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MORTGAGE ADVISERS SURVEY

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First home buyers active

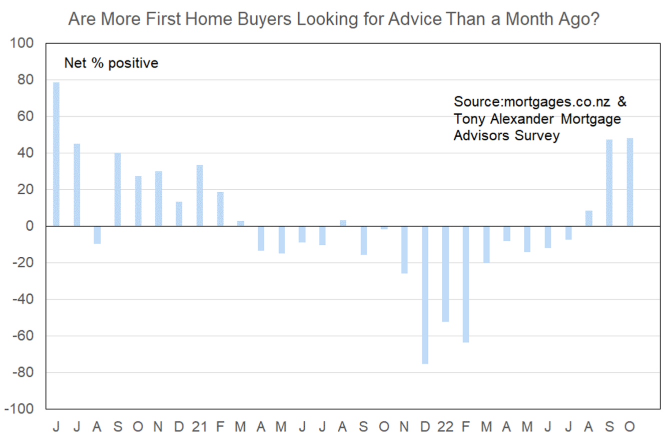
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 56 responses.

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

- First home buyers are confirmed as back in the market.
- Investors however continue to hold back.
- Worries about interest rates have encouraged a small shift back towards fixing for two years and away from fixing one year.

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

For the third month in a row more advisers have reported seeing more first home buyers seeking assistance with their financing than have reported that they are seeing fewer. This month's net 48% positive result is the same as last month. This tells us that although there is an observable return of young buyers to the market their re-entry is not at this stage snowballing into a generalised movement by most first home buyers.

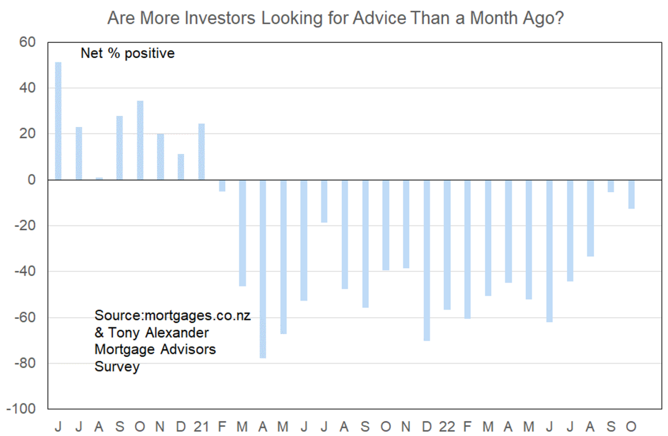


Comments on lending to first home buyers submitted by advisers include the following.

- We are seeing banks saying they are willing to lend to first home buyers, but the actual criteria are so restrictive its near impossible.
- A bit easier getting low deposit finance with Kainga Ora changes.
- Still limited ability to lend to those with a deposit of less than 20%.
- Barely any lending over 80% except First Home Loan and the queues are horrendous.

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

In contrast to the solid return of first home buyers to the market it remains the case that mortgage advisers continue to see investors backing away. All that can be said is that the extent to which investors are stepping back has eased over the past four months. But many factors are keeping their demand low including tax changes, rising interest rates, and slowing rents growth.

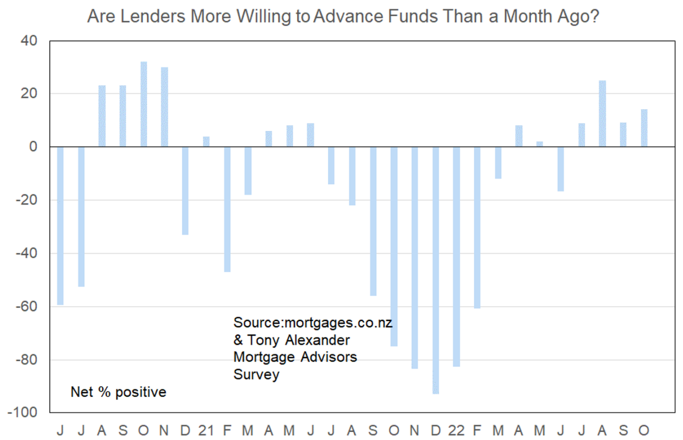


Comments made by advisers regarding bank lending to investors include the following.

- Servicing is tight with increasing test rates, large scaling of rent and separating rates and insurance for each property.
- One lender at a smaller NZ bank explicitly said they didn't really have much appetite for investor lending at the moment and would prefer to grow their owner occupied book more instead.
- Ok for new build, existing forget it.
- Still 60% LVR for existing properties. Higher discount of rental income for existing property rental income compared to new build properties.

