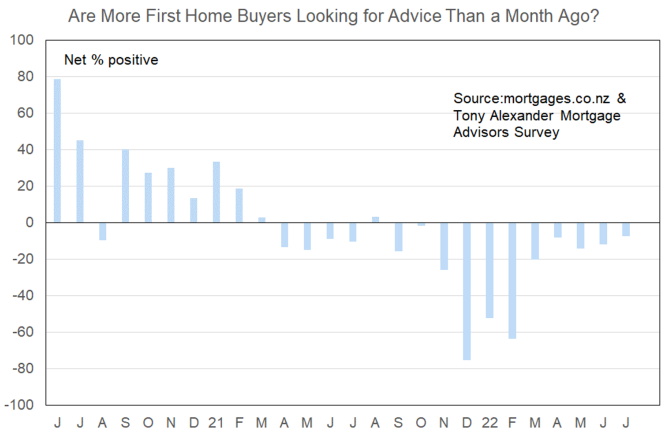
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 68 responses.

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

- We passed the peak credit crunch period early this year but as yet availability of finance cannot be considered generous.
- Investors continue to be largely absent as buyers, but the stepping back of first home buyers could be near an end – depending on their ability to get finance.

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

A net 7% of our responding mortgage advisers have reported seeing fewer first home buyers coming forward for financing advice. This is better than the net 12% of June and the best (least bad) result since October last year.

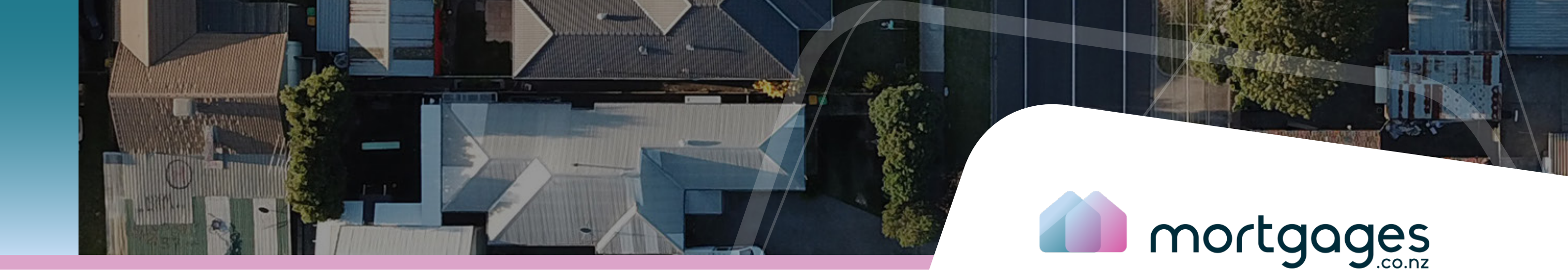



In November 2021 first home buyers were hit badly by the tightening of LVR rules, and then hit again from December when the CCCFA changes came into effect. The result was a net 75% of mortgage advisers in December reporting fewer first home buyers looking for assistance.

In that regard the latest result of -7% means we are well past the worst of the credit crunch. However, as yet there are few solid signs that first home buyers are stepping forward in greater numbers.

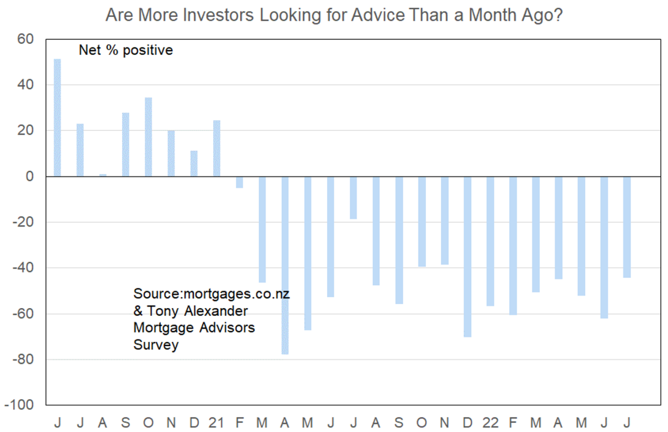
Comments on lending to first home buyers submitted by advisers include the following.

