

2015

AWARD REPORT



First Home Buyer Award





First Home Buyer Awards

June 2015

Foreword

Auckland continues to be front-page news with its real estate values skyrocketing beyond the reach of many buying their own home for the very first time. No doubt the determined are constantly seeking a solution to the unaffordability issue. It is more likely to be an alternative location rather than asking for a salary to be doubled.

Buying a first home is a big step psychologically and financially. This market segment, from the bank's point of view, is the customer base of the future. It is also very specialised and needs education, guidance and, of course, sharp loans and associated banking products.

Every year we research what's on offer to first home buyers from New Zealand's banks so we can determine who offers outstanding value in this market segment. To do this we look at the financial institution's fixed rate and floating home loans. We also take into account the availability of face-to-face staff, whether in branches or working as mobile lenders within each island.

Lastly, we take into account the access each bank offers to vital educational material so necessary for a first home buyer – from calculators that work out how to save for a deposit through to the whole box and dice involved with buying a property.

Nine banks were included in our research this year. We hope you find our results helpful.



Mitchell Watson
Research Manager



IT'S ALL ABOUT AUCKLAND, OR IS IT?

Another month passes and we see Auckland values continue to soar above the rest of the country. The latest CoreLogic monthly house price index (May 2015) shows that values in Auckland have increased by 14.6% over the past year. That has dragged the nationwide increase up to 8.3% year on year.

As the gap between demand and supply gets smaller, options close in for buyers, particularly those wanting to get their foot in the front door for the first time.

We know the Reserve Bank continues to worry over the threat to financial stability posed by the Auckland housing imbalance. Reserve Bank Deputy Governor Grant Spencer recently said that New Zealand is one of the few advanced economies that has not had a major house price correction in the past 45 years. No doubt, the Reserve Bank wants to keep it that way.

Auckland aside, the other major centres are seeing a more gradual rise, says CoreLogic.

- **Hamilton** is not yet showing any sign of following Auckland upwards. Values there have increased by only 3.3% over the past year. This is despite relatively strong sales activity in Hamilton combined with a shortage of listings. You would normally expect this to be pushing up values, especially if the anecdotes of Aucklanders now looking to Hamilton as a more affordable option were true.
- **Tauranga** is showing more signs of increasing, up 3.9% over the past three months compared to an annual increase of 5.8%. However, like many areas of the country, values dipped during 2014 and a recovery in recent months is more likely getting values back to where they would have been had that dip not occurred, rather than a genuine acceleration. Time will tell.
- **Wellington** area values have stayed barely above flat, increasing 1.1% over the past year. Like Tauranga, values dipped in early 2014, then recovered in late 2014, and for the last few months have returned to near flat.
- **Christchurch** values continue to flatten, and while values increased 4.7% over the past year, they increased only 0.3% over the past three months.
- **Dunedin** is even more subdued with an annual increase of a mere 0.6% now giving way to a 0.5% decrease over the past three months.

“Auckland’s median house price is 60 percent above its 2008 level, and house prices in Auckland have been rising rapidly since late last year. This reflects ongoing supply constraints and increased demand, driven by record net immigration, low interest rates and increasing investor activity. Prices in the Auckland region have become very stretched, increasing the risk of financial instability from a sharp correction in prices.”

*Reserve Bank Governor,
Graeme Wheeler, May 2015*

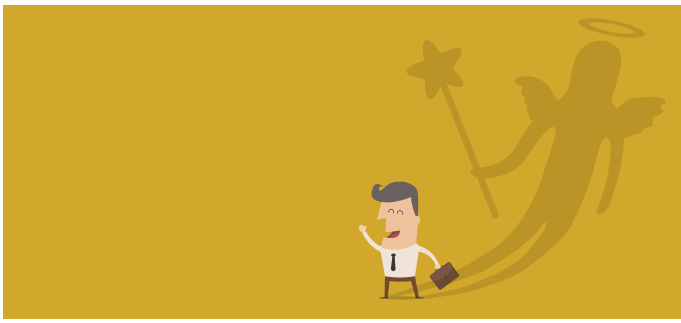


WHAT WILL YOUR HOME LOAN COST?

