TONY'S VIEW Mortgage Advisors Survey

Input to your Strategy for Adapting to Challenges

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My Aim

To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

Some easing evident

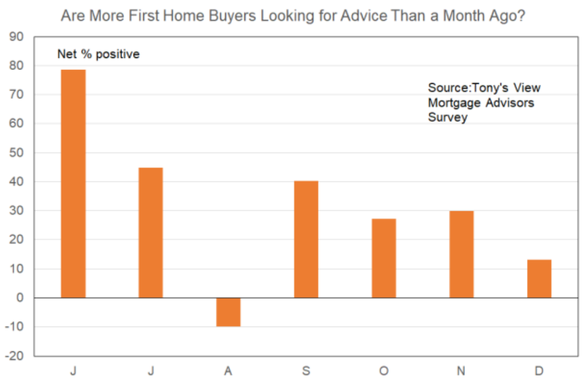
Each month I ask the people on my 16,500-strong emailing list that I can identify as mortgage advisors, what they are seeing out there. (If you have such a role and don't receive the monthly invite, email me to go on the list if you like.)

Since the survey started in June, apart from the lockdown-affected month of August, the results have been very strong and reflective of the high level of activity, if not frenzy, in the housing markets around New Zealand.

But this month we are seeing some solid evidence of things cooling off. The big question is to what extent this reflects people finding prices too high, taking a rest to have a Christmas break, or the impact of tightening Loan to Value ratio restrictions being put in place by banks. Note that the results came in after one bank announced it was lifting the minimum deposit requirement for investors from 30% to 40%.

A net 13% of the 54 responding mortgage advisors this month have said that they are seeing more first home buyers in the market looking for financing advice. This is the lowest proportion on record. Is this a sudden development? Not necessarily, and this is where printing a graph proves useful. One of my key points for the past seven or so months has been that when lockdown ended first home buyers jumped into the market boots and all, attracted by record low mortgage rates and hopes of higher listings.

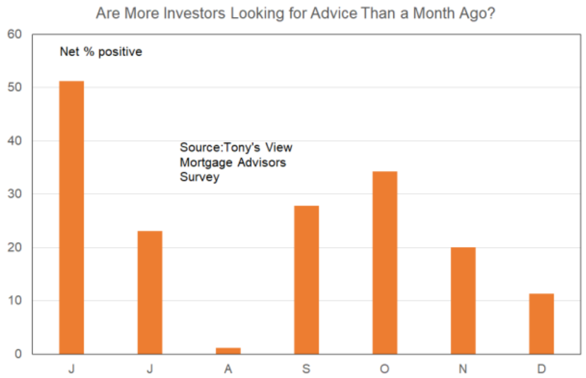
But since then, there has been a downward trend in the proportion of advisors saying that more young buyers have been appearing. The latest result of just a net 13% is consistent with that downward trend. Therefore, we cannot automatically assume that the return of LVRs is in fact much affecting the willingness to buy of first home purchasers.



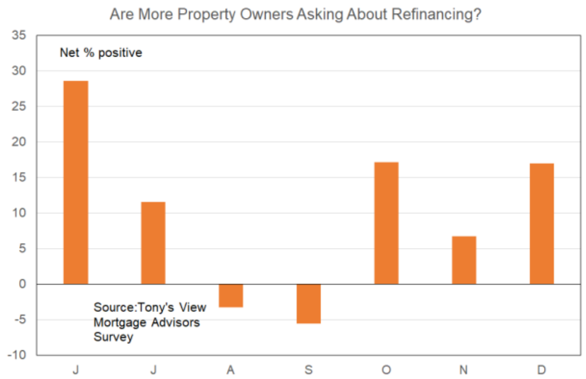
For investors the extent of extra entry into the housing market has followed a different pattern. There was a lift in interest as soon as lockdown ended in May, but back then just a net 51% of advisors said that they seeing more investors, compared with a net 78% of advisors seeing more first home buyers.

