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MORTGAGE ADVISERS SURVEY

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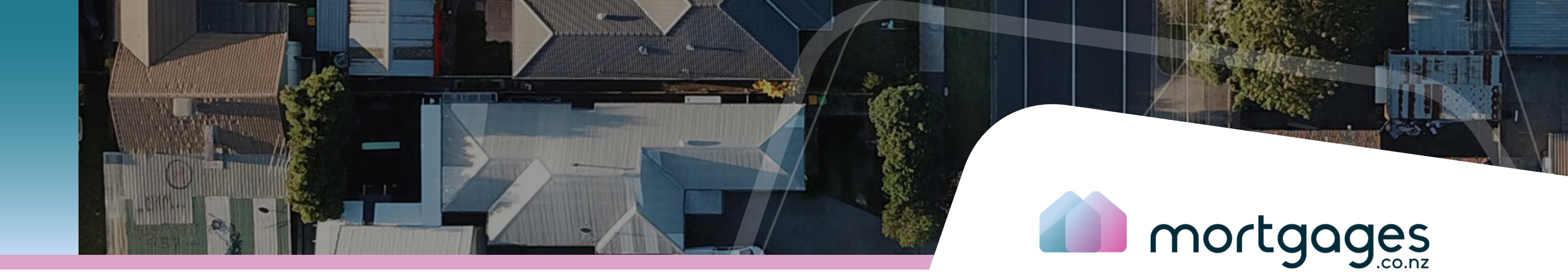


Lockdown impact eases

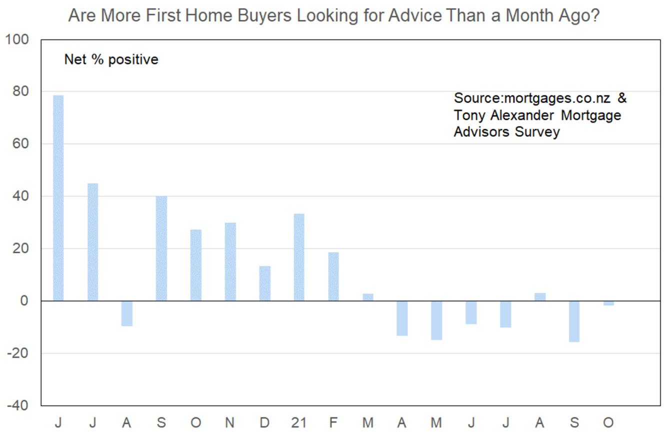
Each month we invite mortgage brokers around the country to give insights into developments in the residential real estate market from their unique perspective. The first survey was done in June 2020 just after the first nationwide lockdown ended and we could easily see from the responses the high level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

From March we could see the immediate impact on sentiment of the tax changes announced by the Finance Minister on March 23. But we then saw the initial wave of pessimism ease off, only to return from late-August when the country went into the second nationwide lockdown.

Now, in our most recent survey we can see the initial shock to sentiment has eased. But overall there remains an air of caution as we head into summer and through a spring still heavily affected by Covid-related restrictions.

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

A net 2% of our 60 respondents have reported that they are seeing fewer first home buyers coming forward for advice. This is an improvement on the net 16% last month seeing fewer first home buyers – a result which was in line with those immediately after the tax change announcement of March 23.



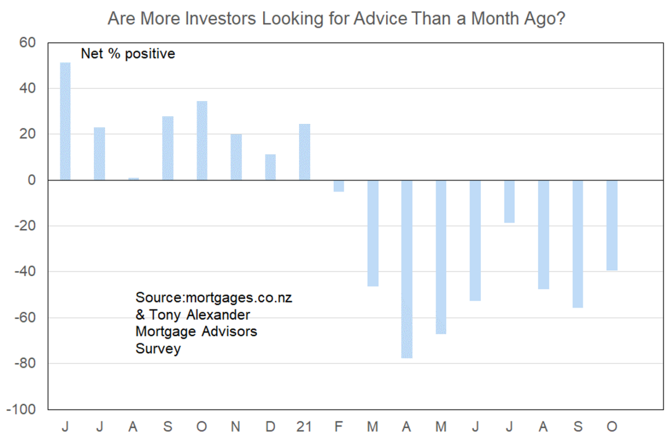
With Auckland still in lockdown it is not surprising that the overall result for first home buyer interest is negative. History tells us that when lockdown lifts, we should expect to see a lift also in young buyer activity. However, there will be restraint on this improvement for reasons which were not there in June last year.