That all depends how much you borrow, of course. For the sake of example though, here are a few calculations at the current average variable mortgage rate of 6.69%:

Loan size	Interest rate	Monthly repayment	Total Cost over 25 years
\$350,000	6.69%	\$2,405	\$721,485
\$450,000	6.69%	\$3,092	\$927,622
\$550,000	6.69%	\$3,779	\$1,133,760

Source: Canstar. Assumes interest rate remains the same over period of loan.



SIX TIPS TO LOOK SQUEAKY CLEAN ON PAPER

There's no doubt your first home loan will probably be the biggest financial commitment you'll ever make. Way before you start looking at real estate though, make sure your own back yard is in order.

One thing that financial institutions do as a matter of course when someone applies for a home loan is check the applicant's credit rating. If your credit rating is more negative than positive, you run the risk of missing out on the loan.

Here are six tips to help stay in control of your finances and keep your all-important credit rating as squeaky clean as it can be:

1. Have a written budget. Without a written budget that shows when large bills will fall due, you can easily get caught short when the due date rolls around. This can mean relying on your credit card to plug the gap.
2. Pay your bills on time. If possible, pay your bills as soon as you receive them, either by filing them in date-due order or organising an automatic direct debit system of payment.
3. Contact your creditors quickly if you are not able to pay on time. That way you may be able to set up a repayment plan and avoid a black mark against your name.
4. Don't pay more than you need to. Many of our regular bills - telephone, electricity, mortgage and insurances - are set-and-forget expenses. New products and service offerings are constantly being introduced though, so reviewing your major costs periodically and shopping around for a better deal could potentially save you a fortune. This will help to free up your cash flow and reduce the chance of you falling behind.
5. Check your credit report occasionally. Your credit history is being continually updated as businesses record your

financial movements. Administration mistakes can happen though - and the sooner you are aware of any errors in the information recorded against you, the easier it will be to have them removed. Make a habit of checking your credit report once or twice a year, to ensure that it's an accurate reflection of your activities. You can order a free copy of your credit rating from Veda Advantage, Dun & Bradstreet or Centrix.

6. Check your credit report prior to applying for a loan. If you apply for a loan, the financial institution is almost certain to check your credit rating - as such it's a great idea for you to check it first. That way you can ensure that there are no nasty surprises and you can also prepare yourself for any questions that the financial institution may have.

Your credit rating may not always be perfect, but keeping it as trouble-free as possible will maximize your chances for obtaining credit down the track.



HOW ARE THE BANKS HELPING FIRST HOME BUYERS?

First home buyers are often not experienced in the complex world of mortgages and we feel a bank should demonstrate encouragement, education and assistance in this area. Of the nine institutions assessed for this year's award, six told us first home buyers were given high LVR priority. These were:

- ASB
- Kiwibank
- New Zealand Home Loans
- SBS Bank
- TSB Bank
- Westpac

Only two offered discounts on application fees exclusively for first home buyers.

- ASB Bank (has application fee of \$400)
- TSB Bank (has an application fee of \$250)



ANY HELP FROM THE GOVERNMENT?

If you're having trouble saving up a 20% deposit to get into your first home, you may be eligible to borrow 90% of the property's value under the government's Welcome Home Loan Scheme.

This loan is available through normal lenders such as selected banks and credit unions. Housing New Zealand underwrites the loan for the lender but you will need to meet the lender's specific lending criteria.

The maximum amount you can borrow with a Welcome Home Loan depends on the region you are buying in. Each region has a house price cap. The maximum loan for that region is the house price cap less your 10% deposit.

The house price caps are:

- Auckland – \$550,000
- Hamilton City, Tauranga City, Western Bay of Plenty District, Kapiti Coast District, Porirua City, Upper Hutt City, Hutt City, Wellington City, Nelson City, Tasman District, Waimakariri District, Christchurch City, Selwyn District, Queenstown Lakes District – \$450,000
- Rest of New Zealand – \$350,000.

To be eligible for a Welcome Home Loan your combined household income for the last 12 months must have been

\$80,000 or less (before tax) if you are the sole borrower. If you are partnering with one or more borrowers to buy a house, then you can have a combined household income up to \$120,000 (before tax).



