vega Update April 2024

Banks need consistent competition to provide better outcomes for consumers

The country's first competition study into personal banking services reveals a two-tier personal banking sector in New Zealand with limited competition and a lack of disruptive forces driving change.

The key takeaways from their insights:

- The top-tier banks (ANZ, ASB, BNZ, and Westpac) focus on maintaining their profit margins, which results in underinvestment in technology platforms, low levels of innovation, stable market shares, and high profitability. According to KPMG's latest financial institutions performance survey, the banks collectively made a net profit after tax of $7.21 billion in 2023, up 0.28%.
- Lack of disruptive forces results in sporadic and unsustainable competition between major banks, primarily triggered by events such as changes in interest rates that lead to price-matching, rather than price-beating behavior.
- There had not been any meaningful new competition since Kiwibank launched.
- The draft report recommended measures to improve the capital position of smaller banks and Kiwibank, including the Reserve Bank potentially reviewing its prudential capital settings to ensure they are competitively neutral. This would enable smaller players to compete more effectively and involve considering increasing Kiwibank's access to capital to enhance its competitiveness.
- Recommendations call for setting clear deadlines for full operationalisation of open banking by mid-2026, reducing barriers faced by fintechs, and ensuring regulatory support for open banking implementation.
- Recommendations aim to empower consumers by reducing barriers to switching providers, introducing better tools and services for finding the best deals, enhancing switching services, and introducing a basic bank account accessible to all New Zealanders.

The final report is required to be published by 20 August 2024. After that, the Government will decide how to respond to the findings and recommendations.

Market study into personal banking services — Comcom.govt.nz

Commerce Commission Report: Profits Over Progress? — youtube.com, TVNZ Breakfast

Many households have yet to pay peak mortgage rates

Last week, the Reserve Bank published the latest figures on the breakdown of the existing stock of mortgages. CoreLogic chief economist Kelvin Davidson "This showed that 59% of existing loans (by value) are due to reprice within the next year – and typically that change could be another hike of perhaps of 1% or so. The key point is that the process of repricing our mortgage stock onto current interest rates isn't finished – so there's still a lingering risk of homeowners struggling to make repayments."

Home lending is increasing, with $4.9 billion of new lending in February, up $1.1 billion year-on-year. This marks the seventh consecutive rise in new lending. Low deposit lending isn't rapidly increasing, with the number of loans to investors with less than a 35% deposit remaining trivial.

About 8% of owner-occupier lending in February was done with less than a 20% deposit, still below the 15% speed limit. Most low deposit lending goes to first home buyers.

New residential mortgage lending by borrower type — rbnz.govt.nz

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Vega Mortgages case study: Single mum buys off the plan house with a fixed price contract.

A local building company referred a client to a Vega mortgage adviser. Client wanted to buy an off the plan house with a fixed price contract. The client, a solo mother with a stable income and a substantial inheritance, had been dealing with another broker (not Vega) for approximately six weeks who had not been able to get funding approved for the client.

Client Profile:

- Solo mother, aged 48, with an 11-year-old daughter, earning a reasonable wage.
- LVR was 54.90%, good deposit from inheritance.
- Not eligible for KiwiSaver second chance withdrawal due to excess deposit.
- Expecting further inheritance in 6-12 months.
- Interested in purchasing an off-plan house with a fixed-price contract.
- The deal was approved as a fixed-price construction in 4 days, allowing her to confirm the contract on the final day of the finance clause.

Affordability Issues:

The bank wanted to cap the loan term at 25 years rather than 30 years, and the overruns needed for the construction pushed it to negative Uncommitted Monthly Income (UMI).

The difference in lending amount for an approval was only $25,000 which was half the allowance for cost overruns, the actual lending needed was affordable.

Vega mortgage adviser approached bank with multiple options:

- Get confirmation of further inheritance due and obtain undertaking to reduce debt further if overruns were incurred.
- Proposal to modify fixed-price contract into turn key.
- Allow for a 30 year term as there was a significant KiwiSaver balance which was not able to be used for the initial deposit and would provide clearance at retirement age.

Bank granted approval for loan documentation over 30 years based on two sources of clearance (future inheritances and substantial KiwiSaver balance) that would put the loan well within the allowable UMI.

By understanding the client's unique circumstances and leveraging various financial strategies, mortgage advisers can navigate complex funding challenges and help clients achieve their homeownership goals.

It is proven that by using a Financial Adviser, you end up better off.

vegalend.co.nz 0800 834 253

*None of the above is intended to be financial advice so please discuss your situation with a financial adviser at Vega for your personal options.