These new factors include reduced ability of banks to lend to borrowers with low deposits, higher interest rates with more rises expected ability to travel overseas looking more possible, and banks applying tougher scrutiny of expenses and incomes to meet new rules being applied from December 1.

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

There has been an improvement in the net proportion of mortgage advisors who report that they are seeing more enquiries from investors. But the gain is only to a net 39% seeing a deterioration from 56% last month.

Therefore, although there has been a slight easing in investor pessimism, overall the strong impact on investor willingness to make additional purchases following the March 23 announcement remains.

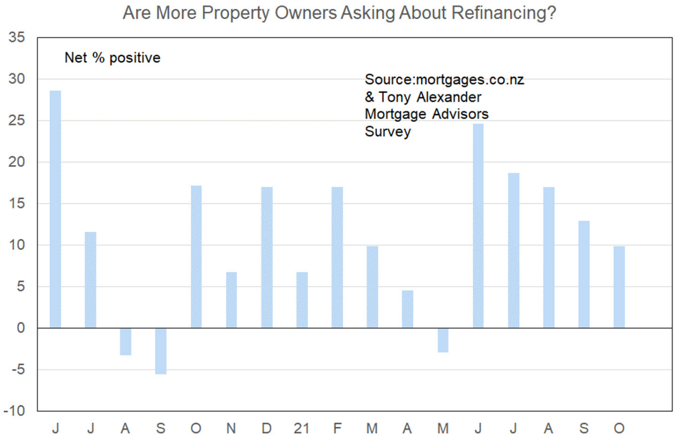


Mortgage rates are now rising and expectations for the extent of rises are likely to increase as people digest the impact of inflation hitting 4.9% and being set to exceed 5% in three months. Record low interest rates for borrowers and on bank deposits have been key factors globally in driving a wave of investor demand for residential property. Rising rates are likely to offset the effect of lockdown ending, so it would not be surprising if this particular measure of market strength stays in negative territory for a long period of time going forward.

However, rising construction and improved development opportunities from removal of resource consent requirements for three storeys/ three-unit complexes in our biggest cities means many investors are likely to remain actively engaged in the property market and seeking assistance from mortgage advisors.

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

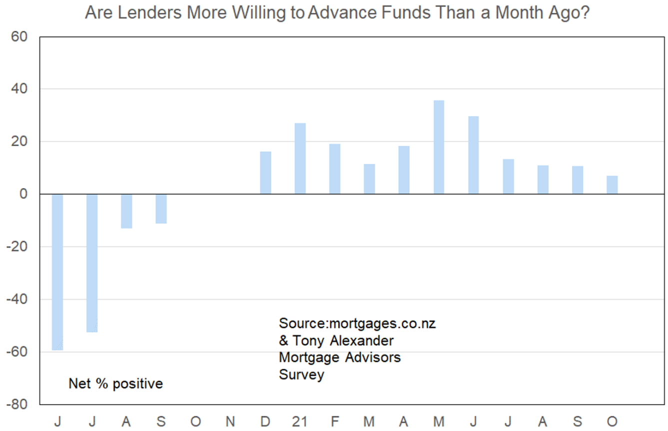
In June there was a large jump in the net proportion of mortgage brokers reporting that they were seeing more requests for refinancing. The trigger for this surge seen in the following graph may have been heightened discussion regarding interest rates rising. However, with inflation just reported at 4.9% and even greater awareness of rising interest rates, this time around there has not been any extra firming in refinancing enquiries.



