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MORTGAGE ADVISERS SURVEY

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First home buyers disappear

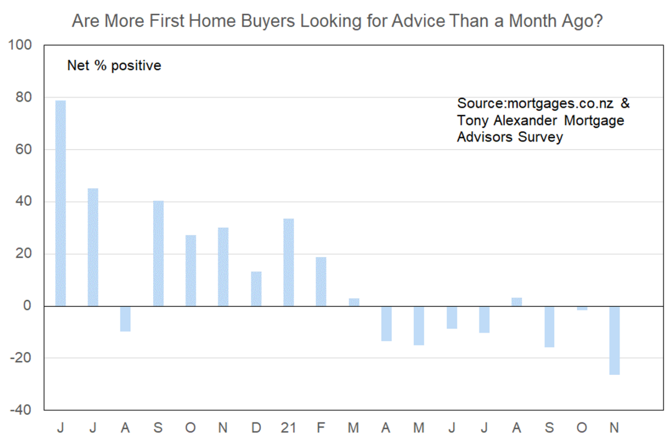
Each month we invite mortgage brokers around the country to give insights into developments in the residential real estate market from their unique perspective. The first survey was undertaken in June 2020 just after the first nationwide lockdown ended and we could easily see from the responses the high level of interest from first home buyers and investors through last year's winter into February this year.

Our latest survey undertaken this week has yielded 78 responses and they reveal two key things.

- A record level of perceptions that banks are cutting back on willingness to lend.
- A record stepping back of first home buyers.

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

A net 26% of the 78 respondents this month have reported that they are seeing fewer first home buyers coming forward for advice on making a property purchase. This is a strong deterioration from the net 2% last month seeing an easing in first home buyer enquiry and the biggest pullback in such enquiry since our survey started last year.



Young property buyers are viewing a continuing flow of media stories about high prices being achieved by vendors. Their interest in making a purchase is likely to be high. However, they are also encountering a growing flow of information about banks tightening up their lending criteria.

This includes a sharp reduction in the availability of low deposit mortgages as banks have scrambled to get low deposit lending below 10% of new lending from November 1. One bank has even just withdrawn previously approved finance for such lending.

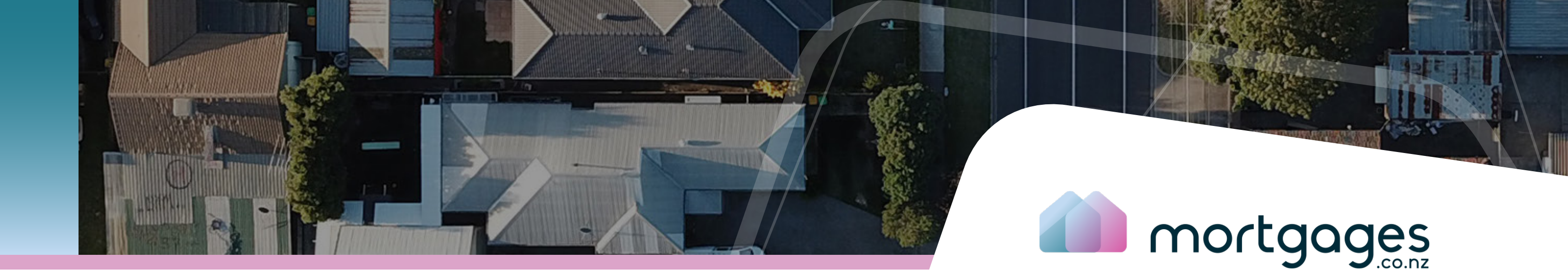
About 75% of low deposit loans have historically gone to first home buyers and it was expected that they would be disproportionately impacted by this rule change.

