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MORTGAGE ADVISERS SURVEY

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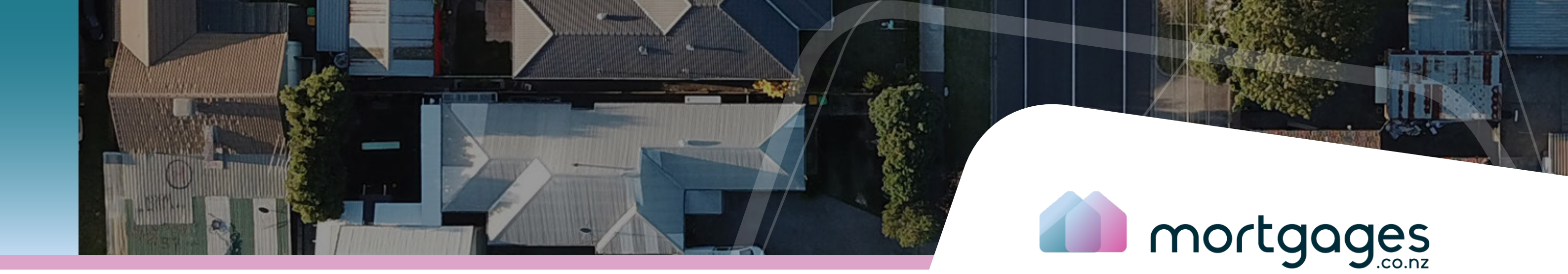


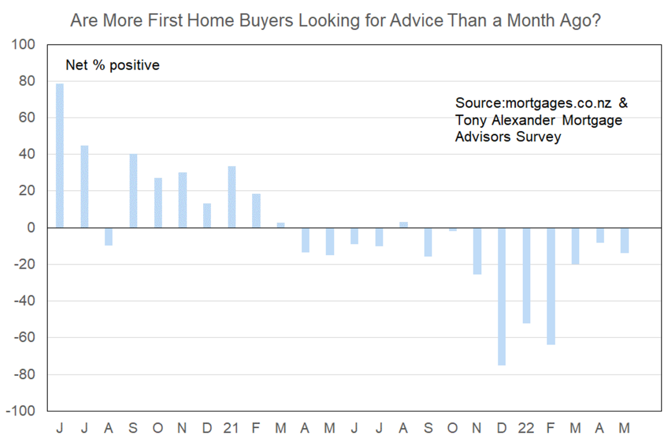
Credit crunch slowly easing

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 50 responses shows

- first home buyers are still wary but becoming slightly less so,
- lenders are becoming slowly more willing to advance funds, and
- two years is the overwhelming favourite for fixing one's mortgage rate now.

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

A net 14% of our survey respondents this month have said that they are seeing fewer first home buyers in the market looking for advice. This is slightly weaker than last month's net 8% seeing fewer young buyers and slightly better than the net 20% result for March. Allowing for statistical variations we can reasonably say that after falling away aggressively from November the withdrawal of first home buyers has become less bad.



But the data still tell us that young buyers continue to step back from the market at the same time as banks have become slightly more willing to advance funds (see below).

The main period of first home buyer withdrawal occurred when first the tightened loan to value ratio rules came into force from November, and then the Credit Contracts and Consumer Finance Act changes became effective from December 1. Planned changes in that legislation may have assuaged some concerns of the lenders, but first home buyers remain unconvinced.

