TONY'S VIEW Mortgage Advisors Survey

Input to your Strategy for Adapting to Challenges

Feel free to pass on to friends and clients wanting independent economic commentary

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My Aim

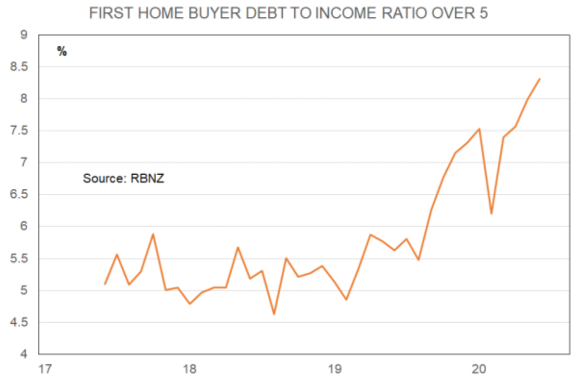
To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

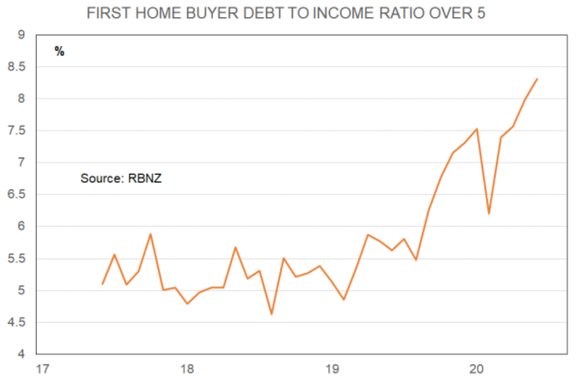
Buyers Frantic, Banks Tough

Each month I ask the people on my 15,000-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.)

The survey is most useful when it comes to gaining insight into changes in bank lending willingness and practices in the housing market. Things have been tight on the part of banks since the first survey, so I am looking to see if some loosening in lending criteria is underway. But this is where things get very interesting.

The Reserve Bank have already fired a shot across the bow of banks with regard to watching closely a couple of home lending indicators which they feel are getting into the risky territory. I discussed them in last week's Tview Premium and here are the two relevant graphs for those not receiving TVP.





So, it would be unreasonable for us to expect that banks will engage in much more risky lending unless they want early restoration of LVRs and some other slap on the wrist which will dent their profitability.

But that is something quite different from the issue regarding when they will become more willing to lend to groups which recently have struggled to get a loan, such as the self-employed and people working in hospitality, tourism, accommodation, entertainment, and retail? And when will they make things easier for existing borrowers with high equity?

Note that at the same time as the Reserve Bank is starting to express concern about some higher risk lending, they want more lending done in the business sector – which is fair enough. But while the RB can impose rules which force less lending, they can't impose rules which force more. The willingness of banks to

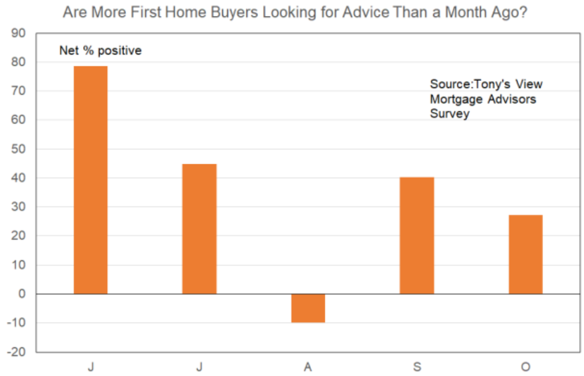
increase funding to businesses will only appreciably rise

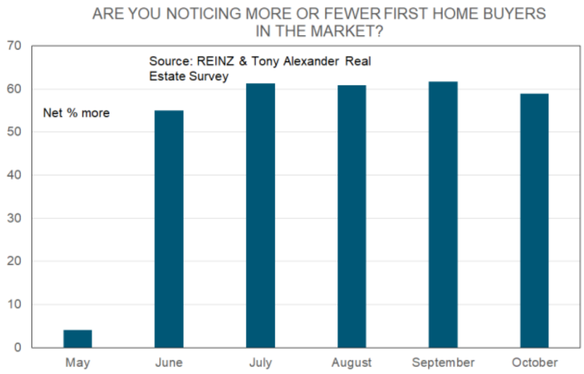
1. when we are a lot closer to Covid-19 vaccines being administered worldwide,
2. when they have a stronger outlook overall for our economy,
3. when they are happy that existing clients have their finance fully under control, and
4. when things look a lot better in Australia.

