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MORTGAGE ADVISERS SURVEY

June 2022

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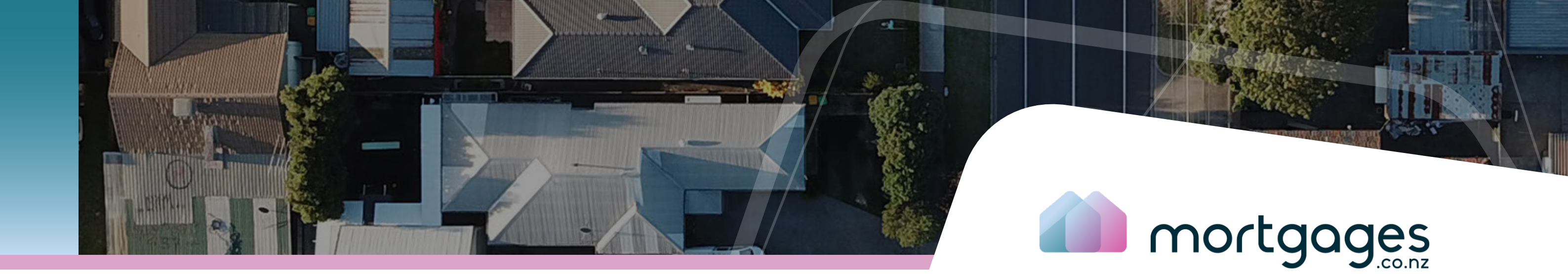


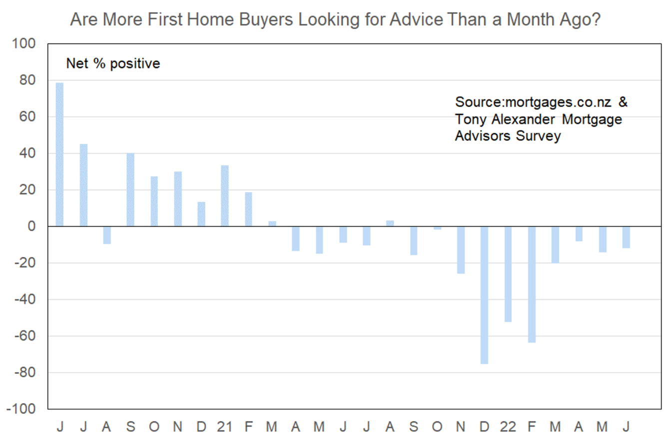
Conditions tough

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 a lower than usual number of responses at 42. Perhaps the sense of despair among some respondents is to blame.

The survey shows continued withdrawal of interest by investors and first home buyers, a slight lift in favour of fixing for one year, and a decline in perceptions of bank willingness to lend amidst rising test interest rates and increasing requirements for surplus monthly income.

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

A net 12% of our respondents this month have reported that they are seeing fewer first home buyers looking for finance. This is essentially the same as the 14% of May and 8% of April, but better than around the turn of the year when the credit crunch was at its worst.



First home buyers are likely to be holding back from the market as they see a continuing string of reports about falling prices and difficulties being faced by those getting a house built.

Those stepping forward looking for finance are finding that they often cannot get it or obtain the volume of funding they are after. Banks have increased their test interest rates to around 7.6% as mortgage rates have gone up and the Reserve Bank has signalled extra monetary policy tightening is to come.

Banks have also increased their UMI – uncommitted monthly income – requirements. One major lender requires that borrowers have at least $2,000 a month not committed to any regular outgoing before they will agree to financing. This is a larger requirement than for a long time.

It is also very difficult for young buyers to now acquire a mortgage with less than a 20% deposit.

Banks want to lend, but like everyone else they are increasingly cautious about the NZ and world economic environment.

