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MORTGAGE ADVISERS SURVEY

March 2023

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First home buyers present

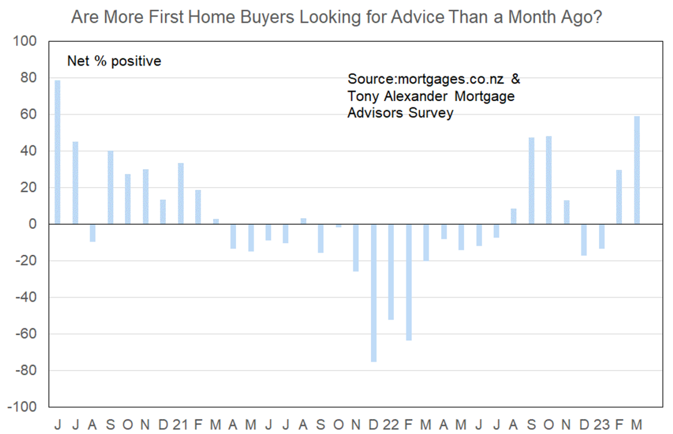
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 52 responses.

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

- Borrowers are evenly split between favouring the one and two year fixed rates.
- Brokers are discontented with the unadvertised and selective nature of recent specials offered by banks. Borrowers are also resentment if they have not been made aware of the specials.
- First home buyers are in the market but investors remain absent.

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

For the second month in a row a strong proportion of responding mortgage advisers have said that they are seeing more first home buyers in the market. A net 59% have reported such this month from 31% in February and an average reading for the past three years of just +3%.



Average house prices around New Zealand are still well up from levels immediately preceding the pandemic. However a wages measure relevant to first home buyers has risen by almost the same amount. Feedback from advisers suggests that the biggest issue young buyers face currently is not raising a deposit but meeting bank servicing requirements. In that regard it seems unlikely that many of the first home buyers will necessarily be able to make a purchase in the near future until interest rates move slightly lower.

Yet that is what has been happening recently with a round of fixed mortgage rate cuts almost two months ago and some low-rate specials recently offered by banks protecting their market share.

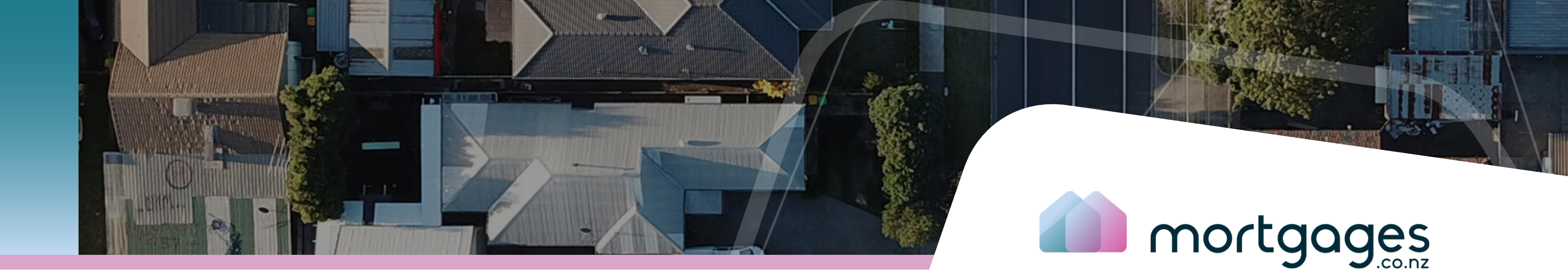
Comments on bank lending to first home buyers submitted by advisers include the following.

- Affordability is the biggest issue still. No change really, other than one smaller bank increasing their assessment rate slightly.
- Competition is heating up, with lenders starting to use interest rates to gain the 'large' loans.
- House prices are lower which has contributed to lower LVR levels and affordability for first home buyers.
- One bank offered over 80% lending, but got swamped so had to pull the opportunity, after a few days.

