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MORTGAGE ADVISERS SURVEY

September 2021

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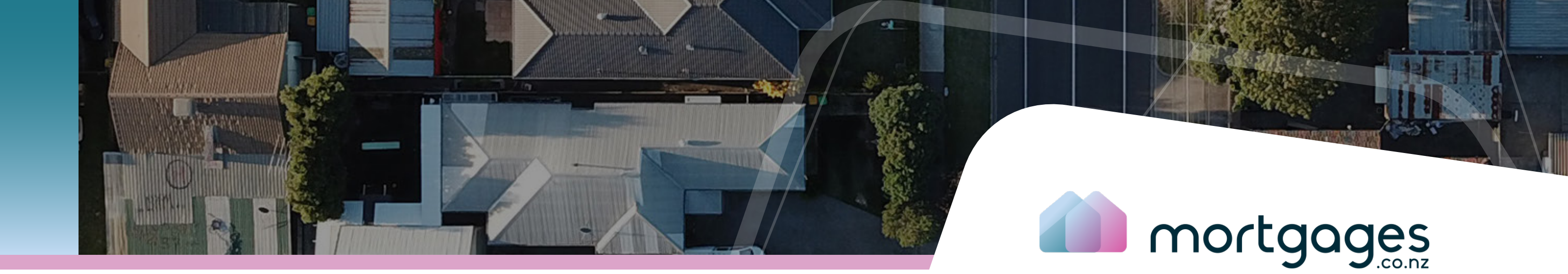


Lockdown impact apparent

This month's survey of mortgage advisors throughout New Zealand has yielded 70 responses telling us the following.

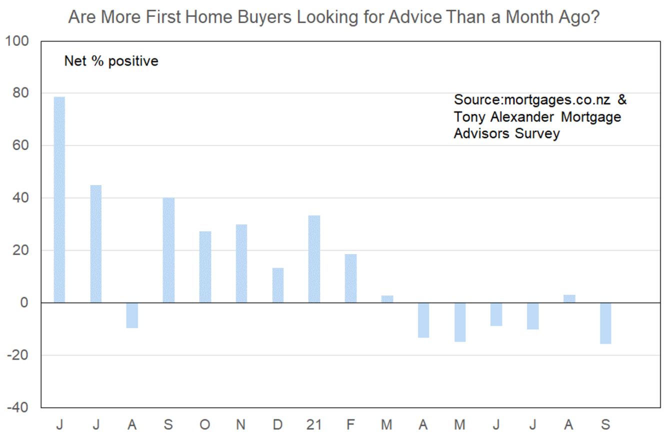
Banks remain as willing to lend on average this month as last month, but there is far more scrutiny being applied to client expenses and income sources than ever before. Low deposit loans are harder to secure for clients and there is increasing bank wariness of funding some people into purchasing off the plan as costs escalate.

Lockdown has had an impact on the level of enquiry from both first home buyers and investors. The delay in interest rates going up may have contributed to a slight shift in fixed term preference back towards two years from three years.

But these remain the most favoured terms to fix and there is as much interest now in fixing one year as in fixing five years – virtually none for either term.

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

A net 16% of the mortgage advisors replying in this month's survey have reported that they are seeing fewer first home buyers coming forward for advice. This is a deterioration from the net 3% last month who were seeing more first home buyers.

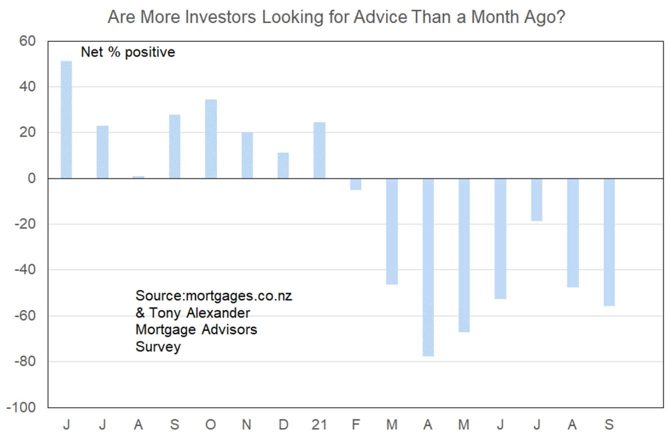


The change is not unexpected in light of the decline seen in August last year when Auckland went into lockdown from the 12th. Back then the change was from +45 to -10 which is a far greater slump than the 19% this time around.