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

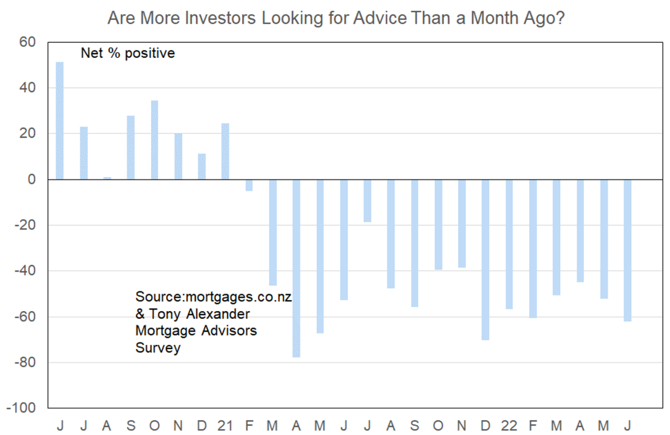
- Kainga Ora changes have helped - but buyers are hindered by income caps - its all very well to remove price caps, but the income slows most buyers down in Auckland - still near impossible for single people to buy.
- Still almost impossible for FHBs without 20% deposit to purchase an existing property.
- Increased UMI requirements and stricter review of become and expenses.
- Rules around CCCFA have had a slight easing, timing wise it makes no difference as Test rate increases have reduced borrowing capacity more than the rule changes have saved.
- Still difficult and as test rates increase, pre-approval amounts are reducing.
- Meeting debt servicing is getting harder as the test rates continue to increase. Will expect to see the living expense calculations increase as well due to cost of living increases.
- First home loan criteria/price cap increase is a

huge win for first home buyers in Christchurch and Dunedin.

- Little sub-20% lending available.

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

In a nutshell, since the LVRs returned in February last year and then the tax rules were changed and the minimum deposit for investors jumped to 40% in May, investor buyers have been standing back from the market. There has been no upward or downward trend in this investor withdrawal for over a year now and it seems unlikely in the current deteriorating economic, interest rate, and asset price environment that we will see much improvement in their willingness to re-engage with property purchases this year.



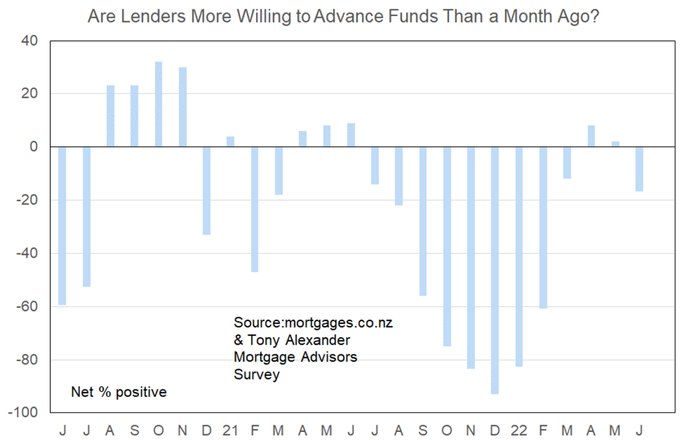
Comments made by advisers regarding bank lending to investors include the following.

- Significant variation in rent shading - some banks include rates and insurance as a separate cost. Others don't.
- Getting more and more difficult to fund IP through the income that it generates with all the changes the govt has made.
- Scaling of the rental income depending on the year it was built! And now needing to add in rates and insurance.
- Loans servicing getting tighter with higher test rates.
- Investors are still limited by affordability due. To stricter rules/calculations
- With the increase in interest rates, and changes to tax rules re deductibility of interest expenses, I've had little new enquiry re investment property lending this year. And those that do enquire, usually don't qualify or don't proceed.
- The current mentality is completely different from the past 2 years, when, as property values soared, people couldn't wait to use the newly created increased wealth in their own home, to buy more property as an investment.

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

In April and May net positive proportions of mortgage advisers said that banks were becoming more willing to advance funds. But this month we have reverted to a net 18% feeling that they have become less willing to lend.