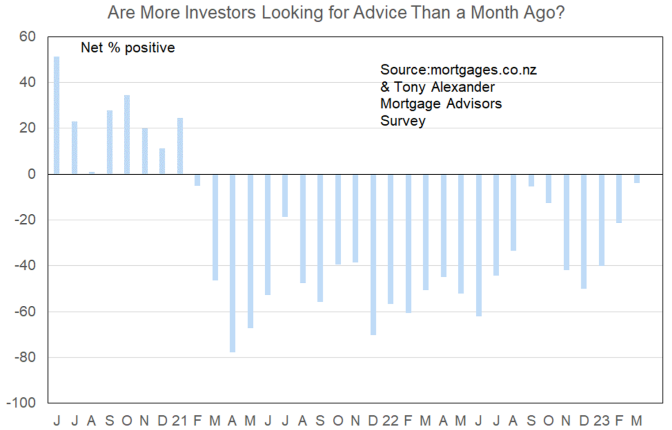
COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER INVESTORS LOOKING FOR MORTGAGE ADVICE?

The net proportion of mortgage advisers saying that they are seeing fewer investors in the market has fallen to the lowest level since just before the tax changes in early-2021. At 4% the result shown in the following graph is still negative and one could not say that investors are returning. But their extended two-year period of market desertion could be reaching an end.

It is too soon to say this definitively however as



one swallow does not a summer make. But I will be closely examining results for investors from my other monthly surveys to see if a similar change occurs..

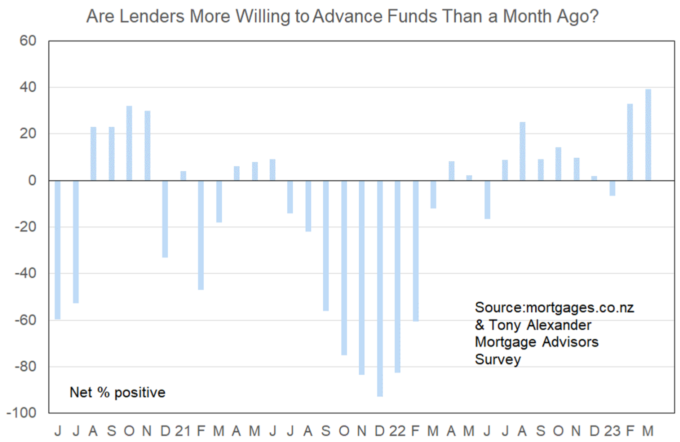


Comments made by advisers regarding bank lending to investors include the following.

- We are seeing less of a tendency to question all expenses (not necessarily for investors alone), and so the response to the CCCFA seems to have softened.
- Investors aren't interested.
- Scaling of rental income and servicing is the major issue.
- Very little change here... investors are largely waiting to see the result of the election
- Banks still 60%, nonbanks at 80%

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

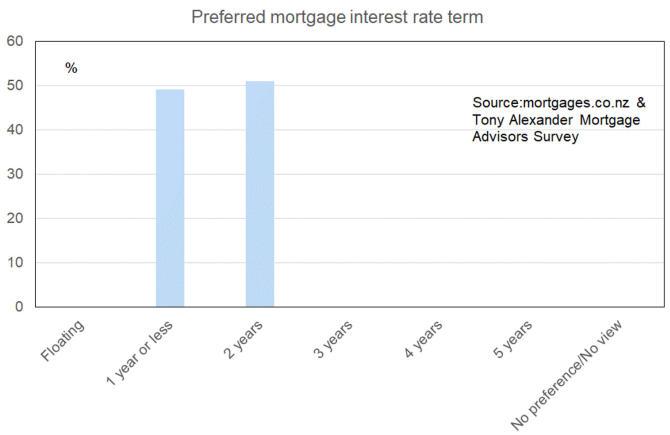
Our survey has reported a further improvement in adviser perceptions of the willingness of banks to advance funds to residential property buyers. A net 39% of brokers have reported improved willingness, up slightly from 33% last month and the strongest result in the near three years this survey has been running.