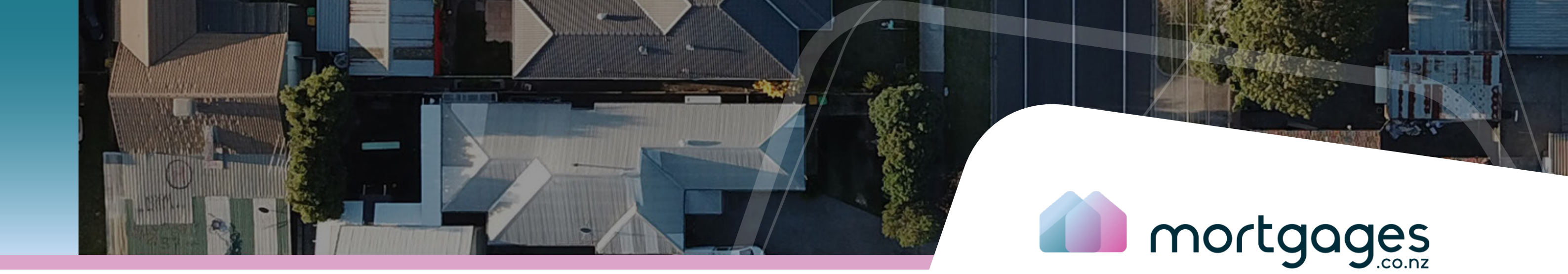
This reduced decline provides some further evidence that this lockdown is being viewed in different terms than the other two significant events. Why? Probably because of the overwhelming evidence that when lockdowns end the hosing market surges anew.

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

A net 56% of mortgage advisors have reported seeing fewer investors stepping forward for mortgage advice. This is a very weak result. However, it is in line with the situation from March to June this year and represents some giving back of the improvement seen from July, which was itself substantially unwound anyway in August where most replies to our survey came in before the country went into lockdown.

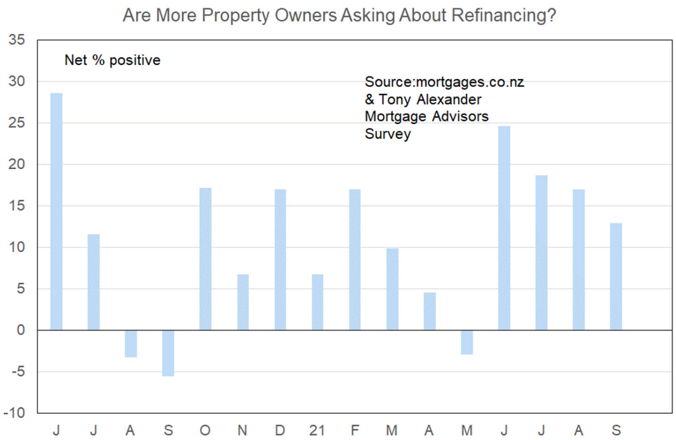


The result is consistent with those from other surveys showing that investor demand to purchase property has been curbed by the LVR and tax changes announced over February and March this year.



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

In May the Reserve Bank stated their expectation that they would raise interest rates 1.5% starting in the second half of 2022. This comment along with general discussion regarding rate rises may account for the sharp jump over June in the net proportion of mortgage advisors seeing more people seeking assistance in refinancing their mortgage.



This refinancing may involve shifting lender or changing the interest rate fixed term, as discussed below.