In fact there is a downward trend in the net proportion of advisors reporting more such enquiries. Nonetheless, such enquiries remain above average. With some investors selling one or two properties to retire debt, or perhaps switching their wealth into other assets following a stellar run, refinancing enquiries could easily regain strength.

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

Feedback from a variety of sources shows that banks are tightening up their loan assessments with regard to expenses, incomes, spare monthly cash, deposit size, and so on. However, in the opinion of mortgage brokers there is overall still a good willingness to advance funds.

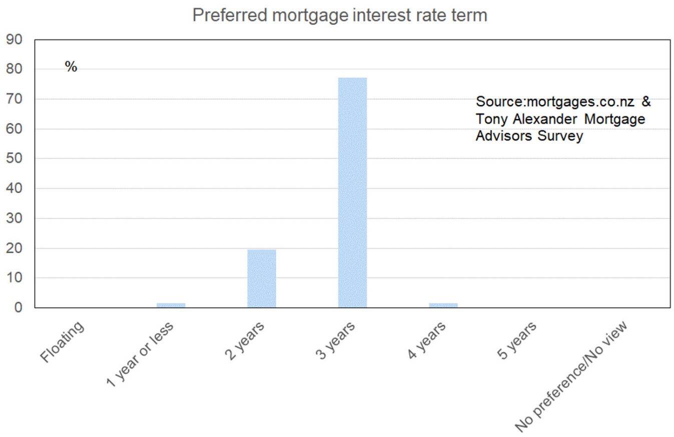


This is reassuring in the context of the many changes underway relevant to where house prices will go over the long-term (rising supply, tax changes etc.)

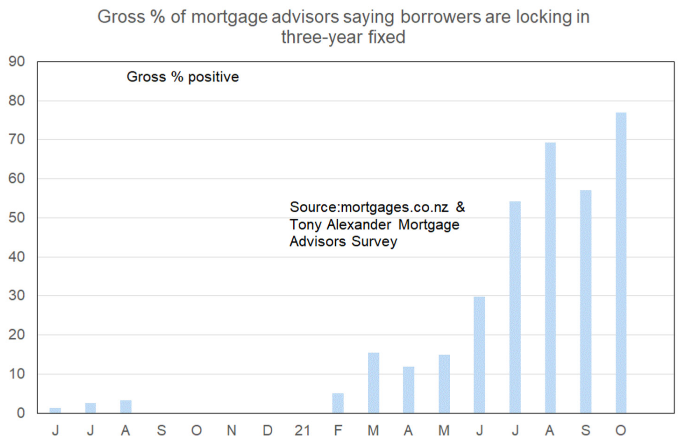
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

Our most recent survey has revealed that 77% of mortgage advisors are seeing clients show greatest preference for fixing their mortgage interest rate over a three-year period. Last month this proportion was 57% and the rebound perhaps reflects a reduced focus on the short-term negative impacts of lockdown which stayed the Reserve Bank's hand on August 18.

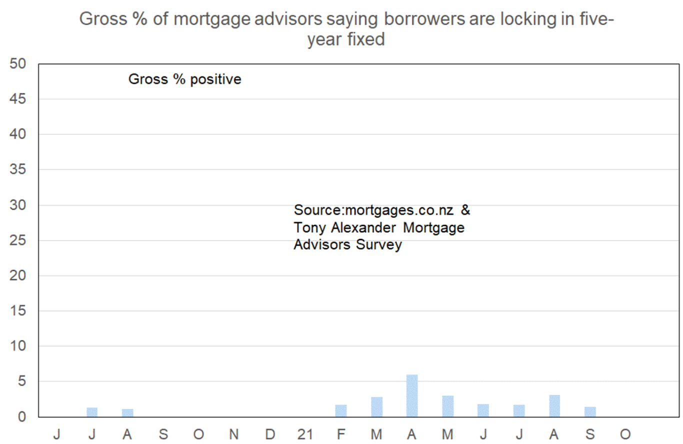
The official cash rate has now been raised 0.25% to 0.5% and the recently released much higher-than-expected inflation numbers suggest the potential for interest rates to rise is much greater than the Reserve Bank and most people have been anticipating this past year.



