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MORTGAGE ADVISERS SURVEY

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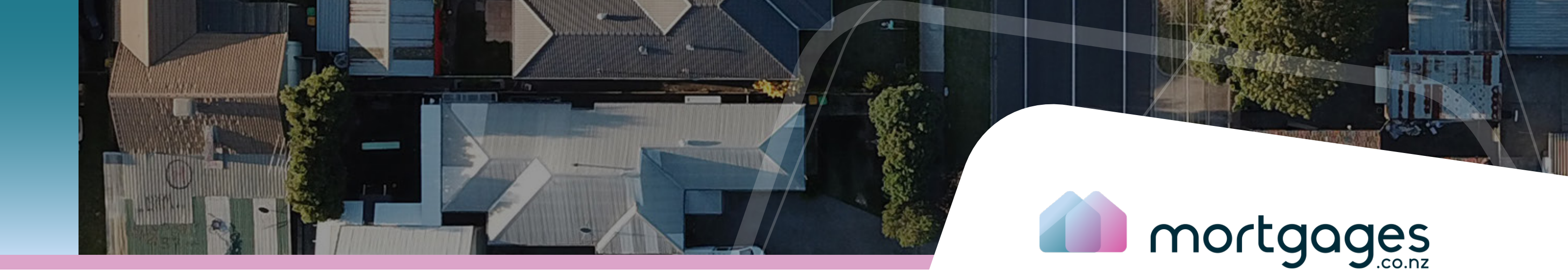


First home buyers back

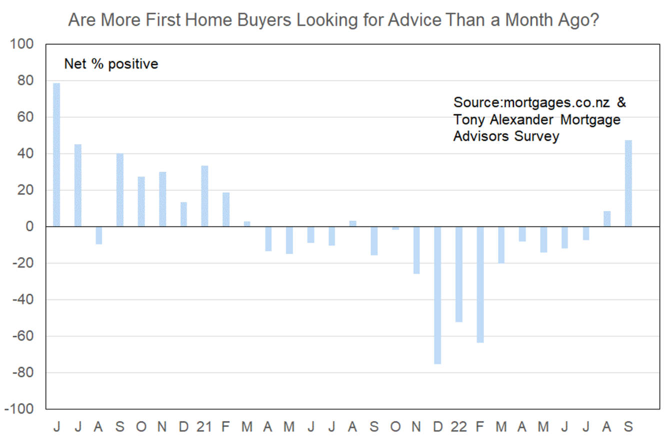
Each month we invite mortgage advisers around the country to give insights into developments in the residential real estate market from their unique perspective. Our latest survey, undertaken last week, attracted 68 responses.

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

- First home buyers have returned to the market.
- The decline in investor requests for mortgage advice has almost ended – but not quite.
- Banks have increased their test interest rates and that constraint is offsetting some easing of expense calculations and assumptions.

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

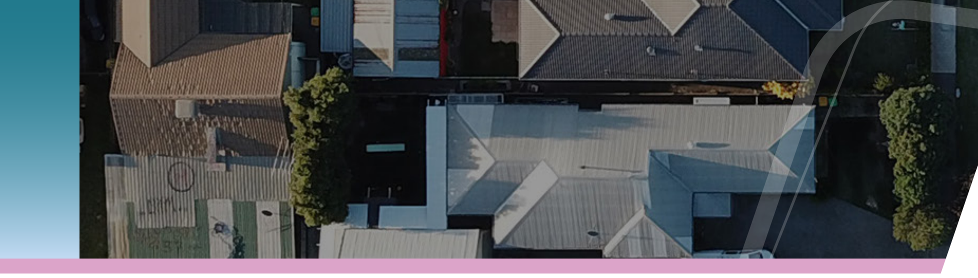
Last month we reported that for the first time since August last year more mortgage advisers reported seeing first home buyers looking for assistance than were seeing fewer. This month that net positive proportion has jumped from 8% to 47%. This is the highest reading since our very first survey in June 2020 and tells us clearly that first home buyers are back in the market.



