

**FINANCIAL CONSTRAINTS TO LOW INCOME
HOUSING IN SOUTH AFRICA:
1994 - 2000**

by

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THESIS

Presented as fulfillment of the requirement for the degree

**PHILOSOPHIA DOCTOR
(PhD)**

in Economics

in the School of Economics, Risk Management

and International Trade at the

Potchefstroom University

Promoter: Prof. Dr. W.A. Naudè

**Johannesburg
March 2003**

DEDICATION

In memory of my father

Ranganathan (Bob) Pillay

Born: 23 June 1928

“His tireless effort to provide the best educational opportunities for his children and his consistent emphasis that learning is the key to defeating impoverishment and poverty remains a lasting inspiration to all that has been touched by his wisdom, courage and tenacity”

Died: 04 June 1985

Opsomming

Die nuwe regering het in 1994 'n beraamde behuisingsagterstand van tussen 1.2 en 2.5 miljoen eenhede tesame met 'n snel groei in die uitbreiding van die informele plakkergemeenskappe, oorgeërf. Dit was grootliks die gevolg van hoë vlakke van verstedeliking, armoede, hoë werkloosheidsyfers tesame met die geskiedenis van apartheid en afsonderlike ontwikkeling. Die behuisingsfinansieringsstelsel het ook gely onder 'n ernstige gebrek aan huislenings, aangedryf deur politieke sanksies en burgerlike verontagsaming van landswette voor 1994. Redes vir die mislukking word beredeneer vanuit drie verskillende oogpunte, naamlik politieke inperking, eind-gebruiker perspektiewe en die ervarings van sleutelsektor rolspelers, wat insluit verleners, ontwikkelaars en akademici.

Die doelstelling van hierdie tesis is om die redes te identifiseer en te ondersoek wat daartoe aanleiding gee dat die private en publieke sektore nie daarin kan slaag om die genoemde krisis met betrekking tot versekering van genoegsame toegang tot behuisingsfinansiering, op te los nie. Die volgende navorsingsvrae is geformuleer om te help om die behuisingskrisis beter te begryp: Voldoen tekorte in nuwe en bestaande huise oor verskillende prysklasse heen aan die huiseienaar se verwagtings ten opsigte van prys? Is bekostigbaarheid 'n faktor wat die aankoop van huise verhoed? Ly krediet rantsoenering deur verleners aan lae inkomste leners tot die verhoging van agterstande en die inperking van toegang tot behuising?

Om die beoemde navorsingsvrae te staaf is drie hipoteses opgestel en getoets. Empiriese data is versamel deur aangesig tot aangesig onderhoude met huiskopers, verleners, behuisingskenners en aktiviste in die lae inkomste behuisingsektor.

Die resultate dui daarop dat een uit vyf potensiële kopers gefrustreerd voel omdat hulle nog nie 'n huis besit. Die meerderheid van potensiële kopers is reeds huiseienaars wat nie daarin kan slaag om hul huidige eiendom verkoop te kry nie. Verleners oorweeg nie lae inkomste as 'n

belemmering in toegang tot behuising nie, alhoewel minder as 4% van bruto maandelikse inkomste aan behuising spandeer word. Die studie dui aan dat daar 'n maatstaf vir bekostigbaarheid is indien die geskikte huis gevind kan word. Faktore soos om nie 'n huis te kan kry wat aan die lener se vereistes voldoen nie en die onvermoë om reeds bestaande huise te verkoop, asook die onwilligheid van banke om huislenings toe te staan word gesien as hindernisse in die lewingsproses. Spaargeld is uitgelig as 'n potensiële faktor wat bekostigbaarheid kan verbeter en die lener se kredietrisiko kan verlaag. Die implikasie van behuisingvoorkeure laat dit blyk dat die potensiële koper se spesifikasies en verwagtinge van 'n geskikte huis finansiële vermoëns om so 'n huis te kan bekostig, oortref. Alhoewel die meerderheid van potensiële huiseienaars banke sien as die hoofbron van 'n huislening, het slegs 'n klein hoeveelheid probeer om toegang tot 'n lening te verkry terwyl nog 'n kleiner hoeveelheid suksesvol was in hul aansoek. Banke word dus steeds beskou as onbuigsame instansies met krediet kriteria wat dit moeilik maak vir lae inkomste leners om toegang tot 'n huislening te verkry. Die agterdog waarmee banke bejeën word, is verder geneig om potensiële huiskopers af te skrik. Die studie het ook bevind dat die proses waartydens 'n huis aangekoop word nie 'n chaotiese en ongestruktureerde proses is nie. Respondente het 'n sistematiese benadering gevolg in hul pogings om inligting omtrent die beskikbaarheid van huise vanaf ontwikkelaars te verkry en kon die verskillende stappe wat geneem is om 'n geskikte huis te vind, aandui. Terwyl sommige potensiële kopers in staat was om inligting te bekom was die meerderheid nie in staat om akurate inligting rakende die primêre en sekondêre huismark te verkry nie, wat hul vermoë om 'n huis te bekom nadelig beïnvloed het.

Oplossings vir die behuisingprobleem behels 'n verbetering in die produksie van geskikte materiale, veranderde lener gedrag, veranderde houdings teenoor krediet, verbeterde bank- en parastataal onwerpsinstrumente en produkte wat gerig is op die middle en lae inkomste lener. Nasionale beleidswysigings en veranderings aan die subsidieskema kan ook die risiko verminder en die private belegger se rol in eienaarskap en die huurmark verstewig.

Preface and Acknowledgements

This study could not have been possible without the financial and information support provided by the NHFC. I am grateful to the NHFC for the use of its research data and its facilities during the completion of technical aspects of the dissertation.

My wife, Sandra for providing the necessary family stability and encouragement for completion of the study.

Much motivation and encouragement was offered by my uncle Dan Pillay during crucial time when I felt depressed and lacked the energy to complete difficult sections of the study.

My supervisor, Professor Wim Naude` who assisted through comments and guidance concerning the theoretical arguments and the sequence of the chapters.

My colleague, Dr. Luxien Aryian who provided insightful comments and posed what if questions through the preparation of this dissertation.

Dr. Paul Hendler, who stimulated my thoughts on the different paradigms to contextualize housing in South Africa, that shaped the structure and form of the current theoretical framework.

The statistical analysis of the raw data would not have been possible without the assistance of Dr. Suria Ellis, I am grateful for her technical support and useful comments to ensure accuracy of chapter three.

Ms. Susan Smit, from the School of Languages, Potchefstroom University for the language editing of the manuscript.

Mr. Reginald Thillivali who spent many hours collecting primary data through interviewing sector experts and role players.

A big thank you to Jolene my personal assistant for assisting with typing and supporting the technical compilation of the dissertation.

Lastly to all those that I have not specifically mentioned, I express my gratitude and thanks for your contribution in making this study possible.

Summary

The new government inherited in 1994 an estimated housing backlog of 1.2 to 2.5 million units and rapid expansion of informal squatter settlement. This was largely a result of high levels of urbanization, poverty, high unemployment together with the history of apartheid and separate development. The housing finance system also suffered serious defaults on home loans that were precipitated by political boycotts and civil disobedience prior to 1994. Reasons for this failure are argued from three different levels, viz. policy constraints, end-user perspectives and experiences of key sector role players, which include lenders, developers and academics.

The objective of this thesis is to identify and examine the reasons why both the private and public sector are unable to resolve the above crisis in ensuring adequate access to housing finance. The following research questions had been formulated to assist understand the housing crisis: Do shortages in new and existing homes across different price ranges meet the price expectation of the homeowner? Is homeowner affordability a factor hindering purchasing of a home? Does credit rationing by lenders to low income borrowers increase backlogs and restrict access to housing?

To validate the above research questions three hypothesis were set up and tested. Empirical data was gathered from face to face interviews with homebuyers, lenders, housing experts and activists in the low income housing sector.

The results show that one in five potential buyers are frustrated because they have not yet acquired a home. The majority of potential buyers are already homeowners who are unable to sell their existing property. Borrowers do not consider low income as an impediment to accessing housing although currently less than 4% of gross monthly income is spent on housing. The study shows that there is measure of affordability if the right house can be found. Factors such as not being able to find a home that meets borrower requirements, and the inability to sell existing homes and the unwillingness of banks to grant home loans are seen as

obstacles in the delivery process. Savings has been highlighted as a potential factor that could improve affordability and lower lender credit risks. Housing preference seems to imply that potential buyer's specification and expectation of a desired home exceeds their income ability to afford such a home. Although the majority of potential homeowners see banks as the main source of a home loan, only a few attempted to access a loan and an even smaller number were successful in getting a loan approved. Banks are still viewed as inflexible institutions whose credit criterion makes it difficult for low-income borrowers to access a home loan. Banks were also perceived with suspicion, which tended to put-off potential homebuyers. This study also found that the housing purchase process is not a chaotic and unstructured process. Respondents did follow a systematic approach in trying to access information about the availability of homes from developers and pointed out the different steps taken to find a suitable home. While some potential buyers were able to access some information the majority were unable to access accurate information on the primary and secondary housing market which adversely influenced their ability to purchase a home.

Solutions to the housing problem entail improving the production of appropriate stock, changing borrower behavior and attitude towards credit, banking and parastatals designing instruments and products to cater for the moderate and low income borrower. National policy modifications and change to the subsidy scheme could also minimize risk and deepen private player's role in the ownership and rental markets.

Table of contents

List of Tables.....	xii
List of Figures.....	xiii
List of Plates.....	xv
List of Abbreviations	xvi
Chapter One: Introduction	1
1.1 Introductory Remarks.....	1
1.2 Problem Statement	3
1.3 Research Question	4
1.4 Background	6
1.5 Post 1994 Institutional Structures for Housing Finance	11
1.6 Housing Performance since 1994	15
1.6.1 Performance of Government.....	15
1.6.2 The contributions from the Housing Parastatals.....	17
1.6.3 The Micro-Finance sector contribution	17
1.6.4 The Banking sector's contribution since 1994	18
1.6.5 The Non-Government sector contribution.....	19
1.7 Research Method	19
1.7.1 NHFC Unblocking Finance for Affordable Housing Study.....	20
1.7.2 Scope of Study.....	21
1.7.3 Research Methodological Framework.....	23
1.7.3.1 Incidence Survey	23
1.7.3.2 In-depth End-User survey	24
1.7.3.3 Key Retail-Lender and Housing Activist Interviews (Special Interviews).....	25
1.7.3.4 Interviewer Training	25
1.7.3.5 Data Collection Instruments	26
1.7.3.6 Data Processing and Analysis.....	26
1.7.3.7 Problems and Weakness Encountered with the Research	27
1.8 Layout of the Study.....	28
Chapter Two: A Dialectical Approach to Housing Finance	29

2.1	Introduction	29
2.2	Layout of Theoretical Framework.....	29
2.3	Role of Housing in Economic Development	30
2.3.1	Income and employment creation	31
2.3.2	Decreased Import propensity	32
2.3.3	Stimulus to save.....	33
2.3.4	Effect on inflation	34
2.4	Forging a Dialectic Approach to Housing for South Africa	36
2.4.1	Social Welfare Approach.....	37
2.4.1.1	The Behavioral Approach.....	37
2.4.1.2	Welfare Approach	38
2.4.1.3	Social Indicators Approach	41
2.4.1.4	Basic Needs Approach.....	43
2.4.2	Human Capital Development Approach	45
2.4.3	Political Economy Approach.....	47
2.4.4	Market Driven Approach	48
2.5	Transitional Economies (Markets) and Inequality.....	51
2.6	Markets and Housing Finance Systems	58
2.6.1	Types of finance systems.....	60
2.6.1.1	Depository System.....	60
2.6.1.2	Mortgage Bank System.....	65
2.6.1.3	Secondary Mortgage Market	66
2.6.1.4	Secondary Mortgage Facility.....	71
2.7	Requirements for a Well Functioning Housing Finance System	75
2.7.1	Macroeconomic and Financial Policies	75
2.7.2	Financial Infrastructure.....	78
2.7.3	Urban laws, Policies and Practices	78
2.8	Consequences of Poor Access to Housing Finance.....	80
2.9	Role of International Aid and Donor Agencies in Housing Finance.....	81
2.10	Summary	82
Chapter Three: The South African Housing Policy, Finance System and Market.....		85
3.1	Introduction.....	85
3.2	Evolution of the South African Housing Policy.....	85
3.2.1	The South African Economy: Challenges	86
3.2.2	The New Political Dispensation for Housing.....	87
3.2.2.1	Strategy One: Stabilizing the Housing Environment.....	90
3.2.2.2	Strategy Two: Mobilizing Credit.....	91

3.2.2.3	Strategy Three: Providing Subsidy Assistance	91
3.2.2.4	Strategy Four: Supporting Peoples Housing Process	91
3.2.2.5	Strategy Five: Rationalizing Institutional Capacities	92
3.2.2.6	Strategy Six: Facilitating Speedy Release and Servicing of Land.....	92
3.2.2.7	Strategy Seven: Coordinating State Investment in Development	93
3.2.3	Policy on Ownership versus Rental.....	95
3.3	The Housing Finance Market in South Africa	96
3.3.1	Distortions in the South African Housing Market	99
3.3.1.1	Effect of Inflation on Subsidy.....	99
3.3.1.2	Anomaly in Subsidy Delivering Different Products.....	100
3.3.1.3	Subsidy Scale Adversely Influencing Product Affordability	103
3.3.1.4	The Breakdown of Law and Order.....	105
3.3.1.5	Loan Instruments Pricing for Risk.....	105
3.3.1.6	Supply Driven Subsidy Approach.....	106
3.3.1.7	Choice of Tenure Restricted.....	106
3.3.1.8	Credit Risk	107
3.3.1.9	Land Invasions.....	107
3.3.2	The Non-Market Segment (Formal and In-Formal).....	108
3.3.3	The Informal Rental Market.....	109
3.4	The South African Housing Finance System	109
3.4.1	Public Sector Role Players.....	110
3.4.1.1	Government	110
3.4.2	The Parastatals.....	112
3.4.2.1	The National Housing Finance Corporation (NHFC)	112
3.4.2.2	National Urban Reconstruction and Housing Agency (NURCHA).....	113
3.4.2.3	The Social Housing Foundation	116
3.4.2.4	Rural Housing Loan Fund (RHLF).....	117
3.4.2.5	Servcon Housing Solutions	118
3.4.2.6	Thubelisha Homes	119
3.4.2.7	The National Home Builders Registration Council (NHBRC).....	119
3.4.2.8	People's Housing Partnership Trust.....	120
3.5	Private Institutions in Housing Finance	121
3.5.1	Commercial Banking approach to low-income housing	121
3.5.2	Commercial Banking Market Share of Housing Finance	126
3.5.3	The Role of Non-Bank Lenders in the Housing Market.....	127
3.5.4	Social Housing Institutions	128
3.6	The Regulatory Infrastructure	129
3.7	NGOs and Other Institutions in the South African Housing Finance Market.....	131

3.7.1	The Home Loan Guarantee Company (HLGC)	131
3.7.2	Involvement of multilateral Agencies in Housing Finance.....	132
3.8	Performance of Housing Market and Delivery System	133
3.9	Summary	134

Chapter Four: Challenges and Constraints in the Accessibility of Low Income Housing Finance in South Africa. 137

4.1	Introduction.....	137
4.2	Profile of Target Housing Market.....	138
4.2.1	Income Distribution	138
4.2.2	Employment Status of Respondents	140
4.2.3	Distribution of Respondents by Area Type	141
4.2.4	Description of Tenure Arrangement across Market	143
4.2.5	Distribution of Respondents by Type of House.....	144
4.2.6	Length of time to Acquire Home.....	146
4.2.7	Actions Taken Acquire Own Home.....	149
4.2.8	Reasons to buy House.....	150
4.3	Incidence of Unsuccessful Homeowners.....	152
4.4	Access to Credit and Finance	153
4.4.1	Perception of Conduct of Banks in the Low Income Housing Income.....	157
4.4.2	Success of Credit Approval.....	160
4.4.3	Home Loan Products	161
4.4.3.1	Pricing and Interest Rates.....	163
4.5	Affordability in the Low and Moderate Housing Market	165
4.5.1	Savings Performance of LIH	165
4.5.2	Household Affordability Analysis	169
4.5.3	Perceived Housing Affordability	172
4.6	Primary and Secondary Property Market Dynamics in the Housing Finance Market ..	175
4.6.1	Length of Stay in Existing Property	175
4.6.2	Constraints in Supply and Demand for Housing.....	177
4.6.3	Information and Knowledge on Purchase Process.....	183
4.6.4	Default Resolution.....	185
4.6.5	Asset Value of Present Home	186
4.7	Housing Aspirations and Neighborhood Characteristics.....	187
4.7.1	Preference of Area.....	187
4.7.2	Desirability of Housing Types.....	188
4.7.2.1	Freestanding house	189
4.7.2.2	Preference to Acquiring Land or Building a House	189

4.7.2.3	Starter house	190
4.7.2.4	Semi-detached / Row House.....	191
4.7.2.5	Flats.....	191
4.7.2.6	Rental Housing	192
4.7.3	Physical Characteristics of Desired Home.....	193
4.7.3.1	Desired Neighborhood Characteristics.....	194
4.8	The Role Local Government in Housing Finance.....	196
4.9	Summary	197
Chapter Five: Summary, Recommendations and Conclusion		201
5.1	Introduction.....	201
5.2	Summary of Previous Chapters	201
5.3	Empirical Results	204
5.4	Ancillary Findings of Study.....	209
5.5	Recommendations.....	211
5.5.1	Policy Oriented Reforms	212
5.5.1.1	Government Subsidy Policy	212
5.5.1.2	Rental Housing Strategy	213
5.5.1.3	Community Reinvestment.....	215
5.5.1.4	Consolidation of Housing Assets Financed by State Institutions	215
5.5.1.5.	Review Banking Legislation	216
5.5.2	Institutional Modifications	216
5.5.3	Operational Measures / Instruments	220
5.5.3.1	Consumer Education.....	220
5.5.3.2	Consumer Protection	220
5.5.3.3	New loan products	221
5.5.3.4	Access to Information.....	222
5.6	Further Research Areas.....	225
5.7	Summary	226
Annexure A: QUESTIONNAIRE: Incidence Survey		228
Annexure B: QUESTIONNAIRE: Indepth Survey.....		230
Annexure: C: QUESTIONNAIRE: Key Stakeholder Interviews		242
References.....		248

List of Tables

Table 1.1	Distribution of Population and Subsidy Allocation:	22
Table 1.2	Income Quotas across Provinces	24
Table 2.1	Comparison between International and Local Performance Indicators	74
Table 3.1	Summary of Initiatives Arising out of the Seven Strategies	90
Table 3.2	Summary of Different Subsidy Mechanisms	94
Table 3.3	Cost of Housing as at September 2000 (Rands) (CSIR, 2000:29)	101
Table 3.4	Affordability against Income (CSIR, 2000:30)	103
Table 3.5	MFRC Industry Statistics for the period 01/06/01 to 31/08/01	128
Table 3.6	Regulatory Matrix for Financial Institutions	130
Table 4.1	Employment Status of Head of Household	140
Table 4.2	Employment Status of Partner	141
Table 4.3	Tenure Type of Respondents	143
Table 4.4	Actions Taken to Acquire a Home	149
Table 4.5	Reasons for Purchasing a Home	151
Table 4.6	Institutions Commonly Used to Access Credit	153
Table 4.7	Calculation of Percentage Monthly Savings across Income Groups	168
Table 4.8	Household Affordability Analysis	170
Table 4.9	Regular Monthly Payments	172
Table 4.10	Perceived Housing Affordability	174
Table 4.11	Actions taken to Access Information	184
Table 4.12	Default Resolution	185
Table 4.13	Current Asset Value of Property Across Income and Area	186
Table 4.14	Standard Room Specification for Desired Home	193

List of Figures

Figure 2.1	Conceptualizing the Studies Approach towards Housing Finance	29
Figure 2.2	Maslow's Hierarchy of Needs (Adapted from Naidu, 1983).....	43
Figure 2.3	A Model for Credit Assessment	55
Figure 2.4	Depository and Direct Lending System.....	61
Figure 2.5	Illustration of the "Bauspar" concept	62
Figure 2.6	Mortgage Bank Systems	65
Figure 2.7	Housing Finance with Secondary Mortgage Market.....	70
Figure 3.1	Income Distribution of Economically Active Population.....	96
Figure 3.2	Organisational Arrangement of Housing Finance in South Africa.....	115
Figure 4.1	Income Distribution of Housing Market.....	140
Figure 4.2	Current Area Type.....	142
Figure 4.3	Tenure types of Respondents across Total Sample	144
Figure 4.4	Distribution of Respondents by Housing Type	145
Figure 4.5	Type of House by Income Group.....	145
Figure 4.6	Length of time to Acquire Home	147
Figure 4.7	Length of Time to Acquire a Home by Income.....	148
Figure 4.8	Incidences across Income	152
Figure 4.9	Proportion of Market Approaching Financial Institutions	155
Figure 4.10	Reasons for not Approaching Financial Institutions	157
Figure 4.11	Result of loan Application at Banks	160
Figure 4.12	Preferred types of Loan Instruments.....	162
Figure 4.13	Interest Rate Preference	164
Figure 4.14	Savings for Housing Amongst Potential Buyers.....	166
Figure 4.15	Average Amount Saved Towards Purchase of Property.....	167
Figure 4.16	Method of Saving	169

Figure 4.17	Length of Stay (average 5 years) across Income.....	176
Figure 4.18	Length of Stay and Ownership in Current Situation	177
Figure 4.19	Housing Blockage Statement 1	178
Figure 4.20	Housing Blockage Statement 2	180
Figure 4.21	Housing Blockage Statement 3	181
Figure 4.22	Housing Blockage Statement 4	182
Figure 4.23	Accessing Information on Government Subsidy	183
Figure 4.24	Information on Employer Subsidy.....	184
Figure 4.25	Preference of Area	187
Figure 4.26	Desirability of Housing Types	188
Figure 4.27	Likelihood of Considering Buying a Starter Home.....	190
Figure 4.28	Likelihood of Considering Buying a Semi / Row House	191
Figure 4.29	Most Important Criteria when Selecting an Area.....	194
Figure 5.1	Graphical Representation of Guarantee Structure	217
Figure 5.2	Graphical Representation of Partnership Model	219

List of Plates

Plate 3.1 Freedom Park - South West of Johannesburg..... 102

Plate 3.2 Protea Glen - West of Johannesburg..... 102

List of Abbreviations

ABSA	Amalgamated Banks of South Africa
ADI	Average Deprivation Index
BESG	Built Environment Support Group
BOE	Board of Executives
CIDA	Canadian International Aid
CMO	Collateralized Mortgage Obligation (US)
CR(H)A	Community Reinvestment Housing Act
CRA	Community Reinvestment Act (US)
CSIR	Council for Scientific and Industrial Research
DAG	Development Action Group
DBS	Discount Benefit Scheme
DBSA	Development Bank of Southern Africa
DOH	National Department of Housing
EU	European Union
FANNIE MAE	Federal Mortgage Association (US)
FHA	Federal Housing Association (US)
FREDDIE MAC	Federal Home Loan Mortgage Corporation
GAAP	General Accepted Accounting Principles
GEAR	Growth, Employment and Redistribution Policy
GINNIE MAE	Government National Mortgage Association (US)
GSEs	Government Sponsored Enterprises
GTZ	German Technical Assistance Corporation
HDI	Human Development Index
HDSA	Housing Delivery System Analysis (CSIR)
HEF	Housing Equity Fund
HFCs	Housing Finance Companies (India)
HIDF	Housing Institutions Development Fund
HLGC	Home Loan Guarantee Company
HLMDA	Home Loan and Mortgage Disclosure Act
HSS	Housing Subsidy Scheme
HUD	Housing and Urban Development Department (US)
IDC	Industrial Development Corporation

KFW	Kreditanstalt Fur Wiedeaufbau
MBS	Mortgage Backed Securities
MEC	Provincial Member of the Executive Council
MFRC	Micro-Finance Regulatory Council
MI	Mortgage Insurance (US)
MIF	Mortgage Indemnity Fund
NEDLAC	National Economic Development and Labour Council
NGO	Non Governmental Organization
NHB	National Housing Bank (India)
NHBRC	National Home Builders Registration Council
NHF	National Housing Forum
NHFC	National Housing Finance Corporation
NURCHA	National Urban Reconstruction and Housing Agency
PFMA	Public Finance Management Act
PHBs	Provincial Housing Boards
PHP	Peoples Housing Programme
PWC	Price Waterhouse Coopers
PWV	Pretoria – Witwatersrand - Vaal
RBI	Reserve Bank of India
RDP	Reconstruction and Development Programme
RHLF	Rural Housing Loan Fund
ROU	Record of Understanding
SAHT	South African Housing Trust
SARB	South African Reserve Bank
SHF	Social Housing Foundation
SMF	Secondary Mortgage Facility (US)
SOEs	State Owned Enterprises
UNDP	United Nations Development Programme
UNFAH	Unblocking Finance for Affordable Housing
UNO	United Nations Organizations
USAID	United States Agency for International Aid

Chapter One: Introduction

1.1 Introductory Remarks

The new democratically elected South African Government inherited a housing crisis in 1994. The enormous shortage of formal housing in South Africa coupled with unaffordable prices and shortage of newly constructed fully serviced and finished houses contributed to the alarming number of homelessness during the 1970's and 1980's. The extent of homelessness was manifest in the erection of thousands of informal structures and long waiting lists for municipal housing. There are an estimated 1.4 million households living in slums and informal housing conditions (CSIR, 2000:21). The total demand, or backlog,¹ has grown from 2.5 million to 3 million households between 1994 and 1997 (Karsens, 1999).

This newly founded democracy also found that its highly successfully campaign of non-payment and civil disobedience brought municipal service delivery to a halt and caused serious loan default for the commercial banks that were providing home loans to the low and moderate income households of South Africa. On the financial supply side, institutions faced increasing defaults. For instance commercial banks together with the state-owned mortgage lender (Khayaletu Home Loans) had on their portfolios approximately 34 000 properties in possession² as a result of non-performing loans in 1994 (Banking Council, 1997:15). The inability to effectively and efficiently evict residents that defaulted on payments ultimately caused the lenders to withdraw from the low and moderate - income segment of the housing market.

Whilst the housing finance industry was facing huge backlogs and increasing defaults government initiated a multi-pronged approach to induce the mortgage lenders to continue to provide financing to the moderate and low - income market. These included the following. Firstly, by introducing policies that promoted the injection of state subsidies to deliver on

¹ In South Africa backlog statistics include both under-housed and un-housed members of the population.

² Phrase used by the banking sector to describe properties that are in default that are repossessed by the banks for resale.

housing on scale³. Secondly, government entered into partnerships with the private sector as well as established different state owned enterprises to deal with the housing credit environment. Lastly, the state also promoted a political campaign to encourage home owners to start paying for municipal services, rents and mortgage payments. This step to stabilize the housing environment has produced mixed results in that some areas have normalized payment patterns and obligations while others are improving and some deteriorating in defiance to policy and regulatory reform (Baumann, 2003: 92-110).

Most approaches to comprehending and ultimately resolving the housing crisis in South Africa assumes that specific demand and supply factors underlie access to adequate housing. The point of departure in this dissertation is not to assume that a discrete cause is responsible for the housing crisis but a combination of factors associated with the availability of housing finance that meet household aspirations together with price expectations, accessibility and suitability to housing credit and finally the borrower's ability and capacity to repay a housing loan. Studying the immensity of the possible causes and the infinite assumptions that underlie the housing crisis in South Africa is beyond the means of a study of this nature. However, this dissertation sets itself a modest goal of demonstrating through the use of empirical evidence that firstly, there is a shortage of new and existing homes that meet household aspirations together with price expectations, secondly, credit for low and moderate income household are difficult to access and lastly to assess borrower's ability and capacity to repay housing loans.

The hypothesis of this study is that the interplay between government housing policy and the evolution of the housing finance system in South Africa has not facilitated an environment in which backlogs can be significantly reduced, and where banks as the main intermediary of housing loans, become the main vehicle through which the low income borrower can access housing finance. This study's contribution to Housing in South Africa should not be seen as proposing specific solutions but rather offering alternative pathways with respect to policy

³ The scale delivery of housing refers to programmes executed through the three tiers of government that mass produced housing through housing subsidies.

reforms, institutional modifications and operational instruments that could at a pragmatic level lead to optimization of existing resources that can contribute towards abating the crisis for housing low income households.

1.2 Problem Statement

Housing in South Africa has been significantly influenced by poverty, trends in urbanization and by the legacy of apartheid. Overall in 1996, 29% of South Africans are reported to be living under conditions of poverty (Statistics South Africa, 1996). This revised estimate used a monthly household expenditure of R800.00 to determine the poverty line. The proportion of people living in poverty is estimated to increase by 1% to 2 % per year (Kane-Berman, 2001/2002:36). The gap income between the rich and the poor is widening (between 1995 and 1998, the share of income going to the poorest 40% of households fell from 3.8% to 3.4%), the Gini coefficient⁴ for the same period (1995 to 1998) particularly between African and White South Africans increased from 0.70 to 0.81(Kane-Berman, 2001/2002:37). With respect to housing conditions 35% of South African households lived in traditional dwellings or shacks and 46% were living in three or fewer rooms. Forty-four percent of households had a tap inside the dwelling and 50% had a flush toilet.

This situation is compounded by the dynamics of urbanization particularly over the last two decades. In 1985 some 57% of the entire population was living in urban settlements and the overall size of metropolitan areas was expected to increase almost threefold during the period 1980 to 2000 (Urban Foundation, 1990). The urbanization process was strongly influenced by the apartheid policies that aimed to herd the supply of cheap labor towards mining industry, maintain socially and politically derived desire to entrench minority "White" control and to keep "Blacks" out of "White" towns. The legacy of apartheid created a strong racial bias in the shortfall for housing amongst the different population groups. The combination of these factors resulted in a historic lack of housing particularly for low - income households. Since 1994 many initiatives like the Reconstruction and Development Programme (RDP) and the New Housing

⁴ The Gini co-efficient is used to measure equality and inequality within countries or between groups of people. It assigns a value between zero (perfect equality) and one (perfect inequality)

Policy started to provide guidance on how to address housing as one of the biggest problems facing the country.

However the backlog of households requiring homes still persists and is estimated to be 3 million in 2003 (National Department of Housing, 2003). Problems and constraints in housing are wide ranging and may include distortions caused by newly promulgated policies, the reluctance of banks to lend because of past negative experience of high defaults in this market, the withdrawal of developers from this market, inefficient deployment of government subsidies and the inability of National Development Finance Institutions to absorb higher risks particularly in areas where there is market failure. The lack of income and poor lending practices in the past rather than a culture of non-payment are seen as the major problems (Fowlds & Botha, 1996:7, Sidiropoulous, 1998:317-320, Westhuizen & Botha, 1995:14).

1.3 Research Question

To identify and understand the constraints in the supply and demand of housing finance to low income households in South Africa many trajectories can be followed. The following hypothesis has been designed to focus the study in order to understand the constraints within the context of the South African housing finance system.

The main hypothesis of this study was to examine and understand the dynamics of the primary property market and test if the following variables impede access to housing:

- 1. The shortage of new and existing homes in the low and moderate segment of the market is non-existent and impedes residential mobility and the development of a secondary property market;***
- 2. Poor affordability is a factor that prevents access to homeownership in the primary housing market.***

3. *The lack of access to credit facilities is not an obstacle to the purchase of new or existing homes in the low and moderate income market.*

This study further seeks to elicit different responses about blockages to housing, income, housing aspirations and processes undertaken to acquire a home to holistically understand and analyze why housing is inaccessible in the lower end of the property market.

Combining the NHFC study data with the data from lenders and key housing activists, it is envisaged that the following objectives can be addressed:

1. To build a socio-economic profile of the defined target market.
2. Examine the dynamics of the primary property market including determining the incidents in the defined target market. .
3. To ascertain reasons for the lack of a secondary housing market development in South Africa.
4. Understand the process low and moderate-income earners follow to access housing credit and what borrowers experience as problems in accessing finance.
5. Determine housing aspirations and affordability of low-income borrowers.
6. To collect data that will lead to finding solutions to unblocking the delivery process that will enable the targeted groups to gain access to appropriate housing.
7. To determine if consumer products and pricing are impediments to the housing delivery process.
8. Examine why financial institutions are not the main lenders that enable house purchase and improvement.

1.4 Background

The pre- 1994 period in housing finance was marked by a myriad of initiatives that were unacceptable to the incoming policy makers because of their different ideological perspectives, but nonetheless it set the agenda and scene for what was to come in the late 1990's, both in terms of policy, lending behavior and practices in the housing finance market. The decade leading up to 1994 was marked by widespread resistance to service and bond payments by residents in the erstwhile black townships. The financial sector, especially retail banks experienced the brunt (15% defaults estimated at R10 billion)⁵ of the rent and mortgage boycotts (De Ridder, 1997). During the 1980s this situation worsened with financial institutions unable to effectively enforce their lien over the properties they financed. Consequently, new mortgage lending in township areas had come to a halt in 1994, and no other housing finance products were widely available. The mortgage form of collateral proved to be of high risk from two perspectives. Firstly, the rule of law proved to be ineffective resulting in the justice system being unable to evict residents in default to allow banks to process a new mortgage to take over the loan obligation, Secondly, the consistent lack of enforcement led to the deterioration of the physical condition of the homes to such an extent that the asset value declined.

The pressure of the political reform process nevertheless continued and during this early transition phase towards a democratically elected government, the South African Housing Advisory Council (SAHAC)⁶, under the chairmanship of Dr J H de Loor⁷ was given a mandate in October 1990 to revise the then policy and formulate a new housing strategy (de Loor, 1992:6). The scope of this investigation covered five main themes that are mention below:

⁵ Estimated the 15% of the loans were in default as apposed to an industry norm of less than 3% for the housing sector.

⁶ SAHAC was a task group comprising of both public and private sector players and other co-opted experts from the housing, finance, economics and development disciplines.

⁷ Dr J H de Loor was appointed chairman by to ASHAC by the then National Party Minister L. Wesssels, responsible for Local Government, Housing and Public Works.

1. To revise the present housing policy and advise the Government on the formulation of a national housing policy, as well as a strategy to implement the policy, ensuring that the following principles forms an intrinsic part of the strategy.

- That the ideal is to enable as many citizens as possible to at least own a site in the Republic of South Africa;
- That it is the responsibility of the head of every family to satisfy his own and his family's housing needs;
- The State's responsibility to plan and identify land for residential purposes;
- The fact that it is financially impossible for the State to help all citizens to obtain housing;
- The present and foreseeable future constitutional development;
- The desirability of ensuring greater involvement by the private sector in housing for the lower-income groups; and
- The Government's policy regarding deregulation and privatization.

2. In performing its investigation, SAHAC devoted particular attention to the following:

- The identification of land;
- The provision of serviced sites for rent or sale;
- Control over service norms and standards as well as township development through legislation;
- The financing of the development of land for informal and formal housing, and
- The actual construction of formal housing on State-owned land and private land; and
- The private sector's housing function with regard to the following aspects must be defined;
 - The provision of serviced sites for rent or sale;
 - The financing of the development of land for informal and formal housing, and

-The actual construction of formal and informal housing on private land;

3. Establish the availability and adequacy of financial resources with respect to the role of government (including State Owned Enterprises), the private role players, communities and the end beneficiary of housing.
4. This study also included a planning strategy for the provision of housing which encompassed the principle that no difference be made between the population groups, only between income groups.
5. The last theme included developing standards applicable to housing and co-ordination and co-operation between the various authorities involved and the private sector to ensure realistic standards, which make the final product affordable to the community using such product.

A report entitled *Housing in South Africa: Proposals on a Policy and Strategy* with specific recommendations was produced in April 1992 and handed over to government (De Loor, 1992). This report formed the basis for wider consultation with developers, bankers, housing NGO's and activist from the politically aligned movements. The process leading up to the compilation of the report was criticized particularly by the NGO sector and activists that represented the anti-apartheid movements of civil society because the study was undertaken under the guidance of the apartheid government and leadership was not representative (Tomlinson, 1999 and Donaldson and Marais, 2002). In analyzing later developments it is clear that some of the recommendations or substantive policy directives manifested themselves in what we now know as the current housing dispensation. The Housing Act of 1997 has incorporated some of the above recommendations under the seven key strategies upon which the current housing policy is based, this is further discussed in see section 3.2.2 (National Housing Code, 2000).

The National Housing Forum (NHF) existed between 1992 and 1994 and comprised of representatives from a wide range of political parties, housing professionals, developers and the finance sector. This forum was also plagued with issues that were politically motivated and eventually interest and energy was lost in trying to forge a new policy dispensation for low-income housing that would address the housing needs of the majority of the population. The process did not permit the voice of the landless and homeless to shape the Housing Policy (Khan and Ambert, 2003: IV). Despite the tenuous debates and with minor alterations, the NHF proposal became the new housing policy for South Africa when the white paper on housing was published (Donaldson and Marais, 2002:186).

During 1993/4 the frustration of not being able to secure **vacant possession**⁸ on bonded properties experienced by the mortgage-lending sector together with the installation of the new government led to the conclusion of an agreement between government and the mortgage lenders. In 1994 a Record of Understanding (ROU) was signed in terms of which government accepted responsibility for the enforceability of law and order by (The Housing Accord, 27 October 1994):

1. Providing guarantees on the historic problem loans, which were ring fenced into a portfolio to be managed by a joint venture between government and the lending community. To accomplish this the company SERVCON was established jointly.
2. Creating the Mortgage Indemnity Fund (MIF) that would cover the loss if the lender were not able to secure vacant possession on a bonded house in a defined area following the default (Porteous and Naicker, 2003:194).

The aim of the RoU was to enable commercial banks to continue to be the main delivery channel through which housing finance could be accessed and to make additional credit

⁸ Vacant possession refers to the ability of lenders to perfect their security over properties financed without resistance from the homeowner and pressure groups.

available that would be used to augment the new capital subsidy programme. The success of the programme will be discussed and analyzed in chapter four.

In 1995 the Mortgage Indemnity Fund (MIF) was established to provide insurance cover against political risk⁹ in the areas approved for lending by the MIF. The fund was set up by government as part of the agreement reached in the RoU to assist banks to lend in areas where political risks exists. This was a short-term intervention and was adjudged a success in 1998 by the MIF closure report¹⁰ (Nell, 1998). The effectiveness and role of the MIF in attempting to normalize the housing market will be discussed in detail in chapters three and four.

A further initiative emanating from the RoU agreements was the establishment of a servicing agent to manage mortgage loans that were in default. To implement this strategy, SERVCON was set up as a public company to manage reposed properties and non-performing mortgage loans originated by banks prior to elections in 1994, and was subsequently extended up to 1998. Porteous and Naicker (2003:194) describe the role of SERVCON and Khayaletu Home Loans as a “mop up operation” that was tasked to deal with loan portfolios that were in historic default. Khayaletu Home Loans was a company formed to manage out-loans in default that were inherited from the failed South African Housing Trust (SAHT)¹¹. SERVCON Housing Solutions offers different options to the end-user to either “rehabilitate”¹² or “down size”¹³ in terms of affordability. In many cases the evictions were unsuccessful resulting in the collateral holder not being able to resell the property to recover outstanding balances on the loan. In 1998 due to consistent decline in the quality of the loan book the State sold the loan book created by the SAHT to the highest bidder. This ended an era of the role of the state in managing retail housing credit risk. SERVCON, in the execution of its mandate, was still unable

⁹ This is the risk associated with politically motivated actions such as violence between opposing political parties or community based actions that were politically motivated towards preventing the sheriff from successful evictions.

¹⁰ Report compiled in 1988 for Department of Housing describing MIF performance against its mandate.

¹¹ SAHT was a creation of the apartheid era and closed by the state in 2001.

¹² Rehabilitate is a term that refers to the opportunities provided to borrowers to assist them bring their mortgage payments up to date.

¹³ Down size refers to when a property owner voluntarily decides to move from a larger home to a smaller home due to economic circumstance with the assistance of SERVCON.

to appropriate house those that experienced economic hardships and loss of income. In these cases a free core Reconstruction and Development Programme (RDP) unit could be offered as part of the downsizing option through a subsidiary of SERVCON called Tublisha Homes.

The decline in the retail intermediation capacity began in 1996 when Community Bank¹⁴ closed for business as a result of poor market sentiment on the part of its shareholders realizing, that the bank was spending higher than normal costs to manage what was perceived to be a high risk portfolio (Coovadia, 2000). This phenomenon continued during the late 1990s into the 2000s which saw the loss of other small banks such as New Republic Bank, FBC Fidelity, the purchase by Amalgamated Banks of South Africa (ABSA) of Unibank and the buyout by Board of Executors (BOE) of Cashbank. In 2002 Saambou, another small bank, closed its doors to its clients. This trend marked the weakening of second tier retail institutions that had demonstrated the capacity and willingness to deal with the low-income earner. Large banks such as ABSA, Standard Bank and Nedbank argued that the risks of underwriting small mortgages were increasing and the profit margin on loans less than R80 000 was making banking operations unsustainable (Greef, 2000:6). In summary there was pressure to develop a National Housing policy that could address the backlog and recognize that alternative retail lending capacity had to be created, with or without the four large banks to make housing credit available to low and moderate income households.

1.5 Post 1994 Institutional Structures for Housing Finance

The RDP formed the basis for the thinking around creating new development institutions to deal with the issue of poverty and adequate housing opportunities for low and moderate income households. In 1994 the state contemplated the establishment of a State Retail Housing Bank, but was convinced in 1996 instead, to establish the National Housing Finance Corporation (NHFC) to be the key wholesale lender to the housing finance sector. The state decided against a retail role, this was based on the poor performance and financial loss experienced

¹⁴This represented the first attempt to set up a community housing bank that was capitalized by the public and private sector which began operations in 1994.

through the South African Housing Trust (SAHT). Pre-1994 the SAHT was the state's main vehicle to deliver housing by being both the developer and provider of end-user finance. The SAHT experience incurred huge defaults (25 000 mortgage loan in default), which it was unable to rehabilitate and eventually was closed down by the government in 2000 (Porteous and Naicker, 2003:195).

With the set up of a wholesale institution (NHFC) it was envisaged that a Development Council would be established to align the activities of Development Finance Institutions (DFI's)¹⁵. This however, did not materialize. The result of this was that there has been duplication and a lack of co-ordination of the development effort. NHFC, Industrial Development Corporation (IDC), Development Bank of Southern Africa (DBSA), Land Bank and Khula currently do not engage to align their strategic intent and business plans. Major projects like the Mabopane- Centurion Corridor and the Coega Industrial Development Zone are pursued by lead DFI's without due consideration to housing and its associated infrastructure (National Housing Finance Corporation, 2002a). Similarly, other national projects are planned and implemented without the corporation of all DFI's. NHFC as a key National housing player has participated in the neither planning nor funding process of the abovementioned projects. This dysfunctional relationship leads to the delay in the development of housing infrastructure and ultimately when the houses are built end user finance is not available or difficult to access (National Housing Finance Corporation, 2002b).

To further bolster the housing finance sector a partnership called National Urban Reconstruction and Housing Agency (NURCHA) was established in May 1995 through a joint initiative between the Department of Housing (DoH) and the Open Society Institute¹⁶. NURCHA was set up mainly to provide guarantees and later added to its mandate bridging finance to assist developers and emerging contractors. This organization has since further expanded its operations to providing end-user guarantees and leading a National Savings Initiative to encourage home ownership (Bay Research Consultancy Services, 2000:16).

¹⁵Development Bank of Southern Africa, Industrial Development Corporation, Land Bank and Khula Enterprise Development.

¹⁶ This is donor agency that is funded by wealthy business man and philanthropist George Soros.

During late 1990s three international visits were undertaken by representatives of the newly elected government to investigate the relevance of other housing finance models. Of note was the visit in 1998 by the Minister of Housing to the United Kingdom where the role of the Federation of Social Housing Institutions was identified as a possible option to introduce to address the South African housing problem. Through bilateral co-operation with the British government, technical assistance was mobilized to set up the Social Housing Foundation (SHF) in South Africa. The mandate of the SHF was to build capacity and provide technical advice to as many institutional structures as possible that could develop and manage housing stock in the long term that could offer a range of tenure options (Social Housing Foundation, 1998:28).

The Rural Housing Loan Fund (RHLCF) was established in 1996 along the lines of the NHFC as a wholesale lender with a specific mandate to serve the housing needs of rural inhabitants. During the late 1990s and early 2000, the NHFC set up the Housing Equity Fund (HEF) and the Housing Institutions Development Fund (HIDF) as a reaction to developing alternative retail capacity to deliver credit to the end-user. These two companies were the nurseries for "start-ups"¹⁷ and sponsored high risk pilots to expand access to housing credit (Pillay, 1999:1).

While the housing finance system was being set up, government designed a unique capital subsidy scheme that was to kick-start the low income housing market. The capital subsidy scheme will be discussed in detail in chapter three.

The capital subsidy scheme was originally managed via the Provincial Housing Boards (PHBs) and in 2000 the state decided to de-establish these structures and make the Provincial Member of The Executive Council (MEC) responsible for the subsidy allocation. During 1995 to 2001 one million subsidies were allocated and 90% (CSIR, 2000:18) of these were allocated to people earning less than R1500 per month, 8% to people earning between R1501 per month to

¹⁷ These are new companies that have limited institutional and funding capacities.

R2500 per month and remainder to those earning less than R3500 per month (National Department of Housing, 2001). The targeting of the subsidies was perfect in that the poorest segment of the population benefited the most. However, the consequence is that subsidies have distorted the low-income housing market by creating a concentration of housing product in the price range R15 000 to R20 000 (Diamond and Hoek-Smit, 2000:29). The subsidy scheme led to mass construction of core RDP housing of monotonous dimensions with little choice and differing quality. Since 1994 up to 2000 the subsidy values was not adjusted to keep up with inflation. The subsequent increase in the price of building materials as a result of increased inflation contributed to builders trying to build sub-standard products (use of cheaper and inferior material to cut down on costs) of which the beneficiaries are not happy with the quality of the end product (National Housing Finance corporation, 2002b).

To deal with the need to maintain quality the National Home Builders Registration Council (NHBR) was established in 1997. Its main role was to register both the product as well as the builder and by doing so ensure that certain minimum building standards can be maintained. A warranty scheme was developed to cover the beneficiary and the builder against defined loss. Defined loss is the prescribed loss against which the insured could claim. The Council has the power to de-register contractors that are consistently unable to meet the minimum requirements and building standards (National Homebuilders Registration Council, 2003).

The supply of housing in the low-income market government through the subsidy policy began to increase to the extent that 200 000 units were delivered per annum since 1996 (National Department of Housing, 2001). The state also created different types of institutions like the NHFC to deal with mobilizing credit from outside the sources of the state (private capital), NURCHA to provide forms of guarantees and regulatory institution to improve the quality of homes being supplied. Despite these attempts the private sector still remained reluctant to

finance home loans and the backlog¹⁸ steadily grew from 2.88 million to 3 million units (CSIR, 2000:19).

1.6 Housing Performance since 1994

Central to the discussion of housing finance in South Africa is the performance and approach adopted by the main role players to address the delivery problem. The rationale for this forthcoming section is to briefly summarize the performance of the different role players in the housing finance sector to better understand the context of the problem. Chapter 3 assesses the performance against the mandate of the various role players in more detail.

1.6.1 Performance of Government

In 1994 Government set a target to create one million new units by the year 2000. By December 1998 the units that were completed or were under construction was at 681 203 and the number of subsidies approved and allocated for the same period was 959 415 (National Department of Housing, 2001). The direct impact of the above intervention had delivered 600 000 new housing units. The cumulative on budget public capital to the value of 9 977 671 584 was spent to achieve the above impact up to February 1999 (National Department of Housing, 2001).

Despite the significant delivery of government finance and subsidies (1.2 million units delivered in five years), the Bredell land invasion near Kempton Park in Gauteng in 2001 serves to illustrate that the delivery of land and housing occurs at a pace that is unacceptable to many who do not have adequate access to shelter (Xundu, 2001). This, and other land invasions were driven by a demand for shelter among not only the homeless people, but also among people in existing housing or lodgings who could not afford to stay where they were (as well as

¹⁸ The total backlog estimated by the CSIR includes traditional structures. This was based on the assumption that traditional structures do not comply with current housing policy and standards and are considered to be unacceptable living conditions.

few opportunists who claimed sites for resale or rental) (Centre for Development Enterprise, 2000:15).

Since 1994 the state's Housing Policy has generally focused on the delivery of new housing units with little attention focused on the different financial sources and flows required to produce homes that are saleable. This is substantiated by the fact that 92% of the funding came from the state in the form of a subsidy of which 90% were allocated to people who had an annual income less than R1500 per month (CSIR, 2000:18). Only 8% of the housing credit came from private lenders in the low- income market (National Department of Housing, 2001). The main impetus has been the use of the housing subsidy scheme together with various guarantee schemes forcing the banking industry to make available conventional mortgages to improve delivery and create new stock to alleviate the housing backlog associated with South Africa's apartheid past and separate development policies. This has led to the production of housing stock that is not perceived by investors as having sufficient asset value. The net result has been that access to finance for resale in the secondary market has been made difficult. Although the subsidy targeting was intended to assist the low income household, the policy inadvertently placed 90% of assets in the hands of beneficiaries that have a limited disposable income (that is less than R1500 per month household income). When market conditions deteriorate or economic shocks occur that raise interest rates or worsen employment opportunities, it is this very income group that is the hardest hit. Servcon CEO Dennis Creighton maintains that insufficient income results in residents falling behind with service and housing loan payments¹⁹. Local authorities are then empowered to evict the homeowner and sell or auction the property to recover municipal costs. The main contention here is whether government is providing the appropriate type of state assistance or is pushing the beneficiary further into poverty.

¹⁹ Discussion with Servcon CEO during 2000 for the UNFAH study on the blockages to housing finance.

1.6.2 The contributions from the Housing Parastatals

Between 1994 and 1998 the state had been unable to effectively link and blend the subsidy with private capital or institutions providing credit for housing. The NHFC took up the challenge to seek better ways to reach the potential low-income earner. It developed focused strategies to promote micro finance as one of the options available to the low income household to access credit for housing. Despite the NHFC's intervention prior to 2000, its multi-pronged approach²⁰ to encourage the return of private investors and financier's in the low and moderate-income housing sector did not materialize.