- There are limited low deposit options outside new builds and Kainga Ora. High test interest rates are reducing the amount FHB's can borrow.
- The majority of first home buyers I am dealing with lately are with Kainga Ora First Home loans, due to them not having a 20% deposit.
- Most lenders have backed off from low equity loans and are again prioritising existing customers over new to bank customers. CCCFA 'improvements' are immaterial and make no difference.
- Due to high servicing test rate, approvals are a wee bit challenge at this stage however banks are open to lend and anyone that fits is getting approved with decent cash backs.
- There has been some loosing up of the detailed analysis of bank statements. Lenders are now accepting that what happened in the past is not a reflection of what spending habits will be in the future once new lending is in place. Biggest issue now is not the value of a new home, but the cost of the repayments given the rising interest rates.
- Less emphasis on spending habits.



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

A net 44% of advisers have reported that they are seeing fewer investors coming forward for assistance with arranging finance. The graph here tells us that there is no obvious improving trend in this measure and investors by and large have stepped back from buying ever since the tax changes were announced last year..

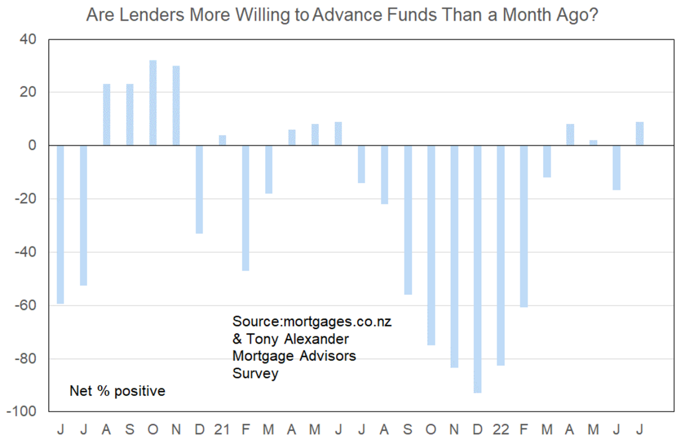



Comments made by advisers regarding bank lending to investors include the following.

- Rent being scaled heavily and accounting for rates and insurance separately. Pretty penalising for investors at the moment under regular bank criteria and difficult to find solutions.
- There is still quite a difference in rental income calculations between different banks
- Interest Only is becoming harder to get for more than 2 years. Could previously get up to 5 years with no issue. Conversations are now around when they plan to re-enter the market so they can time the run for the 2024 Tax Year (assuming National wins next Sept) so they can have the interest deductibility back.
- Difficult for investors. Not a lot of activity, however, investors starting to enquire again.
- Investors have fallen off a cliff. I've not done an investment loan since May.

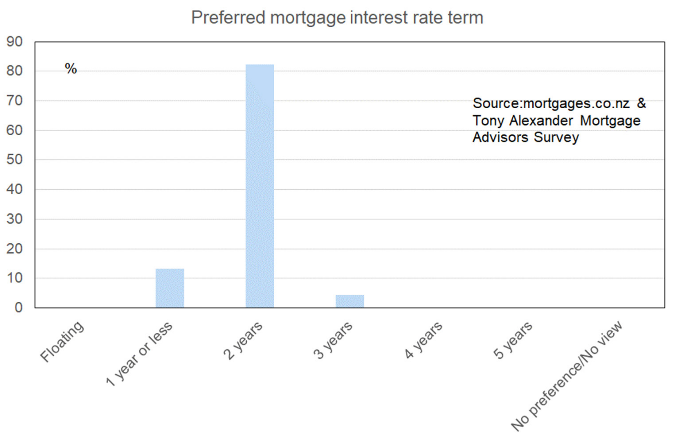
## COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

