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MORTGAGE ADVISERS SURVEY

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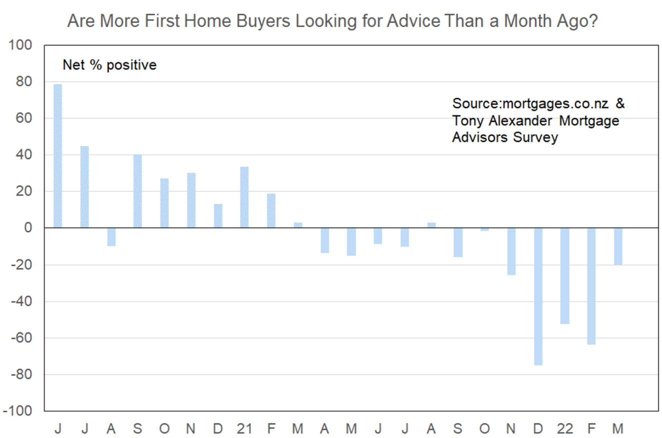
Slight easing of the crunch

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 and yielding 75 responses, shows that while investors continue to remain out of the market, the extent to which first home buyers are withdrawing has eased somewhat.

Lenders are perceived to be still becoming less willing to lend. But the extent to which they are easing off credit availability has eased a lot. The credit crunch may have past its peak, although some banks are tightening rules for assessing investors' expenses, and some are going to wait until June before altering their rules related to the Credit Contracts and Consumer Finance Act.

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

A net 20% of our 75 responding mortgage advisers this month have reported that they are seeing fewer first home buyers in the market. This is a sharp improvement from levels of the past three months and although still negative does bespeak of the stepping back in response to tight credit and rising interest rates perhaps having past its peak. of young buyers is easing off.



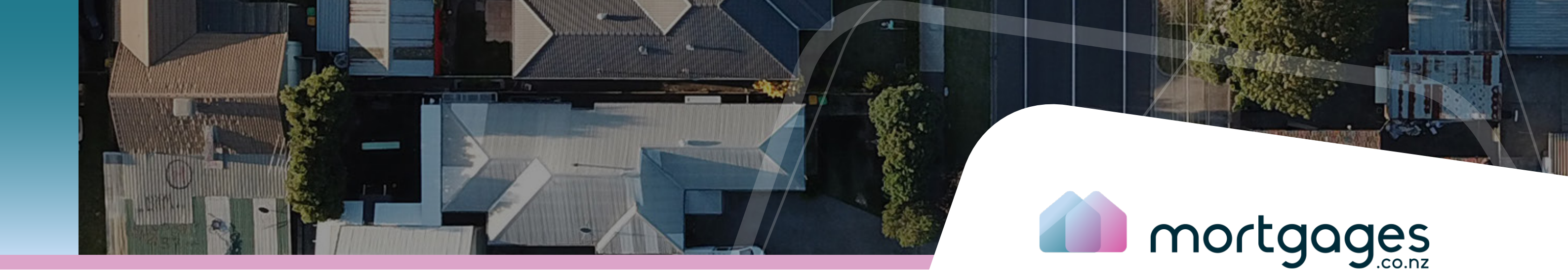
Young buyers are facing a barrage of factors to try and take into account as they contemplate attempting a purchase. How far will prices fall? How high will interest rates go? What will be the impact of the soaring cost of living? How many more listings will appear? Are banks really going to start lending again?