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

For four months in a row more mortgage advisers have reported improved willingness of banks to advance funds than reduced willingness. However, there is no improving trend underway in this measure and the comments made by advisers make it clear that banks are still applying very stringently the rules set by the Reserve Bank along with their own risk management requirements.

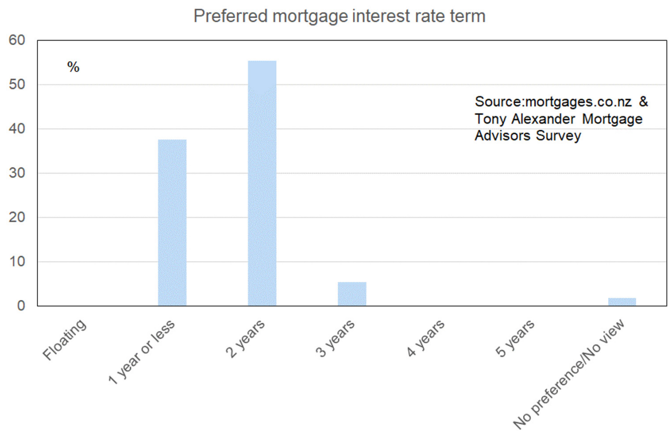


WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

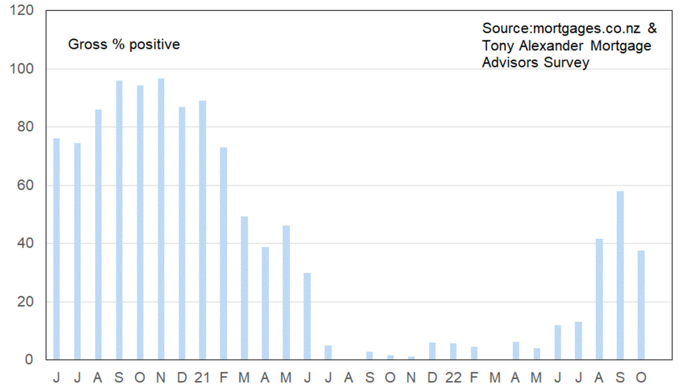
Around the world concerns about rising interest rates have soared in the past month in response to a substantial easing of fiscal policy in the United Kingdom raising concerns about a debt blowout when the ratio of government debt to GDP is already 100%. In addition, inflation measures in the United States continue to print largely on the higher than expected side. Plus, there is some renewed upward pressure on oil prices and therefore inflation stemming from OPEC's decision to cut oil output.

Hikes in wholesale borrowing costs facing banks have led to some fixed mortgage rates for shorter terms going up and unless things change very quickly in the wholesale markets further increases for all terms are likely as banks seek to rebuild currently very crunched margins.

As a result of the reduced optimism about interest rates borrowers have pulled back on their enthusiasm for fixing just one year. Last month 58% of advisers said that borrowers preferred the one year term. This month 38% have said that.

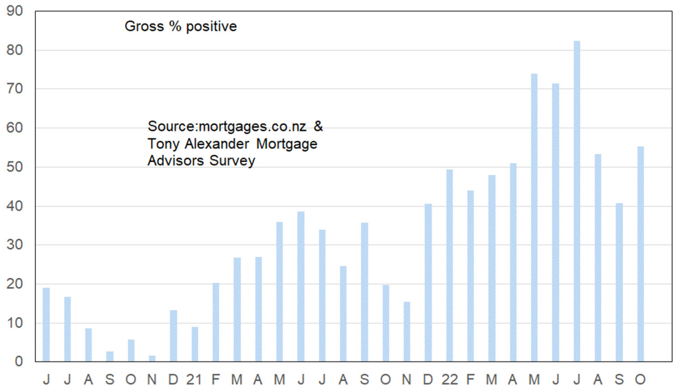


Gross % of mortgage advisors saying borrowers are locking in one-year fixed



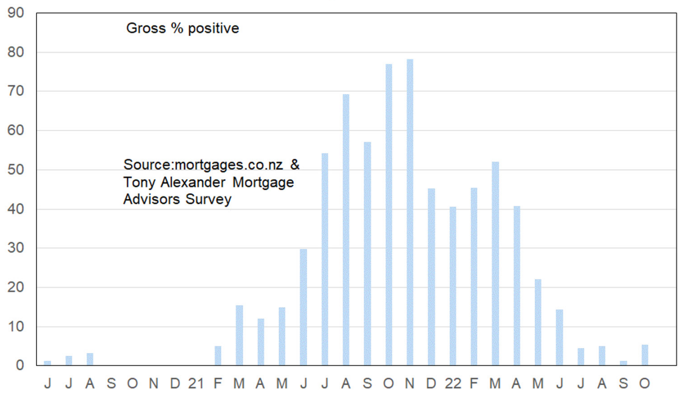
The preference for fixing two years has been cited this month by 55% of advisers, up from 41% last month.

