Overview of housing finance systems in South Africa

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Overview

- Housing finance is a tool we use to pay for housing
- South Africa’s housing finance framework
  - Policy
  - Practice
- Conclusion
Housing finance is a tool we use to pay for housing
Housing finance is a tool

- An interplay between supply and demand
  - The demand for and supply of formal housing units
  - The demand for and supply of formal housing finance to pay for these units
  - The activities & resources of the government to help the process along
  - Informal processes of supply and demand for people who cannot access the formal market or government support
Housing finance is a tool
Different products

- **End user finance**
  - Mortgage loans
  - Pension-backed loans
  - Micro loans

- **Wholesale finance**
  - Loans to micro lenders and other retail intermediaries
  - Loans to rental / social housing companies

- **Development loans**
  - Bridging finance or working capital loans to developers
Housing finance is a tool
The mortgage instrument

Borrower

Borrower buys house with mortgage loan, or uses loan for improvements on existing house

House as collateral against the loan

Financial institution

Loan repayments from borrower to financial institution

Housing loan from financial institution to borrower
Housing finance is a tool
The mortgage instrument

Banks lend other peoples’ money

Interest payments

Savers → Bank → Borrowers

Savings → Loan

Interest payments
Housing finance is a tool
Pension backed loans

- Pension fund
  - Pension fund administrator
  - Guarantee based on % of amount saved
  - Savings into the pension fund
- Financial institution
- Pension fund member
  - Housing loan
  - Loan repayments fund
- Housing/property
Housing finance is a tool
Unsecured, housing micro finance

- Small loan (<R25 000, although growing considerably)
- No security: no title deed, no collateral
- High interest rate, short term

- Repeat loans support a step-by-step, incremental housing process

- Different starting points:
  - RDP / BNG house
  - Market house
  - Land: subdivided plot, specially defined plot

- Access land & services
- Borrow microloan
- Make improvements
  - Additional room, fixtures
  - Accommodation for rent
  - Small business
- Realise income
- Pay back microloan
- Improved housing asset
Housing finance is a tool: Putting finance and the asset together

- Starter house
- Borrow micro loan to improve
- Improved house with backyard room (for rental)
- Sell to buy…
- 2nd dwelling for business…
- Income for retirement…
- Sell and buy…
- Mortgaged 2-room house with backyard dwelling
- Mortgaged 5-room house with granny cottage
- Once homeless, now an investor, providing housing to other low income earners

Kecia Rust • Centre for Affordable Housing Finance in Africa - a division of the FinMark Trust
South Africa’s housing finance framework
SA’s housing finance framework: 1994 housing challenge

- Huge housing backlog - estimated at 3 million households
- Low levels of income (1994 Housing White paper estimates)

<table>
<thead>
<tr>
<th>Income category</th>
<th>Percentage</th>
<th>Number households</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;R3501</td>
<td>13.9%</td>
<td>1,15m</td>
</tr>
<tr>
<td>R2500-R3500</td>
<td>5.6%</td>
<td>0.46m</td>
</tr>
<tr>
<td>R1500-R2500</td>
<td>11.8%</td>
<td>0.98m</td>
</tr>
<tr>
<td>R800-R1500</td>
<td>29.0%</td>
<td>2.42m</td>
</tr>
<tr>
<td>R0-R800</td>
<td>39.7%</td>
<td>3.30m</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>8.3m</td>
</tr>
</tbody>
</table>

Subsidy eligible population

- Duplicated and poorly targeted subsidies
- Lack of end-user finance
  - Lack of appropriate retail lending capacity
  - Reluctance of formal financial institutions to lend in certain areas and to certain groups
- Mono-use residential dormitories
- Economically and racially segregated areas

Socio-political and environmental issues

- High expectations
- Lack of consumer protection
- Poor consumer education
- Low levels of household expenditure dedicated to housing (est. 9% - Mayo)
- Limited perceptions of housing: especially as an investment
- Non-payment
- Crime and violence
- Other issues, such as traditional tenure
### SA’s housing finance framework: 1994 Housing White Paper solutions

#### Stabilising the housing environment
- Based on the Record of Understanding and New Deal agreed to between the government and the formal banking sector
- Focused on political risk
- Established:
  - Masakhane Campaign
  - Mortgage Indemnity Fund
  - Servcon & later Thubelisha Homes
  - NHBRC
- Goals:
  - Resumption of lending by the banks: est. 100,000 loans per year
  - Normalized environment in which clients pay for services received