Over a five year period between 1996 to 2001, the NHFC disbursed more than one billion rands through a variety of programmes that contributed to the financing of 67 451 new and existing units and made available 185 043²¹ home improvement loans (National Housing Finance Corporation, 2001a). Chapter three will analyze and assess in detail the role and impact of the NHFC.

The housing portfolio committee argues that the interventions of the state institutions has been unsatisfactory with respect to improving accessibility of new homes to low income households while NHFC retail intermediaries argue that limited flow of wholesale finance has impeded their ability to intermediate greater volumes of housing credit to the above target market.

Nurcha (NURCHA, 2001) also claims that since inception, it has assisted 73 248 residents with a variety of housing opportunities. This performance could include units funded by subsidies or programmes of the NHFC and therefore could be already accounted for by National Housing Departments or NHFC impact numbers.

1.6.3 The Micro-Finance sector contribution

Given the fact that the State has spent approximately R9.5 billion (National Department of Housing, 2001) on housing subsidies from 1995 until 2000, there has been little attention paid to the role that housing credit providers or micro-lenders are playing in the housing finance

²⁰ The NHFCs multi-pronged entailed setting the Niche Market Lending Programme, the Housing Equity Fund, the Housing Institutions Development Fund as well as the Gateway Home company that would ultimately securitize mortgage loans purchased from banks.

²¹ Impact of the National Housing Finance Corporation between June 1996 to March 2001.

system. Little, no or inaccurate information has led to negative perceptions and the ghettoization of an industry that internationally has played a profound role in housing the poor. In a five-year research project conducted by the Center for Policy Studies (entitled Evaluating and Monitoring Housing Delivery Under the New Subsidy Scheme) it is argued that without government intervention a new wave of retail lenders have emerged that is servicing the financial needs of the housing consumer (Tomlinson, 1995b:8). The small loans offered by some retail institutions appear to be mutually beneficial to the needs of both the housing consumer as well as the lender (Tomlinson, 1998:10). Micro- credit formal or informal that is widely available to low-income households would promote improvement of in situ conditions rather than to relocation to area of better housing and services. (Datta and Jones, 2001:350). The main drawback of the micro-finance sector's role in housing finance is related to the pricing of loans and the poor lending practices of the lenders. An associated problem was that the micro-loan was essentially used for incremental housing purposes and could not finance complete units (National Housing Finance Corporation, 2001a).

1.6.4 The Banking sector's contribution since 1994

The South African banking sector, although sophisticated, until December 2000 was unwilling to provide accurate statistics on the low income-housing sector. The total mortgage loan exposure of all the banks that are members of the Banking Council was R195.3 billion in 1999 (Banking Council, 1999:21). The non-performing housing loan portfolio for the same year was R12.7 billion (Banking Council, 1999:P22). But the problem here is the inability to disaggregate this data and separate out the low income housing statistics. Therefore there is no data to support critical analysis of the nature and extent of the credit problems experienced by the banking sector. For strategic and competitive reasons non-disclosure is practiced by the banks which made researching the problem statement extremely difficult. The banking sector with all of the exceedingly generous incentives set out in the 1997 Record of Understanding had failed to produce the required housing for low-income householders (Huchzermeyer, 2001:313).

1.6.5 The Non-Government sector contribution

The non-government organization (NGO) sector lacks the capacity and resources to deliver housing on scale. The uTshani Fund was established in 1994 with support from the German Government. It began to access housing subsidies from government in 1996 and since inception up to September 1999 had financed 4876 housing units for low income households (Bay Research and Consulting Services, 2000:23). The Peoples Housing Process²² (PHP) is designed to assist beneficiaries to develop skills as part of the self-help process and it was anticipated that NGO would also become part of the channel through which housing subsidies could be deployed to improve the housing conditions of the low income household. However, this type of support has not catered for the housing needs of the low and moderate income segment of the population. Therefore delivery from this sector is slow due to the constraint associated with the lack of capacity (CSIR, 2000:38).

The main problem to date has been that neither government through its institutions nor the private sector banks, investors or developers have been able to make housing accessible, either through the primary or secondary property market processes at the right price, size and volume to the low and moderate-income earner. Initiatives of both the private and public sectors have been unable to normalize the construction and finance of low and moderate-income housing under the current market conditions.

1.7 Research Method

In order to address the research question (see section 1.3 above) and to test the hypothesis that there is a shortage of new and existing homes that meet household aspirations and price expectations, that housing credit is difficult for low and moderate income households to access; and that borrower's lack of income to afford a home this study will make use of both empirical investigation and literature survey. Primary and secondary sources of information were used to

²² The Peoples Housing Process is an initiative sponsored by the National Department of Housing to capacity building and limited funding assistance to grassroots housing production. There are also Non Government Organizations that are actively involved in facilitating this process.

introduce the subject of the study and develop a theoretical base to contextualize the study from an international and local perspective.

Chapter 1, 2 and 3 relies on the historical research approach that described the key developments in housing finance. In chapter two the main approaches to housing was evaluated and the different international housing finance systems were described. The third chapter focused on painting a detailed picture of the different roles players in the South African housing finance system.

The most substantive part of this study, which is chapter four, was dependant on collection and analysis of primary data. A scientific research approach was employed to gather data at the end-user level and from key housing activists and institutions. To test the hypothesis the empirical research has been structured into two components:

1. primary market survey aimed at the end user or borrower level²³
2. selected interviews with lenders and key housing activists.

Relevant primary information from potential homeowners was gathered from the NHFC study, which presented an opportunity to rework or embellish the research methodology for the purposes of this study. To compliment the existing data set interviews were conducted with key individuals in the retail-lending including housing activists. For this purpose a new questionnaire was designed to collect qualitative data that provided insightful information on the low and moderate income housing market from an institutional and academic perspective. Copies of the questionnaires are included in appendix A, B and C.

1.7.1 NHFC Unblocking Finance for Affordable Housing Study

This study focused on the prospective buyers within the target income group of R1000 to R6000 who were actively trying to buy a formal house²⁴. An incident survey using a control

²³ Primary data was extracted from the NHFC survey conducted in 1999 and in which the author played an instructive role. The author has been given permission by the NHFC to use the data from survey for the purposes of this study.

group with an income range between R7000 to R10 000 was also framed to determine market failure in this segment of the market. This study consisted of two components:

1. Incidence survey: this comprised a random survey to determine the incidence of the defined target market. This component was undertaken in five provinces (Gauteng, Kwazulu Natal, Western Cape, Eastern Cape and Northern Province). Sampling was undertaken in 22 areas and a total of 1320 interviews were undertaken during October of 1999 by trained interviewers in the above provinces.
2. In depth end-user survey: This comprised a more detailed end-user survey amongst the defined target market²⁵ to obtain a market profile and information on processes undertaken in trying to purchase a house, as well as to elicit prospective buyers perceptions of the obstacles in acquiring a property. The sample comprised 600 interviews spread across different incomes groups and the above five provinces. The interviews were carried out by trained interviewers during October 1999.

The methodological framework for the current study is largely based on the above research conducted in 1999 / 2000. The research approach and relevant research definitions of the current study are described below. Only relevant questions that relate to the scope of this dissertation were identified and the raw data reworked for analytical purposes.

1.7.2 Scope of Study

The end-user study (referred to previously as the UNFAH research) entailed a survey of residents in South Africa and was restricted to five provinces. The initial intention was to

²⁴ A formal house include new housing stock, secondary stock, flat and a RDP starter home or the purchase of land to construct a home that complied with minimum standards.

²⁵ Target market included prospective buyers who have actively tried to buy a house. The attached questionnaire details the types of screening questions asked to identify the required target market.

achieve a national spread of interviews. However, sampling five provinces was adequate to make national conclusions and recommendations. Moreover, it was noted that housing activity is not consistent in all provinces, and coverage of the selected provinces was adequate to build a national picture. This was conditional, provided the sampled provinces reflected the disparity in housing activity. Informal settlements, townships and inner city areas were included in the sample area. Additionally, since the focus of the study was on metropolitan and urban areas, it was proposed that the selected provinces be those where the urban population is high. Provincial data on urban population statistics, housing construction and subsidy disbursements was used to select the following five provinces for fieldwork:

<i>Province</i>	<i>Urban pop. ('98)</i>	<i>Units completed /under construc. ('94-2000)</i>	<i>Indiv. subsidies approved</i>	<i>Total subsidies approved</i>
GAUTENG	7 404 400	322 377	29 767	356 375
KWAZULU NATAL	4 145 000	178 123	10 234	192 381
WESTERN CAPE	3 697 000	130 646	9 388	131 521
EASTERN CAPE	2 233 000	88 852	13 409	99 907
NORTHERN PROV	614 000	62 151	11 511	96 363

Table 1.1 Distribution of Population and Subsidy Allocation:
(National Department of Housing, 1999)

Thus the four provinces with the largest urban population were sampled, with Gauteng and KwaZulu Natal showing proportionately higher levels of housing delivery than the Eastern and Western Cape. The fifth province, Northern Province, has a significantly smaller urban population, but reflects a massive scale of housing delivery and subsidy grants in relation to its relatively small population.

Given the scope and depth of the above data it was possible to extract the necessary data for the purposes of this dissertation to produce information at a national level for analysis. The

scope of this study reflects a national picture and where possible provincial disparities and features are examined.

1.7.3 Research Methodological Framework

The data collection for chapter three depended on an incidence, an in depth end-user survey and a key retail-lender and housing activist interview (Special Interviews). The incidence questionnaire served as a filter to select only the potential homeowners and it formed the first sub-section of the in depth survey (These are reflected as annexure A and B). The incidence survey followed the introductory page and comprised of six filter and housing profile questions. Responses to this second page (see annexure A) determined whether respondents fell into the defined target market in which case the interview continued. If the responses indicated that the respondents fell outside the predefined target market the interview ended after question six of that page. The in depth survey involved a lengthy battery of questions beginning at question 6b to question 34 (see annexure B). For the purpose of this study not all questions were analyzed. Questions that could address the research question in section 1.3 were selected and analyzed. The special interviews were designed to elicit specific information from lenders and key activists from the sector, this information was necessary to compliment existing data and test the research hypothesis (see annexure C). This questionnaire comprised of 24 open and closed ended questions, which entailed an interview time of between one to two and half hours.

1.7.3.1 Incidence Survey

Within each of the five provinces, four areas were selected for random sampling – two localities with formal housing, and two informal settlements. In addition, two inner city precincts were sampled in the Gauteng province, bringing the total number of sampled areas to 22. A random sample of 60 interviews was conducted in each of these 22 sites. The results of the random survey provide the incidence of the target market – i.e. the percentage of the population who qualify as “unsuccessful would-be buyers” in terms of the market definition.

1.7.3.2 In-depth End-User survey

For the more detailed end-user survey, purposive sampling entailed the identification of respondents who fitted the “target market” profile, and only these people were interviewed. Quotas were applied in order to achieve an even distribution of interviews across provinces and income groups. The geographical spread of end-user survey interviews included, but was not restricted to, the selected sites outlined above. (Where a respondent in the random survey fitted the market definition, they were interviewed at length. On completion of the random survey, fieldworkers were no longer restricted to working in the sampled localities, providing that the quotas for province and income were adhered to.) The sample design required 600 interviews, spread across the 5 provinces, with income quotas as follows:

Joint income (buyer & spouse/partner)	TOTAL	PROVINCE										
		N.Prov	Gauteng	E.Cape	KZNatal	W.Cape						
R1000-R2600	150	224	30	33	30	41	30	72	30	42	30	36
R2601-R4200	150	225	30	42	30	42	30	48	30	45	30	48
R4201-R6000	150	120	30	25	30	27	30	18	30	18	30	32
R6001-R10 000	150	84	30	12	30	13	30	9	30	14	30	36
TOTAL	600	653	120	112	120	123	120	147	120	119	120	152

Table 1.2 Income Quotas across Provinces

Because of the difficulty in identifying appropriate respondents in the upper income categories, quotas for the two income groups over R4 200 were adapted to be more in line with the market. However, enough interviews were obtained in each province and in each income group to ensure that significant analysis was possible. (The only exception was the Western Cape: this was the only province in which historically “coloured” areas were sampled in the incidence survey, and also the only province in which the quota for the control income group was met.)

The final sample achieved was 653 interviews as indicated in the table above, with a fairly even spread across the provinces, and a greater concentration amongst the two lowest income groups where the defined target market tends to predominate.

1.7.3.3 Key Retail-Lender and Housing Activist Interviews (Special Interviews)

Three banks were interviewed, two large and one small bank. Although banks like Unibank, Saambou, Futurebank Corporation and Cashbank are not players in the market, key individuals that were involved with housing lending were interviewed. Six housing intermediaries were also selected from the non-bank and Social Housing Institution category, as they are also significant retail institutions within the housing financial system. Four low - income-housing activists were also interviewed representing government, academia, NGOs and housing consultants that are active in this market. In total, 14 special interviews were conducted and analyzed. Special interviews were conducted during August 2002.

1.7.3.4 Interviewer Training

Due to the size and scope of the incident and in-depth survey this was tendered out to Social Surveys through the NHFC procurement process. Social Surveys is a private company that specializes in the collecting of primary data using face to face interview based techniques. All of the interviewers used by Social Surveys had previous interviewing experience and for Unblocking Finance for Affordable Finance Study were briefed and familiarized with the housing finance sector. After the pilot survey a second training session was held to ensure that all interviewers were sufficiently equipped to conduct interviews in the low and moderate income market.

For the specialized interviews an independent researcher who is a postgraduate student at the University of Witwatersrand was appointed. This was done to avoid any bias that may be introduced by the author's relationship with respondents in the financial institutions.

1.7.3.5 Data Collection Instruments

The main instrument used was a questionnaire to extract data and information from end-users, retail-lending practitioners and experts. The Unblocking Finance for Affordable Housing Study (UNFAH) made use of two questionnaires, the first to determine the incidents in the target market, and the second to collect specific data from the end-user. A third questionnaire was designed to collect data from housing lenders and key leaders in the industry.

The research process entailed face-to-face interviews and a 100% response was received. All questionnaires used both open-ended and closed-ended questions, which were complimented with forced choice, scaled and ranked questions. More qualitative open-ended questions were used to provide insight and understanding of the types of questions.

Annexure A, B and C contain examples of the questionnaires that were used.

1.7.3.6 Data Processing and Analysis

The selected open-ended questions were coded by first drawing up a list of answers from 10% of the questionnaires. These then grouped according to the objectives of the study. The remaining selected questions were then coded according to this list. The SPSS computer programme was then used to capture and organize the data. Averages, frequencies, ranking of scores were computed for analysis purposes.

While many different research approaches have been considered and evaluated for the purposes of this study, the author designed a semi-structured approach in dealing with the utilization of secondary (existing) and primary (new) data sources. Through the use of different questionnaires quantitative and qualitative data were integrated to meaningfully address the problem statement and the research question. It is also the author's intention to augment the information should a similar end-user survey be completed by the NHFC before submission of this study. This new information will help in enhancing the study by facilitating time series trend analysis.

The Potchefstroomse Universiteit vir Christelike Höer Onderwys made available its statistical consultation service, which assisted with the selection of questions that could address the research question. Through this consultation a framework was created to test the main hypothesis of this study (see chapter five). After the selection of the relevant questions the raw data was electronically captured onto the University's data base using the SPSS programme. The next step involved deciding on the relevant statistical tests that could be applied to each question that could answer the research question or test the study hypothesis. The statistical tests involved calculating averages, frequencies, standard deviations, phi-coefficients, χ^2 , Spearman ranking correlation and construction of two-way tables to test relationships between different variables. Once data was produced in the form of tables the author analyzed it and a first draft of chapter four was produced. This draft was scrutinized by the statistical consultation services department to firstly ensure that the statistical data is accurate and secondly to ensure that the interpretation was precise and correct.

1.7.3.7 Problems and Weakness Encountered with the Research

Given the national scope of the data gathering process in 1999, researchers found that some residential areas were inaccessible. This was due to political problems and fresh evictions that had taken place particularly in the Western Cape and Northern Province, and as a result interviewers were chased away. Leaders in some communities advised that the safety of the interviewers will be compromised should interviewers proceed with contacting residents. These areas were substituted with other townships in the same province.

A second problem in the fieldwork related the inability of the researchers to locate respondents in the income band R4 200.00 and above. While only 600 interviews were planned 53 more interviews were conducted to ensure representitvity in the above-mentioned income category. While defining the target market was useful in focusing the research question on the potential home-buyer it led to an urban bias in the sample. As a result the study reflects on the urban population particularly those with a household income above R1000.00 per month.

1.8 Layout of the Study

In trying to deal with the capacity versus capability conundrum around the complex housing finance problem Chapter Two provides the theoretical basis for this study. Further, through international case studies other housing finance models a theoretical framework is established to facilitate the examination of the South African housing problem.

Chapter three provides a description of the South African Housing Finance landscape and the role of the various players are articulated. Some critical analyses are also offered on specific issues and relevant comparisons and contrasts with international models are argued in this chapter.

While the earlier chapters present a platform for the analyses of empirical data that are examined and expounded on in detail, Chapter Four combines the theory with the current practices and describes the housing constraints from the perspective of the beneficiary, which has been the biggest deficiency in previous housing finance studies in South Africa. Primary data from a survey conducted by the NHFC and a new questionnaire designed to gather data from key housing role players will provide the necessary statistics for analysis in chapter four.

Chapter Five makes recommendations and policy conclusions that both the public and private sector can draw upon to at least address some of the problems in the housing crisis. Given that housing finance data is available on a limited basis it is hoped that this thesis will not only provide valuable data but also suggest ways to ensure adequate data becomes available for critical analysis and strategic planning.

Chapter Two: A Dialectical Approach to Housing Finance

2.1 Introduction

The purpose of Chapter two is to provide a theoretical framework to facilitate a better understanding of housing finance and its relationship to the broader economy. To accomplish this task this chapter will firstly focus on the role of housing in economic development, secondly develop a dialectic approach using the Social Welfare, Human Capital Development, Political Economy and Market Driven Approaches and finally describe the different housing finance systems and examine their application in developing an approach or framework that could contextualize the South African housing conundrum described in chapter one (see figure 2.1).

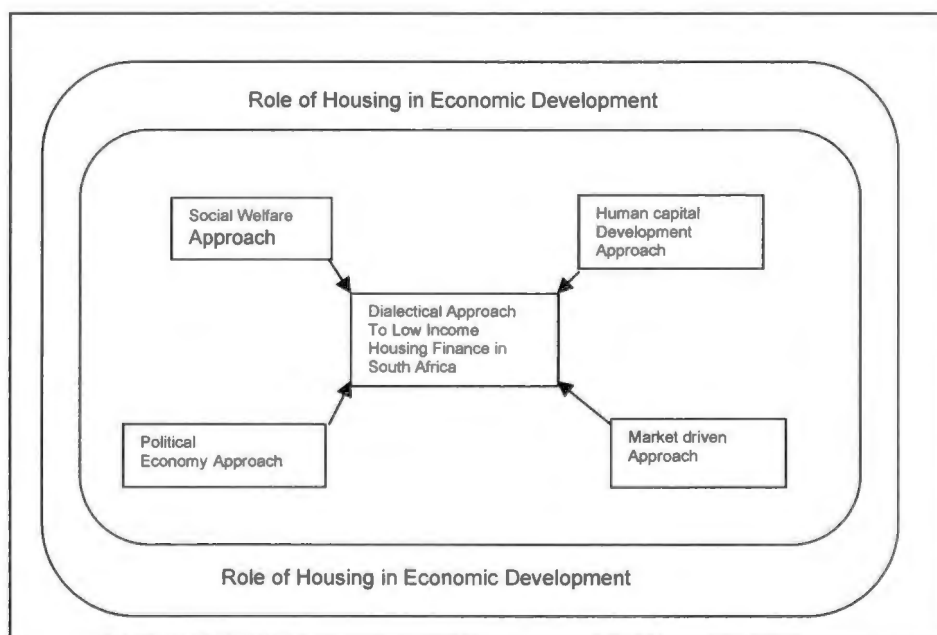


Figure 2.1 Conceptualizing the Studies Approach towards Housing Finance

2.2 Layout of Theoretical Framework

This chapter is structured as follows. Firstly, the role of housing in development to is discussed to establish the link with economic growth and development. Secondly the Social Welfare, Human Capital, Political Economy and Market approaches are discussed with special reference

to the South African history and market conditions. Thirdly, the role of different housing finance systems are presented to better understand the role of housing finance within South Africa. Finally this chapter evaluates some of the requirements for a well functioning housing finance system.

2.3 Role of Housing in Economic Development

Housing and economic development are often seen as inseparable issues (Zhu Xiao Di, 2000:1) which seem to have an influence on each other. It is argued that housing growth contributes to the economy, while housing development often depends on a strong economy. Nordberg (2000) concludes that housing has the potential of becoming an engine of economic growth because of its high yield on invested resources, a high multiplier effect, and a host of beneficial forward and backward linkages in the economy. Jaffe and Renaud (1996) on the other hand argue that the housing sector has not contributed to economic stabilization, it has lagged in terms of economic liberalization and housing privatization has been slow between 1998 and 1994. While the role of housing in economic development is debated from different perspectives, the role of a poorly functioning housing sector has a range of negative impacts on the macro economic performance of an economy. Increasing expenditures on housing suggest that housing conditions should systematically improve with economic growth and development. This is, however, not an automatic process, but in reality a growing gap between the rich and the poor widens. In developing economies these anomalies leads to wide scale poverty and homelessness. The trickle down effect or the distributional effects of development often seem not to reach its intended beneficiaries.

There is agreement amongst economists (Van Huyck, 1986, Mayer, 1995, Nordberg, 2000, Buckley and Mayo, 1989 et al) that there can be no general optimum level of resources which should be allocated to the housing sector without taking cognizance of numerous other macro-economic, institutional, social and political variables. However, there is some measure of correlation between the per capita GDP of a country and the share of housing investment. The

higher the per capita GDP, the higher the share of housing investment is likely to be (Van Huyck, 1986:15).

Ray (1998:237) maintains that rich countries are able to invest in education, which creates a wealth of human capital (the ability to operate sophisticated machinery, labor to create new idea etc.), which is underpinned by adequate housing conditions. The housing conditions in wealthy nations provide a conducive environment for human capital to develop optimally. In developing countries poor housing conditions does not provide a conducive environment for the accumulation of human capital, which yields lower rates of return however per capita income and overall growth could be faster in developing economies.

Housing can contribute to economic development in other ways, these would include improvement in income, employment creation, increasing import propensity, stimulating savings and influencing inflation. These are briefly discussed below:

2.3.1 Income and employment creation

Apart from its direct effect on income and employment creation, construction has strong indirect effects through backward and forward linkages. Backwards it is linked to the building material industries, to products such as stone, cement, brick, iron and steel, processed wood and glass. The forward linkages of housing investment are less obvious although it is generally accepted that households owning a structure are strongly motivated to purchase furniture, equipment and other fixtures, which may have a strong positive effect on many industries.

According to a World Bank publication (Grimes, 1976:32) estimates for Columbia suggest that the income multiplier for housing construction is about equal to 2 and that about seven additional jobs are created for every US\$10 000 spent on the construction of dwelling units. The rate of employment creation in housing construction was found to be higher than that of manufacturing and close to that of the economy as a whole. The same publication notes, for example, that in Korea the income multiplier of housing construction is estimated at 2 and that

about fourteen additional jobs are created for every US\$10 000 invested in housing construction (Grimes, 1976:32).

Grimes (1976) indicates that the direct effect of house building on employment creation is often higher in the case of luxury housing than in that of low-income housing. This is the result of the demand for a variety of labour skills in luxury housing. However, when all direct and indirect effects are considered – as studies of single-family dwellings in Columbia, Mexico and Venezuela suggest – the employment – generating capacity of housing investment by low-income households may in some circumstances be greater than that of similar spending by high-income households. (Grimes, 1976:33)

Van Huyck (1986:23) points out that construction is a particularly important source of employment for unskilled workers. For instance, a study in the Ivory Coast found that 60 per cent of the total number of workers in the construction sector are employed by the informal sector. Low-income housing is also often used to generate income for its owner-occupiers. This can be in the form of rental income from renting rooms or from conducting small enterprises on site. These activities can significantly augment the income of the owners. The acquisition of land or a home treated as an asset could be used as the basis to generate wealth through enterprise activities, rental income and even used as collateral to access credit to generate more wealth (De Soto, 2000).

2.3.2 Decreased Import propensity

A particular advantage of investment in low-income housing is its ability to lower import propensity in the economic development process, in that most of the industry's housing is linked to require minimal imports during the first round expenditures or construction (Christian, 1986:52). This is particularly important in developing countries, especially in South Africa, where a shortage of exchange and foreign capital is a chronic problem. Even a policy of export promotion or import substitution makes it imperative to import technology which is not

domestically available but which is essential to compete internationally. On the other hand, the low direct import propensity of housing provides a potential for contributing to development and growth that would not be otherwise possible. Housing, however, has a delayed or longer term impact on the balance of payments. While its effect on the first round of expenditure is negligible, it may have effects in successive rounds, particularly when expansion of building material supply industries and consumer industries occur.

2.3.3 Stimulus to save

A shortage of capital in developing countries, relative to other production factors such as natural resources and labour, is the result not only of a shortage of foreign currency, but also of the low internal propensity to save. This is primarily due to low-incomes and high dependency burdens in these countries, but there can be no doubt that in most cases the available potential is not fully exploited. As pointed out by Christian (1986:53), individual savings often flow into other stores of value, which are regarded in the national accounts as consumption. Housing is a basic need, which can be used to motivate people to save more and mobilize these savings for use in the housing sector. As such, it can be a useful tool and stimulus for developing specialized domestic financial institutions to harness these savings. Without the institutional infrastructure to mobilize domestic savings for home building, most developing countries have continued to have low aggregate propensities to save.

Van Huyck (1986:28) observed that the savings that can be mobilized among lower-income groups are often ignored. Although more than a decade old, his quotation of a 1982 Indian study is still relevant. The study shows that households with an average income of US\$38 per month were able to fund 43 per cent of their housing from own savings, with the remainder provided by loans from friends and relatives (40 per cent) and other sources (17 per cent). The study concluded that the opportunity to obtain housing was a strong factor for encouraging the mobilization of the resources of low-income households. This phenomenon is most probably also true in South Africa – for example via the stokvel, group credit associations and voluntary

savings clubs. The widespread availability of affordable mortgages may enhance savings, promote financial market development and stimulate investment in the housing sector (Erbas and Nothaft, 2002:4).

2.3.4 Effect on inflation

A problem in the formulation of macro economic policy is whether or not housing investment is inflationary. Kastura (1984) concluded that the impact of increased demand for housing is reflected in the price of housing inputs, and in the price of other related goods and services. The extent to which increased investment will influence the price level depends on the supply elasticities of the inputs and on whether the increased demand is domestically or externally financed. It is important to note that if housing is domestically financed, and the prices in other sectors are flexible, price increases resulting from increased demand for housing will probably be offset to some degree by declining prices in those sectors where demand shrinks. If housing is externally financed, this price offset does not necessarily occur (Kastura, 1984:32 as quoted by Van Huyck, 1986:22).

The role of policy imperatives of the government also plays a special role in the way in which housing affects the broader economy. This in turn influences efficacy of the housing finance system and the market conditions under which housing supply and demand operates.

Pugh (1997:1554) derived seven points from the overall thrust of approaches to housing policy set out in encodes such as the UN Habitat II Program (1996), World Banks: New Urban Agenda and the UNHCS Global Strategy for Shelter to the year 2000 (1990). They are:

- Improving housing finance systems;
- Targeting of subsidies;
- Properly defining property rights, to help the poor to qualify for long-term credit from the formal sector (Kyung-Hwan Kim, 1977:1617);
- Infrastructure improvements;
- Regulatory audits to remove regulations which impede housing sector development;

- Improved organization and competition in the building industry
- Appropriate institutionally loaded reform.

Like many other less developed countries South Africa has, to a large extent, adopted the above approaches which are manifest in the current policy and support instruments. Unique in South Africa however are the measures to deal with the redress of the segregated past under racial discrimination, the emphasis of the private partnerships together with community participation, the role of government as an enabler rather than a “giver” of free homes and the stimulation of the private sector to promote owner occupation. In South Africa a capital subsidy system has been developed to stimulate the housing sector as well as deal with the large backlog that is associated with the apartheid past. Since 1994 the housing subsidy allocation accounted for between 4% and 6% of governments’ annual budget. This translates into 2.2% of South Africa’s total expenditure that is invested through the housing sector in 2003/4. This also represents a decrease from 3.4% in 1997/98 financial year (Kane – Berman et al, 2001/2002:171).

In developing countries, investment in housing typically comprises of 2-8% of GDP and between 15-30 percent of fixed capital formation. In addition, housing provides a flow of services amounting to further 5-10 percent of GDP (Buckley and Mayo, 1989:1). Combining housing investment and housing services, the sector’s contribution to GNP is estimated to be between 7 and 18 percent. Further, considered as an asset, housing constitutes between 20 to 50 percent of reproducible wealth in most countries, making it the largest single component of reproducible wealth (World Bank, 1993b: 100).

Allocations by Governments are indicative of the macro-economic strategy being followed by a country. The quantum of capital investments raises the question of whether the housing sector is being used as the lead sector to stimulate economic growth. In the case of South Africa, the level of investment suggests that the housing sector is a support sector that has to work in tandem with health, infrastructure, justice and other complimentary sectors of the economy.

The international comparators like Japan, Korea and Singapore suggest that there is no correlation between the growth of GNP and investment in housing. Cyclical trends influence the

performance of the housing sector during recessionary periods when accorded low priority by governments (Mayer, 1995:38). The trade off between housing expenditure and competing social welfare expenditure also influence the performance of the housing sector. In South Africa diseases such as HIV and AIDS can become a national priority and consume the major share of the states resources and slow down pace of delivery of housing. In a market oriented system benefits accruing from an export-oriented economy can be channeled into housing through subsidies and direct public provision of housing. The distributional effects of the market economy funding housing through the finance system is not always visible and usually unevenly distributed in transitional economies, though funding does flow through the housing finance system at a cost which reflects risks and market imperfections, ultimately influencing access to home finance.

The foregoing discussion emphasizes that the sustainable provision of acceptable housing creates a large measure of social stability and well-being in the community, while at the same time providing important income and employment opportunities.

2.4 Forging a Dialectic Approach to Housing for South Africa

Given the political transition in South Africa since 1994 any approach towards addressing the housing crisis as described in chapter one has to reflect on the political, economic and social aspirations of all the stakeholders concerned.

The following four broad approaches add to the theoretical framework in understanding how different economies address their housing dilemma.

1. Social Welfare Approach,
2. Human Capital Development Approach,
3. Political Economy Approach and
4. Market Driven Approach.

Each approach will be described with the aim of creating a framework that could assist in a better understanding of the South African housing problem, and ultimately validate or reject the research hypothesis of this study.

2.4.1 Social Welfare Approach

For many decades leading up to the new millennium, sociologists and other social scientists investigated and explored the human-environment interaction (Johnson, 1973; Bergel, 1977, Fields, 1980; Morris, 1979). This pre-occupation with the environment and man's influence on it resulted in little attention being paid to the spatial dimensions (e.g. location) of social problems. Against the background of social unrest, like the Harlem riots in the United States in the 1960's, the 'geography of social well-being'²⁶ emerged whereupon numerous studies began to focus on demographics, poverty, health and housing conditions. These studies highlighted the importance of social phenomena or the quality of life as significant dimensions in the housing process. Housing is not just a product that puts a roof over peoples heads, four walls and a door, it is a process which is fundamental to the cultural well-being of the society within which and whom it is constructed (Turner et al, 1972). This stream of social geography emphasized the measurement and assessment of the quality of life or social well being of an individual or society is experience of events at a specific time and place. The main concern of the social geographer was on the spatial variations with respect to the relative levels of such well being among different groups of people within society, and to evaluate to what extent the common needs of that society were satisfied.

During the late 1960's and the 1970's there emerged four distinct schools of thought within the broad framework of the Social Welfare Approach. Following is a synopsis of each.

2.4.1.1 The Behavioral Approach

The behavioral approach borrows extensively from sociology and environmental psychology. Its emphasis is on the importance of the individual perceptions²⁷ of his or her own environment and state of well-being (Atkinson et al, 1983:133). An advantage lies in the use of a questionnaire as a direct measure to reveal the state of social well-being of the people

²⁶ The geography of social well-being refers to the extent to which the common needs of any society or individuals are satisfied.

²⁷ Perception is defined as a process of becoming aware of the objects, qualities, or relations by the use of the sense organs.

concerned. Its application in housing is particularly important because it provides the tools for the measurement of conditions and the quality of the residential environment. Knox (1976) argues that ratings of satisfaction provide useful information on the respondents' own perceptions of objective reality. Through the approach's ability to measure "hard" objective indicators, housing conditions and satisfaction-related problems could be resolved and aspirations can be planned for. The National Housing Finance Corporation in 2000 conducted the first survey of this kind in South Africa to determine from the perspective of the potential homebuyer²⁸, what were their perceptions of the blockages to accessing or acquiring a house and indications of the housing needs and aspirations. The main objective of the above study was to collect behavioral data from the end-user that could assist planners and decision makers in developing proposals on how to increase delivery of housing stock and finance in the defined market.

Utility theory based on the premise that more is better and therefore increases in income are desirable from an individual perception and influences his level of satisfaction which could include housing conditions (Ferrer- i- Carbonell, 2002:3). The relationship between income and happiness or well being has been established in the 1970's (Frey and Stutzer, 2002). Therefore perception on income expectations influence housing and level of well being.

2.4.1.2 Welfare Approach

The Welfare Approach relies to a great extent on the other social sciences like sociology, psychology and anthropology for its theoretical foundations. Economists, sociologists and political scientists provided considerable contributions in developing this approach. Smith (1979) states that the welfare approach presupposes two basic concepts. The first is the meeting of basic needs to some minimum levels and the second is the equitable distribution of resources. The former includes shelter, food and clothing. The second, according to Smith

²⁸ Potential Homebuyer- Defined by the NHFC survey to include individuals that have taken at least three pro-active steps in the last 3 months to acquire a home. Twelve steps were provided e.g. have you put your name down on a waiting list or have you contacted an estate agent or have you saved a deposit for a home?

(1979), refers to “just distribution, which is justly arrived at”. The distribution of resources is not the same for all societies and varies from region to region and from individual to individual. This unequal distribution of resources forms the basis for inequalities and creates different levels of well-being. The United Nations Organization (UNO) as early as 1954 compiled what was called an “Acceptable International Catalogue” to measure levels of well-being. The following eleven criteria were selected by the UNO to measure social well-being.

1. Health
2. Education
3. Conditions of work
4. Employment
5. Transportation
6. Housing
7. Clothing
8. Aggregate Consumption and saving
9. Recreation
10. Social Security
11. Human Freedom

Smith (1973) modified the UNO catalogue to seven general criteria of social well-being which were relevant to the contemporary conditions in the United States. These criteria included

1. Income, wealth and employment,
2. The living environment,
3. Health,
4. Education,
5. Social order,
6. Social belonging,
7. Recreation and leisure.

It may be argued that the indicators like leisure and social order add little value to the understanding of the concept of well-being. What it does rather is to add more complexity to measuring well-being.

Further work in the United States by Drenouski in the 1970s led to the development of nine basic components that influence well-being (Smith, 1977). These were

1. Nutrition,
2. Shelter,
3. Health,
4. Education,
5. Leisure,
6. Security,
7. Social stability,
8. Physical environment and
9. Surplus income.

The main limitation of this approach is that it generally depends on accepted “hard indicators”²⁹ which are insensitive to social well being (Knox, 1977 and Smith, 1977). Further, some variables or indices are neither practical nor scientifically measurable. These approaches often omit differences within a nation, for example, apartheid and religious and cultural differences. The South African legacy of apartheid created unequal distribution of wealth, access to property and discrimination on the basis of race that entrenched inequality between its inhabitants. The inequality resulting from this legacy makes it impossible to measure variables suggested by this approach. It can be argued that the Welfare approach can be the basis to “level the playing fields.” Ultimately however, this type of intervention by the state will encourage widespread expectation of welfare support thereby firmly driving away the private sector from deepening their involvement in poverty alleviation and participation in social programmes that are of high risk but financially manageable.

²⁹ Hard indicators are usually quantitative numbers that have been arrived at through a scientific process.

Some of the measures such as leisure represent a western bias. Westerners appear to apportion more value to an aspect like leisure because poverty is not endemic, unlike in Africa where poverty alleviation is a priority (Naidu, 1983:36). Therefore this component when applied to the South African context becomes irrelevant because it will be accorded a low priority, as poverty and health are more serious concerns. Therefore the criteria developed may be suited to the United States and other western countries but not South Africa, which is at a different level of economic development.

In the South African context the concept of Ubuntu³⁰, which has strong cultural roots, is lost as a measure of well-being. The criticism then is that the above approach takes on a pro-western stance and ignores third world traditional values. Ubuntu due to its abstract nature is also difficult to measure, however, its practices are very visible within African communities. Ubuntu is a way of life in many African communities that govern attitudes and behavior, which does influence well-being (Mbigi, 1995:18). This approach is also dependant on the distribution of resources and in reality resources are distributed unevenly which could change the priority of basic needs including housing. In developing economies such as South Africa housing could rank low in the list of needs because higher order needs like food, security and health are more important for survival.

2.4.1.3 Social Indicators Approach

The social indicators approach incorporates both “areas of social concern” and the “basic needs” approach. This approach is distinct from the above approaches because of the ability to measure and quantify some of the indicators. This integration of approaches serves to strengthen assessments made on social well-being. Smith (1973) and Knox (1974) are of the view that this approach serves as a yardstick to measure social conditions as they vary in time

³⁰ Ubuntu is a term that refers to human heartedness, a quality that embodies South Africa virtues and morals. The word has its origins from the Zulu language.

and space. Subjective³¹ and objective³² indicators have been used to measure quality of life in a united manner. The major drawback of this approach appears to be the weighting of different components of social well-being or quality of life which are dependant on the value judgment of the researcher. Biases which may arise from the method of interviewing and from the interpretation of answers could lead to misleading conclusions. The influence of people's social and cultural background gives rise to differences in levels of aspirations, demands, customs and satisfaction (Dale, 1980:503-515). However, this does not mean that there are no objective measures. It serves to emphasize that the experiences and knowledge of the researcher has a profound influence on the way he sees and interprets his environment. Another criticism of this approach is that it concentrates on measuring economic indices of production and consumption, income levels and employment, which are reflective of a nation and not individuals within that nation. The aggregation of economic indicators makes it difficult to draw conclusions about the state of well-being of an individual in a society as there might be regional, cultural, religious anomalies (Knox 1977 and Smith 1977).

The social indicators approach is also weak in that it omitted basic "soft" variables like perception of the living environment and health that influences quality of life. It can be argued that a reflection of the needs of a nation as a whole is more important than individuals for policy planning or delivery of housing. However, it is individual choice that contributes to market development as opposed to a public supply driven process that perpetuates dependency on the state. The above approach's relevance to housing lies in its ability to measure indicators that affect neighborhood characteristics such as crime, locations, access to services and amenities that determines residential satisfaction, housing aspirations and attitudes towards housing payments in communities. From a research point of view the use of the social indicators as described by this approach could yield valuable information on the dynamics of the primary or secondary markets and how these dynamics contribute towards an accelerated or decelerated delivery process. Ultimately, how individuals perceive their living environment contributes

³¹ A subjective indicator is based on a direct report from an individual about his own perception and feelings.

³² An objective indicator as quantitative facts selected from census data and other accessible official registers.

towards selection and choice of a home which then influences demand (willingness to buy, upgrade or relocate) and supply (willingness to sell) of housing stock.

2.4.1.4 Basic Needs Approach

This approach propounds the principle that “basic needs satisfaction” provide important indices in measuring levels of quality of life. This is derived from the field of psychology based on Maslow’s classification of a hierarchy of five basic needs (Maslow, 1954:0).



Figure 2.2 Maslow’s Hierarchy of Needs (Adapted from Naidu, 1983)

Maslow’s (1954) classification contributes to the debate on the meeting of basic needs to some minimum level. The five concepts he describes are important in the assessment of social well-being because he argued the existence of lower and higher order needs. A main contention here is that higher order needs like “survival” need to be met before a lower order need like “belongingness” and love can be satisfied. Although, in the classification the first order need has been accorded to “survival” the second important need is “security”. In broad definition “security” refers to safety of the environment and protection from physical dangers. The implicit notion here is the issue of shelter as a form of protection and this can be used as an indicator reflecting that some minimum levels of basic needs as outlined by Maslow (1954) have been

satisfied. This approach is criticized because the criteria used to assess and measure social well-being are difficult variables to measure scientifically (Smith 1977). For example, how does one measure or place a numerical value on "belongingness and love"? The Basic Needs Approach does, however, shed some light on and complements studies concerned with the assessment of quality of life. In the field of psychology studies have been conducted on human development, tracing changes that occur with growth of the individual from an infant stage to adulthood. These types of studies serve to confirm that human needs change from material ones to those more complex ones like the concern for the poor and the desire to resolve world conflicts.

In reviewing the above approaches together with literature on economic development, the "social" nature of housing requirement is established. This is used to distinguish the housing sector from the other capital-intensive sectors of a developing economy such as manufacturing (Nubi, 2001: 30).

Therefore, as Nubi (2001: 3) argues, housing must be regarded as a welfare demand that cannot and should not be satisfied by the market and, hence, be distributed as a form of public free gift. The relevance of the market approach will be further discussed in Chapter 3 where the South African housing finance model is described and evaluated.

Similarly, Smith et al (1991:1) argue that health and welfare through a policy imperative can cure social ills and need not drain the budget of one social program in favour of another. This view emanated from the US during the late nineteenth century when housing issues were at the core of the public health movement's concerns. As a result, health concerns were at the focus of the earliest housing policies. If housing policy is regarded as an instrument of urban revitalization, then interventions will most obviously be directed towards "curing" unhealthy homes and environments. From this perspective, costs of housing improvements can be set against their public health benefits and against any associated savings to the health service budgets. Implicit in this view is the use of housing as an element of urban and social policy as

opposed to the use of housing as an instrument of economic management (Smith et al (1991:3). It is also true in South Africa that the National budget spending through, for example, the Departments of Housing, Land Affairs, Provincial Development and Health, in some way contribute toward improving living conditions through social policy albeit in an uncoordinated manner. The fact that only 2% of the national budget in South Africa is currently allocated to housing is also indicative that investment in housing is not viewed as an economic management instrument (Kane-Berman, 2001/2: 45). In the case of Chile a modest 10% of the fiscus is allocated to housing promoting the housing sector as a leading productive economic activity in addressing poverty (Drewski, 2003).

Housing lends itself to questions about quality of life and levels of social well-being experienced by the potential home owner. Does living in a mansion in an up-market suburb imply that you are living a good quality of life or can an individual living in a hut that has access to good health and food also experience a good quality of life? It is these types of questions that requires a re-examining of the various approaches that does provide yardsticks and tools to measure respondent perceptions of the living conditions. Although there is no single flawless method of measuring social well-being, a combined use of indicators and methods can yield information on feelings of satisfaction, frustration, deprivation and aspirations that can be analyzed to understand access to appropriate and affordable housing. These perceptions of the living environment can be more valuable than hard statistics and its value can be enhanced if combined with other approaches to housing.

2.4.2 Human Capital Development Approach

To approach housing problems in a clinical manner rather than in terms of generalizations, the United National Development Programme (UNDP) developed the Human Development Index (HDI) in 1990 as a comparative framework for the analysis of country case studies.

The HDI is a measure, which ranks all countries on their level of human development. The UNDP (15) report used “longevity”, “knowledge” and “decent living standards” as the main

indicators to rank different countries. Longevity is measured by life expectancy; knowledge is measured by adult literacy rate, which is the average years of schooling and the decent living standards are measured by multiples of the poverty level. The higher the income relative to poverty level, the more sharply the diminishing returns affect the contribution of income to human development. The formula is used to calculate the Average Deprivation Index (ADI). The ADI minus one becomes the HDI. A score of 0.9 represent a high HDI and 0.048 a low HDI.

The UNDP defines Human Development as “a process of enlarging people’s choices”. The most critical of these wide-ranging choices are to live a long and healthy life, to be educated and to have access to resources needed for a decent standard of living (UNDP 1990:1). The UNDP argues that housing which meets standards and cultural definitions of security of tenure are essential parts of a decent standard of living. Essentially, the Human Development Approach brings together the production and distribution of commodities and the expansion and use of human capabilities in the economy. The Human Capital Approach sees investments in improving human capital that expands the knowledge base of humans as resulting in an improvement of living or housing conditions of humans. The usefulness of this approach is its measurement of human development through the HDI, which can be regarded as a broad indication of living standards, which implicitly includes housing. Another advantage is that comparisons can be made between different countries with respect to their human development indices.

This approach does, however, have a disadvantage in that it is not custom designed for housing. This means that inferences about housing conditions and standards need to be made from an index that includes a multitude of factors. The formula used by the HDI also takes into account soft variables, which can be relative and subjective therefore lending itself to the same criticism leveled against the Social Approach. Therefore, not much reliability can be placed on

conclusions about access and affordability of housing finance that are directly derived from the HDI index.

The HDI index for South Africa will be discussed in greater detail in Chapter 3 where some comparisons would also be made with similar economies.

2.4.3 Political Economy Approach

Also known as the Neo-classical Approach, this approach assumes markets are harmonious, self-regulating mechanisms, which fairly allocate scarce resources according to output (Bassett and Short, 1980: 25-26). Advocates of free markets assume that firms' and consumers' interests are justly realized, that is, exposure to the risk of investing in unknown outcomes deserves a return over and above the initial capital sum which is recouped in the event of there being an effective demand for the goods and services being marketed.³³ This control mechanism is an automatic function self-functioning system which is highly sensitive and flexible to changes in market behaviour of consumers and suppliers. It is the "hidden hand" that controls the market and is brought about by the separate "separate decisions of a large number of individuals , all seeking their own best interests, but all responding to the same changes in demand and supply" (Lipsey, 1983:148). The neo-classical paradigm also assumes that there is no political or economic interference (Short, 1980; Dobb, 1973) and domination that could adversely affect the positions of producers and consumers within, the market and that there is a continued point of balance and the absence of power relations that distorts contracting and pricing of services and goods in the market. This is a weakness of this approach because in reality all economies are influenced by either their own governments or by those that wield greater economic and military power (Hendler, 1991:34).

This model emerged during the 1970's with the "trade off"³⁴ model being modified to form the "new urban economics"³⁵ model. In the late 1980's neo-classical theorist (cf. Stull, 1996;

³³ Consumers as homeowners would recoup their capital and "sweat" equity at the sale of their residential property.

³⁴ Residential model which hypothesizes that household's trade-off travel costs against housing costs to meet budgetary constraints.

Liossatos, 1988) used urban economics to model housing market disequilibrium and linkages between the housing and the global market. Power relationships between the various market stakeholders develop and hence the possibility of domination or subordination of some players over others exist which is absent in the neo-classical frame of reference. However, in reality the housing finance markets are influenced by both endogenous and exogenous factors that control the supply and demand of housing. In the case of South Africa, macro economic conditions like interest rates, inflation and employment together with socio-economic problems associated with crime and voluntary non-payment of services creates disparity amongst citizens. It is these inequalities that contributes to who gets access to property and wealth in society, thus confirming that the political economy approach to housing is only effective in a harmonious economic market. The notion of markets regulating itself and creating equilibrium and equality seems a good proposition in theory, however in reality and specifically in the context of the South Africa's past socio-economic imbalances, redress needs to happen first. This redress is a necessary pre-condition if a harmonious market can be created given South Africa's economic and political realities. Kevani and Werna (2001:96) states that neo-classical economists accept that perfectly competitive markets are a highly idealized version of actual markets that do not exist in reality.

2.4.4 Market Driven Approach

The performance of the housing sector is shaped by market forces, where the interplay of supply and demand determines what people pay for housing and what they receive for their money (World Bank, 1993b:2). A good example of this approach is found in the United States (US) where the demand for housing and housing improvements are driven from a private market sector perspective (Lea, 1999:4). The provision of housing has been market led with very little interference by government and supports the notion that that market's can create the quality and quantity of housing consumers need based on what they can afford (McGuire, 1991). While the US and South Africa are distinctly different, disparate economic and social

³⁵ New model still considered trade-off between accessibility and space but now included trade-off between dimensions of space and leisure and between accessibility and environmental quality.

systems the US experience and evolution of its finance system with respect to impact on housing delivery, serves only as a point of departure to policy review and financial sector development and not a model to be copied. Housing the nation in the US context is a function of the risks the markets are willing to absorb as a business on the real estate market. In the US state institutions like Housing and Urbanization Department (HUD), and state sponsored institutions such as the Federal Home Loan Association (FHA), Government National Mortgage Association (Ginnie Mae) and Federal Mortgage Association (Fannie Mae) were created to absorb risks that the market was unable to deal with. An array of different institutional structures were created to promote the private capital market as the main source of funding for housing while Government provided implicit guarantees and political support for the lending community. To some extent the role of the US Government in the 1960s and 1970s can be categorized as the political economy approach, however providing implicit or explicit guarantees was only a means to an end (Lea, 1994:7). The US government's role in introducing special instruments like guarantees and federal institutions was part of a larger process to crowd in the private sector and move to a position of limited financial reliance on the state. The role of these institutions will be discussed later in this chapter within the context of the Secondary Mortgage Market housing finance model.

Efficient markets can supply housing services at prices consistent with the purchasing power of the majority of the population thus making it easier to create the "fiscal space" within budgets to finance the needs of the poorest and the most disadvantaged (Renaud, 1999:759). Implicit in Renaud's (1999) argument is the notion that there are necessary pre-conditions that need to be satisfied for markets to work efficiently. While South Africa has emerged from the most abnormal historical circumstances, the residue effects like crime, lack of funding for housing, redlining and poor risk assessment skills by financial institutions to deal with the low income earner, are still evident. Given this situation and the fact that there are still macro-economic pre-conditions that need improvement, the question is: how valid is the US system or a model relevant for the South African context? This aspect will be critiqued in Chapter 3 where the

South African housing finance system is evaluated. The main advantage of this approach is its ability to mobilize large volumes of money from investors for housing. This approach also means that finance for housing is not subsidized but priced along normal market benchmarks.