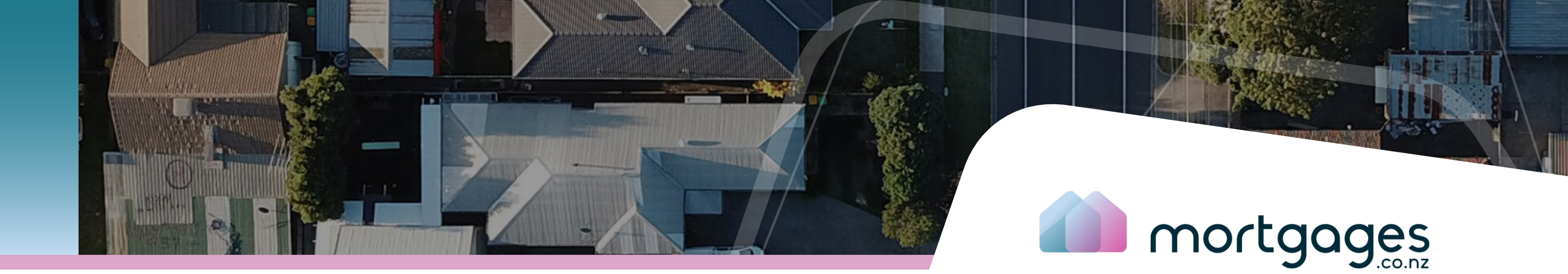
They will also however be standing back in response to still rising mortgage interest rates, reduced ability to save because of the soaring cost of living, and perhaps cementing in of plans to shift to Australia.

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

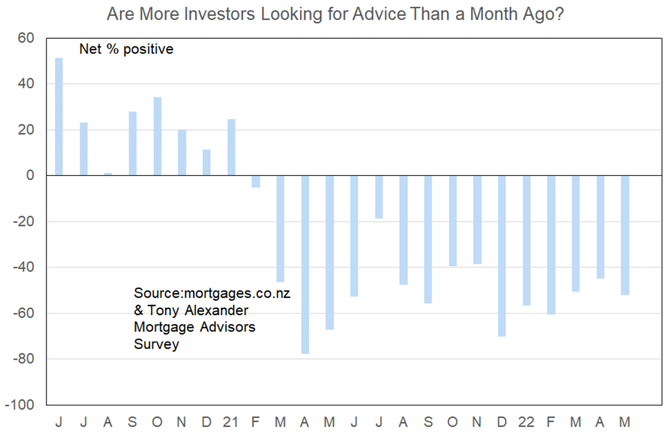
- Some lenders have loosened up on the interrogation of bank statement spending. Still very tough from an affordability perspective and limited largely to existing bank if less than 20% deposit.
- First home buyers would typically have to be a main bank customer to be able to apply, which generally restricts their options. This is due to the RBNZ LVR restrictions.
- Increases in the test rates are seeing purchases not being able to borrow as much. One lender has also changed criteria for building a new home with additional deposit requirements and increasing contingencies due to escalating building costs.
- LVR speed limits having a major impact. xxx is the latest to advise its stopped lending temporarily over 80% LVR

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

A net 52% of mortgage advisers in this month's survey have reported seeing fewer investors looking for advice. This result is consistent with almost all other months since March 2021 when first LVRs returned and then the government announced



tax changes for the treatment of interest costs.

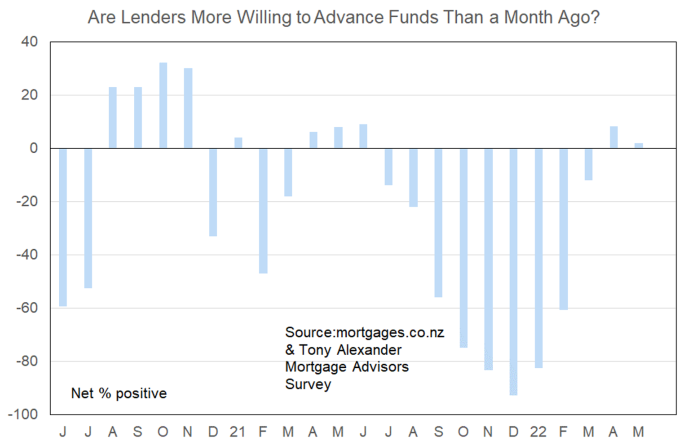


A key characteristic of the changing housing market remains the backing away of people investing in the supply of additional rental properties. But this stepping back is not being matched by investors stepping forward to sell – something captured in my other surveys but not this particular one.