#### Mobilising credit
- Focused on commercial risk
- Involves various risk sharing initiatives
- Established:
  - NHFC and later RHLF
  - Nurcha
  - SHF, later TUHF
- Goals:
  - Increased number of financial intermediaries to provide credit to low income households
  - Formal banks to come back ‘down market’

#### Housing subsidies
- Focused on affordability
- Established:
  - Project-linked
  - (Individual)
  - Rental (institutional)
  - Self-build (PHP)
- Goals:
  - 1 million in 5 years
  - Linkage with credit to enhance affordability and improve quality (size) of housing product
SA’s housing finance framework: 2004 Financial Sector Charter

“The Financial Sector Charter will add a deep social dimension to the functioning of our financial system. It goes to the core of how the financial sector will address the urgent need to make business sense of a more sustainable, inclusive and equitable future.

…… At the same time, measures designed to achieve our empowerment & transformational goals must be implemented in such a way that they do not jeopardise ongoing financial stability”

(Extract from the Trevor Manuel presentation to Financial Sector Campaign Coalition 2005)

- First phase: 1 Jan 2004 - 31 Dec 2008 – never renewed, although banks loosely maintain the approach
- Housing targets:
  - R42bn for origination (R40bn for Big 4 banks) including R32bn for targeted investment (R30bn for Big 4)
- Target market: R1500 - R7500 hh income (adjusted annually by CPIX)
- Current target market loosely to R15 000 hh income
### SA’s housing finance framework: Current arrangements

<table>
<thead>
<tr>
<th>Bracket</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>R15 000+</td>
<td>Regular market (but ltd stock at bottom end) (about 10% of population)</td>
</tr>
<tr>
<td>R15 000</td>
<td>Below R15 000: Affordable housing market – current lender focus – range extends between about R9 000 – R15 000</td>
</tr>
<tr>
<td>R9 080</td>
<td>R1810 – R9080 (from R1500 - R7500 in 2003, adjusted annually by CPIX) Financial Sector Charter target (about 45% of population)</td>
</tr>
<tr>
<td>R7 500</td>
<td>– Commitment by financial sector to invest R42bn by Dec 2008</td>
</tr>
<tr>
<td></td>
<td>– Mortgages, pension-backed loans and unsecured / Developer finance, wholesale finance</td>
</tr>
<tr>
<td></td>
<td>– Unsubsidised, market rates: innovation is that banks agree to lend</td>
</tr>
<tr>
<td>R3 500</td>
<td>R3500 – R7000: Finance linked individual subsidy programme (FLISP) (about 15% of population)</td>
</tr>
<tr>
<td></td>
<td>– Limited delivery: value insignificant given housing costs; no administrative systems to ease implementation</td>
</tr>
<tr>
<td></td>
<td>– Not applicable to other loan types (unsecured or pension-backed fully guaranteed)</td>
</tr>
<tr>
<td></td>
<td>– Sliding scale between about R4000 – R50 000</td>
</tr>
<tr>
<td>R2 500</td>
<td>R0 – R3500 hh income: Government housing subsidy (about 60% of population)</td>
</tr>
<tr>
<td></td>
<td>– 40m² house on 250m² plot of land – freehold tenure; sale restriction for 8 years</td>
</tr>
<tr>
<td></td>
<td>– ± 2,4m houses developed since 1995 - less than 1m on deeds registry?</td>
</tr>
<tr>
<td>R1 500</td>
<td>Waiting list is long: can be ten years</td>
</tr>
<tr>
<td></td>
<td>Rental policy also, but delivery slow</td>
</tr>
<tr>
<td></td>
<td>About R60 000 + land and services = about R150 000</td>
</tr>
<tr>
<td>R0</td>
<td></td>
</tr>
</tbody>
</table>
SA’s housing finance framework: Current arrangements

- Regular market
- Affordable market
- (former) FSC market
- FLISP market
- Subsidy market

New guarantee facility

**NURCHA:** Construction finance lender

**TUHF:** inner city lender to small scale landlords

**SHRA:** Regulator to create viable borrowers of social housing institutions

**NHFC:** Retail mortgage lending, wholesale finance to microlenders, social housing investments

**RHLF:** Wholesale finance to housing microlenders in rural and peri-urban areas; subsidy voucher
SA’s housing finance framework: Current arrangements

**Bank focus:**
- Moderate income
- Payroll deductible
- Preferred debit order
- Pension-provident secured
- Mortgage
- New housing & secondary (PIPs)
- Social housing

