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MORTGAGE ADVISERS SURVEY

November 2022

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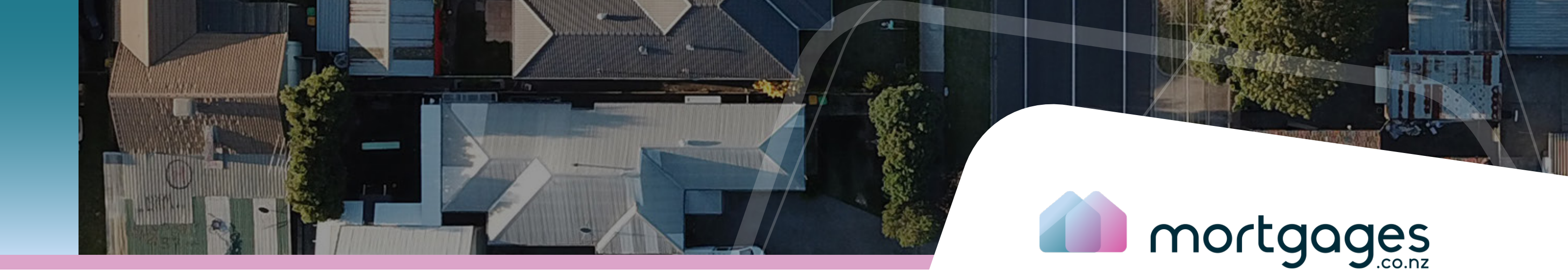


Rate rise impact evident

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 62 responses.

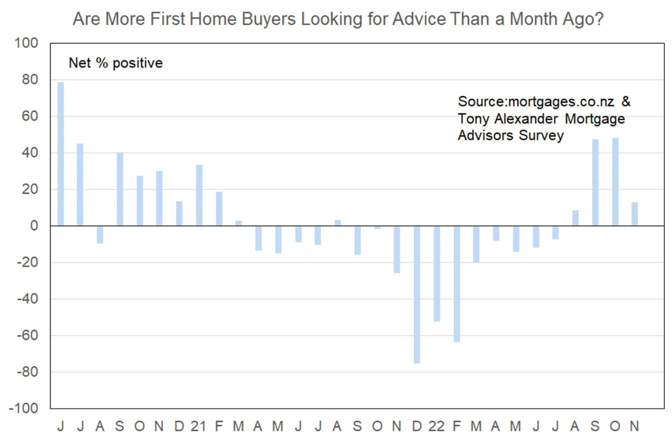
The main themes to come through from the statistical and anecdotal responses include these.

- The recent round of fixed mortgage rate increases has made investors step much further back from the market.
- First home buyers are showing in increasing numbers but at less of a pace than before the rate rises.
- The term preferred by borrowers for fixing their interest rate has shifted strongly to two years.
- Bank willingness to lend is very slowly improving. But meeting debt servicing requirements is very hard for many borrowers.
- Many buyers are holding back, waiting until they are confident interest rates will decline and that house prices have stopped falling

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

There has been a decline in the net proportion of mortgage advisers saying they are seeing more first home buyers in the market to 13% from 48% in both October and September. The flow is back to slightly better than it was in August and remains positive.

First home buyers appear to be aware of the opportunity being presented by the current market where prices have fallen while incomes have risen, competition from investors and owner occupiers is weak, and listings are plentiful.



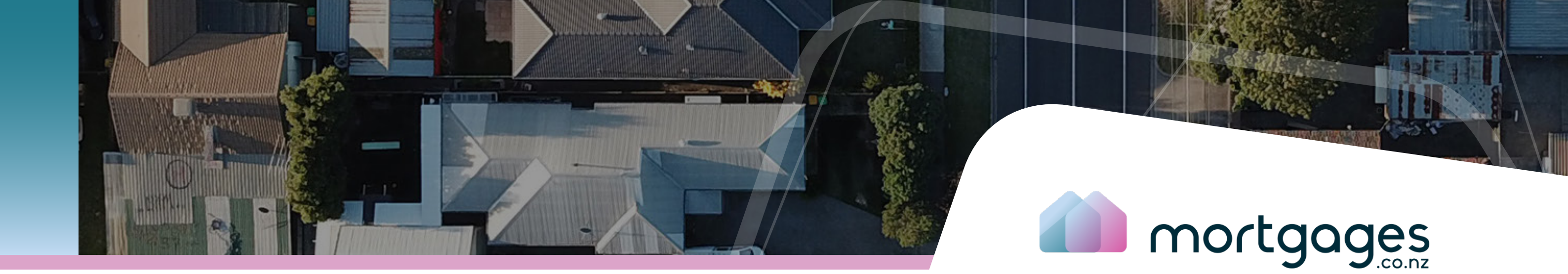
Comments on lending to first home buyers submitted by advisers include the following.