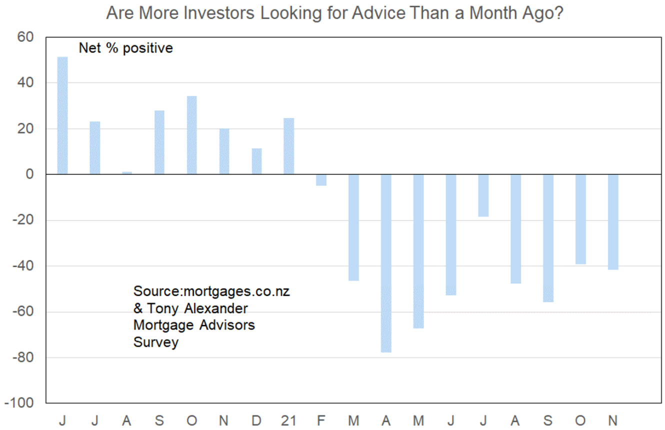
But they are also being affected by banks having to undertake the deepest examination of mortgage applicant expenses and income sources and stability on record. Banks are getting ready for the December 1 commencement of more stringent responsible lending criteria in the Credit Contracts and Consumer Finance Act. Fewer young people, self-employed, and people over 50 in particular are now qualifying for mortgages.

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

In contrast to the sharp decline in purchasing interest from first home buyers and reinforcing perhaps the disproportionate impact of LVR changes, enquiry from investors is little changed.

A net 42% of mortgage advisors report that they are seeing less enquiry from investors. As the graph shows, this is consistent with the retreat of investors underway since just before the March 23 tax announcement affecting investors.



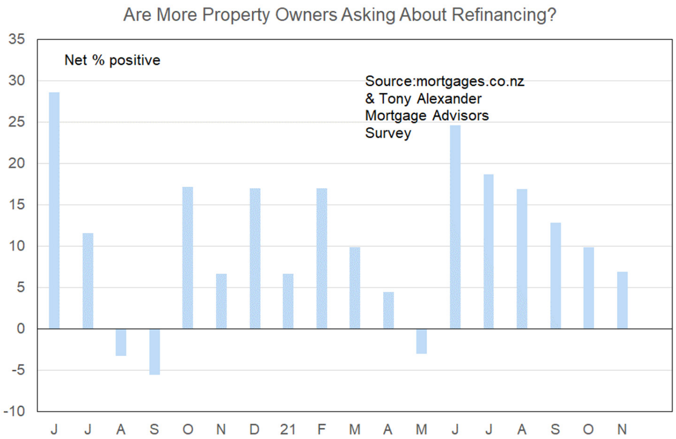


Mortgage rates for new lending and refixing of maturing fixed rates are now 1.3% - 1.8% above the lows of less than six months ago. LVR rules have tightened, banks are counting extra expenses when assessing debt servicing ability, and new uncertainties have arisen regarding new builds and their final cost and completion dates.

Although a transition of investor buying from existing properties to new builds is underway, the rising level of interest rates in particular, along with construction sector issues, may stem the extent of that switch in focus in the coming year or so.

COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER PROPERTY OWNERS LOOKING FOR REFINANCING?

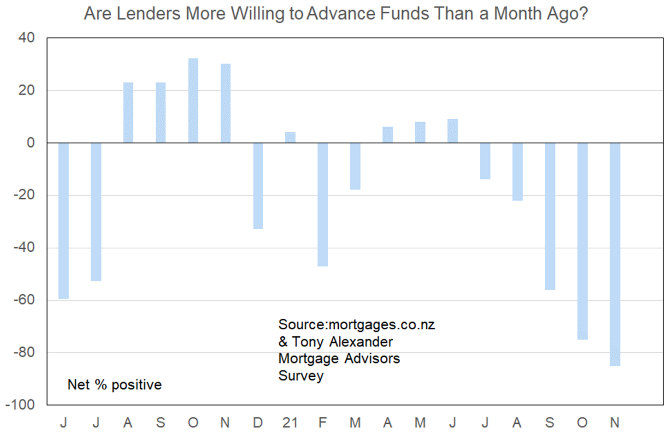
The quite noticeable downward trend in the net proportion of mortgage advisors noting more enquiries about refinancing has continued this month. A net 7% of the 78 responding brokers have reported more enquiries, but this was down from a net 10% last month and is the lowest proportion since just after the March 23 tax announcement.