- Comments made by advisers regarding bank lending to investors include the following.
- A lot of new investors are buying brand new as land prices have come down, example in Rolleston, it is down $50k already.
- Not seeing many investor applications.
- More and more expenses are being included in affordability calculations and rental incomes being scaled more than before. Making it very difficult for those with existing portfolios.
- Investors need really strong incomes. Rental income and expenses calculations so harsh that you need to basically need to be able to service all new debt on your own income.
- Non-bank lenders are now better in this space - longer committed interest-only periods. More realistic surplus income expectations.

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

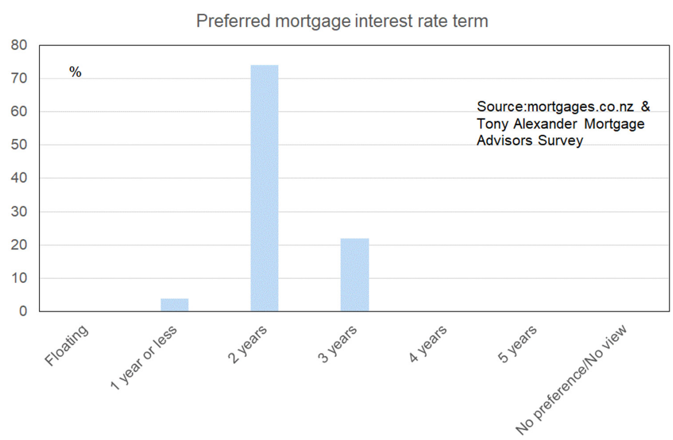
For the second month in a row, we have received a small net positive percentage of advisers reporting that they are seeing lenders becoming more willing to advance funds. The comments submitted by advisers suggests this involves all banks bar one now pulling back from experimenting with Debt to Income rules (DTIs), and slight easing in the intensity of assessment of applicant expenses.



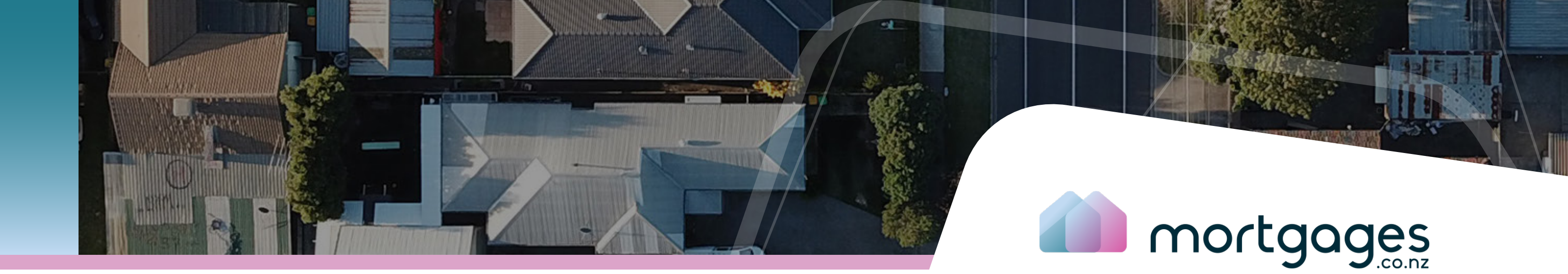
But high Loan to Value Ratio (LVR) lending has become slightly less available than before, and test rates used for calculating debt servicing ability have been increased. There has also been a tightening of eligibility for financing of new construction.