- Some of the big banks are slowly reducing their UMI (uncommitted monthly income).
- Thresholds for lower deposit lending, still very high and quite restrictive.
- Similar appetite but limited high-LVR options available aside from Kainga Ora.
- Banks more willing to get deals over the line - will make suggestions in how to adapt your application to make the deal work. Offering 1% cash for new loans over certain amount.
- Banks are lending.

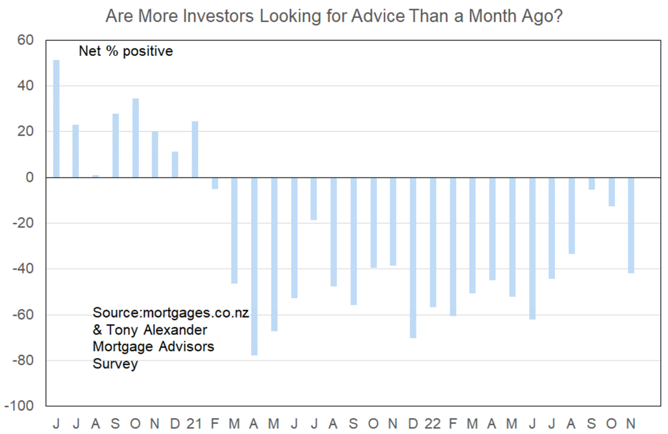
COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER INVESTORS LOOKING FOR MORTGAGE ADVICE?

As first home buyers have returned to the market in recent months investors have been showing a decreasing tendency to desert any thoughts about making a purchase. However, since the latest round of interest rate rises following the higher than expected inflation outcome, investors have again run for the hills.

A net 42% of mortgage advisers have reported seeing fewer investors, down from a net 13% in October. As the graph shows, the role of investors in the residential real estate market has gone back



largely to where it was between the period from February last year up until August this year. This result is consistent with that seen in my recent survey of real estate agents. First home buyers still there, but investors absent once again.

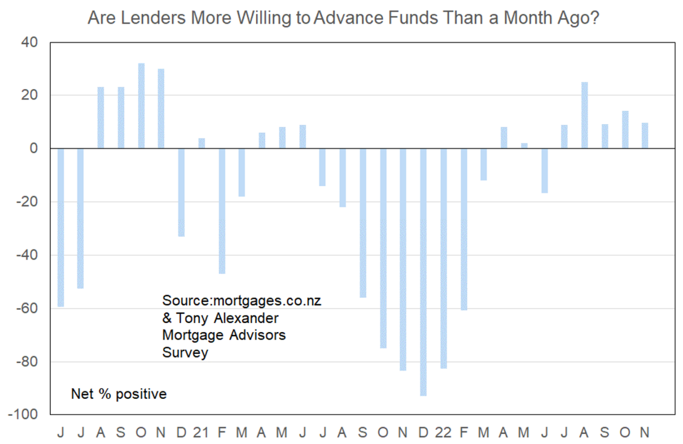


Comments made by advisers regarding bank lending to investors include the following.

- High shading of income. Some banks include rates and insurance as ad expense in addition to the rental shading - others don't.
- Xxx bank has relaxed criteria, lowered UMI from $1k to $200pm for an investment purchase, and no need to include rates / insurance costs as per other lenders
- A slight loosening of rental income scaling for existing dwelling investment properties.
- Haven't had an investor enquiry since March 2021.

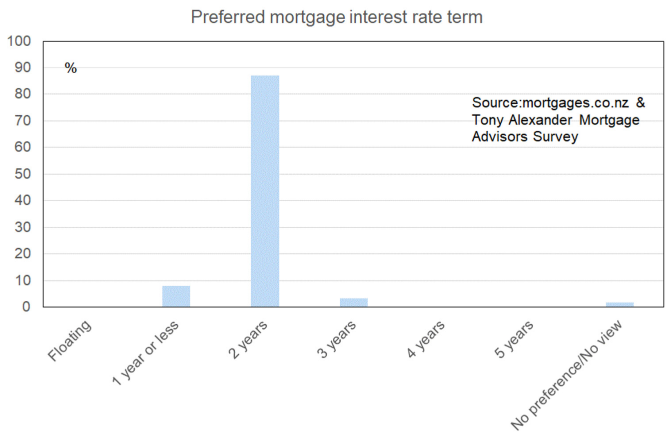
COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

The intense credit crunch over the second half or 2021 into very early this year has eased considerably as the year has progressed. Since July our survey has consistently shown more mortgage advisers feeling that banks are becoming more willing to lend. There has been no meaningful change in this measure over the past month, although the comments provided by advisers indicate more easing of criteria at the margin than has been the case for a year and a half.