Participation in the secondary housing finance market however, has limitations. It is dependent on a vibrant primary housing market to generate the necessary volumes of loans that can be purchased by institutions like Fannie Mae to be packaged and sold to investors. Further, securitization has a number of pre-conditions before it can work successfully (Guttentag, and Lea, 1999:7-8). There needs to be the necessary infrastructure for the standardization of loan origination, underwriting, purchasing, warehousing and the legal and legislative requirements that are required to ensure that illiquid assets can become relatively liquid.

In the US the mainstream banks are the main source of housing funding and if there are credit risks that private lending institutions are unable to deal with, then state institutions play a role to facilitate lending down market. Further, the Community Reinvestment Act (CRA) in the US places statutory requirements on mortgage lenders to meet their CRA requirements. Different banks have different CRA compliance and performance goals and they have different CRA strategies (Thomas, 1998:1). This means that mortgage lenders performance are measured to ascertain to what levels they have complied with legislation. This legislation ensures those minorities and those citizens that have experienced economic hardships in the past can still access a loan for housing and that they are not unfairly discriminated against.

While traditional economic theory supports the argument that market pricing is largely a function of demand and supply factors and equilibrium exist when no unsatisfied buyers or sellers are left, Soros, (2000) is of the view that with respect to financial markets, pricing is influenced by other factors. Financial markets differ from other markets in that the participants do not deal with known quantities; they are trying to discount a future which is contingent on how the market discounts it at present Soros, (2000:88). In the United States "Boom - Bust"³⁶ sequences are evident in the stock exchange history. These sequences are influenced by

³⁶ Boom and Bust sequences refers to the growth and fall of stock market prices or the crash and growth associated with stock markets.

fundamentals which influence values that a participant attributes to a financial instrument and the resultant valuation influences the fundamentals thus creating a never ending process of disequilibrium. The concept of reflexivity³⁷ also promotes a case for free markets, but the case does not rest on the tendency towards equilibrium. The case is founded on the liberating effect of letting people pursue their goals and in turn free markets unleash the creative energies of human intellect. This alternative paradigm propounds that markets and specifically stock prices, are influenced by participant's values and biases and not necessarily the fundamentals of the market. This presents a problem because it means that housing stocks and housing bond prices are now influenced by reflexivity which could influence access and affordability levels. Individual participants now influence access and affordability of housing even under a market driven approach.

While the US serves as a good example of a market driven approach there are aspects within the housing finance system where perfect competition is absent and a monopoly exist particularly in the secondary housing finance market. In this case there is two producers that have overwhelming control over the market. This supplier can force up the market price by reducing output and reduce price by increasing it. For a successful long run monopoly there must be barriers to entry in the market such as very large size or rate of optimum production or capital outlay (Samuelson, 1973). This hold true for Fannie Mae and Freddie Mac whose market size and volume of transactions makes it difficult for new entrants into the same market.

2.5 Transitional Economies (Markets) and Inequality

South Africa, unlike many other countries, has a dual economy, viz. a mixture of the elements typical of 'first world' and 'third world' economies. First world³⁸ economies are characterized by high levels of industrialization and low population growth rates and concentration of wealth that supports commercialization. By contrasts, third world³⁹ economies are characterized by low

³⁷ Reflexivity is source of uncertainty either in reality or in the participant's thinking, but also within a narrow range where it operates which is an additional source of uncertainty. Soros ,(2000:9)

³⁸ The first world is described as the developed world and includes the United States, Western Europe, Japan, Australia, and New Zealand. Mainly referring to the industrialized non-communist countries.

³⁹ In 1956 a group of social scientists associated with Sauvy's National Institute of Demographics Studies, in Paris, published a book called *Le Tiers-Monde* which conveys the idea of non-alignment for the third belongs neither to the

levels of industrialization, high population growth rates and widespread poverty and inequality. These economies are also described to be in a transitional phase, where policies are in place to achieve higher levels of economic growth to address poverty and inequality amongst its populace.

The banking sector in South Africa is comparable or better than most developed countries and has both the skills and technological capabilities that can be compared to international banks like Chase Manhattan and Citi Bank. This well developed banking infrastructure is able to serve the needs of 10% of the population that fall in the high-income category while the majority of South Africans are dependant on informal banking services or have no access to banking facilities (Hendler and Pillay, 2002:13). The private sector financial institutions clearly have role in financing low-income housing development, but because of affordability constraints, these institutions cannot be expected to provide credit to the poorest individuals in society, however a market making role and a funding role in the conventional and starter sub-markets are envisaged for these institutions (Strelitz, 1991:48). Third world characteristics are noticeable in the large informal sector that has developed in the retail clothing, food, general merchandise and services sector around economic nodes. Macro-indicators such as the gross domestic product (GDP), inflation and interest rates forecast a positive picture. GDP in 1994 was recorded at 3.2% and in 2001 it was 2.5%, which is consistent but sluggish. On the other hand, interest rates in 1994 were recorded at 16.3% and fell to 12.5% in 2001. The same trend is true for Consumer Price Index⁴⁰, which was 9% in 1994 and dropped to 5.7% in 2001 (Nedcor Economic Profile, September, 2001). These indicators seem to project a positive picture, however, when analyzing employment and the Human Development Index (HDI) for the same period a negative trend is true. Formal employment is shrinking while more people are engaged in informal sector activities. Formal employment has declined as a result of the state cutting

industrialized capitalist world nor to the industrialized communist bloc. Three years later, the French economist Francois Perroux wrote in a journal that underdevelopment is a term that referred to exploitation of the third world. By the 1950's the French media used the term to refer to countries of Asia, Africa, Oceania and Latin America (Chaliand, 2001). Third world countries have the following common traits; distorted and dependent economies that concentrate on producing primary products for the developed world; high population growth and widespread poverty.

⁴⁰ This is the CPI calculated as an average for a specific year.

back on a bloated civil service sector combined with the privatization of State Owned Enterprises (SOE's), which has resulted in retrenchments. Employment opportunities have also been low because industries and business have reduced staff to keep costs down and improve on efficiency and productivity. The HDI indicates that the poverty profile of the South African population has increased from 0.672 (1996) to 0.58 (1999) (Stats South Africa, 1999). The income distribution of the population is also skewed; almost 85% of the population earns less than R3500 per month (Statistics South Africa, 1996). Given this scenario the majority of the population has difficulties in accessing finance or is unable to afford credit. The finance system therefore had to cope with this dualist economy and this resulted in formal banks concentrating on the middle to higher income groups and the non-banks (micro-lenders and NGOs) focusing on the lower or poorer segment of the market.

The legacy of apartheid came to an end in 1994 and under the new constitution all its citizens are guaranteed equality. However, post 1994 economic inequalities such as access to credit still exist because unemployment⁴¹ (35.9% in 2000 increased to 37% in 2001, Statistics South Africa, Labour Force Survey, 2001) and the income gap between the poor and the wealthy has increased. In transitional credit markets two problems are evident, the first is the "inability to pay"⁴² and the second is the "unwillingness to repay"⁴³. Both these problems are outcomes of informational imperfections, which have serious consequences for a housing finance system (Ray, 1998:540). In the South African context (also refer to chapter one) economic hardships associated with job losses and high interest and inflation rates contributes to involuntary defaults. On the other hand the culture of non-payment and the absence of adequate information on the part of financial institutions has created an environment in which voluntary defaults are common occurrences in the low to moderate income housing markets. Ray (1988) argues that the lack of information regarding the characteristics, history, or current activities of

⁴¹ Expanded definition used by Stats SA defines unemployed as those in the economically active population who: have not worked during the last seven days prior to being interviewed, want to work, and are available to start work within a week of interview by Stats SA; and have taken active steps to look for work or to provide themselves with self-employment in the four weeks preceding the interview.

⁴² The inability to repay is described as involuntary default.

⁴³ The unwillingness to repay is described as strategic or voluntary default.

clients and the inability to accept collateral in non-monetary terms places formal lenders at a disadvantage when compared to informal lenders. This study will also ascertain if informational constraints affect the South African credit market and isolate other factors that lead to loan default. Informal lenders price for risk and the consequence of this is a higher risk premium for loans with no or little of collateral. In economies where the legal system and procedures for transferring assets or collateral to the lender are weak also contributes to risk based pricing. Markets function well when the administrative law and procedures work well, and a clear well-defined mechanism for punishing deviations from the norm can be applied. In the South African situation the laws governing property and credit are well defined and implemented by the justice system. With this in place two problems still plague the housing finance industry (Abt and Associates, 1998:22). The first is the claim from banks that they are unable to enforce property rights in certain residential areas and the second is the defiant manner in which some citizens break the laws of the land by ignoring loan obligations and even eviction orders. This has led to credit rationing since 1996. Both bank and the non-banking lenders in South Africa have seen the opportunity to transact in the low-income housing market where the demand for credit exceeds the supply but are reluctant to do so (Hawkins, 2003:30-31).

Credit rationing can be addressed if the risk of default can be eliminated through effective implementation of property laws, guarantees, insurance policies and or social contracts that force the honoring of debt obligations. For the South African housing finance market a possible change to collateral policy and credit criteria could increase the volume of credit from private lenders and at the same time deal with the housing backlog.

To minimize bad debts the central issue is to determine the borrower's affordability or ability to timeously pay loan obligations. The credit risk⁴⁴ in the case of the US is accurately quantified, isolated and apportioned to specialist institutions that have been established to perform this function. In transitional economies sophisticated institutions and financial instruments are absent to absorb credit risks. In credit markets with asymmetric information a certain group of

⁴⁴ The risk that the individual will default in payments obligations that are as part of the agreed contract.

borrowers is always granted credit, while others are not granted credit even if they are willing to pay more than prevailing interest rates (Lu, et al. 2001:9).

However in the housing market applying a more flexible approach and non-conventional credit criteria could be part of the solution to address credit risk and rationing in poorer economies.

Traditionally affordability was determined by assessing the households ability to pay by subtracting all debt obligations form regular source of income and determining disposable income available for servicing a housing loan. In developing economies, behavioral together with attitudinal and more flexible collateral requirements, can be assessed to determine the credit risk and profile of borrowers.

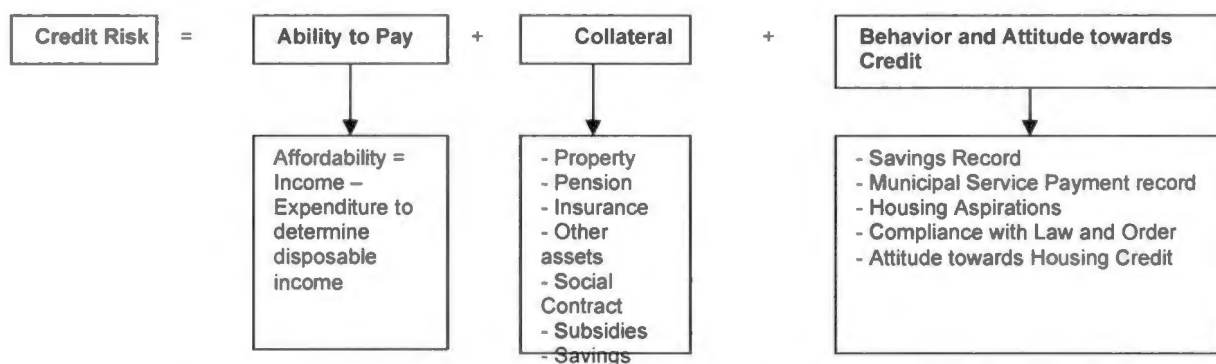


Figure 2.3 A Model for Credit Assessment

The above formula points out three components that play a role in the calculation of credit risks. The first component relates to the ability to repay debt obligations. This concept involves determining affordability. There are three broad ways of analyzing affordability (Garnett, 2000: 36-37). These include the ratio approach, the benchmark approach and the residual approach. The ratio approach considers the percentage of income that is expended on housing (As a rule of thumb one week's wages equals one month's rent or mortgage payment, which led to the popular belief that not more than 25 percent of household income should be allocated towards rent or mortgage payment). The benchmark approach considers what is affordable by reference to some fixed level of expenditure that is assumed to be reasonable.⁴⁵ The residual approach argues that affordability is better assessed by references to the financial resources

⁴⁵ In economic theory this situation would represent an income elasticity of housing demand of less than one.

that remain available to a household once the rent and other housing cost have been met. In the above module the ratio approach is used to calculate the first component of ability to pay.

The second component relates to collateral. Collateral may take different forms (Ray, 1988: 546). By using a flexible combination of collateral arrangements housing credit can be secured. The third component relates to the behavioral and attitudinal attributes towards credit. This is difficult to measure, however in South Africa most low income households do have cell phones and other accounts which can be assessed to determine a borrower's payment record. This component further introduces attitudinal attributes towards credit. Through a questionnaire or interview the lender can gather information on the borrower's attitude to numerous credit related problems and scenarios. Based on this information a score can be allocated and combined with the two components to support or reject a credit application for housing finance. The weighting of the different components can be adjusted according to the socio-economic conditions of a country it is applied in. Feins and Lane (1991: 8 -14) have found that the ratio of shelter expenditure to household income would be the appropriate indication of measuring the proportion of income allocated to housing-related expenses. Jorgenson (1986:2) described affordability as the percentage of income a person, household or family can afford to spend on housing. Using these definitions can assist in the South African application of the concept. In the US a high weighting could be allocated to the ability to pay and collateral requirements because the main instrument for housing finance is the mortgage (i.e. the property is the principle form of security against default). In countries like India the collateral form could be weighted low because the foreclosure laws and systems for recording title and registration are weak and it is difficult for financial institutions to repossess and resell properties (Vora, 1999: 13).

The formula above attempts to be put forward a more flexible approach to collateral requirements. Social contracts could be used to apply peer and family pressure to urge recipients of housing loans to honor their obligations. Likewise, savings and subsidy allocations

could be used to ensure that the borrower has capital at risk. This exposure from the borrower's perspective could engender a sense of responsibility to cooperate with financial institutions during times of economic hardships rather than voluntary default. More relevant for the South African housing finance environment is the ability of lenders to understand and monitor the behavior and attitudes of their clients during economic downswings and political disturbances. Due to the home being the biggest single investment that a household would be likely to make in a lifetime, a certain "user – value" is created which is closely linked to the concept of willingness to pay (Beder, 1991:21). User value is described as the value the user will put into the asset whether he/she can afford it or not. Beder, (1991:21-22) cited the following seven attributes of user that shape the potential homeowners view of the home as an asset.

1. The ability of the potential owners to find the value of a home by capitalizing the monthly rental;
2. The potential of the home to assist in the generation of income related activities that could be an added value to the capitalized value of the owners own rental;
3. The home could serve as a form of security against which loans can be taken out for business purposes;
4. Locational aspects could be suitable for business needs, family educational needs, social amenities and recreational facilities;
5. Design, appearance and size could meet home owners aspirations and personal requirements;
6. The home itself could lend itself to further extensions and expansion at low costs;
7. The choice of different financial terms that suite the income profile of the borrower would also increase user-value of the home that is financed in this way. In this regard the borrower would be prepared to pay a higher value/interest rate due to the perceived user-value of the home.

These attributes could be useful in understanding why homeowners default or what provides the motivation to maintain rental and mortgage payments.

The formula above seeks to attract those borrowers that are willing to obey the laws of the land, meaning that they will comply with decisions that come from the justice system e.g. do not ignore eviction notice. Financial institutions also need to have some historic data on borrowers on housing aspirations so as to ensure that clients are housed in accommodation that meets their socio-economic standards and desires.

The main disadvantage of this model is that it requires the capital markets to work perfectly without any distortions in income or access to wealth. It implies that wealth is an indication of ability to put up collateral; it further communicates the credibility of repayment and therefore influences determining access to credit market (Ray, 1998:236). This approach also states that if wealth is evenly distributed, the greater the degree of economic efficiency. This implies that in transitional economies where there is inequality the volume of credit and efficiency on credit delivery on aggregate is lowered. Ray (1998) also points out that inequality has no innate ability to disappear over time but rather tends to perpetuate itself. The only intervention that could reverse this trend is change in government policy to redistribute wealth on an equitable basis.

2.6 Markets and Housing Finance Systems

Housing finance has risen to the top of urban policy and research agendas because it is argued that correctly structured finance systems can deliver improved housing without the distortions that can be created by public interventions on interest rate subsidies, site and services and mass public construction (Buckley, 1996; Malpezzi, 1990; Renaud, 1999; World Bank, 1993b). City or urban morphology in developing economies is largely dependant on the way they are financed (Renaud, 1999:761). In normal economies markets play an important role in defining how housing finance systems are structured. South Africa is possibly an exception because apartheid financing and planning was well structured within a non-market or artificial framework to influence residential location of the different race groups. The visual appearance of different cities has led to the classification of three housing production or finance systems (Renaud, 1999: 761-762).

Firstly, informal financing occurs at local levels with the pooling of savings with clubs and community based credit unions, access to this type of funding facilitates incremental housing investment and credit for enterprise activities. The second is a private bank approach that supports the funding of completed units that can be delivered on scale and in shorter time. Lastly, in state financing there is a noticeable pattern in the monotonous nature of design and implementation of pre-defined standards and services. These units have higher production costs and the mass delivery results in poor quality of product. Although this is a useful way to describe the physical manifestation of international housing finance systems it is deficient in demonstrating historical regional peculiarities and financial innovations that have resulted to address problems of market failure. India has many examples where informal financing results in a complete housing unit being funded (Vora, 1999: 10). This does not support Renaud's, (1999) argument that informal financing promotes incremental investment in housing and is unable to deliver on scale. While this is true for India, in South Africa the Non-Governmental housing sector (the People's Housing Process and the Micro-Finance sector) are active financial intermediaries or capacity building delivery agents that promote incremental housing on a small scale (Davel, 2002).

Lea (2001:1) uses a structured typology to organize the different types of housing finance system that are internationally recognizable. A housing finance system is described as a mechanism to provide the funds to the producers and purchases of housing, both rental and owner-occupied (Lea, 2001:1). Numerous institutional arrangements have been created to channel funds from savers to borrowers. Following is a discussion on the different types of housing finance systems and where possible international examples will be used to evaluate its application.

2.6.1 Types of finance systems

The housing sector is connected to the broader economy through a number of different circuits, to the real fiscal, and financial sides of the economy (World Bank, 1993b: 34). This does not mean that the state needs to be a major player but rather a facilitator and enabler for other players to become involved in housing finance. In less developed economies where the financial systems are not well developed, direct housing finance takes place. This means that housing needs are financed between individuals through informal arrangements (in South Africa stokvels are used) or by personal savings emphasizing self-finance. Stokvels in South Africa do not generally have legal persona and are characterized by the use of rudimentary lending policies and the lack of formal systems and procedure for transacting purposes (Davel, 2002).

In developing economies the provision of housing finance moves away from extensive reliance on special circuits (government backed institutions) towards integration of housing finance into the broader financial markets (Diamond and Lea, 1992a:3). The distinction in terms of the economic development and the state of the financial system is important because it is the main impetus for the type of housing finance that manifest itself in different countries.

2.6.1.1 Depository System

The traditional mechanism for formal financial sector finance of housing is the deposit-taking system. This system entails institutions gathering savings from households and enterprises and offering loans to potential homebuyers (see figure 2.4). Depository institutions can access large amounts of money by taking savings from non-home buyers.

The types of institutions that fall into this category include commercial banks, savings banks and specialist housing finance institutions. In most countries these depository institutions are regulated and are required to acquire deposit insurance to protect the saver should the institution fail.

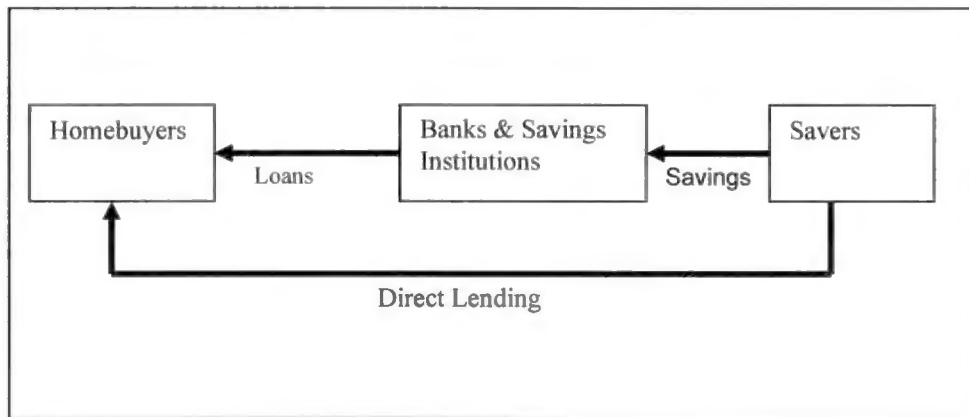


Figure 2.4 **Depository and Direct Lending System**

(Lea, 2001:2)

Lea (1985:2) views the contract savings system as a specialized form of depository institution circuit. This system is often termed as closed because the vast majority of the funds for home purchase are derived from the savings attracted from potential homebuyers. A further feature of the depository system is the retail interface with the public in terms of lending and taking savings. Further, these institutions service and fund loans under approved credit criteria. Depository institutions liquidity requirements are fulfilled through the issuance of bonds and mortgage securities.

An example of this is the “Bauspar” system found in Germany which has 21 private (10% of the market share of home loans) and 13 public Bausparkassen (4% of market share) as at the end of 1990 (Diamond and Lea, 1992a:90). The fundamental concept of the “Bauspar” system is to generate funds through contract savings, normally at below market interest rates and through a fulfillment process the contract entitles the savers to a below market interest rate loan.

The concept of the “Bauspar” system can be illustrated by the following example showing the advantage of group collectively saving money.

Example:

- 10 potential home builders/ owners
- Annual rate of savings (R100 per individual)
- Construction or purchase cost R1000 per home

<i>Home construction/purchase without building societies assistance:</i>				
Potential home builders/ buyers must wait ten years before they can commence construction or purchase				
<i>Home construction/ purchase with building societies assistance:</i>				
Potential home builder/purchaser pay R100 into “bauspar” pool of funds.				
	1st Yr	2nd Yr	3rd Yr	10th Yr
Savings	10x100 = 1000	9x100 =900	8x100 =800	1x100 =100
Redemption		1x100	2x100	9x100
Total	1000	1000	1000	1000

Figure 2.5 Illustration of the “Bauspar” concept

(Adapted from Koller, 1995:27).

Under normal circumstances without a savings mechanism the potential home builder or purchaser will (it is assumed due to the lack of capital) save money to acquire a home. If each of the participants are willing and able to save one-tenth of the amount needed each year, then each will be afforded the opportunity to have access to the saved capital after ten years. However, in figure 2.2 if the ten would be builders or purchases were to pool their savings, the first could build a home in year one by drawing on the savings of the other nine participants. Therefore it follows that in each subsequent year another person can draw on the savings accumulated. While the others withdraw money from the pool those that have already received

a loan start amortization⁴⁶ payments. Koller, (1995:27) argues that by using this model, participants who have pooled their resources eventually reach their goal during a period of ten years and 4.5 years earlier, on average, than if each had saved the necessary money alone.

While the above model seems simplistic there is complex savings agreement at work together with the legal framework. A “Bauspar” savings agreement comprises of three phases: the savings phase, the allocation phase and the loan phase. In phase one the savings sum is stipulated by agreement. Individual payments must be in the form of regular installments and extra payments can also be accepted. The interest rates on credit balances are between 2.5% and 4.5%. In some cases “Bauspar” customers can qualify for additional state subsidies. Before investors can draw on their “Bauspar” amount, this amount must be allocated. This allocation is made when 40% to 50% of the “Bauspar” amount has been saved. There is also a qualification figure⁴⁷, this is the yardstick to measure the customers savings performance to determine the time of allocation or eligibility for payout.

The loan phase begins with the allocation. At this stage the total amount saved plus a low interest loan, which has a fixed interest rate until the loan is fully redeemed, is paid out to the customer. The interest rate on the loan is normally 2% higher than interest rate received on the savings component. Interest and capital payments of the loan are amortized through regular installments agreed to in the contract. In contrast to the mortgage loan there is no penalty for early repayment.

⁴⁶Amortization is defined as the time it takes to retire a debt through periodic payments. In an amortized loan some payment also contribute to the reduction of principal as opposed to an interest only loan where only interest portion is paid periodically.

⁴⁷ This is computed by the individuals credit balance and the length of the savings account.

The German Housing Finance Model is strongly regulated in that the application of the “Bauspar” system is restricted to residential development only. The following is a summary of the economic uses relating to housing:

1. Facilitates construction and purchase of houses and owner-occupied apartments
2. Purchase of plots or land
3. Modernization and repair of houses and owner-occupied apartments
4. Tenant- funded modernization of housing
5. Settling of housing loans
6. Provision of funds for building costs and rent advances
7. Settling of housing inheritance disputes
8. Construction or purchase of combined commercial and residential properties
9. Acquisition of housing rights in retirement homes

Up to 2000 there are more than 33 million contracts with Bausparkasse in Germany. The value of these contractual loans totals more than DM1, 2 trillion; 37 per cent of all households in Germany have at least one Bausparkasse contract. Bausparkasse housing loans represent 16 per cent of total housing loans annually in Germany (i.e. DM48 billion out of DM 300 billion) (Drewski, 2003). Between 1948 and 1996 housing Bausparkasse in Germany provided loans totaling DM1, 1 trillion: this represented 47 per cent of total housing borrowings and resulted in more than 12 million housing units (Drewski, 2003). The main criticism against this system relates to the state subsidizing the borrower building a larger down payment and reducing the loan to value ratio on the first mortgage (Diamond, 1998:23). Despite these criticisms the system has been successful in Germany under their socio-economic and political conditions.

The application of such a system in South Africa poses the following challenges, firstly do we in South African have a savings culture that can underpin a contractual savings system, and secondly, are our homebuyers willing to wait for 4 to 5 years before they get allotted a loan?

2.6.1.2 Mortgage Bank System

The Mortgage Bank System is an alternative to the depository institution model (Lea, 1985:10). In this system mortgage banks originate and service portfolios of mortgage loans which are funded by securities they issue. The securities are obligations of the mortgage banks that are normally purchased by institutional investors.

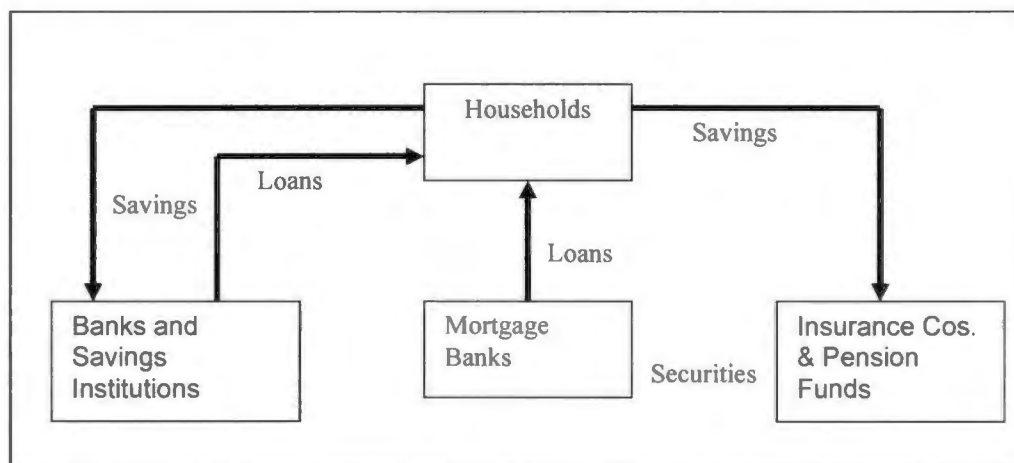


Figure 2.6 Mortgage Bank Systems

(Lea, 1995:10)

A major feature of the mortgage bank system as illustrated in figure 2.6 is the use of long-term (25 to 30 years), fixed rate mortgages (Hardt, 2000). The mortgage bank, unlike the depository system, has a combination of retail functions as well as wholesale function. The wholesale role emanates from the need of such a system to raise funding directly from the capital markets. Germany and Scandinavia have Mortgage banking systems. However, Diamond (1998) is of the view that mortgage banks in future will be making fewer but larger loans, primarily for new urban households. This prediction is based on the fact the current Bauspar or building society system traps huge savings and deeply subsidizes a higher volume of small to moderate loans. This will result in few bond issuances from the mortgage banks because the volumes of loans have been reduced in the market. Similar institution to the Mortgage banks have been established in the early 70's in South Africa that were called Mutual Banks. Mutual Banks relied on retail deposits for its revenue and because of its narrow business base, was not able to compete with the growth of the commercialized banks. Mutual banks also were not able to

distribute reserves and profits to shareholders due to legal establishment requirements, this some extent led to investors concentrating on pure profitable and commercial ventures. By 2000 all of the Mutual Banks that have had housing books disappeared from the finance system (Davel, 2002).

2.6.1.3 Secondary Mortgage Market

Currently, the most popular approach to financing of housing in large volumes is the secondary mortgage market system. A secondary mortgage market involves the sale of mortgage loans (or loan portfolios) or mortgage backed securities (MBS)⁴⁸ backed by specific pools of mortgages (Boleat, 1985:77). This structure entails the transfer of risks and ownership of the mortgage loans to a third party (Van Order, 2001). These loans must be sold to specialized institutions called conduits or special purpose vehicles, which are separately capitalized. These institutions are able to raise funds through issuance of securities backed by the loans. The investor in a guaranteed security does not have to worry about default risk (but still exposed to interest rate risk). This system was originally developed in the USA as a method to sell mortgages loans (i.e., achieve off – balance sheet funding) in order to reduce the interest rate risk associated with fixed rate mortgage lending (Guttentag, 1998:21-24).

The US Housing Finance System is characterised by the predominant role of the market, particularly the mortgage-backed securities market, and a critical role played by government-initiated and supported conduits in guaranteeing securities. Loan origination, underwriting and servicing have emerged as core business functions carried out by specialised business agencies. Since the mid-1970s funds for housing in the US have increasingly been raised through the vehicle of securitisation and the trading of securities on the secondary mortgage market. In terms of the securitisation vehicles, lenders originate mortgage loans with end-users, which loans are then pooled, securitised and sold to investors. Securitisation emerged in the context of a chronic shortage of housing funds, and has made it possible to inject huge

⁴⁸ An MBS is a pass – through security in which the borrower's monthly principal and interest payments and loan payoffs are passed directly to the investor net of servicing and guarantee fees.

quantities of funds into the mortgage home loan market by effectively quantifying and pricing the two most likely risks faced by investors in this area, namely that loans will either be prepaid or defaulted on. Over the past 30 years up to May 2003 Fannie Mae a federally chartered stock-holder- owned corporation alone had financed an estimated USD2.5 trillion to 30 million families using mortgage loans (Fannie Mae, 2003:1).

Securitisation manages prepayment and default risk by taking a pool of actual mortgage loans and, on the basis of a profile of the borrowers and the underlying assets, predicting the likelihood of these risks occurring and pricing the investment securities according to the risks. Whereas if an investor purchased single mortgage loans he/she would face unpredictable prepayment and default risk, securitisation distributes the knowable risks inherent in a pool of mortgage loans amongst a whole community of investors (Cornett and Saunders, 1999:264).

In practice, an entity - referred to as a conduit - purchases a large volume of mortgage loans: relatively few investors could afford the capital required to purchase these volumes. Through market research on repayment performance, mortgage loans are rated according to their borrower and asset profile. The conduit can thus accurately predict the likelihood of prepayment and default of the loans that it has purchased; it pools these loans and uses them as collateral for a security, with the cash flow from the security reflecting the cash flow from the underlying loan pool (Hendler and Pillay, 2002:3).

Three forms of mortgage-backed securities have emerged in the US housing finance system. The above is an example of a passthrough security, where the investor is exposed to the prepayment/default risk of an entire pool of loans rather than of a single loan, and for significantly less capital than if he/she had bought the equivalent value in individual loans.

Further securities have been created where investors do not share in the prepayment risk equally. A Collateralised Mortgage Obligation (CBO) creates different classes of mortgage

loans for the pool, where for example Class A absorbs prepayments first, then Class B and then Class C. Thus Class A has the shortest maturity term and Class C the longest. With greater certainty about the term of maturity, investors with different needs can choose more precisely the investment option suiting their needs. A further refinement of securitisation is stripped mortgage-backed securities, where the principal and interest payments are divided among two classes unequally (Cornett and Saunders, 1999:265). For example, one class may be entitled to receive all of the interest, the other all of the principal. The risk/return characteristics of these instruments make them attractive for purposes of hedging a portfolio of passthroughs and hedging other assets such as mortgage servicing rights (Fabbizio and Modigliani, 1992: 1-14).

The loan mechanism that has developed alongside securitisation is the Adjustable Rate Mortgage (ARM). Prior to the emergence of the ARM borrowers could fix their rates for the term. When interest rates decreased borrowers would typically refinance the loan. With the ARM mechanism the interest rate is reset periodically against a short-term index benchmark. The terms are six months, one year, two years, three years and five years. With high variable inflation - which characterised the world economy from 1975 to the late-1980s - adjustable rates were necessary in order to address the mismatch problem - i.e. the mismatch between interest paid to depositors and rates charged to borrowers. The ARM was developed to make mortgages attractive to investors during times of significant inflation and was popular with mortgage lenders because they shifted interest rate risk from the lender to the borrower (Fabbizio and Modigliani, 1992: 102).

Government intervention was a precondition for the emergence of securitisation and the development of a secondary market in mortgage-backed securities in the US. In order to provide liquidity for the secondary mortgage market, the US government created various institutions to invest in mortgage bonds and also to provide guarantees to other investors. In 1968 the Government National Mortgage Association (GNMA) ("Ginnie Mae") was established

to provide guarantees for securities issued by private entities. Currently, Ginnie Mae issues securities based on Junk Bonds (i.e. high risk mortgage loans), and these securities are backed by an explicit US government guarantee. In 1970 the Federal National Mortgage Association (FNMA) ("Fannie Mae") and the Federal Home Loan Mortgage Corporation (FHLMC) ("Freddie Mac") were established to purchase conventional mortgages and to issue securities using the pool as collateral. Currently Fannie Mae and Freddie Mac securities are backed by an implicit government guarantee. The outstanding passthroughs guaranteed by the three agencies referred to above, totaled USD 4 trillion in 2001, indicating the enormous impact of government intervention in the securities market (Fannie Mae, 2001, Freddie Mac, 2001 and Ginnie Mae, 2001). The total outstanding mortgage debt in the USA in 2001 stood at USD 6 trillion (Freddie Mac, 2001:8).

The market for agency passthrough securities is the currently the second most liquid, long-term fixed income market in the US. Thus the government has accomplished one of its goals: the expansion of housing finance through disaggregating the risks and assigning these to the parties best suited to trade them. However, the dominance of agency securities has crowded out the private sector, whose growth the government seeks to encourage in order to reduce potential liabilities resulting from its implicit or explicit guarantees (Fabbizio and Modigliani, 1992: 21-38).

Currently in the USA there is a wide variety of different mortgage types and a modest choice of institutions that the end –user can select to suite his personal financial and housing needs, however based on the secondary mortgage market system. In 1999 under the National Housing Finance Corporation a company called Gateway Home Loans was established to develop the secondary housing finance market in South Africa. Due to the slow pace of sales, purchases and development of new stock in the primary housing market resulted in a small number of qualifying loans that could be bought by gateway and packaged into securities and sold to investors. A weakness perhaps is that this initiative was ahead of its time. Two possible reasons could explain the failure of Gateway Home Loans, firstly, banks were not able to

originate conforming loans in volumes that could be securitized and secondly, the primary market sales, resales and the ineffectiveness in the legal system in dealing with defaulters contributed to low refinancing and turnover of the housing stock in the primary market (National Housing Finance Corporation, 2001a). This system is successful in the US because the economy and the housing market are efficient and works well without subsidies and other distortions like statutory interest rate controls (Hendler and Pillay, 2002:16).

In the US a prominent addition to the system was the provision of payment guarantees with the securities issued by Government Sponsored Enterprises (GSEs) such as Fannie Mae and Freddie Mac that fulfills the important role of offering investor confidence. The US government has also puts in place firm performance indicators and targets for these institutions to lend deeper into the lower end of the housing market. As a result the Community Reinvestment Act was born in the US in 1977.

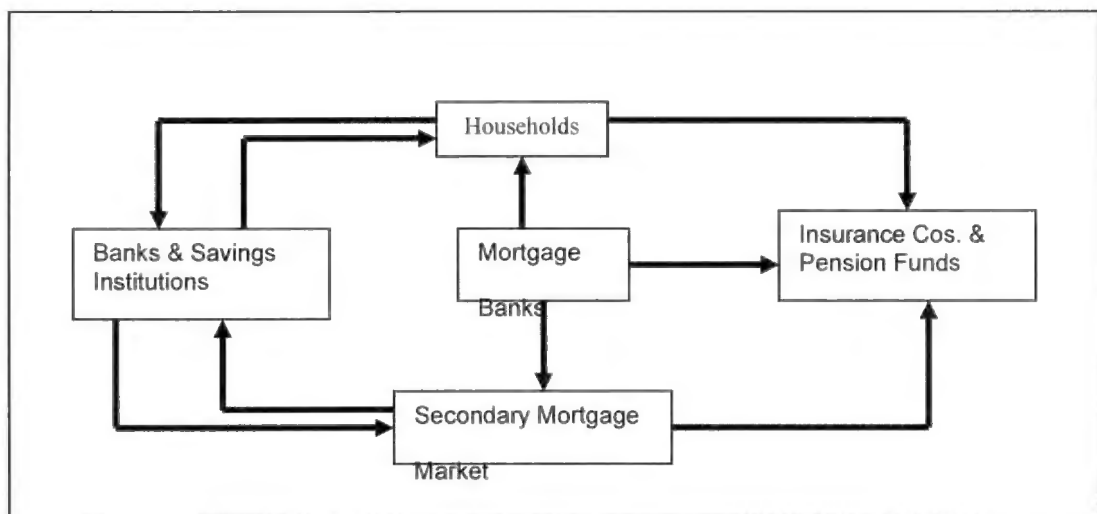


Figure 2.7 Housing Finance with Secondary Mortgage Market
(Lea, 2001:4)

This system exposed the investor to cash-flow risk of the security provided by the mortgage banks, as a result collateralized mortgage obligation (CMO)⁴⁹ was created to attract investors (Fabozzi and Modigliani, 1992:5-12). A major disadvantage that develops in the above system

⁴⁹ Collateralized Mortgage Obligation (CMO) is a security backed by a pool of mortgage loans that may be separated into various classes with varying maturities.

with respect to the GSEs and the state owned enterprise (SOEs) is their crowding out effect on the private sector in a developing mortgage market environment.

In the US Mortgage default insurance⁵⁰ (MI) of both private and government insurers are estimate to be over USD 27 billion (capital) in size (Blood, R, 2001:49). Mortgage insurance has become a key component in managing risks in the securitization process. According to Blood (2001) mortgage insurance are employed for two reasons:

1. To promote expansion of home mortgage finance and thereby increasing home ownership by inducing lenders to relax their credit criteria and standards,
2. To stimulate the flow of funding from the capital markets into the housing sector by reducing investment risk.

Historically MI's existed to expand and improve the primary market and as a by product of primary market growth, MI's started to accelerate the secondary and mortgage backed security market development. In South Africa the equivalent MI would be the Home Loan Guarantee Company, its role and performance in risk mitigation will be discussed in chapter three.

This model is useful for South Africa with respect to the utilization of legislative mechanisms to ensure that low –income households are catered for. In The US the Home Loan Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA) ensure that the low – income household as able to access mortgage loans. The HMDA data shows that loans to low income and minority household are growing at a much faster rate than loans to the non-minority households (Querica, McCarthy, and Wachter, 2003:31). This is largely achieved through the performance targets placed on Fannie Mae and Freddie Mac through their secondary finance role under a federal regulated process.

2.6.1.4 Secondary Mortgage Facility

A fourth type of institution that can be identified in the housing finance system is referred to a second tier bank or a wholesale housing bank. These institutions create liquidity and

⁵⁰ Mortgage default insurance protects lenders and investors against loss by reason of borrower default in situations where the home value is insufficient to fully pay the mortgage value.

Secondary Mortgage Facilities (SMF). In South Africa the NHFC is expected to perform this role. A similar institution was set up in July 1988 in India, The National Housing Bank (NHB), under an Act of Parliament. The bank is wholly owned by the Reserve Bank of India (RBI). In 2000, NHB has a capital base of Rs.3500 million, fully paid up by the RBI (Vora, 2000). The need to set up the bank in India as the apex organization has stemmed from various factors (Vora, 1999: 3). However, more eminent amongst them, the housing sector faced acute shortage of funds resulting in serious gaps in the housing supply. The absence of a specialized and mature housing finance system had resulted in inadequate finance for both individual loans and delivery of build-able/serviced land, building materials, cost-effective technologies and other related know how.

Thus, the principle mandate of NHB in India has been to establish a network of housing finance outlets across the vast span of the nation to serve different income and social groups in different regions and cover a wide range of activities related to housing and human settlement. The Bank was also entrusted with the responsibility of developing a healthy and self-sustaining housing finance system in the country. Mr. Vora⁵¹ of NHB states that it's the organizations endeavor to create a conducive and enabling environment, for the efficient and smooth functioning of the housing finance system (Vora, 2000). NHB believes in the full play of market forces but, it is very conscious of the reality that, on their own, market forces cannot solve the problems of the lower segment of the population within a reasonable time frame. NHB, therefore, intervenes selectively. NHB makes no distinction between public, private or cooperative sectors in achieving its objectives and promotes the specific complementarities in the roles of these sectors to serve its mandate.

In India, sources of finance include life insurance and provident funds, while the commercial banks makes a small contribution to the housing finance effort through subscriptions of bonds and debentures of the State Housing Boards and NHB. This source of funding accounts for 1% of the funds received from life insurers and pensions fund that is channeled into housing

⁵¹ Mr. Vora was Chairman of National Housing Bank of India during NHFC study tour to India in June 2000.

(Sundaram, 1987:68-69). To fulfill the NHBs mandate, extensive guidelines for promotion of new Housing Finance Companies (HFC's) are operational and are the only major private financial intermediary (Sundaram, 1987:68-69). NHB also participates in equity of HFC's on a selective basis. NHB's promotional efforts are also combined with the regulatory and supervisory measures to ensure the expansion of housing finance business. The role of NHB has also extended to the regulation and some liberalization of the housing finance system, more visible is its regulation HFC's, prudential and capital adequacy norms. During the authors visit in 2000, NHB has taken significant initiatives to test the development of a secondary mortgage market through securitization and issues of mortgage backed securities. The NHB has been successful in the establishment of numerous retail housing lenders, however, the major drawback has been in the over reliance on state subsidized funding. The net result of this has been the moving away of commercial banks to finance enterprise and other commercially viable activities. Therefore the long term future of NHB is going to depend on its ability to mobilize funding from sources outside the state at comparable market related interest rates, hence the organizations desire test securitization.

One of the main disadvantages of this system is that because many of the SMFs are created by the state, they tend to distort the market with interest rate subsidies or other forms of hidden subsidies. In the case of South Africa, the NHFC does not have an explicit government guarantee; however there is implicit government support. It is argued that the financial markets in South Africa do not perceive the benefit of an implicit guarantee and therefore perceive NHFC as having above normal risks, which are priced for. The net result of this is that NHFC raises capital from the financial sector at a higher than normal price (risk free rate⁵² plus a risk margin) which in turn is passed on to the borrower. On the positive side NHFC does not subsidize funding to its clients, pricing is based on market rates. However, the role of the NHFC as Secondary Mortgage Facility is curtailed because it has few retail intermediaries and none of them are able to originate and service large volumes of loans. The reasons for this situation are

⁵² The risk free rate is the interest rate on the safest investment, such as US federal government obligation. The South African context would be the Bond issued by Government that has a sovereign guarantee.

examined in chapter 4 in detail. The table below contextualizes the South African housing finance system with that of international examples with respect to performance. While the data is not comprehensive and representative to provide an accurate comparison it does capture the salient features and characteristics of housing in South Africa pre 1994. The data also has a limitation in that it is restricted to the Pretoria/ Witwatersrand / Veereeniging complex (PWV) which roughly equates to the current Gauteng Province.

However this data does provide a picture and shape of the housing finance system inherited by a new government.

Performance Indicator	International	PWV
1. Home price to income ratio ⁵³	5.0	1.7
2. Rent to income ratio ⁵⁴	0.18	0.065
3. Housing production ⁵⁵	6.8	3.6
4. Housing investment ⁵⁶	4.5	2.6
5. Floor area per person ⁵⁷	18sqm	9sqm (formal), 4/5sqm(informal)
6. Permanent structures ⁵⁸	90%	66%
7. Unauthorized housing ⁵⁹	24%	34%
8. Housing credit portfolio ⁶⁰	18%	39%
9. Land development multiplier ⁶¹	5.2	6.2
10. Infrastructure expenditure per ⁶² capita	\$318	\$62

Table 2.1 Comparison between International and Local Performance Indicators (Mayo, 1993:7-18)

⁵³ This is the ratio of the mean free-market price of a home to the mean annual income of the buyer.

⁵⁴ This measures affordability and is expressed as the average rental price to the average monthly income. The international mean is 0.18 with a range of 0.03 – 0.38.

⁵⁵ This is a measure of the total number of housing units produced in the previous year per thousand population. The international average is 6.8 per thousand population.

⁵⁶ This is a measure of total investment, formal and informal in urban areas as a percentage of gross city product.

⁵⁷ This is the measure of the median usable living space per person. The international median is 18sqms.

⁵⁸ This measures the percentage of housing units located in structures built of permanent materials. The international mean is 90%

⁵⁹ This indicator measures the percentage of the total housing stock in urban areas not in compliance with building regulations. The international mean is 24%.

⁶⁰ This indicator measures the ratio of mortgage loans to all outstanding loans. The international mean is 18%.

⁶¹ This indicator measures the average ratio between the median land price of a developed stand with that of an undeveloped stand. The international mean is 5.2.

⁶² This indicator measures the ratio of total expenditures by all levels of government on infrastructure during the year for urban population. The international mean is \$318 per capita per annum.

In summary, according to Meyer, (1995: 14) South African housing emerges as highly deficient when placed in an international context. House-price-to-income as well as rent-to-income ratios are low because of suppressed demands which also implies that the aspirations of would-be buyers are not satisfied. Housing production is also insufficient to meet the needs of the population while the investment in housing seems to be the lowest of the 52 countries that were compared. It is also noted that 34% of the structures or stock in the then PWV region were not in compliance with building regulations (Mayo, 1993: 7-18). A distinction is also made in that while South Africa had a high ratio of mortgage loans to all outstanding loans, these were mainly to White and not Black South Africans. Not only did the National Party Government destroy valuable housing stock through population removals under the Group Areas Act⁶³ (Maasdorp and Pillay, 1997:7), but it also explicitly prevented the construction of dwellings for non-white in white designated areas of South Africa (Morris, 1981: 3). The apartheid system also ensured that the per capita expenditure for Whites exceeded that spent on Blacks, as is confirmed in the above table. The pre 1994 shape of the housing finance system from a performance perspective, looked bleak (Mayo, 1993: 7-18).

2.7 Requirements for a Well Functioning Housing Finance System

Although the structure and performance of an efficient and effective housing finance system is a function of many endogenous and exogenous factors there are few that are prerequisite. Three main factors have been identified that shape housing finance systems, these are macroeconomic and financial policy, the quality of its financial infrastructure and urban laws, policies and practices (Renaud, 1998:767). The next section will briefly describe the role of these factors in shaping the housing finance system.

2.7.1 Macroeconomic and Financial Policies

At the macro level the integration with the world economy has become an important facet in the finance sector and therefore cannot be excluded from the housing finance sector. The effect of

⁶³ The Group Area Act was passed by the Nationalist Government to promote separate residential development for the different race groups.

globalization has resulted in a more efficient but smaller market place which most developing countries are too small to be able to afford without the benefits of access to global finance (World Bank, 2001:4). Telecommunications, video conferencing, internet connectivity and the relative ease with which one can travel around the world has made the world a smaller place. The speed at which transactions can take place also make the world a small place. As a result business can be conducted anywhere in the world through technology and with this comes the inherent globalization risk associated with political fall out or economic crisis. The cost of borrowings to developed and less developed economies is a function of assessment of sovereign risks the global markets are willing to bear. Very often, global market sentiment with respect to sovereign country risk evaluation of the performance of the key traded sectors on the stock exchange, determine the cost of borrowings (Cornett and Saunders, 1999:453). Events like war (whether local or international) could influence foreign policy, which in turn also have a significant impact on financial markets that raise or drop market share prices (Zeldes, 2001: 12). The September 11, 2001 attack on the New York World Trade Center Towers demonstrated how the US economy was influenced by sentiment and share prices on the stock exchange dropped with similar effect on a global scale.

Further natural disasters like the droughts in central Africa in the early 1980s and the Earthquakes in India during the late 1990s can also influence global pricing by influencing the demand and supply of goods that are exported or imported. All of the above influence exchange and credit policy. Developing economies⁶⁴ whose economic policies are not sound or based on market principles are affected by inflation in an adverse way. In South Africa the Growth, Employment and Redistribution (GEAR) policy has served to have a strong influence on the macro-economic indicators and in specific headline inflation was brought down from 14.7 (1980-1989) to 7,2% (1995- 1999) (Bamber,et al 2001:156). In the case of South Africa, although the Reserve Bank maintained strict inflation targeting, exogenous factors such as the above placed the currency under pressure that had a negative impact on international trade.

⁶⁴ Developing Economies refer to countries whose level of socio-economic, human, infrastructure and political system and standards are still in a phase of development and evolution.

For developing economies interest rate and credit policies need to be well managed and sound to promote investment. The theory here is that the more savings either on the side of government from the proceeds of privatization or from the point of individuals in private bank accounts, the greater the ability of the finance system to invest in infrastructure that could provide the impetus for growth and the expansion of the low income housing sector. Bamber, et al, (2001:156) maintain that the sustainable growth rate of the South African Economy is likely to be in the order of 1.5% per annum and they ascribe this low rate to the impact of HIV / AIDS, the low levels of fixed investments and the scarcity of skilled labour relative to low productivity. Therefore the outlook for South Africa in terms of increasing savings to boost investment in the productive economic sectors is negative.