Changes to house price limits relevant to accessing government grants and loans have brought a home purchase within reach of many people. Fears about high interest rates may also have eased slightly. At heart though it is entirely possible that with houses on average around the country now 12% cheaper than at their peak, and with increasing talk about picking the bottom in the market, many young people have decided not to take the risk of waiting too long and seeing listings potentially dry up again as they did last year.

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

- Still really hard with main banks. However, with the property caps removed for first home loan, I have multiple first home loan applications going on at the moment. Almost no main bank. Some main banks have opened up to their own clients, but the criteria are tough and only for live deals.
- If there is a strong income and plenty of surplus funds, some banks are relaxing a little on evidencing some of the monthly expenses.
- Options remain limited without a 20% deposit and lenders appear to be tweaking their UMI Surplus requirements to control flow. There seems to be less rigour around expenses now - questions are still being asked but they aren't as silly as they were following the CCCFA changes.
- Test rate has gone passed 8% however some banks have relaxed servicing which is helping a lot of FHBs into the market especially with the 5% Kainga Ora new rules.



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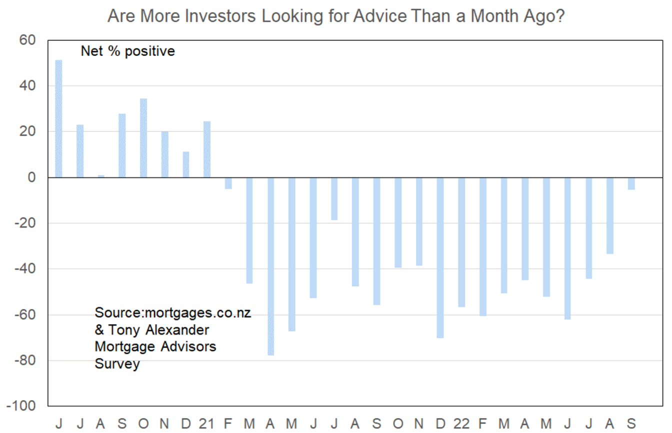
COMPARED WITH A MONTH AGO, ARE YOU SEEING MORE OR FEWER INVESTORS LOOKING FOR MORTGAGE ADVICE?

As has been the case for every month since February 2021, more mortgage advisers report investors stepping back from the market than stepping forward. But at a net 5% negative this reading of investor property interest is the least negative since February 2021 and well improved from a net 33% negative in August and 62% in June.

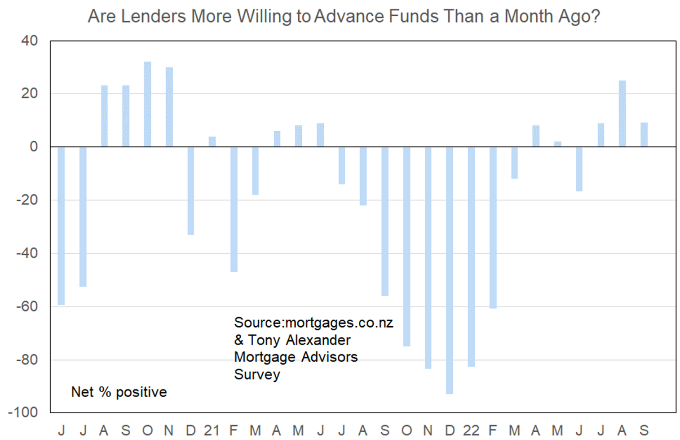


Comments made by advisers regarding bank lending to investors include the following.

- A lot more non-bank activity as too hard at main bank.
- With the large discount applied to rental income, and LVR caps we find investors who "pass" the banks affordability calculator are generally not overly scrutinised further - but passing at the outset is often the issue.
- Not many investors application these days because of the tax on rental income.
- Rental income continues to be scaled back heavily, mismatch of some lenders counting rates + insurance as an expense (on top of scaling back rental income) vs others who do not continues.