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

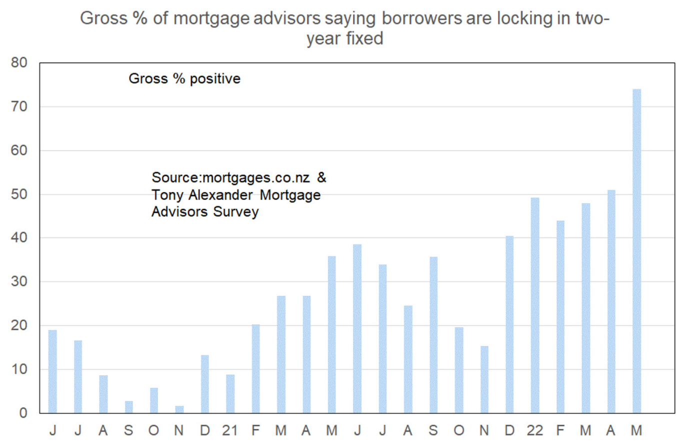
The mortgage rate term overwhelmingly favoured by borrowers now is two years. This month's survey shows 74% of advisers reporting borrower preference is for two years.

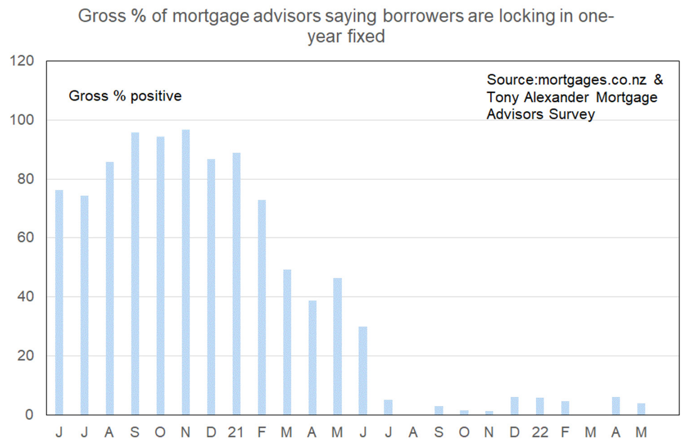


This is up from 51% last month and just 15% in November.

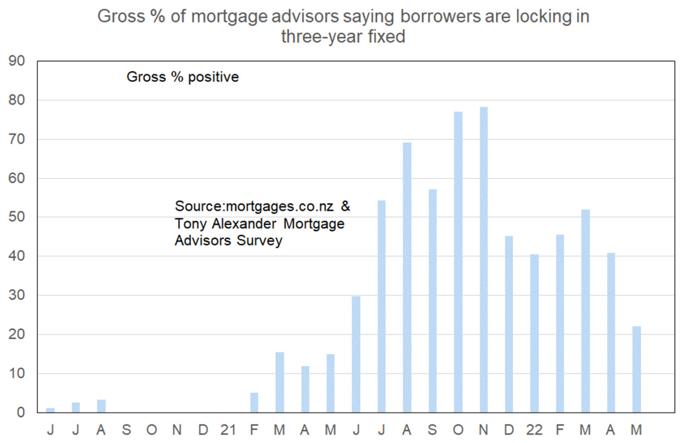


The next step in this transition will be a shift to preference for the one-year term. But there is no sign of that happening as yet.



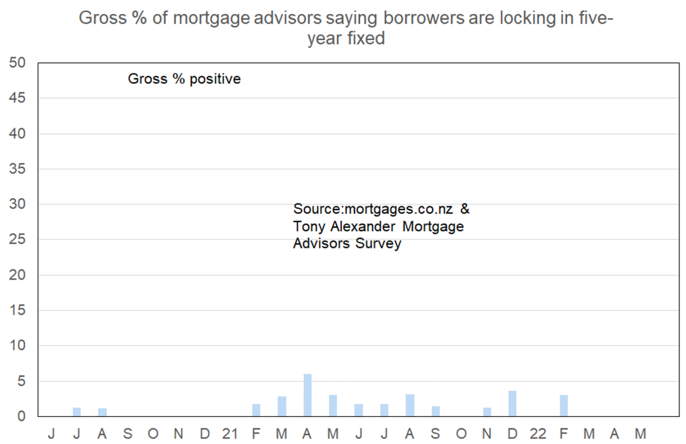


The biggest decrease in term preference since November has been for the three year term. As rates have risen people have increasingly baulked at locking in for a longer time period.

