CoreLogic Market Pulse

25th November 2020

Mortgage lending strong and deferrals are rapidly winding down

Mortgage lending flows remained very strong in October, with low-deposit investors again a key feature – reaffirming why the Reserve Bank (RBNZ) has jumped early with their plan to reinstate the loan to value ratio rules (which of course the banks have already basically enacted anyway). Meanwhile, the RBNZ's new figures showing the stock of mortgages with a payment deferral in place haven't received much airtime, but they're certainly of key interest – indeed, they show that the majority of mortgage deferral arrangements have already been 'exited', well before the scheme's 31st March end-date.

The latest Reserve Bank (RBNZ) data shows that October was yet another month of extremely buoyant mortgage lending activity, with the figure of $7.8bn up by $1.7bn from the same month last year. As the first chart shows, both owner-occupiers (especially first home buyers) and investors are contributing to the overall growth in mortgage lending flows.

But perhaps of most interest is that within the investor category, a lot of the recent growth in mortgage activity has come from buyers with less than a 30% deposit (see the second chart). Indeed, as a proportion of all lending (i.e. $7.8bn in October), the share going to those high loan to value ratio (LVR) investors has basically doubled to 16% in the past 5-6 months.

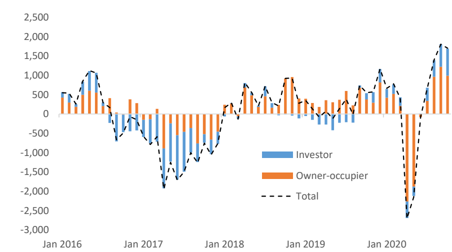
This investor surge has obviously generated a lot of debate in recent weeks, and the hard data certainly helps to illustrate why the RBNZ is consulting on its plan to reinstate the LVR speed limits. On that note, this morning's Financial Stability Report outlined more detail around the LVRs, with the RBNZ proposing to reinstate them (on 1st March) exactly as before – no more than 20% of lending to owner occupiers with <20% deposit, and a maximum of 5% of investor lending with <30% deposit.

Meanwhile, although the RBNZ figures have different coverage/definitions to our Buyer Classification series (e.g. the RBNZ covers only mortgage-related transactions and includes top-up loans, whereas we are looking at all property sales), the broad trends are the same. Indeed, as the third chart shows, mortgaged multiple property owners (i.e. investors) rose back to a 27% market share in October, the highest level since the middle of 2016 (prior to the 40% deposit requirement for investors).

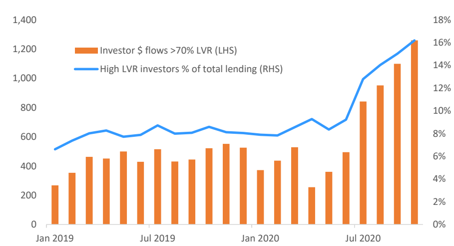
In addition, a different cut of our investor data shows that the recent rebound has been driven by smaller players, i.e. those with 1-3 rental properties. Arguably, it's these 'Mum and Dad' investors who might have been the most disgruntled with low term deposit rates, driving them into other asset classes.

Finally, there's recently been a new series published by the RBNZ which has flown under the radar a little – this is the stock of existing mortgage deferrals (published on a weekly basis). And as the fourth chart shows, most payment deferral schemes have actually now been 'exited', with the existing value of mortgages with a deferral in place standing at $3.9bn, down from $22.2bn in late May. This just adds to the sense that some of the so-called headwinds that we face are losing their intensity. As another example of that, the RBNZ's own forecast now has the unemployment rate peaking at about 6.5%, much less than the forecast of 8% only three months ago.

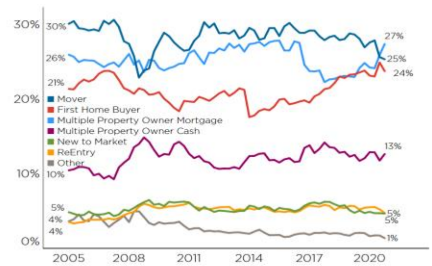
Annual change in lending, $m (Source: RBNZ)



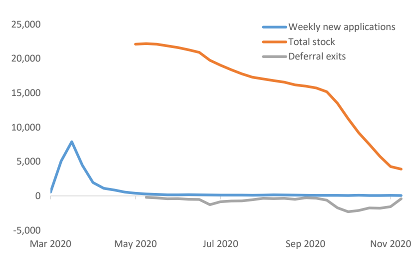
Investor lending >70% LVR (Source: RBNZ)



NZ % share of property purchases (Source: CoreLogic)



Mortgage payment deferrals $m (Source: RBNZ)



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