Kiwisaver on the house

If you're a KiwiSaver member and have been contributing to a scheme for at least three years, you may be eligible for a KiwiSaver HomeStart grant. This means that the government could give you up to \$5,000 towards an older, existing home, or up to \$10,000 towards a newly built home or land to build a new home on.

If you're borrowing with someone else, you can combine your grants, which means you could have up to \$20,000 if you were both contributing to KiwiSaver for five years. There are other eligibility criteria to meet, as well as regional house price caps. You may also be able to withdraw almost all of the money in your KiwiSaver account to help buy your first home. This is called a KiwiSaver savings withdrawal.

Find out more about the Welcome Home Loan, KiwiSaver deposit subsidy and the KiwiSaver savings withdrawal on the [Housing New Zealand](#) website.



ARE SPEED LIMITS SLOWING THINGS DOWN?

Housing loans seen to be high risk by the Reserve Bank – those where borrowing exceeds 80% of the property value, or 80% Loan-to-Value ratio) – have been limited in availability since October 2013.

In a nutshell, banks have been required to direct no more than 10% of their residential lending to high LVR loans. That's because the Reserve Bank believes the housing market poses a risk to financial stability in New Zealand. Housing lending makes up about half of bank lending in this country, and a home is usually the single largest asset that a family owns. These factors mean that any instability in the housing market could undermine the stability of the wider banking system and economy.

Is it working? It's hard to say, as there are conflicting verdicts from all corners. In May, though, the RBNZ acted to further tighten lending requirements in Auckland – and relax them slightly in other areas – as follows:

- Require residential property investors in the Auckland Council area using bank loans to have a deposit of at least 30 percent.
- Increase the existing speed limit for high LVR borrowing outside of Auckland from 10 to 15 percent, to reflect the more subdued housing market conditions outside of Auckland.
- Retain the existing 10 percent speed limit for loans to owner-occupiers in Auckland at LVRs of greater than 80 percent.

The policy changes are proposed to take effect from 1 October.

The good news is that loans to first home buyers are not excluded totally. In fact some loan types are exempt, such as construction loans and Welcome Home loans. If a first home buyer's loan application is sound enough, there will be a bank that has not reached its 10% limit on this type of loan, so the message is to shop around. The Reserve Bank has indicated that its focus is not so much first home buyers as property investors, and residential construction activity will be excluded.





A quick look at current rates offered to borrowers on a 2-year fixed term, plus floating loan show a small difference in the range between minimum and maximum. As expected, fixed rates are more competitive and tend to increase the more you borrow. Floating rates, while higher overall, don't tend to increase with the amount borrowed. The current minimum, maximum and average home loan rates at various LVR levels are as follows:

2 Year Fixed

LVR	80% LVR	90% LVR	95% LVR
Minimum Rate	5.39%	5.39%	5.39%
Maximum Rate	6.39%	6.19%	6.19%
Average Rate	5.81%	5.84%	5.94%

Variable rate *(note that all of the Variable products are either available for 90% or 95% LVR)*

LVR	80% LVR	90% LVR	95% LVR
Minimum Rate	6.55%	6.55%	6.55%
Maximum Rate	6.85%	6.85%	6.85%
Average Rate	6.69%	6.69%	6.69%

A HOME LOAN IS JUST THE BEGINNING



When you buy a house, wherever it may be, there's no doubt your mortgage will be your biggest ongoing financial commitment. But unfortunately the buck doesn't stop here. There are other costs to take into consideration when living in your new house.

Things to factor in to your calculations include:

Repair work

Some urgent repairs may be needed straight away or soon after you move in. Ongoing funds will need to be allocated to keep the house in tip top shape or to improve it, as necessary, over the years to come.

Insurance

Your home will be your biggest asset so you will need

to protect it from the unexpected. As well as home and contents insurance, you may need to look at life insurance and mortgage repayment insurance. Remember that Lenders Mortgage Insurance does not cover you, it covers the bank in the event you default on your loan.