**Non-bank lender focus:**
- Low-moderate income
- Payroll deductible / pension
- Debit order (not preferred)
- Some mortgage / PP
- Unsecured
- Incremental housing
- New housing & secondary (PIPs)

### R9000
- Bond house: R250 000+

### R3500
- Resale house with bond: +-R150 000
- Social rental housing via housing institutions

### R1500
- Home Improvements or Housing loan (not bonded) : R10 000 – R65 000
- Home Improvements or incremental housing: R2 000 – R10 000

### R1500
- Resale house with bond: +-R150 000
- Social rental housing via housing institutions

### R9000
- Bond house: R250 000+
SA’s housing finance framework: Policy vs. Practice

**POLICY**

Population distribution by household income (2010 Rands) South Africa

- **>R16 000 per month**: 1,477,831
- **R10 000 - R16 000 per month**: 852,765
- **R7 000 - R10 000 per month**: 781,456
- **R3 500 - R7 000 per month**: 852,765
- **<R3500 per month**: 1,477,831

**PRACTICE: give-away market**

- **120,000 mortgages extended against government subsidised houses**
  - 104 000 at time of registration (most before 2001, then small peak in FSC)
  - 16 000 post registration
- **Average mortgage loan sizes**
  - R71 000 (1994-2001)
  - R260 000 (2004-2009)
  - Larger loan sizes for Discount Benefit scheme stock than project-linked stock
- **Housing microloans (hh = >R1500)**
- **Pension-backed loans**

Affordability for credit exists even among households earning less than R3500.
Lack of supply undermines demand for finance in this market. A subsidised house, costing an estimated R150 000 could be purchased by someone earning about R5000 / month. The cheapest new build, at R250 000, is affordable to someone earning about R10 000 / month. The new mortgage insurance initiative being developed by the NHFC is targeted at this market – but to buy what stock?
SA’s housing finance framework: Policy vs. Practice

**Population distribution by household income (2010 Rands) South Africa**

- >R16 000 per month: 1,477,831
- R10 000 - R16 000 per month: 852,768
- R7 000 - R10 000 per month: 721,456
- R3 500 - R7 000 per month: 2,102,718
- <R3500 per month: 7,242,811

**POLICY**

**PRACTICE: bonded market**

- NCR data shows 1,8m mortgage accounts – about 13% of households.
- At end of 2009, residential mortgages accounted for 39% of total credit extended to the private sector.
- Mortgages largely only available to households earning >R10 000 in 2009 Rands.
- Majority of market in R16 000 + category

Lack of supply undermines demand for finance in this market. A subsidised house, costing an estimated R150 000 could be purchased by someone earning about R5000 / month. The cheapest new build, at R250 000, is affordable to someone earning about R10 000 / month.
Conclusions
Government subsidy houses

Targeted at 60% of SA population (85% in 1994)

Primarily government subsidised housing (25% of all properties on deeds registry).

An estimated 2.9 million built or under construction across South Africa since 1994: freehold tenure, 40m² unit on 250m² land, available for resale after 8 years. Further,

Study found 1.44m properties on the deeds registry.

1990’s RDP houses

2000’s BNG houses

Discount benefit scheme houses
Subsequent home improvements

Cashbuild estimates 60% of all new units are extended or upgraded within 18 months (Bday 4/8)

Discount benefit scheme houses
Conclusion
Opportunities for municipal engagement

- Lenders seek certainty – especially important in the absence of title deeds
- Municipal procedures can grease, or obstruct functioning markets
- Municipal services create investment grade areas
- Promote local level housing finance investment
  - Home improvements
  - Informal settlement upgrading
  - Infrastructure investment
- Each one house one
  - Backyard rental
  - Subdivisions
- Facilitate housing markets
  - Resale market
  - Rental market
Appendix
Further reading


- Housing Finance in Africa Yearbook 2011. This is the second edition of the housing finance in Africa yearbook, providing profiles of 28 countries and one region. The yearbook explores the state of the different housing and housing finance markets across Africa. To access: http://www.housingfinanceafrica.org/document/2011-housing-finance-yearbook/

- Visit the Affordable Land + Housing Data Centre website for information on property markets in affordable suburbs: www.alhdc.org.za

PROGRAMME OBJECTIVES

- The need for objective and analytical education in housing finance is growing rapidly. Sub-saharan Africa is transforming its housing finance systems and both policy makers and private practitioners need cutting-edge information on innovation in this sector. The week long programme will address that need by providing intensive education in policy innovations and institutional, financial and managerial aspects of housing finance, with an African focus.