Investor interest took a firm lift in October and this is consistent with results from the REINZ & Tony Alexander Real Estate Survey showing a big jump in the proportion of agents noticing more investors present in the market back near that time.

This month, a net 11% of advisors have reported that they are seeing more investors looking for financing advice. This is down from a net 20% in November, and like the result for first home buyers is the lowest on record apart from August which was affected by Auckland's Level 3 lockdown.

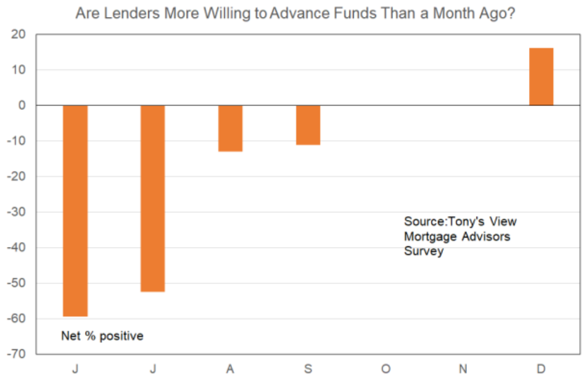


The net proportion of advisors saying that they are seeing more existing homeowners looking for financing insights has this month recovered to 17% from 7% in November and 17% back in October.



There is no consistent trend yet in this indicator and because the latest result is merely returning to where things were in October, it would be hard to argue that the highlighting of strong price rises and frenzied demand might be encouraging any greatly increased number of owners to consider listing their property.

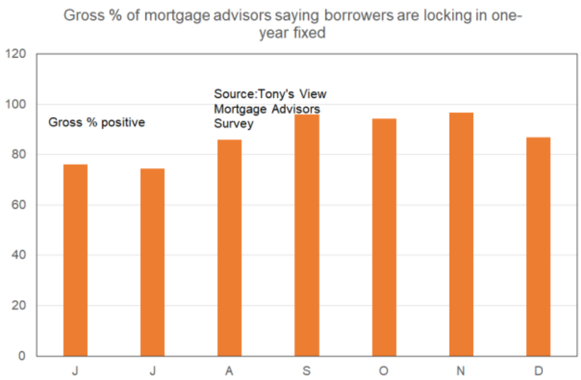
One measure for which there is a very clear trend is the net percent of mortgage advisors saying that they feel banks are becoming more willing to lend. Despite the tightening of LVR rules there has been a rise in this net proportion this month to 16% from net 0% in both November and October, and a net 59% of advisors back in June reporting that banks were tightening up.



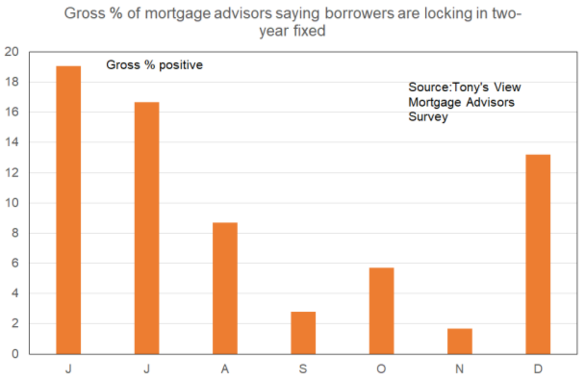
This result is important because it signals that the focus of banks with regard to raising minimum deposit requirements is not on crimping credit availability (something definitely not sought by the Reserve Bank) but on making sure the burst of borrowing activity underway does not produce a great number of individuals in dangerous debt situations.

I also ask mortgage advisors about which fixed rate terms people are tending to show a preference for. This month, perhaps in response to the run of good economic news and general wiping away of expectations that the official cash rate will go negative next year, preferences have slightly shifted.