Rates

Congratulations, you are now a ratepayer! Rates are charges set by local councils to cover the cost of things like roads, water supply, sewerage and parks. They can be up to thousands of dollars a year. It's always wise to find out how much the rates are before you make an offer on a house. The real estate agent or local council website will be able to help.

Body corporate fees

If you're buying an apartment or townhouse that's part of an accommodation complex and has 'unit title', you'll probably need to pay 'body corporate' fees. These cover things like insurance and maintenance of shared areas. Get your lawyer to go over these details carefully. Is there a fund for major maintenance work in place?

FIVE TIMES IN A ROW

It's an impressive achievement: Kiwibank has won the CANSTAR Bank of the Year - First Home Buyer Award for the fifth year in succession. This is a major achievement made possible by Kiwibank's all-encompassing package of loans, features, accessibility and educational website designed to help first timers navigate the complexities of property ownership.

The hero of any home loan is its rate and Kiwibank's home loans are priced very competitively and are some of the lowest on the market, particularly its floating rates.

Kiwibank's rates don't compromise on features either. Customers are offered:

- ✓ 100% offset account with no monthly fees
- ✓ Split facility at no fees – can split between floating and fixed
- ✓ An option of a three-month repayment holiday
- ✓ Ability to nominate a family member as a guarantor when purchasing a First Home.

Kiwibank has a huge presence on both South and North Island, with a great number of mobile lenders and branches. This is very important for face-to-face interaction and guidance, especially for first home buyers.

Online hasn't been forgotten either. Kiwibank's dedicated First Home Buyers (FHB) site, contains links to all the necessary educational material, which includes:

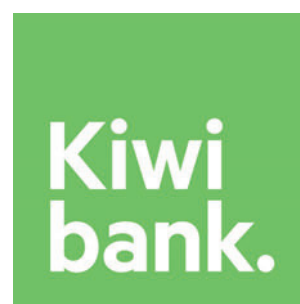
- ✓ Information on the overall process of buying a home
- ✓ Step-by-step guides to buying a property
- ✓ Explanation of different costs associated with purchasing a house
- ✓ Guides to buying a house at an auction
- ✓ Savings calculator
- ✓ Borrowing power calculator
- ✓ Loan offset calculator
- ✓ Budget planner available online

Another useful tool is KiwiBank's Home Hunter website which provides reports on different properties and enables KiwiBank customers to get instant pre-approval for a house.

Taking everything into consideration, it was hard to go past Kiwibank as the winner of the 2015 Bank of the Year - First Home Buyer Award and we congratulate them on this outstanding achievement.



First Home Buyer





METHODOLOGY

FIRST HOME BUYER AWARD

What is the CANSTAR First Home Buyer Award?

CANSTAR's Bank of the Year - First Home Buyer Award uses a sophisticated and unique methodology and is awarded to the financial institution that provides the strongest combination of products and services across the first home market in New Zealand. The award aims to give recognition to institutions offering outstanding value home loans as well as additional services that benefit first home buyers in making an informed decision when purchasing a home for a first time.