Domestic price stability is also a component that needs attention to ensure that there a positive level of competition and no destructive price war. The true forces of competition rooted itself in the South African financial sector in early 1983 when the banks started to compete on the basis of price or interest rate. This was only possible through legislative or policy changes. In 1993 The Register of Co-operatives was abolished and later in 1996 the Banks Act began to regulate and regularize the local banking system. The adoption of the GEAR policy and promulgation of the Banks Act provides a framework which is suggest that South Africa's macro-economic and financial policies are under control and stable. This outlook provides the necessary investor confidence and improves South Africa's sovereign rating. South Africa's growth does not only depend on monetary policy, but required a range of structural reforms, such as privatization, trade and labour market reforms and industrial and infrastructure restructuring. (Joffe and Mnyande, 2001).

Chile serves as a good example when in 1977 its government introduced reforms to government policies, institutions, and regulations to transfer to the private sector the bulk of the responsibility for housing, enabling housing markets to work more effectively (Rojas, 2001:461). During the 1980s there was almost universal acceptance of reducing the role of government in direct provisory roles in the economy and increased reliance on the private sector (Israel, 1990;

World Bank, 1988; Keivani and Werna, 2001:66). There was an increased focus by developing countries on developing an enabling strategy for public sector support of private market activity in housing provision (World bank, 1988; LaNier, et al.; 1987; Cohen, 1983; Kimm, 1987; Linn, 1983; Loh, 1887).

2.7.2 Financial Infrastructure

In markets that are regulated by laws and regulations that relate to Governance and Corporate behavior, practices and procedures, investors and financiers are more willing to participate and their risk appetite is reflected on the pricing of their products and financial instruments (Renaud, 1999:767).

Internationally the General Accepted Accounting Principles (GAAP) has become the norm for corporate accounting; however the level of sophistication of accounting system varies from country to country (Renaud, 1999:767).

The Central Bank plays a vital role in many countries to regulate, supervise and monitor banking institutions. This ensures that banks act in a responsible manner and that deposits made by the public are safe. In South Africa both global competition and internal regulatory control have impelled a sizeable rollback of retail banking services and branches (Baumann, 2001:1-16).

Efficient payment systems are also important components within the housing finance system. Timeous payment of principal and interest and the transfer of payment to third parties via efficient payment systems is a pre-requisite for the more sophisticated housing finance systems. This factor also gives the investor the confidence that he will receive his return on investment on time without having to spend additional resources on special recovery methods.

2.7.3 Urban laws, Policies and Practices

The laws governing property rights is an important pillar to support the investment and lending community to have comfort that the assets funded are protected and have value. There needs to be adequate laws in place to be able to efficiently evict homeowners that are in default and

proceed with the sale of the attached property to the next willing buyer. This is the legal infrastructure required to enforce liens over properties financed and in more sophisticated finance systems where assets are securitized, additional legal requirements are necessary to facilitate secondary mortgage markets work. Van Order (2001:14) states that good information about house values and the ability to use the house as security comes from developing foreclosure laws and developing good systems for recording title and transactions.

Tenure is also vital in some markets where mortgage instruments are used, but there is also need to recognize that there are other alternatives like “rent to buy”⁶⁵, installment sales⁶⁶ and “permission to occupy”⁶⁷ that could be financed if the risks are well understood (Aryian and Pillay, 2002).

Economically sound markets expect that at a local level planning norms and standards can be enforced and maintained. This is of particular importance in incremental housing where the funding institution is assured that the property that is being developed has an appropriate asset value. Caution must be exercised that the finance system does not promote slum and shantytown developments, which supports Renauds (1999:761) contention that the shape and form of cities reflect the way in which they are financed. In most developing countries the major drawback of residential land and housing policy has been that housing is considered in isolation from the building industry and the broader economic activity which constraints the development of an efficient residential market (Sivam, 2002:528).

The urban practice of adequate provision of residential infrastructure can also encourage housing development and supply, it not only enhances the values of houses but also make it attractive for developers to participate and contributes to orderly development of social and economic infrastructure than can be financed with the potential of environmental degradation associated with poor planning and settlement practices (Ogu and Ogbuozobe, 2001:483).

⁶⁵ Rent to buy is a phrase referred to a process where the potential homeowner rents the property initially and then after a specified period has an option to buy at a pre-determined price.

⁶⁶ Installment sale refer to a transaction where the seller retains ownership until the purchaser has paid the loan or settled the purchase price as agreed under the contract.

⁶⁷ Permission to occupy is unique to the Kwazulu Natal Province where large tracks of land are under the control of traditional leaders or chiefs. Under this system the chief is able to allocate land to his followers/people in his tribe for which the Department of Home Affairs issues a certificate, which indicates that the chief has given permission for the certificate holder to occupy the allocated piece of land.

2.8 Consequences of Poor Access to Housing Finance

The main consequence of poor access to housing finance is the negative impact on housing affordability. With the worsening of the income distribution has come the shortage of housing for people with very low incomes contributing to the rise of homelessness (Renaud, 1999:760). Here both the cost of the end product as well as the cost of accessing finance is considerably higher. This is true in the South African scenario where risk pricing drives up the cost a developer or potential home-owner has to pay from private sources of funding. Therefore, affordability plays a significant role which is at the heart of households efforts to improve their housing situation (Adebayo and Adebayo, 2001:1).

As an indirect consequence, the high cost of finance delays the home ownership process. The time taken to enter the real estate market as a owner is longer.

Developers are an important component to the housing delivery process and if their access to finance is constrained, then long building periods can be experienced. This will increase the backlog situation, as delivery is unable to keep up with demand (Hendler, 1993:3).

In countries like Brazil, Chile, and India there is also noticeable inefficiencies that occur in the use of municipal infrastructure. The lack of finance forces unorganized settlements to develop and a key feature of this form of development is the lack services and bulk infrastructure logjams (Tomlinson, 1995a: 23). In cases where services are installed later on there are serious technical infrastructure problems that ultimately lead to poor utilization of services.

In the United States the real estate agent is a key player in the housing finance industry. Real estate agents or mortgage originators are the first point of contact to the potential homebuyer and they originate more than 80% of the housing sales (Guttentag, Lea, 1999). The importance of real estate agents in the South African low income housing finance system was acknowledged as a missing component of the loan origination process (Diamond, D and Hoek-Smit, 2000:9-42). The NHFC Unblocking Finance for Affordable Housing study also confirmed that 43% of the potential homeowners used developers as the first point of call when seeking to

purchase a home (National Housing Finance Corporation, 2001a:69). However, because of historical problems and reasons that are discussed in the forthcoming chapters, developers have abandoned this market and are active in the market that caters for the middle and higher income categories. The lack of finance results in a small inefficient real estate industry.

The last consequence is the introduction of subsidies by governments to address areas where market failure exists. As discussed earlier, subsidies, if not well designed, can lead to market imperfections which could result in dependency on the state resources, this phenomenon might take years to normalize.

2.9 Role of International Aid and Donor Agencies in Housing Finance

A myriad of international donor and funding agencies are involved in providing both technical assistance and funding for development and in specific for housing. In the 1960s it was argued that aid assistance came with numerous conditions that led to the underdevelopment of many third world economies, (Cockcroft et al, 1972). The 1960s and 1970s was also a period when the World Bank and the International Monetary Fund implemented structural adjustment programmes to gain control of specific economies through indebtedness. In the case of South Africa the level of international borrowings is low and is strictly controlled by the South African Reserve Bank. In other countries like, Brazil, Mexico, Argentina and Kenya, the level of international borrowings far exceeds their capacity to repay. This has a negative impact on their economy and the ability to grow organically. Further, poverty alleviation is a function of the amount of aid that is received. Some economies have become dependant on aid support and are unable to exist on their own. The World Bank continued to advocate that for “ higher and sustained growth in the future South Africa must set about reviving the private sector, increasing employment growth and narrowing income and other inequalities between blacks and whites” (World Bank, 1993a:5). This implies that aid come with prescriptions that attempts to focus the growth of the South African economy in the following areas:

1. Restructuring government expenditure and increasing spending in public infrastructure;

2. Rapidly developing skilled and unskilled labor;
3. Job creation in the small business and agricultural sector and
4. Incentivising manufacturing towards exporting of goods.

While these are useful strategies, this approach adopts the supply-side, neo-classical paradigm and hence emphasizes efficiency rather than equity, it does exclude some of the social and poverty related issues which need to be addressed by government that can create an enabling environment for the above strategies to be implemented.

The main issue with aid funding is that it makes it difficult for markets to work efficiently. Aid funding distorts markets and often it imports models and technology that is not suited to local conditions. In the housing sector in particular, any form of subsidization will distort market prices and crowd out the private players. This does not mean that the concessional finance that aid agencies offer has no role to play; it means that such support must be applied in a manner that promotes markets to develop or deal with areas that private sector players are not willing to deal with as result of perceived or real risks.

2.10 Summary

In this chapter the role of housing in economic development is firmly established. In Countries like Thailand, USA and Chile high investment in housing has had other multiplier effects on the economy and the living conditions of its people. The theory reaffirms that governments have a key role to play in respect of providing an enabling and stable policy environment under which investments can take place. Government policy with respect to inflation targeting, policies for employment creation together with income creation, macro and economic policies and ensuring property rights is necessary to create a conducive environment for socio-economic development. The Private sector of which the banking and financial sector, if effectively functioning as a system, is warranted by its causal link to growth, macro-economic stability and poverty reduction. South Africa's economic policy is underpinned by the GEAR strategy which sets the scene for a balanced approach to the housing problem. The late 1990's marks the shift

from a mass delivery policy to a delivery process that seeks to ensure integration and sustainable provision of low income housing.

Given the socio-political history of South Africa and the interest of diverse groups within the housing stakeholders a single or narrow approach to resolving the housing crisis would be inappropriate. This chapter investigated four different approaches which include the Social / Welfare, Human Capital, Political Economy and Market Driven approach. The Social / welfare approach takes into account the spatial variations with respect to well-being among different groups within society and to evaluate to what extent the common needs of that society can be satisfied. Behavioral techniques associated with perception of the environment assisted in trying to quantify individual own satisfaction of objective reality.

The United Nations Organization developed different criteria to measure levels of well-being under the welfare approach. Many of the criteria were difficult to measure. The Social Indicators movement went a step further and selected subjective and objective indicators that could measure social conditions. The establishment of basic needs by Maslow (1954) also contributed to defining lower and higher order needs and indicate the relative location of housing within the different order of needs. The human capital development approach on the other hand placed emphasis on the measurement of the Human Development Index, which measure life expectancy, literacy rate and poverty level. The key assumption in this approach is that investments in improving human capital expands the knowledge base of humans as a result improvement in living conditions of humans occurs. The Political Economy approach assumes that all markets are harmonious, self-regulating mechanisms, which fairly allocates scarce resources according to output. The trade off model was modified to an Urban Economics model to reflect market disequilibrium and linkages between housing and the global markets. South Africa's imbalances associated with apartheid needs to be addressed before such an approach can make a contribution to the housing crisis.

The final approach supports the notion that markets on its own can create the quality and quantity of housing assets based on the affordability of households. The main assumption is that markets are willing to take on risks provided that there are adequate financial rewards or incentives.

Given the level of economic development in South Africa a dialectical approach would best deal with housing backlogs and socio-economic inequalities.

To deal with the history of non-payment and the experience of the mortgage lenders an alternative model is suggested to assess housing credit. Credit risk should use ability to pay, collateral arrangements and behavior and attitudinal scores in rationing credit.

The role of a housing finance system in economic development is emphasized through the evaluation of different systems utilized internationally. Housing finance can be intermediated through depository, mortgage banking, secondary mortgage facility and securitization type systems. South Africa in general has some elements of these systems which could expand banking infrastructure to cope with low income housing finance. The effectiveness in all of the different housing finance systems has to do with good macro-economic and financial policies, existence of financial infrastructure and urban laws, policies and practices that facilitate access to housing finance. In economies where the above preconditions are not met, housing finance systems remain ineffective and access to retail finance is constrained. To assist with international best practices many donor agencies are involved in providing policy and financial support. Support from donor agencies and multilateral agencies often offer genuine development support while at times it's above promoting expansion and capturing less developed markets with their products, services and technology.

Chapter Three: The South African Housing Policy, Finance System and Market.

3.1 Introduction

In the previous chapter it was shown that after more than 40 decades of apartheid planning, racial segregation and unequal distribution of funding for low and moderate, housing a new policy shift was required to redress these imbalances. In South Africa a new housing policy was drafted and implemented in 1994. The main aim of the policy was to provide a framework under which low-income households and the indigent can get access to decent housing. The new housing policy also set in motion challenges for the finance system to respond to the credit needs of low-income households. Prior to 1994 the banking industry experienced increased mortgage defaults and had withdrawn from the low income housing market. The withdrawal of credit from the market and the introduction of alternative players achieved mixed performance in alleviating the housing backlog. This chapter aims to describe key facets of South Africa's housing policy since 1994⁶⁸. The chapter is structured as follows. Section 3.2 discusses the evolution of the housing policy. In section 3.3 the housing finance market is described in detail. Section 3.4 and 3.5 of this chapter focuses on the different role players that are involved with low to moderate income housing finance. Section 3.6 assess the performance of the Housing finance system in South Africa the chapter concludes with a summary.

3.2 Evolution of the South African Housing Policy

Two factors that have shaped the current housing policy and subsequent finance system are the economic challenges facing South Africa and the political mandate of the new government. These are discussed in more detail below.

⁶⁸While it is recognized that prior to 1994 there was a housing policy in place, it was aligned with the apartheid ideology that promoted separate development for the different race groups. This study will therefore focus on and understand the salient policy dimensions and low-income delivery performance since 1994 under a new political dispensation.

3.2.1 The South African Economy: Challenges

The dualist nature of the South Africa economy has produced a huge gap between those that's wealthy and those that live in poverty. South Africa's economy is characterized by low levels of industrialization, high population growth rates, widespread poverty and inequality (6.1% growth rate between 2001 and 2006, South Africa Survey, 2001/2002; the overall Gini coefficient for all population groups in South Africa was 0.61⁶⁹, South Africa Survey, 2001/2002;224). Central to the debate on wealth creation and accumulation between government and National Economic Development and Labour Council (NEDLAC) is the issue of access to property and the right to trade in property that can form the basis for wealth creation. If this challenge can be dealt with, then the possibility to distribute wealth more equitable exist and could reduce poverty.

From a housing perspective, while government continues to deliver subsidized housing the demand for housing credit continues to grow. The main challenge then is to develop an economy, more specifically a finance system, that can cope with the characteristics of a dualist economy where there are no denials of loans and no waiting lists for housing that is a result of inadequate credit. While the above is the ideal situation it does create a moral hazard problem if borrowers feel that they are entitled to housing credit. Stiglitz and Weiss (1981) argue that the easier access to credit becomes the higher the moral hazard. In South Africa, given our past experience with credit risks in mortgage lending, it is likely that banks will use other methods or alter credit criteria to ration credit. This is a challenge that needs government support to remove moral hazards (credit entitlement) and the lending sector to refrain from using discriminatory practices, redlining and increasing interest rates to credit ration. In cases where subsidies are freely available from government and a loan component is required to complete the funding package creates a pricing or risk problem to the lender. In this situation it should be assessed whether the loan portion was accessed at any given price or interest rate. The return to the

⁶⁹ The Gini co-efficient is used to measure equality and inequality within countries or between groups of people. It assigns a value between zero and one. A score of one means perfect inequality and a score of zero means perfect equality.

lender at first rises with the interest rate, but after a point declines, because the rate becomes so high that the probability of default, and therefore the likelihood of loss, becomes correspondingly high so that the lender may in fact lose more at higher interest rates (Stiglitz and Weiss, 1991:393-410). However, credit rationing based on a 25 percent payment to income ratio and taking into account household expenditure and repayment (see model in section 2.4.4 in chapter two) behavior could improve accessibility of home loans.

3.2.2 The New Political Dispensation for Housing

In December 1994 the department of housing compiled its first "White Paper on Housing", The White Paper's general emphasis in approach to housing in South Africa was to confirm the role of the state in vigorously promoting access to housing, within its resources, but not to guarantee a house for each citizen (Donaldson and Marais 2002:186). The role of private capital as the main source of credit to accelerate access and quality of homes was also pivotal in the government's strategy on housing delivery.

In trying to understand the housing finance system in South Africa it is important to highlight the following general principles, which sets the framework for housing development (National Housing Code, 2000).

1. Prioritized housing needs of the poor
2. The housing process should provide as wide choice of housing and tenure options, be economically and financially affordable and sustainable and be administered in a transparent and equitable manner.
3. Housing development should occur in an integrated manner that creates socially and economically viable communities
4. Government should encourage and support all individuals and community based bodies in fulfilling their own housing needs in a way that ensures skills transfer and community empowerment
5. The active participation of all relevant stakeholders in housing development should be facilitated

6. Individuals and communities affected by housing development should be meaningfully consulted
7. The gearing of government investment in housing by additional finance and other investment by the private sector and individuals should be facilitated
8. The sustained protection of the environment should be promoted.

The National Housing Code identified seven key strategies within which the housing policy is constructed (National Housing Code, 2000).

1. Stabilizing the housing environment
2. Mobilising housing credit
3. Providing housing subsidy assistance
4. Supporting the people's housing process
5. Rationalizing institutional capacity
6. Facilitating speedy release and servicing of land
7. Co-ordinating government investment in development

To achieve the above a broad range of policy initiatives and different organizations have been created. The performance of these institutions will be critiqued in section 3.4 in this chapter. In November 1997 the Housing Act was assented to by the President and implementation began in April 1998. Two important principles were enshrined in the Act viz.

1. The Housing Act upholds Section 26 of the constitution, which provides for all South Africans to have the right to have access to adequate housing.
2. The Act recognizes that housing fulfills a basic human need, which has to play a key role in the national economy, which could lead to the socio-economic well being of the nation.

One of the main problems with the first principle is the definition of what constitutes "adequate housing". Is adequate housing a serviced site, a brick and mortar four-roomed house, a shack

or a rental unit provided by the state? The second issue with respect to this principle is centered on the states ability to provide access to housing given its limited resources.

The World Bank (1993b:10) confirms the housing sector must be seen as a key part of the economy and not solely as a welfare issue, requiring the transfer of physical or financial resources to households unable to house themselves adequately. In this study empirical evidence presented in chapter four demonstrates that housing can stimulate economic growth and improve quality of life. Chile, for example, has allocated approximately 10% of its fiscus on housing and it is expected that this injection of funding through housing programmes will stimulate economic growth in its own right (Diamond, 1997, Rojas and Greene, 1996).

The South African Government's housing programme is founded on seven strategies that have been translated into different initiatives to facilitate the delivery of housing and housing credit to the majority of the population (National Housing Code, 2000). The table below gives a brief description of the range and depth of activities put in place either jointly or alone by the state.

STRATEGY	POLICY INITIATIVE	DEPTH OF ACTIVITY
1. Stabilising the housing environment	Record of Understanding	Banking Code Mortgage Indemnity Fund National Home Builders Registration Council Servcon Housing Solutions Masakhane Campaign Thubelisha Homes
2. Mobilising Credit	National Housing Finance Corporation Nurcha Social Housing Foundation	On balance sheet funding Off balance funding Guarantee Programs Joint Venture Development Fund
3. Providing subsidy assistance	Housing subsidy programme Discount Benefit Scheme Hostels Upgrading programme Bulk & Connector Infrastructure Grant	Project linked Individual Consolidation Institutional Relocation Rural
4. Supporting the peoples housing process	Policy Development	Supporting Organisations Funding Decision making Peoples Housing Partnership Trust
5. Rationalising institutional capacities	Housing Act, 1997	Institutional Audit
6. Facilitating the speedy release and servicing of land	Development Facilitation Act, 1995 Legislation and policy for the release	Local Governments not ready to support

	of land Housing and infrastructure Services Technology choice and infrastructure on site	
7. Co-ordinating state investment in development	Urban development framework Rural development framework Local Government transition Act Co-ordinate government	Housing Minmec Heads of housing committee Budget management committee Integrated and co-ordinated information systems

Table 3.1 Summary of Initiatives Arising out of the Seven Strategies
(National Housing Code, 2000)

3.2.2.1 Strategy One: Stabilizing the Housing Environment

The first strategy was designed to eliminate abnormal political risks from the lending environment, which were represented by private sector lenders. The main thrust of this strategy was to remove risks associated with land invasions, payment boycotts, high levels of building materials loss, time delays due to strikes, and community actions and policy uncertainties. The strategy attempted to build trust and confidence in the investment community to return to the low and moderate income housing industry. To achieve this goal the Record of Understanding (RoU) was signed between government and the private sector. The Housing Consumers Protection Measures Act, 1998, was passed and implemented. The Banking Council also established the Banking Code of Conduct to ensure that their members conform to a code of conduct that is fair, non-discriminatory and supported by prudent business practices. Government on the other hand embarked on the Masakhane Campaign in 1995 to encourage residents and would be homeowners to be responsible residents by paying their housing finance, municipal service accounts and avoid the temptation to participate in voluntary defaults (Hanekom, 1997:9). The RoU aimed at increasing the availability of credit and developing risk interventions through institutions created by the state and someone a partnership with the private sector. These institutions are discussed in section 3.4.2 in this chapter.

3.2.2.2 Strategy Two: Mobilizing Credit

This strategy is linked to the above strategy because it also seeks to promote higher investment lending from the private sector. The intention of this approach was to develop ways in which commercial risks could be absorbed by the public sector and to create financial instruments that could share credit risks at all levels in the housing delivery process. The idea in this strategy was to ensure that the bulk of the funding can be mobilized from the private sector through normal banking type services (National Department of Housing, 2000). To facilitate this NHFC, Nurcha and SHF were created to work with the private sector to share risk as well as promote financial sector deepening in the housing lending environment. These institutions are discussed in section 3.4.2 in this chapter.

3.2.2.3 Strategy Three: Providing Subsidy Assistance

The strategy to provide subsidy assistance to households are underpinned by the high levels of unemployment and relatively low average wage levels that makes conventional private sector mortgage loan funding unaffordable in South Africa. Although the subsidy is constrained by fiscal considerations it is aimed at providing some financial assistance to those earning less than R3500.00 per month household income and a full subsidized housing unit to those that have incomes less than R1500.00 per month (Hassen, 2003:122). This strategy also envisaged that some of the beneficiaries will be able to blend or lever additional housing credit through the use of subsidies. However, the National Department of Housing indicated that the credit linked subsidies declined from 8% to 2% in 2001 (National Department of Housing, 2001).

3.2.2.4 Strategy Four: Supporting Peoples Housing Process

This strategy can be seen as complementary to the subsidy approach, because its providing an alternative to the supply driven approach to state housing. Intrinsic in this approach is the use of own labor (non-financial equity contribution) and equity contribution in the form of savings. The concept encourages the use of own and family labor and the expectation that the homeowners will be able to get value for his money by following a non contractor route.

Government strategy is to provide a mechanism or instrument to those who are willing to take responsibility for housing themselves.

3.2.2.5 Strategy Five: Rationalizing Institutional Capacities

Before 1990 the public housing sector was fragmented, inconsistently funded and lacked role definition and accountability that was associated with the separate development policies (National Department of Housing, 1994). The Housing Act of 1997 brought about changes that were consistent with the new political dispensation. The main aim was to rationalize institutional capacities to ensure a single and transparent system that operates within the framework of the National constitution and incorporates the principles of the National Housing Policy (National Department of Housing, 2000).

3.2.2.6 Strategy Six: Facilitating Speedy Release and Servicing of Land

The rate and volume of housing delivery is a function of how quickly land and more specifically service land can be developed and released for occupation. In 2001 South Africa witnessed land invasions in Bredell in Gauteng and Khayelitsha in the Western Cape and no-matter what the reason for the illegal land occupation it is an indication that communities are becoming frustrated with the pace of housing delivery (Ehlers, 2001). Administrative delays also impacts on investments and the cash flows of developers and financiers and this is seen as a risk that is priced for in the low end of the market. If the release of land is slow, both the credit and beneficiary environment are negatively affected. It is this recognition that has led government to pursue a strategy that can speed up the delivery of land for residential development. The Development facilitation Act of 1995 is by far the most comprehensive Act promulgated to assist local government with planning guidelines to promote service delivery, local economic development and delivery of land for housing in an integrated manner.

3.2.2.7 Strategy Seven: Coordinating State Investment in Development

The aim of this strategy is to maximize the impact of “state’s investment” through proper co-ordination and planning. The intention is to encourage all government departments and parastatals to integrate their planning and specifically their funding programmes to ensure the best possible development impact, as well as to provide a framework to ensure that government departments are able to detect inefficient expenditure and align projects or plans of other public entities. The responsibility for this lies with local government and the main concern relates to local government’s limited access to financial and human resources to co-ordinate plans and integrate programmes and projects. Despite the change in the policy direction and the physical housing environment, the delivery of new or the refinancing of existing housing in the R20 000 to R80 000 market was slow and no scale was achieved during 1996 to 2000 (Diamond and Hoek- Smit, 2000). The lending community and the private developers still did not return with the anticipated financial investments to kick-start the industry.

As will be illustrated later in this chapter (see section 3.4.1) the other institutions set up by the government also had limited impact in addressing the market failure that existed in lower end of the housing market. Another feature of the Housing Finance System in South Africa is the introduction of a National Housing Programme through the Housing Act of 1997. This programme provided the policy framework to implement schemes that has had a profound impact on the housing finance system in South Africa. The first was the Housing Subsidy Scheme (HSS), the second the Discount Benefit Scheme (DBS) and last the Public Sector Hostel Redevelopment Programme (PSHRP). The housing subsidy scheme introduced in March 1994 was the most prominent state instrument that began to have a profound effect on the housing morphology and finance system. The housing subsidy scheme benefits designated income groups (household income less than R3.500 per month), who have not owned fixed residential property previously, and who satisfy a range of prescribed criteria (National Department of Housing, 2000).

The subsidy scheme comprises six components that can be applied to different circumstances.

The different subsidy mechanisms are summarized below.

Housing Subsidy Mechanism	Intent of Subsidy
1. Individual	Stepped scale subsidy granted on the basis of income to first time buyers or individuals to purchase a home approved by the scheme.
2. Project Linked	To assist qualifying beneficiaries acquire ownership (including delayed ownership) in projects developed by local authorities or Private Developers
3. Institutional Subsidy	To provide subsidized housing through institutions that enable beneficiaries to access affordable rental (including delayed ownership or alternative forms of tenure) housing in projects developed by Housing Institutions.
4. Relocation Assistance	Assistance offered to borrowers who are at least three months in arrears and who need to be relocated to alternative affordable accommodation.
5. People's Housing Process	Grants to support individuals through a self-help process. NGOs assist with technical assistance.
6. Rural Subsidy	Finance housing in rural areas with the aim to regularize the land rights process in undisputed areas.

Table 3.2 Summary of Different Subsidy Mechanisms
(National Housing Code, 2000)

In analyzing the above policy initiatives there seems to be no area that served as a deterrent preventing greater private sector investment and participation in housing. Therefore, from a theoretical perspective the policy positions and prospects appear to be sound but yet the delivery of housing on scale still remains a problem. Since 1994 to 2001 the state delivered or have under construction 1.2 million RDP units, this translates into 171 000 units delivered per annum which is short of the 200 000 target set by government to eradicate the backlog by 2010 (National Department of Housing, 2002). The argument now is whether the policy is robust enough with respect to rewards and incentives and whether the physical environment in which funding takes place has not sufficiently normalized to allow private sector players to actively

participate. Since 1994 government through many programmes has addressed the levels of violence and widespread rental and service boycotts. However, financial institutions still claim that in certain areas that it is still difficult to foreclose effectively and efficiently on a mortgage loan. The claims from the banking sector remain pretentious because it is based on the defaults rates that vary between 8% and 20% of which none of the banks will back up with accurate statistics. Given this problem it is possible that policy is not adversely contributing to the slow delivery of housing which is suggestive that other factors could impede delivery of housing. These factors will be discussed in more details in the foregoing sections.

3.2.3 Policy on Ownership versus Rental

In South Africa, as in most other countries, recent housing policy has unequivocally focused on owner occupation (Kumar, 1996:753) with a wide variety of alternative tenure options. In South Africa public rental has been particularly associated with the apartheid separate development policy. In 1983 tenants of half a million public housing units were given the option of purchasing their property at a discount, by 1989 less than half of the properties had been transferred (Parnell, 1997:891-906). This possibly indicates that there is still a demand for large scale public rental. However, in 1997 a new policy shift promoting rental housing to improve inner city regeneration and high density housing development ushered in new problems. Within this sector of the market also evident is the absence of an informal sharing and letting which seems to constrain upgrading and the augmentation of income. A formal policy was not introduced simultaneously to guide the development sector of the market. Some of the problems and challenges experienced by this segment of the market are discussed further in this chapter under the relevant institutional form. In 2000 the National Department of Housing has began the development of policy guidelines to assist the further development of the rental sector which could assist analysts measuring the performance and success of the policy instrument under new political and economic conditions (National Department of Housing, 2003).

3.3 The Housing Finance Market in South Africa

In 1996, South Africa had an estimated total population of 40.6 million people. Of this only 13.8 million (34%) had been regarded as economically active (Statistics South Africa, 1996).

A total of 4.7 million (11.5%) of the economically active group were unemployed. Figure 3.1 illustrates the comparison of the monthly income profile with the economically active population.

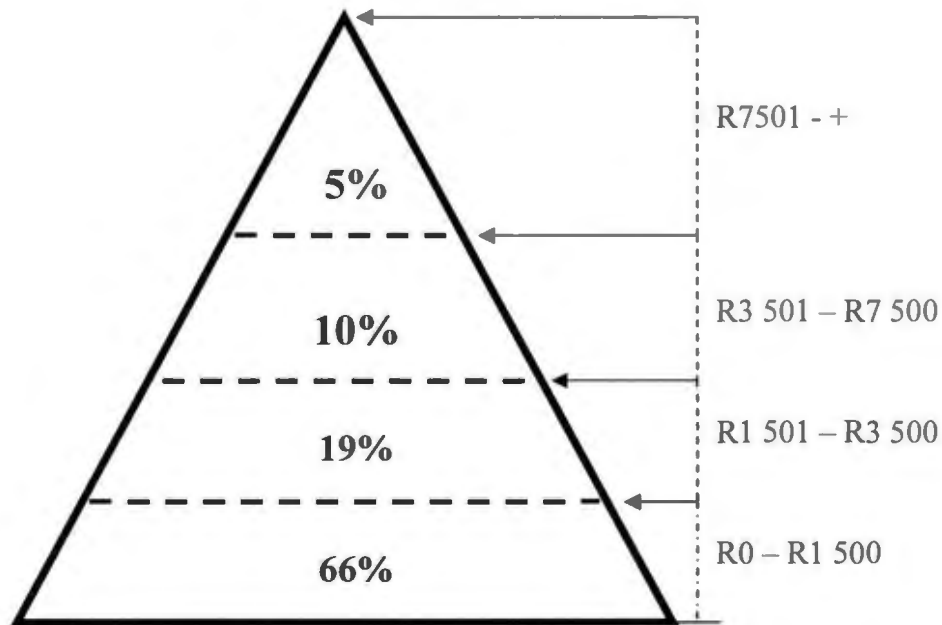


Figure 3.1 Income Distribution of Economically Active Population

(Statistics South Africa, 1996)

It is evident from Figure 3.1 that approximately 66% of the economically active population fall in the income group less than R1 500 per month and 85% in the less than R3 500 per month group. In cross tabulating the above data it was assumed that the unemployed section of the population fell into the zero income brackets. The banking council reported in 2001 that the banking sectors consolidated mortgage exposure was R299 billion (Banking Council Annual Report, 2001). The illustration above points out that about 10 % of the total population makes up this exposure. It therefore remains that a large percentage (85%) of the population has limited or no access to housing finance. Given the backlog that emanated from the legacy of apartheid and the fact that the majority (85%) of the population earn less than R3500.00 per

month, the state in 1996 introduced a capital subsidy scheme (Discussed earlier in section 3.2.2.7 in this chapter).

The South African Housing market is characterized by widespread poverty that reflects low affordability levels. In 1999 the Human Development Index for South Africa was 0.702 (UNDP, 1999). This index comprised of deprivations in three areas of human life – life expectancy, literacy and income. DRI-WEFA⁷⁰ estimated that 48% of the population lived in poverty⁷¹ in 2000. The South African poverty income levels range from R551.00 for one individual to R2349.00 for a household of eight members or more (Kane-Berman, 2001/2002). Therefore if every household consists of 3 “equivalent adults”, a 2002 household monthly breadline income of R1653.00 is derived.

Disposable income or affordability is a function of subtracting the 2002 household monthly breadline income from the 2002 average monthly household income, the disposable monthly income is calculated (R1653.00 - x). Assuming that the balance would be available to the household to take up long term (± 20 years) housing loans, and given that the amount is less than 25% of the gross household income at the time of taking the loan, the resultant bond value is calculated assuming an interest rate that corresponds with the financier’s perceived risk. In many instances mortgage finance is unaffordable to those earning less than R3500 a month and this group relied on other forms of credit to finance their housing requirements.

In the pyramid above, category one represents those people that earn more than R7500 per month household income. In this segment of the market house prices are greater than R150 000 and the physical product is formal structure. This category is also able to access traditional mortgage finance from commercial banks at prime or prime minus rate depending on the risk profile of the borrower. Due to income levels this segment is not subsidized. It is also possible

⁷⁰ DRI-WEFA is a research consultancy (Now Global Insight).

⁷¹ DRI-WEFA defines poverty as the number of people living in households with an income less than the poverty income.

to have house values that are less than R150 000 in this category but it is not the norm, the main factors here appear to be affordability and freedom of choice.

Income in the second category ranges from R3501 to R7500, this category has access to housing in the R75 000 to R150 000 price range. Again there is no market failure and the housing structure is formal which is financed by a mortgage loan. In this category there are no state subsidies because affordability is not a constraint to access housing. Both category one and two are well functioning primary and secondary markets where rental and ownership units can freely be accessed (Hendler, 2002:7). Developers, landlord-delivered and owner-developed properties are introduced into the market on the basis of demand. The legal system also functions well in this market. Tenure whether outright ownership, freehold basis, sectional title, rental or leases are administered and processed with relative ease which meets the expectation of both the banks and the homeowner. In the case of default the legal process of eviction and resale of property has been executed relatively problem free by the different financial institutions.

The market changes in category three because there is a higher concentration of population in the R1501 to R3500 income group. The average house price in this group is R30 000 to R75 000 and again the type of physical house structure is formal (Hendler and Pillay 2002:9). The main difference is the type of financial products that are accessed. The mortgage is used on a limited basis, while there is extensive use of loans that are secured by pension or provident benefits. There is also use of unsecured micro-loans and installment sales⁷² that delay transfer of ownership. Installment sales are creative ways for buyers to purchase a home without having to qualify for a loan or to pay closing cost. The disadvantage of this instrument is that the seller does not get his money upfront and on the buyer's side the property remains in the name of the seller until the loan is fully repaid. The commercial banks are not major players in this segment of the market, mainly due to past experiences of high defaults and the inability of banks to understand innovate and manage the risks in this end of the market. This category qualifies for

⁷² Installment sale is described as "You can buy a product and use it without having paid for it immediately; you pay by making payments periodically".

the state subsidy, which in theory should facilitate the blending of subsidy with credit to access loans from banks. Implicit in the subsidy design is the notion that the state's contribution could be used as the first recourse to absorb risk in the case of default.

Category four represents the biggest part of the population where access to credit and housing is a major problem. This is mainly due to low incomes (R1500 and less) that make existing financial products unaffordable. The average house price in this segment is around R20 000 (Hendler, 2002:7). The typical physical housing product is the starter Reconstruction and Development Programme unit that is formal and complies with NHBRC standards. Informal housing is also present in segment of the market. Finance is accessed from non-bank lenders and the main loan instrument is the short-term micro-loan. Pension or Provident secured lending is also common in this market (Hendler, 2002:14). This group also has access to the full state subsidy that delivers a standard RDP unit as a "free good" that promotes ownership.

3.3.1 Distortions in the South African Housing Market

3.3.1.1 Effect of Inflation on Subsidy

The subsidy per lower income bracket has remained the same since the inception (1995) of the housing subsidy scheme. But due to inflation there has been a significant reduction in buying power⁷³. Also due to inflation, the building cost has over the years increased significantly. This means that it has become less affordable in the year 2000 subsidy qualifiers to purchase the same size and quality of house as was built in 1996.

The UNFAH investigation in 2000 has also shown that the size of affordable housing does not increase proportionately with the household income. The households in the income bracket of between R1 500 and R4 500 can afford smaller houses than those in the income bracket between R1 000 – R1 500 (CSIR, 2000:14 -15). This anomaly is due to the steep decline in the

⁷³ The CSIR in 2000 estimated that inflation escalated the building material and construction cost by up to 20% on small capital projects. A RDP house costing R20 000 in 1995 is estimated to cost a private contractor R24 000 to construct.

sliding scale of the capital subsidy. If a person is on the higher end of the income band (e.g. R3000) you qualify for a smaller subsidy allocation. This means that the subsidy amount needs to be supplemented with a loan or micro-loan that is linked to high interest rates to purchase a home. (Up to 50% annual effective rate from an accredited NHFC lender or up to 300% over the term of the loan from an unregistered lender).⁷⁴ The burden of credit reduces the available disposable income, which results in the homeowner settling for a small home that is affordable.

Onerous administrative processes and procedures (Red tape)⁷⁵ with respect to subsidy approvals by the different authorities has also had a serious impact on developers who had to work on risk and fund the escalation from their own resources.

3.3.1.2 Anomaly in Subsidy Delivering Different Products

The Council for Scientific and Industrial Research has identified five types of housing product standards, namely very high, high, medium, low and very low standard. The description of these standards is shown in Annexure 1.

These standards have been factored into the CSIR Housing Delivery System Analysis (HDSA) to determine the average cost per square meter of the dwelling size for the year 2000. Four house sizes have been used namely 18, 28, 50 and 70 square meters (CSIR, 2000:29).

The cost of a housing product consists of the building cost of the top structure, the cost of a reasonable serviced stand and the accompanying transfer duty. If the total price of the house is less than R70 000, the transfer duty is zero.

If the total price is more than R70 000, the following tariffs apply:

1% on R70 000

5% on the amount between R70 000 and R250 000

8% on the amount bigger than R250 000

⁷⁴ Unregistered lenders are those lenders that make use of the Usury Act exemption provision but do not register with the Micro Finance Regulatory Council as a member that complies with rules and under a code of conduct prescribed by the regulator.

⁷⁵ Red tape refers to the erstwhile Housing Boards onerous approval requirements, local government slow in the opening of township registers and public and private funders that have increased loan conditions to reduce risk.

Table 3.3 shows the result of this sensitivity analysis, with the total cost of different standards and sizes of housing products, including Transfer Duty. The Minister of Finance has exempted transfer duties with respect to house values less than R140.000 since 2003. This will bring relief to many low income borrowers.

Standard of house	Size of House m ²	Cost per m ²	Cost of top Structure	Size of stand m ²	Cost of stand	Total cost of House	Transfer duty	Total cost incl duty
Very High Standard	70	2091	146 370	600	45 000	191 370	6769	198 139
	50	2133	106 650	500	45 000	151 650	4783	156 433
High Standard	70	1466	102 620	600	40 000	142 620	4331	146 951
	50	1610	80 500	500	40 000	120 500	3225	123 725
Medium Standard	70	1030	72 100	600	35 000	107 100	2555	109 655
	50	1126	56 300	500	35 000	91 300	1765	93 065
	28	1463	40 964	400	35 000	75 964	998	76 962
Low Standard	50	630	31 500	275	15 000	46 500	0	46 500
	28	818	22 904	250	15 000	37 904	0	37 904
	18	1045	18 810	250	7500	26 310	0	26 310
Very Low Standard	50	557	27 850	275	7500	35 350	0	35 350
	28	710	19 880	250	7500	27 380	0	27 380
	18	917	16 506	250	7500	24 006	0	24 006

Table 3.3 Cost of Housing as at September 2000 (Rands) (CSIR, 2000:29)

It should be noted from the above table that the cost per square meter increases as the size of the house decreases for the same standard type. This is because certain fittings must still be built into the house irrespective of the size.

The minimum price for a very low standard house of size 18m² is R24 006 and for a 50m² house R35 350. For a low standard house (18m²) the minimum price is R26 310 and for a 50m² house R46500. The prices for the medium to very high standard vary between R76 962 and R198 139 with a maximum size of 70m².

From the foregoing discussion it is evident that the size of the house cannot be used as a reliable variable to determine market value of the unit in the low and moderate-income sector. Further, due to other hidden subsidies (e.g. Municipal Infrastructure Grants) it is impossible to

determine the true value of the asset created. Plates 3.1 and 3.2 are examples of home constructed with full or partial subsidy assistance. The sizes vary from 30 to 60 square meters and the levels of municipal service also differ from site to site depending on affordability. The finishes on the house also vary, which is linked to affordability.



Plate 3.1 Freedom Park - South West of Johannesburg
Typical Full Subsidy Home (30sqms-Low Service Standard)



Plate 3.2 Protea Glen - West of Johannesburg
Partially subsidized with bond finance (40sqm house - Medium Service Standard)

3.3.1.3 Subsidy Scale Adversely Influencing Product Affordability

Table 2 shows how the affordability of a house changes with the gross income level of a household, the availability of loans versus bonds and their respective interest rates and payback periods, and amount of subsidy that may be granted.

Gross income per month in Rands	500	1000	1500	2000	2500	3000	3500	5000	7500	10000	
Surplus available for housing (Minus headline R1192)	0	0	308	808	1308	1808	2308	3808	6308	8808	
Amount available for bond/loan in rands	0	0	308	500	625	750	875	1250	1875	2500	
Once off subsidy amount in Rands	16000	16000	16000	12500	12500	5000	5000	0	0	0	
Plus 15% geo-subsidy	2400	2400	2400	1875	1875	750	750	0	0	0	
Total Subsidy in Rands	18400	18400	18400	14375	14375	5750	5750	0	0	0	
	Non Mortgage Loans							Bond			
Interest %	80	60	50	40	35	30	25	17	15	14	
Payback period months	6	12	18	24	30	36	42	240	240	240	
Value of Loan or bond in Rands	200	500	3847	8172	12383	17667	24334	85219	138491	195313	
Total capital capacity (bond/loan + subsidy) in Rands	18400	18400	22247	22547	26758	23417	30084	85219	138491	195313	

Table 3.4 Affordability against Income (CSIR, 2000:30)

In 2000 the Unblocking Finance For Affordable Housing in South Africa (UNFAH) study suggested that the large commercial banks are unwilling to grant mortgage loans less than R100 000 (CSIR, 2000:47). Two primary reasons have been cited for this. The first relates to the strategic options selected by the banks to maximize shareholder to invest in “blue chip” opportunities and engage in high profit activities. The second is the cost of administration of a smaller loan, which they claim is higher for smaller value loans.

Thus, for the sensitivity analysis as shown in the table, bonds may only be accessed by households with a gross income of R5 000.00 or higher. Even in this category the banks consider the borrower to be of high risk and subsequently applies the 30% (disposable income for housing) qualifying rule or request additional collateral.

It is clear that households with an income equal or less than R2 000 per month will not be able to afford low-cost housing anymore as the subsidy amount, which was not escalated over the past few years, is not enough to top up the amount needed for the minimum price range between R24 006 and R26 310. For the range R2 500 to R3 500 income per month, the subsidy amount and the capital that can be borrowed from lenders other than banks, houses of very low and low standard, between 18m² and 28m² may be built.

Households with an income of R3 000 per month may apply for the same subsidy amount of R5 000 as households with a monthly income of R3 500 per month but still cannot afford any house as the cost of micro loans and the relative small amount of subsidy put them outside the affordability range.

The result of this sensitivity analysis is that the affordability of low cost housing favors those in the R2 500 and R3 500 household income. However, this is in contradiction with the actual allocation to the subsidy, statistics show that 90% or more is allocated to households that earn less than R1500.00 per month (National Department of Housing, 2001). Most of the subsidies are granted in the R1 500 or less income range without credit resulting in very little subsidies being granted in the higher income groups.

Another result is that there is a gap of affordability between the R85 000 and R30 000 house price. Developers are not developing new housing in this price range and there is little evidence of existing houses in the secondary property market being put up for sale (Abt and Associates; 1998). This anomaly continues to exist in 2001 where 43% of potential homeowner are unable to contact developers in this segment of the housing market (Social Surveys, 2001). Developers find this market to be less profitable and the banks also do not provide mortgage finance for loans less than R50 000.

3.3.1.4 The Breakdown of Law and Order

In category three, significant distortion occurs through the inability of financial institutions to exercise their liens over properties financed. End-user credit risks are perceived to be high due to organized boycotts and the economic hardships associated with the loss of employment. During 2000 and 2001 the end-user environment had actually further deteriorated (Servcon having to deal with more cases of default and eviction), this was evident through SERVCON'S experience that the failure of the legal process is not isolated incidents but widespread phenomena in the erstwhile townships (Creighton, 2001:1). The legal and justice system is still unable to enforce law and order when financial institutions need to enforce lien over the properties financed.

A second problem is the dysfunctional relationship that exists between the various execution bodies that are involved in the eviction process (Creighton, 2001:4).

The state providing direct housing assistance to economic hardship cases in a direct form is also proving to be difficult in that many of the adult males (owners that have been through rightsizing programme) are absconding leaving their wife and children to take on the burden of home ownership (Creighton, 2001:7).

3.3.1.5 Loan Instruments Pricing for Risk

The problem of non-payment and the low affordability levels have led financial institutions to price for this risk. Risk based pricing in this market can vary from 4% to 13% up on prime rate for secured loans and up to 43% on unsecured loans (Merrill, 2001:54). The interest rate, the term and the collateral arrangements for smaller loans promote incremental housing as apposed to ownership of free- standing units. Further, the cost of blending the subsidy with credit is perceived by lenders to be too high. Therefore less than 10% of the national subsidy allocation was linked to credit at the end of 2001 (National Department of Housing, 2001).

3.3.1.6 Supply Driven Subsidy Approach

The initial design of the subsidy created mechanisms⁷⁶ that promoted a supply driven approach. Developers and large contractors were involved in the delivery of scale housing that was monotonous in design. The approach itself perpetuated a sense of entitlement and a “gift” from government. Government supply also meant the development of stock in areas that were less desirable for the recipient. The subsidy through the income qualification scale also prevented the development and or the purchase of differentially priced homes across the market. Subsidy distortion has created homogenous townships where the properties all have the same asset value and discourage residential mobility within that town.

3.3.1.7 Choice of Tenure Restricted

In the design of the Subsidy Scheme in 1994 the National Housing Policy promoted full ownership and up to 2001 approximately 1.2 million RDP units have been delivered on this basis. The cost of home-ownership forced beneficiaries to sell at below market prices. The subsidy market also experienced problems with informal trading of RDP homes without proper registration. To stop this process government legislated that beneficiaries can only sell after a minimum period of five years and if they wanted to sell before five years then the municipality has to purchase the property and sell to a new buyer. The main criticism, particularly from the non-bank lenders, was that this form of tenure locked people into a system that did not meet their affordability levels and lifestyle requirements. Due to affordability problem on the beneficiary end, rent to buy and rental options were created through the establishment of Social Housing Institutions. However, the rental option caters for the income category between R2000 and R2500 per month household income, which missed the intended target group. The subsidy design did not recognize Permission To Occupy and other communal property systems and rights because the housing policy focus is on owner occupation (Adebayo and Adebayo, 2001:8).

⁷⁶ The National Housing Code (2000) describes six subsidy mechanisms these are project linked, individual, consolidation, institutional, relocation and rural. The only demand driven mechanism (i.e. individual subsidies) was withdrawn in 1997 as result of abuse and administrative problems.

3.3.1.8 Credit Risk

One of the key features in this market is the absence of down-payments or deposits for housing purchases. US experience in the field of default management suggest that in properties where there is a component of equity in the mortgage loan structure, the home-owner is more likely and willing to co-operate in downscaling in the case of unemployment or rectifying the default through loan resale, restructuring/ rescheduling the debt and or “good-bad”⁷⁷ bank structures (Saunders, 1997:77). In South Africa low income groups have little understanding of housing investment or consider housing as an asset in this market (Social Surveys, 2001). As a result the majority of would-be buyers are reluctant to enter the market. Credit risks are still plagued by the culture of non-payment rather than a sense of obligation and responsibility to service debt. In South Africa, municipalities still experience ongoing default of utility payments and some local governments are unable to generate invoices and to collect payments due. The Star dated 24 January 2002 reported that, JHB the largest local authority in South Africa, was unable to collect its debt and had to outsource this function to Price Waterhouse Coopers (PWC) to ensure proper and timely recovery of payments for services rendered (Cox, 2002). The effect of enforcing penalties for non-performance on loan repayments by government and the private sector has been ineffective and has not served as a deterrent to those would-be defaulters.

3.3.1.9 Land Invasions

The major threat to the National Housing policy is the slow pace at which serviced sites can be delivered to those who are homeless or living in informal housing (Steinberg, 2001). The current process through which subsidies are allocated involves long delays which infringes on the constitutional rights of the individual to access “adequate housing”. There are many informal settlements in South Africa (Orange Farm in Gauteng, Lindelani in Kwazulu Natal and

⁷⁷ Good – bad structures refers to the internal policy guidelines adopted by financial institutions to deal with the writing of bad debt to prudently manage the loan book.

Khayaaletha in the Western Cape) that are looking to the subsidy scheme to enable them secure free houses. In reality, the delivery of the subsidized home cannot match the demand that exists. In the Gauteng province alone, more than 500 000 people are on government waiting list and the Premier of the province had issued a statement indicating that land invaders will not get priority in term of land allocation over others on the waiting list (Sello, 2001:8).

3.3.2 The Non-Market Segment (Formal and In-Formal)

Category four also has a non-market portion, which can be further divided into a formal and informal segment. The formal non-market segment accesses finance mainly through the state subsidy. The local authorities and contractors deliver the units. To keep the cost down the housing products are standardized and are considered to be starter units. The supply of housing is dominated by public sector players and units are very often delivered on political considerations. There is an absence of private developers in this market due to the oligopoly⁷⁸ approach from government. Local government also makes this segment of the market non-competitive by injecting hidden subsidies in the form of land and infrastructure grants which distorts the real cost of the unit.