That last factor refers to the fact that no matter how good things look here in New Zealand, Aussie bank bosses owning Kiwi banks tend to sustain a jaundiced view of our economic conditions and prospects down here (especially housing, always dairying). And if they see tough conditions in Australia, as they do currently, then they will think things must be terrible over here. So, until the general debate about Australia's economy has shifted a lot more to the positive side, expect them to generally keep the shackles on their appointed bosses over there when it comes to business lending.

Back to the Mortgage Advisors Survey results. Because so many of the indicators which I develop from monthly surveys relating to the housing market are already very high, the main thing to pay attention to now will be pullbacks in readings rather than simple confirmation of the strength everyone now accepts is there.

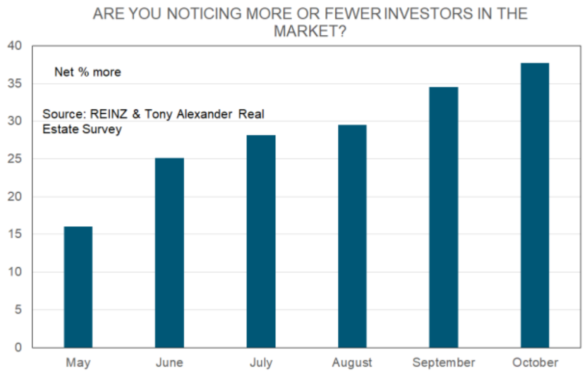
A net 27% of respondents have said that they are seeing more first home buyers looking for advice. This is slightly down from a net 40% in September and perhaps if we exclude the August results which were affected by Auckland's lockdown, we can say that there is a downward trend in this measure. Why would this be? Simple. Many people seem to have jumped into the housing market trying to take advantage of weak conditions as soon as we came out of lockdown. The monthly survey I run of real estate agents with REINZ shows that best in the graph after this one.



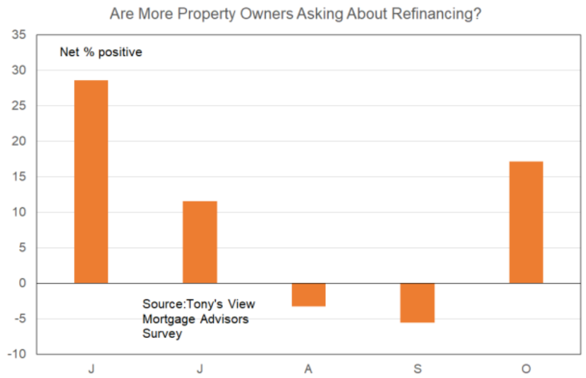


A net 34% of mortgage advisors this month have said that they are seeing more investors looking for advice. This is up from a net 24% in September, but this series does display more volatility than that for FHBs. It looks to me like the investors also jumped into the market soon after lockdown, got a shock from Auckland's second lockdown, but have grown in confidence since.

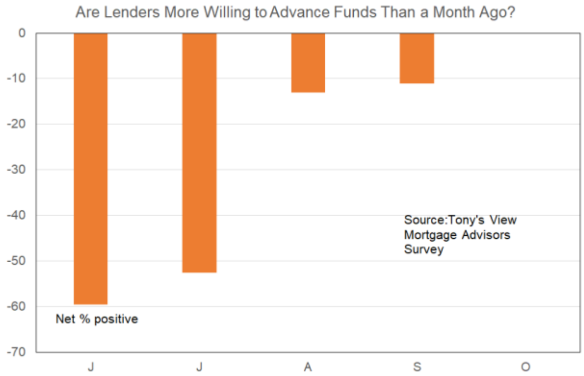
However, the survey with REINZ shows that real estate agents have seen a different pattern to mortgage advisors, with investor interest steadily growing in recent months. I veer toward thinking the real estate agent view in this instance is more reflective of the rise in property demand and commentary out there, and perhaps the advisor dip for August reflects investors not quite taking the next step of talking with advisors during Auckland's lockdown – but they kept looking.