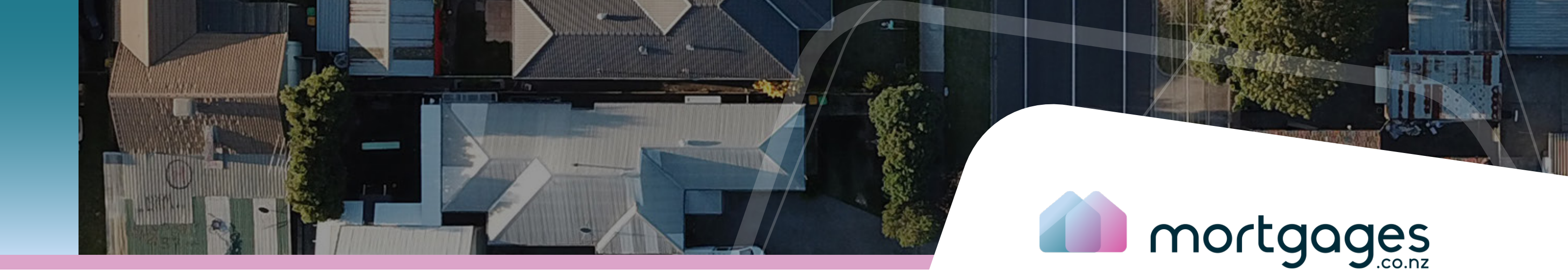
This month's survey has revealed a slight improvement in the net proportion of advisers saying banks are more willing to lend funds to +9% from -17% in June. This is the firmest result since June last year but not yet strong enough to allow us to say that bank willingness to lend has decidedly turned for the better. It is more that the period of their high unwillingness to lend has passed.

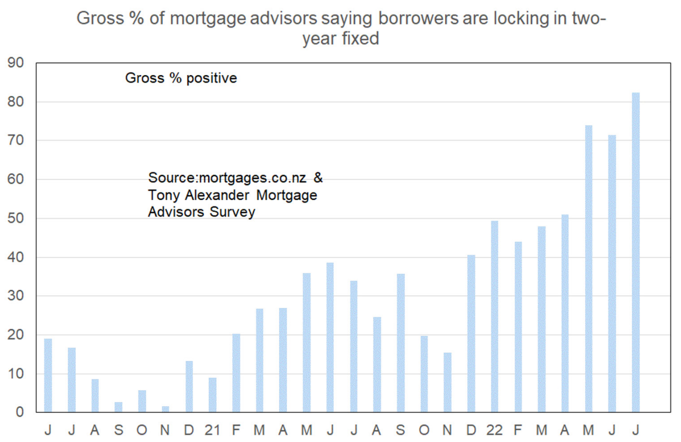


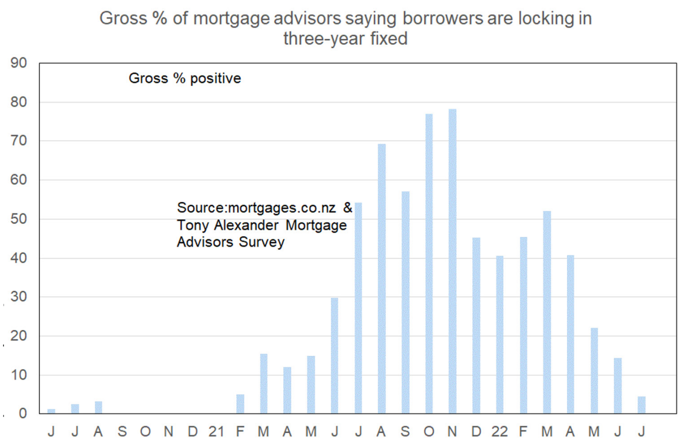

## WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

82% of our responding mortgage advisers have noted that the fixed mortgage rate term most favoured by borrowers is two years. This is higher than the 71% who said last month that this is the preferred fixing period with the change accounted for by a drop in those preferring fixing three years from 14% to 4%.