The downward trend despite the recent sharp jump in mortgage rates may reflect general commentary surrounding the low interest banks currently have in servicing other than their own existing customers. This is probably a temporary situation reflecting the speed with which banks are having to rein in lending to meet the new rules.

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

The second substantial change registered in our survey this month is a decline in advisor perceptions of willingness to lend to the lowest on record. A net 85% say that lending willingness has declined as compared with 75% last month.

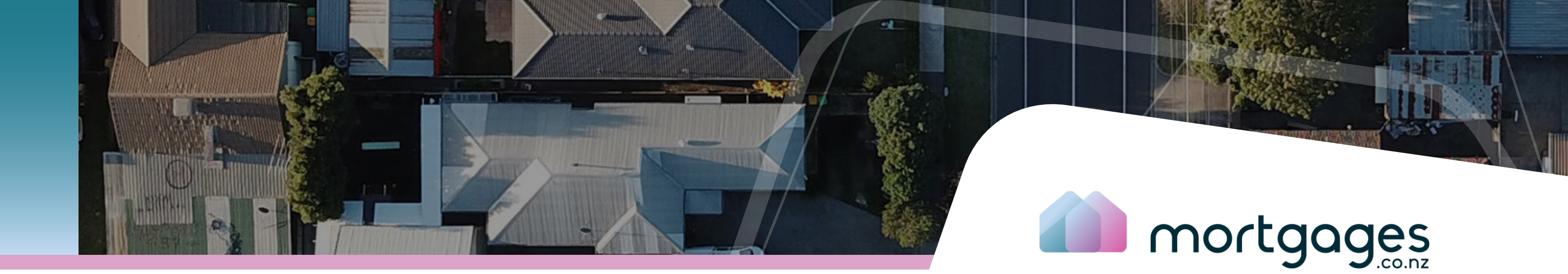


Only five months ago advisors were seeing lending willingness increase so the period since June represents a substantial turnaround in bank lending policies.

Factors contributing to the pullback include tougher LVR rules, getting ready for the anticipated introduction of debt-to-income restrictions, and meeting new requirements of the Credit Contracts and Consumer Finance Act.

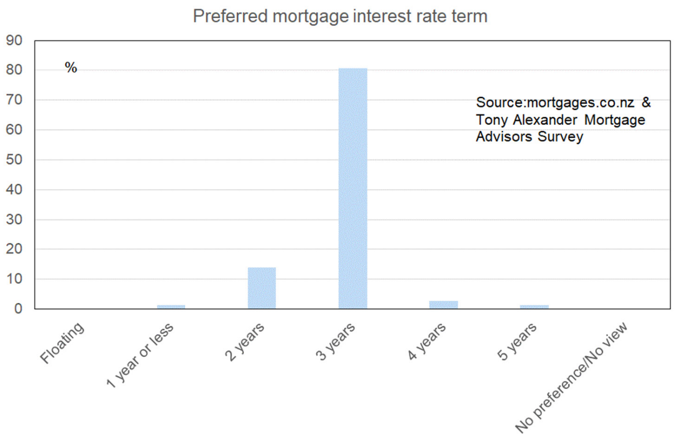
The strong divergence of between the change in lender willingness and the recently accelerating pace of price rises calls into serious question the ability of prices to keep rising for much longer.

Note that results presented for this question differ from previous months (now more accurate) due to a coding change.