There has been a firm lift in the net percent of advisors saying they are seeing more people asking about refinancing their existing debt. This has gone from -6% in September to +17% this month. The record low levels for mortgage rates and hopes that they will go lower are prompting people to look at breaking and to look at using existing equity in a home to finance another purchase presumably.



The final formal question which I ask advisors is whether they feel mortgage lenders are becoming more willing or less willing to advance funds. A net 0% responded more this month, which is better than the negative results in my previous four surveys. This is a positive development.



But is this development meaningful in the context of spreading the lending willingness net wider than top tier and existing customers? To help gauge this I invite the advisors to give me their thoughts on the market they are seeing currently. Here they are. Enjoy.

Key themes are these, grouped by location but usually not regional-specific.

1. The banks appear to be more willing to deal with borrowers directly than through brokers for the moment.
2. Banks are applying new debt-to-income ratio lending limits.
3. Loan application processing times still seem very long.
4. Prices are rising strongly, and many buyers are desperate and frustrated at missing out, with pre-approved bidding limits breezed through easily at auctions.
5. More and more business is going to non-bank lenders.
6. Banks are focussing largely on existing customers, not customers leaving other banks.

Northland

- xxx have introduced DTIs (debt to income) for all Northland applications, and from what I understand they are enforcing the DTI's on some regions and not others. xxx staff say they don't know when the DTI criteria will be applied or not so we are submitting applications having no idea if it will auto-decline or not. This isn't helping application turnaround times and client experiences at all.

Auckland

- Still huge demand for borrowing. Personally, I don't need more business.

Banks vary in their responses to applications. xxx have tightened up on criteria but this may be due to the new (and inexperienced) assessors. Used to be able to push an urgent application through but no longer - I am using a lot more non-bank lenders for clients with either minor credit impairment or business income banks won't support who are wanting to buy - clients keen to hold on to property they already have and find alternate lending (even at a higher price point) rather than selling.

Another wave of first home buyers looking to get on the ladder over the last month.

- The number of days on the market to sell properties has decreased. It's because most people now accept auction as the best selling method especially on the North Shore in Auckland. Auction marketing campaigns normally run between 3 to 4 weeks and due to the active market at the moment there are more auctions being brought forward. However, more sellers have higher price expectation due to the increase in house prices after the lockdown. This may eventually increase the number of days on the market.
- First Home Buyer expectations in Auckland are high i.e. approvals generally $700k+ and ~85% LVR, bias toward standalone homes vs. units/ apartments. Thus, desirable standalone property ~$800k - $1.2m may see the biggest % rise due to the most bidders/ contenders... these are mainly going to auction.
- Still hellishly slow to get approvals from banks, if anything it is the worst it has been, at least two weeks in a queue to even be looked at.
- I have seen a slight increase on re-financing as clients aren't putting up with their current bank not providing them with some sort of good service, or the answer "no".
- Banks are still taking 10 to 15 working days to assess applications which is just far too long, but they don't seem too concerned by it. No sense of any urgency or priority given to broker submitted applications. I'm turning away at least 1 new client per week due to them needing answers in less than 5 days (I send them direct to the bank).

Self-employed customers continue to be scrutinised the hardest.

- Some banks have not changed their stance, so I am steering clear of xxx and yyy based on policy for self-employed and very long turn-around times. Other banks seem more relaxed and almost back to normal. Investors concerned that LVR restrictions are going to return for them, so are anxious to buy something before 1 May. First home buyers also are out looking as they have seen their Kiwi Saver balances recover and remain in solid jobs, but are not so concerned about any RBNZ policy changes.
- xxx now offering 2 years interest only for strong clients, usually that's not an issue.
- First Home Buyers with low deposits who get Registered Valuations (RV) prior to Auction are seeing the RV come in as much as $100k lower than the end purchase price.
- Finding lenders are being very fussy, inflexible with the lending assessments. It is almost (not quite, but almost) like GFC days where they were just not wanting to approve anything and being very difficult. I am left with the feeling that a huge part of the reason the banks have such massive delays is they are looking for reasons to decline the loan application instead of looking for ways to approve it and this always takes them longer to do.
- Some house sales are going for crazy prices. This triggers banks to ask for more valuations.
- Unfortunately, prices of property in Auckland keep rising and also first home buyers' expectations are rising with it! It's insane the amount of lend these first home buyers are wanting and they're trying to get that little bit more of a lend, but in the meantime prices of houses are going up 5 x the amount of increase in lend. Literally talking to a brick wall. In the meantime, the late-50yr olds are buying rentals and it's great dealing with this crowd as they've

done their time so to speak. Banks have brought on more assessors from branch level which is about time.