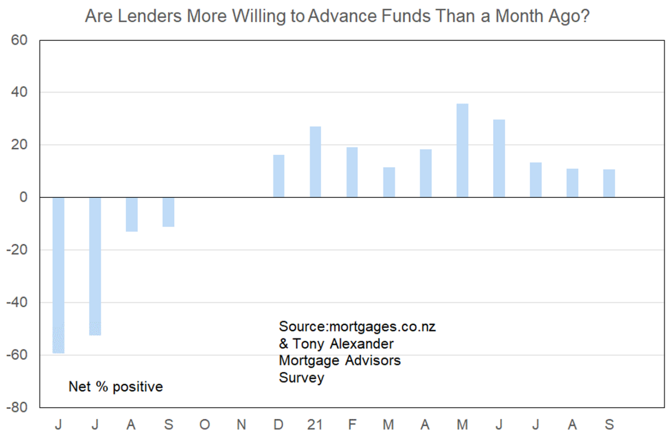
This month, the Reserve Bank's delaying of its first rate rise previously near universally expected for August 18, may have contributed to a slight easing of refinancing enquiries.

At a net 13% positive, refinancing enquiries are essentially equal to the average since June last year of 11%.

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

The government has delayed new responsible lending and other tightened credit assessment criteria until December 1 from October 1 in light of the impact of lockdown on the ability of those involved to get ready. Nonetheless, the willingness of banks to advance finance still sits lower in September than in all other months since December last year bar August.

The ability of banks to lend to borrowers with low deposits is being reduced, and banks are already undertaking the far deeper scrutiny of borrower expenses and income sources which CCCFA changes will require.



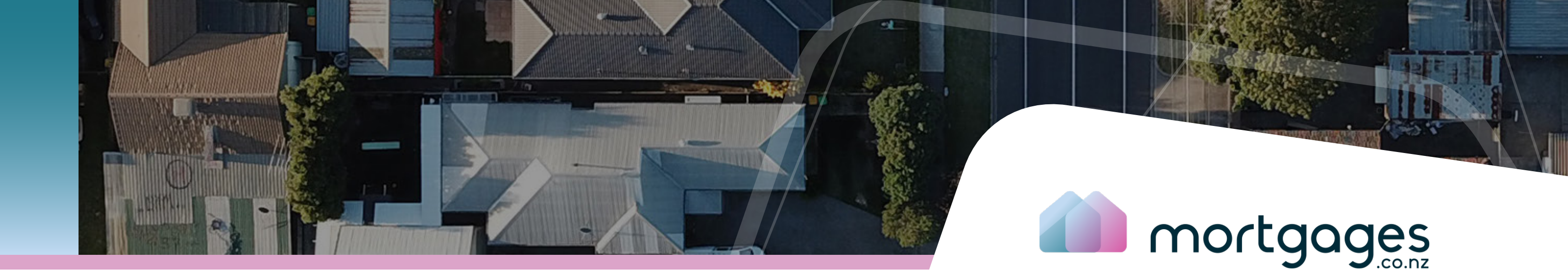
Perhaps the important point to note with regard to this question is that there has not been a sudden new tightening up of lender willingness this past month as lockdown has been in place. Experience with previous lockdowns has shown that while particular sectors such as hospitality (and construction this time) are heavily affected by lockdown, the economy and housing market are now known to bounce up strongly when freedom returns.

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

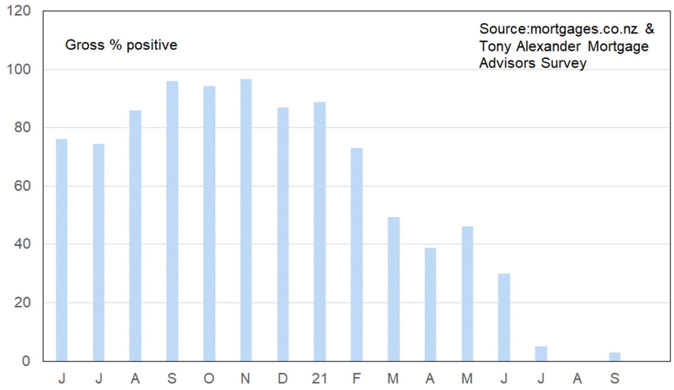
For all of our surveys last year the overwhelming majority of mortgage brokers reported that their clients were most in favour of fixing their mortgage rate for one year. This has been the best strategy since the end of 2008 in New Zealand.