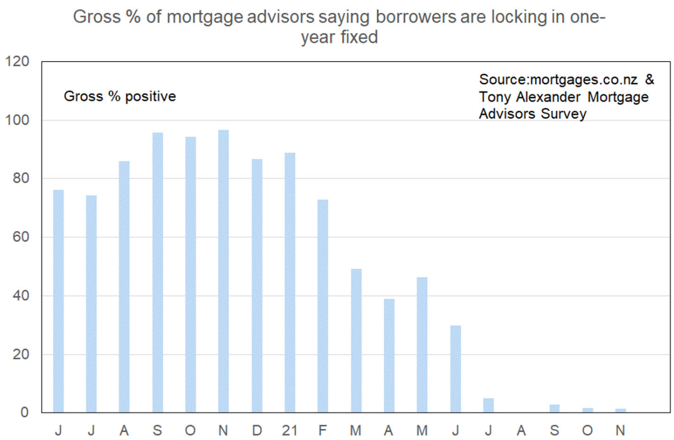


WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

A very high 81% of mortgage brokers this month have reported that fixing three years is the term most favoured by borrowers. Six months ago only 15% said this. The strong preference back in May was for fixing one-year, noted by 46% of advisors, or two years, noted by 36%.

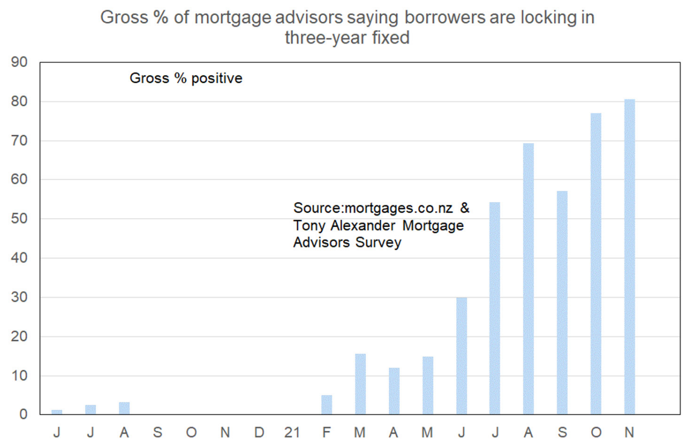


This graph shows how the one-year term has fallen strongly in favour as interest rates have risen from 2.19% to near 3.5%.

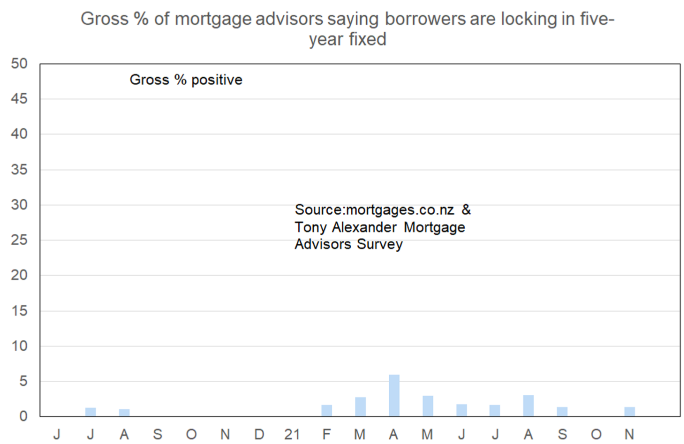


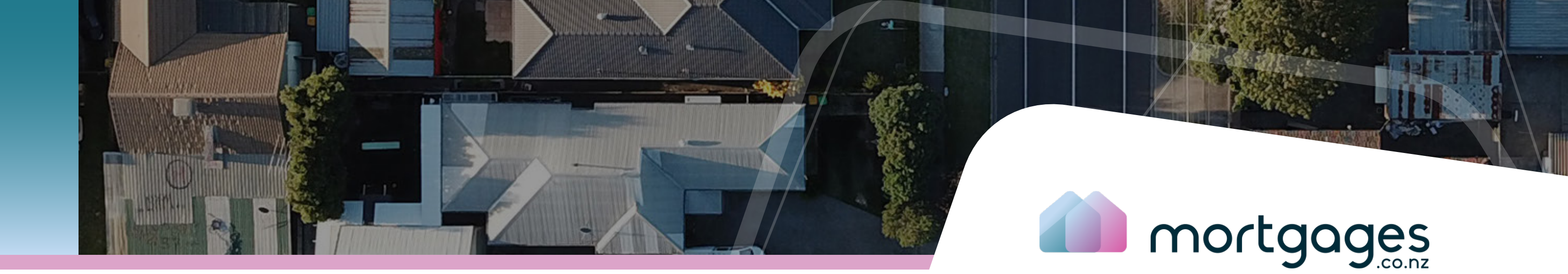
The two-year term jumped in importance for a while, but that preference has been fading.

