February Credit Indicator

CENTRIX

The start of the year sees the credit market tighten further

Our data shows lending has become more restrictive since changes to the Credit Contracts and Consumer Finance Act (CCCFA) came into effect in December, with the number of approvals down again this month.

Meanwhile, last week, the Reserve Bank sent its strongest signal yet that it's moving to a phase of tighter monetary policy, increasing the Official Cash Rate, and signalling further increases were coming.

The increase wasn't unexpected given the current inflationary pressure, but it does signal an end to the record low interest rates Kiwi businesses and consumers have been enjoying in recent years, increasing the cost of borrowing.

Higher interest rates and changes to the CCCFA, alongside tighter LVR restrictions, are all combining to slow the housing market, with the value of new residential mortgage loans falling 21% when compared to January 2021. This is nearly $1 billion in reduced lending. The data shows those with the highest credit scores have been impacted most.

Despite rising interest rates, mortgage arrears remain low, thanks to the large number of fixed mortgages. It is inevitable, however, that rising rates will eventually place increased pressure on households who are also facing rising inflation.

The impact of this wide range of market forces means it is more important than ever for businesses to take proactive steps and manage their credit risk in this highly volatile credit environment.

Keith McLaughlin
Managing Director

CCCFA impacts on loan conversions

Following changes to the CCCFA in December, we continue to see an impact on loan conversions, with credit approvals for both mortgage loans and consumer finance negatively impacted.

Our data shows the proportion of mortgage applications resulting in approval has fallen to 34% in February, while consumer finance conversion fell from 35% to just 28% of applications.

The decline rate may be bigger than what we can see, as we know some lenders have opted to assess affordability before running a credit check.

Further analysis indicates that low risk applications have been most impacted by the CCCFA.

Loan conversion rates have dropped markedly for those with a credit score above 700, which is generally considered to be good.

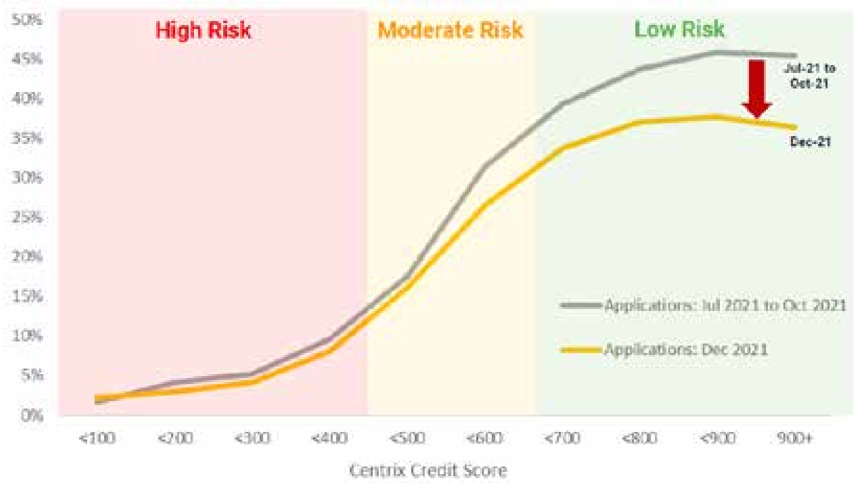
While our data shows there has been little impact on those with a credit score below 500, this is likely because their application success rates were already very low and, therefore, were already declined prior to an affordability assessment.

Further analysis indicates that low risk applications have been most impacted by the CCCFA.

Impact of new lending rules on loan conversion rates

Credit approvals as a proportion of application enquiries made

Loan conversion by risk tier



Credit demand flat in February

Consumer credit demand remained subdued in February, with demand down 3% year on year.

It's likely consumer confidence is being impacted by the outbreak of Omicron alongside the tighter consumer credit market because of the CCCFA changes.

Auto finance has fallen back from its peak in January. While this is not unanticipated given January traditionally sees high vehicle sales, the scale of the fall likely indicates tightening finance alongside supply issues.