Gross % of mortgage advisors saying borrowers are locking in two-year fixed



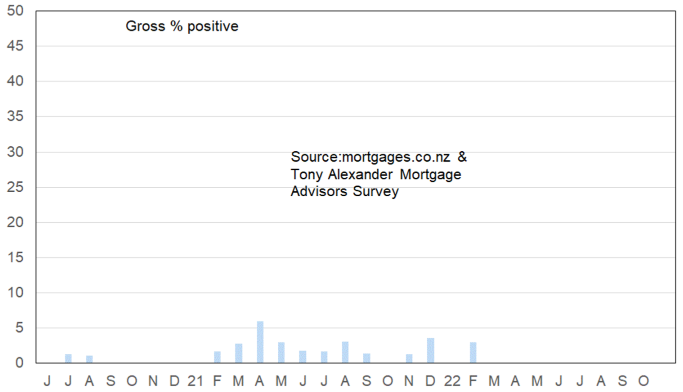
There has even been a rise in the proportion saying that borrowers prefer to fix their interest rate for three years – but only to 5% from 1%.

Gross % of mortgage advisors saying borrowers are locking in three-year fixed



Demand for fixing five years remains at essentially zero.

Gross % of mortgage advisors saying borrowers are locking in five-year fixed



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.

NORTHLAND

- The main banks need to step up & start putting the relationships with advisers as a priority. The fighting we are having to do to get simple deals approved with some of the banks is turning our workload into something that is unsustainable - a standard application takes 10 hours plus, anything with complexity or over 80% this can push into to 20-30 hours & a huge amount of this time is back & forth with the banks about box ticking exercises. The common sense element of lending has been completely removed & we are finding more clients deciding to go with nonbank lenders because the main banks being so impossible to deal with.

AUCKLAND

- Banks seem to be more willing to lend as volume has fallen away and the CCCFA relaxation has commenced. Aggressive on cash backs. FHB's coming out of the woodwork more as Spring has hit and talk of more realistic property prices.
- Buyers still taking their time, increasing interest rates definitely scaring some off.
- Lenders seem hungry for business. 1% cash incentive encouraging people to refinance.
- Credit decisions generally pretty quick, perhaps new mortgage enquiries are lower than expected / below the level that banks are currently resourced and able to handle.
- Banks have increased margins and don't need to lend too much and are kicking out the tough loans or marginal ones.
- Steady stream of interested first home buyers. Unfortunately, most don't qualify under LVR restrictions unless parents are willing to help with deposit. Parents less willing to gift deposit with property values dropping. KO loans able to help on occasion.
- New builds are an opportunity for some first home buyers. Some new builds that had contracts on them are coming back on the market close to completion time because the buyer bought off plans but now can't secure finance to settle.
- Turnaround times have improved for some lenders however whilst a full diary note is provided there is often a request for information contained within the diary note.
- Still finding a significant amount of inconsistency between assessors from the same lender.
- Buyers starting to be more willing. Market seems to have accepted the new interest rate environment.
- Still a disconnect between vendor price expectation and purchasers. Investors forced out of purchasing existing properties by Government Tax policies.
- Clients are waiting for the prices to fall further, but at the same time they are aware of the interest rate rising every week. It is a catch 22 situation. Most of the investors are waiting for the change of government and reversal of the interest deductibility and bright line test.
- Borrowers are still being treated like they cannot make their own decisions with regard to financial risks and spending choices, regardless of their financial literacy.
- People seem to be a bit more proactive with intending to buy, bidding at auction, making offers. People are still media reactive - they hear that prices are stabilising and/or increasing so they are wanting to get in - no one wants to miss out, but they dont want to buy unless it is the bottom - seems to be main focus. Advice such as 'the higher test rates go, the less you can borrow, and you may be paying a higher rate by delaying' are often over-looked in favour of the possibility of buying at a lower price.
- Vendors still expecting prices we saw in the middle of last year and fewer are willing to move to meet the market. Buyers looking for that bargain.
- Kainga Ora eligibility for first home loans are super strict. No willingness to mitigate. I.e., 1Y of employment must be with an actual employer - Won't take into account if someone has been

studying at university (even if they've studied in the area that they've subsequently been employed!). The FHL system doesn't seem to work well, and it cuts out a large portion of the key market that it was intended for. Most usually the lower-income families have relatively high personal short term debt, this further impacts the viability of attaining the FHL.
- Interest rates are hurting, concern about where they stop is meaning a lot of people are sitting on their hands. There is no job loss concern - yet. Covid apathy is alive and well also, a lot of people want a break.
- Buyers would like to take the advantage to buy now as the property price has dropped, but still do not want to take action now as worrying the property make drop further.
- Buyers are turning up to auction without completing all conditions, banks telling them not able to bid on the auction day... would suggest they find a good Adviser to work with.