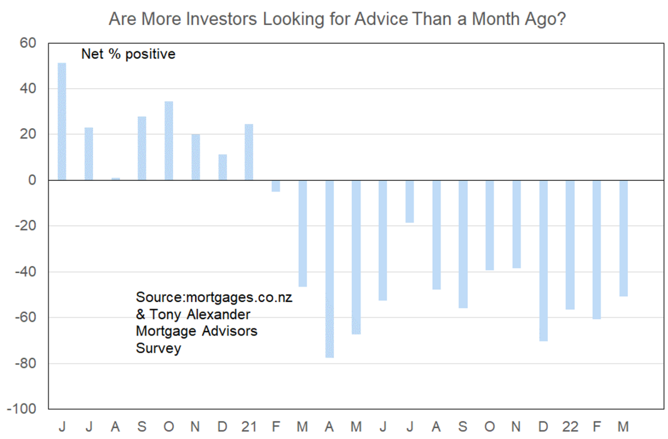
Comments submitted by advisers indicate that banks are very slowly opening up again to less than 20% deposit lending but are not uniformly altering their expense assessments in response to the anticipated change in CCCFA rules. Here are a selected few of those comments relevant to bank lending to first home buyers.

- Some banks have opened to over 80% LVR but needs to be a live deal with a signed and dated S&P and a very strong UMI. Unachievable for most.
- Interest rates for testing debt servicing are slowly increasing.
- Banks are slowly re-entering the sub-20% deposit market.
- 90% lending-most have started opening up again and interest is returning here. Still very focused on expenses whether 10% or 20% deposit some banks more rigid than others.

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

A net 51% of advisers say that they are seeing fewer investors seeking their assistance. This is the least weak result since November. But the improvement from -61% last month is far smaller than the change for first home buyers and tells us that the stepping back of investors since the March 23 tax announcement of last year remains firmly in place.





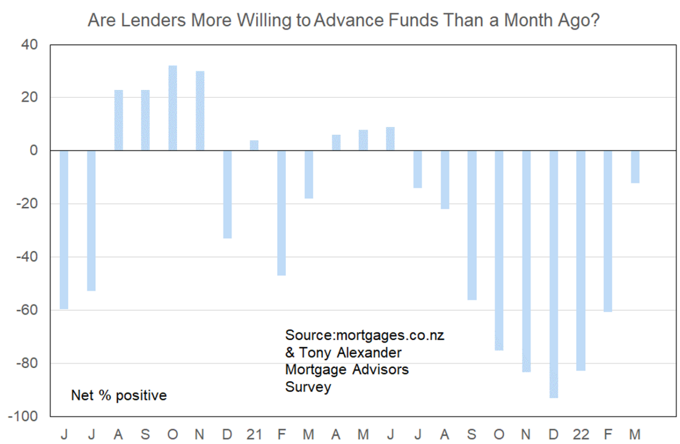
Comments made by advisers regarding bank lending to investors can be summarised as showing

- continuing tight credit availability,
- some extra scaling of predicted rental incomes,
- widespread inclusion of insurance and rates as specific expenses no longer covered by traditional rent scaling.

"LVR of 60% against existing properties and 80% for new builds. Prior to the CCCFA and DTI changes (DTI of 6 is being implemented by xxx and 7 by yyy), $100 per week in rental income would service approx. $45,000-50,000 in increased borrowing based on the banks' debt servicing calculations. Now with the DTI's and CCCFA changes, $100 per week in rental income will increase borrowing capacity by around $25,000. That is a nearly 50% reduction in borrowing capacity. Based on this, a property renting for $600 per week will only increase borrowing capacity by around $150,000 (previously up to $300,000) with the balance of the purchase price having to come from unused debt servicing capacity within the applicant's personal income. A property costing say $900,000 will require the applicant to have upwards of a net $1,000 per month surplus ($5,000 per month rather than $4,000) - more than previously to meet servicing criteria."

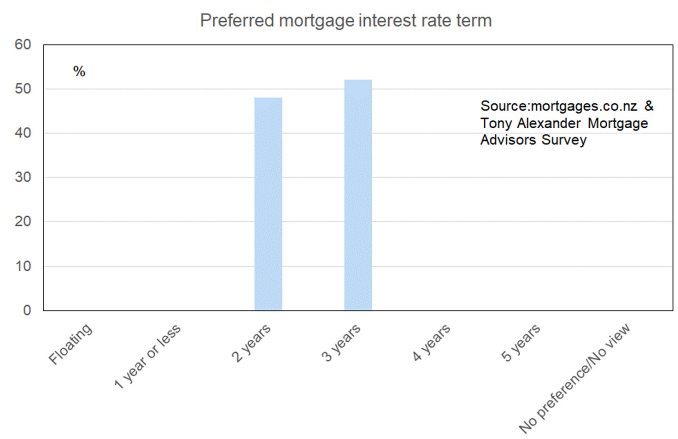
COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