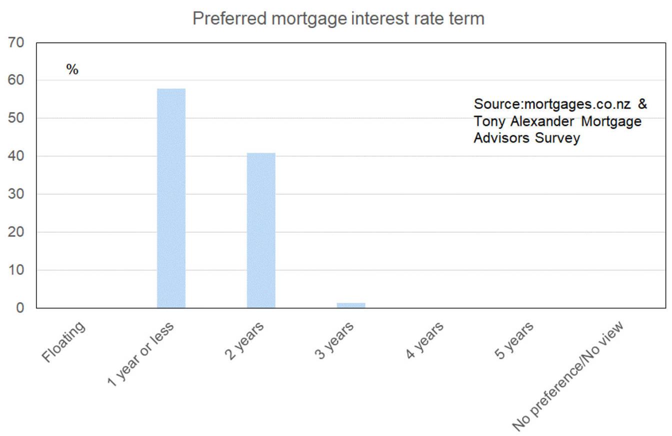
COMPARED WITH A MONTH AGO, ARE YOU FINDING LENDERS MORE OR LESS WILLING TO ADVANCE FUNDS?

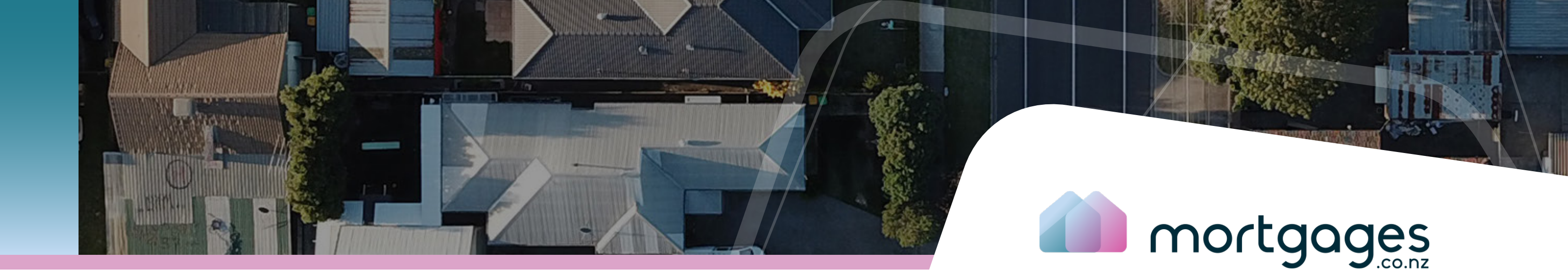
Since July more mortgage advisers have noted that lenders are becoming more willing to advance funds than those saying that lending willingness is worsening. But this month has seen a reduction in this reading to a net 9% positive from 25% in August. Banks continue to apply tight debt servicing requirements and assessments of expenses alongside discounting of expected rental receipts.



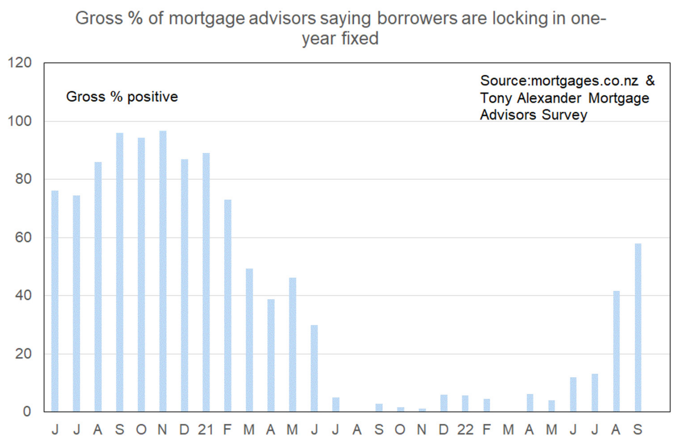
WHAT TIME PERIOD ARE MOST PEOPLE LOOKING AT FIXING THEIR INTEREST RATE?