Support for fixing three years just grows and grows.



Support for fixing five years remains low. Most borrowers are likely to wish they had locked in for five years at the 2.99% rate commonly available for a year up until about five months ago





Mortgage Adviser's Comments

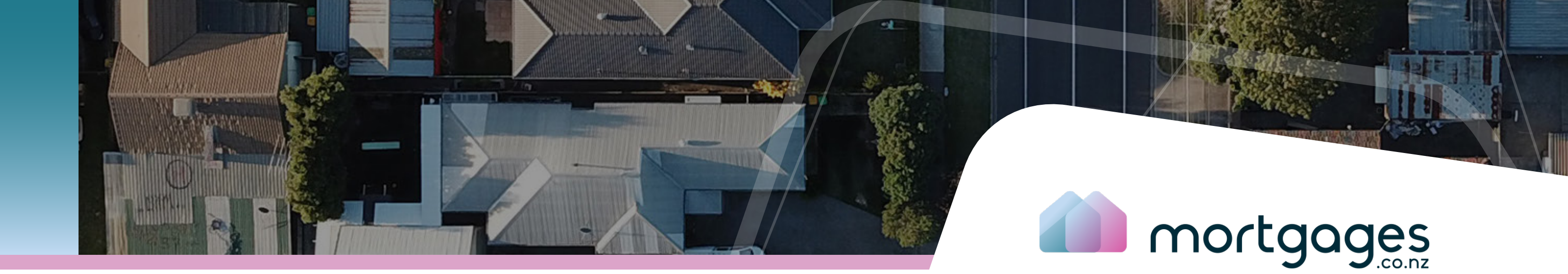
Following are the comments which mortgage advisors volunteered in this month's survey, grouped by the region in which the advisor primarily works. These insights can be very useful for placing flesh around the bones of the numerical indicators.

Key themes this month include the following.

- The willingness of banks to lend has fallen away sharply.
- Options for first home buyers are shrinking fast and a movement of mortgage business to non-bank lenders is widely predicted.
- Pre-approved finance facilities are being withdrawn.
- Brokers are expecting a substantial turning in the market over the next few months.
- One borrower reluctant to get vaxed has had financing withdrawn due to their new income uncertainty.

AUCKLAND

- Everything is a headwind. Insiders are seriously concerned where we will be in 6 months.
- There will be significantly fewer first home buyers due to lack of funding over 80%. What young people have $180k deposit without living with their parents till they're 30 and getting a sizeable gift?
- My biggest business remains people upgrading their homes for more expensive ones. I hear a lot of brokers complaining about how hard loans are to get - I'm finding it ok, just more questions from lenders, but you work through them. Definitely more non-bank deals happening.
- Much tougher to place deals that fall outside of mainstream banking i.e. asset lends etc - exit strategies must be very robust and detailed and minimal lending for regulated loans.
- First Home Buyers starting to look more at new builds as entry point with most properties heading to Auction in AKL, and still going for crazy money. Very little stock of homes under $800k at the moment is forcing a shift south close to AKL boarder for many. Investors looking for property outside of AKL as 40% equity a barrier to another rental in AKL. More and more enquiry as how to sell in AKL and purchase in CHC or other parts of the south island. Overall enquiry 40-50% of what it was at same point last year. Some clients waiting until L2 or Orange/Green light to look at houses as a bit of a process to get to Open Homes and not much stock to look at. Banks processing times are very slow, and some are sending applications to branches where the staff member could do with more training in mortgage lending, so this is leading to further delays and additional time taken to walk the assessor through the application.... very frustrating! CCCFA implications starting to hit home. One bank has about 20 spots for expenses in servicing calc..... and introduced 6x TDTI. They are no longer my second-choice lender for new to bank or investors as this has a big impact on a client's future plans or ability to get increased lending if required down the track. Worst 3 months for clawbacks as some investors/home buyers cashing in on quick profits.
- Interesting times. We have had one of our NZ banks cancel current approvals on us yesterday. Have heard that was a GFC thing. Interesting to watch them go for broke last year and compete hard for a deal now it is the complete opposite and feels like they want to close their doors. I can see the hangover kicking in from the interest deductibility rules now. Wasn't so much of an issue not being able to deduct interest when it was 2.19% but now when clients look at the difference it makes to a P&L statement with rates at 5% or 6% it is a complete turn off. First home buyers are deflated with reduced borrowing capacity and prices continue to stay high. Though it does feel, with this kind of market intervention from Govt and banks pulling in the reins that the golden run could be over. Interesting year ahead.
- Buyers are a bit worried about the interest rate increase and banks are taking too long to process the applications. Lenders are looking closely into the spending patterns of the buyers, CCCFA rules are strictly adhered by the lenders.
- The legislation was designed to give borrowers choice, now we have FHB with little or no choice if over 80%



