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# Tony Alexander

## MORTGAGE ADVISERS SURVEY

July 2023

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# Strength remains

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 55 responses.

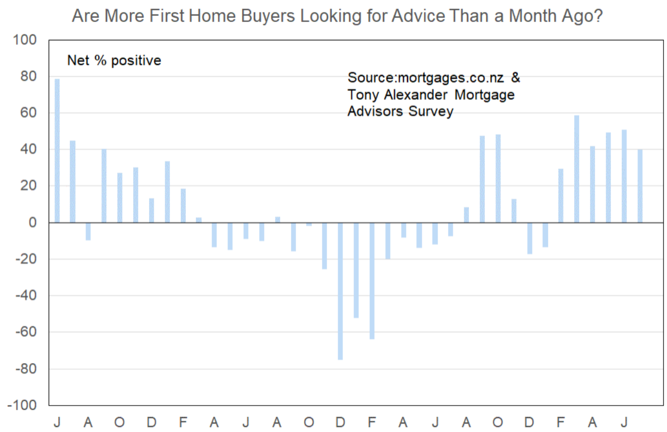
The main themes to come through from the statistical and anecdotal responses include these.

- First home buyers remain active in the mortgage market, but most investors are on the sidelines waiting for the election outcome.
- There has been a lift in borrower preference for fixing two years.
- High stress test mortgage rates are keeping a lot of buyers on the sidelines, frustrated perhaps as they see signs of the market turning but are unable to make a purchase until interest rates fall.

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

July represents the sixth month during which a strong net positive proportion of mortgage advisers responding in our monthly survey have said that they are seeing more first home buyers in the market. A net 40% have said so compared with 51% in June and 49% in May.

The decline is unlikely to be the start of an easing trend but instead may reflect a slight stepping back by some buyers. This could be in response to the recent round of bank mortgage rate rises which have been undertaken despite no tightening of monetary policy by the Reserve Bank.

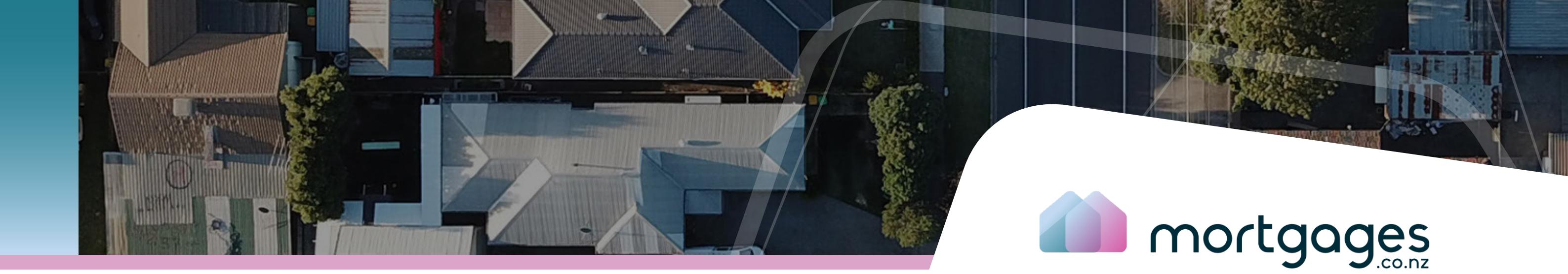


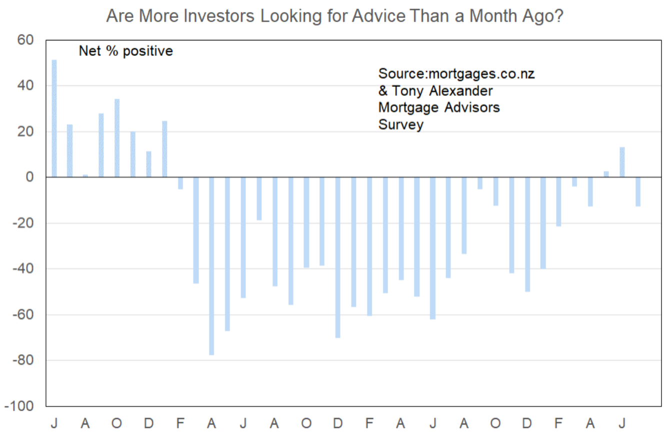

Comments on bank lending to first home buyers submitted by advisers include the following.