The most preferred time period for fixing one's interest rate is decidedly one year, noted by 58% of mortgage advisers. 41% say that the two year term is most preferred by borrowers and apart from 1% saying the three year term is favoured, none note any interest in fixing for longer than two years.



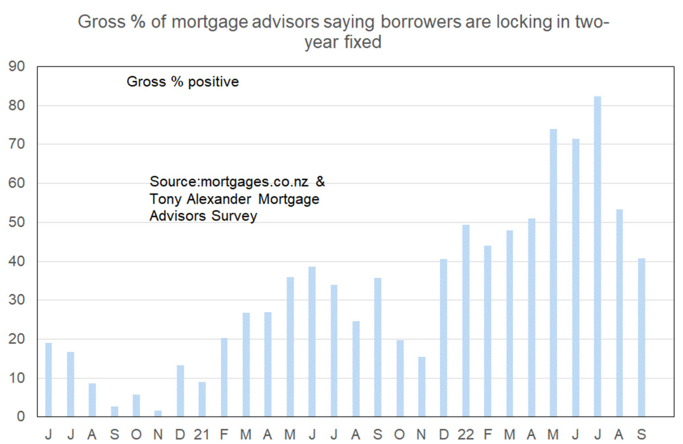


The preference for fixing one year has been on an interesting path this past year. The preference for this short term was noted by almost 100% of advisers late in 2020. But then things slowly edged lower until interest fell to almost nothing from July last year. Back then rates jumped up in anticipation of the Reserve Bank tightening monetary policy.

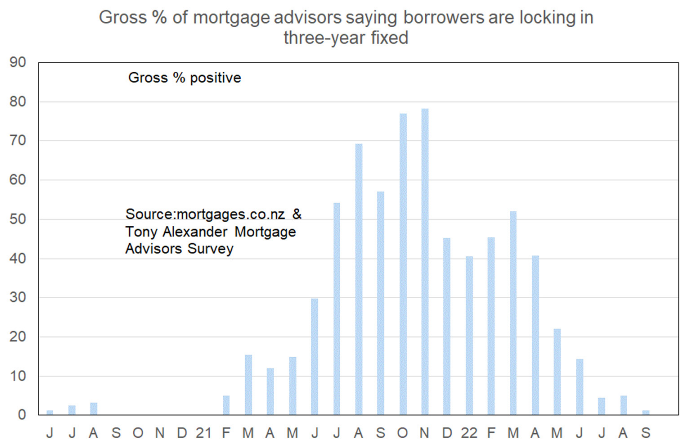


Since August the one year term preference has strongly returned, driven by banks discounting that rate to win business, and expectations that interest rates will be falling either from late-2023 or through 2024. Borrowers appear to wish to benefit from those expected declines.

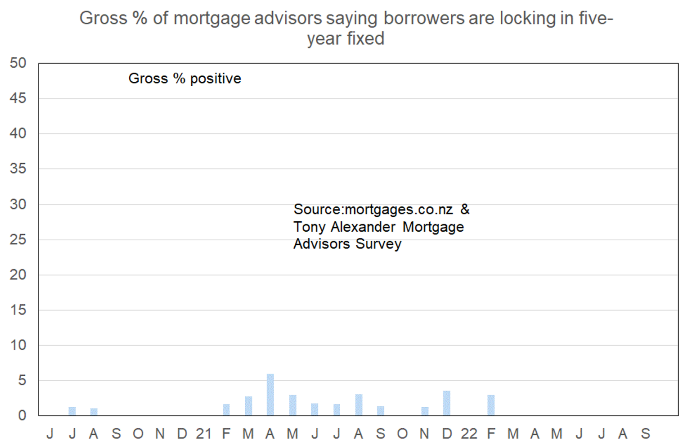
The preference for fixing two years peaked in June.