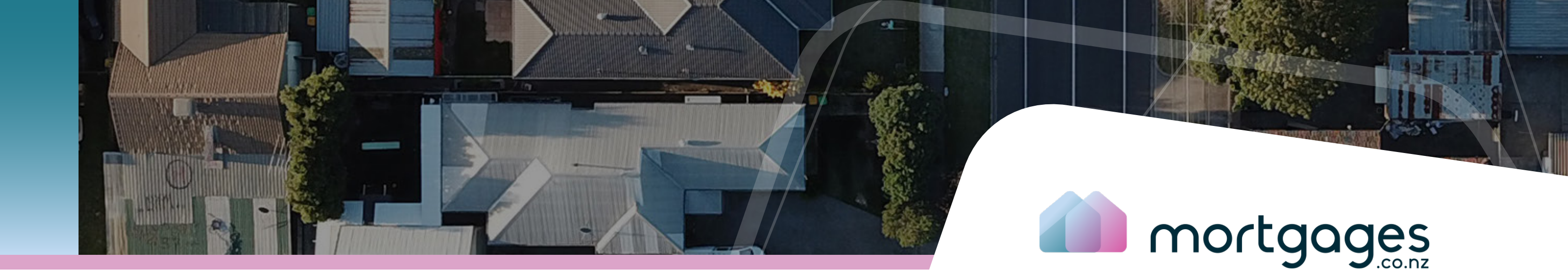
There has been a sharp change in the net proportion of mortgage advisers feeling that banks are more willing to lend funds. At its worst back in December a net 93% of advisers said banks were less willing to lend. That eased to 83% in January, 61% last month, and just 12% this month. Credit availability remains tight, but allowing for statistical variations there is only a small extra amount of worsening occurring in lending willingness.



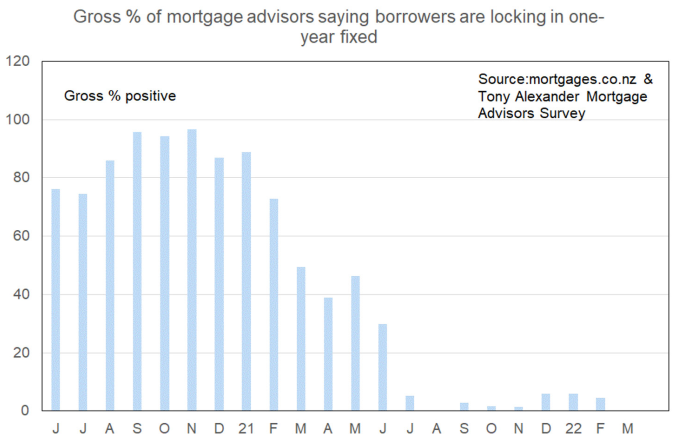
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

Advisers report that people remain strongly in favour of the two and three year fixed terms. No-one reported any interest in terms of one year, four, or five years.