- I think trend wise, we will need to wait until the dust settles to get a real feel of the industry. The current environment is what I would compare to a perfect storm, which will generate altered behaviours in the market. New legislations, which in turn have spurred new policies and systems at the banks, bringing with it all the trial and errors that happen when fast changes are made, have increased waiting times and turnarounds adding frustrations to the mix, and with all of this wrapped in an interest rising environment. In turn, this has borrowers scrambling to get lending, and to quickly settle, before more changes and rates rises occur. Assuming they are able to find a property within their budget, which in today's market is easier said than done.
- It would be fair to say pessimism is reigning, and FHBs are certainly the ones feeling the pinch. I have been a long-time believer that second tier lenders will start playing an ever-increasing part in the mortgage industry in NZ. Borrowers, particularly FHBs, should seriously consider these second-tier companies as very valid alternatives, and more importantly a way to obtain finance and in many cases, their foot on the property ladder.
- Lenders tightening up with policies these days. Really having to prove why the client can borrow the funds.
- Lenders are closely looking at all minute expenses to determine habits and likelihood if it will continue after lending is approved.
- More time required to process applications, slower turn around times from the bank because there is more analysis on the applications.
- Recent drop in enquiry (last 3 weeks), concern around house prices dropping, lack of awareness around recent interest rate hikes (some customers caught by surprise)
- The over 80% market is not being handled well and many buyers have been punished by the RBNZ high LVR rules which is sad to see. This is not the banks fault as such, but the banks have taken advantage of this by closing the door to new to bank customers on the basis that they will only help someone already banking with them. Generally clients never consider future mortgage policy when opening an account to transact from.
- Processing times are blowing out as banks come to grips with CCCFA - every line item on the bank statements is being assessed and included as fixed expense. We are getting emails saying that we have incorrectly accounted for a line item i.e. food cost is $2357.45 per month where we had allocated $1500. We have been asked to be more accurate in our allocation in future otherwise our accreditation will be reviewed.
- There will need to be a significant increase in financial coaching from advisers with reference to account conduct and management - especially those clients with high discretionary spending.
- Toughest time to lend. Not so sure first home buyers will be helped with any of the recent changes to the CCCFA and LVR restrictions. These are the ones we are most wanting to help but many roadblocks are stopping them even before we apply to the bank - e.g. lower loan amount means not viable to buy so they stop.
- In my 35 years industry experience, I have never previously seen so many changes occur in such a short time frame - which I find alarming.
- I have counted that the banks have on average, increased interest rates 12 times since June. Ten of them while Auckland has been in lockdown. I have major concerns on the upcoming impact of this, especially to small business owners that have also been impacted by the length of the lock down (i.e. hairdressers, cafe owners etc).
- New CCCFA requirements really starting to bite now. New (harsher) calculators arriving in our inbox.
- Buy-Now-Pay-Later expenses previously flying under the radar are now front and centre.
- The main banks making criteria harder as regulation comes in
- Introducing the new CCCFA and Debt to Income ratios has just made it harder for so many clients to lend new money compared to what we have known in the past.