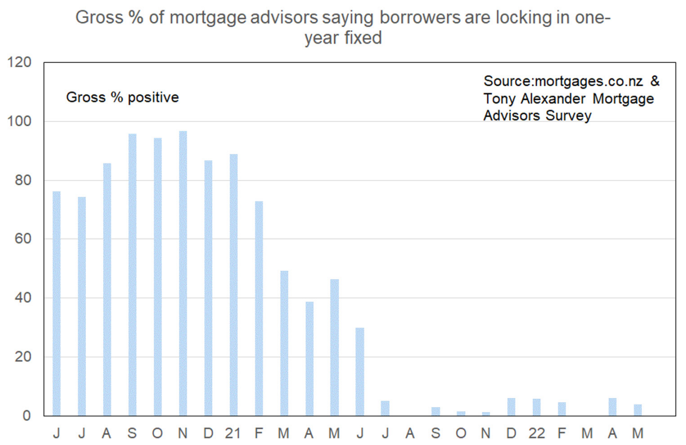


When and if it does happen, it might be associated with a lift in people locking in fixed for five years. But that will only be if the yield curve representing fixed mortgage rates goes firmly inverse. This refers to the situation where short-term interest rates are above long-term rates.

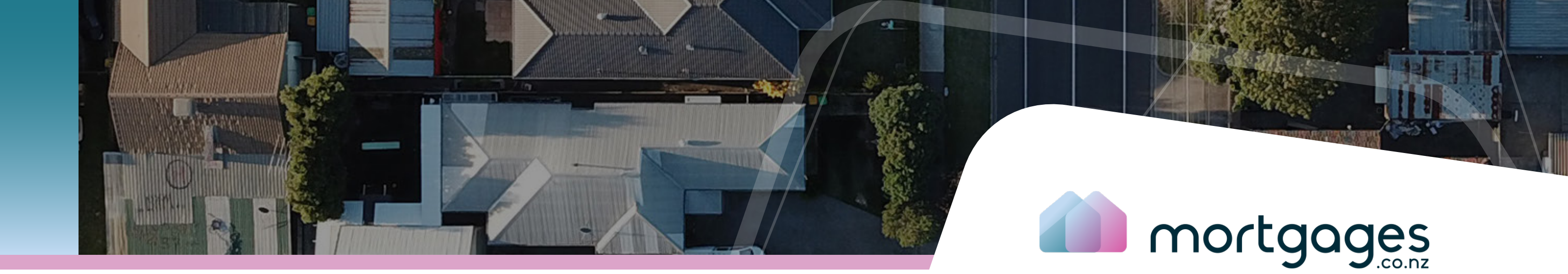
When this happens, some people will take the pain of short-term fixing or even floating in anticipation of rates falling away. Others will either blindly opt for the cheapest rate, or they will feel they have no choice if that long-term rate is the only one which will mean they can meet lender debt servicing rules.



The preference for fixing one year disappeared in the middle of 2021 when the fact as opposed to the forecast of rising mortgage rates encouraged borrowers to shift towards locking in rates for longer terms.



Having said that, if banks apply test interest rates which are not dependent upon the term and the actual rate relevant to it, then this locking in long-term at the wrong point in the interest rates cycle could be absent this time around. It was last present



when the curve went inverse in 1998 and 2008.

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.
- Buyers are holding back waiting for further price declines.
- Some bank lending criteria have eased, others have tightened.
- Business is increasingly shifting to non-banks.