The informal market is characterized by a tenure form that is a de facto right to occupation. This means that occupants of land have no legal rights, but the constitution protects them by placing the responsibility on the owner or the local government to find an alternative location or accommodation if people are to be evicted. Community forums or political bodies deliver land, which sometimes results in outbreaks of violence. Housing in this market is financed from savings and income derived from informal activities. Investments are small, allowing for the assembly of informal structures. Informal settlements have inadequate physical and social infrastructure.

⁷⁸ Oligopoly approach refers to the interventions implemented by government in a fashion that does not encourage the markets to and in pursuit of political objectives private investors are constrained in their participation.

3.3.3 The Informal Rental Market

An informal rental market also exists in category three. This market is small and caters for the poor. Savings and informal income are the resources used to pay rents for accommodation provided by households and landlords. The dwellings in this segment are semi-formal backyard structures and inner city apartments. The tenure is usufruct and the rights are upheld in some cases through lease agreements. A common feature of this segment is the noticeable lack of investment in the upgrading and maintenance of structures (Hendler, 1993).

3.4 The South African Housing Finance System

The housing finance system with respect to housing lenders can be broadly classified into four groups, namely public sector players (including parastatals, facilitative agencies, joint ventures and all tiers of government), private sector players (banks, non-banks, pension funds, insurers and investors), non-government organizations and regulators (see figure 3.2). The public sector role players listed in the Public Finance Management Act of 2000 (PFMA) include the following:

1. Schedule 2: Major Public Entities;
2. Schedule 3A: National Public Entities;
3. Schedule 3B: National Government Business Enterprises; and
4. Schedule 3C: Provincial Public Enterprises.

This grouping is important because it represents the players that invest the largest amount of funding into public sector projects or housing. The main housing public and quasi-public sector players in this segment of the market are the National Housing Finance Corporation, The National Urban Reconstruction and Housing Agency, Social Housing Foundation, SERVCON, Thubelisha Homes, National Home Builders Registration Council, Rural Housing Loan Fund and People's Housing Partnership Trust.

In reviewing the history of the housing finance system in South Africa since 1994 the South African Housing Development Board and the Mortgage Indemnity Fund (as discussed in section 16.2 of chapter one) have been disbanded for a variety of reasons that will be discussed later in this chapter in section 3.4.1.1.

3.4.1 Public Sector Role Players

3.4.1.1 Government

The National Department of Housing currently (2002) receives an annual budget vote of approximately three billion rands, which is 2% of the national fiscus. This allocation is predominantly (85%) used to finance the subsidy scheme. The funds are allocated to the provinces based on a formula. The Member of the Executive Council (MEC) in the province distributes its allocation to the local authorities, implementation agencies or projects that been approved for funding. Subsidy funding is allocated on the basis of a formula that considers the size of provincial rural and urban population, previous subsidy expenditure pattern, housing backlog and the income of the distribution of urban and rural population in a province. The Gauteng and Kwazulu Natal provinces have criticized this formula driven allocation as an unfair method to allocate resources because the weighting allocated to the previous subsidy expenditure pattern did not favor those that had better capacity to implement and disburse funds (National Heads of Housing Meeting, 15 October 1999). The Government through its three billion rand annual expenditure makes it the most significant player in the low to moderate-income market.

Provincial Government also plays a pivotal role in the housing finance process. Since the disestablishment of the Provincial Housing Boards⁷⁹ the allocation of subsidies is the full responsibility of the MEC for housing. This means that at a provincial level, the strategy for housing delivery and priorities are formulated and communicated to local government structures. In most cases local government is the implementation agent. Gauteng is perhaps the exception in that at a provincial level both strategy is formulated and housing projects are implemented through a provincially based Housing Development Business Unit⁸⁰. This plan

⁷⁹ Provincial Housing Boards existed in each province to administer national housing programmes and to advise the MEC for housing on policy matters. These boards were legal entities and had the power to approve subsidy allocation for projects and disburse funds. In 2000 the National Department of Housing decided to disestablish these boards through a legislative process. The main reasons for the disestablishment of the housing boards were related to fraud, mismanagement and administrative delays that frustrated the housing delivery process.

⁸⁰ Gauteng Provincial Government, Department of Housing, Strategic Plan, 2002-2005 takes on the role of public sponsor and developer of low income housing.

means that municipalities will not act as developer; at the same time it marks the return of the public sector acting as developer.

Municipalities or local government are required to ensure that, within the frameworks of national and provincial legislation and policy, all inhabitants in their areas have access to adequate housing this is a constitutional imperative (Section 26 of the South African Constitution, 1994). This is to be achieved through the setting of housing delivery goals, the co-ordination of housing development and the identification and development of appropriate land (Municipal Structures Act, No. 17 of 1988). Local government was also required to co-ordinate the planning and provision of bulk and basic infrastructure services with the planning and implementation of new housing projects.

In the Gauteng case Provincial Government has absorbed the implementation and co-ordination function in the delivery process that is commonly understood to be the role of local government. The argument of conflict of interest and being referee and player in the procurement process is weak because it reduces the role of local government to that of an administrative rather than a delivery agent. Further, the Gauteng approach to take on the role of developer contradicts its strategy to attract private sector players on a partnership basis. The South African Housing Trust (SAHT) established under the apartheid government suffered huge losses by playing the role of public sector developer. The lesson from SAHT is that government is ill equipped to deal with the moral hazards associated with developer risks⁸¹ and potential of political risks⁸². Integrated planning and co-ordination of resources is also a fundamental role that local government needs to play. Many of the local government structures in South Africa have been transformed into Metropolitan Councils, Local Municipal Councils and Rural Councils that now have to serve bigger regions or have newly demarked areas of responsibility. The main constraints that local authorities face are associated with the lack of appropriate skilled staff, poor administrative systems to deal with collection of municipal

⁸¹ Developer risks with respect to government are associated with its ability to provide a product of the right size and quality that can meet the expectation of the beneficiary. These risks are also associated with the construction phase of housing projects.

⁸² Political risks are when the justice and legal systems are incapable of implementing law and order because of political violence, war etc.

accounts and lack of money to implement larger capital projects and keep up with maintenance of infrastructure.

Government's delivery process in the original housing subsidy design included Provincial Housing Boards (PHB). These boards were responsible for the allocation of housing subsidies and experienced problems of fraud, irregular tender procedures and poor governance in the management of state resources. Due to these problems National government decided in 2000 to close down these institutions and allocate the functions to the respective housing MEC's.

The MIF on the other hand was wound up in 1998 because in the five years of its existence none of the accredited financial institutions had produced valid claims to claim compensation from the fund. The MIF covered lending institutions for political risks that led to non-payment of mortgage loans in prescribed areas. While this has been a success in providing a guarantee that experienced no losses, it did not lead to increased lending in the low to moderate-income market. Its demise has been perceived by the banks to be premature, because lenders still experience problems to execute eviction orders in certain areas.

3.4.2 The Parastatals

3.4.2.1 The National Housing Finance Corporation (NHFC)

The NHFC originated from discussions that took place in the early 1990s with the National Housing Forum and the Record of Understanding that was reached with the banking institutions. In 1996, a public company that was wholly owned by the government was set up. This institution operated under specific exemptions from the Banks Act (Banks Act No. 94 of 1990) and received all its primary capital (R880m) from government. The role of NHFC as a National Development Finance Institution was twofold:

1. To provide wholesale funding to intermediaries that could in turn broaden the base for accessing credit in the pre-determined market segment.
2. To mobilize funding from outside the state to promote private sector lending through various programmes.

The NHFC does not enjoy the benefit of having a government guarantee like the other DFIs. However, it is supported by government and to some extent enjoys an implicit guarantee. It can be argued that the South African financial market does not recognize this as a benefit and accordingly have priced NHFC risk at a higher premium. From 1996 to March 2001 the NHFC had cumulatively approved eighty-one facilities to fifty-nine clients to the value of R1298.54 million and disbursed R966 87m (National Housing Finance Corporation, 2001). For the same period, 67 451 housing units were NHFC intermediaries granted finance and 185 043 were end-user loans (National Housing Finance Corporation, 2001). The overall gearing of NHFC funds within the private sector was limited to one client (Unibank who had geared NHFC funding by a one to five ratio) and had no significant impact in the market (Pillay, et al, 2001). Many of the non-bank and smaller banks still had problems accessing funding from the capital markets. This period also saw the demise of New Republic Bank and Future Bank Corporation due to liquidity problems. As indicated in table 3.5 NHFC only provides funding to section twenty-one companies, Public and Private companies and banks because there is direct recourse to the directors should these institutions fail.

NHFC is seen as the main vehicle for wholesale funding to retail institutions. The inability of NHFC to fund both start-up and mature institutions leads to the withdrawal of retail lenders from the housing market. In 2002 this is compounded by the liquidation of several smaller banks that were playing an important role in housing finance. This results in the NHFC not being able to have high impact on its market.

3.4.2.2 National Urban Reconstruction and Housing Agency (NURCHA)

This organization was set up as a result of a partnership between the South African Government and the Open Society Institute of New York. A section 21 company was set up to pursue the following wholesale mandate:

1. Provide guarantees to banks and other housing lenders as well as for developers and contractors to cover the costs of development prior to subsidies being paid.

2. Provide end-user finance guarantees to assist people earning up to R2000 per month to access loan finance in approved projects.
3. Provide capacity grants to communities for community development processes.

Since 1995 to February 2001 Nurcha facilitated the development of 70 000 housing units, with a value of R1.2 billion (NURCHA, 2001) since inception of the organization. While this is a modest achievement Nurcha has found that obstacles in accessing credit and the lack of equity in the housing loan package are still affecting their target market. Nurcha recently launched a National Savings Programme to encourage the poor to save. Much of its business volume was dependant on the growth of the micro-lending sector and the proactive role of private developers. Banks and micro-lenders have experienced credits risks in this environment has resulted in the slow down of loan to peoples in the low and middle-income groups. Private developers have also experienced problems with accessing bridging finance for subsidy housing projects which resulted in developers withdrawing from the market. During 1997 and 1998 private developers produced 138 417 housing units (Hendler, 1999:15), by 2002 private developers were producing less than 70 000 units per annum (National Home Builders Council, 2002). The withdrawal of developers from this market meant that fewer homes could be built. This has placed some pressure on Nurcha to develop alternative products to expand its growth. Unfortunately this has led to the organization expanding its mandate and facilitating other wholesale financial products that are mandated to other organizations like the National Housing Finance Corporation.

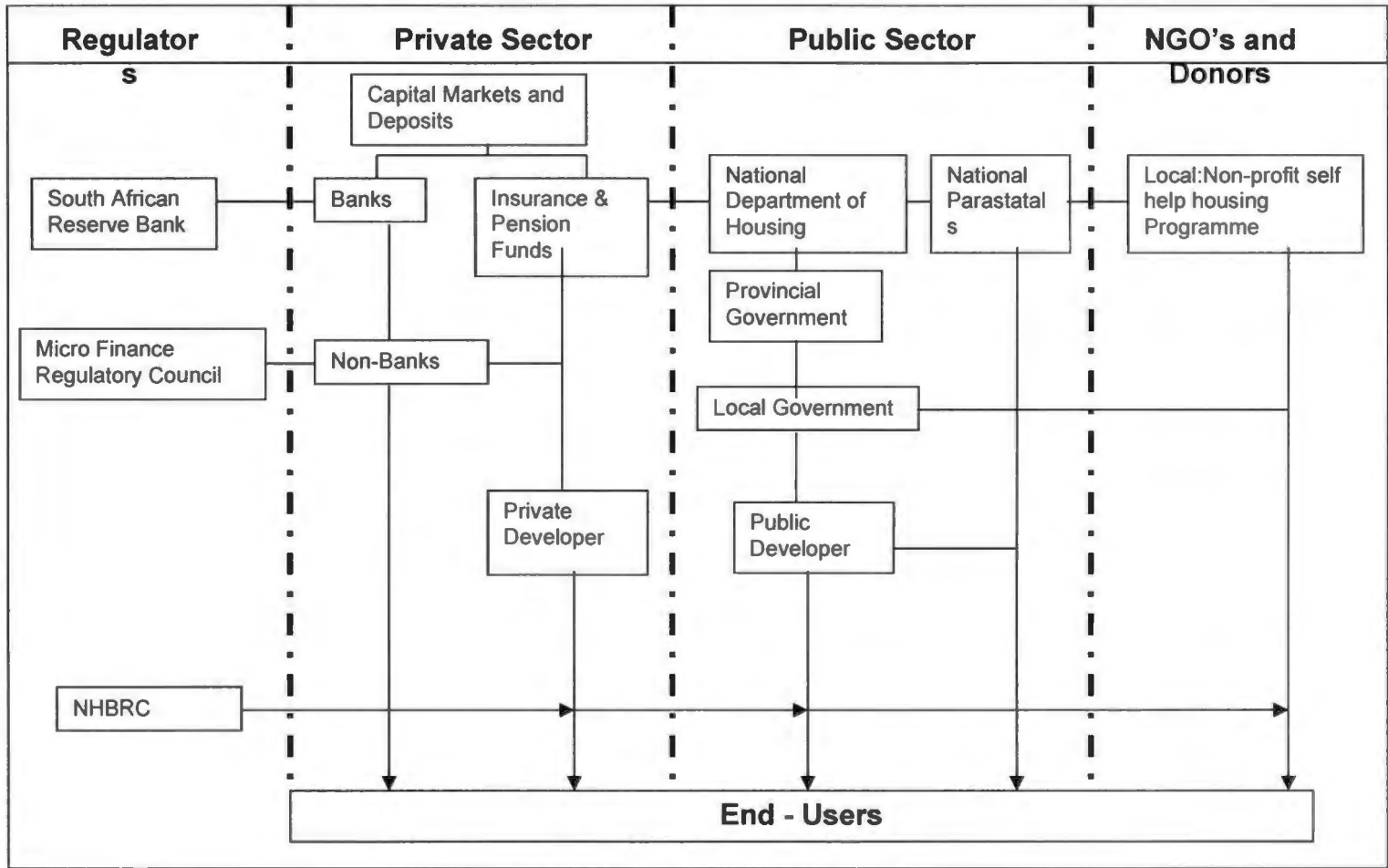


Figure 3.2 Organisational Arrangement of Housing Finance in South Africa

3.4.2.3 The Social Housing Foundation

The Social Housing Foundation is an independent section 21 company funded jointly by the South African Government and international donors. The foundation was established in 1997 to pursue the following objectives:

1. To improve the environment in which Social Housing organizations currently operate.
2. To contribute towards the further development of the industry through capacity building.
3. To raise the profile and awareness of Social Housing in South Africa.

Up to February 2001 the SHF has created 36 housing associations that has delivered 9122 housing units (Social Housing Foundation, 2001). A typology has still to be developed for the South African styled social housing environment. Currently both private and public sector models exist with different legal personas. A range of legal structures that include section 21 companies established for non profit activities, private companies incorporated for public benefit and co-operatives. In 2002 the National Department of Housing has commenced with the drafting of policy and regulation to assist the sector. However, through the National Housing Job Summit project initiated in 2000, the implementation of rental and other tenure options began in the absence of a predefined policy. The success of this approach can only be measured in possible five years from 2003. The main criticisms of housing associations are the following:

1. Dependence on subsidy funding.
2. Public sector model that requires "soft" funding from donors and development agencies.
3. High levels of training and capacity building required to mitigate operational risks⁸³.
4. Targets the middle-income groups.

⁸³ Operational risks are associated with lenders becoming dependant on the continued uninterrupted operation of the project and the sale of its products and services to provide the revenues necessary to repay the project loan. Therefore inability to efficiently operate a project will result in a risk to the lender. (Fabozzi, and Nevitt, 1995)

There are positive aspects that come with the social housing approach and these include the opportunity to promote inner city regeneration and densification where possible, contribute towards offering other tenure options (as apposed to exclusive ownership) and participation in the tenant or resident association in the running and management of the social housing institution.

3.4.2.4 Rural Housing Loan Fund (RHLF)

Government in 1996 established the Rural Housing Loan Fund as a section 21 with assistance from the German Government. The main aim of the fund was to develop financial services sector for housing in rural South Africa. From inception to June 2000 the fund has delivered 1293 housing units and granted 21 148 end-user loans via its retail clients (National Housing Finance Corporation, 2001b). The fund promotes start-up ventures and pursues the piloting of high-risk products for its market.

The RHLF is the only programme that contributes towards the government's rural housing strategy and is the only fund that focuses on the provision of rural credit for housing where it has delivered 4 053 housing units. The RHLF has been able to target people with income of less than R1 500 per month. The programme has demonstrated that it is able to penetrate deeper into the lower end credit market where it has provided credit to small business entrepreneurs and informally employed people including pensioners.

This programme has been successful in promoting start-up ventures in the rural lending environment. Only 2% of RHLF beneficiaries are allocated in the segment i.e., R3 500 per month (Rural housing Loan Fund, 2000). Segment two and three (54%) of RHLF end-users are earning between R1 500 and R2 500. Only 20% are regular income earners i.e., formally employed while 34% are regular income earners informally or self-employed (Rural housing Loan Fund, 2000). The lower-end segment of the market (44%) of RHLF beneficiaries are earning between R1-R600 and are irregular income earners that are casual or unemployed.

This programme demonstrates its commitment to provide financial services through its intermediaries to the most vulnerable sector of our population.

The main challenge for the fund is its ability to mobilize further capital to support its mandate.

3.4.2.5 Servcon Housing Solutions

Arising from the endemic consumer boycott that plagued the financial sector in the early 1980's, a limited company was structured as a joint venture between government and the banks to deal with mortgage loans that were in default. Servcon was established in 1995 whose broad mandate was to normalize properties that had been repossessed or were under the threat of repossession due to non- payment of housing finance. The main objectives of this company are as follows:

1. To ring fence properties that were in default by removing these from the balance sheet of the banking institutions.
2. Rehabilitate loans through down sizing, rescheduling repayments or resale of property.

According to the Minister of Housing (Parliamentary Briefing, February, 1999) 5400 loans were rehabilitated, 600 loan repayments were rescheduled and 4200 properties had been sold. At inception, Servcon had 33 000 properties in default, but by January 2000 64% of the clients had signed agreements to rectify the situation. However, only 30% were successfully rehabilitated and have since paid regularly. Servcon has partially met its mandate in that it is unable to "work out"⁸⁴ all the loans in its portfolio. The banking sector reported in December 2001 that a further 30 000 mortgage loans have gone into default - these are loans in addition to the ones in the Servcon portfolio (Creighton, 2002). The issue is not about trying to deal with defaults through a Servcon type mechanism, but rather trying to understand the underlying cause of these defaults. Understanding the real reasons will help develop permanent solutions or at least measures to avoid defaults in specific segments of the market.

⁸⁴ Work out refers to the process of rehabilitating a loan or providing alternative accommodation so that the property in default can be resold.

3.4.2.6 Thubelisha Homes

Servcon and The National Department of Housing set up Thubelisha Homes to facilitate the process of right sizing those residents that were in default as a result of economic hardship. A section 21 company was instructed to procure and or develop stock appropriate for rightsizing as contemplated by the Servcon strategy. Thubelisha Home's main aim is to determine the nature and scale of rightsizing required, to secure the necessary funding, to develop and finance stock, to evaluate and approve clients that qualify, to sell the developed units and to collect rental and service charges. This programme was launched in 2000, therefore no statistics are available to measure the performance of Thubelisha Homes with respect to its mandate. The success of such a programme is not to gauge how many beneficiaries were relocated or right sized but rather to determine how well beneficiaries have managed to cope with their new home environment and whether it is likely to be a lasting solution (Creighton, 2001).

3.4.2.7 The National Home Builders Registration Council (NHBRC)

The NHBRC was established in 1995 as a statutory body by government to protect housing consumers. The main aim of the NHBRC was to offer South Africans a comprehensive new home warranty and or guarantee against registered homebuilders (National Department of Housing, 2001). The NHBRC has created statutory norms and standards for conventional building construction that have impact on cost and affordability. At the end of February 2000 R35 million worth of claims were processed, one hundred and thirty four cases of structural defects reported, 4250 homebuilders registered and a total of 93 000 housing units on their books (CSIR, 2000:54).

The RDP units have only been included under the warranty scheme in 2001, which makes analysis of its impact and performance difficult. However, the prescription of minimum standards raises the cost of the dwelling to the end-user. Regulation of building standards also

has an effect on the use of appropriate technology and the use of non-conventional building materials. This leads to expensive conventional construction with little innovation in design.

3.4.2.8 People's Housing Partnership Trust

The Peoples' Housing Partnership Trust is the newest of the institutions to be set up as an independent non-government body with statutory recognition. The main partners in the trust are the National Department of Housing, United Nations Center for Human Settlements, The United Nations Development Programme and the United States Agency for International Development. The trust is the main vehicle through which government's capacity building programme is implemented. The national housing code describes the five objectives as key to the PHP process.

1. Advocacy, promotion, and creation of support for the people's housing process.
2. Promotion of streamlining operational procedures for the delivery of land, finance and infrastructural services.
3. Assistance to local organizations (CBO's, NGO's etc).
4. Development and promotion of technical expertise to assist at grassroots level.
5. The facilitation and promotion of housing support functions and arrangements.

Currently no accurate statistics are available to measure the performance of the PHP programme. These projects are localized and depend on the equity, sweat equity and technical support of NGOs like Development Assistance Group (DAG) in Cape Town and Built Environment Support Group (Besg) in Durban. Due to the intensive skills development aspect in the construction phase the delivery of new units are slow. This programme was not designed to deliver housing on scale but rather to support a self-build process that will address poverty and stimulate the economy at a local level.

3.5 Private Institutions in Housing Finance

3.5.1 Commercial Banking approach to low-income housing

The four major banks in South Africa (Standard Bank, Rand Merchant or First National Bank, Nedbank and Absa) are of the view that banks in general have over-lent in the low end of the market (Diamond and Hoek-Smit, 2000). However, in trying to probe for a description or a definition of this market - either from an income or from a loan size point of view - was made impossible by the banks. It is clear that the banks are unable to articulate this market with any confidence that can be backed up by reliable data.

The perception of over-lending has led to Nedcor providing in full for the non- performing loans while ABSA has not provided in full for the above type of loans. In a sense, this has led to a situation where there is a deliberate attempt to contain this market in a state of volatility and uncertainty. The loans in default (55 000) are constantly mentioned publicly to justify the banking industries limited exposure to a market that is both politically and economically unstable which is considered to be of high risk. However, if one carefully analyses the extent to which these larger banks were able to manage smaller mortgage loans in the Low Income market, the conclusion is that they were not effective in the initial stages of default. Both Absa and Standard were not able to manage loans that were in 30, 60, to 120 days arrears situations, particularly in the low income market that geographically fell in the Township areas or areas that experienced political problems at the Municipal level (National Housing Finance Corporation, 2002b).

Given this, the banks began to evolve a strategy that attempted to achieve two goals: firstly, to fully commit to government's programme of "social and economic development" but at the same time demonstrate that macro-economic conditions make it impossible to add value; and, secondly to build an argument around commercial sustainability and capabilities that are consistent with first world banking and transacting requirements.

To understand subtleties and contrasts associated with the two concepts above, careful analyses with respect to each of the banks strategic direction is necessary.

Standard Bank sees itself as a national bank that has both the people and financial resources to participate in a dual economy. In its annual reports (1999, 2000) its strategies are well developed and clear with respect to its role in the South African context. It also perceives itself as having the best banking skills particularly in the retail banking area and excellent skills in the merchant banking segment. Therefore, they are confident that they can make a significant return to the low- income market if required to do so by legislation. Standard is perceived in the market as conservative with its housing lending at the retail level. Standard also suffers from the “systems complex” which implies that it experiences problems in dealing with mortgage loan applications, management and aftercare. This is not so for other areas of the business where the latest technology and processing is at work. In line with the current banking trends its banking branch infrastructures are being replaced with convenient and sophisticated electronic banking halls to reduce overhead costs (Tucker, 1999:8).

Absa also sees itself as a national player. However, what is clear about Absa is that it is driven by market share. This is its operational strategy. It studies the market and then plots its moves and penetration. Absa can be described as having a non aggressive and cautious business strategy (Pillay, 2000). The annual report for 1999/2000 reflects a fair description of its intent. Absa does have its eye on developments in the low end of the market or mass banking. During this period it has spent a lot of energy and resources on transformation to be in line with the affirmative action policy of South Africa. However, at the top management level it is still experiencing leadership problems. It is uncertain what a sudden change in leadership might have on a bank that is experiencing problems in transforming in terms of culture and equity (Pillay, 2000).

At the micro-lending level Absa is not sure how the acquisition of 51% of Unifer will ultimately contribute to the group business strategy. The Absa group does not really understand the micro-lending environment nor does it have the skills to advise its subsidiary on strategic direction to follow.

First National Bank is largely driven by Rand Merchant Bank in terms of its business strategy. This has resulted in the bank having good skills and knowledge in the Merchant Banking side and very weak interface on the retail banking operations. FNB has often been described as not being able to fully understand the retail housing market. It always seem to follow others rather than to lead with its own initiatives. Their top management seems to function well but senior and middle management seems to be in total disarray. FNB does not have a strategy to deal with low-income markets. As a result it has a small book in housing and is currently contracting out of this market (Pillay, 2000).

Nedcor appears to be very transparent in pursuing its business strategy. Recent joint initiatives with information technology companies have led to the market perceiving Nedcor as an IT company doing banking. Very clear in its strategy is its quest to become a global player. The bank is constantly looking for opportunities to position itself as a global player and is not afraid to demonstrate its intent. Also very clear in its strategy is that it is not positioning itself to participate in low-income banking. It has a grip on the high net worth of personal banking clients that have access to specialized electronic facilities (Pillay, 2000).

Its strategy to deal with low-income banking lies with its subsidiary, Peoples Bank. However, this strategy is misleading in the sense that it is moving in the direction of Nedcor having little stake in the operations of the bank. The purchase of the Future bank corporation book in 1999 and the bringing in of empowerment groups have resulted in the formation of critical mass with respect to assets and loan book as well as the right combination of shareholders for a clean sale. Does this mean that Nedcor will effectively exit the low income market? Analysts view this

as a natural progression for Nedcor if it wants to play the global game (Greef, 2000; Nedcor,2001; Morris, 2003).

Board of Executives (BOE) Bank seems to represent business interests and focus areas that are irreconcilable. NBS (source) wants to focus on the high-income market, Boland is looking at the micro-lending market and BOE is not sure where it fits in. The major concern from housing analysts is that if leadership is unable put forth a clear strategy BOE will remain a bank that will find itself without any competitive market advantage. In 2001 BOE acquired the Cashbank home loan book that targeted the upper low and middle-income groups. While it is difficult to clearly articulate BOEs long-term strategy in the housing market, there is willingness to participate if there are "ideal" incentives.

Saambou⁸⁵ was a small bank that had a very clear focus with respect to its target market. Its strategy was to focus on the areas where the large banks are ineffective or has poor capabilities to manage smaller loans and penetrate the middle and low-income market segment. The provision of banking services to the low-income market is their major business particularly housing finance. However there is recognition that there is need to have balance portfolio of clients and services. Since 1999 Saambou has experienced rapid growth of their micro-loan book with the acquisition of Thutukani financial Services and other smaller micro-lenders. Saambou raised most of its capital from retail and wholesale deposits and were not under pressure to raise additional funding, however this situation proved to be a temporary one. In early 2000 Saambou Bank was viewed by the reserve bank as significant and solvent before curatorship (Theobald, 2003:19).

Saambou had very carefully entered the home loan market with good planning and developed appropriate products for the low- income earner. This bank did not face any serious competition and was able to meet its business targets with relative ease. But due to rapid growth of the

⁸⁵ Saambou is a small bank that was rapidly growing its micro- lending book and housing portfolio. Due to liquidity and governance problems Saambou had to close its operations in 2000. Its assets were sold to other banks in South Africa.

micro-loan book, inadequate provisions for bad debt on above, coupled with poor governance, Saambou experienced liquidity problems in February 2002. Saambou Bank experienced a run on deposits and in two days it lost more than R1 billion in deposits (Preuss, 2002; Whitfield, 2002). This forced the reserves bank to place the bank under curatorship to stabilize its operations and safeguard the depositors. This marks the exit of another small bank from the financial system (e.g. Future Bank Corporation also failed). The net result is the loss of a retail lender that catered for the low to moderate income housing market.

Cashbank was a small but effective bank in the low income housing area. It had a good grasp of the market and was able to deal with smaller loans. Their conversion to a commercial bank puts pressure on their previous philanthropic role in the housing environment. Shareholders are demanding performance and return on investment. Cashbank is constrained by not being able to access appropriately priced funding to sustain the growth of their loan book. Its ability or inability to raise funding might force shareholders to move to other more profitable products. This will mean a move up the in the income profile of potential clients. At this stage, the management of Cashbank is not sure which direction to follow. In the areas that Cashbank is active there is also little competition. While Cashbank is able to originate loans in volume to meet business targets, its poor liquidity situation constrains its growth. In 2001 Cashbank was bought by BOE because its shareholders were incapable of supporting its growth, which demand large capital injections. This meant the demise of another smaller retail niche lender (Pillay, 2000).

African bank has a very clear strategy on servicing the low-income market. Its focus and skill is firmly on the micro-lending environment. However, there is no clear appetite to provide dedicated housing related products. They have become accustomed to the high returns associated with short-term small loans. This bank has developed the necessary technology to deal with high volume small loans and the ability to deal with credit risks in innovative ways.

African bank has show a preference to work with other players if the joint venture expands their existing market or improves their return on investment. There is some appetite to participate in the low income housing market if the incentive is right (Pillay, 2000).

Investec's strategy is simply to book the highest possible return for their shareholders. It seems to have no intention to participate in the low income housing market. Therefore, its understanding of this market is limited. Investec does recognize that it has skills on advisory work and fund arranging that it could sell in the market.

3.5.2 Commercial Banking Market Share of Housing Finance

The four major banking groups together hold over 85% of all mortgage loans (Merril, 2001). This accounts for R167.1 billion up to December 2000 (Hendler and Pillay, 2001). No breakdown is possible between residential and commercial mortgages, as banks are either reluctant to share information or they do not have the capacity to generate such information. The Home Loan Mortgage Disclosure Act (HLMA) has been enacted to ensure that banks disclose pertinent information to government on their lend practices and performance with respect to home loan applications and approvals. The market segment that the larger banks target are the people that have a monthly income greater that R6000. In this market segment mortgage loans are normally in excess of R150 000.

At the end of December 2000 the smaller banks had R51.9bn exposure in the mortgage market (Hendler and Pillay, 2001). It is assumed that because smaller banks target the R3500 to R6000 income group where the loan size ranges from R75 000 to R149 000, more residential mortgages are underwritten. The commercial banks are also involved with both secured and unsecured micro-loans. Their exposure through this business in the housing sector is not known. The performance of the banking sector in the high income household market improved and grew since 1997, however in the same period even with generous incentives provided by government this sector failed to finance homes with any significant volumes in the low-income

household market (Bond and Tait, 1997). Commercial banks are reducing branch infrastructure and relying more on technology to originate and maintain mortgage lending, this has particularly a negative impact on low income borrowers who do have access to the relevant technology (Tucker, 1999:9).

3.5.3 The Role of Non-Bank Lenders in the Housing Market

The major role players in this market are NHFC funded retail lenders. Southfin, Bonus Builders Suppliers, Ithala and Grand finance are examples of non-banks that are registered members of the Micro Finance Regulatory Council (MFRC). These lenders provide both short and long-term credit. Ithala, a provincially based development corporation, is able to provide mortgage loans at a prime lending rate plus a risk margin to persons that can afford a loan between R50 000 and R90 000. These loans are secured by the property. Ithala has also managed to finance many loans in deep rural areas and also take other forms of collateral (Permission to Occupy)⁸⁶ to secure the loan.

The other non-bank lenders are predominantly involved in the granting of micro-loans to those who either qualify for a subsidy or those who can offer some form of security. Unsecured micro-loans are also offered. Security for micro-loan can take the following forms:

1. Cession of pension or provident fund benefits
2. Cession of life insurance policies
3. Payroll deduction
4. Retention of bank cards and pin numbers (although it is not permitted in terms of the rules of the MFRC)

The average loan size for the unsecured housing micro-loan is R1481 and the average interest rate is 30% per month (see table 3.5).

⁸⁶ Permission to Occupy refers to a tenure form where the traditional authority confers the right to use designated land for residential purposes. This is formally registered with the department of home affairs and a certificate is issued confirming that right.

Institutions	Loan Statistics			
	Gross loans outstanding	% of Industry by value	Number of loan Debtors	Average loan size
Banks	R 7,152,569,462	51%	2,186,728	1,815.69
Public Companies	R 2,339,365,583	17%	544,485	723.55
Private Companies	R 3,525,043,709	25%	1,212,509	2,393.23
Close Corporations	R 519,259,625	4%	427,752	611.25
Trusts	R 241,337,937	2%	44,958	661.21
Co-Operatives	R 199,794,786	1.4%	53,400	2,407.28
Section 21 Companies	R 32,410,545	0%	17,823	1,763.33
Industry Total	R 14,009,781,647	100%	4,487,655	1,481

Table 3.5 MFRC Industry Statistics for the period 01/06/01 to 31/08/01

In most cases, a payroll deduction is a pre-requisite to access such a loan. Due to the lower risk because of adequate security, secured micro-loans are priced at prime plus a risk margin not exceeding fifteen basis points. NHFC, due to the problem of leakage, designed a regular end-user survey⁸⁷ to determine how much of its funding was actually going into housing. The survey summary of 2000 concluded that between 45% and 95% of the funding went into incremental housing. This large range in leakage was due to the level of institutional development and size of the retail lender.

3.5.4 Social Housing Institutions

Social Housing in the South African context is a form of “housing that sets out to provide good quality, subsidised housing which should contribute to the regeneration of the area in which the housing stock is located, and which is managed by independent institutions through participatory management approaches involving residents operating in a range of tenure forms, with the exception of immediate individual ownership” (Unpublished Social Housing Policy document, January 2002). Housing institutions can take different legal forms and can operate on for profit or non-profit basis.

⁸⁷ Market Research Africa assisted NHFC to conduct random surveys of a sample of end-users to determine and verify the actual use of the loan from an NHFC intermediary.

All social housing institutions are funded by the NHFC and technical assistance is provided through the Social Housing Foundation. The establishment of Social Housing Institutions has been based on the European model⁸⁸ and both technical assistance and loan funding comes from European Union donors. These institutions are dependant on institutional subsidy allocations and are serving the R2000 to R3500 income market. At the end of January 2002 The NHFC had funded fifteen institutions to the value of R169,5m that has created 32 500 new units (National Housing Finance Corporation, 2001b). The tenure type is rental, rent to buy, installment sale or some form of delayed ownership. Due to the relative youthfulness of this approach the viability and long term sustainability still needs to be established in this sector. Social Housing policy currently dictates that beneficiaries of this scheme must earn less than R2500 per month household income. In reality, the average income in this sector is R2800 thus indicating that the target market is being missed.

3.6 The Regulatory Infrastructure

The regulatory infrastructure that currently influences housing in South African is: South African Reserve Bank (SARB), Micro Finance Regulatory Council and National Home Builders Registration Council. The main objective of regulation should be to achieve a high degree of efficiency (systemic stability and safety and soundness of financial institutions) and consumer protection in the economy (Bamber, et al, 2001).

The SARB through the Banks Act of 1997 regulates the banking institutions. The table below details with the intermediate regulatory goals, instruments and rules that govern banking operations.

⁸⁸ The European and British have over numerous years created many housing associations that are affiliated to a federation that essentially provides sector support, co-ordination on policy and lobby on behalf of their members. Mainly public sector institutions fund Housing Associations. They are able to access "soft" loans, subsidies and grants for capacity building. Private sector funding is limited. Housing association in the European context also supported by other institutions that provide guarantees and capacity building assistance to ensure sustainability.

Regulatory objectives	ultimate Regulatory intermediate goals and its instruments	Systematic stability						Institutional soundness			safety and		Consumer protection								
		market Competitive infrastructure	maturity and Acceptable currency mismatches	cross-market Acceptable exposures	Sufficient market liquidity	Securities markets as alternative to intermediation	Regulatory effectiveness, efficiency and economy	Proper risk assessment	Proper institutional infrastructure	Fit and proper directors and staff	Global institutional competitiveness	Competitive neutrality	Integrity and fairness	Competence	Adequate product/service competitiveness	Transparency and disclosure	Access to retail financial services	Protection of retail funds	Retail compensation schemes		
1. Official rules and regulations	Regulatory regime and its instruments																				
		1.1 Entry and standard constraints	X			X			X			X						X		X	
		1.2 Ownership constraints																			
		1.3 Functional activity constraints									X										
		1.4 Jurisdictional constraints		X																	
		1.5 Pricing constraints			X																
1.6 Operational constraints																					
2. Official monitoring and supervision	Regulatory regime and its instruments																				
			X		X			X		X		X		X		X		X		X	
3. Intervention and sanctions	Regulatory regime and its instruments																				
			X	X	X		X		X		X		X		X		X		X		
4. Incentive contracts and structures	Regulatory regime and its instruments																				
5. Market monitoring and discipline	Regulatory regime and its instruments																				
			X		X		X		X		X		X		X		X		X		
6. Corporate governance Discipline/accountability of regulators	Regulatory regime and its instruments																				

Table 3.6 Regulatory Matrix for Financial Institutions
(Bamber, et al 2001:43)

The SARB only regulates banks through the provisions of the Banking Act.

The MFRC regulates both banks and non-banks that are involved with micro-finance. The MFRC was established as a self-regulatory body in July 1999 jointly by industry and government essentially to deal with the concern that borrower's were being abused by lenders. The industry was plagued at that stage by poor lending practices such as the retaining of ATM cards and pin numbers and the charging of high interest rates. At the end of 2001 the MFRC had registered 1334 lenders that represented 5076 branches with an industry value of R12,9 billion. The types of legal entities registered include banks (1%), public companies (0.3%), private companies (14%), close corporations (78%), trusts (5%), co-operatives (0.1%) and section 21 companies (1%), (Micro-Finance Regulatory Council Industry Statistics, 2001). In 1998 the MFRC established rules and guidelines that lenders have to conform with to qualify for an exemption to the Usury Act (Davel, 2002).

Another significant regulator in this market is the NHBRC. This institution has developed minimum building standards for the subsidized market. In the course of its activities it is able to regulate building standards and quality through compulsory registration of the subsidized unit as well as the building contractor. Through this process consumers are protected through a warranty and guarantee scheme that is paid for by the building contractor or the individual (National Home Builders Registration Council, 2003:1). The effect of the type of regulation is that it places the burden of cost on the poor to comply with maintaining minimum building standards.

3.7 NGOs and Other Institutions in the South African Housing Finance Market

3.7.1 The Home Loan Guarantee Company (HLGC)

The HLGC was established in 1989 to provide guarantees for both mortgage and non-mortgage credit. This institution is an independent NGO that has its roots in the Urban

Foundation⁸⁹ from which it received its seed capital. Currently HLGC provides both banks and non-banks lenders a variety of insurance products to insure against default. The organization also supplies consumer education to the lenders clients at a fee. This is a direct response to dealing with default risk through borrower. The presence of HLGC in the market has not brought back the big lenders and investors into the under R6000 housing market. HLGC financial capacity is in excess of R200 million which is enhanced through strategic alliances with brokers like Jardine Lloyd of London and British based Centre Solutions (HLGC, 2002). This capital has been used to gear R700 million worth of guarantees to facilitate access to more than R3 billion housing finance loans (HLGC, 2002). While this performance is impressive from a balance sheet analysis the company seems to be incurring operational losses which is an indication that the core activities of the organization is not sustainable. HLGC core business is underwriting guarantees, but much of its strategy is focused on borrower education as a risk mitigation instrument. The performance of HLGC is unclear because the actual default rates on loans that are guaranteed only to represent partial cover. This means that in any given loan only a 20% to 40 % cover is provided which makes it difficult to assess the full loss on an individual loan.

3.7.2 Involvement of multilateral Agencies in Housing Finance

Multi-lateral⁹⁰ and bi-lateral⁹¹ agencies are involved with development finance in South Africa. Both financial and non-financial assistance is provided through the South African government, through Development Finance institutions and Non-government organizations. The amount of money that comes from donors is difficult to quantify because funding is not centrally controlled. In South Africa it is extremely difficult to determine the volume of funding that gets channeled into the housing sector because the current practice from donors is to invest directly into projects on the ground and intermediate through national developmental type agencies like the NHFC, RHLF and SHF. The United States Agency for International Development (USAID),

⁸⁹Urban Foundation was a non-government organization established as a pressure or lobby group advocating change in government policies during practices during the 1979s and early 1980s.

⁹⁰ Multi-Lateral donors are development agencies that provide donor funding e.g. African Development Bank (ADB), European Bank for Reconstruction and Development (EBRD) and Inter-American Development bank etc.

⁹¹ Bi-Lateral donors are individual governments through with funding is procured.

Canadian International Development Agency (CIDA), Kreditanstalt Fur Wiederaufbau (KFW), German Technical Assistance Corporation (GTZ) and the European Union (EU) are the forerunners contributing to housing finance in South Africa. These agencies provide funding for technical assistance or for lending to beneficiaries of housing in the subsidy market. Some institutions work through the national Department of Housing, while others work through the parastatals and some even work with retail institutions themselves.

Working with donor agencies do offer learning from international best practices and needed funding but there are also significant disadvantages to working with donor agencies. Donors often come with procurement procedures that are not transparent, promoting the use of skills and products from respective donor countries.

3.8 Performance of Housing Market and Delivery System

In the income category above R6000 the property market is well established and the financial sector adequately provides a range of financial services. Properties in this segment of the market are regularly advertised and sold privately or through estate agents. Secondary property market sales for the year 1999 were 141,364 which have increased by 34% over the last year (The Knowledge Factory, 2002). New construction in this segment is largely demand driven using developers as the main delivery channel. Finance for this market segment is essentially funded through banking institutions. Pricing of mortgage loans is based on the risk profile of the individual and is benchmarked at the prime-lending rate plus or minus a risk margin. Performance is therefore demand driven with no evidence of a backlog.

In the below R6000 housing market performance is mixed. Distortions and locational factors have a noticeable impact. The subsidy scheme through its project-linked product has created homogenous units with similar asset values. The result of this is that it leaves very little scope for residential mobility within communities and poor possibilities for secondary market trading. Almost half of the existing homeowners that were sampled in the low income market were reluctant to move into starter homes (Social Surveys, 2001:9). The issue of location is still a

problem in the South African housing landscape. Homes that are poorly located i.e. in erstwhile black townships are difficult to sell in the market because of the perceived poor asset value and the inability of financial institutions to foreclose on properties that have defaulted. On the level of financial products the micro-loan or the pension secured loans are the main products used to finance a new home or improvements to an existing property which could have no tenure rights. RDP units are delivered mainly through the subsidy schemes and up to December 1.2 million new units were delivered to people who had a household income less than R3500 per month (National Department of Housing, 2002). What is also significant is that 90% of the above units were allocated to people earning less than R1500 per month (National Department of Housing, 2002). The market that is under serviced with respect to housing finance is the group earning between R1501 to R6000 household income per month. Gaps in housing choice and different financial products are absent in this market for housing. The big four banks are not significant players while smaller banks and non-banks lenders i.e. micro-finance sectors are significant credit providers. In August 2001 the MFRC had 1334 registered lenders that represented a R14.1 billion industry (MFRC Industry Statistics, 2001). It is estimated that between R360m to R880m worth of loans find their way into this segment of the housing market (Davel, 2001). A major challenge for this regulator is to ensure that all lenders that make use of the exemption provision are registered and conform to the prescribed regulations. Many lenders still operate outside this

3.9 Summary

In this chapter the South African Housing policy with respect to the seven key strategies were examined. The need to stabilize the housing environment is vital to ensure that both the public and private sector can participate in expanding access to housing and housing finance. The policy emphasizes the need to mobilize credit from sources outside the state so that government can increase spending on other social programmes. As part of the package to roll out housing at scale a subsidy strategy was designed to provide state financed home to designed income groups. A further strategy to assist the self – help or incremental housing process was introduced in the form of the peoples housing process. Given the history of

housing in South Africa under separate development the number and functionality of the different public sector role players had to be rationalized and restructured to cater for all South Africans. To ameliorate the backlog the creation of new financial mechanisms and rationalization of institutions was alone was not going to address the problem. However, with a strategy to rapidly release land to appropriately settle homeless people proved difficult to implement. The final strategy required all agents of the state as well as government departments to co-ordinate and plan in an integrated manner which could maximize on the given resources. Chapter three also described the structure of the market and it critiqued some of the distortion that has entered the South African low income housing market. Notably the effect of inflation eroded the buying power of the beneficiary because the subsidy amount were not adjusted between 1995 and 2001. Other anomalies included the delivery of different size, quality and standards for the subsidy segment of the market, the breakdown of law and order, pricing for risk, supply side subsidy approach, restrictions on tenure, credit risk management and land invasions. The roles of the different public sector players in housing finance were also assessed from a performance perspective. The Central Government injected over the past years on average R2 billion per annum into the low-income market excluding finance from other public sector institutions involved in housing (NHFC, RHLF and SHF). This dominance from the state with its subsidy policy marked the beginning alternative housing lenders being established for citizens that were unable access credit from banks. This policy shift also ushered in different tenure options for those with limited income. It seems from the assessment that the Public sector role players have had limited success in effectively reducing the backlog or easing the availability for housing credit.

Private lenders in the housing finance system were also evaluated to understand their strategic approach to the low-income housing market. Again the banks had limited impact while non-banks were more effective which in terms of outreach they fell short on sustainability and capacity constraints. The volatile trading conditions together with the quest to gain market share has benefited the larger institutions making it difficult for the small institutions to survive on a stand alone basis.

The private player's in the South African housing finance system has over the years either withdrew from the financing of low to moderate income households or has focused exclusively on the financing of residential assets in the upper income market. While this is true of large banks, smaller banks have carved niches and penetrated the middle parts of the low-income market. However, since 2000 the finance sector has lost four small banks. This reduced the intermediation capacity that was developed to deal with low to moderate-income borrower. Local government is also a huge player in this housing delivery process tasked with planning, integration and co-ordination of housing projects but lacks the necessary skills and financial resources to deliver housing on scale.

The other players include NGO's and donor agencies that are involved with self-build approaches at grass roots level, again, due to financial and institutional capacity constraints these can only provide housing in small scale. Lastly, regulators (Reserve Bank and Micro Finance Regulatory Council) play an important role in ensuring safety and soundness of our banking system and enforcing regulations to ensure fair credit practices and behavior of lenders. While other regulators like the National Home Builders Council are focusing attention on protecting consumers against unscrupulous contractors and poor workmanship.

Chapter Four: Challenges and Constraints in the Accessibility of Low Income Housing Finance in South Africa.

4.1 Introduction

In chapter three the aim is to use empirical evidence to examine and understand the complex housing problem in South Africa from the perspective of the key role players and stakeholders. These include the potential beneficiary of housing, the lender community, government and finally to engage housing finance experts/ activist for their interpretation and understanding of the research question.

In particular this chapter focuses on the research questions posed in see section 1.3 of chapter one and tests the hypotheses. Primary data, collected from different housing stakeholders, through a scientific approach gathered data at the end-user level (borrowers) and from key housing activists and institutions is used to test the hypotheses. The empirical research has been structured into two components:

3. primary market survey aimed at the end user or borrower level⁹²
4. selected interviews with lenders and key housing activists.

Relevant primary information from potential homeowners was gathered from the NHFC study, which presented an opportunity to rework and embellish the methodology for the purposes of this study. To compliment the existing data set interviews were conducted with key individuals in the retail-lending including housing activists. For this purpose a new questionnaire was designed to collect qualitative data that provided insightful information on the low and moderate income housing market from an institutional and academic perspective.

⁹² Primary data was extracted from the NHFC survey conducted in 1999 and in which the author played an instructive role. The author has been given permission by the NHFC to use the data from survey for the purposes of this study.

The main hypothesis of this study was to examine and understand the dynamics of the primary low income housing market and test if the following variables contribute to the accessibility of housing:

1. Does the absence of a wide price range of available housing prevent trading up within the same neighborhood? (Availability of appropriate stock)
2. That affordability is not a factor that hinders access to housing,
3. The lack of access to credit facilities and financial products exclude many would be homeowners from entry into the market.

This chapter has been divided into three subsections; the first provides a general profile of the low income market and shows the incidence of unsuccessful homeowners. The second tests the above - mentioned hypotheses by looking at access to credit and finance, affordability, primary and secondary housing market dynamics and importantly assessing housing and neighborhood characteristics. Finally, chapter four examines the role of local government in address the research question.

4.2 Profile of Target Housing Market

4.2.1 Income Distribution

The distribution of income in the random sample as described in chapter one under the section on methodology showed high concentration of the sample population in the lower income groups. Eighty nine percent of the sampled populations are located in the income groups less than R4200 household income per month. This high concentration of the population indicates that the level of affordability for housing could be adversely affected. This implies that if the majority of the sample population earn low incomes and the fact that there are competing needs like education, health and food housing might be accorded a lower priority and housing could become inaccessible primarily because of inadequate disposable income. Lower (29.25%) sample incidents are found in the less than R1000 income group and this could be attributable to the urban bias of the sample and the fact that they do not consider themselves as prospective buyers. However, for the purposes of this study this category has been excluded

and will not be analyzed because state subsidies are directed at this group who are considered to be an indigent proportion of our population. Within the sample localities only 4% of the household earned more than R6000. This represented less than 10% of the households that qualified for inclusion as the defined target market. The survey also included a control group (R6000 to R10 000) to test the threshold at which loan finance or delivery of housing represents absence of market failure. The study indicates that respondents from the income group greater than R6000 experience less significant problems in accessing finance and or housing. Due to this finding further analysis on this income group has been excluded because the market seems to be functioning well with little or no obstacles to access finance or housing. Interviews with government, lender and housing finance experts are all agreed that the main target audience that is in need of housing finance are those with income ranging from R1000 to R3500 which is defined as low income and R3501 to R7500 which they define as the moderate income group.

The graph below confirms that the greatest concentration of respondents (60%) fall into the R1000 to R4200 income category. While 7% find themselves in the income category R4201 to R6000. This is suggestive of the fact that while the above groups are not the most vulnerable economic income groups within society, it nonetheless represents the very groups that experience the most difficulty in acquiring a house and access to finance which is confirmed in this chapter.