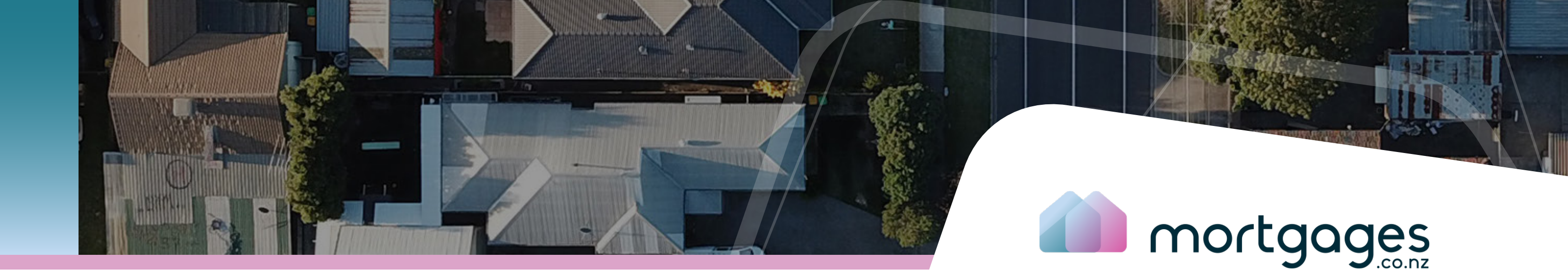
Accessing credit overall is still difficult for many borrowers courtesy of the major toughening of Loan to Value Ratio rules in 2021 and the changes to the Credit Contracts and Consumer Finance Act effective from December 2021.

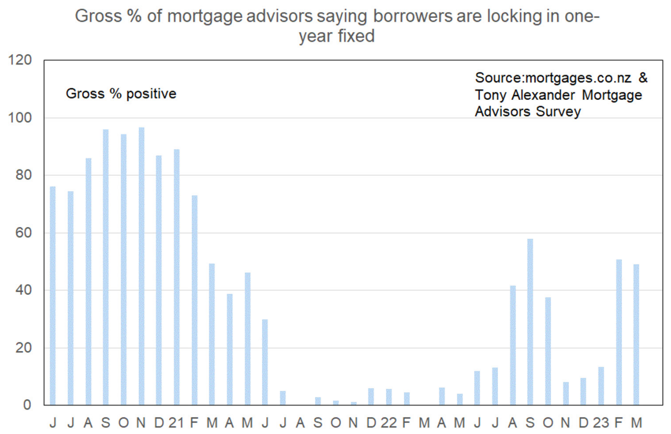
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

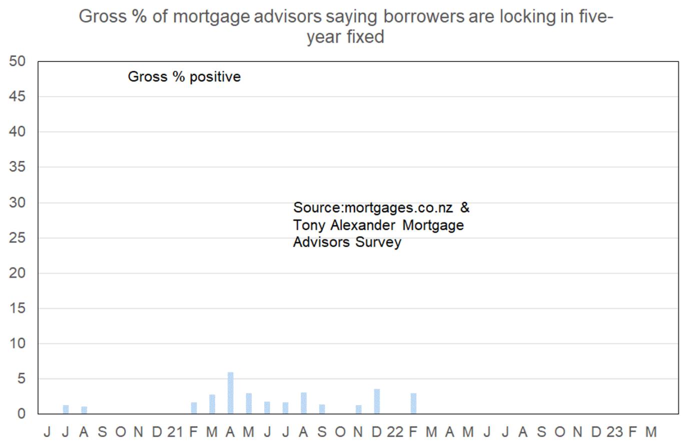
There is a near even split between observed borrower preference for one and two year fixed mortgage rates. The one year preference cited by advisers sits largely unchanged from last month at 49% and the two year preference is up a tad at 51% from 46% in February.