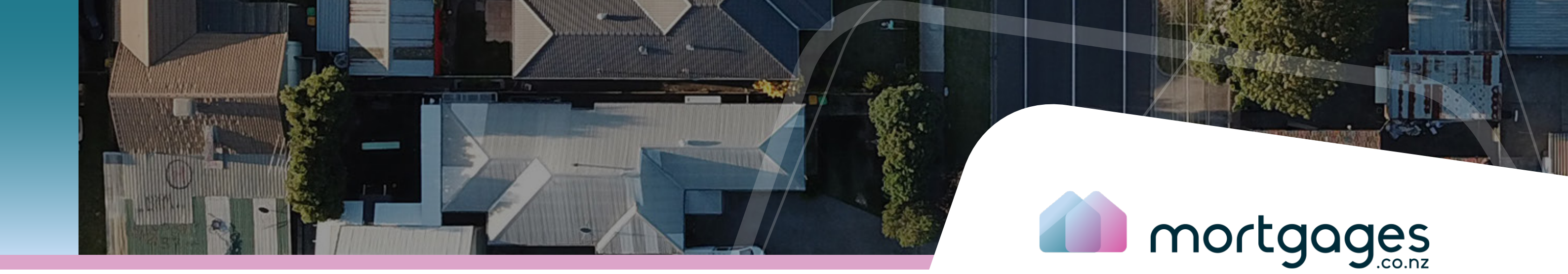
AUCKLAND

- Buyers are in less of a rush, banks willing to lend but just lower amounts due to increase in test rates. Not much wiggle room on rate negotiations between banks
- One large bank has almost turned off lending unless its a clean, no brainer application. Finding a bit more flexibility on CCCFA depending on the assessor you get at the different banks.
- Some more cursory enquiries about investment property purchases. First home buyers are either looking to move away from Auckland or resigned to saving more and/or improving income.
- A big reduction in prices - typically around 10% min in Auckland and a lot more listed prices for negotiation - a lot less going to auction.
- Customers with preapprovals generally have no urgency to buy and are sitting on preapprovals. Investors are thinking more carefully as yields become less with higher interest rates.
- Banks are definitely starting to loosen up in terms of lending, I have had more approvals in the last 3 weeks than the past 3 months which is great. People are out there buying, not just first home buyers, but people wanting to upgrade as well and sell their own homes.
- Getting harder not easier. Lots of chatter about buying at the end of the year when the "recession" comes. Will wait and see.
- Investors frustrated - a lot of changing parameters so difficult to plan. Any builds given timeline are fraught with change and potentially at risk of preapprovals being withdrawn.
- Little appetite from banks to extend interest only periods so a cashflow issue for investor coming up or refinancing.
- Existing homeowners trading up - the selling to buy is really difficult with securing a result so difficult given buyers holding off. Bank appetite for open bridging close to zero unless heaps of equity and liquidity in client SOP.
- Seeing people sell for much less than expected ($200-$300k is some cases)
- Banks are being reasonable. It is however, a lot harder for buyers with less than 20% deposits to buy, as banks do not have funding in the high LVR space. Today xxx shut the door on any high LVR (except RBNZ exempt), even for own customer live deals. yyy are concerned re the construction space with escalating costs, and now require 15% minimum deposit for construction loans (10% ok for turnkey). Changes are coming in the yyy construction space - update to brokers this week.
- First home buyers finding it very hard to commit - thinking they will wait for lower house prices and overlooking rising rates and how much their mortgage will cost them in time. Also, buyers waiting for CCCFA rules to relax, and not considering increasing test rates.

BAY OF PLENTY

- Buyers seem to be waiting for house prices to drop further so biding their time. If it is the right vanilla deal, they will take it. Pricing in the less than 80% space seems to be getting better too. I think as the market slowly changes; they will keep competing to win the minimal business out there.
- Enquiries have really slowed down in last few weeks
- zzz have removed DTI
- More clients looking for refinancing to get cash contribution - which means clients can be better off by a few thousand dollars. Usually at refix time.