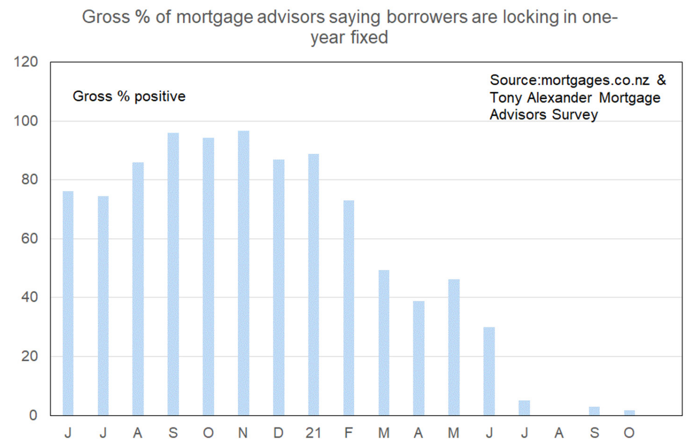
These next graphs show the change in borrower fixed term preferences, starting with the now popular three-year period.



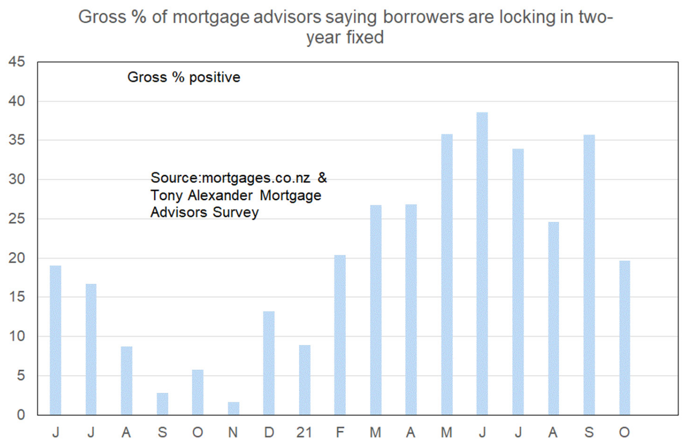
Historically, New Zealanders only rarely fix their interest rate for longer than three years. That helps explain the continuing low proportion of mortgage advisors reporting that people wish to fix five years. In fact, this month no advisor said five years is the preferred term.



Very few borrowers are now opting for the previous most popular term of just one-year.



The two-year term in contrast has become more popular, but not to the same extent as the three-year term.



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.

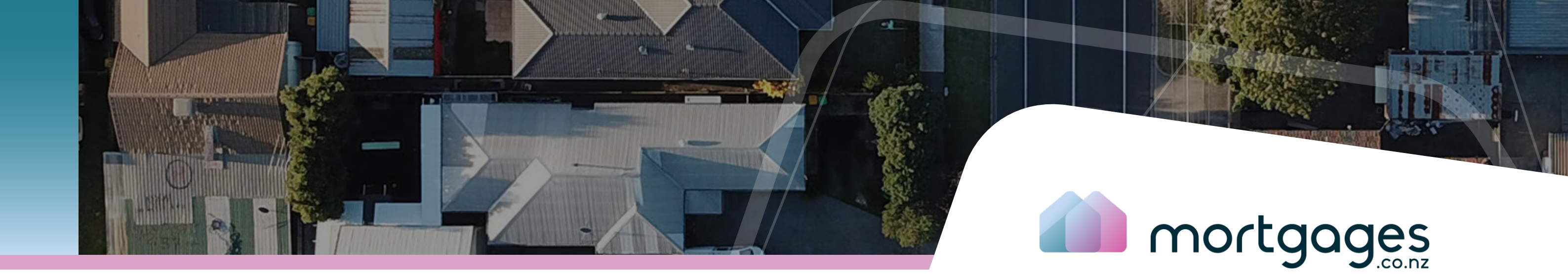
- There is more activity with regard to arranging financing for development.
- Banks are rigorously assessing expenses ahead of the official requirement to do so from December 1.
- Finance previously being approved is now being denied if delays in the purchase have occurred, primarily because of new CCCFA rules, low deposits, and increases in construction costs.