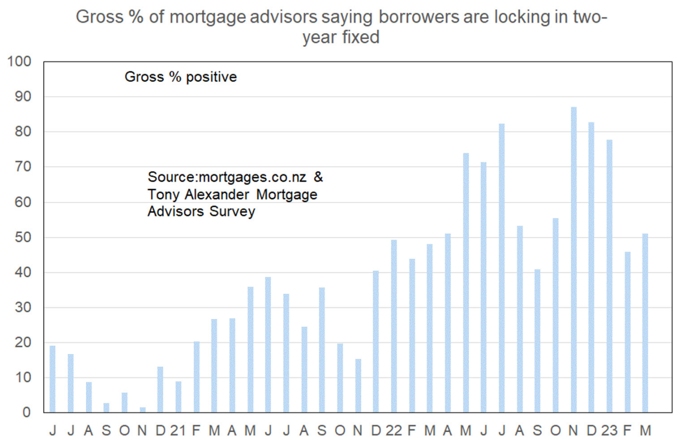
Preference for the one-year rate has been up and down quite a bit these past three years.



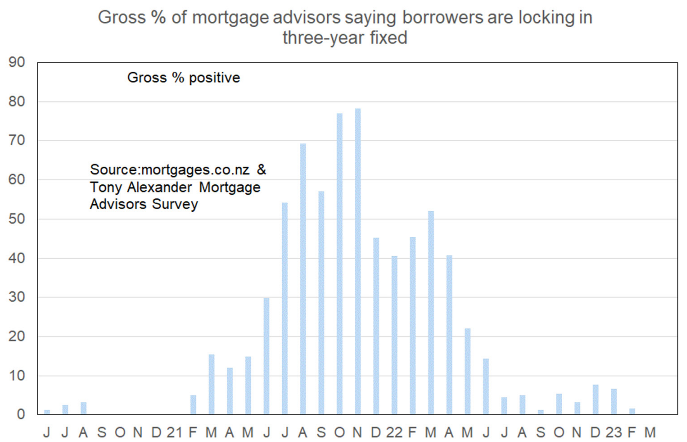




The two year preference fell away in February after being highly favoured.



There is little interest in fixing beyond two years.

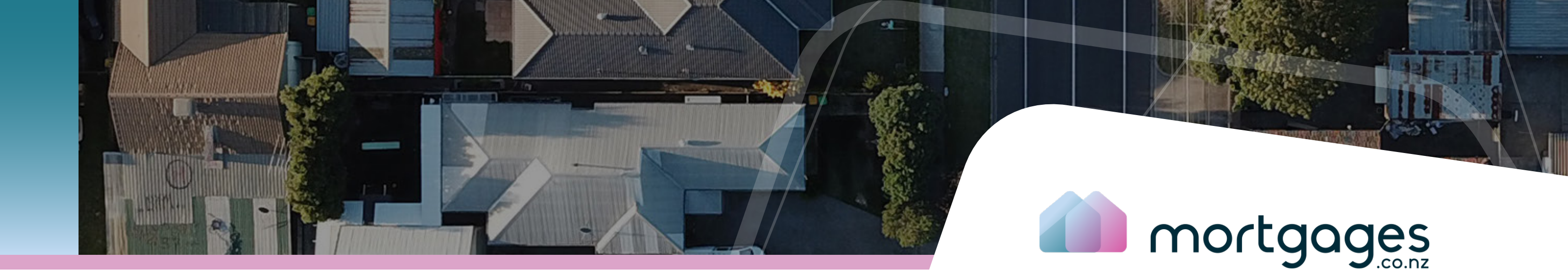


Mortgage Adviser's Comments

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

- Some lenders including more questions around customer Due Diligence with their solicitor prior to issuing an approval, increased scrutiny around spending especially when statements show Xmas and holiday period spending. More clients looking to switch lenders for additional cash, or to extend mortgage term to lower repayments when own bank wont help.
- Aggressive month of cashbacks and special low rates in the 1-2 year space while banks chase volume. Now being unwound with wholesale rates subsequently climbing back to levels at start of the year again.
- We are seeing banks willing to lend under their debt servicing policy limits (slightly under in most cases) . There is a clear view that they are well behind in lending volumes. There has been an unusual uptick in lending enquiry since January - our business in particular has recorded enquiry level for this quarter at the highest it has been for the last 4 quarters. A lot