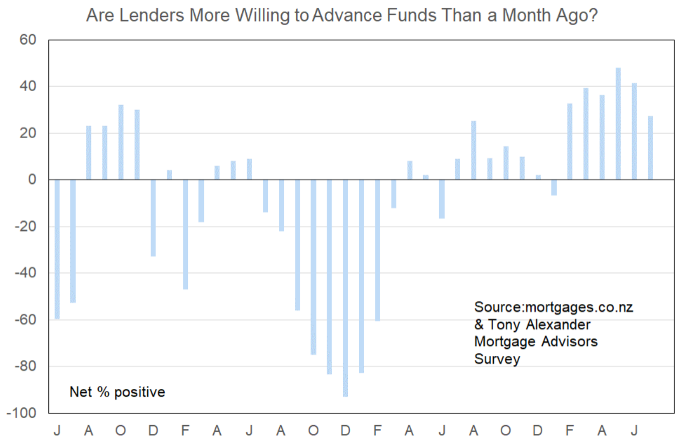
- More lenient now with clients' expenses which is good, discretionary expenses not needed to be included now in applications.
- Less restrictions on expenses, however, seem to be seeing more clients with credit impairments.
- Higher stress test rates are eliminating a number of potential hopeful buyers. Slight loosening of high LVR lending with banks now entertaining 'new' clients if deals are live
- LVR restrictions lifted last month have been positive.

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

The proportion of mortgage brokers saying that they are seeing more investors in the market looking for advice has fallen to a net -13% from +13% last month. This is the weakest result since February and reinforces the conclusion from other surveys that as yet investors are not following first home buyers into the market.




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

- Investors still sitting on the sidelines until they know what's happening with the election & interest deductibility.
- Brutal. Basically a waste of time unless clients have very strong income and low debt.
- Investors have gone very quiet, not getting any enquire from them in regard to buying another property.

In an environment of low sales and with the Reserve Bank perhaps still sensitive to any signs that mortgage rates are being discounted, banks are relying on easier lending rules in order to at least protect market share.

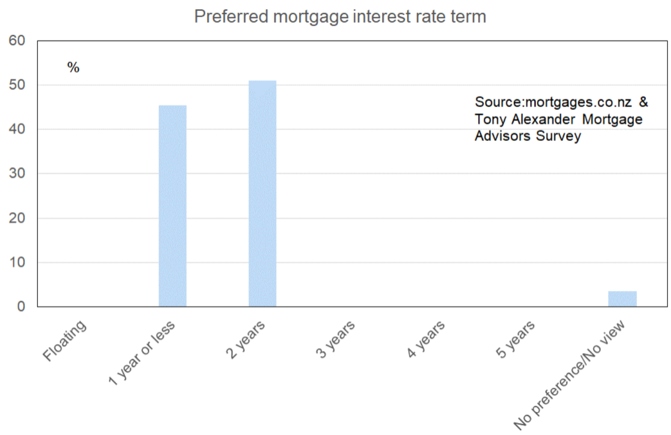
The easing of lending toughness has been assisted by the June 1 change in Loan to Value Ratio rules allowing banks to undertake extra lending at less than 20% deposit, and cutting the minimum investor deposit from 40% to 35% of property valuation.

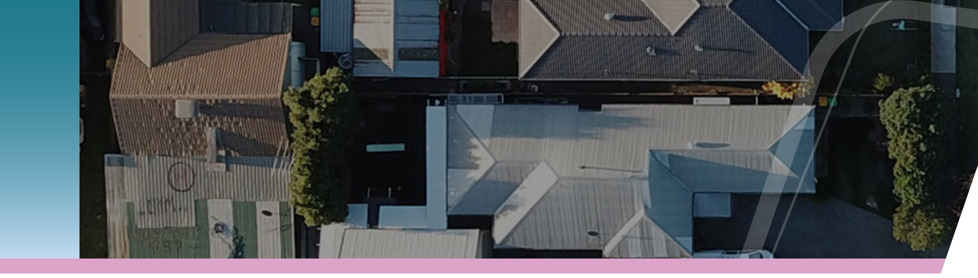
## COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

Broker perceptions of bank willingness to advance funds took a large step up back in February with a net 33% seeing banks as more open to applications for mortgage debt. Perceptions of lending willingness have remained firmly above average since then though have dipped this month to a net 27% positive from 42% in June. The levels of stress rates are seen as preventing many deals from going ahead and assessment of expenses is still seen as very rigorous overall.