BAY OF PLENTY

- The 10% LVR lend rule on banks is going to really hurt the FHB's who have strong incomes and debt servicing ability. I think we will need more parents willing to put their own home

behind the deals to get the LVR's down.

- The market is still very active.... not super hot though....be interesting to see in the Bay what happens when Auckland borders re-open
- CCCFA creating massive amount of red tape and confusion as the lenders sort through what is relevant and not relevant (same legislation different application between banks).
- CCCFA and DTI are leading to a slow down in applications and taking longer time to be assessed by the lenders.
- We are still feeling out the new rules with loan assessors. Whilst we have had several webinars relating to CCCFA there are still no hard defined policies to follow in some scenarios, so this will take time to settle in. I have been completing the DTI calculations with all clients, for some months now and this appears to be capping total lending in a lot of instances, where the bank servicing calculator still has more lending capacity. So I foresee a real slow down in approvals with submit to approve gap analysis falling. The spending behaviour screening on all bank transactions, combined with DTI's will take some time to settle in - a large majority of people do not have a budget that is monitored regularly so this will force people to start this new behaviour. Budget software for individuals has an opportunity - pocket smith should go well in the near future. This will create a lot more work for the independent adviser industry as clients seek alternative options, being nonbank or finding a main bank that might have a slightly different test rate or policy.
- I honestly see the adviser channel being even busier than before, with less conversions (income).

WAIKATO

- FHBs have been hammered by successive govt and RBNZ changes. It is now very difficult for FHBs with less than 20% deposit to secure lending.
- I'm not sure what problem they were trying to solve but it has made it very difficult to secure lending form a bank. Banks are being extremely tough on applications and dissecting spending to a forensic level. If you have any spending (even discretionary) the banks will use that like it cannot change. Even Netflix is deemed a fixed financial commitment when it is on a month-by-month basis. Overtime not taken into consideration (or shaded heavily), no borders or flatmates. Overall it has made it very tough for less than 20% buyers. For investors its the same story but with different catches. DTI's and Interest deductibility spring to mind that are hammering people's ability.
- Still doing a lot of lending and banks are happy to lend when the situation is right.
- Lenders are being very conservative, I believe due to CCCFA changes, lack of funds, volume of work.
- There is still a sense of FOMO with buyers, especially first home buyers - the market and DTI ratios being applied are making it more difficult for them and shutting them out the market more.
- Some first home buyers show a lack of flexibility in terms of area the purchase in and the type of property they want, which pushes them out of the market.

MANAWATU-WANGANUI

- A couple of the banks have pulled back from taking on new clients full stop. Even with 20% + deposit some won't pre-approve. I understand the reasons are more to stem the current workflow as they seem to be inundated with applications at the moment. (when are they not?) Not sure how long it will last but hopefully for our sakes there is still enough that gets across the line.
- Banks are tightening up and making it tougher for home buyers and investors are using cash (no lending needed) to purchase as an investment gives better return for their money.

HAWKE'S BAY

- Frustration from first time home buyers and a mum and dad Bank is needed more often than not to cover the home purchase deposit. Young people are becoming resigned to renting a home for the longer term unless they shift away to a lower cost town.
- Not much change in buyer profile at this stage however lender appetite has changed

significantly. High LVR lending is live deal only,
- CCCFA regs mean that the scrutiny over peoples spending is now at a new level. Every line must be accounted for and built into the budget unless you can demonstrate a mitigant.
- This will significantly reduce the borrowing power of all but the most frugal of borrowers.