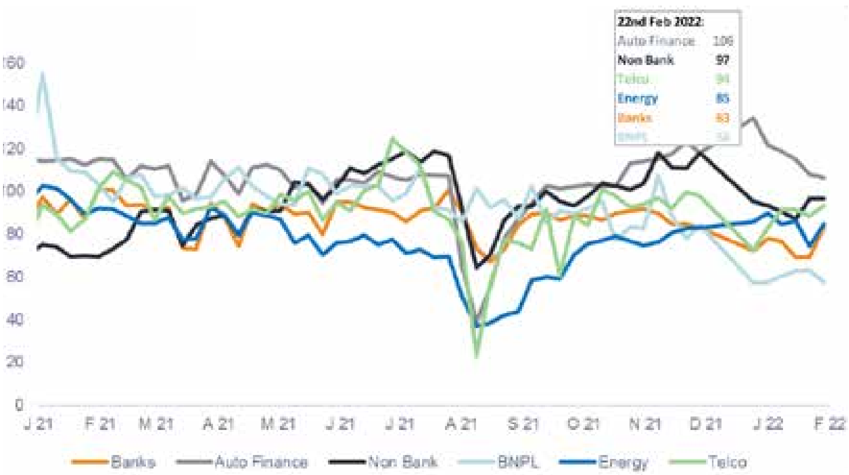
Mortgage applications reduced 16% year on year, further signalling a housing market slowdown as interest rates increase and credit tightens.

New Buy Now Pay Later (BNPL) applications have also reduced markedly this month and are at their lowest point since March 2020. While not unusual to see BNPL applications fall post-Christmas, this sharp reduction may also be a sign of declining consumer confidence.

It's likely consumer confidence is being impacted by the outbreak of Omicron alongside the tighter consumer credit market as a result of the CCCFA changes.

Consumer Credit Demand: 2020 to 2022

Credit Demand By Industry Sector



Credit Demand By Product Type

Arrears on the rise

Arrears levels increased across all regions in January, in line with seasonal trends as consumer cash flows are squeezed during the holiday season.

Approximately 400,000 consumers currently behind on their repayments in New Zealand, with arrears on personal loans being particularly high.

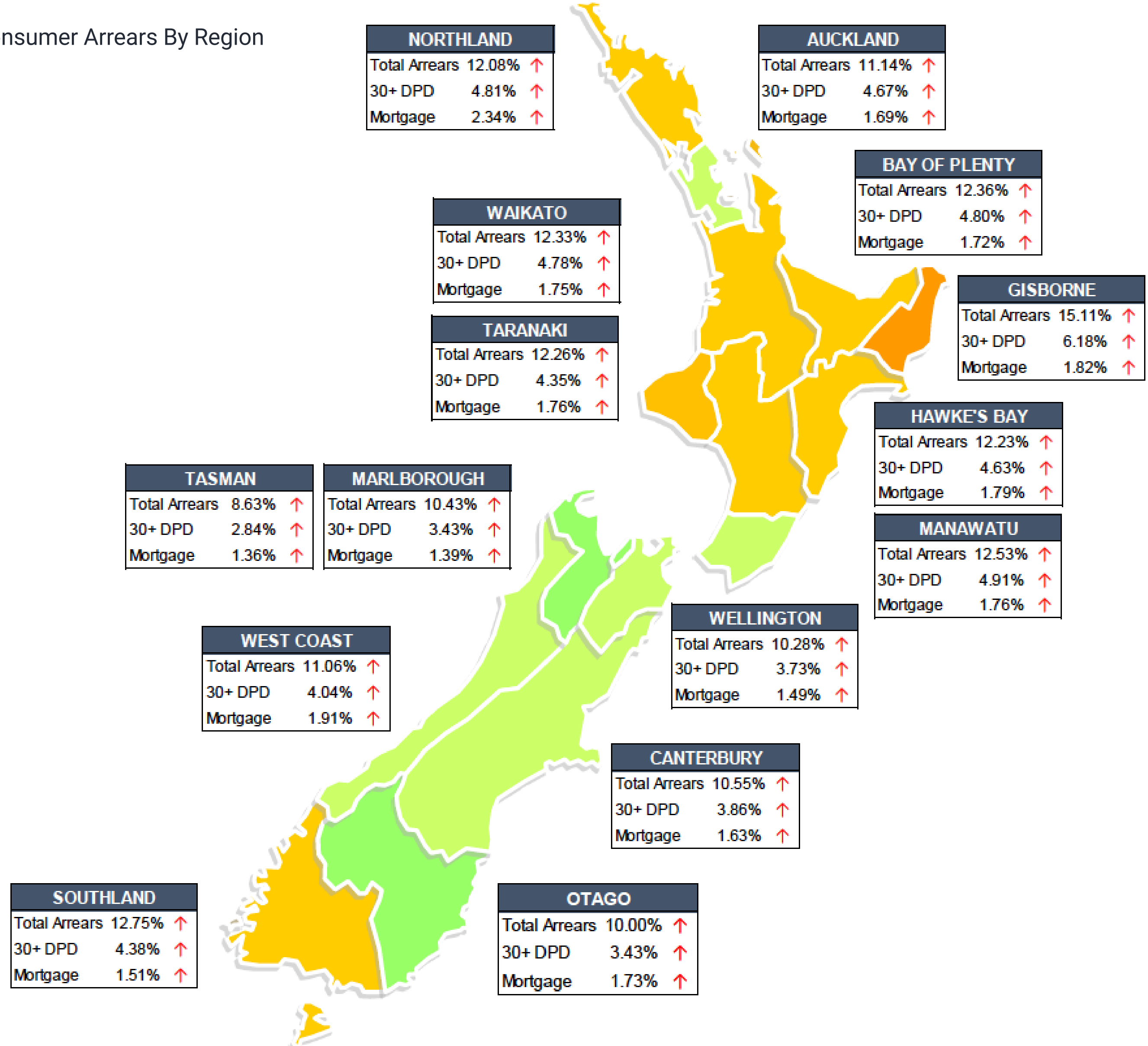
While arrears have increased this month, it is important to note that arrears levels remain low by historical standards, and this aligns with seasonality. Whether the trend continues remains to be seen.