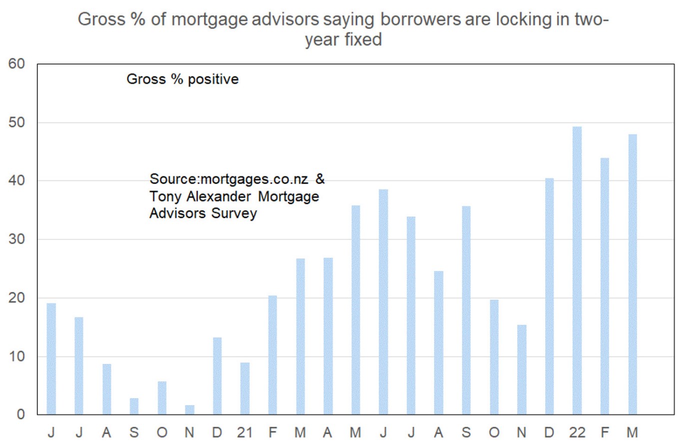


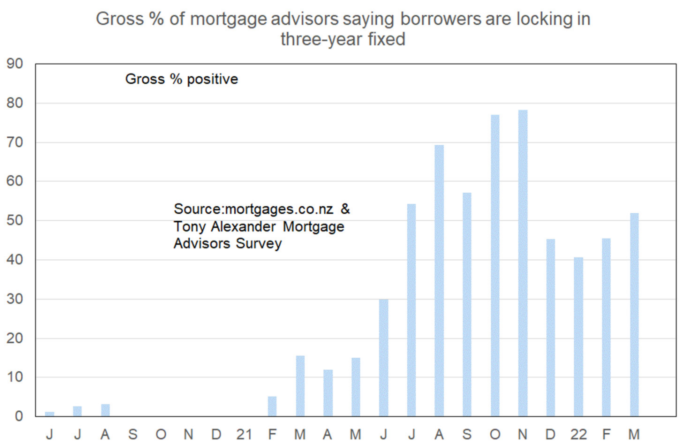


The preference for fixing one-year fell away strongly in the first half of 2021 and has now disappeared.

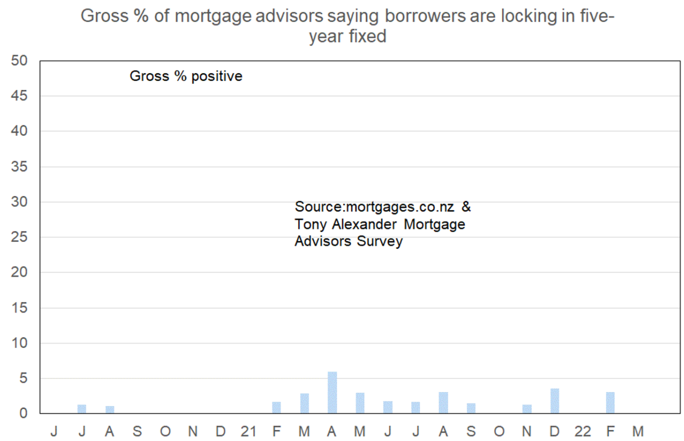


The preferences for two and three year fixed rate periods have been strong since late last year but with a little bit extra interest in three years recently.





There is now no interest in fixing five years and only a very small number of people did so when the rate was around 2.99%.



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.

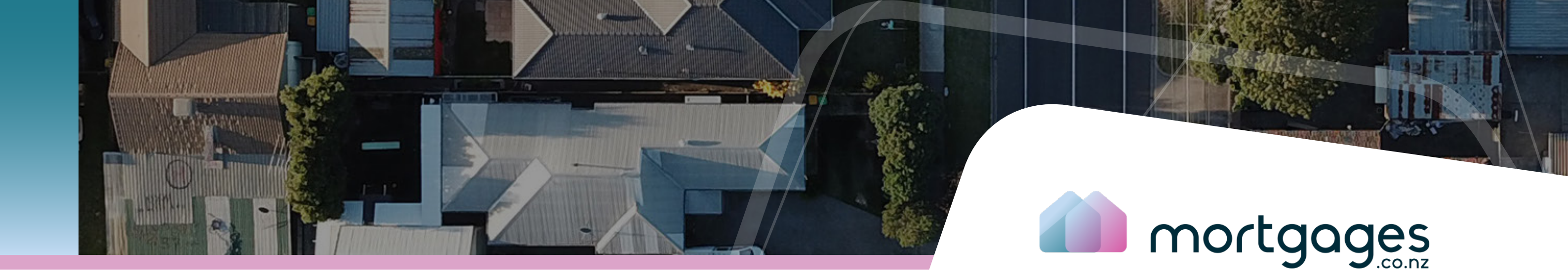
Key themes this month include the following.