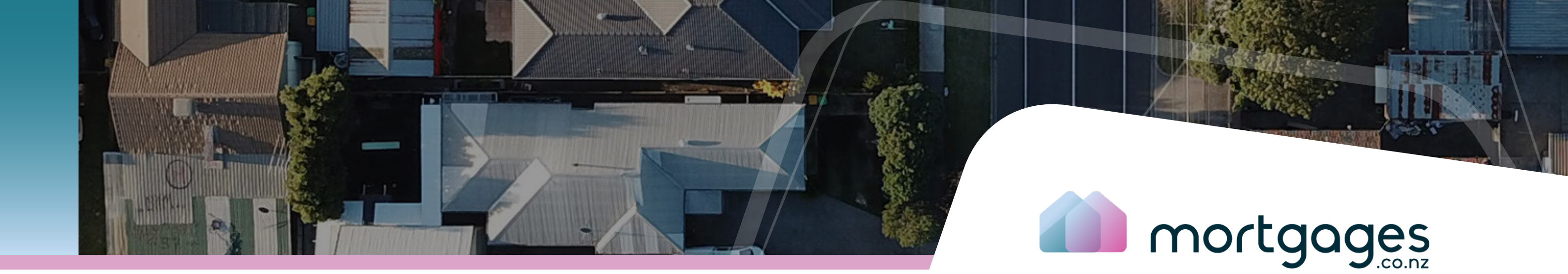


of clients looking to refinance with the 1% cash contributions being offered - we would expect a few more campaigns like the recent 4.99% one. A lot more of our clients are heading to auctions and we are observing a higher number of properties selling at auction.

- Clients are talking as though we are at the bottom or getting close and wanting to get approvals in place before it is too late.
- Mindset starting to change in terms of people no longer predicting interest rates will continue rising forever. I believe the chat around the water cooler is that rates are stable and it is a good time to buy if you can, due to flat prices and low attendance at open homes.
- Clients appear resigned to the higher interest rate environment and now making decisions to sell or buy despite the housing market.
- Parents are starting to gift funds for deposit to their children again. Perhaps a sign that they feel the worst of the price drop is done.
- Seeing more recent immigrants in the market.
- Some FOMO from people in flood hit areas worried that red stickered homeowners will be hitting the market and buying up limited housing stock.
- A very fluid market, several mortgagee sales to deal with, not seen this number since 2008.
- Market understands that it is still harder to obtain home finance. The higher test rates still pushing lower income people out of Auckland market. Banks still ham strung by cccfa rules slowing industry.
- There is no urgency from buyers - they want the approvals but many are taking a long time to commit to a purchase and settle. Probably waiting to see if prices come down or trying to buy at low prices and not being successful.
- Banks are approving good deals and providing good offers with discounted rates and cash, but are not doing much for existing clients.
- Having a lot of people asking about refinancing but with drops in property values it's going to now push them over 80% in which case they would be worse off.
- Lenders are panicking this week as the new regulations re licensing come into force next week. It appears that around 2000 advisers have not completed studies and therefore will to be able to operate from next week.

BAY OF PLENTY

- Banks are chasing the refi deals, and extended their 1% cash to end month at least.
- Refi's can be attractive to clients, if they are outside the original cash clawback period, and can meet current servicing requirements of the lender! Win for clients, as they get 1% cash - should be sufficient to pay the lawyer and have some cash left over to assist with paying the higher repayments."
- Pretty hard going for finance but some good buys in the housing market and worth putting in the effort
- Lenders are choosey of the deals they want to write. Retention of a client has become more prominent whereas in the past they'd let them out the backdoor and get another in the front door. FHB's making a reappearance, now that affordability is at a more realistic level especially in the cities that have been too high for too long. Not worried about rates as rates have almost peaked so not too worried compared with FHB's who got in in the last two years.
- High floating interest rates from non bank lenders are putting major pressure on cash flows for their clients. Many clients desperate to refinance back to main stream banks but the test rates around 9% are making this very difficult to achieve.
- There is a bit more activity than last few months from FH buyers and existing lenders looking to review, restructure, renovate, upgrade etc. But still very subdued.
- The recent short sharp 4.99% option was inaccurately represented by media and on Facebook. There was no cash to move, it wasn't available to existing clients and the general cost to move from another lender was prohibitive (in the main).Some banks matched but immediately turned that off once xxx stopped the offer. It may however, be a sign of what is to come in the coming months given the banks are all eager for some business.... "
- Off the back of the 4.99% rate offer we were inundated with refinance enquiry. A lot stopped at enquiry as the refinance didn't suit (within clawback period), and I found most of the enquiry was from people who recently secured their home loans but it drove a lot of awareness