NORTHLAND

- The Whangarei market seems to still be hot even with the two-week lockdown, properties are selling for well over $1m on a regular basis. Tough going for FHB's but there are still opportunities out there for those willing to look for them.

AUCKLAND

- Increase in enquires from First Home Buyers who are being prompted to look into buying their first home as their rental property is being put on the market.
- There are some assessors who are helpful trying to make the deal work. However auction sales and rapid price increase is making it very difficult for our buyers to be successful. We have to spend lot of time going back and forth to bank to seek their approval on every property of interest.
- Broadly seeing more first home buyer enquiry with all the recent headlines. Also seeing a surge of locked up Aucklanders wanting to buy outside the region as a ticket to flee the city with uncertainty on when restrictions will end.
- AKL has slowed to a crawl as we head through this L3 period. Feedback from clients is going to Open Homes a nightmare and will wait to L2. Lots of Top Up activity, applications down 75% on March/April 2021 pre LVR changes, and L4 was almost a standstill this Lockdown compared with previous Lockdowns. More clients investigating selling AKL and buying other parts of the country. Different feeling to this lockdown than the previous 3
- We have seen a huge number of policy changes in recent weeks, and this has made the differences between the banks more pronounced. Unfortunately a lot of people don't know that bank policy differs, and so when they are told "no" by one bank they expect that means they would get the same answer from all banks which is not the case. It gives more value to what advisers do, but people don't know that so here is a challenge for our industry.
- Little help for borrowers who are struggling financially due to COVID. The previous interest only and mortgage holidays are not available and to get any help is requiring the banks hardship teams to get involved which is a process that is not ideal.
- FOMO is alive and well with a lot of people taking risks at Auctions without finance in place
- Affordability definitely starting to be a factor- i.e. almost the first thing people now ask is payments. Previously less of an issue and just a matter of fact. Now first questions are interest rate and how much will it cost - sentiment certainly shifting from FOMO to CAIP(can I afford payments).
- Banks are struggling to understand how to interpret the cccfa changes so being very conservative with credit rules, causing a slowing of processing applications and decreasing maximum loan facility to customers
- There are options of nonbank lenders for first home buyers with a less than 20% deposit.
- Construction finance requirements are tougher. The banks are trying to minimise the time from approval to completion and wary of construction costs.
- Across the board, lending criteria is tougher. That said there still seems to be way more approved buyers than sellers.
- Uncertainty, but as rates push up this is



helping crystallise the future more and gets people starting to make decisions (i.e. around developing or not)

- A lot of development funding been requested
- The changes to the CCCFA are already impacting on sensible credit decisions.
- Struggling with the inconsistency of the approvals from banks. One bank this week, approved a very tight turnkey loan but declined a deal with a large surplus due to one party being self-employed and linked to the travel industry.
- Turnaround times have been pushed out again and assume this will continue to be the case as banks meet the new requirements around CCCFA.
- Majority of current mortgage pre-approvals are clients selling and trading up, same city - taking on more debt - now that there are more properties on the market they are feeling braver about selling - also. Motivated to do it now and lock in rates rather than wait.
- Lenders - while significant changes happening - still getting good approvals through - banks good to work with on deals - although the construction section of xxx is swamped with business and hard to get an answer in a timely manner.
- Main bank pulling back on customers topping up loans to use as deposits on investment properties at nonbank providers.