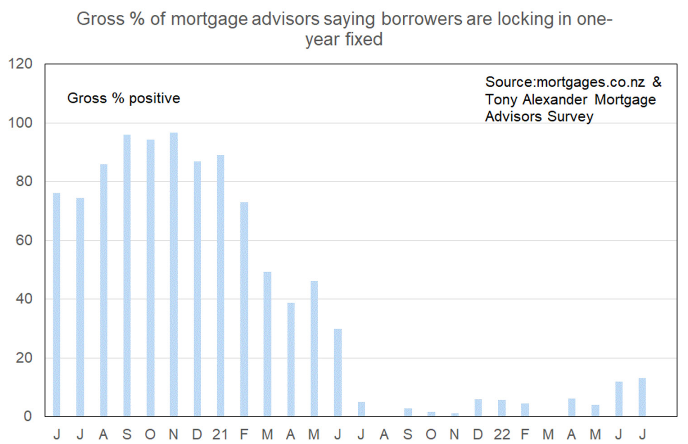




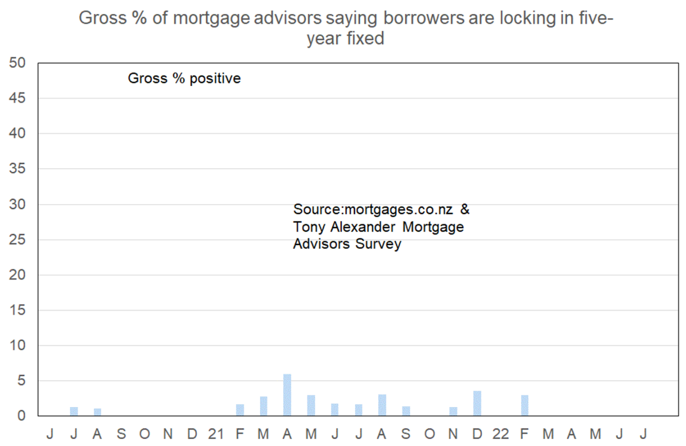


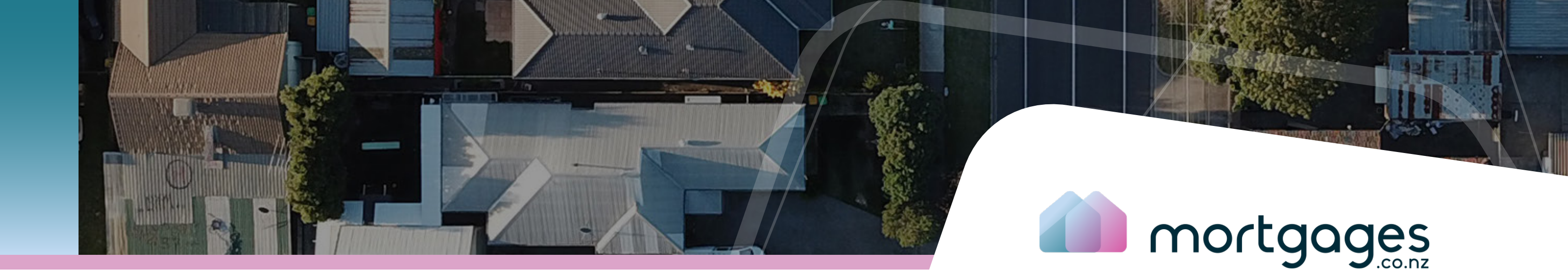




The proportion saying one year fixing is most preferred is virtually unchanged from the 12% of last month.




As ever, hardly anyone wants to fix their interest rate for five years. That makes sense at this point in the interest rates cycle but would have by far been the wisest thing to do for most borrowers over a year ago when the rate was commonly at 2.99%. It is currently above 6%.