But last year we could see inflationary pressures starting to build, and I became a strong advocate of fixing five years at 2.99%. Few borrowers took up this option as banks discounted their one-year rates as low as a carded 2.19%.

But this year has seen things shifting. Whereas in January 89% of advisors said the one-year term was most favoured, that fell to 39% in April, 5% in July, and now only 3%.

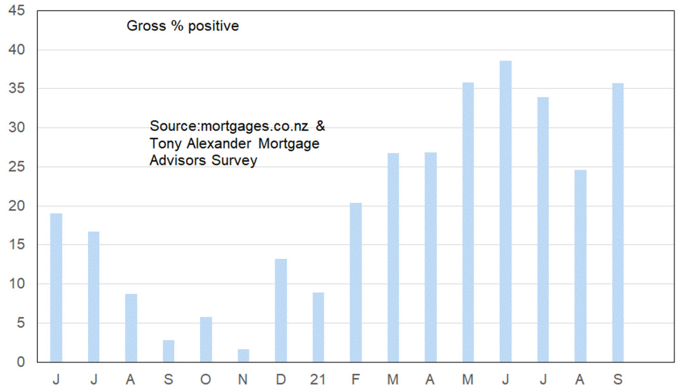


Gross % of mortgage advisors saying borrowers are locking in one-year fixed



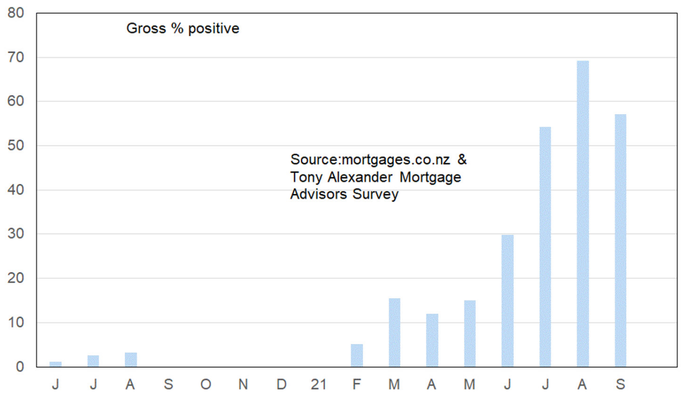
The proportion favouring the two-year term rose strongly from December through to June but has broadly plateaued since then.

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



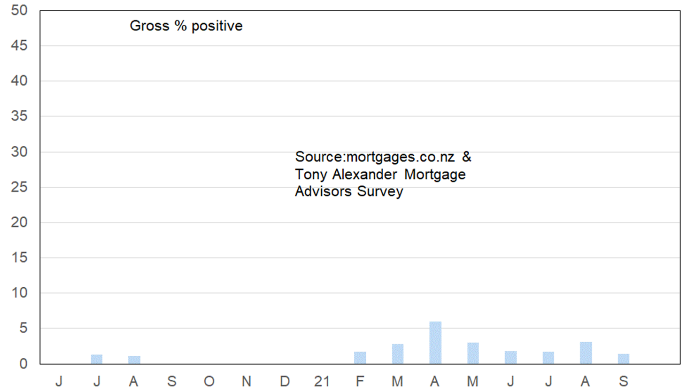
The term becoming most in favour is three years. 57% of advisors report people most favouring three years, down only slightly from 69% last month.