- Frustration that the CCCFA changes don't kick in until June.
- Numbers no longer stacking up for many investors without an expectation of capital gain
- Non-bank lending getting a lot harder to find.
- Vendors having to adjust their price expectations.
- Bank test mortgage rates are rising in response to actual lending rates going up.
- Slightly more availability of below 20% deposit lending.

AUCKLAND

- I was quick to receive emails from the banks stating that no material changes have been made so continue as we are for now but there is some hope that MBIE are looking to make changes. Hoping we have some more news on this soon

- Banks have varied policy when it comes to expenses. xxx will take expenses at face value over the last 3 months using internal expense analysis tool, while yyy and zzz will accept expenses if reasonable and if there is file note commentary. No immediate policy changes despite government announcements, will likely be a time lag of a couple of months.
- I'm still getting positive outcomes for my clients; however, I am spending an hour or 2 more on each application to complete thorough notes around expenses. Lending amounts overall have reduced significantly for everyone - first home, next home and investors. This is due to interest rate increases which has now meant many banks have put their test rates up, combined with more expenses being detailed in banks calc and reduction in rental income that is used for servicing. Banks appear to be updating/changing calculators and policies more regularly which makes it tougher to give clients a concrete indication on borrowing power.
- Buyers are in the market but are not able to borrow the amount they feel they need. Lenders are reducing loan approval amounts by up to 30% in some instances where customers have an existing approval which has expired.
- Personally, seeing more property investors mum and dad looking at new builds first time investors. A queue of low deposit buyers backed up, but problem is often they need to switch banks bank with them for 3-6 months, if they don't fit current bank profile, before bank will approve them. Personally, seeing preapproval requests back at levels of November last year but the good thing is offers are now being accepted (less competition)-100% buyers' market in some parts of the country.
- Nonbank has no funding or being very picky on development deals, very slow for developers to get project going, another stress on top of material shortage. FHBs are still active, less investors, more homeowners upgrading, willing to go further out and bigger place, prices have softened, but it is still manageable as they sold less and they bought less, listings are still not enough.
- Industry feedback is that the proposed changes to the CCCFA might not go far enough.
- Kiwi's now looking to come home with no MIQ issues and bringing large deposits with them. Increase in large top ups over the past month, as well as increase in clients securing properties well under $1m
- Buyers are pulling back as FOMO has turned to "I can wait and pay less tomorrow". Vendor expectation is now higher than buyers are prepared to pay so purchasers are putting in conditional offers that are being initially rejected but vendors seem to be coming back to them.
- Now that the Govt have announced some changes to the guidance around the CCCFA, we are seeing some movement from Lenders (xxx now not showing savings as an ongoing expense) we will see how things progress. The actual implementation of the changes isn't until June, which will stifle the lending market more.
- Market slowed considerably.
- My enquiry re Investment property purchases has actually increased over the past few weeks - perhaps due to share markets being a bit wobbly and people looking at other avenues for investment? However, once I talk through with the client about how much they can borrow (less than they thought, usually), and then advise them to go and talk to an accountant, as they will likely have to pay tax each year ($500 a week rent could easily see a tax bill of $6,000 a year), and with interest rates going up (so the non-deductible interest expense is going up too) the clients usually lose interest.
- I have had more enquiry from first home buyers, as if you qualify for a loan, it's a great time to buy. Interestingly, most of my first home buyers easily qualify for a loan, even with the new CCCFA rules, as they have been saving regularly for their deposit for some time, and restricting what else they spend money on, to increase this deposit. So, if those savings + rent = loan repayments, then that's a great signal to the bank that they can afford a loan.
- It's my existing clients, who are looking to upgrade their existing house with renovations, or sell and buy their 'next' house, who are most affected by how much they can borrow under the new CCCFA. They already have the mortgage, are used to paying it on time and so often act more freely with spending the rest of their regular incomes and not saving as much. They still qualify for a loan, but due to the



- CCCFA, not quite as much as they would have been able to borrow 6 months ago.
- FHB definitely fearing paying too much - even when they have bought extremely well.
- Borrowers are now hesitant to take on larger mortgages with the higher interest rates and rising inflation directly impacting their weekly salary such as Petrol & Food Costs combined with the Russian invasion of the Ukraine and rising building costs and associated supply issues.