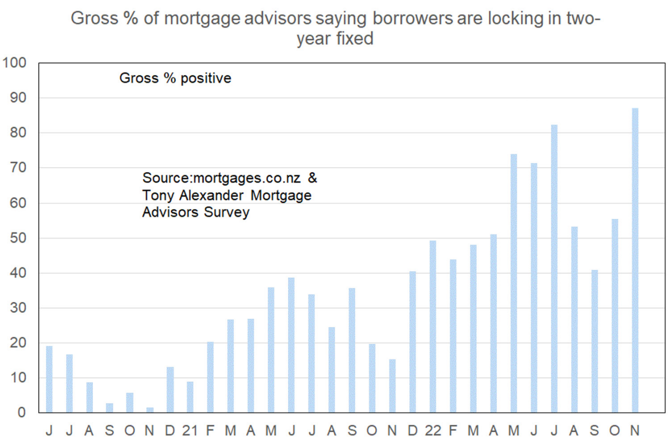


WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

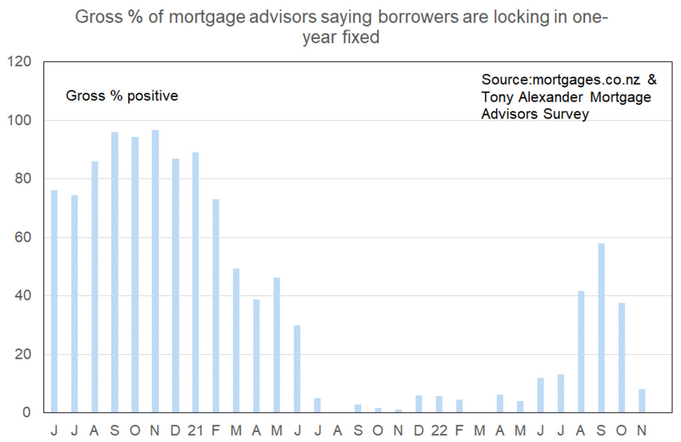
The term most heavily favoured by borrowers in New Zealand fixing their mortgage interest rate at the moment is overwhelmingly two years – noted by 87% of our respondents.



This is a record level of preference for the two year term.

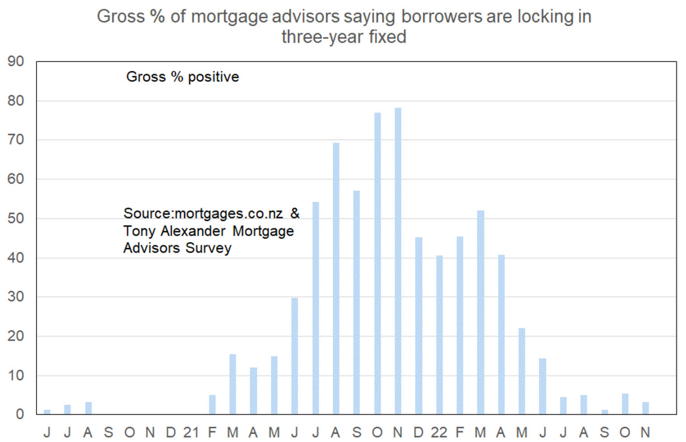


It has been associated with a move away from fixing one year – now noted by only 8% of mortgage advisers.