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



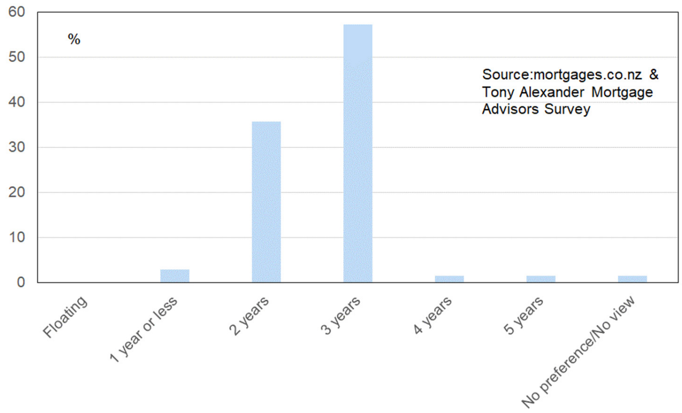
Still, very few people favour locking in fixed for five years and this situation is likely to continue until the five-year rate is below rates for shorter terms – which will then be exactly the wrong time to fix long-term.

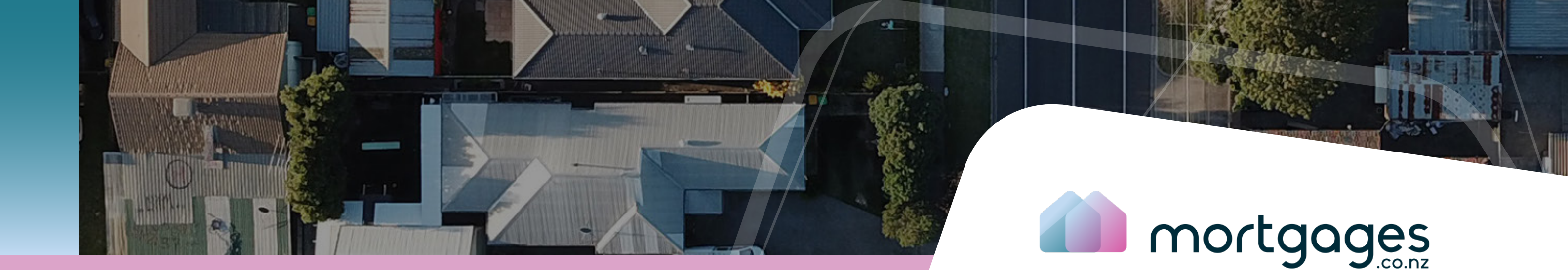
Gross % of mortgage advisors saying borrowers are locking in five-year fixed



The current range of rate preferences looks as follows.

Preferred mortgage interest rate term





Mortgage Adviser's Comments

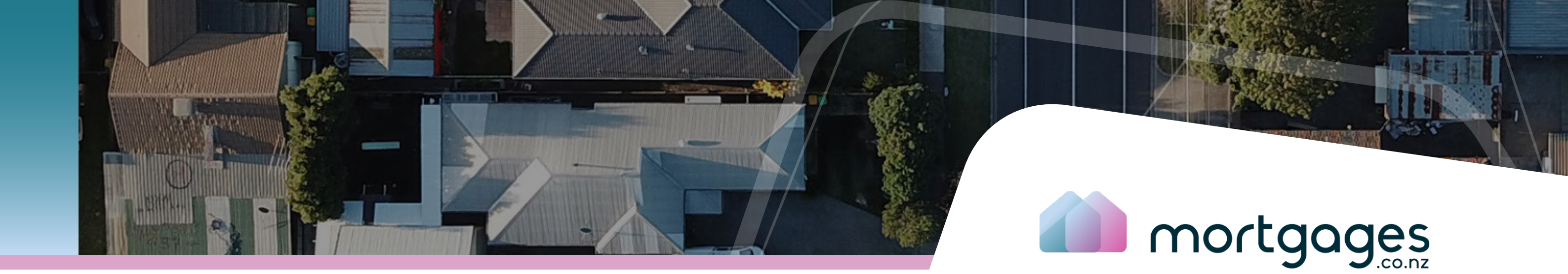
Following are the comments which mortgage advisors volunteered in this month's survey, grouped by the region in which the advisor primarily works. These insights can be very useful for placing flesh around the bones of the numerical indicators.