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around competition.

- Lenders want to lend and there is the odd pricing scuffle but if it doesn't fit policy then it's dead in the water. It's very black and white. Lenders seem to be really scared in taking a punt on anything that doesn't tick the box and most applications will have something in them that can cause a decline. We seem to be working twice as hard for just as much.

HAWKE'S BAY

- Naturally Hawkes Bay has experienced a very strange month. Everything effectively hit pause for 2 weeks as we reeled.
- Buyers are heading back into the market, and very few typical first homes were affected. We watch the market with interest to see how the cyclone has affected things.
- Buyers were starting to feel more confident that the rate increases were over, however yet another 'unprecedented' event has potentially thrown another spanner in the works.
- Seeing a huge difference between banks again, with some being super pedantic and others giving an approval in hours.
- Absolutely no consistency with rates, and having to fight hard for a competitive deal for clients.

MANAWATU-WANGANUI

- People are appalled at the reduction of the value of their homes. It's impacting on the refinance market, top-ups and using equity to purchase investments. No-one likes seeing their "investment" devalue.

WELLINGTON

- The unadvertised interest rates are driving a lot of activity, but this is mainly refinancing of existing lending. Most lenders are now offering similar rates but one major lender is only offering a special rate for existing clients and only for 2 years. They are not matching the other lenders and are being hammered in the market with approvals they have already provided being placed elsewhere at better interest rates.
- Customers are feeling aggrieved the banks sold them the App to complete refixes on the basis the rates were competitive. However this is not turning out to be the case with the under the table offers, so have reverted to getting interest rate quotes directly from the bank again in the interim.
- We have plenty of approved customers wanting to sell and up trade but none of these are actually happening. First home buyers are providing the bread and butter at present, thank God for them.
- Refinance = people forget that there are costs involved in this, e.g. legal costs + the information required for a new application.
- These 'below the line' interest rate offers are making life difficult. Some clients are given them, some are not. Even when deals are very comparable differing rates are offered.
- Enquiries have slowed down a little in the last month.
- Banks are looking at ways to approve applications.
- Investors still out, prices in up to &1m bracket have dropped to make this an affordable market for entry fuelling enquiry from FHB. Affordability given rates still hard, Kainga Ora income caps too low to be helpful and loan process is admin adverse. Refi hard for those who have purchased in last two years as property values have dropped and lvr can be negative for some. Affecting marital splits hugely. Banks struggling with solutions for this.
- In our world of transparency and doing the right thing by clients. Certain Bank's when doing secret interest rate offers stating its through mortgage advisers should ensure all mortgage advisers have the offer and not just a select few. Not a great look when a mortgage adviser has long term clients with said bank and doing reviews and new lending. It's seen by consumers/clients as being under handed by the bank and not very helpful to the mortgage advisers industry. Maybe that's another reason why they did the under the table offering through the adviser network.

TOP OF THE SOUTH ISLAND

- This is one of the best times in a long time for first home buyers to enter the market due to reduced buyer competition and levelling interest rates.

CANTERBURY

- I'm seeing a significant increase in buyer numbers. Both clients that were pre-approved now committing to a purchase, and new clients requesting approval (often with properties in mind already). Dec/Jan was quiet, February slightly busier, March looking very busy for me (now turning away potential business due to demand). Expectation is these new clients will be purchasing through Autumn/Winter... maybe gearing up for a positive Spring?

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