- RBNZ is stimulating the economy/property market via retail interest rates and the removal of LVR's, however servicing test rates are falling further out of step with current and future expectations of market rates. First home buyers are penalised further with tougher credit criteria for low deposit lending.
- With high volumes that banks are experiencing it seems like they are quicker to say no to deals. It's not until I build a bit of rapport with an overworked assessor over the phone, would they then listen or be open to work-shopping deals to get an approval.
- Still seeing immense amount of scrutiny by the lenders for loan applications. Turnaround times are still pretty bad. A lot of inquiries from investors. The level of documentation and compliance and the focus on currency of information continues to increase. Sensitisation of applicants' incomes continues to be somewhat of a challenge and the faceless credit departments in banks are less and less interested in applying logic irrespective of the mitigants presented.
- Buyers are starting off the process by trying to be cute and get a good price. It seems they need to face the disappointment of missing out for 3 times before they go in it to win it. It's been like this in Wellington for a few years, but it has spread now.
- Few more overseas enquiries wanting to buy here. I think first home buyers are missing out now. A couple of months ago, there were a number of properties available in their price range however they didn't buy because these properties were not suitable. The same properties are now out of reach because prices have increased.
- We finally seem to be seeing banks resource the broker units better, xxx have employed 40 more staff in their unit and have 60 branch staff now handling broker deals. I am told that brokers are now doing 60% of xxx's home loan applications. yyy have also come out and said they are working on processing times and zzz have engaged branches all over NZ to process broker deals. Going forward the banks seriously need to invest in tech to speed up the process and cut all the excessive paper forms the use. Direct access portals are the way to go, some broker groups can do this already and are miles ahead of the banks in this space.
- Very few listings on the market, a seller's market. Interest rates trending lower and banks are tightening their policies on an ongoing basis and not advising of the same until a deal is submitted.
- 10% deposit is open, but difficulty is the banks don't give pre-approval except to their own clients. Without confirmed borrowing amount, it is hard for the client to look for the house.
- With the broker units swamped at present, loan applications are being farmed out to the branches. Branch staff are approving loans a lot faster and often approving a loan in my opinion which may struggle through the unit. I am really not sure we are on an even playing field.

Bay of Plenty

- Lots of FHBs with sub 10% deposit, wanting to buy, but don't have enough deposit. Had a few buyers go to auctions, as 'cash' buyers and the start price was above their PP limit and sells for $80k more... breaks your heart as they are spending valuations, builders report to get in that position.

The lenders are swamped with loan proposals presently. As brokers we are experiencing delays of 10 days or more in loans just being assessed.

- xxx advised me yesterday 20/10 that they are still assessing loan proposals for 5/10. Hopeless! Especially when Sale & Purchase Agreements usually provide for 10 or 15 days for finance. It's just not enough time presently and clients are having to seek finance extensions. It's hopeless when Registered Valuations are required for an LVR over 80%.
- Buyers are frantic, insufficient housing stock to meet supply. Simple. Queues outside open homes in particular areas are common. Commentary yesterday that median house price increased circa $120-

140k over the last few months. Buyers getting desperate to secure a property.

- The lenders that have been the most supportive over recent months are now implementing policies to reduce the level of lending - with focus on maximum income to debt ratio policy which is a new one that creates another dynamic in terms of a mortgage advisor's considerations for the right lender for the client.

Waikato

- Bank turnaround times are still bad, but some are improving. I have a truck load of pre-approved first home buyers that can't get houses under offer though, listings shortage is really biting, with pretty much everything going to multi offer.
- The banks' turn-around times are the single biggest problem we face. The first home buyers are facing massive scrutiny, making it very difficult to get lending approved for low deposit buyers.

We have turned Google ads off as the leads are piling in.