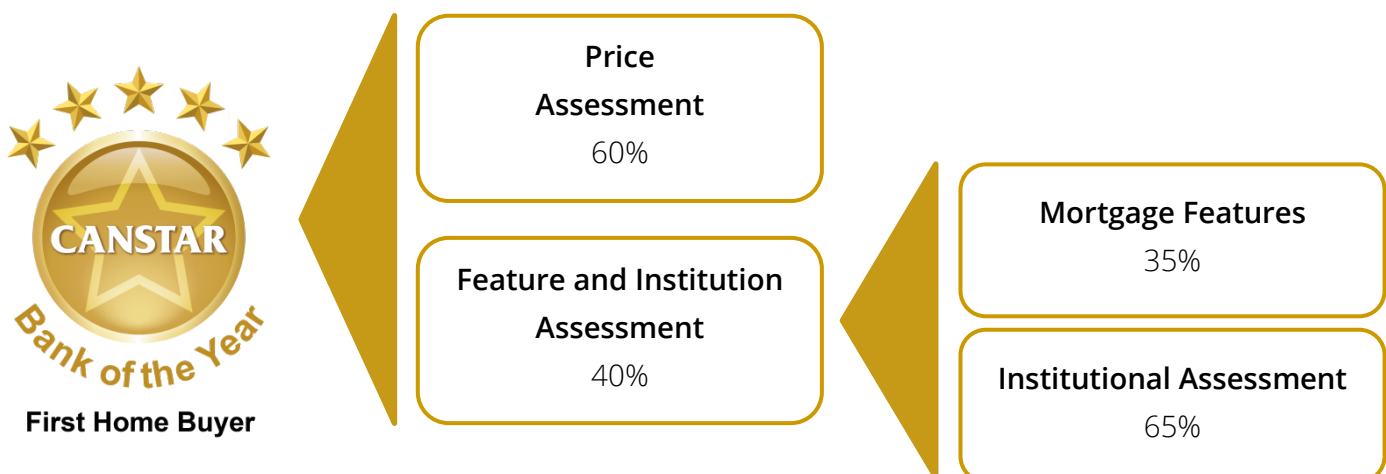
The institution who cumulatively receives the highest score across the areas of consideration will be awarded CANSTAR's Bank of the Year – First Home Buyer award.

What types of products are evaluated for CANSTAR's First Home Buyer Award?

To be included in the CANSTAR First Home Buyer Award, financial institutions have to provide mortgage products that cover floating, 1-, 2- and 3-year fixed rate products. For this award, the institutions must also offer the full range of banking products and have face-to-face staff available, whether in branches or working as mobile lenders across both islands.

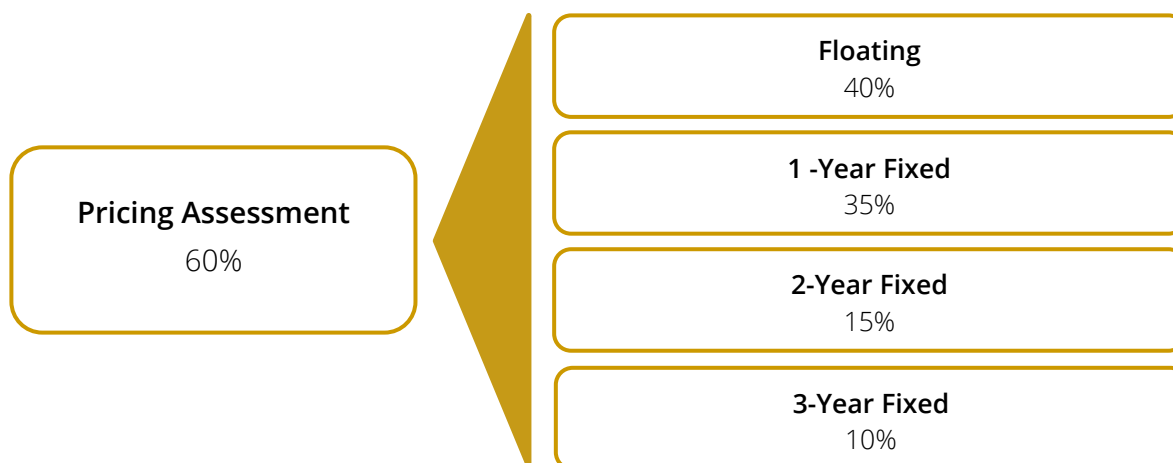
How is the CANSTAR First Home Buyer Award calculated?

To arrive at the total score that makes up the award, CANSTAR considers a price assessment and a feature and institution assessment:



Price assessment

The price assessment considers the pricing structure (i.e. interest rates and applicable fees) of four home loan products. The total price score of each product is indexed against the lowest cost product and weighted as follows:



To calculate the price score for each of the home loan products, CANSTAR accounts for the total cost of the loan and any applicable early exit fees in the first five years of the loan life across two loan-to-value ratios (LVR).



Total cost calculation

CANSTAR accounts for both current and historical interest rates in the calculation of the pricing component of each product's overall score. Each of the six months is weighted equally to arrive at the average total cost.