BAY OF PLENTY

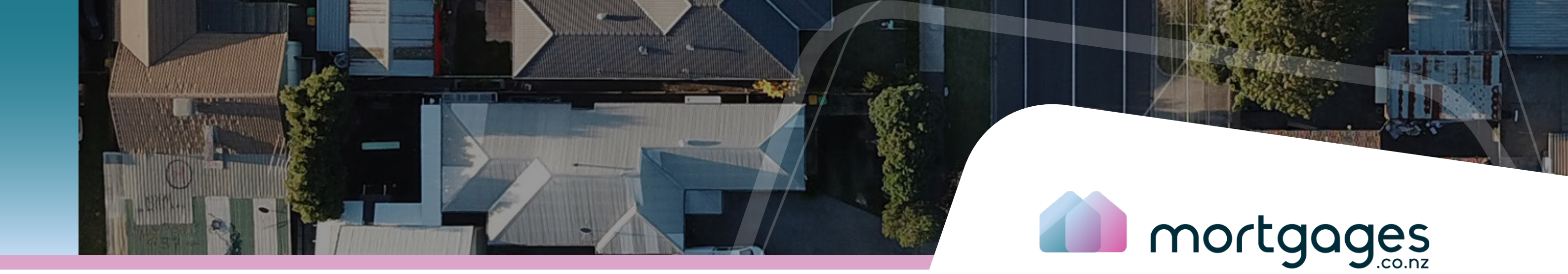
- Still crazy busy.... prices are out of control.
- I am finding that banks are looking for reasons to decline deals.
- Lenders are scared to fail with compliance which is causing more declines and requests for further information which is causing delays and major stress within the industry. Seeing a lot of senior banking/lending staff leave the industry due to this. Lenders moving to more remote services (i.e. internet etc.) causing more clients to come to the broker to do more things that the banks are not remunerating for.
- Very limited supply of new sections for FHB to do new builds in the BOP & Waikato areas
- A lender is calculating TDTI (Debt to income) for every application that is submitted, so they are getting a good picture of their DTI. Indeed they are applying TDTI for applications
- OO properties where the LVR is >85% and 75% where the property secured is by way of IP only. Their factor is 6x.
- Been contacting a lot of clients suggesting that they break their fixed loans and refix now, to avoid the higher interest rates in the future. Been met with good success from clients, knowing that you have their best interests at heart.
- People reluctant to sell as market makes it difficult to purchase again due to lending criteria and most properties going to auction. LVR restrictions and new CCCFA will almost cut first home buyers out of the market. Will no longer be acceptable to pay the mortgage and live on whatever is left, will need to demonstrate existing living standards can accommodate the mortgage, which is opposite of how NZ'ers traditionally look at it.

WAIKATO

- No banks doing lending for new to bank customers at high LVR. It means we are very limited with the help and advice we can give.
- Bank turn around times pretty good at the moment. No one taking a one-year fix now, always 2 or 3 years with more jumping on 3 years vs 2. I was lucky to fix a good chunk of my own lending at 2.99% for 5 years earlier in the year. At the time my colleague tried to talk me out of it, he was a sworn advocate of the rolling 1 year fix and did some projections showing it was gonna cost me more fixing at 2.99% vs his forecasted 1-year prediction over the next 5 years. I just spoke to him today and he said he broke his 1 year fixed and locked in for 3 years.

HAWKE'S BAY

- CCCFA is creating delays in standard approvals due to the amount of information now required from clients.
- Heightened focus on monthly expenses as the new CCCFA regs come in to play. More concern from lenders around servicing strength.