Manawatu-Wanganui

- High criteria in regard to low equity is limiting the ability of clients to get a solid lending amount that lines up with what the housing market is doing.

Wellington

- Unconditional offers are key as prices are well over valuations. Vendors are not willing to take higher price if valuation is a condition or finance.
- Lack of supply is frustrating many buyers.
- A number of first home buyers are not renewing their pre-approvals, citing that they are now priced out of the market and want a break from continuously missing out on properties. Savvy first time investors see this is their last chance to buy an investment property as LVRs will come back into play. Buyers are under tremendous pressure to place unconditional offers on properties. Great opportunity to offload poor properties or properties with issues as desperate people will find a way to make it work - which is sad to see.
- Bank turn-around times are slowly improving - now between 7-10 working days.
- Banks turnaround times to assess applications have blown out even further. xxx now at 20 working days. Also now seeing massive delays in getting loan documents out where in some cases they are only going out on the day of settlement. This is putting pressure on buyers and solicitors and causing a lot of stress. xxx have now introduced a debt to income ratio limit of 6 for lending above 70% on investment properties and 85% for owner occupied properties. If the debt to income ratio is above 6, they will no longer approve any lending. Buyers are becoming more demanding and desperate to get lending approved as there is a big sense of missing out. They have no understanding of the pressure banks are under and the time frames they are now working to. This is leading to buyers missing out on properties as they don't have lending approved and driving even more frustration.
- Increase in people looking for bridging finance as they want to buy a house before selling. Banks will not do Open Bridging so having to look more to the specialist lenders. Banks' turnaround times are still slow, but I am seeing improvement from xxx and yyy. Still cautious with affordability with more in-depth analysis of regular spending habits. Still reluctant to lend especially to self-employed.
- Still taking a long time for approvals. Still have to provide letter from employer about continuity of employment.
- First time buyers are being priced out of the market in the Wairarapa. None are within the first home grant cap anymore. Our only good prospects are couples [both working] or strategic partnerships where they have support of parents.
- Some improvements starting to be seen in bank response times though still long. Recommending clients with fixed loans expiring wait for the pending Reserve Bank FLP in November before fixing - as likely to see lower rates.

Nelson/Tasman/Marlborough

- Increasingly difficult for single first home buyers to purchase a property in Nelson.
- Bank appetite for risk still seems pretty conservative. Second tier lenders are

picking up a lot of those slightly borderline deals and providing quite competitive rates.
- Obviously, we are seeing a big increase in activity at present. I am getting more of my clients trading up and more than normal interested in lifestyle than ever before. Had a slight increase in enquiry to buy rental property, usually Mums and Dads not so much investors, which is good as we have a chronic supply of rental properties so much so the rentals have increased to almost Auckland's levels as there are so few available. Getting very panicky couples coming in to try and buy a home due to there being no rentals available. The issue is often they are paying more on rent than if they had a mortgage now but under the responsible lending act the banks are tough on the surplus requirements for those starting out. It is very obvious that there are more desperate people out there who are in emergency accommodation. Also seeing more people moving to our region from other regions that appears to pushing up the prices.

Queenstown Lakes District
- New DTI with xxx and yy making it harder to meet affordability testing within the banks.

Canterbury
- I am still hearing of clients going direct to the bank when their Adviser has not been able to get their mortgage approval through in time, and the bank approving it. Word is that some are considering a complaint to the Commerce Commission.
- First home buyers frantic to fund suitable property, and prepared to compete for it with price, which seems to be driving prices up significantly. Valuers seem to be hesitant to value at the level buyers are paying. E.g. a client got a valuation pre-auction at $840,000 and the property sold for $945,000. This was not a one-off.
- Banks seem more confident now to lend and are looking at pre-approvals again.
- Banks are speeding up a bit with their assessment. Especially xxx. This helping everyone's stress levels significantly. There seems to be less emphasis on was the client job affected by COVID (Except xxx who are still quite pedantic about this). Valuers are very slow - the expected 4 working days seems to have gone out the window and valuers are saying actually they won't work to that timeframe. It's a frustrating time for clients missing out at deadline sale or auction, with the final bids going way over the perceived value of the property. Christchurch is finally catching up to the Property Boom!
- And it's been great to be so busy after not being able to properly work for 3 months earlier this year!

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

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