In addition to the interest cost, the total cost calculation includes upfront fees, ongoing fees, rollover fees and end-of-term fees. Price scores are based on the total cost calculation for the following scenarios:

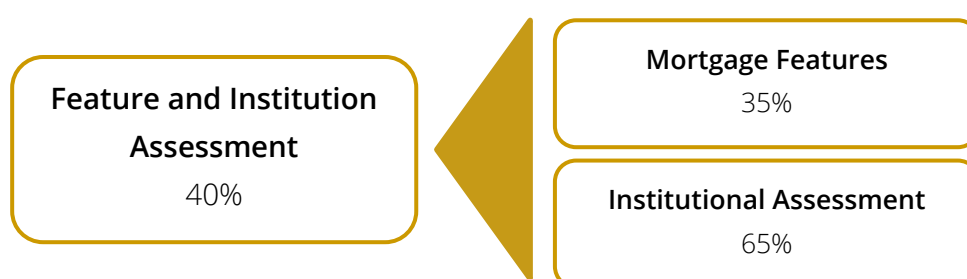
Profile	Loan term	Amount	No. of rollovers
Floating home loan	25 years	\$300,000	N/A
Fixed home loan	1-year fixed – 6 years 2-year fixed – 6 years 3-year fixed – 6 years	\$300,000	1-year fixed – 5 2-year fixed – 2 3-year fixed – 1

Early exit fees

Exit fees refer to a fee payable to terminate the loan *excluding interest adjustment cost where applicable*. Fees applicable at each year-end are indexed and then weighted to provide the early exit fee score.

Exit year	Weighting
1 year	5%
2 year	5%
3 year	20%
4 year	30%
5 year	40%

Feature and Institution assessment



Mortgage Features

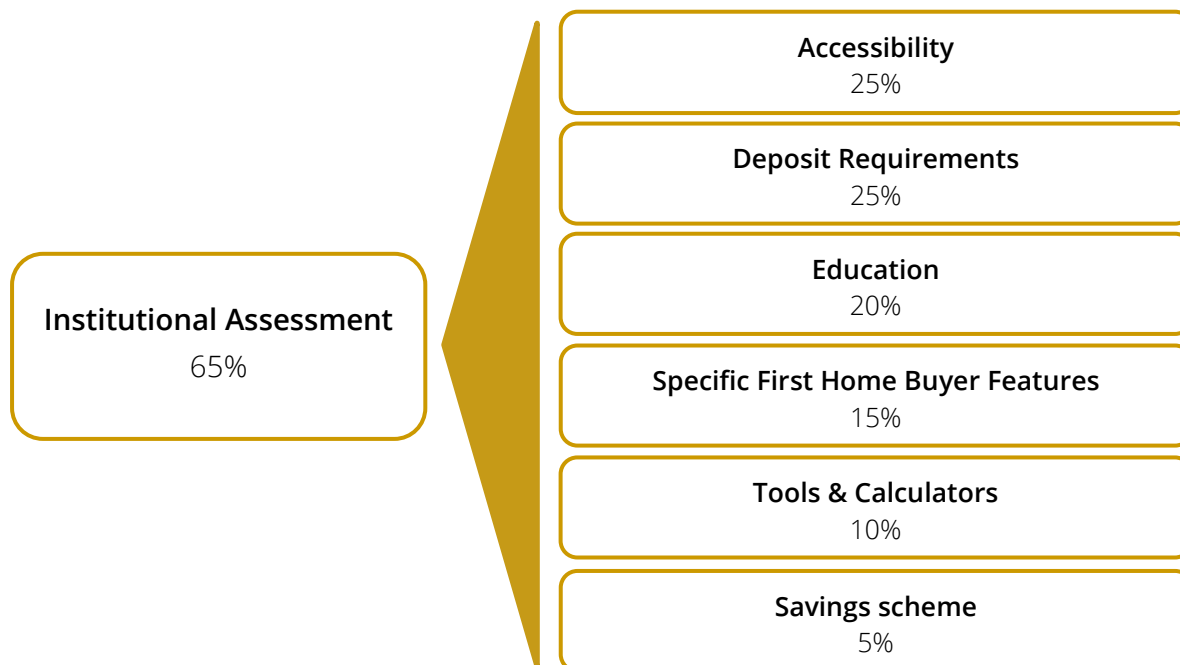
Mortgage features consists of the following sections:

Feature Categories	Variable Rate	Fixed Rate
Loan Terms	45%	45%
Lending Terms	85%	85%
Security Requirements	15%	15%
Product Functionality	40%	30%
Additional Repayments	20%	30%
Redraw/Transactional Home Loan	25%*	-
Offset Facility	25%*	-
Split Facility	25%	35%
Top-up Facility	8%	10%
Portability	8%	10%
Construction Loan	14%	15%
Fixed Rate	-	10%
Loan Fees	15%	15%
Switch Fees	50%	60%
Mortgage Fees	50%	40%

*The higher score of Redraw/Transactional Home Loan and 100% offset facility will be assigned to the product's overall feature score.

Institutional assessment

The institutional assessment is made up of six categories reflecting additional services institutions provide to benefit first home buyers:



Each of the categories can be explained further:

Accessibility

A scoring system is assigned and awards the institution with the highest number of branches and mobile lenders with a full score. Information in this section:

- Number of branches
- Number of mobile lenders

Deposit Requirements

This section awards scores to institutions with flexible deposit requirements including:

- Max Loan to Value Ratio for FHBs
- Guarantee options
- Financial gifts

Education

Education section acknowledges additional features or services that an institution provides to first home buyers comprising:

- Information on the overall process involved in buying a house
- Explanation of difference loan features

- Property buying checklists
- Offer specific education for First Home Buyers
- Step-by-step processes for First Home Buyers
- Dedicated website for First Home Buyers
- Online Troubleshooting
- Case Studies

Specific First Home Buyer Features

This section awards scores to institutions that offer tailored features and products for first home buyers such as:

- Customised service
- Offer a specific loan for First Home Buyers
- Exemption on application fee for First Home Buyers
- Home loan pre-approval available
- Dedicated First Home Buyer Helpline

Tools/calculator

This section covers tools available that assist in making an informed decision when buying a property:

- Budget Planners that assists in savings towards a deposit
- Home Loan calculators
- Total Borrowing Cost calculators

Savings scheme

This section covers the assistance institutions provide with the deposit- building process.

- Savings plan towards deposit
- Loan incentive in having savings plan
- Availability of KiwiSaver

How often are all the products reviewed for rating purposes?

The *First Home Buyer Award* is recalculated every 12 months based on the latest rates and features offered by each institution. CANSTAR also monitors rate changes on an ongoing basis.

Does CANSTAR rate all products available in the market?

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However, this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.



Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at www.canstar.co.nz if you would like to view the latest star ratings reports of interest.



- Agribusiness
- Credit cards
- Deposit accounts
- Home loans
- Personal loans
- Term deposits
- Youth banking
- Business banking
- KiwiSaver
- First home buyer
- Online banking
- Reward programs
- Travel insurance

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First Home Buyers

Company	Home Loan Pre-Approval	Deposit Details				Education and Tools				Branches/Offices	
		Maximum LVR (%)	Guarantee Option Available	Guarantor can Provide Deposit	FHB given High LVR Priority	Property Buying Check-List	Budget Planner	Borrowing Power Caluclator	Savings Calculator	North Island	South Island
ANZ Bank	✓	95	✓	✓	✗	✓	✓	✓	✓	177	52
ASB Bank	✓	95	✓	✓	✓	✓	✓	✓	✓	114	24
Bank of New Zealand	✓	95	✗	✓	✗	✓	✗	✗	✓	125	49
Kiwibank	✓	95	✓	✓	✓	✓	✓	✓	✓	206	70
New Zealand HomeLoans	✓	90	✓	✓	✓	✗	✓	✓	✗	65	12
SBS Bank	✓	90	✓	✓	✓	✗	✓	✓	✓	5	12
The Co-operative Bank	✓	95	✓	✓	✗	✗	✗	✗	✗	26	8
TSB Bank	✓	100	✓	✓	✓	✓	✗	✗	✗	23	2
Westpac	✓	90	✓	✓	✓	✓	✓	✓	✓	133	56