Key themes this month include the following.

- Listings remain in very short supply.
- Bank lending criteria continue to tighten in advance of October 1 low deposit lending shift and December 1 responsible lending criteria upgrade.
- As banks tighten rules, more people are shifting to nonbank lenders.

AUCKLAND

- Generally the banks are tightening policy, which has opened the market for the non-banks even further.
- From what I see the Buyers definitely appear to be in the throes of FOMO. Most Investors are laying low and waiting to see what impact these new rules will have on their portfolio before making decisions to reduce or increase their investment portfolio. A few Investors are pushing ahead regardless and that is when I can see the Lender's lack of appetite for lending to this section of the market.
- The Banks will approve reasonable loan proposals provided equity and servicing stack up.
- Buyers and lenders are cautious in this environment. There is a waiting game in the market. It looks like the house for sale stock is going down rapidly. There is a holding pattern by sellers, they are waiting for the lockdown release before they release their stock into the market.
- More and more first home new builds (or just new builds) are being purchased off the plans and have completion dates 12-24 months away. We have to arrange finance now and wait 12-24 months to get paid.... lol. Anything can happen in that time frame.
- With few properties to buy at present - vendors are still expecting top dollar. The auction system makes it difficult to guesstimate the price level of a property - still many frustrated buyers not able to secure a property. It's hard when their pre-approval is for a set amount.
- Significantly more random enquiries as Aucklanders have time in level 4 and are 'shopping' brokers rather than coming to one.
- Overall, very quiet compared to usual. First home buyers still want to extend current pre-approvals, but I have had no new enquiry from FHBs since lockdown started, which is a worry. I have had continued Investor enquiry over lockdown, and most are OK with a 40% deposit because they already own property. Some will only consider new builds so they can use 20%, but the majority are 40%. Banks wait times have sped up a little bit, as I assume they have had fewer applications overall.
- Banks seem to be definitely having pressure put on them by RBNZ and Labour govt to slow the lending down. Banks are reacting by not staffing 3rd party channels sufficiently and slowing down the processing times to frustrate clients and advisors. Banks are way behind the nonbank market with technology and systems to process home loans efficiently.
- General unease on rate rises. Also, there is due to Auckland lockdown a large volume of loan deals delayed but will settle once we are out of lockdown.
- Bank turnaround times have improved which will be because of lockdown. I have had several buyers who have had their conditional offers accepted site unseen so feel the market will bounce back strongly once we come out of Level 4. New enquires have had dropped.
- CCCFA rules are in full swing. Banks being very cautious to the point some of the questions being asked make us feel like common sense has evaporated.
- Lending to investors will get harder, if people want to buy, we recommend doing it sooner rather than later due to the fact that harsher rules (DTI's, interest rate floors etc.) may come in. We are also weary of interest-only being harder to get as more lenders require full applications for interest only extensions. Lenders still seem



willing to lend and are certainly favouring the construction market (based on some recent product offerings), but they are also weary of rising construction costs and therefore the ability for the client to have a project complete within a given price.