WELLINGTON

- Most banks will only preapprove finance on turnkey builds for 90 days at a time which makes it impossible for purchasers to confirm unconditional finance on new builds even though they are going unconditional on the purchase. Purchasers are taking large risks when purchasing turnkey builds that won't be completed for 10 to 12 months. I hope they are getting good legal advice from their solicitors as some solicitors are getting clients to sign documents that state they have unconditional finance when they done.
- Thankfully we deal a lot with people with existing equity and good income. They seem to be doing things and providing our bread and butter. We are doing more second properties and upgrading from one home to another.
- It is hard to keep up with lender policy changes, new paper required for this and different paper for that, rule 1 for this and rule 2 for that and rule 3 and rule 4 for the other. Red lights/green lights for low equity lending for first home buyers. No new to bank clients for any situation including deposit exceptions. Banks are struggling and doing their best, but it is clear they are struggling in this new regulation and legislation changes with multiple daily policy and requirement changes, through to temporary no preapprovals and live deals only please and no new to bank clients. It's just about now that the level of complexity is such that I need a full-time research assistant and a debrief analyst with morning and end of day summary debriefs.
- First home buyers in Wellington need $150k plus income no debt no student loans and twenty percent deposits, first home buyers struggling with bank policies high interest rate stress tests high monthly surpluses at higher requirements.
- Trying to get any lending approved at the moment is a challenge. The banks' servicing criteria are changing almost daily and the CCCFA changes are crippling the bank turn around times. The level of detail the banks now want on client expenses is astonishing. With so much uncertainty about the banks lending criteria and the pace of change it appears advisers are just shot gunning applications to every lender in the hope one might approve it. This is further clogging up the banks lending assessment process where some lenders are no longer accepting applications from new to bank clients. Even though a particular bank might be the best fit for the client there is no ability to use that lender. This is counter to what the new regulations were put in place for.
- The move by some banks to implement DTI's without being mandated by the Reserve Bank is also a worrying sign. With LVR restrictions there is the ability to do dollar for dollar refinances as these are exempt the Reserve Bank restrictions. This allows for competition and means clients are not locked into particular bank even if their lending is over the LVR thresholds. With all the recent changes a large number of clients (especially investors) will no longer meet the DTI or lending criteria at any bank and will not have the opportunity to move banks as there are no exemptions. This will lessen competition significantly.
- Not enjoying the job as I am unable to help the majority of people wanting my services and when I explain that with a 10% deposit of $70k that means that the most they can purchase a property for is $700k they look at me like I am incompetent.

NELSON/TASMAN/MARLBOROUGH

- Lenders are becoming a lot more rigorous in the level of information they require, the verification of expenses & up-coming possible expenses.
- Buyers are becoming more panicked as they try to find a property with increasing interest rates."
- Communication from xxx bank assessors very poor. I've had two applications decline "because servicing doesn't stack up" but no explanation as to why apart from "servicing is tighter now". No response to requests for clarification and how much they think the clients can service. Having to get BDM involved and it's still taking days to

get a simple answer.

- The amount of time taken to put together a loan application and get it approved are up around 50% on 6 months ago. These are due to CCCFA guidelines and increased due diligence by lenders as well as March 2021 new reporting and advice rules. To get good lending advice applicants are going to need to be willing to pay a fee for this due to the added costs involved by the advisor.

CANTERBURY

- If people are preapproved we need to provide new UMI calc as well as 90 days statements to make them fit. Very frustrating and time consuming to make this all work
- Got my first vax situation where we were about to do loan structure for build and clients advised they had been stood down as not vaxed. Advised them I'd need to let the bank know and loan would be withdrawn. Waiting to see if they will vax or not continue with the build.
- Plenty of enquiry at the moment but not able to get the deals to pass the banks' servicing requirements. Pre-approvals not being renewed, customers unable to find a property for their budget. A lot more paperwork meaning more time spent. High expectations from customers - think they can afford a property, but it doesn't service. A lot of free advice being given.
- FHB - Now can use boarder income, tighter to get servicing on the new lender calculator, previous expense versus forward expense needing more mitigation and evidencing,
- Overall all of the banks have tightened up lending criteria, including limiting the ability to take on new-to-bank clients and instead the banks are focusing on their existing client base.
- I strongly believe tough times are coming as auction clearance is getting low and low by the day, rates are moving too high too quick, and I suspect the market to slow down massively over next 3-6 months time

QUEENSTOWN LAKES

- Severe retraction from over 80% LVR lending. More spending detail required in applications.

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