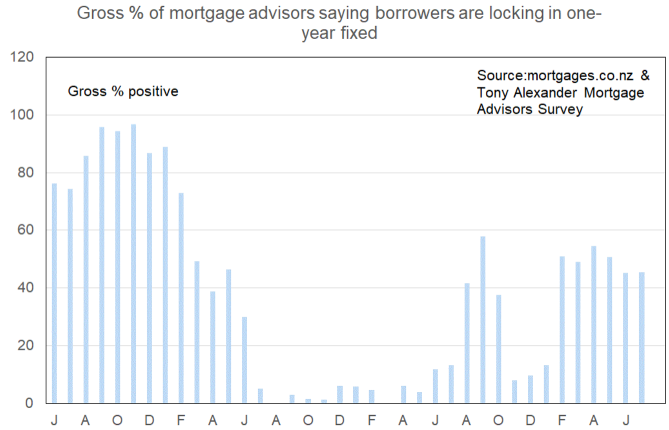
## WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

The two year period is now seen by mortgage advisers as more heavily preferred by borrowers to the one year. This may reflect the slightly lower interest rate being charged for two year lending and the way high interest rates have become a greater impediment for many borrowers now than having a 20% deposit.

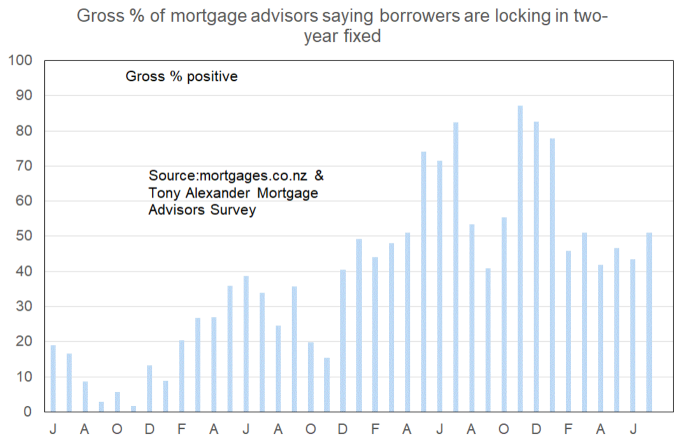




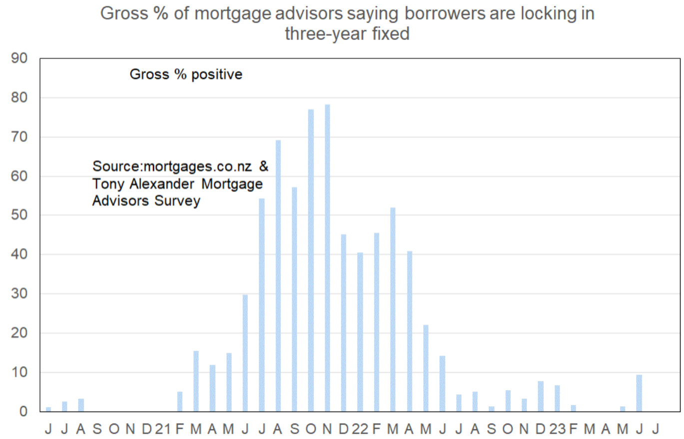
The one year term preference still remains quite high at 45% of brokers.



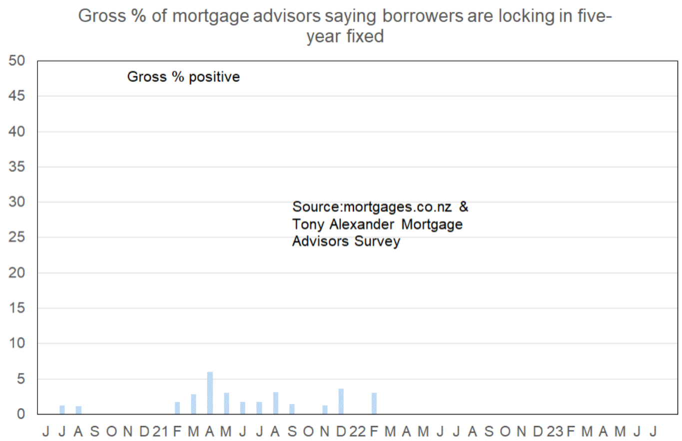

The borrowers preference for two years has edged up but is not very far removed from levels in place since February when the one year preference rose sharply.