WELLINGTON

- Further increased scrutinising of spending habits from the banks. Focused on the detail rather than the overall customers and the strength of the application. Not prepared to factor any mitigants into the application. Policy is policy and that's it. No common sense.
- Banks now want significantly more detail provided on client monthly expenses and are including discretionary costs as normal monthly expenses in their debt servicing calculations.
- Starting to see issues with approvals for construction loans which were approved for 12 months that are now being delayed due to Covid, the approvals are expiring, and the lending no longer meet the banks new debt servicing rules. There is going to be a lot of this to come.
- Some banks are now wanting registered valuation on nearly every new mortgage deal regardless of LVR, this must be helping them with the new capital requirements that are looming.
- Getting a pre-approval is becoming harder and harder. This will definitely impact the housing market as the frenzy of big loans and unconditional offers are coming to an end. Bring on the New Year, I need a break!
- Self-employed are also going to find it tougher to get a home loan as one bank is applying the CCCFA to the business debts as well as their personal. They are also not allowing as many add-backs from the business to boost the income. An example of this is a self-employed FHB that has no personal debt but does have business debt in the form of Covid 19 assistance and vehicle is now unable to get a home loan due to a negative UMI. Before the CCCFA was applied to the business debt they were able to get a home loan as they were a positive UMI. They are also a FHB that has a very healthy deposit. Finding that the Covid 19 assistance packages are coming back to bite some of the self employed when it comes to them wanting a home loan.
- Still tough for buyers as not enough stock & many buyers for same property so heaps of rework required. Some approvals are being re-assessed under the tougher new rules so there could be a reduction in amount approved unless they settle imminently.
- With an increase in the OCR & inflation results lenders are increasing their rates which in some cases means the servicing rate has also increased thereby reducing clients affordability.
- Living costs are being more closely scrutinised & itemised in preparation for CCCFA requirements.
- Seeing more people trying to rent out their property and upgrade to a new one (which isn't always the best return on equity!). But its an easy/lazy way to upgrade and be a property investor. Have regular inquiry of people trying to borrow more money than they can afford but they have no logical thinking around debt and LVR ratios
- Buyers are pulling back. House prices versus their available deposit has got away on them and their incomes are no longer meeting the bank lending criteria.
- Sudden rush to fix for 2 years+ when previously they were happy with the 1-year carrot rate.
- Increase in clients looking for finance to renovate and/or build smaller self-contained units on their properties but not sub-dividing.

NELSON/TASMAN

- Pre-approved, low-deposit, first-home buyers are struggling to find something suitable in the Nelson/Tasman market. They rent a really nice house but can't afford to buy something similar and some are not willing to lower their standards!! I have two couples moving to Christchurch where homes are more affordable compared to Nelson.

CANTERBURY

- Low equity borrowing - it is almost impossible to get preapproval for these buyer unless they fall into the Kainga Ora criteria.
- Banks are happy to lend with 20% or more deposit and good income. The lending criteria and scrutiny appears unchanged. For less than 20% finance there appears to be little appetite for this for existing properties. Unless income is very strong and no other consumer debt. Short term consumer debt like Afterpay, Laybuy etc will need to be closed for First Home buyers or

low deposit finance. Home Start Grant house price caps almost never work in the current housing market. It would be helpful for First Home Buyers to remove house price caps and income caps altogether and let the banks decide if they qualify for finance or not.

- Biggest change affects first home buyers - higher UMI required, increase of 150%+ (uncommitted monthly income after all regular expenses). Change due to Reserve Bank allowing banks to lend less to clients with <20% deposits, so they have made it harder for first home buyers in this position.
- House prices are getting so high its hard for fhb to buy without parents' help now and very few qual for first home grant
- Current tightening of servicing requirements due to CCCFA, xxx in particular this past couple of weeks with many changes coming into play. Have noticed a real squeeze where clients were previously approved and had committed to builds are now stressing & facing the possibility they may no longer meet servicing requirements to settle their lending.

DUNEDIN

- Time delays still a big issue, 10 plus working days, and if they ask a question via email another three days wait.
- Have noticed that I'm getting a few calls (only 2 so far) and requests for what I would say are bank maintenance jobs, because people can't get in to see anyone at the bank or are being fobbed off. Service levels have really dropped off at some branches.
- It is much harder for first home buyers with lower than 20% deposits to get on the market now.

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