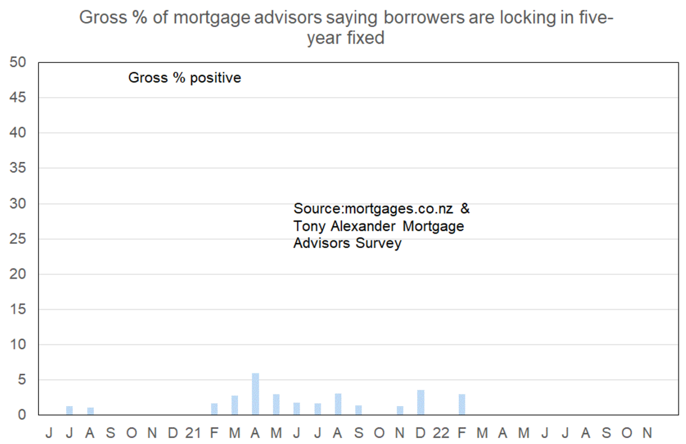


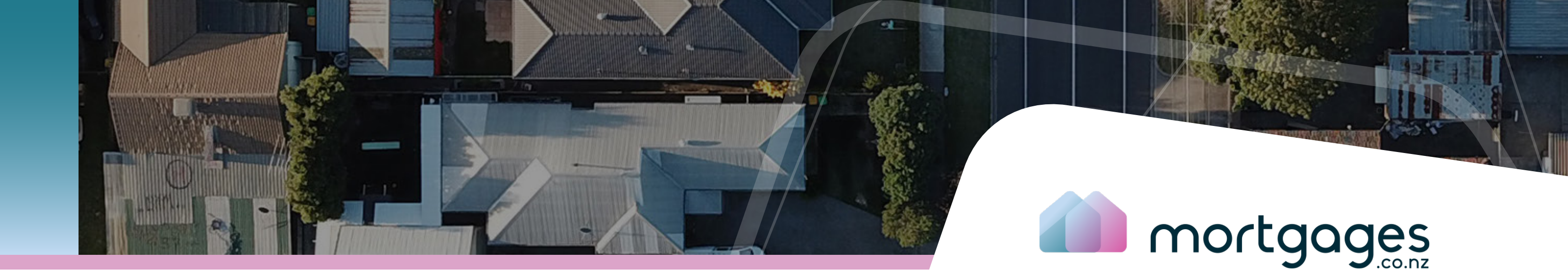
Given that two year interest rates are higher than one year rates this strong shift indicates a desire to protect against feared future rate rises – something not apparent for all but the most forward-looking borrowers in 2021 when five year mortgage rates were at 2.99% versus one year rates at and below 2.5%.

Current interest rate concerns are not great enough to push many people out to considering the three year term for fixing their interest rate.



And as usual, no-one is noting demand for fixing five years.





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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

- Vendors relaxed about extending finance and even settlement dates alleviating the need for more expensive nonbank bridging finance. Finance demand falling at present, bank and alternative funding.
- Hurdle rates high for banks making affords hard to meet.
- Impact of COVID issues coming through in terms of clients having to rebuild credit profiles.
- Very high fixed rates at nonbanks make it hard to lock in rates there but profiles not necessarily strong enough to bring back to main banks yet.
- AKL market busy in the lower price bracket of under $1m but buyers generally holding off waiting for market to fall. Upside is gives clients time to "clean" up bank statements to have a better chance of higher lending under CCCFA.
- Banks very ageist and servicing test rates remain high - they still have big issues around interest-only which seems to get harder to obtain for clients
- Valuations for properties contracted on months ago are coming in a lot lower.
- Green shoots of recovery well under way.
- We cannot wait until the CCCFA changes are made/dropped in 2023 - many clients think it has got easier to lend when it has not.
- I see fewer buyers however they seem more willing to act than they did 6 months ago.
- The market seems to have accepted the current interest rate environment and no longer seems to shock.
- It seems hard to understand why the RBNZ still has LVR restrictions in place. The market is slow and non inflationary. Its not like hundreds of people would suddenly become buyers if the restrictions were lifted. The servicing will kill off most applicants, not the LVR.
- There are less and less people who could actually service a 90% loan and those who can are penalised.
- Phone and email very quiet meaning there's more time to proactively reach out to existing clients to try and add value. 1% cashback offers continue to drive refinance activity which is pretty much the only thing keeping me busy at the moment. Higher interest rates are making purchasers hold back and generating fear in some existing borrowers who are facing the prospect of having to renew their low fixed rate loans in the coming months.
- First home buyers struggle to secure an approval that's large enough to meet the market. They are often restricted by bank approval but others are debt averse because they don't want to spend every last cent on the mortgage.
- Seeing a few investors looking for a bargain.
- Many mortgage holders are concerned by interest rates and planning well in advance of coming off 2.?% rate. They are paying down debt, reducing/deferring spending in preparation.
- Banks are competing in the refinance space with large cashbacks - up to 1% cashback. Clearly the reduction in activity has made the banks look to taking each others customers as a means to increase activity. Generally this means the business goes out the backdoor as fast as it comes in the front door.
- Having a lot of people frustrated with the way banks are scaling income.
- I can see an increasing level of cautious optimism growing in the market to buy, which is good for now.
- There is demand for low deposit lending. Problem some lenders cut off scores too high then we have to switch clients to another provider where they need bank for at least 3 months. Borrowing capacity can differ by over 200k. Most of my lending is done outside of Auckland.
- The headache is construction lending. Bank approvals (at best)are 12 months, however with rising building costs and supply chain issues, often the build programme is delayed and mean while the client has committed to the build, and may need to get the approval reapproved and