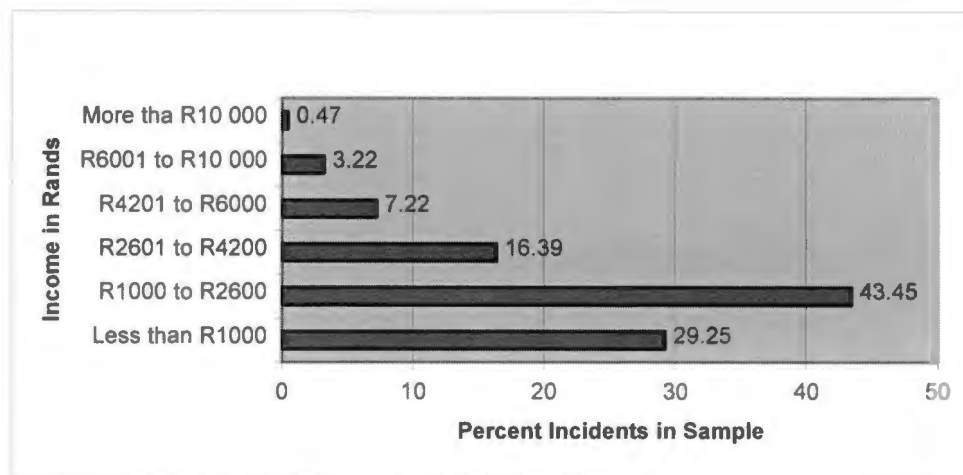


Figure 4.1 Income Distribution of Housing Market

4.2.2 Employment Status of Respondents

On average 64% of the total sample are formally employed (This is defined as people with regular form of income from the formal economic sector). Fifteen percent of the respondents indicated that they were informally employed while, 11,4% are self-employed. Within the sample population 81% derive some form of income, which excludes any contributions from the spouse. Employment status of the spouses indicate that some financial capacity exist to contribute to the purchase of the home.

Employment Status	R1000 – R2600	R2601 – R4200	R4201 – R6000	R6001 – R10 000
1. Formally Employed	51.34	70.22	71.67	70.24
2. Informally Employed	20.98	13.13	12.50	14.29
3. Self Employed	20.98	13.13	10.83	13.10
4. Unemployed looking for work	3.13	1.78	2.50	0
5. Stay at home by choice/ Housewife	1.34	1.33	0	1.19
6. Retired with pension fund	1.34	0	0	1.19
7. Too ill to work has disability grant	0.45	0	0	0
8. Studying full time	0.45	0	0	0

Table 4.1 Employment Status of Head of Household

Unemployment amongst the head of the household was less than 2%, which is indicative of an economically active sample population. While the employment status of the spouses is lower than those of the head of the household, it does indicate some capacity to take up joint debt responsibility. Within the income group R1000 to R2600 almost 92% of the respondents are

engaged in some form of economic activities that could supplement household income. In the R26001 up to R10 000 income group almost 90% of the respondents are able to derive income that could be jointly use for housing purpose.

Employment Status	R1000 – R2600	R2601 – R4200	R4201 – R6000	R6001 – R10 000
1. Formally Employed	21.70	28	55.17	62.32
2. Informally Employed	18.87	20	11.49	14.49
3. Self Employed	11.32	15.20	14.94	14.49
4. Unemployed looking for work	34.91	26.40	16.09	2.90
5. Stay at home by choice/ Housewife	7.55	8.80	2.30	4.35
6. Retired with pension fund	.94	0.80	0	0
7. Too ill to work has disability grant	0	0.80	0	0
8. Studying full time	4.27	0	0	1.45

Table 4.2 Employment Status of Partner

While the majority of the respondents are engaged in some form of economic activity to derive income, 7% do not pay for their current accommodation. These respondents do include those who are living with families that own property. Table 4.2 illustrates that the income earned by the spouses are not insignificant and when combined with the partner's income the household income can contribute towards the purchase of house which could be less than R60 000. A significant 30% of the respondents reported that they live in rental accommodation; while this enlarges the potential market of prospective buyers it does signify that rental accommodation is considered to be more attractive than home-ownership. Rental preference was however restricted to the inner city areas and the younger economically active and highly mobile respondents.

4.2.3 Distribution of Respondents by Area Type

Almost 53% of the sample population lived in formal townships, while 35% live in informal settlements, 3% live in Inner city areas and 9% reported living in a suburb. The majority of people in the formal township areas are already homeowners. The implication of this situation is that as an existing homeowner the probability of residential mobility is lower and fewer people would represent those looking for a new home. This finding is evidence for a slow

secondary property development. The result of this feature is that property market sales are limited and the property sales turnover in that location would be non-existent (Abt and Associates, 1999:6-8).

On average, similar incidence levels were found for formal and informal areas, this does not necessarily imply that those living in informal settlements do not have a greater need or desire for owner-housing than those in formal areas. Rather, this is regarded as a reflection of substantially lower household incomes amongst informal residents, resulting in greater likelihood of exclusion from the sample.

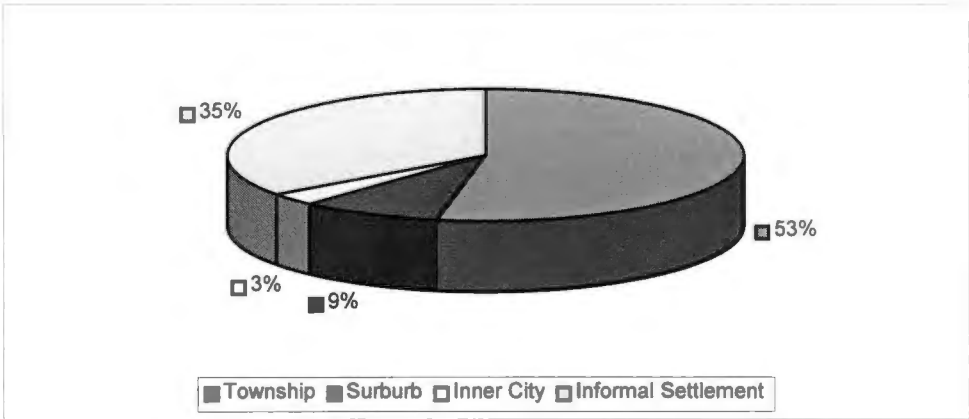


Figure 4.2 Current Area Type

The average period of tenure across the sample population was 7.5 years, with residents of formal townships reporting an average of over 9 years of stay in their current property, and those in the informal settlements and inner city areas reporting shorter period of tenure, which was less than 5 years. The reason for this could be ascribed to the need to access inner city temporary accommodation without long term commitment. Prospective buyers in the income group R1000 to R2600 reported longer period of residence in the current accommodation when compared to the higher income groups. This trend is indicative of relatively low levels of residential mobility in the above income group category.

4.2.4 Description of Tenure Arrangement across Market

The ownership of property is spread across the income groups and ranges from 32% to 46% in the higher income level. While rental in the income groups less than R6000.00 averages at 12% there is a noticeable increase to 16% in the above R6000.00 category. These finding points out those respondents with higher income prefer rental and are seeking temporary accommodation that meets their short term needs. This group also represents the segment of the population that is highly mobile and not ready to purchase because their housing requirements are still basic.

Again across the different income groups on average 25% of the respondents live with family who own the property. This dimension does represent an opportunity for the sale of new or existing homes; however this might not be a true indication of the market potential.

Tenure	Total %	R1000 – R2600	R2601 – R4200	R4201 – R6000	R6001 – R10 000
1. Own Property	36	32.24	37.33	35.00	46.43
2. Rent Property	13	12.05	12.00	12.50	16.67
3. Family / Parents own property	25	23.66	24.00	28.33	25.00
4. Family/ Parent rent property	1	1.34	.89	2.50	0
5. Rent room, shack, outbuilding	20	23.66	21.78	18.33	8.33
6. Do no pay for accommodation	5	7.14	4.00	3.33	3.57

Table 4.3 Tenure Type of Respondents

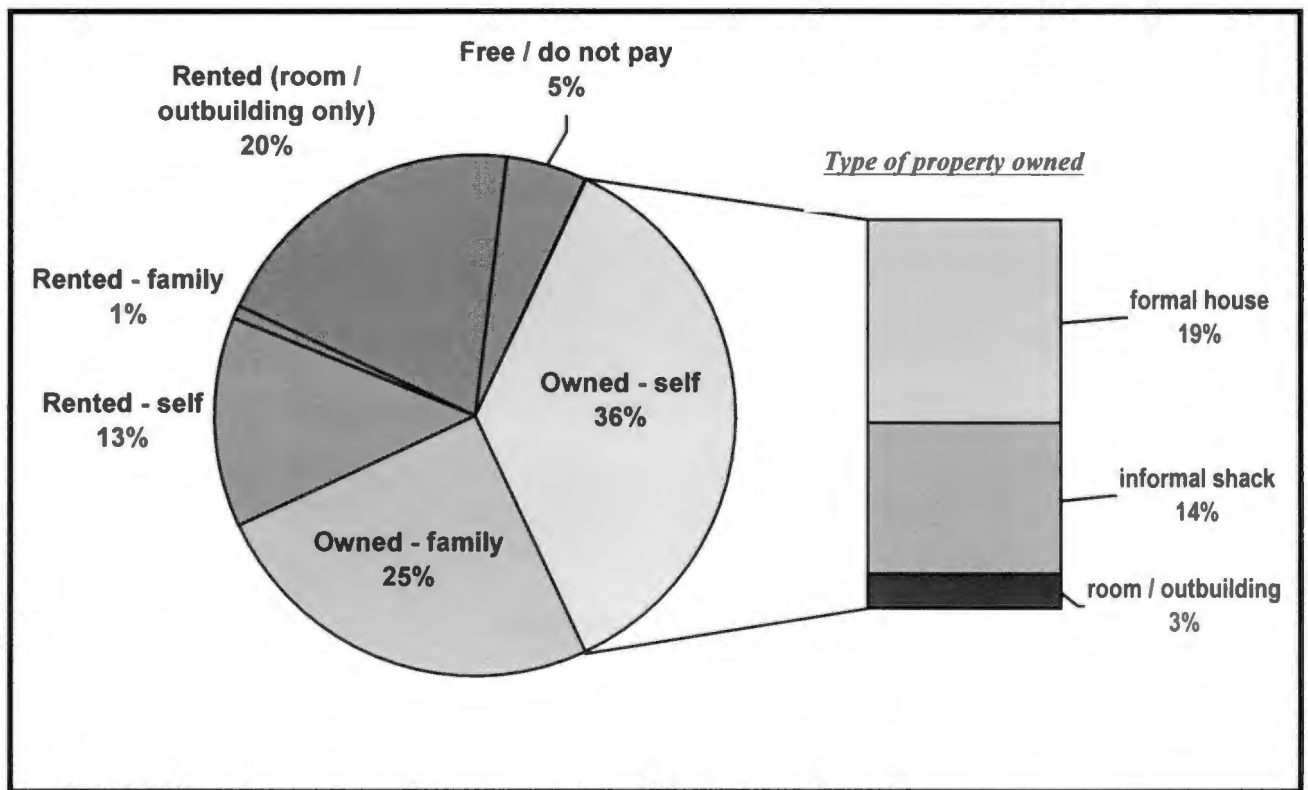


Figure 4.3 Tenure types of Respondents across Total Sample

The chart illustrates the distribution of tenure types within the sample of prospective buyers, with well over half of properties being owned, and over a third being rented by the prospective buyers (i.e. the target market) themselves. Of the properties owned by prospective buyers, 54% are formal houses (representing 19% of the total sample), and 46% are shacks in an informal area (amounting to 14% of the total sample).

What this means is that more than a third of the market already owns the property they live in, and of these properties, more than half are formal houses which should be saleable on the secondary market, making it considerably easier to purchase another house.

4.2.5 Distribution of Respondents by Type of House

The housing market was segmented along formal and informal housing types or conditions. Through careful analysis the sample population revealed that 41% lived in formal housing, 26% lived in a shack within an informal settlements while 9% lived in a room rented from a landlord

that occupied a formal house, 20% occupied an outbuilding or shack in a backyard within a formal area and 4% staying in flats and hostel situations. This analysis indicates that people that currently live in shacks in

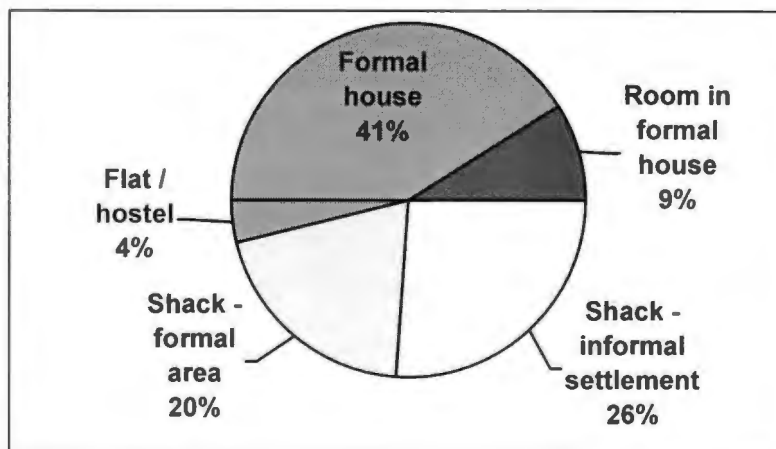


Figure 4.4 Distribution of Respondents by Housing Type

informal settlements, those renting rooms and outbuilding who account for 53% of the sample potentially represents those that could seek or who are looking for access to join the formal housing market.

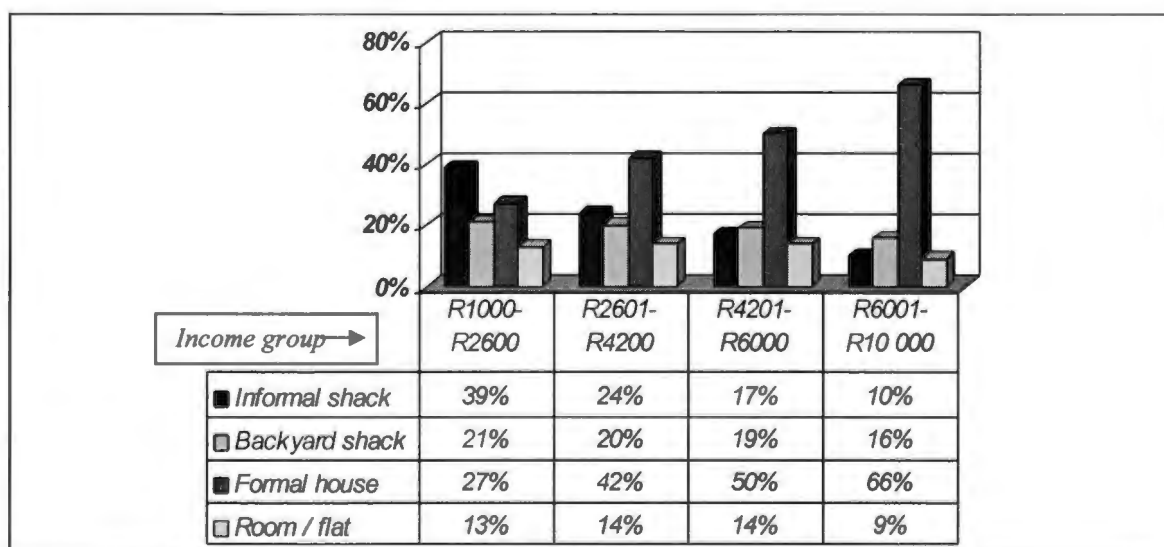


Figure 4.5 Type of House by Income Group

The majority of people that indicated that they live in flats are from the income group that exceeds R10.000.00 household income per month. Similarly the highest concentrations of people that live in hostels fall in the income R6001 to R10 000. In the income R1000 to R 2600 60% (39% + 21%) live under informal conditions. Shack residents are differentiated on the basis of the type of area in which they live – i.e. a shack in an informal settlement versus a backyard shack in a formal area. Similarly, a distinction is made between households occupying a formal house, and those who rent a room within a formal house. Of the R2601 to R4200 income category 44% live in informal shacks or are renting a room. The picture that emerges is that home ownership among the groups earning less than R6000 is low and therefore suggests that income could be a barrier to entry to housing in the formal market.

Figure 4.5 clearly shows the association between housing type and income, with shack residents concentrated at the lower end of the income scale, and the households at the top end of the income scale tending to occupy formal houses. However, there was an exception in that 10% of those in the R6000 to R10 000 income group lived in informal shacks. The reason for this could be varied but could include owning property in rural areas, blacklisting, over indebtedness and unwillingness to purchase a home that has more overhead cost than a shack dwelling.

4.2.6 Length of time to Acquire Home

Of those who managed to acquire a home the time scale varied considerably. Almost 30% of the respondents indicated that it took them more than three years to acquire a home. A further 27.7% said that it took them between 7 to 18 months and 18.3% stated that it took them between 3 to 6 months to acquire a home. These times are relatively long when compared to other countries like the US and Britain where the average time taken to acquire a home is two months.

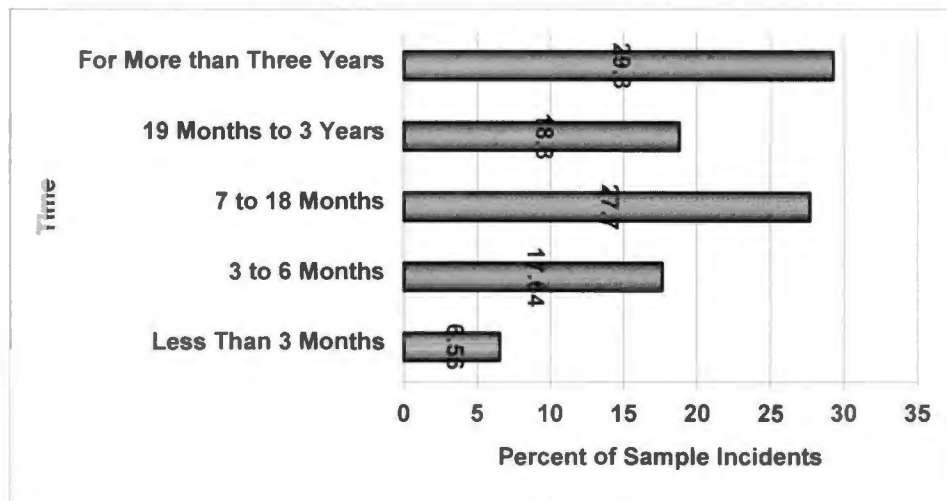


Figure 4.6 Length of time to Acquire Home

The sample points out that the different income groups have experienced different levels of frustration in terms of time factor or length of time to acquire a home. In the income category less than R1000.00, 57% of the respondents were able to acquire a home in less than 3 months. This finding confirms that the people in the lowest income are indeed able to access housing much easier than those in the low and moderate income groups. This finding does seem like a contradiction, however, factors such as the government subsidy has allocated more than 90% of its subsidies to this income group. (National Department of Housing, 2002) While 42% of the sample live in informal settlement 30% fall into the category that earn less than R1000.00 per month.

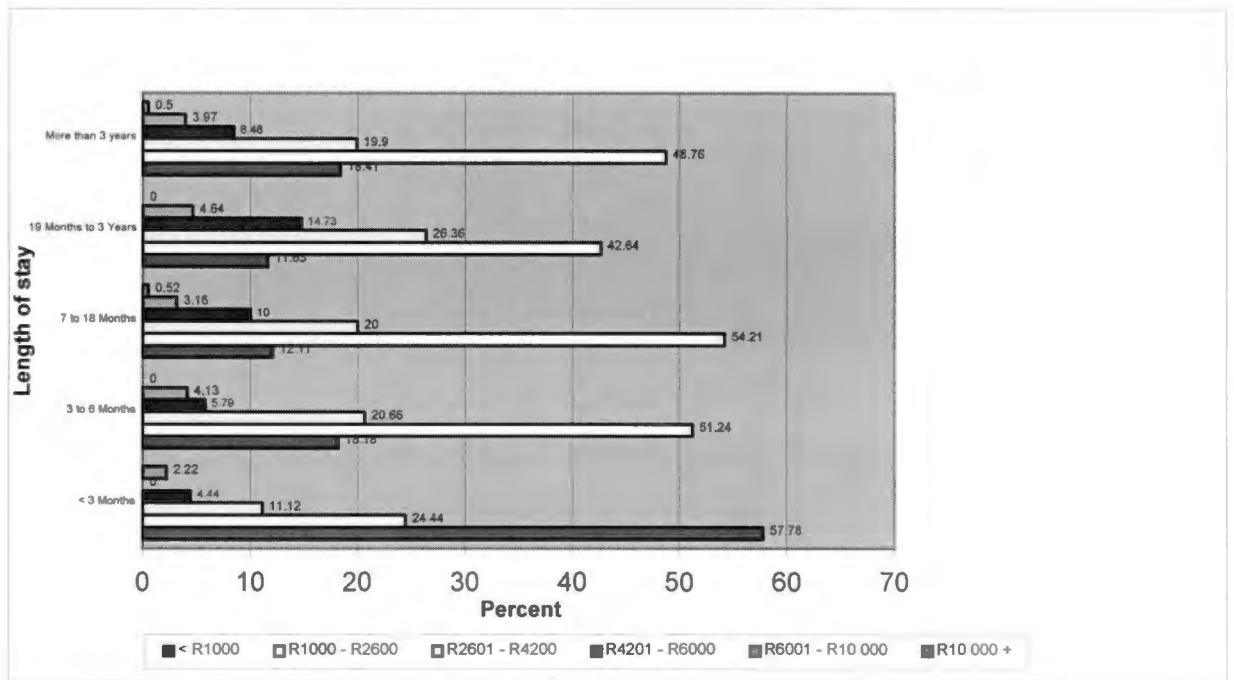


Figure 4.7 Length of Time to Acquire a Home by Income

Therefore this could be attributed to the facts that to people are able to find informal housing more easily and live without and legal tenure rights.

Also interesting is that the majority of those that earn more than R10 000.00 per month household income are able to find homes in less than three months. The same is true for the income group R6001.00 to R10 000.00. This suggests that income level influences how quickly one acquires residential property.

However, in the other income groups difficulty is experienced in acquiring homes. In the Income group R4001.00 to R6000.00 almost 23% have waited more than 19 months to gain access to a home. In the next income group R2601.00 to R4000.00 45% of the respondents waited longer than 19 months to acquire a property. Hardest hit were the respondents in the R1000.00 to R2600.00 income category where 51% waited 3 to 6 months, 54% waited 7 to 18 months and over 90% waited more than 19 months to acquire a home.

4.2.7 Actions Taken Acquire Own Home

The defined market has demonstrated that potential buyers have gone through many steps to acquire a home. The table below lists the different steps and action that have been taken. What is significant about this list is that to be classified as a potential homebuyer respondents had to have pursued three or more of these actions.

Action taken	Yes
1. Looked at more than 3 houses/ plans of houses with a view to buy	58.02
2. Put name on waiting list	57.43
3. Contacted estate agent	33.09
4. Contacted a developer/ housing company with a view of buying or building	31.63
5. Obtained information about housing subsidy	41.55
6. Obtained other information from the local authority with a view to buy or build	35.44
7. Saved a deposit of R2500.00 or more to buy a house	35.13
8. Saved money over a year to buy a house	37.32
9. Asked family or friends to give loan to buy or build house	22.30
10. Approached employer for assistance to buy or build home	32.36
11. Applied to a bank for a loan to buy or build	30.47
12. Applied to other organizations for a loan to buy or build a home	20.26

Table 4.4 Actions Taken to Acquire a Home

Fifty eight percent of the sample across all income groups looked at more than three homes or have seen plans of houses with a view to buy. More than half of the sample also put their name on a waiting list with local or provincial government. A further 31% obtain information about housing subsidies with a view to augment their current affordability level. The table above also indicates that respondents in the low and moderate-income market have taken pro-active steps to acquire a home but are still unsuccessful in obtaining finance or the desired home that meets their requirements. Given the effort and time taken to pursue these actions, many would be home buyers are still not able to enter the housing market. It is reasonable to assume that after attempting three or more of these actions it is very easy to become a frustrated and despondent prospective buyer. Failing to buy or access finance can lead to potential withdrawing from the market and pursuing living under existing conditions in informal settlements. This can possibly lead to extending to the current suburban home and thereby

over capitalizing, which makes it difficult for them to trade upwards in the secondary property market.

4.2.8 Reasons to buy House

Many reasons have been articulated by the target end-users for purchasing a home. However, only six reasons enjoyed a significant level of frequency with the sampled respondents. These categories have combined similar responses, which are discussed individually below.

Over half the prospective buyers described their need to provide a suitable home to accommodate their family. Responses to the open-ended questions on the reasons to buy another house range from the practical issue of space to the emotive issue of dignity. This category of responses are indicative of the need to provide a home for the family to live "properly which is interpreted to mean comfortably", and ensuring that the future housing needs of the family are provided for. The issue of providing for a family was particularly important for respondents (53%) in the lower income groups (R1000 to R4200). This helps to explain why so many of those who already own their own homes, but which in many cases are starter homes, are in the market for a new house.

Thirty six percent of all prospective buyers stated that the need for privacy or independence as being one of their main motivations for buying a house. Frequency of mention in this category was particularly high amongst respondents living in backyard shacks (who constituted 20% of the total sample). Respondents in the control group (R6 000 – R10 000) were significantly less likely than those in the target income group to mention the need for privacy as a motivating factor. This can be explained by the fact that their houses are more likely to have already addressed this requirement (for instance, the average resale value of owned property in the control group is in the region of R75 000 – almost three times the average value of those in the target income group own their houses). This indicates that ownership may indeed address the

need for a sense of independence and privacy – even if the owned house is a small starter house.

Reason to buy Home	% age of sample
1. Growing family needs	52
2. Independence and Privacy	35.7
3. Status	20
4. Safety of family	7
5. Investment in Homeownership as opposed to renting	10.3
6. Locational Factors	8

Table 4.5 Reasons for Purchasing a Home

Status has been highlighted by 20% of all prospective buyers as the main reason to buy a home, the majority of whom are residents of informal settlements and backyard shacks.

Owning a property makes better financial sense than renting one. This was the attitude expressed by over 10% of the market, irrespective of income group. At the time of the survey, over a third of prospective buyers were living in rented accommodation. In theory, the argument makes sense, but given that the majority of rented accommodation was in the form of backyard shacks or outbuildings, it does not necessarily follow that purchasing a house would be cheaper – or affordable at all. This point also has important implications for rental potential. Historically South Africans have shown a strong desire to own, and therefore rental accommodation has never been an attractive option.

Security was a pressing issue for respondents in the control income group, where 13% indicated crime as an important factor. Safety of the family was also mentioned by 10% of informal residents – amongst this group safety was described in relation to the danger of fire, a well-known hazard in shack settlements. The former category then implies the need to move to an area with lower crime rates, while the latter indicates either the need to move to a serviced area (where flammable agents such as paraffin are not the main source of energy) or to a formal

area where fires do not spread as rapidly as in informal settlements (for instance, where housing is less dense, or the materials used are less prone to catch fire). Previous research (Study of Former Township Property Dynamics, 1998) has indicated that security is also a pressing issue for people in shacks, who have little protection against theft or physical attack – and that formal houses are often seen as a safety haven in comparison.

Those wanting to move to a better area with higher property values were concentrated amongst residents of formal areas in the upper income groups (above R4 000), indicating the need for mobility to trade up. Naturally, those who expressed the desire to live in formal areas with good services are currently living in informal settlements.

4.3 Incidence of Unsuccessful Homeowners

The distribution of incidents in relation to income is illustrated in figure 4.2. The incidence of unsuccessful buyers/homeowners amongst the survey population was 13% across all income groups. When the below R1000 and the above R6000 income categories are excluded an incidence of 19.2% was recorded. This meant that a frustrated buyer could be found in almost 1 out of every five households in the same income group.

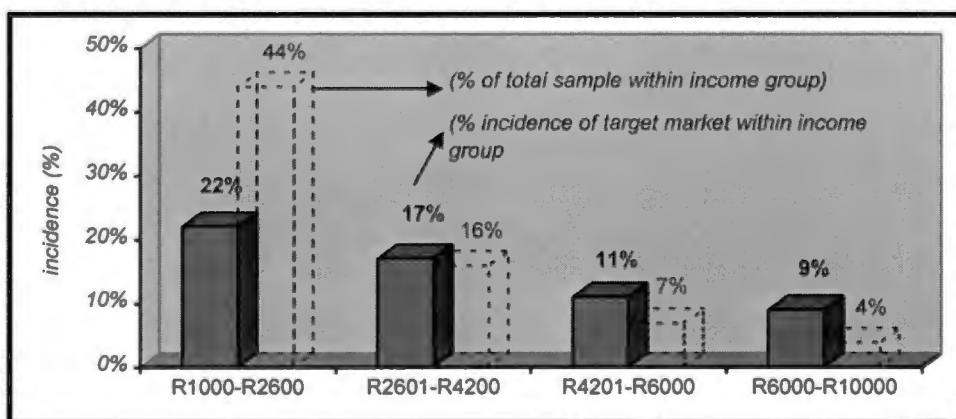


Figure 4.8 Incidences across Income

The research indicates that the highest (22%) incident of frustrated buyers exists in the R1000 to R2000 income category. Low incidents (9%) exist in the R6000 to R10 000 income bracket. Together 28% of the frustrated buyers are found in the income group between R2601 and R6000. It is important to note that many would be home owners have taken concrete steps in trying to acquire a home. Frustrated buyers included those that that took specific action as described in table 4.4 in this chapter.

The incidence of unsuccessful buyer or would be homeowners in the control group was lower at 9%. This is indicative that in this income group access to housing is not a significant problem.

4.4 Access to Credit and Finance

All prospective homebuyers were asked whether they tried to obtain a mortgage loan or any form of credit to acquire a home. Sixty seven percent of would be homeowners indicated that they tried to access funding from different sources to buy a home. The majority of the respondents approached financial institution while others went to employers, families and non-government organization to access funding. The table below reflects the distribution of the different sources of funding utilized. In this question respondents were permitted to select answers across multiple categories.

Financial Institutions	Total %	R1000 – R2600	R2601 – R4200	R4201 – R6000	R6001 – R10 000
Banks (a)	57.93	31.3	33.7	17.9	17.1
Another Financial Institution (b)	6.67	31.0	37.9	27.6	3.4
Money lender or cash lender	5.29	39.1	34.8	17.4	8.7
Organization or NGO	1.84	62.5	0.0	12.5	25.0
Your employer	47.13	32.2	35.1	21.0	11.7
Family or Friend	24.83	44.4	31.5	15.7	8.3
Anywhere else?	2.76	58.3	41.7	0.0	0.0

Table 4.6 Institutions Commonly Used to Access Credit

Of the 67% who tried to obtain any kind of loan, 65% (a + b) tried to access a loan through a financial institution. This corresponds to 43% of all prospective buyers (i.e. nearly half the total sample), who attempted to secure housing finance through a mainstream bank or other financial institution. A further 47% approached employers to obtain a loan and 24% went to family members to access credit. These findings indicate that while many still see financial institutions as the main credit giving institution, a significant number (71.96% of the 67% of total) use non- financial institutions to access credit. This finding is indicative of how lower income groups feel about formal financial institutions and to some extent reflects the attitude of formal financial towards the low income borrower. As can be seen later in this report, they are either somewhat afraid of them due to past experience, or highly suspicious. Whether this is due to the banks resistance to low income people in general or whether it is purely a perception of the low-income market, it does represent a very real blockage in terms of obtaining housing finance.

This result does not demonstrate a correlation between income group and targeting of financial institutions, while it is more likely that people in higher income are more likely to approach financial institutions for loans, respondents in the low (31.3%) and moderate (33.7%) income also approach banks for housing finance.

While the association between income and use of financial institutions appears dramatic on examination of the subset of respondents who tried to access any kind of loan, it is far less pronounced when calculated as a percentage of the total sample, for instance, of all those who attempted to secure finance, 82% in the control group and 57% in the lowest income group approached financial institutions showing a significant variation of 25%. On the other hand, of the entire sample, 53% of the upper income group and 39% of the lower income group tried financial institutions showing a less significant variance of 14%. This is illustrated in the figure below. The finding here is pointing to the fact that income alone is not the criteria that determines who get access to credit or not. While this finding does imply that people in the

middle and upper income groups are more likely to approach banks for requesting housing loans.

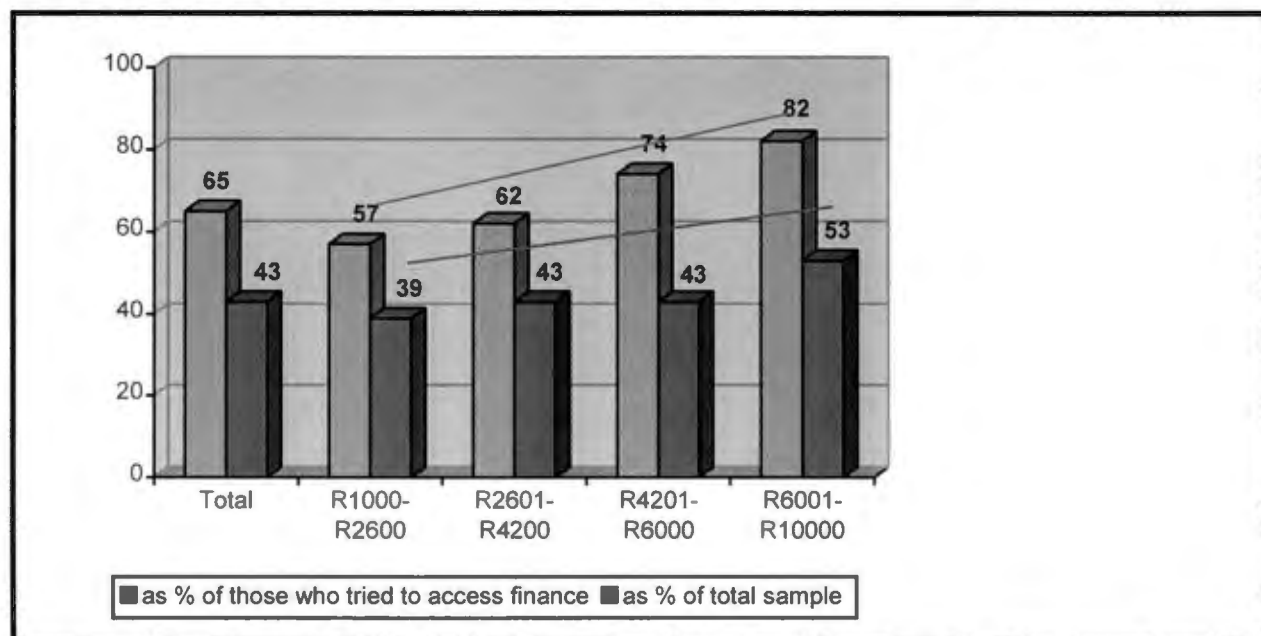


Figure 4.9 Proportion of Market Approaching Financial Institutions

The various financial institutions which people approached regarding housing finance were as follows (note that the percentages indicate the proportion of respondents who tried to get a loan from any financial institution – not a percentage of the total sample):

Standard Bank	30% - particularly the lower income groups
ABSA	19% - particularly the control group (over R6000)
First National Bank	16% - fairly even spread
African Bank	9% - particularly the two lower income groups (below R4200)
Nedbank	5% - higher in the two upper income groups (above R4200)
NBS	5% - fairly even spread
People's Bank	5% - none in the control group
Perm	4% - none in the control group

Ithala	3% - none in the control group
Cash Bank	1% - none in the control group
Future Bank	1% - none in the control group
Other	5% - (Mamelodi Housing, Saambou, UniBank, micro loan lenders, Masincedane Housing Plan, Khula Trust, etc.)

It is significant that almost all institutions targeted for housing finance are mainstream banks, and that very few alternative finance institutions were approached. One of the hypotheses informing the research relates to concerns that mainstream banks and conventional loan management techniques may not be appropriately geared to the lower income market. Currently, there are few alternatives to mainstream banks, which can offer housing finance at the required scale.

The majority of the sector interviewees are in agreement that non-banks have a role to play in this market with the exception of one who contended that non-banks are unable to do scale lending but they can serve as an incubator or an innovator of new products. Those that are in agreement stated that non-banks are closer to their clients, they have a better understanding of the client and are able to respond to the clients needs quickly. Other reason included good outreach when compared to banks and the ability to stimulate product and price competition amongst their peers.

The question then arises: what level of satisfaction was achieved at the bank? The success rate was found to be 5% (i.e. of all those who approached financial institutions about housing finance, 5% were granted a loan). A little over a third (38%) of those who approached banks actually applied for a loan. This translates to 25% of the total market who applied for a loan, of whom 3% of the total market have received housing finance. As might be expected, the success rate is higher amongst the upper income groups. Whereas 1.5% of all prospective buyers in the lower income groups (below R4200) obtained loans, 6.5% of those earning

between R4200 and R6000 acquired loans, and the loan rate amongst the control group was 8% of the total sample.

4.4.1 Perception of Conduct of Banks in the Low Income Housing Income

Almost 33% of the market of prospective buyers did not approach financial institutions to access a home loan. Many reasons were cited why respondents did not approach financial institutions. To facilitate analysis the different reasons were categorized under four main themes. These included negative perceptions of banks (fear of the repercussions of non-payment, distrust of banks and their motives, worry about endless debt repayment), qualification criteria (as perceived by the respondents themselves, some of whom may even be mistaken in their assumption that they cannot qualify for housing finance.), preference to use savings (although these respondents were concentrated mostly in the higher income control group), lack of information (mostly in the lower income group, these people indicated that they didn't know anything about finance institutions or still needed to get information).

These categories are illustrated and discussed below:

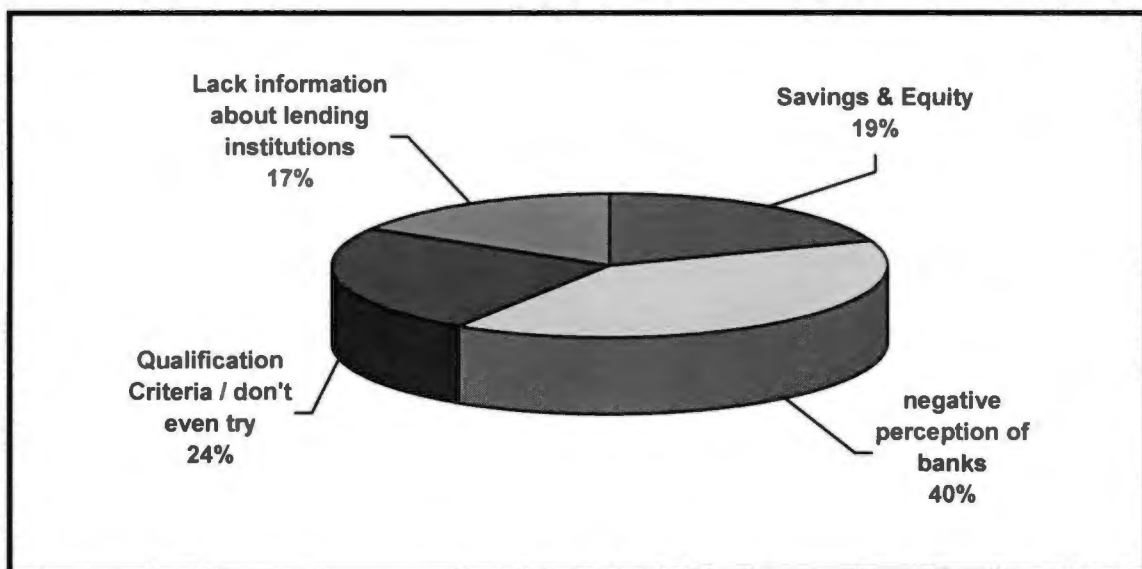


Figure 4.10 Reasons for not Approaching Financial Institutions

(Base: Prospective buyers who did not approach financial institutions about a loan)

Of the one third prospective buyers that did not want to approach financial institutions 40% cited reason that were related to negative perceptions and fear in deal with banking institutions. The analysis reveals that across all income groups interest rate charges and calculations were considered to be ridiculous (18%) at the time of the survey in 2000. Some (15%) feared the threat of repossession and this response was mainly clustered in the low-income groups. In the middle and upper income groups (8%) prospective buyers maintained banks are cruel and rob people of their assets. Lastly the fear of blacklisting and the debt cycle were also cited although this was spread across all income groups but only affected 9% of the would be buyers.

Altogether, prospective buyers who did not approach financial institutions because of negative perceptions about banks constitute 17% of the entire sample. A further 5% of the sample did approach financial institutions, but have similarly negative perceptions about banks and did not apply for a home loan. Thus in total, 22% (nearly a quarter of the entire sample) would prefer not to deal with banks and did not apply for finance.

Twenty four percent of those who had not approached financial institutions believed that they did not meet the qualifying criteria for housing finance, and as a result it was futile to enquire about housing loan. Those who reported that they did not qualify for housing finance cited the following reasons: employment status was reported by 8% of the prospective buyers mainly (13%) in the lower income groups (self employed / not formally employed / taxi driver), financial institutions do not lend to low income earners (6%) again this response came predominantly from lower income groups; none in the control group, blacklisted previously (3%) which makes credit checks difficult and this response was spread across all income. It was interesting to note that deposit and accumulating savings (3%) was considered as a prerequisite by the target income group to approach financial institutions. Others (3%) felt that because friends and family had failed to secure a loan from a financial institution they would also fail, also in this group people felt that loans are only for government employees and if you live in a shack dwelling you also don't qualify for a loan, though these responses were restricted to the lower income

groups. A secondary property market issue was noted by 1% of the control group who needed to sell their existing property before they could qualify for a loan.

The issue of eligibility could be considered a temporary or rectifiable one (e.g. need to sell the current house first / need a deposit), while for others their perceived non-eligibility was inherent in their profile (e.g. self-employed / low income) and therefore more difficult to overcome. While their perception of eligibility might be true from an income perspective the finding does point to misunderstandings about eligibility. The example that that supports the above is the perception that housing loans are only available to government employees, and that people who live in shacks are automatically excluded.

The issue of saving appealed to 20% of those who did not approach financial institutions and whom would rather save money for the entire property than have a home loan. This approach might be influenced by negative perceptions of banks or debt in general, although it is possible that respondents could be aware that accumulating equity in the form of saving might be more beneficial when applying for a loan. The latter could be supported by the fact the control group (40% of those who did not approach financial institutions) has better access to financial information and knowledge.

The lack of relevant information on banking services come up as a factor that tend to lead prospective buyers away from banks. 17% of those who did not approach financial institutions expressed ignorance or lack of information about banks. These people were concentrated at the lower end of the market. Twelve percent of the prospective buyers indicated that they did not know about loan institutions, while 5% indicated that they are still trying to get more information about banks and bank loans.

4.4.2 Success of Credit Approval

The study shows that 58% (table 4.6) of the prospective buyers had gone to mainstream banks to obtain a home loan. Of this 58% a striking 62% of the respondents whom approached banks with a view to access a home loan decided to not to apply. A further 25% of those who approached banks decided to withdraw from the loan application to process. The 25% that decided to withdraw after initial application cited the following reason for exiting the process.

1. Interest rate being too high which adversely affected their affordability level
2. The negative perceptions of distrust, fear and potential loss of property.

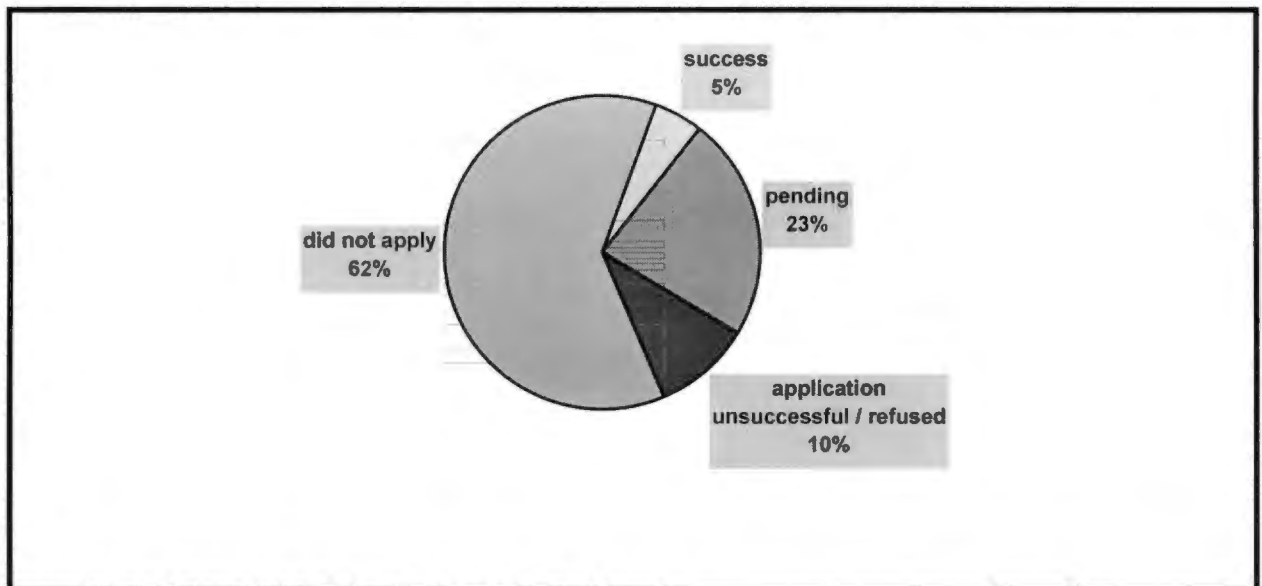


Figure 4.11 Result of loan Application at Banks

While a small percentage (38%) of those who did apply, only 5% were successful in obtaining a home loan. Others were still waiting to hear the outcome of their application at the time of being interviewed while some respondents stated that they have been waiting for years for a credit decision. But only 10% of the entire market has actually had their loan application refused by the bank. Thus the failure rate is also reflected as low.

Nevertheless, it is very clear from these results that whether it is the bank refusing, people not applying or changing their minds about applying after approaching the bank, the formal loan system is not functioning as it should at this level and needs to be viewed as a very real obstacle to low income people getting homes.

The figure above represents outcome of the housing finance process in the market. As can be seen, the number of loans approved represents a small proportion of those applied for, which in turn represent a small proportion of prospective buyers who approached financial institutions. What is concerning is the number many potential applicants whom are excluded or voluntarily leave the process. This would suggest that forces like lack of knowledge on different financial products, poor affordability levels on the part of the would be buyer and the inability of banking institutions to deal with low income earners pose serious constraints in accessing home finance.

Rutherford's (2002:53) study in Bangladesh concludes that poor households needs for financial services are not dissimilar to those of other groups, and may in some respects be more intense, while this is the experience in the micro-finance sector it could be applied to the banking sector in client relationship management and product development.

4.4.3 Home Loan Products

In total, 64% of the prospective buyers prefer the mortgage as the financial instrument to purchase a home. This finding was evenly distributed across the different incomes groups which displayed no significant preference. The mortgage loan was the popular choice where the property was used as the main source of collateral to secure the loan. A loan term of between 20 to 30 years is associated with the mortgage loan instrument. While this finding is consistent with the traditional instrument used to finance housing both in South Africa and elsewhere in the world, it does however represent a contradiction because the mortgage loan instrument had become unpopular in the late 1980s as a result of boycotts. The banking

industry in particular withdrew from the low and moderate income housing market, which constrained access to credit. However, despite this lack of access to mortgage credit prospective buyers still prefer the mortgage loan instrument to finance their home.

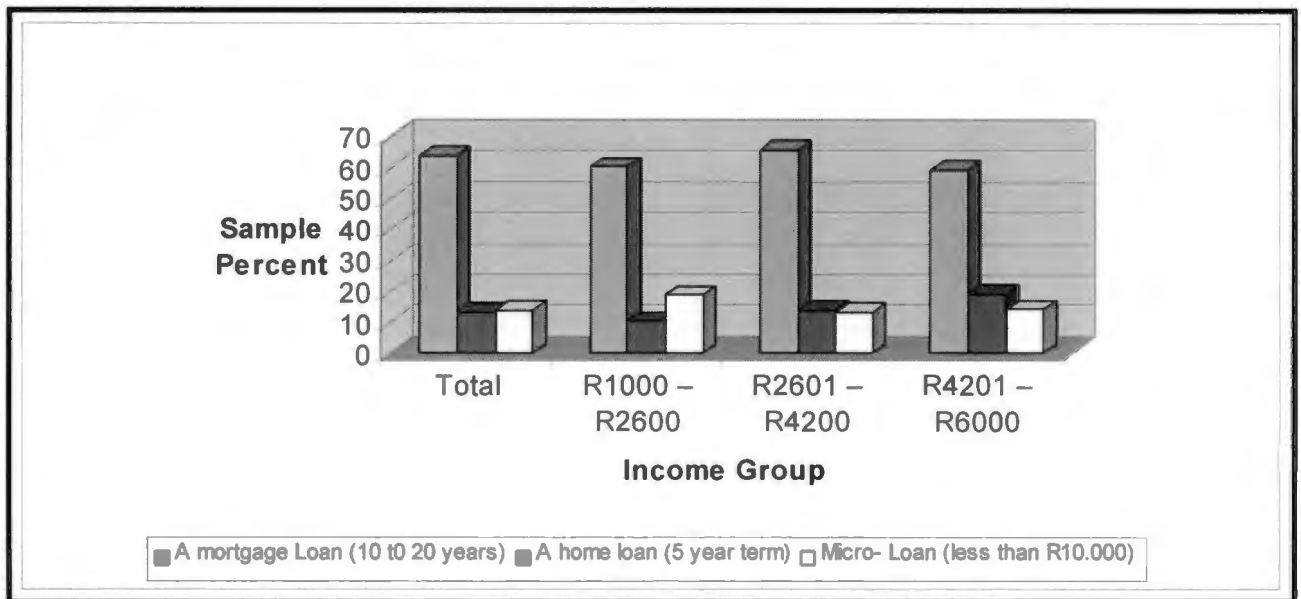


Figure 4.12 Preferred types of Loan Instruments

Thirteen percent of would be buyers selected a loan instrument that is secured by the withdrawal benefits of a pension or provident fund. In this arrangement the size of the loan is dependent on the accumulated value of the members contribution in the fund and restricts the potential buyer in accessing a home of his choice. These loans normally carry a five year repayment term. Micro loans were also accessed by 14% of would be buyers. Within the backdrop of the bond boycotts and withdrawal of the banks from providing access to housing finance, this market has led to the growth of the micro-lending industry, through which credit became more easily accessible with less onerous credit vetting process. Micro loans are loans that are less than R10 000 and which also carries a high interest rate. These loans do have an impact on incremental housing, however it does not promote the purchase of new or existing homes.