BAY OF PLENTY

- More complex deals presenting themselves as people try to figure out how to get lending, families by, friends trying to buy as partnerships etc.
- The banks I work with are trying to make deals work if they can as they need the lending.
- Busy as and it is all happening.

WAIKATO

- Buyers are starting to come back to the market. Slowly... Most clients are pretty solid and not too much panic and worry out there considering.
- Lots of pay rises offsetting the increased mortgage rate, which makes you wonder how they will curb that inflation thing.

MANAWATU-WANGANUI

- Banking appears very tough, real estate has slowed down hugely

HAWKE'S BAY

- We seem to have arrived at our new norm. CCCFA regs are largely bedded in with a small chink of common sense being applied for future spending. Over 80% is pretty unachievable through the main bank channels. People wanting to move house, having bought within the last 2 years are struggling to find a way to obtain finance.

WELLINGTON

- Over 80% lending more difficult - funds there seem to have dried up - even for non-bank lenders.
- First Home Buyers want to take advantage of the reducing house prices but are getting caught by the LVR restrictions.
- Investors are looking at new builds, but often surprised by the reduced amounts they can borrow.
- Buyers are more accepting of the tougher lending criteria - but believe too much of what they see/hear in the media i.e., some of what they believe is not correct. Banks response times are pushing out again now - maybe they have cut their staffing? Customers are becoming more accepting of the higher interest rates
- Buyers want a property cheap - banks want to lend - people are very cautious
- For me, the biggest problem buyers have right now is not finding a property or the price of the property – it's that the bank is not lending them the same amount of money they previously would have approved, or they cannot get pre-approved as they don't have a 20% deposit. If that changed, we would have a normal market.
- Increasing test rates continue to be the biggest factor effecting the amount of lending clients can get.
- Investors pulling back as increased interest rates affect the viability of purchasing. Have seen some investors pull out of deals after crunching the numbers based on the interest rates offered by lenders

NELSON/TASMAN/MARLBOROUGH

- The cash-contribution battle has been beneficial for clients with up to 2% cash available, although this looks like it might be coming to a close.
- Our housing market remains slower than usual and buyers don't seem in a rush - no FOMO in Nelson/Tasman yet.

CANTERBURY

- More enquiry from people wondering about upgrading their homes now.
- I have definitely seen an uplift in first home buyer enquiry, and willingness to attend auctions. It appears they have seen enough to pursue property now, rather that waiting any longer for the bottom of the market (or maybe they believe now is the bottom).
- Overall, there is no real change from last month other than the variable rate is now so high due to the OCR increases that special build interest rates offered by xxx and yyy are now largely irrelevant. Only xxx offer this now but those who secured this for 3 years with yyy will be now considering fixing. It is now only a slight saving while building compared to the banks standard variable interest rate. But it is now the equivalent of a short term fixed interest rate. So, on completion of the build clients will likely fix and get away from variable due to the risk of this increasing significantly from here. The banks are only really interested in exceptionally strong deals with very clean account conduct. New build construction finance is getting harder to get approved due to high bank test rates and 15% contingency on the build cost. Plus, borrowers need to be careful about build approvals as the banks do not necessarily honour the contingency built into the original approval when this is called on. Some banks still require reassessment at the new criteria when this is needed. For clients who were at maximum levels they may not pass the new criteria by the end of the build. This creates a lot of stress for the clients and a lot of rework for the Mortgage Adviser. The only way to lock in the contingency borrowing allowed for at the start of the build is to actually take out a loan for the contingency at the start of the build process. This may be needed going forward as interest rates continue to rise.
- I had a quick answer to an investment property application this week, and I just about cried with joy. I had forgotten how good it feels when you get an approval when you don't have to fight tooth and nail for it.
- Buyers are feeling more confident in their ability to negotiate prices. Builds are becoming less common with the overruns, delays & high costs.

OTAGO EXCL. QUEENSTOWN

- Very quiet on the mortgage front. Higher interest rates and perception that local houses are still being listed at high prices are holding back most buyers.   While listings are up, I keep hearing that quality of those listings not very good and still difficult to find a desirable house.

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