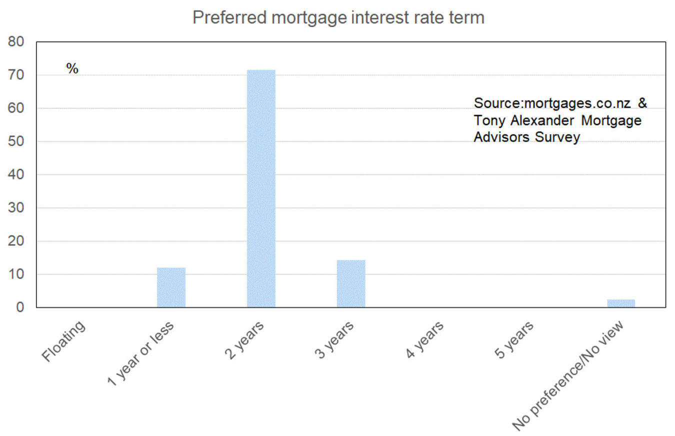
Triggers for this view appear to include higher test interest rates, additional scaling back of rental income, and higher requirements for uncommitted monthly income.



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

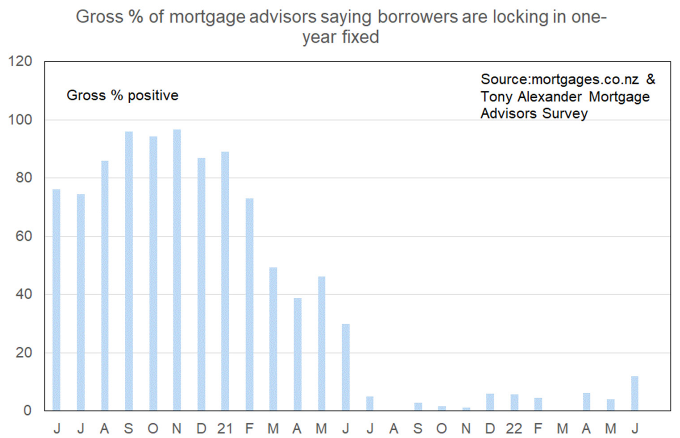
Last month we noted that having shifted from heavily preferring to fix one years out to three years, the preference had pulled back to two years. But we noted that as yet there was no sign of a shift to fixing just for one year. This month we can however see that this transition is now underway.

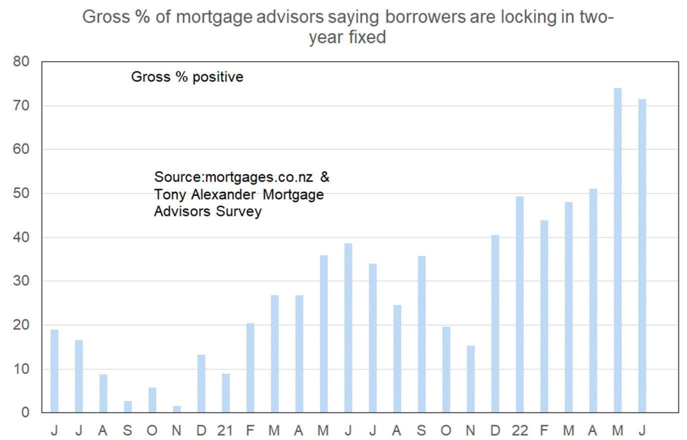
Whereas last month just 4% of respondents said that buyers were preferring to fix for one year, this month 12% say this is their preference.

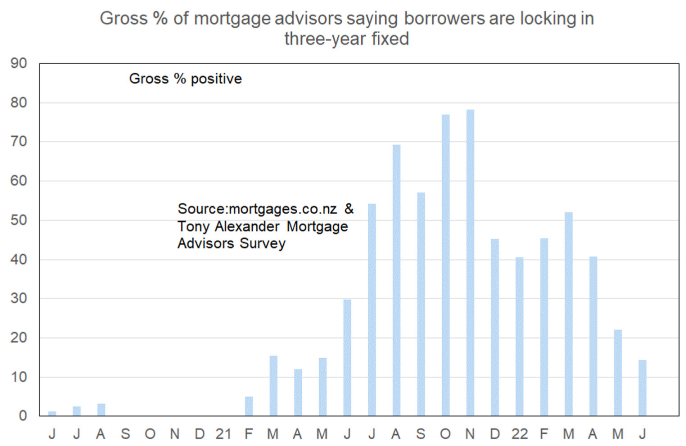


This is still well below the 71% preferring to fix for two years and the change has mainly been in the proportion opting to fix for three years declining from 22% to 14%.

