



## Spring News 2016

### Current Interest Rates \*

Rates below are the best of standard carded interest rates available and do not reflect any discounts your Adviser may be able to obtain for you or your client.

Variable	5.55%
6 Month Fixed	4.75%
1 Year Fixed	4.25%
18 Months Fixed	4.79%
2 Year Fixed	4.29%
3 Year Fixed	4.34%
4 Year Fixed	4.59%
5 Year Fixed	4.79%

\* All rates subject to change without notice and not available to all borrowers.

## Welcome to the Spring 2016 Edition

### Housing and the RBNZ on hold in September - Bernard Hickey

The mid-winter moves by the Reserve Bank and the banks to try to cool down the housing market appear to be having some effect, at least for now.

Real Estate Institute figures for August showed a slight flattening in volumes and prices across the country as the Reserve Bank's mid-July announcement of a further tightening of Loan to Value Ratio restrictions took effect. The banks have also taken some heat out of the demand from rental property investors in particular by refusing to pass on all of the August 10 cut in the Official Cash Rate.

Some banks, including the ANZ, have also warned that the housing market is becoming over-heated and have tightened their lending criteria even more than the Reserve Bank required. Developers in Auckland also report banks have pulled back from lending to some riskier apartment and greenfields developments.

ANZ's CEO David Hisco even called on the Reserve Bank to impose a 60% deposit requirement on rental property investors nationwide, rather than the 40% one that formally starts on October 1, but which has already been adopted by banks.

There are two reasons for the banks' reluctance to pass on the full 25 basis points of rate cuts to floating rate borrowers and the apparent bottoming out of fixed rate mortgages at just above 4% despite everfalling wholesale rates. This collective decision to pass on only about half of the rate cut is partly about increasing net interest margins so banks can increase profits. They argue they need those

higher profits to get ready to put aside more capital because the Reserve Bank and Australian regulators are preparing higher capital requirements.

Secondly, Australian regulators are forcing the Australian parents of their New Zealand units to reduce their lending exposures to New Zealand, which is forcing some of them to repay loans to Australia. That in turn is helping to force the banks to try to raise more funds on term deposit markets here, which means some have held their deposit rates up. That makes it harder to pass on lower wholesale rates and cuts in the OCR to mortgage borrowers.

The Reserve Bank decided on September 22 to hold the OCR at 2.0% and signal at least one more cut would be required to get inflation back into the bank's 1-3% target band. The decision to hold was expected by all economists.

Governor Graeme Wheeler did not detail in his short September 22 statement how much further he would cut the OCR, but the Reserve Bank's forecasts from August 10 indicated it would be cut to around 1.65%, suggesting one or two more cuts. Wheeler reaffirmed that view in a speech in late August.

However, there was one snippet of news in Reserve Bank's statement with its decision to hold. Wheeler said house price inflation remained excessive and continued to pose financial stability concerns, but he suggested there were signs the market was cooling thanks to the pincer movement by the Reserve Bank and the banks.

"There are indications that recent macro-prudential measures and tighter credit conditions in recent weeks are having a moderating influence," he said.

The bottom line:

- House price inflation ran at an annual rate of 14% nationwide in August.
- The Reserve Bank held the Official Cash Rate at 2.0% as expected. It said at least one more cut would be required, most likely in early November.
- Banks are not passing on all of the OCR cuts to floating mortgage borrowers and have stopped cutting fixed mortgage rates despite lower wholesale rates.
- Banks are increasing net interest margins to hold more capital and are having to pay more for local term deposit funding to meet regulatory requirements.
- The Reserve Bank says its new 40% deposit requirement for landlords from October and tighter bank lending rules seem to be moderating housing market inflation, which it still thinks is excessive.