may not fit the current lending criteria

BAY OF PLENTY

- As a business we have decided to just go with the market. We have been trying to fight the market and generate more business. The problem is we only get paid when the deal goes through. That means you can do a lot of work and not get paid. We feel that there is a lot of uncertainty and that is keeping people from buying at the moment
- Many seasoned investors still wanting pricing from a year or so ago. Having to reset their expectations. Lending above 80% for FHB still biggest challenge. More registered valuations required as banks lose confidence in property market
- There is a real slowdown evident now
- New enquiries from almost all types of borrowers has come to a screeching stop in past few weeks. Most seem to be waiting for house prices to bottom out and interest rates to start reducing again before making the leap into ownership
- Some lenders coming out with 'green loans' at a discounted interest rate for a certain period of time i.e. buy a hybrid/electric car, or improvements to housing such as heat pumps, insulation etc.

MANAWATU-WANGANUI

- The super high monthly surplus required by some lenders makes it tough for people with under 20% deposit - although, this surplus is starting to reduce which is great

HAWKE'S BAY

- The new enquiry levels are definitely down, with small flurries but clear nervousness about buying right now.
- FOMO is definitely dead and buried for a while.
- Lots and lots of top up applications for renovations and new cars from existing clients
- Existing clients very glad we split their loans, although wishing it had been for longer.

WELLINGTON

- Increases to stress test rate which may increase again after RBNZ OCR announcement later this month are making it harder for customers to get finance approved at the level they require, particularly first home buyers but also investors.
- Green shoots were showing, but got frost bite again when the inflation news came out. Very subdued in the market currently - a lot influenced by incorrect market commentary
- The test rate increase together with the fall in prices generally will inhibit customers' ability to refinance.
- Bank turnaround times are quick. Tight applications are being approved. Banks are lending.

NELSON/TASMAN/MARLBOROUGH

- Buyers seem content to wait it out - it could be a very quiet December!
- Very quiet with enquiries, have a lot of pre-approvals but they can't sell their house, some people afraid to buy at the moment because of interest rates and falling house prices.

CANTERBURY

- We are still getting plenty of applications from prospective home buyers however once approved are taking a long time to do anything (if at all). So we have a nice pipeline of potential business but many of these loans are not settling. I am seeing very few build loans, buying a section and building lending seems to have dried up.
- Buyers are mostly splitting their lending, spreading their risk over 2,3 year terms.
- Most banks are stressed to the max and not meeting vital timelines due to staff illness and shortage - they are not meeting their SLA, I have a client who has been sitting in queue at one bank for 19 days and told could be another week despite me submitting property details for them to assess along with it. In the meantime the servicing rate has changed and I was told yesterday although they are not yet assessed they will actually be entitled to much less lending due to this. They are missing information provided already and holding up process due to this. Causing stress on clients, brokers and

lawyers. It is hard to find anyone willing to actually talk to you about your clients needs and important timelines.

- There was an uptick in inquiry when rates subsided a little bit around September/October, but noticed a clear drop off after latest inflation figures and subsequent 1-year rates rising to around 6%.
- First home buyers are keener to engage compared to earlier in 2022, but continues to be an unpredictable time.

OTAGO EXCL. QUEENSTOWN

- Quiet times as first buyers waiting for house prices to drop further and looking for signs as to when interest rates will peak. Next level house buyers looking for price drops on their purchase but reluctant to accept a drop on their sale.

QUEENSTOWN LAKES

- Lots of new builds in Queenstown and with contingency now generally 15% when assessed and generally it's being exercised so we are having to ensure clients would still qualify to lend more during the build considering potential higher stress rate. May need to keep more cash to the side if possible and lower spec just in case costs increase and can still service. Lots of risk today for right deals

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