The responses from the sector interviewees on the products offered by their institution were evenly distributed amongst the mortgage loan, unsecured micro loan and the secured micro-loan. Variations to the micro loan product included the use of a payroll deduction at source of income and cash collection over the lenders counter. While the sector experts acknowledge the use of their products to finance housing they also recommend that alternatives to the mortgage loan be considered and tested because it was difficult to still evict and foreclose in some residential areas.

4.4.3.1 Pricing and Interest Rates

In the Housing Finance System in South Africa the pricing of loans specifically for housing are determined essentially by two factors viz, the cost of funding and the risk of lending in the different market segments. South Africa still experience problems with evictions and foreclosing of mortgage loans and as a result the cost or interest rates to individuals in the low and moderate income categories are higher.

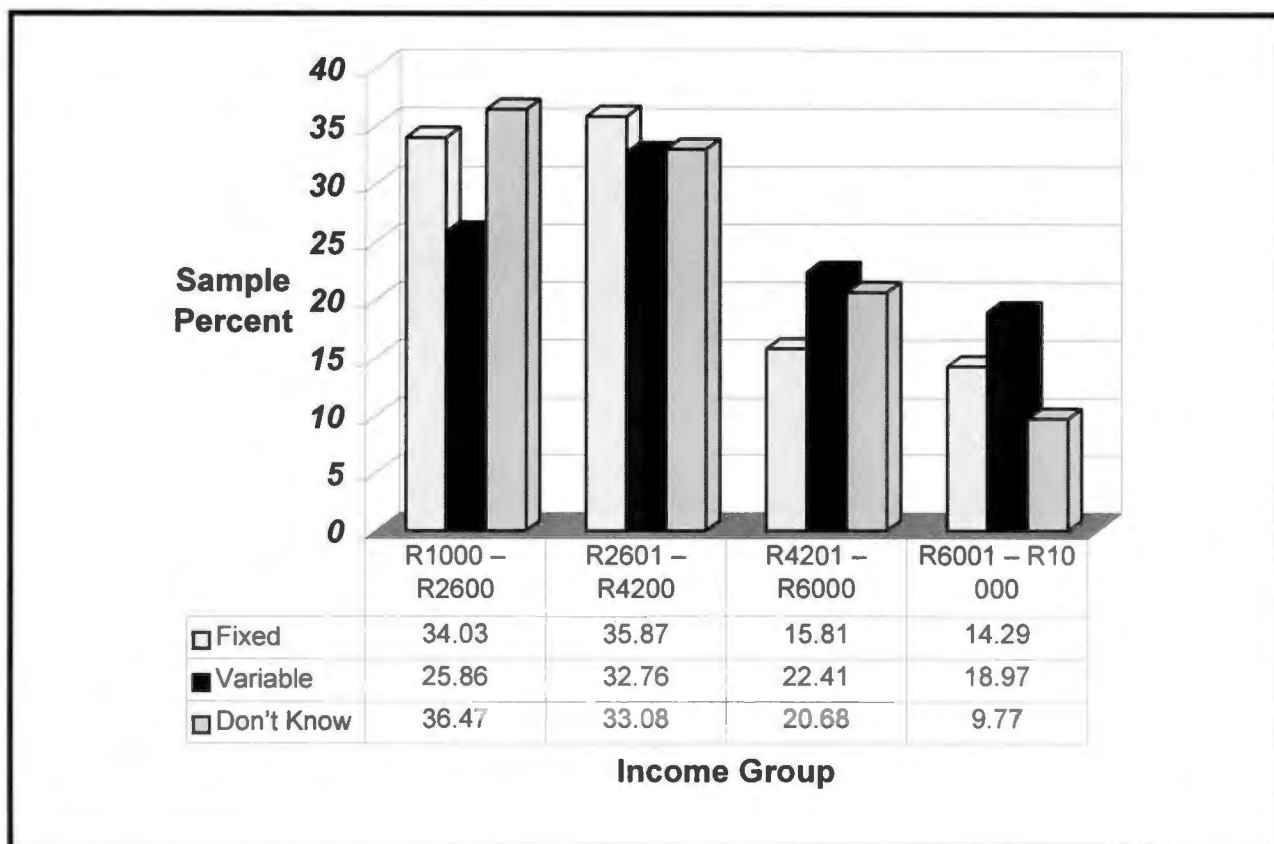


Figure 4.13 Interest Rate Preference

A third of would be buyers prefer a fixed interest rate on housing loans. This choice is reflective of the respondents wanting to keep the transaction simple by ensuring that the repayments remain constant for the term of the loan. It could also be associated with the inability of the market to deal with unexpected changes in monthly repayment that could upset their household cash flow. About 25% of would be buyers preferred a variable interest rate loan product. In the income group R2001 to R4200 32% preferred this option. The reason for this response in the lower income group is unclear, given that across all income groups in the sample respondents lacked the necessary information to make such financial choices. This is further discussed later in section 4.5.2 of this chapter.

The sector interviewees established that there is a clear relationship between interest rates and the performance of the economy. The following were cited as consequences of volatile interest rate environments:

1. The margins on the lenders becomes smaller making it less viable and profitable
2. Smaller banks collapse because they borrow short and lend long term
3. Borrower affordability and budget becomes strained
4. The constrain in the credit environment leads to a sloe down in the housing delivery process
5. The loss of jobs in a poorly performing local economy results in increased home loan defaulting

4.5 Affordability in the Low and Moderate Housing Market

4.5.1 Savings Performance of LIH

The study demonstrates that the majority of prospective buyers are serious about saving towards their house. In total, 66% of the market indicated that they had saved money specifically to buy a property. Of the 66% who indicated that are saving for housing, the majority (57%) saved with the intention to use the money as a deposit on a house, while 28% planned to buy building materials with their savings. Prospective buyers at low income were more likely to be saving for building materials than those at upper income, who were significantly more likely to be saving towards a deposit.

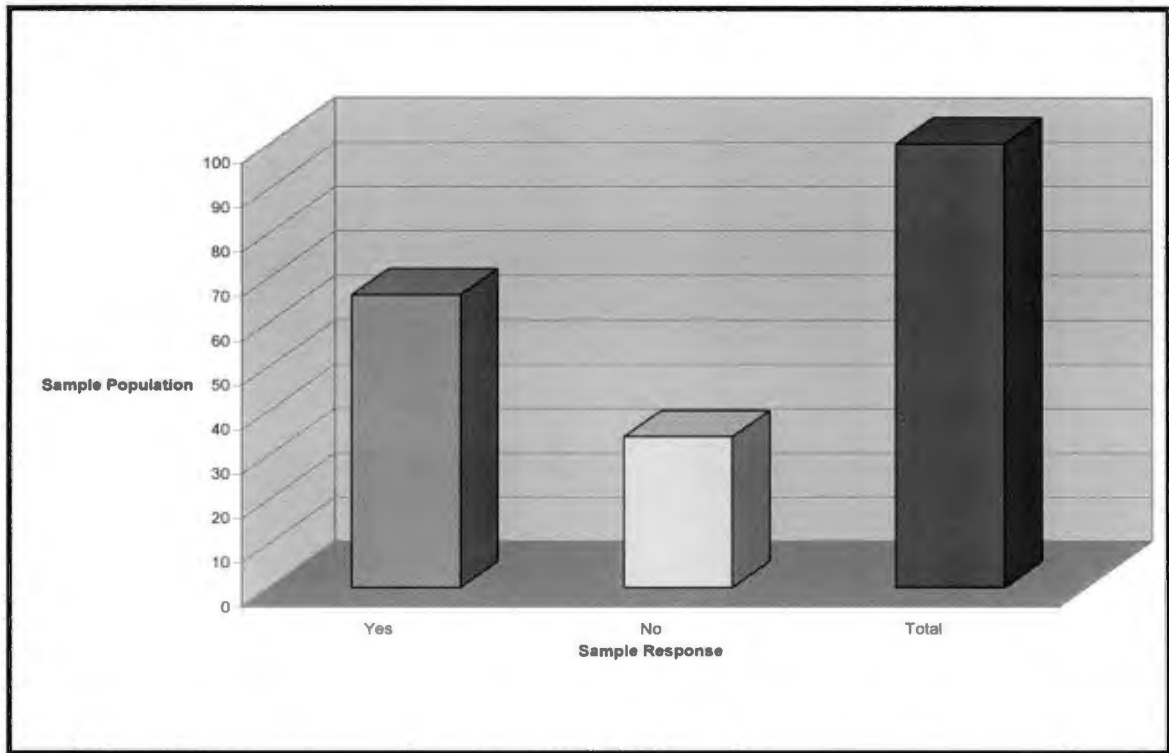


Figure 4.14 Savings for Housing Amongst Potential Buyers

In addition to those saving for deposits and building materials, 9% were saving to buy a whole house for cash, and 4% planned to use the money to buy land on which they would build a house; 11% did not specify what exactly the money would be used for.

The period and reported amounts saved indicate that the market's ability to save is not insignificant. On average, the entire sampled population had been saving for 25 months, and had saved an average of R8 702. The amount of savings achieved varied enormously – ranging from R100 to as much as R70 000. In general, the greater the income, the greater the average amount saved. Rutherford (1999: V) also found that Low income borrowers can save and want to save, and when they do not save it is because of lack of opportunity rather than lack of capacity. The relationship between income and savings is illustrated below:

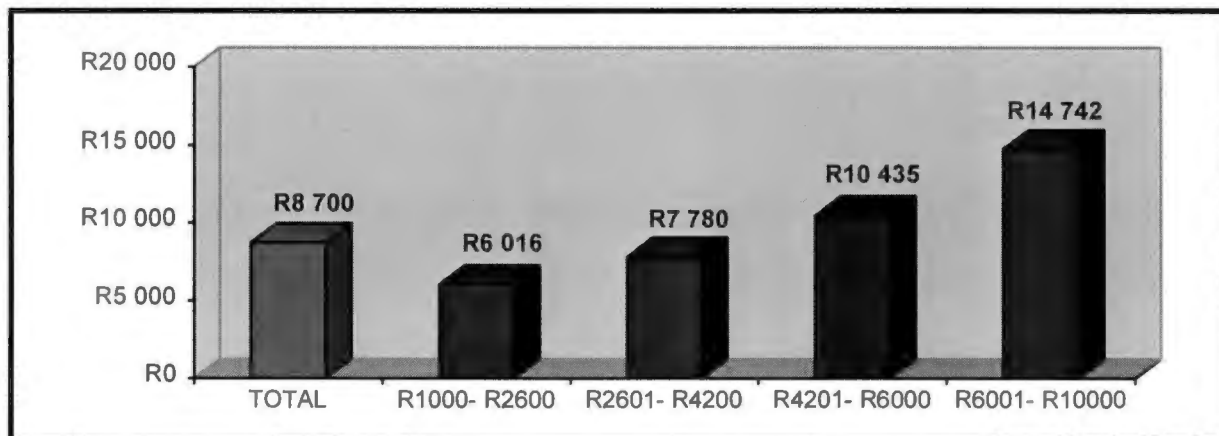


Figure 4.15 Average Amount Saved Towards Purchase of Property

While commonly assumed that people in the upper income groups save more, the above graph seems to confirm the association that the higher the income, the greater the saving in real terms. However, if one analyses deeper, an inverse relationship exists. When calculating the average amount of savings as a percentage of monthly income it is evident that the lower the income, the higher the proportion of money saved towards buying a property. So, where prospective buyers in the lowest income group saved the equivalent of nearly 13% of their monthly income over an average period of 24 months, the control group saved an average of less than 7% of their income over a 30 month period. Those in the middle income groups were saving at a rate of just under 9%. This calculation is illustrated in the table below:

SAVINGS	INCOME GROUP			
	R1000- R2600	R2601- R4200	R4201- R6000	R6001-R10 000
Ave amount saved	R6 016	R7 781	R10 436	R14 743
Ave period saved	24 months	26 months	24 months	30 months
equivalent savings per month	R251	R299	R435	R491
Ave monthly income	R1 956	R3 365	R4 938	R7 408
% monthly income saved	12.8%	8.9%	8.8%	6.6%

Table 4.7 Calculation of Percentage Monthly Savings across Income Groups

The previous section indicated that the majority of potential homeowners were reluctant to approach banks and generally distrusted them. This study confirms that the majority (62%) of those who saved towards a house used a conventional savings account at a bank in order to save their money. This finding is also contrary to the widely held view of the housing sector that most people in the low and moderate income have a poor savings culture, track record and most of all are unlikely to deposit their savings in a bank.

Other savings methods such as stokvels, post office savings, and hidden cash, could possibly indicate that potential buyers are not using savings mechanisms, which can yield high interest returns. The other saving mechanisms mentioned included fixed deposit accounts (20%) and unit trusts and off-shore investments accounts. The latter savings methods were restricted to the control group.

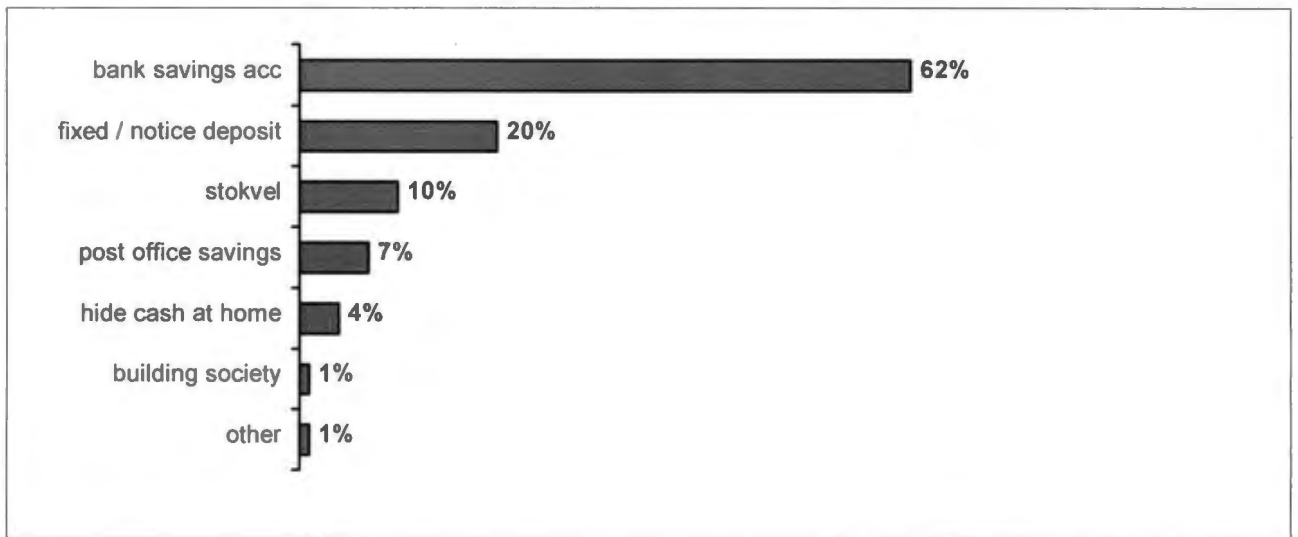


Figure 4.16 Method of Saving

In a publication entitled Policy Analysis for Unblocking Finance for Affordable Housing (Diamond and Smit, 2000:31-35) these two international housing finance experts argue that savings does play an important role in acquiring a home. Savings is sometimes considered to contribute towards the equity portion of the home loan package and address the issue of risk (owner takes loss) if the owner defaults. This finding does indicate that potential homeowners do have the ability to save, and have demonstrated a track record of savings yet they are unable to acquire a home.

At the very least, this savings pattern would provide lenders with an indicator of “character” traits in the market. Given that these prospective buyers are still struggling to purchase a house, their savings have thus far not provided them with the mobility to find an affordable yet desirable property in a housing market.

4.5.2 Household Affordability Analysis

Table 4.8 reflects that the mean monthly disposable household income for income group is R1000 to R2600 is R319.13, for income group R2601 to R4200 is R1242.82, for income group R4201 to R6000 is R2565.14 and for income group R6001 to R10 000 is R4033.89. Household expenditure has been computed to include regular monthly expenditure (food, clothing, medical

expenses, transport, telephone, dependants, entertainment, savings, bond and rental, holidays, personal loans etc) and regular installments listed in table 4.9.

INCOME	R1000 – R2600	R2601 – R4200	R4201 – R6000	R6001 – R10 000
Mean Gross Household Income	1955.99	3364.89	4937.57	7407.66
Mean Household Expenditure	1636.86	2122.07	2372.43	3373.77
Mean Disposable Household Income	319.13	1242.82	2565.14	4033.89
Cost of Current Housing	33.54	60.06	104.69	191.5
% of mean household gross income	1.7	1.8	2.1	2.6
25% of Gross Household Income	488.99	841.22	1234.39	1851.91
Potential Mortgage Loan (17%x240)	19951.1	34321.9	50363.2	75558.1
mean savings per month	R251	R299	R435	R491
% monthly income saved	12.8%	8.9%	8.8%	6.6%
average period saved	24 months	26 months	24 months	30 months

Table 4.8 Household Affordability Analysis

Using the current income qualifying criterion (25% of gross monthly income) for a mortgage loan used by the banking industry the potential monthly repayment and loan size can be calculated to determine purchasing power of the would be buyer. Applying the above calculation, would be buyers in the R1000 to R2600 income on average could pay R488.99, the R2601 to R4200 income group on average could pay R841.22, the R4201 to R6000 income on average could pay R1234.39 and the R6001 to R10 000 income group on average could pay R1851.91 towards a mortgage loan.

The potential loan size based on an interest rate of 17% with a mortgage term of 20 years the following loan values were determined, R19951.10, R34321.90, R50363.20 and R75558.10 respectively for the different income groups.

The above analysis only establishes the ability to pay and not the willingness to pay. However, in the lower income group (R1000 to R2600) the mortgage loan repayment exceeds the disposable income, which indicates that a level of unaffordability exists. This situation changes when the monthly savings are added to the disposable income ($R488.99 + R251.00 = R739.99$). Across all income groups, would-be buyers are saving between 6.6% and 12% on a monthly basis, specifically to buy a home. This trend certainly improves the affordability index of the majority of would-be buyers. While affordability might be a problem in the lower income groups, this analysis is pointing out that the majority of respondents can afford to repay mortgage loans and that affordability might not be the key barrier that prevents access to housing. The results also show that currently housing expenditure across all income groups is less than R200 per month which is low in relation to the need to find a home of choice. However, if this R200 can be added to the savings and the disposable income this will be consolidated as a housing related expense.

Almost half of all prospective buyers already own property, relatively few are burdened by loan repayments, since less than a fifth of all owners accessed housing finance. Reported household expenditure confirms that the current cost of housing is artificially low, with the majority of the market carrying no regular payments towards the cost of housing at all (neither through rent nor loan repayments) and the average proportion of the household budget across the market spent on housing reflected as a low 4%.

Expenditure Item	Sample %
Clothing accounts:	85%
Furniture accounts:	64%
Other hire purchase / lay-by:	8%
Loans from provident / pension fund:	8%
Personal loans (family / friends):	7%
Vehicle installments:	6%

Table 4.9 Regular Monthly Payments

Table 4.9 suggests a reason why would-be buyers that demonstrated a level of affordability have not yet been able to access a loan to purchase a home. Ninety three percent of the entire market has existing debt obligations that have to be serviced on a monthly basis. These loans are called term loans because they are paid over long periods of time. This study reveals that the above expenditure varies from a term of less than one-year to terms that can extend up to years. Clothing (85%) and furniture (64%) accounts account for more than half of the debt while loans account for about 8% of the regular debt servicing. In this question respondents were allowed to select more than one account type. A significant finding in this regard is that 29% of all respondents perceive that their existing debt obligation is an impediment to accessing housing finance.

4.5.3 Perceived Housing Affordability

The study points out that the majority of the prospective buyers in the market desire a formal house in an established township or in a new area that is being developed. The criteria to select an ideal home included locational factors, safety and good amenities. The size of the house typically consisted of 2 bedrooms, kitchen, bathroom, living and dining area. In evaluating these requirements with the affordability table above it is plausible that the majority could afford the house that has been described. However, results show that even these moderate aspirations may be unattainable for prospective buyers.

To establish the potential capacity to pay for the desired home, prospective buyers were asked to estimate the average purchase price, the deposit required, deposit that they could afford as well as any savings that could be added to the funding package. The main aim of this analysis was to assess the respondent's alignment of aspirations, personal affordability and market pricing realities.

The average cost of a typical home, as estimated by the prospective buyers themselves, is R80 950, with an estimated required deposit of R20 524. Given the average savings record of two years this exceeds existing accumulated savings. Moreover, average monthly repayments on a home loan for such a property are estimated at just under R2 000 – seemingly an impossible amount for a market where only a quarter of all prospective buyers (whether renters or owners) currently carry any regular housing payments at all, and those that do pay for housing spend under R200 per month.

The following table provides a comparison of estimated and affordable housing costs across the respective income groups. It must be noted that bank transfer cost has been omitted and the cost for deeds office registration has been excluded. Properties that are valued less than R100 000 are excluded from paying transfer costs. Again the conclusion, based on these calculations, is that affordability may not be a problem to access to housing.

Perceived cost and Affordability of Desired Home	TOTAL	INCOME GROUP				
		R1000- R2600	R2601- R4200	R4201- R6000	R6001- R10000	R10000+
Estimated purchase price:	R80950	R55 900	R79 500	R86 400	R143 800	
Estimated deposit needed: (deposit as % of purchase price):	R20 524 (25%)	R16 036 (29%)	R19 930 (25%)	R22 713 (26%)	R30 845 (22%)	
Estimated monthly payments:	R1 960	R1 718	R1 939	R2 011	R2 567	
Declared savings for housing:	R8 703	R6 017	R7 781	R10 436	R14 743	
Affordable deposit (estimated):	R12 185	R8 576	R11 716	R13 876	R20 655	
Affordable monthly payments (est.)	R900	R700	R886	R982	R1 363	
Loan required: ⁹³	R68 765	R47 324	R67 784	R82 524	R123 145	
Potential affordable loan:	R70 313	R54 687	R69 219	R76 719	R106 484	

Table 4.10 Perceived Housing Affordability

Respondents estimate affordable monthly repayments on a home-loan as far higher than their current regular expenditure on housing. If their estimates of affordability are reliable, then it appears (after deducting the affordable deposit amount from the estimated purchase price) that the desired house at its envisaged price may in fact be within the reach of most of the market. Expressed as an average of the market $R80950.00 - R12185.00 = R68756.00$ which illustrates the value of loan required. We then use the average affordable monthly payment to calculate the potential affordable loan that could be accessed from a bank ($R900.00 \times 240 \times 0.15$) On average the potential loan accessible is $R70313.00$. A significant finding is that the majority of the respondents across all income groups are willing to exceed their disposable income to purchase a home. The table illustrates that the mismatch between aspirations and affordability is greatest in the control group, where the potential affordable loan (based on reported affordable monthly payments) is most likely to exceed the required loan amount. Amongst the lower income groups, on the other hand, the potential affordable loan is calculated as being slightly higher, on average, than the required loan amount after a deposit has been paid. Thus,

⁹³ Potential Loan Required is calculated at 15% interest over a 20-year term.

amongst the target market, it would appear that affordability is not the key obstacle, and the desired house may be attainable provided that blockages relating to availability of suitable housing stock and finance can be addressed.

On the issue of access to credit the majority of the sector interviewees fully agree or agree with the statement that potential homeowners cite as one of the main factors that impede the delivery of housing. Some of the reasons for this response include the lack of affordability on the part of the borrower, increasing unemployment situation coupled with poverty and the banks reluctance to deal and offer credit on a proactive basis to this market based on past experience of non-payment.

4.6 Primary and Secondary Property Market Dynamics in the Housing Finance Market

This section of the chapter focuses on establishing relationships with some of the primary and secondary market factors and how they influence access to housing and credit.

4.6.1 Length of Stay in Existing Property

One of the key findings of this study is the length of stay in the current accommodation. The average stay in their current property or accommodation for all prospective buyers was more than five years. Table 4.17 indicates that 34.2% of the R1000 to R2600 income category and 35% of the R2601 to R4200 income group have lived in their current home for more than five years. When the middle income groups are combined 30.7% of the respondents have stayed in the same accommodation for more than five years. This finding indicates that potential homeowners have become less mobile and are likely to live under the same living conditions for prolonged periods of time.

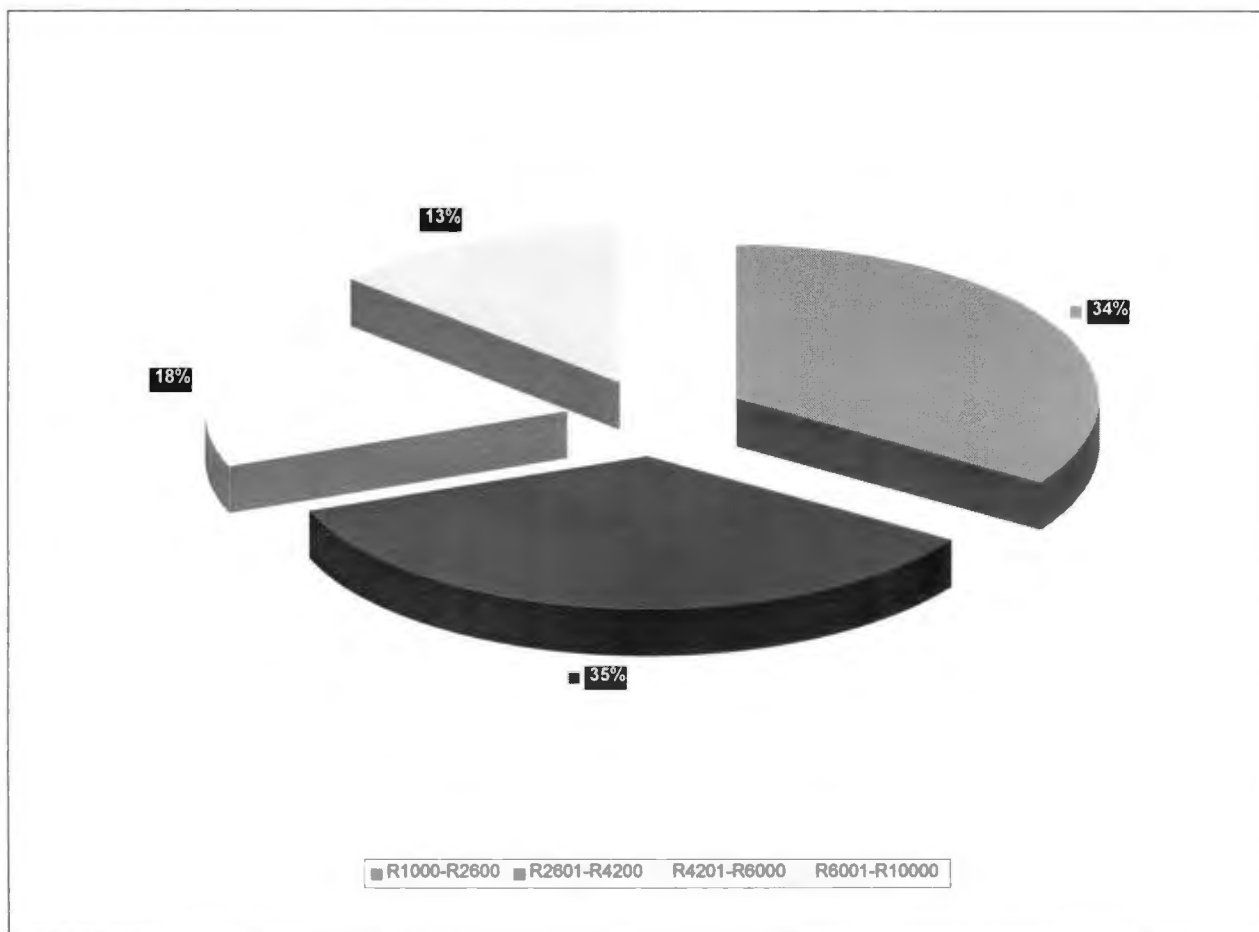


Figure 4.17 Length of Stay (average 5 years) across Income

As discussed earlier these prospective buyers live in Townships (53%), Suburbs (9%), Informal Settlements (35%) and Inner City Areas (3%).

While housing condition might not have been ideal respondents decided to stay longer than they wished.

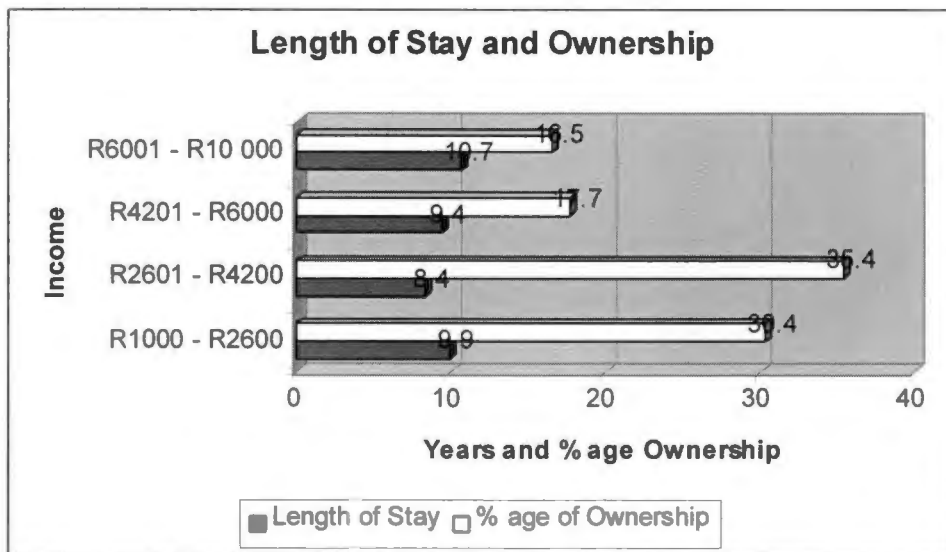


Figure 4.18 Length of Stay and Ownership in Current Situation

The main issue here is, if the above represents potential or prospective buyers, why are they still not able to move from their existing place of accommodation? In the income groups R1000 to R2600 (30.4%) and R2601 to R4200 (35.4%) a significant proportion (one third) are owners of their property and still cannot access a home of their choice. These could be prospective buyers that have over capitalized in their current property and find it difficult to sell.

4.6.2 Constraints in Supply and Demand for Housing

Initial hypotheses and background research informed the development of a set of pre-defined statements regarding blockages to housing purchase. These were tested amongst prospective buyers, who were asked whether or not the statements applied to their situation.

In general, obstacles relating to the availability of desirable and affordable housing stock constituted a greater blockage for the lower income groups, while the inability to sell the current house on the secondary market constituted a significant blockage in the control group. Responses to individual housing blockage statements are disaggregated by income group below:

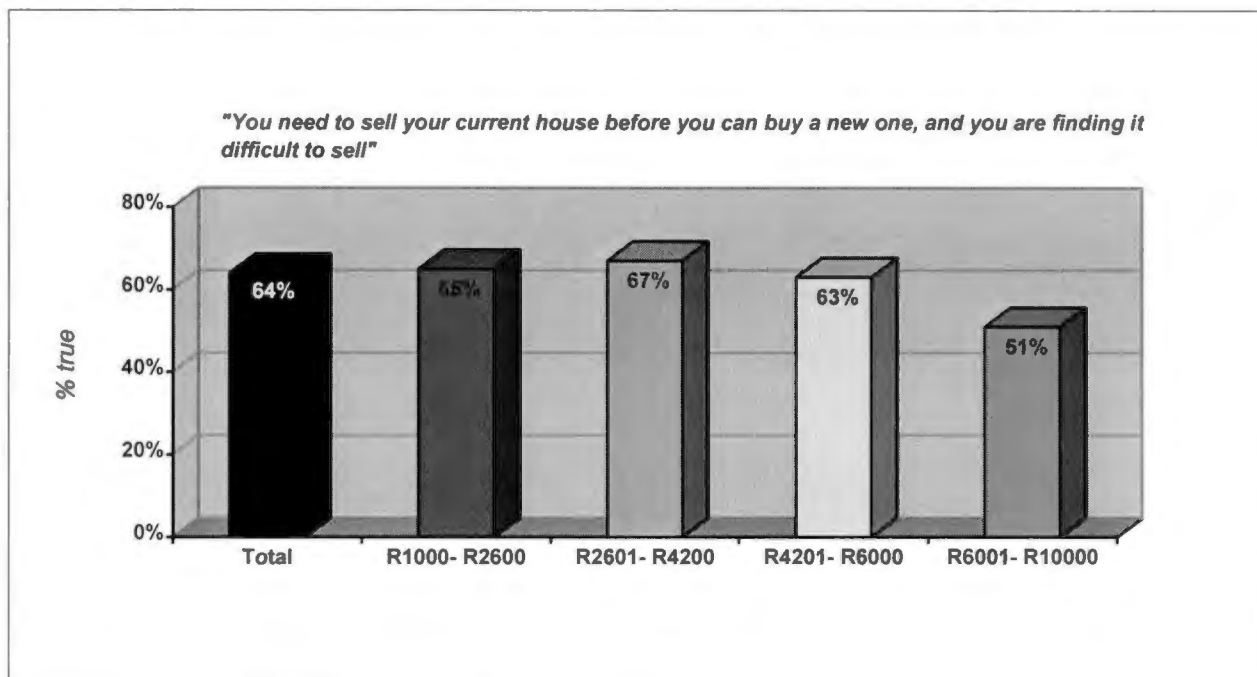


Figure 4.19 Housing Blockage Statement 1

The majority of the prospective buyers (64%) were not able to find a home of their choice. This finding could be due the mismatch between the housing aspiration and the real affordability. The results show little variance between the respective sub-sets of the target income groups, while respondents in the control income group are significantly less likely to agree with the statement they were unable to find an affordable home. This response by 51% of the higher income could be indicative they are able to find a home that meets both their aspiration and their affordability level. Experts through the selected interviews also confirm that existing homes are not available or somewhat available in the target market. They further confirm the absence of a wide range of differently priced homes in the low and moderate-income market. The lender interviews suggest that it is difficult to deliver a mortgageable home to the income group R1501 to R3500. However, to the R3500 to R7500 income group it is possible to deliver a basic home but of a uniform design. The result of uniform design and size is that it narrows the possibility of having a wide price range of housing in the same neighborhood. Further issues cited by experts include the poor maintenance of existing homes which lead to reduced asset values, developers in this segment of the market have move to more profitable market income

segment, and the reluctance of existing homeowners to trade upwards because of sentimental reasons and family history attached to the property. Like prospective buyers, the sector interviewees state that homes in the secondary property market are priced too high. Two expert interviewees contend that South African banks have 65 000 homes that have been repossessed but they are unable to resell them, they also mentioned the previously municipal stock which is available for resale but the relevant authorities are unable to sell those properties. All of the sector interviewees describe the performance of the secondary property market as poor and unsatisfactory. Reasons postulated for this response include the following:

1. Sentimental value attached to property
2. Preference towards incrementally expanding homes to meet personal circumstance
3. Demand for existing stock exceeds supply
4. Lack of available credit
5. Asset value of property poor and declining
6. Informal trading of property
7. Inability to evict and foreclose on property efficiently
8. Estate agents not active in this market
9. Property is poorly located
10. Information on the market is lacking (both lender and borrower)

Other factors in the primary market include the choice of building materials used in the construction of homes and crime. In South Africa the National Home Builders Registration Council regulates both the minimum standards and the quality of building material used for housing construction. The regulation of this industry inadvertently leads to higher building cost, which are directly passed on to the consumer.

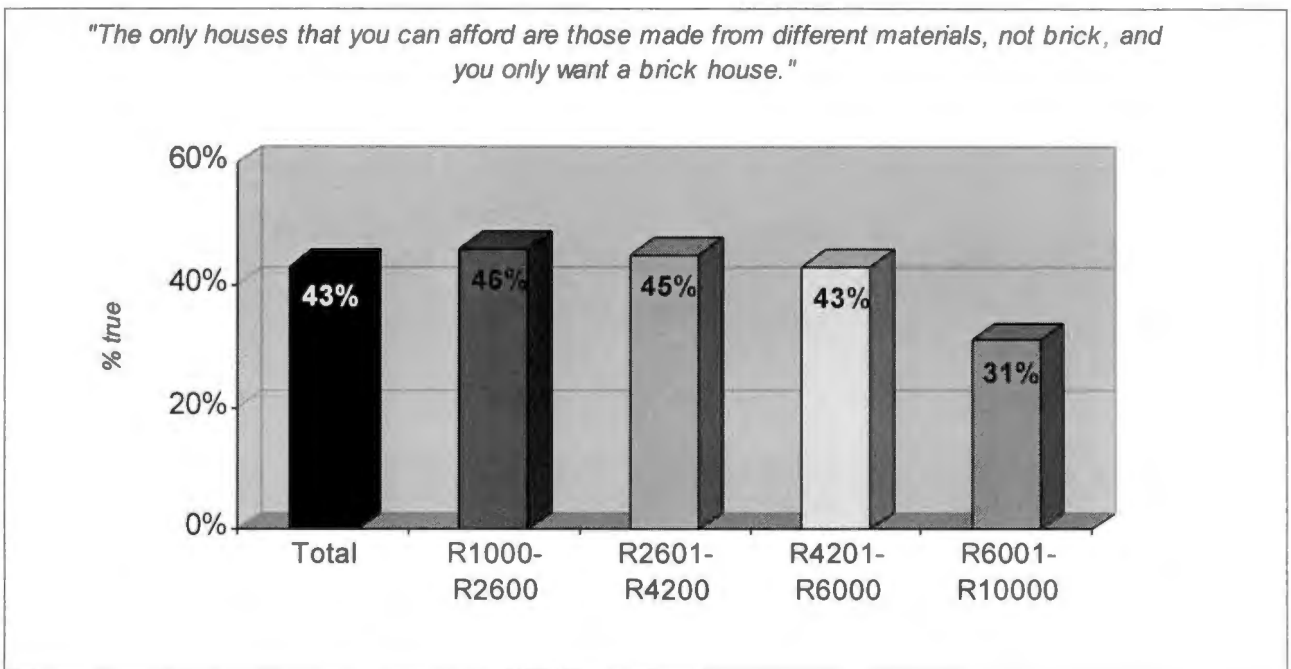


Figure 4.20 Housing Blockage Statement 2

In the low and moderate income groups almost 40% of prospective buyers are of the view that brick and mortar homes are too expensive and are unaffordable. The significance of this finding is that it could reflect that many prospective buyers are considering alternative technology and the use of non-conventional buildings, which has been frowned upon by many communities as inferior in the past.

While 11 sector interviewees are of the opinion that the performance of the primary market can be described as very good to average, only 3 describe the performance as poor. The preponderance of the incidents in the first group relates particularly to the delivery of state housing delivered through the subsidy scheme. More than 1.2 million units have been delivered through the subsidy programme (National Department of Housing, 2002). The 3 interviewees who considered the performance of the primary property market as poor maintained that new stock from private sector developers have vanished from the market. Developers have moved to more lucrative market segments because of the lack of funding and the difficulties associated

with dealing with the public sector procurement process to acquire land and retail homes at competitive unsubsidized prices.

Fourteen percent of the prospective buyers maintain that they need to sell their existing home before they can purchase a new home. While the incidents of this response might be low, the significant fact is that respondents in the low and moderate income are finding it difficult to sell their existing property. Overcapitalization and the condition of the existing home has been noted as reasons why prospective buyers are unable to sell current property.

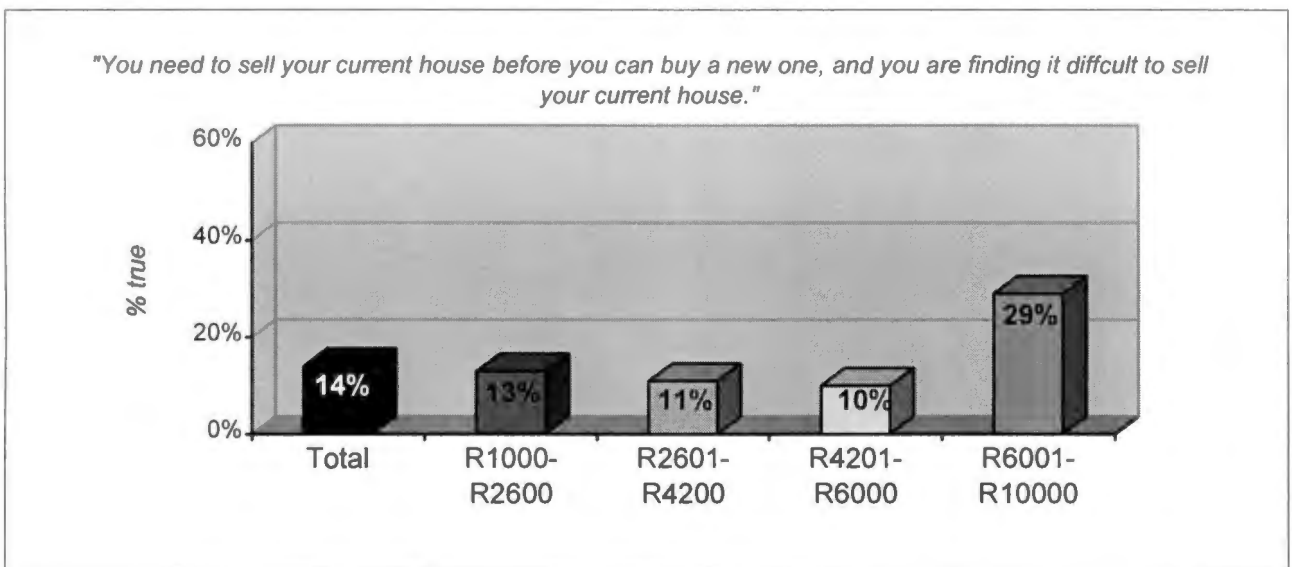


Figure 4.21 Housing Blockage Statement 3

As seen in section 4.2.4 above, 19% of the total sample currently own a formal house. 14% of the market reportedly need to sell their existing property before buying another one, but are struggling to sell. Thus, although reflected as the least significant barrier in the pre-defined set, this is a reflection of the extent of current home ownership rather than a healthy secondary housing market. Three quarters of those that do own formal houses perceive their inability to sell as an obstacle to housing purchase. The likelihood of this situation occurring is considerably greater amongst the control group, who are also more likely to own formal houses. It is interesting to note that although there is such a high proportion of people that can't

find an affordable house, there are also a fairly substantial number of people who don't seem to be able to sell their houses, which would indicate that at least to some extent, both supply of houses and the demand for houses exists. The questions then are: why does this market appear to be so stagnant and does it all come down to the finance issue? Gough (1998) suggests that in Latin America the low rate of success among households that try to sell existing homes has to do with economic crisis that has not improved with job creation and reduced expenditure patterns.

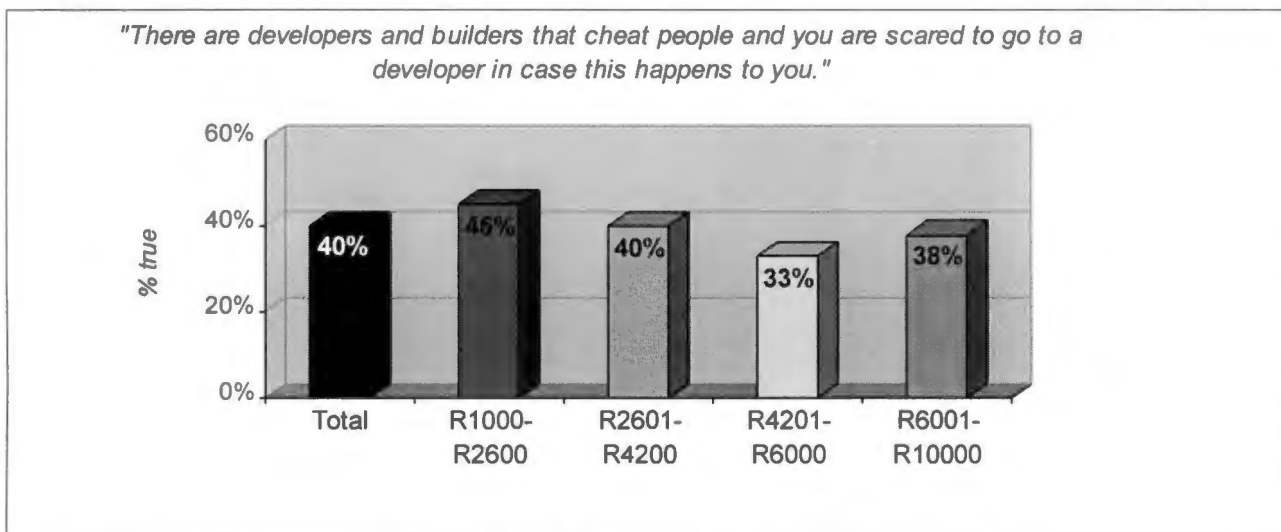


Figure 4.22 Housing Blockage Statement 4

Within the target income group, figure 4.22 indicated that prospective buyers at lower income are more likely to distrust developers than those at higher income. 43% of the total market had contacted developers or investigated new housing developments in their endeavors to find a property, indicating that in many instances the mistrust of developers comes from first hand experience. The low and moderate-income market still view developers and builders as the first point of contact in the housing purchase process. If there is any mistrust in this relationship then the effectiveness of primary property market will be adversely affected. This response is possibly reflective of the period when large developers and builders were involved in the construction of mass housing in the middle 1990's which were fraught with quality problems that were unsuccessfully resolved.

4.6.3 Information and Knowledge on Purchase Process

A significant finding is also reflected in the efforts that prospective buyers had gone to get information on how to locate and find a home. An estimated 77% went out to seek information on areas where homes are available, while 75% accessed information on areas that met their affordability levels. This group of prospective buyers contacted a developer or went to see new housing development, contacted or visited an estate agent and / or looked independently at houses that were not part of a new development.

Only 52% got information on the application and availability of housing subsidies from government. This finding is significant in that the subsidy programme is a national initiative that has been widely publicized. Furthermore accessing a subsidy with a loan could certainly improve the affordability level or make it possible to purchase a bigger home or a home with better finishes.

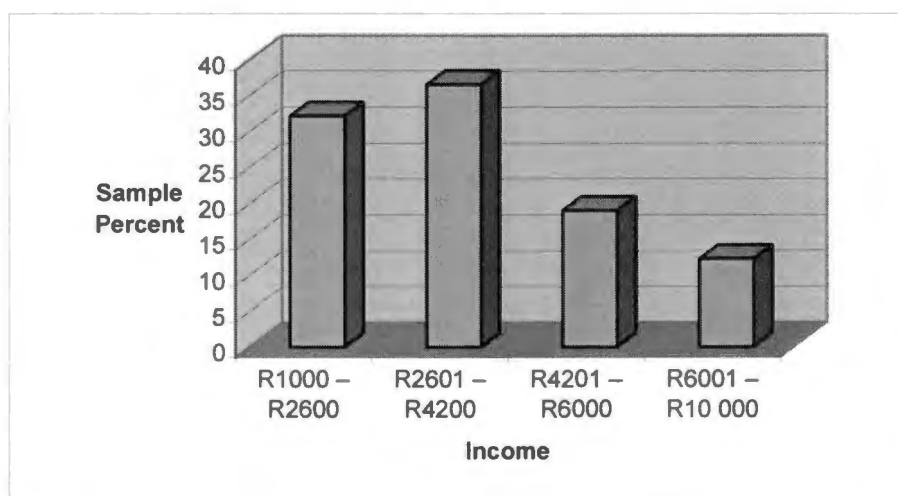


Figure 4.23 Accessing Information on Government Subsidy

Frustration might set in for the income groups that earn more than R3500 per month household income, because their inquiry would lead to the conclusion that they do not qualify because of their relatively higher income. However, for those prospective buyers that earn less than R3500 they have access to a state subsidy that is granted on a sliding scale depending on the level of

income. For this group it is surprising to note that just less than 40% actively pursued this option to augment their existing finance needs.

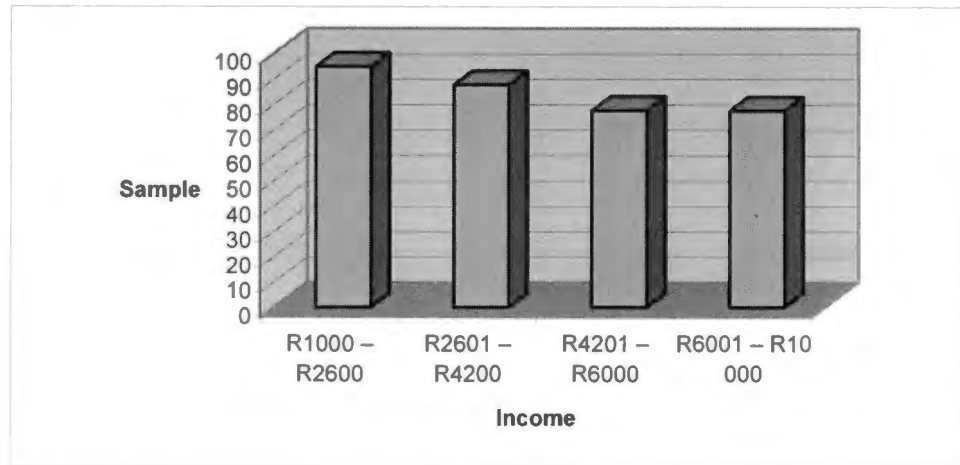


Figure 4.24 Information on Employer Subsidy

With respect to the information on employer assisted subsidies it is significant to note that in all income groups more than 70% (see figure 4.x) of would be home buyers did not approach their place of work to enquire about housing allowance or subsidy. This finding either suggests that the employees are fully aware of their companies housing assistance policy or are totally ignorant of the fact they could approach their company for assistance.