- FHBs are still strong in the market, especially another lockdown they are more motivated to move out to a better place for living and also WFH environment. Many of them are able to increase budget and accept the fact of price increase, and FOMO is still happening. Rates are in upwards trend but still low in history, many are fixing at least 2 to 3 years, with small number of clients went for 4 and 5 years split. Banks are making it very hard on client's expenditure, going line by line using system to calculate expenses, if they don't match the SOP, or if we want to exclude them, we have to provide solid evidence and explanation. Buy now and pay later is hurting borrowers too. If test rates continue going up, then it will make it even harder for approval, and proposed LVR change will hurt too.
- It appears that banks might finally be catching up with their backlog of work and producing respectable turnaround times although as soon as lockdown is over, I expect that to fall away again. It also seems they have 2 criteria one for brokers and another for in house staff.
- The main focus is re-fixing existing clients' mortgage rates. With rates going up, it has highlighted the issue that we have with at least 2 main banks where the provided rates are subject to change with immediate effect. When asking for negotiated rates, there is a delay, and then when we get them, I have an example of where we needed to confirm acceptance within 20 MINUTES, or they would lapse. The very next morning the rates increased, and the rates provided at 3.11pm the day before were no longer valid despite receiving an email in the morning from the client accepting the rate and structure.
- When, as a mortgage broker, you are trying to do what's best for the client and structure their existing loans in a way that makes sense, you do need to consider the applicable rates and then provide a rationale to your recommendation. It is not all about re-fixing existing fixed term rates for another term, but even if it is, there needs to be some sort of logic as to why a particular term, and that logic includes a simple re-fix, reference to the differences of other rates is required. This is in a form of a report which the clients have to go through (typically when they come home after work), discuss between themselves, ask any questions and confirm the instruction. It would be very helpful if banks have to give 24 hours notice before changing rates (up or down) or if their offered rates are available for at least 24 hours.
- What has surprised me over the most recent months is clients deciding to move to Christchurch, for more affordable housing. I now have 3 separate clients, who can each transfer with their jobs (large corporates / government departments), who have given up in despair on what they see as the poor quality of property, and the prices being sought, in Wellington and Napier - and have chosen to move to Christchurch, where they see house prices as being more affordable, with better quality properties too. Otherwise, this lockdown has seen hardly any new client enquiry, or enquiries from existing clients worried about their income and paying their loans. No lender has announced any support for those on reduced incomes, either. It's eerily quiet.

BAY OF PLENTY

- Bit murky in trends with lockdown but in real terms it has not slowed down too much.
- More enquiries for bridging finance, so clients can buy at auction, and then sell their place - and not be without a home. But lenders making it harder to meet servicing for bridging finance. Pretty much can only go to the client's own bank. No way if open bridge as still needed to service both loans. Pipeline of deals has dried up with the lack of Agent activity at L3&4.
- Getting more enquiry for new builds but have a few new builds where title has been delayed, and now costs have gone up and development contributions risen sharply (in BoP) - now how fund the increases... as group builders are passing on the costs.
- Too early to tell what impact latest lockdown has on volumes. Business has definitely been

quieter for 4-6 weeks which I feel may be more a wait and see approach on house prices and interest rates. Feeling slightly concerned about how quickly interest rates will rise, I feel borrowers are favouring shorter terms for affordability reasons. This is concerning with interest rates at such low levels.

- Pre-approvals for FHB are converting as more properties seem to be available and offers getting accepted.
- The problem is supply. Internal migration from Auckland to Tauranga is having impact to housing supply, which is already stretched. Houses are being purchased unseen by Aucklanders in order to just get down here. Paying stupid money. A few auctions have seen low buyer turnout recently which has seen a couple of properties sold at a discount to estimates.

WAIKATO

- Generally banks are being more difficult with one almost intentionally trying to turn away business.

HAWKE'S BAY

- Still plenty of heat in the market, and increased numbers of purchaser enquiries from the latter half of the lockdown period. Key changes at the moment from lenders is the introduction of the CCCFA rules which is tightening their lending policy significantly. Even less scope for common sense lending than ever before. More lending heading towards the nonbank lenders.
- More smaller, renovation/improvement loan requests. A definite increase in first home buyer enquiries in the last few weeks. Heightened focus on monthly expenses by lenders leading up to the new CCCFA rules.