- The programme will be held at the Graduate School of Business Breakwater Campus, University of Cape Town, at the V&A Waterfront in Cape Town.

- Lectures will follow a structured plan, allowing for discussion and participation with lecturers and delegates.

For further information, please contact: Kathleen.evans@uct.ac.za

PROGRAMME OUTLINE

- Overview of Housing Markets, Policy and Finance
- The Business of Housing Finance – functions and products
- Funding the Mortgage Portfolio
- African and International Case Studies of Market Innovation
- Construction and Development Finance
- Safety and Soundness of Financial Institutions
- Extending mortgage lending and housing services to lower income groups – mortgage insurance; expanding the mortgage market; micro finance; rental housing; subsidies
## Mortgages: Dream Start Home Loan – Standard Bank product

### Basic product description
- Home loan
- Can be used if for buying/building a new home

### Client requirements
- Minimum age: 21
- Proof of ID
- Sound credit history
- Proof of income: 6 months bank statement and latest salary slip if applicable
- Monthly income: R1 500 – R 6 000 joint income
- Proof of residency
- Expenditure statement

### Loan size
- Dependent on affordability as determined by the bank

### Loan term
- Minimum: 5 years
- Maximum: 30 years

### Collection method
- Cash or cheque at Standard Bank branch
- Debit order
- EFT

### Property / loan use requirements
- Proof of property: title deed
### Pension backed loans: FNB Smart Housing Plan

<table>
<thead>
<tr>
<th>Basic product description</th>
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</thead>
<tbody>
<tr>
<td>- Flexible housing finance</td>
</tr>
<tr>
<td>- Pension fund savings used as security for loan</td>
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<tr>
<td>- Agreement with bank, employer, and pension fund</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Clients:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Minimum age of 21</td>
</tr>
<tr>
<td>- Employed and contributing to pension fund for at least one year</td>
</tr>
<tr>
<td>- Applicant must be able to afford the loan instalment as per the NCA</td>
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<table>
<thead>
<tr>
<th>Company:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Workforce of at least 50 employees</td>
</tr>
<tr>
<td>- Agreement of pension fund trustees to provide loans or guarantees</td>
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</table>

<table>
<thead>
<tr>
<th>Loan size</th>
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</thead>
<tbody>
<tr>
<td>- Minimum loan size: R5 000</td>
</tr>
<tr>
<td>- Maximum loan size: Up to 80% of the after-tax benefits in the fund, but depends on rules of the fund</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan term</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Minimum term: 12 months</td>
</tr>
<tr>
<td>- Maximum term: 20 years subject to the loan being repaid in full prior to retirement</td>
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</table>

<table>
<thead>
<tr>
<th>Installment and collection method</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Minimum monthly instalment: R100</td>
</tr>
<tr>
<td>- Collected via payroll deduction</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Property/loan use requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Some type of proof of ownership although a title deed is not necessary. In the case of tribal land a letter from the chief would suffice</td>
</tr>
<tr>
<td>- Housing can be informal</td>
</tr>
</tbody>
</table>
## Unsecured loan

<table>
<thead>
<tr>
<th>Basic product description</th>
<th>Unsecured personal loan for housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Unsecured personal loan</td>
<td>• Can be used for housing or any other purposes</td>
</tr>
</tbody>
</table>

### Client requirements

<table>
<thead>
<tr>
<th>Minimum age: 21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proof of ID</td>
</tr>
<tr>
<td>Sound credit history</td>
</tr>
<tr>
<td>Income source: wages or state pensions</td>
</tr>
<tr>
<td>Proof of income: payslip of letter of employment for those who are formally employed, bank statements for at least 3 months for those who are employed in the informal sector</td>
</tr>
<tr>
<td>Minimum personal income (employed): Minimum monthly income of R1 000</td>
</tr>
</tbody>
</table>

### Loan size

<table>
<thead>
<tr>
<th>Employed: R1 000 – R10 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensioner: R400 – R900</td>
</tr>
</tbody>
</table>

### Loan term

<table>
<thead>
<tr>
<th>Employed: 6 – 24 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensioner: 6 – 12 months</td>
</tr>
</tbody>
</table>

### Collection method

<table>
<thead>
<tr>
<th>Cash or cheque at selected retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit order</td>
</tr>
</tbody>
</table>

### Property / loan use requirements

| None |