A gross 87% say the borrower preference is for the one-year fixed rate, down from a gross 97% in October and the lowest result since August. Clearly, at 87% we can say the overwhelming preference is still for fixing short, grabbing the candy of whatever is the lowest rate and perhaps responding to Reserve Bank promises (which are likely to fade in the next few months) of keeping interest rates at low levels for many years.



In this next graph I show the rise in the gross proportion of advisors saying people are preferring the two-year term to 13% from just 2% in November.



Advisors Comments

Following are the comments which mortgage advisors volunteered in this month's survey, grouped by the region in which the advisor primarily works. Enjoy. I always find these insights across my four monthly surveys to be very useful for placing flesh around the bones of the numerical indicators.

The key themes which I have picked up include these.

1. Banks may be perceived as willing to lend more, but frustration with their processes has jumped strongly from previous months. Outright anger about bank inefficiencies is appearing.
2. December so far has proved unusually busy.
3. FOMO (fear of missing out) is rampant.
4. Valuations are failing to keep up with the reality of rising prices.
5. The Government's First Home Grants scheme is increasingly pointless because price limits are too low.

Auckland

- The banks are becoming far stricter on the property types they will lend against and getting tighter on over 80% lending really hammering discretionary spending. The bank turn-around and response times are completely inadequate.
- The biggest frustration by a long way is the treatment of advisers by the banks. They are giving us unworkable timeframes of 10-15 days and yet are still able to support their own lenders with turnaround times of 2-3 days. The lending rules are changing faster than I can remember and often the rules change between the time we submit a bank application and the time that the lender picks it up which again is very

frustrating and causes us (the adviser) a lot of extra work.

- A lot of my peers thought the RBNZ in March would make LVR for investors 70% while I was of the view they would always do 60%. I guess xxx have answered that question for us. To be honest I don't see it cooling the market off that much. My loan application volumes are up still, and the phone is ringing like never before, so we are certainly in a time of confidence no matter what the banks say. People want to spend their money on housing.
- Still exceptional demand from investors to buy something/anything. Plenty of families assisting other family members to get into homes, not just children, but siblings also. Personally, more lending being accessed in the non-bank space - their rates are not so offensive to clients in this low-rate space.
- Bank lending changes making it harder for investors to purchase.
- OMG when will this stop? I have never had so many new clients approach, or seen so many new property listings in December. Most years, once December comes, things ease off - no new listings until late January and people put plans aside until the New Year. Not this year - the frenzy continues. Buyers (particularly first home buyers) are desperate to buy and are really frightened that if they wait much longer, they will be priced out of the market. They want to put pre-auction offers in on properties with unconsented work.
- Lenders are overwhelmed, everyone is tired, and I've been told by one lender that if an application is a bit 'out of the box' it's easier to straight out decline, than try and workshop and try and get approved. I've also been told by a lender that staff have been told they must take leave over the next few weeks - due to being so busy, and no chance of going overseas, there is a huge annual leave liability. So, don't expect turnaround times to get any better in the first few weeks of January. Personally, I feel close to burn out and will try and take the next month off. I'm exhausted - the start of the year was so busy, then lockdown and long hours helping worried clients, then from level 3, everyone wants to buy a house. No let up at all.
- Like others in the industry, I am seeing 1st home buyers experiencing disappointment, as the posts keep moving and buy price expectations forced to rise accordingly. My daughter and partner are now on their 15th property offer, and their offers have been realistic and in contention. They are now considering new builds.
- Last 2 weeks has started to quieten as we approach Xmas.
- Market is crazy, a real sense of FOMO has set in. Banks taking longer and longer out to 20-plus days in some instances. I have worked in this industry for 32 years and have never seen a bank miss mortgage settlements like xxx and yyy did recently. And what's more it's like they don't care! More and more complaints from customers about their banks weekly. The advisor industry is at breaking point and it has been mooted that a one-day conference be set up early 2021 to confront the banks about their service standards or lack of, their poor turnaround times, their lack of technology and poor attitudes toward advisors. They had a big hand in the government regulation with a code of conduct, so it's about time they practiced what they preached. The industry is at breaking point.
- Getting a lot of declines from banks that would have gone through a month or 2 ago.
- Miserable turnaround times with all lenders. Distinct disparity in bank view of lending and the customer's requirement and perception considering the madness in the property market. Banks are extremely averse to self-employed people in terms of lending and assessing deals.
- Still, lots of First Home buyers coming through with parents' assistance with Deed of Debt and Gifting certificates. Due to their high expectations of what "they want" they tend to forget the serviceability of the loan is more the problem as opposed to the deposit. Auctions seem to be a challenge for my first home buyers.