BAY OF PLENTY

- Massive drop off in new inquiries, buyers also taking a long time to make up their minds. Borrowers dont seem overly concerned about rising interest rates. Main impact is availability of funding in low deposit space.
- The limited funds available for borrowers with <20% deposit is still the stumbling block. Even though their debt servicing is often very strong.
- enquiry has dropped off significantly,
- A definite downturn in enquiry........and people are happy to walk away if they miss out on a house.
- The banks are applying a modicum of logic now in terms of being willing to talk/listen and understand to gain comfort with regards clients' expenses and declared expenses. Haven't had any major sell offs within clients and most are just carrying on per normal or positioning for opportunities a those that haven't been here before start selling up too cheap.

WAIKATO

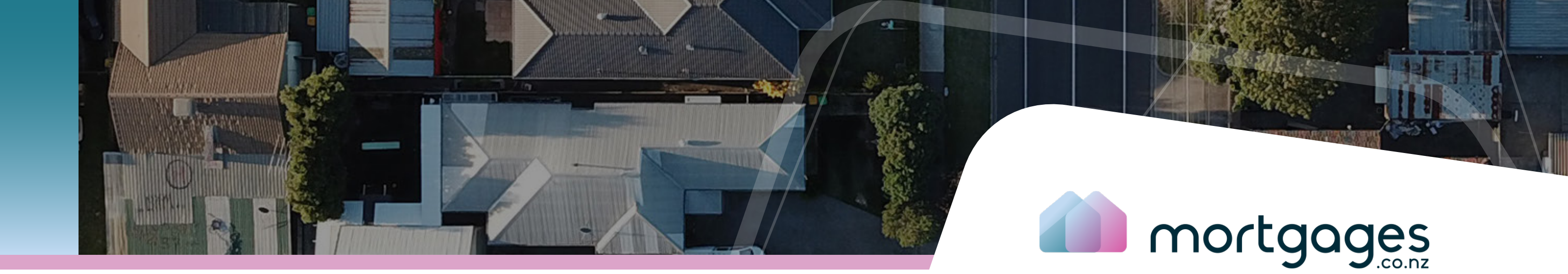
- Most first home buyers are needing help from family to get into the market. The number of leads coming through is dropping severely.
- Some low deposit lending capacity back, as above affordability threshold has been raised at most banks. Test rates have also gone up in the last month. Interesting case with CCCFA this week.
- I am working with a lot of borrowers whose lender was shut down by the FMA about 18 months ago. They now need to refinance or potentially have their house sold if they can't refinance elsewhere. A 77 year old pensioner with a $45k mortgage at an 8% rate needs to find a new lender, he pays the mortgage fine, and a new mortgage would be on a lower rate. Declined due to not being affordable under CCCFA at banks and other 2nd tier lenders who are burdened with CCCFA requirements. He has been in the home for 50 years. If I can't find another taker is this a most unfortunate unintended consequence of the new laws? To put a pensioner out of his home? All by the hand of government regulation (FMA firstly then CCCFA). Unbelievable. Assuming the worst happened, I'd love for someone in the beehive to hear about this!
- It's a little bit all over the place, in general buyers seem to have a bit more of a relaxed attitude to putting in offers compared to a few months ago. The urgency to act has diminished and they definitely understand that it is more of a buyer's market. However, there is still good competition out there. The LVR restrictions are what we are seeing more impact buyers than CCCFA requirements, as the house prices continue to increase, the money a buyer has saved decreases in LVR value putting them further away from the special interest rates and even their ability to get an approval therefore negatively impacting their financial future far more than what the regulations were designed to protect them from.