More client's want advice now that their rate is up for renewal, and rates have significantly jumped - previously some have refixed online without advice,



now advice is more important.

WAIKATO

- Some buyers are getting some reduction in prices but nothing major. Generally seeing prices stable but vendors having to be realistic around conditions such as finance clause and builders' inspection etc.

HAWKE'S BAY

- Pedantic is even more the defining word for banks. Seems like they are looking for a reason to say no.
- More joint borrowing scenarios (e.g., family members). Sellers more willing to drop price or negotiate based on things like builders' reports. Buyers still there, but waiting for the bottom.

WELLINGTON

- There is a definite price lag to what is happening at the coalface vs what some places are reporting, i.e., to sell a house currently you really need to start heavily discounting. While the Real Estate agents are pushing the panic button by trying to convince everyone it is not a buyer's market yet - it definitely is. If vendors don't reduce price, they don't sell. Simple as that.
- xxx reduced their refix time frame from 60 days to 32.
- Existing homeowners traded up or down are doing better than investors or FHB, experienced investors are doing well.
- Serviceability Stress Test Rates increasing every fortnight and minimum expenses also increasing meaning borrowing power for most is declining.
- Seems very difficult to get Interest Only or Revolving Credit Facilities. I wonder how much longer shelf-life these products have.
- No competition between the banks on interest rates. If a client is 'price' (interest rate) driven, then by the time you get an application completed, approved by a new bank, interest rates have moved so uneconomic to move.
- Most buyers, both First Home Buyers & Investors, seem happy to take a 'wait and see' approach quoting the headlines of a 20% drop in prices and want to look to buy in spring and to send out applications then.
- Very few wanting to get pre-approved now so they can potentially 'bargain buy' over winter.
- People feel that they are being ripped off by the banks with the rapid increase in interest rates. They just think the rates are linked to the OCR.
- Buyers are being a lot pickier - FOMO is long gone.
- There has been a big shift to non-bank lenders as they are taking a more pragmatic approach to lending.
- Our bread and butter seem to be existing homeowners trading-up their properties. But with prices coming down at the entry-level, we have also had some first-time and second-chance buyers coming onto the books. Overall, we have been busier than ever.
- The market has most definitely changed in the Wellington Region with many of my Real Estate colleagues stating very low numbers if any through their open homes. Many FHB's and those wanting to upgrade their homes, are looking to obtain pre-approvals before making the decision to go ahead. It was great to see zzz dropping their DTI (6 x income) for assessment purposes.
- Banks are still slow even though they can't be that busy, although it does entirely depend on the staff member you get to assess. Enquiries have fallen away somewhat.

NELSON/TASMAN/MARLBOROUGH

- Property investors are being hardest hit at the moment, with the double-dipping by banks on scaling of rental incomes as well as inclusion of rates/insurance as well as stress testing any mortgages held elsewhere. Resultant effect - less property investors looking to buy.
- Banks becoming tighter also on construction lending, with yyy for example now including a cost overrun allowance of 15% (previously 10%).

CANTERBURY

- Christchurch remains good, we are getting mortgages approved and a lot of FHB's are still active, good suburbs are getting multi-offers, but outskirts are slowing big time and prices are coming down fast
- Buyers, more properties available in that $600-$700K price bracket, people perhaps turning

away from new build option to existing homes as they are lower priced again now and wait time on new builds too long. Lenders, some are relaxing CCCFA interpretation, some simply are not and do not seem to want to lend.

- Development funding is now almost impossible to obtain which will surely see a pending slowdown of new houses under construction as projects are delayed as a result. However, also seeing some wealthy individuals looking for bargain buys and taking the view Canterbury fundamentals are strong and rates may prove to be close to peak now - maybe only a 0.5% increase left, and things will surely settle in the coming 6 months.
- Lenders are now more willing to pick up the phone and discuss the merits of a deal rather than a straight out decline. Also being a little more realistic around the perceived living expenses.

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