Bay of Plenty

- Lenders don't seem interested in looking at anything outside the clear-cut easy deals. They appear short on time and don't seem to want to spend time looking at anything 'outside the box' - very frustrating when it's a good deal overall.
- Banks are still very slow with approvals.
- Activity levels still high for this time of the year. It is unusual to see so many buyers

going to auctions this late into December. Lenders still under a lot of pressure. Anything messy gets declined but still possible to talk them around if you can get them to answer the phone. Most common refix term is 1yr but 2yr rate growing in popularity.

- The frustrations we are having centre more around turnaround times with the lenders. Vendors are reluctant to sign sale & purchase agreements with 15-day finance clauses. 10-days seems to be least. But we can't always get an approval within 10/15 days especially if clients are first home buyers using First Home Grants and KiwiSaver funds and also requiring registered valuations. So as a broker we go from good guy to bad guy (girl) in 60 seconds.

Waikato

- Starting to see First Home Buyers giving up on trying to compete in the market. Real Estate agents are loving auctions on homes in any price range and the auction process is narrowing FHB opportunity, especially the ones with less than 20% deposit. We wait with baited breath for the Government to change the First Home Grant thresholds which are absolutely way out of line with the current market and have been for the past two years. If there is a pool of money for the First Home Grant it must be overflowing as very few FHB are getting the opportunity of getting a dip into it. Mum and Dad investors have been out there in force looking to use their new-found equity to buy investment properties, but xxx 40% deposit requirement and potentially the other banks following has seen an abrupt stop already in that space. Property developers continue to scream out for support from the main banks who are still very reluctant to lend to them, so the specialist lenders are laughing all the way to their banks. Higher rates to them though mean higher build costs and so the wheel keeps turning on rising prices, not enough houses being built etc. If the RBNZ is going to do anything to help the supply problem, it needs to take a hard line with the main banks to open their wallets in supporting the construction industry to build the houses.

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- Banks are very tough; their criteria does not seem to be aligned with the way they are promoting the low interest rates and knock backs are more common. The length of time for them to respond is frustrating to all involved and the communication is below standard in my view. Buyers are nervous about over-paying and some find the current market trends "offensive." The Government "Home Start" lending scheme is set way too low to help first home buyers achieve anything realistic (e.g., Taupo's median price is now $630k and the home start level is capped at $400k.
- The banks continue to be hopeless in regard to turnaround times. Upwards of 2 weeks and counting. 8 months of poor turnaround times and the excuse of "we are doing everything we can" is starting to wear very thin. I suspect a major cause of it is the "working" from home aspect.
- Some lenders seem to be looking for a reason to say no rather than even workshop deals. Whether this is a result of the number of applications sitting on their desk waiting or a reflection of tightened credit policy is the question.
- Some banks assessment time frames are improving. Others are still woefully slow. Overall, still crazy busy, but it was good getting early communication from banks to pass on to clients about time frames for getting anything done before Christmas.

Hawkes Bay

- More people looking at getting into first investment. Existing investors looking to buy quickly before LVR rules lock them out. It's not necessarily harder to get lending but more that people are stretching more and more so invariably servicing will be tight and the application might get declined. Self-employed income is certainly harder to get across the line.