# 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.

### NORTHLAND

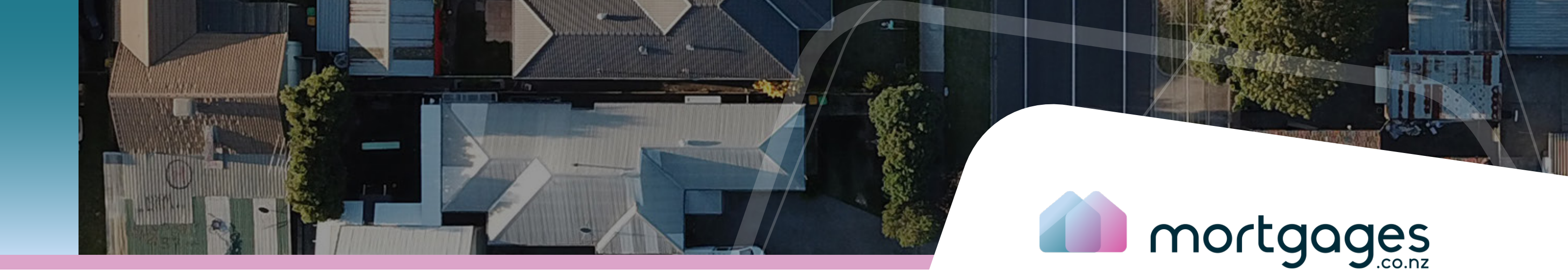
- Had an approval of an easy application in 6 hours yesterday. Lender obviously not busy. Inquiry rate has picked up
- House price reductions have spiked some interest.
- Increase to regional caps is helping.
- Some main banks reducing 1 & 2 year interest rates has people talking.
- CCCFA changes may help but needs further review.

### AUCKLAND

- Buyers are waiting on the side-lines with all the headlines and urgency has gone. Many people with offers subject to sale but can't find buyers even at reasonable prices. Market has ground to a halt temporarily until FHB's stimulated back into the market.
- Bank staff turnover impacting on already approved applications. One build is now on its 4th assessor.
- CCCFA still causing grief as banks still not sure how to apply the changes and only one bank has changed assessment policy to date.
- Banks do want to lend money i.e., cash back wars. BDMs are calling and offering to go into bat with credit to get sharper pricing to win business.
- Banks are doing less under 80 so it means they can't do any over 80. Good quality borrowers being turned away because the well has run dry.
- Kainga Ora doesn't really work in Auckland because you need more than $150k income to service 95% of the lower quartile price, unless you fluke a Kiwibuild ballot.
- CCCFA repeal isn't enough to change sentiment. Brightline / interest deductibility / LVR restrictions, CCCFA still in play.
- First home buyers with less than 20% deposit have to wait.
- Banks are being more flexible with assessing client's spending. Previously clients had to reduce spending prior to applying. Banks now willing to consider reasonable reductions in spending may occur after the mortgage is issued.
- Demand for borrowing is up from last 2 months - applicants supplying information more promptly. Owners looking at refinancing options to improve affordability - i.e., can load more debt against IP for interest only terms (of course doesn't alter IRD obligations) but improves cash flow, and the 1% cash back is being matched across all banks, makes the opportunity inviting when rates are much of a muchness.
- More investors seeking non-bank longer term interest only options
- If you are an owner of a ""First Home Buyers"" home, including if you purchased a new build property prior to 31 March 2021, then you are limited in who can purchase your property.
- Currently low deposit borrowers can't get funding to purchase your property. Most banks have pulled low deposit funding for "non-exempt" properties.
- Investors will not purchase the First Home Buyers home as they are saddled with a 10 year Brightline and no tax deductibility.
- Non-bank lenders/2nd tier funders tightening up the reins. LVR <60 to even get a foot in the door. Servicing basically the same as main bank.

### BAY OF PLENTY

- Early signs of increase activity but not sure if its the start of trend or a blip.
- Investors, or would be first time investors are starting to make noises of positive signs, based on written confirmation National would reverse the tax ruling on deductible interest.
- Lenders, in particular with self employed business are interpreting the CCCFA and credit policy quite differently to what we had prior to Dec 2021. It is vastly different to the close consistency we once had. This does bring opportunity and definitely if one banks says no, there is a good change another will not.



- I am finding that more FHB are qualifying for First Home Grants - with the house price caps increase.
- Getting more clients wanting to look around when their refix is up.
- With most banks now offering an online refix processes, its easier for clients to do the online process - BUT they need the advice first, otherwise 9/10 they will click the cheapest rate.
- I am seeing clients coming off the lowest rate 2.19%pa, to over 5.2% at next refix, that are wanting to go on interest only, so they can afford the increased repayments.