HAWKE'S BAY

- Banks are still keen to lend when they are able. Purchasers are very cautious and expect it to be too hard. Clients more in need of brokers than ever before, as negotiating between all the banks and their policies is harder than ever.
- A lot of back and forth about monthly expenses. Easy enough for clients that fit policy to access credit e.g., two good incomes, with no kids and no short term debt and good deposit. A lot harder for those will low deposit, average income, a few kids and short term debt.

WELLINGTON

- Have spoken to a number of lenders in the last couple of days regarding the winding back of CCCFA changes and they confirmed



they will not be changing the way they assess applications until at least June as there is still a consultation period.

- No banks have made any policy changes to the CCCFA relaxation announcement as no amendments have been made to the legislation and no changes in policy. They are all awaiting to see the final proposal before they make any changes.
- Due to Christmas most clients bank statements are not looking great under the CCCFA, so having to get clients to tidy up their bank accounts and come back again in 3 months time. Great news is the review, but the government need to give details and time-frames.
- No discretion being applied to affordability by credit managers at the banks, even if current spending shows applicants clearly have the ability to reduce spending on discretionary items if they have to in the future. Assessors want spending at time to application to evidence applicants have a surplus that proves they can service the debt assuming interest rates of nearly 7%.
- Service from main banks has been very good with better turnaround times and generally better attitude. At the same time non-banks seem to have long queues and they are inclined to be less helpful. However, I base this on relative few instances with non-banks. Deals subject to sale are falling through as there are often no offers. What we did very successfully through the previous two or three years, has no longer been happening since early this year. It has been a very quick turnaround in the Wairarapa, almost overnight and everything has changed. But there are still opportunities thanks to the wide scope of the work that brokers do.
- There is still plenty of enquiry coming through nothing has changed at the banks, it does seem that some staff are looking for a reason to decline.

NELSON/TASMAN/MARLBOROUGH

- Lots of buyers that are waiting to see what happens, think they are waiting for house prices to drop. Lots of buyers with less than 20% deposit ready to go. Lenders still seem busy.

CANTERBURY

- Despite review underway, banks interpretation of CCCFA seems to be getting harsher & harsher with new policies being introduced weekly
- In general, I have found lenders still accepting of expenses that are put forward, so long as they are in the ballpark of actual past expenses.
- Great to have banks opening up to High LVR stuff, even if affordability is a bit extreme (i.e., xxx at 1800 UMI)
- Banks starting to be a little more reasonable about expenses (e.g., savings)
- General feeling that house prices have started moving the other way. FHB more optimistic in finding a home again!
- More FHB making enquiries to find out what they need to do to qualify. Prices stabilizing in market. Less competition. Some sellers still need to adjust price expectations and these properties are taking longer to sell. Daily grind is not for the faint hearted!
- Everything still seems to be a fight at most lenders. A couple of lenders are easing up slowly though.
- I can see some really tough times are coming for a lot of builders, developers as they won't be able to extend the loan they have borrowed from non-bank lenders. That space used to be flooded with money but there is honestly no funds around and non-bank space is dry and its extremely hard to get any development funding across the line at present.
- Dead as a dodo for new buyers, very quiet just like 2008 post GFC.

OTAGO EXCLUDING QUEENSTOWN LAKES

- Property market seems to continue to be slowing down. Tougher lending rules, higher interest rates, higher cost of living and covid all major contributing factors. New lending laws are making it frustratingly hard for first home buyers to secure funding.
- No big changes noticed yet from CCFA review, expense calculations still an issue, a bit like Forrest Gump's chocolates " you never know what you going to get" from lender to lender even within the same bank.
- Dunedin a buyer's market. Deadline treaties no

offers made.

QUEENSTOWN LAKES

- Media is over-emphasising the problems in the market. Banks are keen to do business as long as the numbers work.

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