Wellington

- Not a lot has changed with the lenders over the last month. xxx still very slow to respond to applications particularly in the Business Banking Unit e.g. detailed application sent 24th November approval received 14th December - 20days!! Appears xxx are now picking self-employed applications to death!! Porirua City, the market I operate in, is still short of listings and there have been numerous sales of 4-bedroom homes at over $1.3M. in the suburb of Whitby. Current GV's bear no relationship to prices being obtained and Homes.co estimates are always being exceeded. E-valuations sourced by the banks are woefully out of step with what properties are currently selling for. The Panel valuation service is preventing customers from obtaining helpful advice from experienced local registered valuers prior to purchasing a property and is a backward step for the consumer.
- I feel things are back to normal with banks, just more of an emphasis on the income, especially for those self-employed (nothing wrong with that). Record enquiries across the board. FHB, Investors, people wanting a top-up for renovations for the new year, to buy a car or those looking to change banks. Don't normally see this until mid to late Jan. FHB are out there in force. From my observation, they are the ones competing amongst themselves and driving the prices up, market forces at play when supply is so low. FHB wanting to see if they can make their max purchase price of $700-$800k buy them a new build - they are disappointed to see what little that buys them in Wellington!
- FOMO definitely in play particularly from investors.
- Still long processing times. Some clients are looking to lock in for longer terms now at 2-3 years. Banks not in sync with the market where offers have to be unconditional and therefore some clients are making offers without full and final bank approval as they have no choice.
- Banks are working overtime to process applications however are flooded, seem more willing to talk applications through than they were previously.
- Normally around now it is slowing for Xmas, however this year demand and inquiries have continued. The change to 60% LVR for investors announcement from xxx has made a few people nervous.

Nelson/Tasman

- Banks are slammed. The systems they put in place after lockdown worked for a bit but not working now. First home buyers signing S&P Agreements before securing pre-approved finance are just a nightmare. Their short-term debt and poor account conduct lets them down but it's not until they are declined a mortgage and miss out on their "dream home" that they see the error of their ways.
- Lender's as usual are being inconsistent - one lender will say no to something that another lender within the same bank will say yes to, very frustrating. I am now over asking for documents and explanations for anything which is not the norm and pre-empting clients to the reason for this. xxx decreased deposit to 40% for investor mortgages, I would imagine other lenders will follow suit. I hope this will have a positive impact for first time buyers and the ever-increasing house prices in Marlborough. We all hope in our region the government will increase the First Home Loan/First Home Grant thresholds from 400k to 500k which is much more realistic seemingly average house price is now in the mid 500's here.

Canterbury

- The announcement from xxx yesterday was a shocker! That will slow investors down a bit. The phone is certainly quieter. It's a welcome break that's for sure. But still a bit of work to get done before Christmas. yyy is frustratingly slow to get anything done. Over 3 weeks for assessment of construction loans. zzz is a standout at the moment with their lending policies. Really enjoying working with them.
- Buyers missing out due to slow turnaround on valuations. Valuers charging ridiculous prices - particularly in Auckland. I'm telling my First Home buyers not to bother with

auctions as prices are going too high and they can't afford to keep getting valuations.
- Banks service is dreadful - turnaround time, rushing decisions without reading the full facts.
- Increasingly difficult for first home buyers to find land to build. Existing homes are priced out of the reach for these buyers, and their only option to purchase, is by looking new and the supply is not there.
- The latest LVR change is creating some headaches for clients that are waiting on titles to be released before building commences. Hopefully the other banks don't follow suit!

Otago excluding Queenstown Lakes

- New applications have slowed pre-Xmas, partly due to lack of listings but it appears some have stopped looking until the new year. Some banks painfully slow and causing real issues trying to get deals confirmed before Xmas, this is not new deals, just getting conditions ticked off takes a week or more.

This publication is written by Tony Alexander, independent economist. You can contact me at tony@tonyalexander.nz Subscribe here https://forms.gle/qW9avCbaSiKcTnBQA