Financial hardship is at a two year low, while arrears on credit cards and vehicle loans during 2021 have been at their lowest since consumer credit reporting has been in place.

Regionally, Gisborne has the highest total arrears (15.1%), while Northland has the highest proportion of mortgage borrowers past due (2.3%).

The Nelson/Tasman region has the lowest reported arrears across Aotearoa, with 8.6% of borrowers in arrears.

Consumer Arrears By Region



Key	Definition
Total Arrears	Proportion of borrowers with at least one credit account currently in arrears
30+ DPD	Proportion of borrowers with at least one credit account 30+ days past due
Mortgage	Proportion of mortgage borrowers with at least one mortgage account in arrears

The housing market continues to cool

In January, the value of new residential mortgage loans fell 21% compared to the same month last year.

The reduced number of successful home loan conversions, combined with rising interest rates, increasing supply, and tightening of LVR restrictions, is likely to have contributed to the slow down.

The number of home loans in arrears has been steadily improving year-on-year, with just 1% of home loans recording a missed payment compared 1.2% in 2021 and 1.5% in 2022.

New Lending Amount: Mortgages

Challenge continues for construction, hospitality and retail sectors

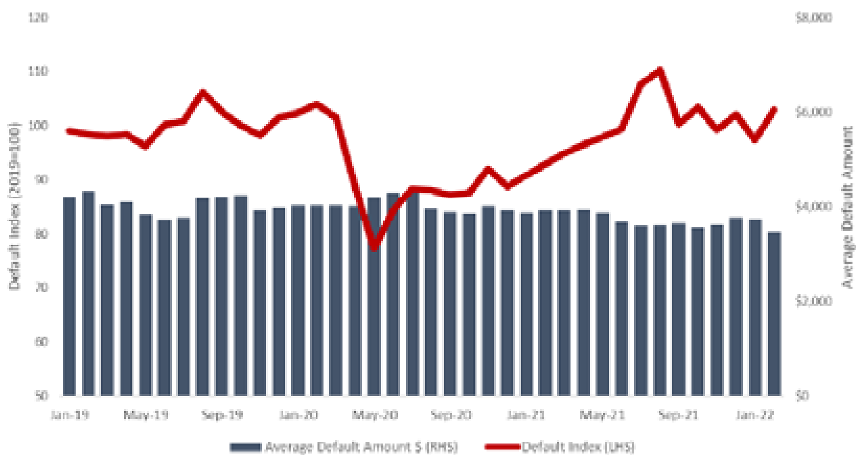
Business credit defaults increased 4% in February as Omicron, and ongoing border and capacity restrictions continue to impact New Zealand businesses.

The retail sector is one of the hardest hit, with credit defaults up 24% year-on-year. This is likely the combination of increasing price pressures, supply issues and decreased foot traffic as more New Zealanders are working from home during the Omicron outbreak.

Hospitality and tourism are also continuing to be impacted from restrictions, with Omicron fears likely to be resulting in some cancelling events and holidays, as well as reduced bookings at restaurants.

While demand is strong in construction, the sector remains impacted by severe labour and material supply shortages.

Business Credit Defaults Up 4% This Month



Last updated February 28, 2022.

Centrix data

Centrix holds the richest dataset of consumer credit information available in New Zealand. Our extensive and unique credit information database comprises of comprehensive credit information, utility data and supporting credit risk information aggregated from a wide range of sources.

Specifically our data comes from:

- 71 registered banks and other contributors to Comprehensive Credit Reporting (CCR), providing payment behaviour data. Contributors include finance companies, telco's and utilities.
- Credit enquiries, when businesses or individuals apply for finance – indicative of real time credit demand.
- Monthly snapshots of arrears trends and exposure (open accounts and credit limits)
- Fintech providers such as Buy Now Pay Later (BNPL) etc.
- Payment history on more than 95% of individuals.