### WAIKATO

- Lots of clients looking for refinancing as existing banks are being difficult. Doing more split banking to keep options open for clients as banks being quite controlling around taking all proceeds of sale with the CCCFA rules biting in terms of banks affordability.

### MANAWATU-WANGANUI

- Far less enquiry. We are supporting ourselves mostly from existing clients and referrals from them. New leads via advertising have dried up. Demand for services has visibly reduced. On the flip side the conversion rate of those that get an approval to those that find a house is high. So, fewer clients but a higher conversion rate in terms of settlements per application approved.

### WELLINGTON

- The market in Wellington is dead. I think its currently slower than when the GFC hit 2007/2008
- Enquiry seems to have picked up in the last few weeks. Banks seem a little likely to approve compared to 6 months ago it does, as always, depend allot on the assessor you get at any bank.
- Seeing more issues around clients wanting to extend interest only on investment properties and not being able to as they have to meet the banks new debt servicing rules.
- Also seeing more issues about what lending needs to be repaid on the sale of a property when the bank has security over more than one property.  In most cases now the banks are talking all the proceeds from the sale because the debt servicing doesn't work for keeping any of the lending.
- Seems to be a significant increase in staffing issues with the lenders due to sickness and holidays and slow turnaround times.
- "More enquiries looking to get Kainga Ora loan with property cap removed.
- Banks offering Kainga Ora Loans busy with slowed turn around times.
- Buyers still waiting, hoping prices will drop further.
- More people looking to buy conditional on a sale of their house.
- Meeting affordability criteria harder to achieve with servicing margins creeping to high 7's.
- Still getting inquiries - fewer dreamers too.

### NELSON/TASMAN/MARLBOROUGH

- First Home Buyers seem generally undeterred by rising interest rates - the attraction of more moderately priced properties being available is outweighing their fears of future affordability.
- I've noticed more new-to-broker clients contacting me, feeling they need more personalised advice in this market.
- Valuations on new builds make for interesting reading - many showing small gains in capital upon completion rather than the large increases seen in previous years.
- More clients are concerned about affordability and are considering selling rather than looking closer at discretionary expenses before making such decisions

### CANTERBURY

- After a reasonably solid first half to the year, I am now starting to see enquiry reducing. Clients meeting the stringent affordability tests is the key barrier to those who are keen to do something though.
- Lending appears to be well down, even below 'normal' levels, due to First Home Buyers being almost completely excluded from the lending market now, and Investors still appearing cautious.
- Christchurch market is steady, but prices are

dropping significantly in Selwyn district and rest of the city is tracking along ok. Approvals are coming through however volume is less and people who are looking are genuine buyers

- Servicing rates keep increasing so it's making it difficult to get most deals across the line. I'm amazed at the lack of awareness clients have of their true spending. They complete their expenses and then you get their bank statements and the difference between what they think they spend and what they actually spend is huge
- Re-approvals are tough as higher servicing rates are seeing approvals being reduced significantly.

## OTAGO EXCL. QUEENSTOWN

- Some of the smaller bank lenders have dramatically improved turn around (2 to 4 days) but xxx and yyy still up to 10 working days. Can't work out why. Still a big variation in assessment from individual lenders within banks.

## QUEENSTOWN LAKES

- Buyers are generally quite surprised by the cost of repayments given we would have met 6-12 months ago in a lot of instances so when comparing advice to today the repayments are 40% more per week so we are finding clients may not to wish to lend at the level we could potentially be approved at. Although the reversal of changes by CCCFA have been pitiful we are finding the banks are much friendlier around scrutinising expenditure although we still need to be clear around spend.
- In the face of increased build costs and contracts that are in some cases exercising their escalation clauses prior to even starting to build I have been surprised by how much clients are still keen to proceed, and banks have continued to support although most now require minimum 15% deposit and contingency of 15-20%.

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