The small blip up in preference for the three year term recorded in our June survey has not been sustained. Expectations of interest rates falling over 2024 are making people wary of fixing beyond two years.




Interest in fixing for five years remains zero.




# 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.

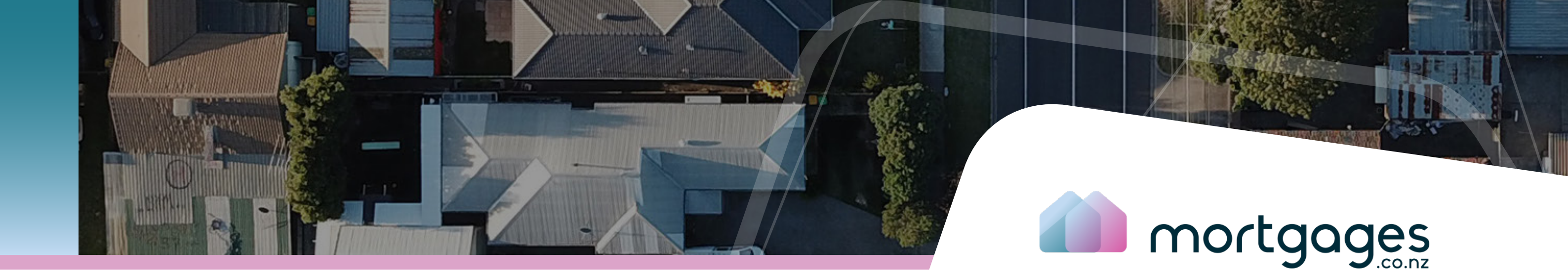
### AUCKLAND

- Very much feeling that within each bank there are assessors working hard to achieve a positive outcome for customers, and then there are those who take pride in saying no.  Consistency across the  lenders is far and wide and good outcomes vs bad outcomes feels very much down to individual assessors at the moment, rather than particular bank policy.

- Still seeing similar interest from next home buyers, those looking to upsize or change locations, but quiet on the whole, which I guess can be expected this time of year along with the economic conditions.
- Turnaround times terrible in AKL from most of the lenders. Almost zero movement on rate discounting across the main banks, with approx. 0.50% difference between highest and lowest 6 month rate, with those on the highest not willing to budge and trying to push clients towards lower longer term rates as affordability bites. Lots of enquiry to refi back out to 30 years, or IO to get repayments down.
- A number of established investors expecting to be able to borrow more but finding this is not possible due to the high servicing test rates.
- There is slightly more demand from FHBs, some of them are realizing they need to move now before everyone gets back in the market. The number of listings is down which makes the current good properties demand a higher price. Auctions are being successful although not at the level seen in 2021, but still the number of houses being sold in auctions is increasing. Investors have started to look at their options - hoping to see some change in central government making it easier to do interest deductibility. General perception is rates are at their peak now and depending on who you talk to, rates are going to be coming down in the next 6-12 months' time.
- New home buyers and investors are looking / moving out of Auckland.
- First home buyers are keen to buy if the price is right. Lenders have not changed their assessment criteria.
- I feel that banks are playing a political game here. Most are advertising and encouraging customers to talk to them if in financial difficulties, but when you do approach them for restructure, the process cannot be any harder and often you get the stock standard answer and decline
- Banks have pulled back on cash contributions (lower than previous), less discounting of rates happening, xxx and yyy in particular have said that their books have grown at a faster than anticipated rate and therefore are not fighting for new business (their pricing is terrible as a result).
- Lenders are rolling out new and improved products, and BDMs seem more active.
- I've noticed a more professional level of business development management in the top 4 banks (musical chairs too). Unfortunately the quality of credit assessors has not improved. It seems harder to find people who are willing to think outside the box and understand the scenario in context to human beings as customers.
- Lenders are available to lend money, it's about making sure the borrow has their finances in order at that time or essentially put a plan into place to do that. The lenders are currently less supportive to match competitor rates and appear unfazed by losing customers to other lenders due to refinancing. This is a benefit to borrowers as they are often able to move Banks obtaining both a lower rate and reasonable cash contribution.
- Investors looking ahead to post-election with investor friendly changes i.e. interest deductibility coming back. Looking to get in early now before more investors jump back in. Banks have approved IO requests for 3 months with a simple statement of why it was requested (no application required like the last 18 months).