The preference for three years peaked in November last year but has fallen sharply since then to almost zero.



As noted above, no adviser has noted that borrowers wish to fix for five years.



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

- There is quite a variation in boarder income accepted depending on lender, it ranges from $150-$250 per week. My pre-approvals are now half as many as at peak (and twice as many as start of this year), I see there is more intentionality to buy, with the cautious buyers making lower offers, and if not accepted, then moving on. Mostly people waiting for more listings to come online.
- Lenders are starting to loosen the criteria around customers expenses, which is great. If customers have been spending a lot but give an undertaking to reduce spend then banks are tending to accept this.
- Applications for Pre Approval down 50-60% from last year, pipeline of new business is shrinking as fewer new buyers entering market, and less clients upgrading as value of their property dropped to a value they dont want to accept. Investors holding off waiting for a crash or distressed sales hoping to grab a bargain.
- Turnaround is no longer a problem. Partly because they're better resourced but mostly because their volumes are down.
- xxx needs verification of expenses for UMI under $1000 but nothing for UMI over $1000.
- Developers are reducing the price quite a bit vs. the advertised prices.
- Compared to the last couple of years. we are in a very quiet period, allowing more time to prepare for the full licencing requirements and training.
- Bank criteria still tight, nonbanks filling a lot of gaps
- Banks appear hungry to lend and are competitive with pricing offers.
- Buyers in the market or thinking of stepping into the market are cagey but gaining confidence that the market has bottomed out.
- Spring home loan season underway with 1% cashback incentive offers on the table again as banks try to drum up business, particularly in the refinance space. A few banks starting to loosen their analysis of living expenses where a large income surplus is evident.
- Banks taking a more common sense approach to CCCFA but test rates have increased meaning that on balance loan approvals are smaller.
- First home buyer enquiry continues to increase.
- Banks are offering good cashbacks for new lending.
- Seasonal pick up in enquiry but it will be less than last year.
- Buyers are waiting for the prices to come down, so they are holding on their buying decisions. Lenders are increasing the rates and also they have increased the test rate to over 8% now, this is really putting off the buyers. Banks are taking more time to access the applications.

BAY OF PLENTY

- Buyers are keen again. Lenders are more accommodating. xxx now testing at 8.15%, that is top of the range
- In most instances we need to utilise the non-bank lending space for First home Buyers using their supporting & alternative options to make up the lack of 20% deposit.
- Enquiries have dropped off, and the enquiry I get mostly I can't help as low deposit and not enough income.
- Bank tests rates have increased, some now over 8% and most over 7.5%.
- I had a pre-approval, rollover, and with the new test rates the lending reduced by $50,000, and clients had signed a conditional agreement, thinking that they had finance in the bag, so bad timing, now can't do the deal as don't have enough cash savings to meet the reduced lending
- Although banks loosening up available lending, counter is that test rates have increased markedly making the improvement in availability of finance less accessible.

WAIKATO

- If you are a first home buyers and can get approved, buy a house quick. The market is great buying for FHBs with tons of negotiating available. Additionally, the 90 day approval has no guarantee of being rolled over like previously. Banks reassessing and policy keeps getting tighter. So, there is a window available.
- One building company in small town has not sold a single build since January. Previously sold out upon release of new lots.
- Lenders are willing to lend money but the servicing test rates continue to rise and they are increasing minimum living expenses so only the very high income earners can afford to borrow.

MANAWATU-WANGANUI

- The enquiries are down overall (although had a small flurry over the last couple of weeks). Fewer applications being submitted, but a much higher conversion rate. So, most of my first home buyers for example are now able to find houses and offers are being accepted, even with extended finance clauses etc. So, I haven't experienced a huge drop in income just because of the high conversion rate. Although definitely not as busy as the last couple of years.