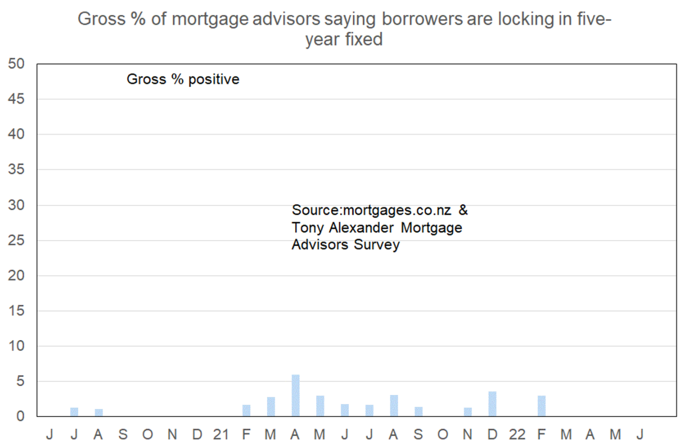
These next graphs show the shifts in term preference over the two years we have been running our mortgage adviser survey.

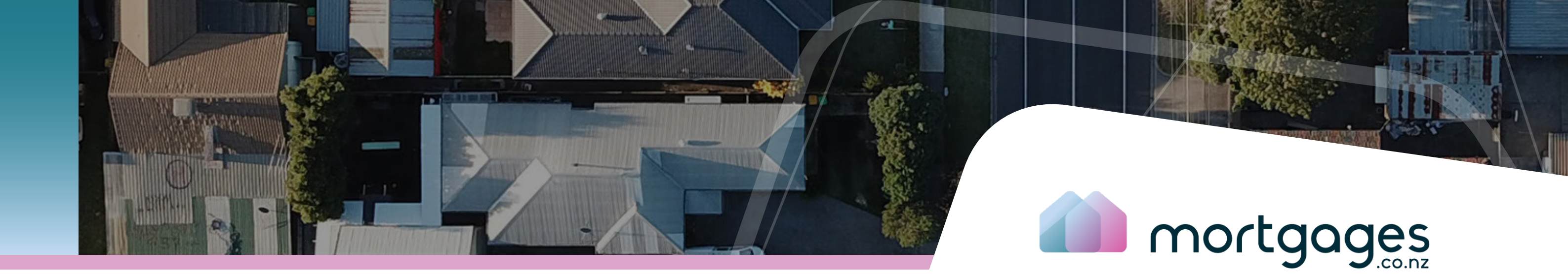






The following graph illustrates why banks in New Zealand not only do not offer 30-year fixed rate loans or 20, or 10, but rarely push even their five year rate with discounted deals. Kiwis hardly ever fix longer than three years.