### BAY OF PLENTY

- Banks are doing business if you get the right person.........never the bank but the person you deal with.
- We seem to have more inexperienced assessors in most bank broker teams again which is delaying outcomes & making deadlines hard to met and stressful for clients. Experiencing unnecessary delays in business banking & commercial banking areas, I have 'vanilla' deal submitted on 16th June still not yet fully approved............it sat in a queue for 10 days without even being started on.
- FHB are back in the market. Lots of enquiries in regard to Kainga Ora Loan. Houses are affordable in some areas in regard to income threshold.



## WAIKATO

- Test rates are killing servicing in general, but we're just started seeing UMIs coming back a little which is good and flexibility around CCCFA.
- The days of leveraging up for the future and being smart with your money are over. I'm struggling to get money approved for my clients. If they have a 90 day approval, there's basically no way they will get the same level of lending approved again. Its going to get grim.
- Everyone I talk to is battling. This is Cafe owners, accommodation, salespeople, and people on wages.
- FOMO is bringing many first home buyers back into the market and many of them are resolved to the fact that they are paying high interest rates but many seeing the benefit to them in the long term with predicted turnarounds in the market slowly gaining some traction and interest rates slowly decreasing.
- Starting to see "the hurt" for many existing clients grappling with the impacts of the higher rates as they rollover their fixed rates. Assisting them with interest-only solutions to help them through this high rate environment is not an easy solution and many are mind boggled with the hoops they need to jump through with the Banks to get such solutions.

## MANAWATU-WANGANUI

- Regulatory conditions are impacting on how much time I actually have to get and see clients. I'm just as busy now as I was during the boom of 2021, but producing 1/3 less
- Test rate at one of the banks is very high at 9.5%. still very busy but mainly first home buyers.

## WELLINGTON

- • A lot more build deals not settling on original price as value has dropped.
- • Have found that things have gone very quiet from a period of good consistency, but this is likely down to the Winter setting in and also school holidays.
- • Some of the non-bank lenders have changed the way they are scaling rental income to take into account removal of interest deductibility. This is reducing how much they can lend quite significantly.
- Very quiet winter in Wellington despite open homes picking up, most are armed with approval from earlier in the year. Lack of new buyers to the market now. With a three month lag I'm expecting it to be a tougher 6 months. A change in government has to happen just to turn around confidence.
- People really frustrated with the banks lifting their fixed rates when the last OCR the RB said this was it - having to explain the bank rates vs OCR.
- More FHB see now is the time to buy so wanting to get pre-approved.
- Starting to hear some FHB panic seeing numbers at Open Homes increase and some properties having multi offers meaning high sale prices.
- Bank turn around times increasing (might be school holidays so staff away or an increase in volumes)?
- xxx has launched a 'New Blueprint To Build Package' specifically designed for those building a new home or purchasing a turnkey property. Will be interesting to see if the others follow or if they come up with their own initiatives to win market share.
- Main banks no longer offering 1% Cash Back
- Have had a couple of buyers miss out on houses with multi offers.
- Banks are a touch slow again although depends on the assessor.
- Long time pre-approvals are putting in offers.
- The banks seem more keen to assist than previously with wanting to workshop deals more than in the past 3 years. I think this is due to them wanting to increase and/or keep market share.

## TOP OF THE SOUTH ISLAND

- Lenders are in a good space at the moment with approving applications, not seeing many declines. Good quality clients coming through who are not worried about higher interest rates. Can feel FOMO coming back in (from first home buyers) and the feeling from clients and agents is that we are at the bottom of the market. Few investors making comments around whether we get a blue or red government and which risk they should take.

### CANTERBURY

- Still very hard to get loans to service with the high test rates.
- Clients seem very unaware of their actual spending and continue to understate it in the information they provide for their application. Also bog surprise for them when they see what the level of repayments are at the current rates.

### QUEENSTOWN LAKES

- It seems in my area (Qtown Lakes) that there is an uptake of interest in building again. This is a combination of low stocks of existing homes, and the price point being high when clients could simply look to build their own home - for better pricing, rates, future deductibility and healthier home.

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