WELLINGTON

- Some banks now have test rates of 8.15% which is restricting the amount people can lend. This increase in test rates is now the biggest factor restricting lending.
- Property market showing signs of stability but results don't show this due to lag. Real Estate agents now saying numbers increasing at open homes. Daylight saving change is always the catalyst to improvement in the property market and this year does not look any different.
- Test rates are rising steadily which will inevitably impact more borrowers. It will be interesting to see how falling property prices will be offset as the test rate rise continues to who knows where.
- The enquiries are slowly picking up. Still very slow and still have a number of vendors who cannot sell because the FHB group is so small. Happy to discount the sale of their property but hard to do so when no buyers. Conclusion: two tier market?
- The demand from those with a 10% deposit has not gone away. They are just locked out until the LVR rules change and then there will be a number of these people back in the market.
- With Wairarapa prices reducing substantially this is opening the way for people to move in, move up [or move left or right.] It has been like a breath of fresh air in a sense. I am very upbeat and we are doing as much business as in the years of the price boom, for which we are grateful.
- Some venders still holding on for top dollar and not accepting lower offers
- Still finding it quite difficult for loans where any business income is derived for servicing. Seem to be very conservative & even if there are 1/2 dozen possible exit strategies all of which are more than achievable to clear any remaining debt should things turn to custard or clients decide to retire before term is up (Aged 62 wanting 15 year term) Very hung up on the fact that there is business income & clients age even though proven 20 years in business & industry norm is often way past 70 before retiring.
- Short term personal funding i.e., bridging all but impossible to obtain even with low LVR's as lenders can't make it fit the CCCFA affordability rules. As 1 lender said "where's the common sense” they should be able to write the deal but can't.
- The banks have really eased up on their assessment parameters over the last couple months. The banks response times have slowed down again.

NELSON/TASMAN/MARLBOROUGH

- An obvious slowdown in new enquiry in Nelson/ Tasman region
- Certainly, feels like first home buyers and investors are playing a wait and see approach with interest rate increases. Very little investor appetite for existing homes but some for new builds with tax incentives
- Test rates are still rising. This is further limiting borrowing capacity so will limit demand from mortgaged buyers.

CANTERBURY

- I feel a lot of buyers are on hold trying to time the bottom of the market.
- Low deposit borrowers are going to struggle to get into the market. With test rates at 7.85% to 8.15% and UMI around $2000 first home buyers are going to struggle in the main centres. I see higher risk to those already in the market coming off rates in the low 2% to rates in the mid 5's.
- Good chat from bankers about things starting to ease but little evidence of this with applications as yet - another round of bank test rate increases has really just made the environment even tougher and I see no real evidence of things getting easier for seekers of mortgage finance yet.
- 5% deposit is proving a game changer and we would've done over 25 applications in the last 3 months for FHB's with only 5% deposit. This really surprises me that you are unable to get a home loan from a bank with 10% deposit but if you qualify for Kainga Ora then you can purchase with 5%.
- Buyers are looking for better quality properties and lenders are still making it difficult when it comes to expenses
- Hoping that over 80% LVR opens up a bit more for my dear wee first home buyers.
- Since 1st September, the phone has been ringing red hot with first home buyers, It is as if they have woken up with the warmer weather and thought it's time to buy a house!

OTAGO EXCL. QUEENSTOWN

- Little demand at the moment, have a few getting ready and working towards a house in the next 6 to 12 months. Haven't seen any great falls in listing prices which I think is putting some off.
- Great to see some new non-bank solutions and a practical review of expenses for Property investors. i.e., the Nonregulated Resimac investor options

QUEENSTOWN LAKES

- Lenders want to make a deal work and as long as you diligently explain a difference between past expenses and expenses moving forward we have had an extremely high success rate in managing living expenses. The lighter mornings and evenings are now coming to Queenstown and with it more enquiry and more action. It feels like the changing of the season here could be a busy one as clients are wanting to do something. It feels like pricing won't be dropping in this area in the coming months.

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