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

- It's very hard out there, The banks are mostly shut to over 80%. So, then it becomes can a first home buyer fit the criteria of the Kainga Ora loan, which even though the government made it sound like they did a wonderful thing the client still has to meet servicing requirements and find a house in the area they can afford. Very tough, more total declines in lending.
- xxx test rate today went to 7.60% and their UMI for over 80% is at $2k (for live deals/own customers only) - these are the levers clients don't see.
- xxx have virtually said not interested in low deposit buyers by setting a ridiculous UMI of $2000. Unless FHB meet first home loan criteria they are pretty much stuffed for getting lending.
- Development financing closed unless existing banking relationship with track record. 80%+LVR is harder than it has ever been. Best time for families to trade up.
- First time I have heard elevated chat around fear of rates. There has been consistent conversation with clients who are starting to weigh up whether they should sell or tough it out for a few years.
- Very quiet, appears a few have bought before selling and that looks to be a costly mistake given the quick change in market sentiment. Fewer lenders interested in short term bridging, particularly if a consumer credit contract. Could be a slow year....
- Cash back incentives from banks have increased.
- Sub-20% deposit lending heavily rationed.
- Purchase contracts falling over because the buyer can't sell their own property.
- I'm still getting enquiry from those looking to buy, and somewhat surprisingly, existing clients looking to sell and buy their 'next' house, but it's definitely quieter. Those clients I have that are looking to buy are definitely not feeling rushed in their decisions - which is a great change for buyers from the last few years. But difficult for those trying to sell a property!
- As you have pointed out so well Tony, buyers are being fussier about what they want to buy. They have added their 'wants' back to their lists and are not as willing to compromise. Or they will deduct more off the asking price if they need to do a new kitchen or whatever. Nobody wants to pay too much in this market or spend money on building reports and legal advice unless they know their price/offer is accepted. Very few are interested in spending money so that they can bid unconditionally at auction; they would prefer to wait until the house is passed in, then make a conditional offer.
- There are still some vendors that are sticking to their ideas that their house is worth the same as it would have been late last year, but most seem to be coming around. I tell my clients to walk away if their low offer is not accepted and the vendor is unrealistic in the counter - the agent usually comes back a few weeks' later to see if clients are still interested, as the vendor will now accept their lower price.
- Note - those houses that are well presented and tick all the boxes are selling quickly and for good prices, however. I've had clients miss out as they were a bit too cautious with their offer. But it's mostly a buyers' market and most buyers are being careful with the money they offer. With interest rates going up - on a weekly basis it seems - the actual cost of that loan to buy the house is much more prevalent in peoples' decision making now.

BAY OF PLENTY

- A client had worked for employer for 12 years and on 1st April went on to a contracting basis with fixed term contract for 2 years. Their current bank with which they already have a home loan not interested in even considering a loan application. It didn't 'tick the box' for them with min 12 months self employed income.
- Market activity is returning as buyers get used to interest rates at current levels.

WAIKATO

- Residential developers are getting nervous, and many development sites are on the market

MANAWATU-WANGANUI

- Fewer buyers due to lending criteria is making for slim pickings hence the reduction in purchase prices. Sellers need to be more realistic in their prices because those get rich quick deals have now sailed.

WELLINGTON

- Buyers have pulled back from the market in Wellington, I have been a mortgage adviser here for 19 years and its currently quieter than the GFC was.
- Certainly, competition via cash contributions for loans ready to settle but not much movement with interest rates in terms of competition. Come spring I expect a little more competition from the banks.
- Very difficult to get any lending for investors through mainstream lenders now due to debt servicing. LVR's are not the issue. The increase in test rates, increased scaling of rental income and having to include rates & insurance for investment properties as an additional monthly expense now mean your average NZ'er can no longer purchase an investment property.
- Most lending for investors now through nonbank lenders.

CANTERBURY

- Tough time for everyone. Just got to "hang tight" and wait until things settle down as they inevitably will. The market does appear to be in a real slump!
- Keeping up with bank policy is challenging, no two banks are the same at the moment and most now looking at live contracts only. UMI continues to increase which is not helping borrowers.
- Generally easing of strictness in assessments, but test rates are going higher and essentially lowering approval limits. Quite a bit of smaller time developments in the pipeline, but almost no funding lines to get them done.

OTAGO EXCL. QUEENSTOWN

- It's getting much tougher for people to meet the higher servicing rates.
- Seeing a few more first home buyers but many not making the grade and being deferred before application submitted. Higher test rates now having a big bearing on loan affordability, This also applies to 2nd house buyers wanting to go to the next level.

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This publication is written by Tony Alexander, independent economist.
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