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Hello,

Please treat this as a public submission.

Thank you for the opportunity to speak at the recent conference. I would like to expand on the conversation on LVR restrictions, submission portals and broker panels.

I am currently working as a mortgage broker (adviser) through my own boutique brokerage in Wellington. I have been in the industry for 15 years in total, including my time working as a broker in the Australian market which was referenced multiple times as a point of comparison during the conference.

<u>The Impact of LVR restrictions on competition</u>

- When I first entered the industry in 2009 first home buyers and other borrowers with less than 20% deposit were able to approach any bank and apply for lending on the same rates and terms as any other borrower. There were (and remain) credit restrictions based on the risk of the borrower or loan security but these were not reflected in the price paid by borrowers.
- The temporary LVR restrictions introduced in 2013 have created significant restrictions on access to credit for those with less than 20% deposit. This has had particular impact on rates and fees paid by first home buyers. Borrowers with more than 20% deposit can typically go to any bank in the market whereas those with less than 20% often only have one option and cannot secure preapproval.
- First home buyers are the single largest segment of purchasers in the market per CoreLogic data and ~40% have less than 20% deposit per RBNZ data
- Rationing of low-deposit lending (which has been between 10-20% of new lending volumes each month depending on RBNZ restrictions) has typically been to first home buyers who hold existing main bank relationships with banks accepting applications as these are the most profitable customers to banks due to loan sizes and tenure of banking relationship. Other borrowers (such as young couples upgrading to larger homes when starting families) are often trapped and unable to access finance due to these restrictions on LVR even when they would otherwise meet bank credit policy.
- Current pricing being offered due to this rationing is applied either via a low equity margin (typically for borrowers with 10% this means a rate margin of 0.75% on top of 'standard' interest rates rather than the 'special' interest rates offered to borrowers with over 20% equity/deposit) or by way of a low equity premium (of 0.75% for example for a borrower with 10% deposit)
- In 2024 in a low volume lending environment we have seen banks offering cash incentives to first home buyers with less than 20% deposit (e.g. one major has been advertising a $5000 cash contribution on their website) but this is quite a new phenomenon and not one that existed when banks were writing higher volumes
- Prior to the temporary LVR restrictions being introduced (in 2013) it was common for first home buyers to be offered pricing (rates and cash incentives) in line with what the same borrower with more than 20% equity/deposit would be offered and not have to pay a premium rate.
- Banks have advised that higher capital requirements apply to borrowers with less than 20% deposit due to the additional risk and that as a result they are now applying higher interest rates to reflect that

- First home buyers do have options with multiple lenders under the Kainga Ora First Home Loan which is excluded from the temporary LVR restrictions and when they qualify for this product they will typically be able to access much lower interest rates

The absolute number one action that would make borrowing more competitive would be for first home buyers to be able to access preapproval/unconditional approval through any bank. This would mean when someone who is at a critical event and embarking on the biggest transaction in their life to date is able to shop around to multiple providers. This is already difficult due to the process involved for low-deposit lending but it is absolutely made more expensive due to the LVR restrictions and the rationing of lending required by RBNZ.

This could be implemented by way of making first home buyers exempt from the temporary LVR restrictions as construction lending and new builds currently are.

Submission Portals

- Members of the commerce commission queried as to why banks operate via email when accepting broker applications rather than via portals
- We have seen portals operated in market in New Zealand in various forms since I started working as a broker in 2016 – two major banks and one large non-bank lender in NZ all offered these portals in the past, but no longer do so due to the additional labour it imposed on those submitting applications – these needed to be prepared both via broker CRM and then again via the portals. All three of these lenders have removed the requirement for portal submission subsequently and all have seen submission volumes increase based on anecdotal evidence due to the reduced hours by not using these portals.
- Over the last 8 years we have seen an increasingly competitive environment for mortgage software due to the increasing number of advisers. This has resulted in superior offerings for brokers/advisers tailored to consumer needs. At the same time a more onerous regulatory environment has meant innovation has been been put on the back burner as business models have been challenged and software has been modified to meet future audit requirements rather than the needs of home loan borrowers.
- In the Australian market there was one company which captured the market early for submissions via their portal with APIs to the banks (ApplyOnline). This legacy software has been the default provider for about 20 years and was made compulsory for brokers however is largely unusable. In my experience the overwhelming majority of ApplyOnline users were based offshore in the Philippines and contracting to Australian based businesses to load applications that had been emailed to them. This is a model which is inefficient, causes delays and reduces competition. It is also an expensive model which NZ broker businesses that are less mature and don't receive trail commission from the two biggest lenders will not be able to afford
- When I was working in the Australian market in 2015 we had access to portals form major banks which allowed us to access valuations on existing securities held by banks and discounted interest rates for customers. I don't feel this had a major impact on customer outcomes but it did provide a superior service for customers via the broker channel compared to the current process in NZ. Portals which enable brokers to give better information to consumers are useful, those which delay submission are not

Lender Panels

- Large lender panels were mentioned as an expectation by commerce commission members during the conference – sufficient so that consumers could expect they can access a wide market when engaging a broker/adviser
- Negative disclosure was mentioned as a possible solution – brokers would be expected to disclose all the lenders they don't have access to.
  Current disclosures require significant information to be made available to consumers such as licensing, third party dispute resolution, existing lender panels and qualifications. While these have been mandated by regulators and legislation it is unclear how many consumers are engaging with this information or how useful it is to them when deciding to work with a mortgage adviser. In my experience the primary goal of a consumer is to buy a property and the mortgage adviser helps facilitate access to finance.
- In Australia I found lending panels were and are used as a point of promotion rather than as a way of helping consumers – stating you have more lenders on panel would be used as an appeal to authority. In reality businesses would focus on certain parts of the market and would write business with those who their credit appetite matched with
- Kiwibank was mentioned as a lender which had restricted access to certain brokers. In the current environment I have found they are very aggressive at onboarding brokers and it is an area they are continuing to grow.

I am happy to be contacted to discuss any of these points in further detail!

Thanks

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