WELLINGTON

- As customers cannot place offers 'subject to the sale of their own property' they're preferring to remain in their present home and likely complete substantial reno's.
- Lack of listings the big issue here. First Home Buyers (FHB) are struggling with the lack of properties available on the market. Those FHBs in the market now are more comfortable to include conditions (finance, builders report, etc) and are not bothered if they miss out on a property - this was not the case earlier in the years. Incomes and Deposits for FHB have not kept up with the increase in property prices so servicing becoming more of an issue.
- Only one bank at this stage is differentiating between how they scale rent on new properties (which are expected to be exempt the new tax rules) vs existing properties purchased after the 23/3/21. The other lenders are not differentiating this and as a result the lending to purchase new investment properties will become harder after the CCCFA changes come in to play.
- We are starting to see significant delays in developments which can mean applications that have been approved expire and may have to be assessed under lending criteria.
- Unlike last years lockdown, the market didn't slow down for enquiries of, refinance, investor or first home buyers. I was doing about 5 zoom calls per week across the three categories. I haven't noticed additional requests from the lender yet for more information, however that is likely to happen come October 1st. Restructures and account fixes are still about 7 weeks behind and is causing numerous issues with clients. Turn around times for an approval are taking 2-3 days.
- Estate agents have become more collaborative - a sign that things are shifting at least slightly from the Seller's market we have had in the Wairarapa for so long. A number of customers have managed to get offers accepted - the incidence of successful offers has increased, and we are feeling the benefit of that. We are still seeing people and counselling them on how to prepare for purchase of first home though most have totally missed the boat and short of a judicious marriage or winning Lotto, they are unlikely to get that far.
- One bank has reacted to the CCCFA amendment in typical knee jerk fashion going OTT on expenses relating to investors. This will lose them business as other banks are not so extreme.
- Buyers do seem to have more time to make up their mind - not such a rush to purchase. Am seeing contracts with conditions being

accepted. Banks are going through applications with a fine-tooth comb asking more and more questions.

NELSON/TASMAN

- Volumes are lower due to the heavy drop in properties for sale - I believe many buyers are waiting in the hope Spring will lead to more listings.

CANTERBURY

- A feeling of urgency from investors to invest in turnkey townhouse developments, a lack of understanding of the risks in terms of lending approval not being guaranteed, settlement dates pushed out, possible price hikes etc.
- Banks are still taking an eternity to process applications from Brokers. I would say a minimum of 6 working days and an average of 8-9 working days. This is for live applications not preapprovals. They appear to have not increased capacity to cope with higher work loads for more than a year. Buyers are wanting to have finance pre-approved with minimal conditions before putting offers on a property to have a chance at securing it. They do not know what to offer as most houses are being sold be deadline sale with no price or by auction. Some clients have put looking for a house on hold after missing out on a number of houses. For strong deals the banks are willing to lend, and finance offers often have minimal conditions and excellent pricing. But any deal that has some challenges is getting very difficult to get approved. The recommendation before clients apply for finance is to get rid of as much consumer finance as possible, have regular savings history and have impeccable account conduct.
- Overall I see more first home buyers struggling to keep up with house price inflation and competition. Some clients have now been trying to buy for over 12 months, reducing their expectations of what they may be able to afford every month. I therefore see more first home buyers stopping the search, and less first home buyer enquiries… Lenders are also making this more difficult, likely due to the Reserve Bank changes that come into effect next month (reduced availability for low-deposit lending).
- Most First Home Buyers finding market very difficult in Christchurch/Canterbury. Even those setting their sights lower. Building is out of the question for most. Very few existing homes on market within FHB caps. Those that are often require big renovation which they don't have the immediate cash to undertake. It's a huge reality check for many. Basically be happy to purchase a 2-bedroom ppty and do it up to get into the market. Don't be fussy about the area!
- Some buyers are concerned that they may pay too much for a property in the current market so have pulled back on seriously looking at present and want to wait and see what happens in the next 3 months. Potentially the latest lockdown may have caused them to reassess their next steps and what would happen if we have further lockdowns.

QUEENSTOWN LAKES

- Clamping down on high LVR loans.
- There remains a shortage of properties, including land for sale. Vendor expectations are strong due to some unusually high prices being paid. Buyers need to be unconditionally approved and in a strong position to negotiate. Having a quality adviser in your corner is proving more appropriate than ever!

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