Action taken	Yes	No
1. Information about a subsidy	52.37	47.63
2. Information about which areas you can afford to buy property	75.96	24.04
3. Information about areas where new houses are available	77.18	22.82
4. Information about employers housing policy	32.62	67.38
5. Information where banks or other lending institutions you can go to for a loan or bond	45.18	54.82
6. Information on how to go about getting a loan or bond	36.75	63.25
7. Did other things	5.36	94.64

Table 4.11 Actions taken to Access Information

Other actions taken included obtaining information about RDP homes, going to local authority for land, getting information on building materials, getting information from metro council,

clearing name from blacklist, sorting information from friends, getting information on payment plans (7.8%), approaching a housing committee chairman for advice and getting information from the South African National Civic Organization.

4.6.4 Default Resolution

More than half the prospective buyers (56.7%) indicated that they would approach the lender or bank should they experience problems in servicing a home loan. Potential buyers across all income groups maintain that they will approach their respective financial institutions to reschedule payments associated with loss of employment or economic hardships. The table below once again provided for respondents to make multiple choices of the different predefined answers. This response seems to be contrary to the current practice in the housing environment in South Africa where financial institutions still experience problems of default and more significantly, are unable to evict defaulters and successfully foreclose on the property.

Default Resolution	Total %	R1000 – R2600	R2601 – R4200	R4201 – R6000	R6001 – R10 000
1.Appraoch the lender / bank to negotiate payments	56.7	58.1	66.7	68.1	79.8
2.Sell property and buy cheaper	32.5	34.7	29.3	28.6	40.5
3. Rent part of property	22.6	24.3	19.6	21.0	28.6
4. Get help to downsize	20.9	24.3	20.0	19.3	16.7
5.Rent out whole house	13.1	13.5	13.3	11.8	13.3
6. Don't Know	2.8	3.6	1.8	4.2	1.2

Table 4.12 Default Resolution

Other options that home buyers are likely to pursue to deal with inability to service a loan obligation include selling the property and buying a cheaper home (32%), renting part of the property to augment current income (22.6%), approaching an organization for assistance to acquire a home that is affordable (20.9%), renting the whole of the current home to service debt (13.1%). The distribution of the different responses appears be spread uniformly across the four income groups. These actions do illustrate a measure of responsibility on the part of the

potential buyers to explore ways to settle or negotiate home loan repayments under difficult circumstances.

4.6.5 Asset Value of Present Home

Sixty One percent of the prospective buyers as discussed earlier in this chapter own the house they currently live in (self owned and family owned), yet they are unable to sell to acquire a home that meets their aspiration. To fully understand this problem, prospective buyers were asked to estimate the value of their current property. Respondents in the R1000 to R2600 on average estimated the value of their current property to R12 175.71.

Income	Mean Asset Value	%	Mean Asset Value / Area	%
R1000 – R2600	1.R12.175.71	30.6	1.Informat Settlement	39.7
R2601 – R4200	2.R32.812.72	35.4	2.Formal House	52.4
R4201 – R6000	3.R38.711.90	18.3	3.Room / Shack	6.6
R6001 – R10 000	4.R72.583.33	15.7	4.Flat / Hostel	1.3

Table 4.13 Current Asset Value of Property Across Income and Area

In the R2601 to R4200 income group the average value was R32 812.72, while in the R4201 to R6000 income group the average recorded was R38 711.90 and in the last income group R72 583.33 was the estimated valuation. While these values do not reflect the market values of the different properties and its associated location, it does give an insight into what the respondents' expectations are if they were to sell. This finding is significant in the sense that if prospective buyers' expectations of their property value are too high or are beyond the threshold set by the local property market, it will result in a stifled secondary property sales. This confirms an earlier finding by Abt and Associates in 1999 that very few existing township and low income suburban houses come on the market for resale. The net result of this phenomenon is that residential mobility within existing townships are restricted, which forces people to extend their existing home rather than finding a new home that meets their demands.

4.7 Housing Aspirations and Neighborhood Characteristics

The main reason for examining housing aspirations in the market is to assess whether aspirations themselves constitute an obstacle to housing purchase and explore the types of neighborhood characteristics demanded by prospective buyers. Potential buyers were asked to describe the future home they wanted to buy, while remaining realistic about what they felt they could afford. The following is a description and analysis of the kind of home that respondents in the target market are demanding.

4.7.1 Preference of Area

A significant finding of this study was that 74.9% of the total prospective buyers prefer to purchase a home in an established township. Earlier in this chapter it was confirmed by the same prospective buyer that the availability of homes in this market is limited. This is then a key problem of the secondary property market being static and unresponsive to the needs of the potential market.

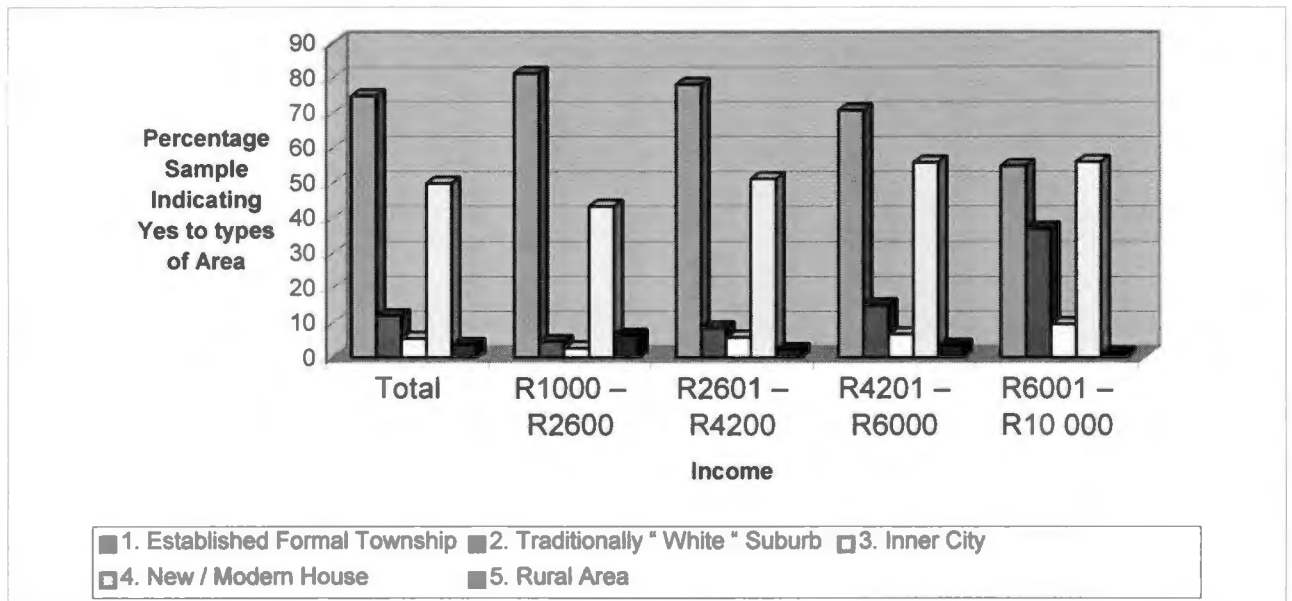


Figure 4.25 Preference of Area

The study also illustrated that almost 50% of would - be buyers would like to buy new houses. Again they were unable to find new houses in the desire price range that met their affordability profile and housing aspirations. In the control income group 9.5% preferred inner city accommodation, which is normally renting a flat from a private landlord.

4.7.2 Desirability of Housing Types

The home of choice across the market is a freestanding house, with 82% of the prospective buyers saying they would be likely or very likely to buy this type of house. There was a strong distinction between freestanding and semi or row houses, and less than half the sample said they would be likely to consider buying a house with a shared wall. However, purchase of land was a viable possibility for the majority of the market, who said they would consider building their own house. Starter homes are an acceptable possibility for half the market, while flats are highly undesirable for most. A starter home is considered to be a Reconstruction and Development Programme home that is approximately 40 square meters in size with water borne sewer with water connection and electricity. The flat and rental accommodation appealed to the higher income groups and those that preferred to live in inner city areas.

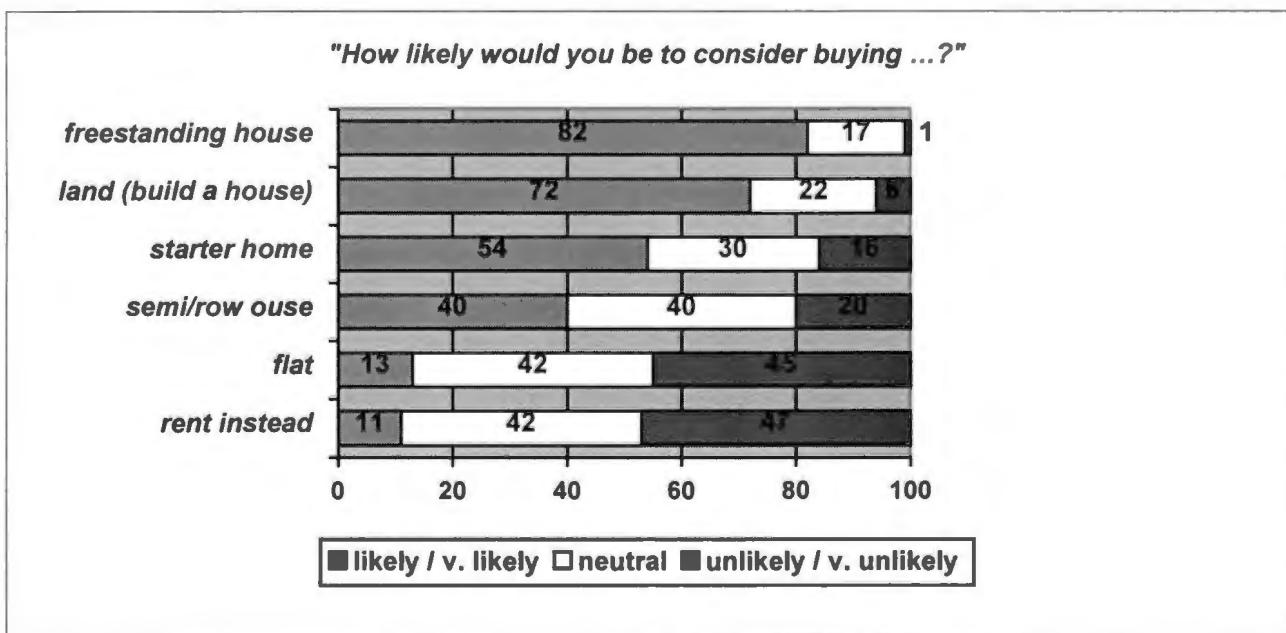


Figure 4.26 Desirability of Housing Types

Renting a house rather than buying is not an option for nearly half the market, and only one in ten said they would entertain the possibility, even if they could rent a similar house to the one they want to buy. This again indicates the importance of ownership, and may be a contributing factor to the reasons why respondents choose to stay out of this market because they want to own the desired house now. However, given the need for space and privacy, and the fact that this market is characterized by an inability to purchase a house, it is conceivable that a considerable proportion of the market will be faced with having to choose between ownership and the need for a desirable home (better area, bigger house to accommodate the family, etc).

The various types of housing options are discussed briefly below.

4.7.2.1 Freestanding house

Purchase of an existing, formal, freestanding house is the most desirable option for the vast majority of the market. There was an association between income group and attractiveness of a freestanding house, with those in the two upper income groups being slightly less likely to consider this option than those in the two lower income groups. This tends to be due to the greater social and economic mobility of these groups, which gives them greater access to alternatives.

Very few respondents (1%) felt that they would not consider buying a freestanding house at all and almost entirely for reasons related to the perceived affordability of this option.

4.7.2.2 Preference to Acquiring Land or Building a House

Almost three quarters of respondents said they would consider buying land and building their own house, with people living in informal settlements being more likely to find this idea attractive than those living in formal areas. This may be related to the perceptions informal residents have regarding the possibility of getting loans (it is easier to buy a stand and build a house with cash than it is to get a loan

Only 5% of respondents said they would not consider buying land and building their own house – largely for reasons of affordability (this option was regarded by some as more expensive than buying an existing house), and because of the length of time and effort involved.

4.7.2.3 Starter house

Just over half the market would consider buying a starter home with 1 to 2 rooms, which they would add onto later. There is a strong association between desirability and affordability, as illustrated below:

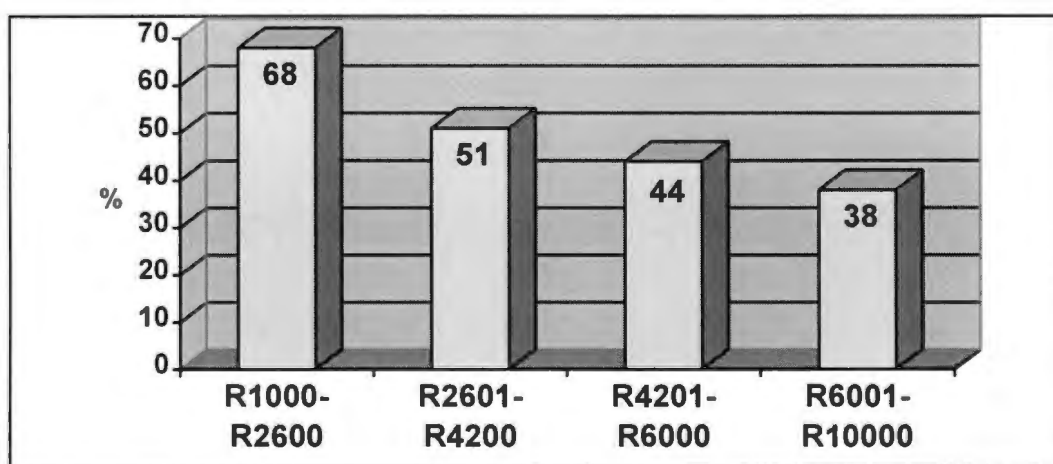


Figure 4.27 Likelihood of Considering Buying a Starter Home

Almost two thirds (65%) of those currently living in informal settlements would be likely to consider of buying a starter home, to be extended later, whereas only 39% of those currently living in formal houses would consider the option

17% of respondents completely excluded the possibility of a starter home – three quarters of them arguing that it would be too small to accommodate their family. Other objections to this type of house were the long process involved in adding rooms (8%), and the perception that it would be “like moving from a shack to another shack” (3%).

4.7.2.4 Semi-detached / Row House

Houses sharing a common wall were found to be relatively unpopular prospects, with less than half the respondents feeling that they would consider this option. As with starter homes, there was a clear correlation between income and desirability of a semi-detached / row house:

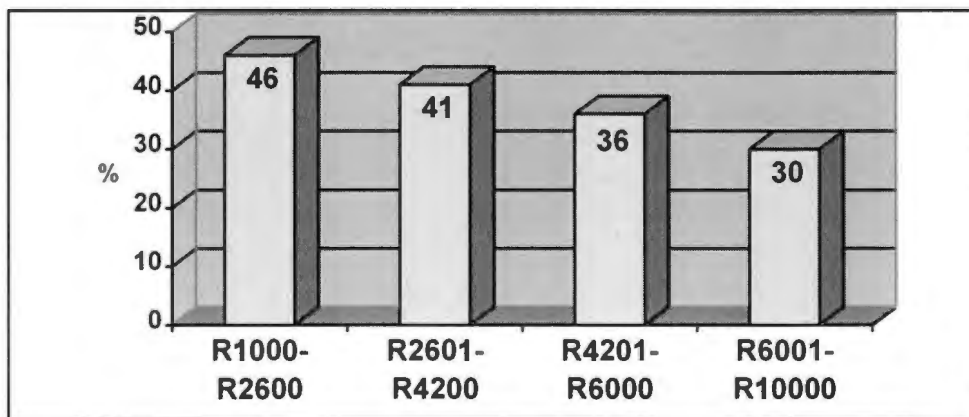


Figure 4.28 Likelihood of Considering Buying a Semi / Row House

Thus, nearly half of those in the lower income group would consider this option, while less than a third in the control group would consider it as a possibility. Although this type of accommodation is clearly less desirable it is interesting to note the extent to which those in the lower income brackets are more realistic about what they can afford

One in five respondents said they would exclude the possibility of sharing a wall with a neighbour – largely on the grounds of privacy and the need for independence (59%) and concern about noise from the neighbours (28%). Some felt that a semi-detached or row house implied less space (10%), and that this would be a deterring factor for them.

4.7.2.5 Flats

Only 13% of prospective buyers of the market would consider buying a flat as opposed to a house. This is in keeping with the majority of the stated reasons for wanting to purchase (i.e. to provide accommodation for a family and a suitable home for children). Respondents more

likely to consider a flat as an option are those in the control group (18%),. This group also indicated a preference for flats in a high-rise building, rather than a 2-3 storey building.

Forty five percent of would be buyers wouldn't consider buying a flat at all. Nearly a third of those who excluded the possibility felt that flats were unsuitable for children – either because they were too small, or because they are perceived to be dangerous. 26% were averse to the idea because flats entail walking up stairs. Interestingly, there is a perception (amongst a quarter of those who excluded the idea) that flats are an expensive option, and therefore the prospect would not be considered on the grounds of affordability

4.7.2.6 Rental Housing

Almost half of the total market would not consider the idea of renting at all – most of them simply because they want to *own* their house (59%). A third reiterated that they regarded renting as a waste of money, and small minority (3%) felt that renting was too expensive an option. The remainder cited social and privacy issues as a deterrent to renting: a lack of freedom and privacy, not enough space for children, no space to play, noisy neighbours, difficulty in holding traditional ceremonies, and the need for “peace of mind” that comes with ownership.

This finding indicated widespread resistance to this idea of renting, with only 11% of the market indicating that they would be likely to consider such a proposition. Clearly, renting is not regarded as an attractive or viable alternative in this market. Those who were most likely to consider renting as an alternative were respondents in the control income group (16%), rather than in the target income group – although the lower end of the target group showed a degree of positive response that was slightly higher than the norm (13%). This once again demonstrates how the greater social and economic mobility of this wealthier group provides them with greater exposure to the rental alternative, making it a more viable proposition.

4.7.3 Physical Characteristics of Desired Home

The study also pointed that factors such as the physical size and the number of rooms were clear considerations in choosing or buying a home.

The typical future home described by the majority of potential buyers is an average freestanding 2-3 bedroom house, with a kitchen, internal bathroom, lounge and/or dining room, situated in a formal township or new development area

The table below lists the requirements described by potential buyers. While the average was an average sized 2-3 bedroom house, the standard requirement was a 7-room house, constituted as follows:

% of respondents wanting...	
... bedrooms (ave: 2.8 bedrooms per house)	100%
... kitchen	100%
... bathroom	99%
... dining room	97%
... lounge / living room	89%
... garage	19%
... study	4%
... other (eg. TV room / store room / gym)	3%

Table 4.14 Standard Room Specification for Desired Home

The association between required house size and income level was consistent, with people at higher income wanting slightly larger homes. Amongst the four income groups, the average desired house size increased in proportion to income. The average house required was a two to three-bedroom house, with a lounge, kitchen and internal bathroom. The majority of prospective buyers indicated the desire for a separate dining room. The number of desired bedrooms tended to increase among the upper income groups.

The size of houses has been articulated as one of the key reasons for people moving from their current home. In this context, the size of house is frequently described not as a luxury, but as a necessity in order to provide comfortable accommodation for families. Similarly, the number of rooms described does not suggest unnecessarily large houses, (perhaps with the exception of separate lounge / dining room amongst lower income groups/ gym / store room), but rather family homes which allow for a degree of privacy. Nevertheless, even a house of this size may be out of reach for the lower end of the market.

4.7.3.1 Desired Neighborhood Characteristics

Respondents were asked to rank the attributes that would be important criteria for them when selecting an area in which to buy. The response indicates that the quality of properties within the area in general is the most important single factor. The second most important factor which makes an area attractive are the provision of good quality services (this is an important criterion for those currently living in informal settlements), and facilities like schools and shops within the area. In other words, the house itself is the paramount consideration, after which the important requirement is the basic infrastructure for a viable community.

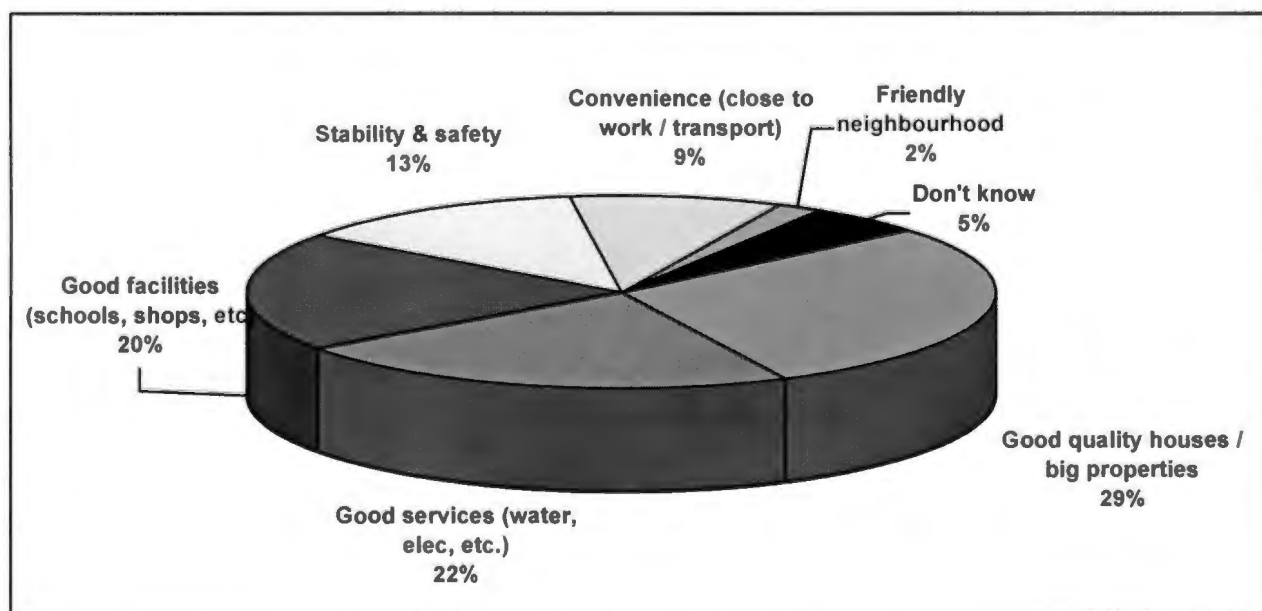


Figure 4.29 Most Important Criteria when Selecting an Area

In analyzing the response more fully the following trends were observed in the data:

“Good quality houses” was the attribute most frequently prioritised, with no income group deviating significantly from any other. If anything, those in the top income (control) group were slightly less likely to prioritise this attribute than those in the target income group.

The provision of services was an important consideration for the lower income groups and those living in informal settlements. Respondents earning higher incomes (above R4200) were significantly less likely to prioritise services, and only one of the residents currently living in flats regarded services as a primary consideration. It is probable that respondents tend to take for granted the facilities they already have in their current area, and prioritise the things they experience as inadequate. Thus these findings are not simply a reflection of what people want, but also an indication of what they don't currently have.

Good schools, shops, entertainment and other facilities in the area were prioritised by 20% of the sample, and fairly evenly across the income groups, although this was a significantly more important requirement for the control group (25%) in the top income group prioritised facilities as the most important attribute.

A “safe and stable environment with a low crime rate” was, as mentioned above, as an important consideration by 13% of the prospective buyers, and was also prioritised significantly higher by those in the control income group.

Convenience was ranked fairly low on the scale of area attributes (9%), although respondents living in flats, hostels and informal settlements tended to prioritise convenient transport and proximity to work higher than other groups. Our assumption is that those living in flats (mostly in the inner city) and hostels are already close to work – which may have played a part in their selecting their current area. Informal settlements, on the other hand, tend to be inconveniently situated on the periphery of the urban environment and places of employment, and it is

therefore understandable that informal residents would look for this attribute when buying a property.

“A friendly or familiar neighbourhood where you can be close to family or friends” – contrary to expectations, this attribute featured at the bottom of the hierarchy of needs. Clearly the market is in search of quality housing and amenities, rather than the familiarity of an area where they have existing connections. The implication of this is that people may be fairly flexible in their choice of area, providing that their more practical requirements are met.

4.8 The Role Local Government in Housing Finance

While 90% of the sector interviewees are of the view that local government does have a role to play in the housing finance system the role was focused around the following specific functions:

1. Focus on the provision and effective maintenance of municipal services
2. Ensure the environment is safe, clean and sound for residential development
3. Use government to attract private sector only when projects are not financially viable
4. Encourage private developers to build housing in target market
5. Serve as a conduit for grant and subsidy management (administer social safety network)
6. Enforce law and order, collect on rates and taxes.
7. Educate communities on the need to service loan obligations and protect residential infrastructure.
8. Make land available

The above describes the many roles that are envisaged for local government, what is significant is that not one of the sector interviewees have included credit management or a banking type function within a local government for housing. This supports the view of the one

sector expert that stated that local government has no role in the finance of housing. However, this must be qualified because specific reference is drawn to the “banking” type role and the moral hazard associated with government based lending instruments and institutions.

4.9 Summary

The following are the main conclusions that can be drawn from the analysis above.

- 4.9.1 The incidents of unsuccessful or frustrated buyers were found in 19% of the sample under the R6000 .00 income group. When translated into a national South African statistic, a frustrated prospective home buyer can be found in one out every five urban households below the R6000 income group. The study also indicates a relationship between incidences and income level: the lower the income, the higher the incidences of potential buyers who have not been able to acquire a home.
- 4.9.2 The results confirm that the lowest income earners of the market comprising the most substantial proportion of the target population has the greatest need for mechanisms to facilitate access to housing. On the other hand, the control income group (R6001-R10000) appears to have access to the housing and housing finance.
- 4.9.3 The results show that the need for housing opportunities are equally distributed across informal and formal areas.
- 4.9.4 With respect to the current housing profile the end-user survey reveals a preponderance of owner-housing with the majority of respondents living in formal and informal houses. This findings confirm that while respondents own property this has become an obstacle to trading up in the market. The ability to resell the current

property was also perceived as a significant blockage to acquire another house of their choice.

- 4.9.5 The shift for potential homeowners to engage in a process of reorganizing their household monthly expenditure is aptly illustrated by the finding that only less than R200 (less than 4% of monthly gross income) is allocated for housing and accommodation.
- 4.9.6 It is concluded from the perceived affordability analysis (respondents estimate to projected cost of desired house) that affordability might not be a key contributor limiting access to housing. The saving component together with the perceived monthly affordable payment indicates that respondents across all income groups can afford a mortgage loan that could finance the desired house.
- 4.9.7 The current expenditure pattern again confirms that investments, insurance, savings, luxury items and consumption debt payments are indicative that the capacity to pay is established.
- 4.9.8 A significant finding was that the burden of the existing home is also an obstacle to buying a new house. The conclusion reached from this finding is that while affordability for housing is established, the current levels of over-indebtedness make taking additional credit obligation for housing unaffordable.
- 4.9.9 The future or desired housing profile could also be a reason that hinders access to housing. The majority of prospective buyers want to buy a formal, brick house in a good location in an established township or new developing area.

- 4.9.10 The vast majority also indicate that they want ownership rights and are not likely to consider renting or other forms of tenure options. This consideration might exclude many potential homeowners from entering the formal property market.
- 4.9.11 This study also confirms that the housing purchase process is not a chaotic and unstructured process. Respondents do follow a systematic approach in attempting to acquire houses. Potential buyers were able to describe how information was gathered, demonstrated the ability to save specifically for a house, took different steps to locate a suitable house. This study also indicated how respondents went about trying to access housing finance.
- 4.9.12 The study pointed out that access to accurate and relevant primary and secondary property market information is a critical component to the home purchase process. There is a correlation between access to information and the higher income groups that are able to access information more easily.
- 4.9.13 Finding a suitable property that meets the need of the prospective buyer has been highlighted as an obstacle. This confirms that in the low and moderate-income market limited properties are available in different price ranges and that the conditions and the size specifications together with the desired locations are not in line with the expectations of prospective buyers.
- 4.9.14 In general access to housing finance was found to be limited, with the majority of the respondents attempting to access finance with only a small number being successful in accessing a housing loan from a bank. It is concluded that the criteria applied by banks to evaluate clients in this market are set at a level that leads to wholesale

refusals and the reluctance of prospective buyers to apply for housing finance are a significant blockage to access to housing.

In evaluating the results of the study and the information from the sector experts it is evident that the reasons for poor accessibility to housing are manifold. Certainly access to credit, the supply of appropriate stock both in the primary and secondary housing market, existing tenure circumstances, levels of over-indebtedness, inadequate property market information and unrealistic housing aspirations all adversely contribute to making housing inaccessible.

Chapter Five: Summary, Recommendations and Conclusion

5.1 Introduction

The study found that that the financial constraints to low income housing in South Africa is a complex phenomenon where the constraints are simply not visible from a superficial glance, but through careful research blockages and constraints are identifiable on both the supply and demand side of the housing finance system in South Africa. This chapter presents a synthesis of the problem statements validating or rejecting each statement using both the theoretical and empirical data that has been collected. It is also the purpose of this chapter to propose recommendations, that if implemented, could improve the pace of delivery and accessibility of housing finance to the low and moderate income segment of the population. Lastly this chapter suggests areas of further research that needs to be undertaken that could add to the body of literature and assist policy makers and practioners in the field to improve access to housing finance.

5.2 Summary of Previous Chapters

Chapter one described the housing problem in South Africa as a crisis where the backlog and homelessness is estimated to be between 1.5 and 2.5 million if rural and households that are under housed citizens are included. This crisis is largely inhered from apartheid laws relating to separate development and racial segregation. The high rate of urbanization also contributed to the influx of people into cities in search of better jobs and a better quality of life. The problem of homelessness is further compounded by the high levels of poverty and unemployed that South Africa faces. All of these factors led to the housing finance system coming to a halt in 1980. There was almost no lending from the banking sector and government programmes, particularly the South African Trust, experienced problems in collecting loan repayments from borrowers. Civil disobedience and politically motivated rent and mortgage boycotts made it difficult for both the public and private sector to finance housing for low income household. The private sector and the public sector before 1994 had 49 000s loan in default that is valued at R2 billion. During the political transition period the new democratically elected government

managed to sign an undertaking with the mortgage lender. This deal required government to stabilize and normalize the township environments while the private sector undertook to resume lending and set a target of financing a further 50 000 units. During 1994 to 1996 Servcon, the Mortgage Indemnity Fund and the National Housing Finance Corporation was set up to deal with the risks of mortgage lending. These initiatives had little success in resolving the housing crisis. However, between 1994 and 2002 the government (through the housing subsidy scheme) managed to produce 1.2 million housing units. While the production of almost 200 000 units per annum is a remarkable success, the subsidy scheme itself created other problems related to quality and inability to blend subsidy with credit.

To understand the housing crisis in South Africa an appropriate theoretical base had to be established. To facilitate this understanding chapter two described the role of housing in economic development. Investment in housing infrastructure not only improves health, quality of life and wealth creation, it also promotes economic growth which has many multiplier effects on employment, education and asset creation within communities.

To further contextualize the South African housing crisis international approaches were examined. The Social, Human Capital and Political Economy and Market approaches have advantages and appeal to the social conscience of planners, policy makers and politicians while they still promote the reliance of the state and support an environment that makes the barriers for entry of the private players difficult.

Future governments could promote one or a combination of the above approaches exclusively, but this will depend on large fiscal resources from the state and / or large foreign debt that will come with conditions. The Market Approach on the other hand has the potential ability to attract large volumes of funding to finance housing in a sustainable way with the risk appropriately apportioned. This approach does have pre-conditions to make the market work and needs incentives to keep private entrepreneurs and capital flowing, particularly in the low to moderate-income market. The real ability of the market approach to work effectively is dependent on

stable macro-economic conditions and the enabling role that government needs to play. This is premised on the fact that the market approach cannot exist without government intervention. In US, Europe, Germany, Canada and Australia the ability to efficiently and effectively foreclose and resell a home is one of the key pillars to success. It requires government to ensure that a stable and enabling environment is created to facilitate the private flow of money. Therefore it is argued that a dialectical approach comprising of elements of the four approaches above, together with an efficient housing finance system is capable of delivering sustainable housing on scale and where market failure exists the state has to have direct intervention. A combined approach is relevant for South Africa because the real estate market in the higher middle and high-income groups functions well without state intervention. In the lower middle and low income segments the private sector role is limited and the state still has many macro-economic factors to address like crime, employment and risk of non-payment to deal with. If these factors can be dealt with by the state it is then possible for a market driven process to effectively service the full spectrum of the real estate market. A combined approach is also attractive for South Africa because it has the potential to deal with the inequalities of our apartheid past. Aspects of the social or welfare approach can be implemented in parts of South Africa where there are high levels of poverty; at the same time it will satisfy beneficiary expectations and fulfill the mandate of government. This can be done in a way that still crowds in the private sector and ultimately the general approach must be based on sound economic and finance principles that will pave the way from the transition of high state intervention to complete private investment in housing across all market segments.

A new Housing Policy in South Africa has been implemented in 1994. The main strategic thrusts of the policy has been to stabilize the housing environment, mobilize housing credit, provide housing subsidy assistance, support the people's housing process, rationalize institutional capacity, facilitate speedy release and servicing of land, and co-ordinate government investment in housing development. In the implementation of these strategies the size of the different market segments was identifiable and the role of both the public and private sector within the different income levels were highlighted. The performance of both the private

and public sector were mixed and were met with problems created by the subsidy scheme (see section 3.3.1 of chapter three) and the continuing of payment boycotts and lawlessness in some communities. Empirical data collect from an end-user (borrower) survey and the interviews conducted with lenders and housing experts and activists were used to test the research hypothesis (see section 1.3 of chapter one). Other findings were also made that assisted in the understating of the complex housing problem in South Africa (see section 5.3 of this chapter). A profile of the low income market with respect to income distribution, length of stay, employment status, area and tenure status of households was established in section 4.2 of chapter four.

5.3 Empirical Results

Hypothesis One: The shortage of new and existing housing in the low and moderate segment of the market is non-existent and impedes residential mobility and the development of a secondary property market.

This statement is validated by four significant findings of the study. Firstly, a key blockage to housing finance that has been cited by potential homebuyers in this market has been the inability to find a home of their choice. This meant that homes were located that did not meet their price expectation. While this finding also represents a mismatch between housing aspiration and affordability, respondents agreed that affordability is a constraint to accessing housing. Potential homebuyers indicated a willingness and capacity to afford a home or a mortgage loan but they were unsuccessful. One reason for this trend is that limited stock of new and existing homes that have a wide price distribution across the perceived affordability threshold is not available on demand.

A second finding that supports the above statement is the response from the expert interviews who are all agreed that there is an absence of a wide range of differently priced homes that is available. They further indicate that existing homes are not available or somewhat available in

the desired residential areas. This response is based on the lending patterns and exposures of their loan portfolios.

The third factor that suggests that a price distortion has occurred emanates from the States' housing subsidy programme. The housing subsidy programme has delivered 1.3 million new units across South Africa since 1995 to 2002 (National Department of Housing, 2002). This programme has delivered homes of similar size, dimension and design that are typical of the monotonous nature that is described by Bertrand Renaud (1999:767) of state intervention in mass housing. The result of this is that large townships and / or stock has been created that do not provide the choice of price, design and size that meets the requirement of the potential homeowner. The implication of this distortion is that the probability of existing residents upgrading⁹⁴ are limited which does not promote residential mobility within residential environments.

The fourth and the most significant factor is the inability of existing homeowners who wish to sell to facilitate the purchase of a new home. While the reasons vary from over-capitalization on existing property to the unavailability of finance to would be buyers in redlined areas, it is clear that the secondary property market is stagnant.

It has been found that:

1. A wide range of differently priced homes (new and existing) are not available to the potential homebuyer;
2. Existing stock in the existing township areas are limited;
3. The volumes of sales of existing properties are low.

The implication of this finding certainly explains why access on the supply side is a hampered and supports the statement that potential buyers are not able to find a home of their choice. If

⁹⁴ Process of acquiring a new or existing home in the same or new neighbourhood that meets the needs of the family.

the sale and purchase process of existing homes are constrained then housing opportunities for those that are first time buyers becomes even more limited, and those who wish to upgrade can only possibly consider a new house if one is available in the desired location. The effect of the slow secondary property market therefore becomes a vicious cycle that needs to be unlocked to offer swift residential mobility and better access to new buyers in the market. Possible solutions to improve the effectiveness of the secondary property market is presented in section 5.4.1.4 of this chapter. Chapter one traces the salient housing reforms since 1994, through which it is evident that much of the emphasis both on the policy development and the implementation side was focused on the supply of new housing units. The policy did not articulate a specific strategy to improve the efficacy of the secondary property market. The National Housing Finance Corporation, since its inception, recognized the importance of the secondary property market and directed the bulk of its investments via Micro-lenders to the incremental housing segment of the market. However, this was not sustained and as reported in its 2002 annual report it had shifted its emphasis towards the finance of new units losing the momentum to stimulate the growth of the secondary property market.

Hypothesis Two: Poor affordability is a factor that prevents access to homeownership in the primary housing market.

The only information this study has been able to collect in order to gauge the influence of affordability on access to housing related to income and housing preference, which tests the validity of the above statement.

A finding of this study was that more than 60% of would be buyers were formally employed and could receive financial assistance from their spouse to purchase a home. The level of economically active proportion of the sample population was higher than expected and is indicative of the fact there is a level of affordability. This study also established that the perceived level of affordability using 25% of gross household income which ranged between R488.99 (R1000 – R2600 income group) and R1234.38 (4201 – R6000 income group) in the

targeted market. Using the perceived level of affordability together with an assumed interest rate of 17% and a 20 year repayment period it is possible for potential buyers to afford a home to the value of R19951.10 and R50363.20 respectively. A further, 12% of the would - be homebuyer has saved specifically to purchase a home or put down a deposit. As pointed out in section 5.2.1 in this chapter, homes with a wide price range are scarce and difficult to locate, even when affordability exists. Therefore the conclusion reached from this analysis is that affordability is not a key factor that prevents access to housing in the primary housing market. On this basis the above hypothesis is rejected. The issue that still remains is to possibly examine why defaults on housing finance occur and what the motivation for the default is. This could be the subject of another specific study.

Despite the rejection of the above hypothesis one of the key goals of a developing nation is to provide adequate housing. As described in chapter two, satisfying the housing needs of all incomes remains a challenge for both developed and developing economies. This relationship between affordability and the role of the state through different paradigms, (social welfare, human capital development, political economy, market oriented economy) all attempt to address the issue of wealth creation and poverty reduction (including housing) through its theoretical and ideological underpinnings. Aligned to the different paradigms different housing finance system have evolved which has different levels of success in addressing the housing finance needs of its society. In addressing the complexity of the housing problem by simply choosing a new paradigm or borrowing a proven housing finance system is not the solution. However, using a dialectical approach that borrows the best from the different paradigms and finance system and modifying it to South African circumstances could result in improved housing opportunities for the populace.

Hypothesis Three: The lack of access to credit facilities is not an obstacle to the purchase of new or existing home in the low and moderate income market.

In chapter one much has been said about the withdrawal of the banks from the low and moderate housing market because of political reasons, civil disobedience and economic hardships. While the extent of the withdrawal of the banks from this market is unknown, bankers are reluctant to grant housing finance to people with household incomes that are less than R5000, this is based on their perception of the credit risk and the poor performance of home loan books granted under the Record of Understanding signed in 1994. On the other hand, bankers since 1999 have increased their exposure via micro-loans to the same segment of the market assuming higher credit risks and return receiving higher returns.

The main evidence for the inability of potential homeowners to access credit is supported by the fact that existing homeowners are unable to sell their current property because financial institutions are unwilling to grant loans. Thirty three percent of the market did not approach banks for a loan and the reasons vary from poor credit history of the borrower to negative perceptions of banks as institutions that will act harshly in the event of a default. More than 62% of the 58% of the potential buyers that did approach banks have withdrawn their application because of fear. This negative perception of potential borrowers of banking institutions does adversely affect access to credit and makes it difficult on the part of the banking institution to determine the creditworthiness of the potential homeowner. Of those who did proceed with the loan application only 5% were successful in acquiring a loan. Credit criteria that are associated with the historic performance of mortgage loan books still seem to predominate in the banking sector.

In conducting the expert interviews there is little or no evidence to suggest that banking institutions has taken innovative steps to develop new lending products or trying to service the unbaked population of South Africa. The expert interviews also confirm that banks are unwilling to assume additional risks unless the state is willing to provide some form of guarantee to

mitigate against the risk of default. The foregoing discussion points out that access to credit from the traditional institutions is indeed a constraining factor that dampens the development of new homes in primary property markets, at the same time poor access to credit slows down the resale of properties in the secondary property market. The above hypothesis is rejected on the basis of the information collected which focuses attention on what solutions can be developed to broadening access to credit. This is discussed later in this chapter in more detail. Chapter three section 3.5.1 outlines the different strategic options that the different banks have opted for in South Africa. These strategic options are not consistent with the opportunity to expand their lending operations into the low and moderate housing sector.

5.4 Ancillary Findings of Study

5.4.1 The sample population was distributed mainly in the formal townships, inner city areas and suburbs. The implication of this finding is that the potential for home ownership is lower as many of the respondents own their current house and do not represent those that are in desperate need of housing. The same can be argued for people living under informal conditions who are satisfied with their current housing conditions even if its undesirable from a state housing policy perspective. As discussed earlier any concentration or densification of population under informal living conditions represents potentially the market that needs housing and it is the South African Governments' desire to provide adequate shelter for those who live under informal conditions. Again, the backlog (a frustrated buyer could be found in one of five households) could also represent the demand for housing, but a more accurate measurement is to assess the extent to which credit is freely available to finance housing that meets the needs of the beneficiary. The main concern with the distribution of the population is that those who are already living under formal housing conditions are forced to stay there or are less likely to move which creates a slowdown in secondary sales and purchases. In the informal category, due to socio-economic conditions, there is a reluctance to move into formal housing conditions as this is an additional cost burden with greater responsibility and obligations. This trend results in a lower demand for housing, causing the primary market to be less efficient as the scale of production is uneconomical.

5.4.2 In general the study confirms that respondents have taken numerous steps to acquire a home but yet they are unsuccessful. This is an important factor to consider because should the buyer market become frustrated, complacency could set in and this segment of the market can easily accept that failure to access a home is inevitable. However, on the other hand the number of concrete steps taken is a reflection of the tenacity of the market to search with vigor and energy for a home that meets the beneficiaries requirements.

5.4.3 Despite the fear of banking institutions, most respondents see banks as the main institutions to approach for a mortgage loan. This is an indication that the role of banks (as perceived by the potential homeowner) is significant with the housing finance system.

5.4.4 The most popular way to finance a home according to the research is still the mortgage loan. Preference is for a long – term loan of 20 to 30 years with either a fixed or a variable interest rate. The main form of collateral is the property being financed.

5.4.5 Saving specifically for a home or deposit for a home makes the purchase more financially viable and mitigates against some of the credit risks that lenders are exposed to. The utilization of banks to deposit savings is also significant despite the negative perception and the reluctance of bankers to lend to the same borrowers.

5.4.6 The relationship between the materials used for construction of a home and the cost of the finished product are becoming important factors that the potential buyers are considering. The use of alternative construction materials and designs could make the end product more affordable and bring it within the reach of many more people.

5.4.7 Access to information appropriate for the low and moderate segment of the market is required. Information on loan products, lending institutions, consumer protection, government subsidies and general secondary market sale and purchase needs to be widely available to

enable potential homeowners to make informed choices and decisions on the purchase or sale of a home.

5.4.8 The study also reveals that there is also a willingness to deal with default situations and amicably resolve the default. This is an important factor to consider from the lender perspective given the past high default rate and the abscondments of many borrowers from their loan obligations.

5.4.9 With respect to housing aspirations potential home owners still prefer to live in the existing townships and desire to own a freestanding home. Starter homes while acceptable, are considered to be restrictive and locks in the owner in a particular socio-economic situation. This research further indicates that would be buyers prefer to wait for the desired home rather than to accept a starter home.

5.4.10 Rental housing is a tenure type this market is considering, ownership is still the preferred tenure type.

5.4.11 Neighbourhood factors such as amenities and services, safety and security and quality of homes are important characteristics that are being considered when purchasing a home in a specific location.

5.5 Recommendations

The recommendations proposed in this study are divided into there categories viz. policy oriented reforms, institutional modifications and operational measure and / or instruments, all of which if implemented could improve the efficacy of the housing finance system.

5.5.1 Policy Oriented Reforms

5.5.1.1 Government Subsidy Policy

In chapter three the National Housing Subsidy Policy is described as a significant achievement that has delivered mass housing at the same time it has created distortions and squeezed private players from the market. Therefore the first recommendation would be to modify the existing subsidy policy from a supply driven process to a demand driven process that can induce private developers in the market. Two critical steps need to be considered. The first is the process of setting up an accreditation system and prioritizing all potential beneficiaries of subsidies and ensuring that allocations are fair and transparent. The best place to set up such a system would be at local government level which is in direct contact with the beneficiaries and understands their housing requirements. The second step to accomplish this objective is to capacitate local governments to be the focal co-ordinating point of all projects that are delivered through the state. Co-ordination has to include the project conceptualization, project planning, mobilizing and facilitating funding, implementation and aftercare when the project is complete.

If the system can be structured to deal with individuals, then demand side schemes listed below can be considered by the state for implementation.

1. Subsidisation of mortgage interest rates;
2. Tax benefits that aim to reduce personal income taxes;
3. Housing allowances provided by the state to augment rental or mortgage payments;
4. A once off capital grant to assist in the purchase of a home;

Another area within the subsidy policy that needs modification is the income bands that have been created to classify the different beneficiaries. Since the inception of the Housing Subsidy Scheme these income bands have not been adjusted. However, in 2002 the subsidy amount has been adjusted to account for the effect of inflation during that period. In reality the current increased allocation is buy the same product in terms of size, quality and design. A change in the income bands in the higher end of the income spectrum would facilitate the blending of

credit with subsidy. While this was the intention of the subsidy policy it did not happen on a wide scale.

The final area of the housing policy that requires consideration is how public infrastructure investments can be used to contribute to long-term improvements in neighbourhoods and thus property values. This could potentially improve the value of the existing RDP home and make it more sellable which could attract a bank loan.

There is evidence that homeowners tend to maintain or upgrade their houses more over time when the neighbourhood infrastructure is better to begin with. In addition, if neighbourhood amenities such as recreation facilities are delivered (and not just indicated on plans), the market values of area houses will tend to rise over time, helping to build owner equity.

A further step that can be taken to strengthen the secondary market for the low and moderate income groups is the pursuit of tools for expanding access to credit by those working in the informal sector or small and medium enterprise portion of the formal sector. This is where government needs to focus policy reform in.

5.5.1.2 Rental Housing Strategy

The National Housing Department due to political pressure has embarked on a pilot programme as part of the Job Summit to implement its rental strategy, the rental policy has still to be completed by government. The NHFC has been appointed as its implementation agency. The Rental programme of government should be modified from a project based approach to a national individual supplementary grant to subsidize rental accommodation for the poor.

The current approach is to set up projects that are funded through subsidies, concessional funding from DFI's and private sector loans. These projects are then developed and managed by non-profit housing associations or institutions who are essentially public sector organs. Grant and concessional funding creates a dependency syndrome and should the company

experience defaults or delayed occupancy levels, cash flows are seriously affected making the institution insolvent. Furthermore, many of these start up companies experience severe capacity shortfalls and lack the skills to deal with a rapidly changing environment. There is no incentive for the properties to be well maintained and to promote asset appreciation.

Due to the non-profit nature of the operation the entrepreneurial spirit of generating profits (shareholder wealth) is lost and serves as a disincentive for the private sector to become involved. The current banks that are involved in the rental projects are motivated by their social responsibility programmes rather than pure business sense. This approach entails government injecting large volumes of its own capital and also assuming some of the credit risk. The intimate role of government also poses a moral hazard risk that South Africa has experienced in the past.

The proposed approach entails government setting up an National Rental Grant System that is able to approve applications against predefined criteria and disburse monthly rentals to qualifying applicants. This system should also have an evaluation and monitoring capacity to deal with fraud and beneficiaries that enter and leave the system.

The role of the private sector would be to construct the units required and manage the properties, and in the long term own the properties. This will ensure that the created assets appreciated in value and remained well maintained. In this instance government does not have to pay for the capital cost associated with the construction of the units.

Government rental subsidy is to be used in full or in part and / or augment with additional income to service the rent under a normal tenant landlord agreement. This process ensures a constant stream of income to the private developer who is able to provide a social “good” under business guidelines and rules. Many of the prisons internationally and in South Africa are funded on a similar basis, therefore this methodology is not new but if it works for one sector the likelihood that it will work for rental housing is high. In this approach the private sector is assuming the credit risk and the risk of mobilizing capital from the private capital markets. This

cost of capital might influence the cost of rental to the end user but this is easily resolved by the government adjusting its rental subsidy to make the unit affordable to the end user.

5.5.1.3 Community Reinvestment

In 2002 the first Community Reinvestment Housing Bill was released for comment by the National Department of Housing. While this legislation paves the way for the banks to be measured and penalized on the volume and amount of housing finance it provides to the low and moderate income segment of the population in South Africa, it fails to provide adequate incentives for complying institutions. Further the Bill attempts to prevent redlining; however redlining must be permissible if the state is not willing to guarantee the payment of principle and interest in the event of a default. Therefore, this instrument could work well if it could be linked to a guarantee scheme that could absorb some of the risks that the traditional banks are not able to deal with.

It is also recommended that as part of the incentive package that government considers a tax benefit to those institutions whose performance has exceeded the predetermined standard. The type of tax incentive could include a reimbursement as a percentage of the actual write – offs derived from the volume of successful loans approved and successfully serviced.

5.5.1.4 Consolidation of Housing Assets Financed by State Institutions

Many of the State owned Enterprises have housing loans on their books when it is not their core business. It is recommended that these books be consolidated under a Special Purpose Vehicle and packaged according to quality which can be securitized. This process could lead to the largest securitization deal in the housing sector which could stimulate the secondary market process in South Africa. The proceeds of the securitization can be utilized for the creation of new housing books in the moderate segment of the market.

5.5.1.5. Review Banking Legislation

Since 1999 South Africa has lost 4 smaller banks that have played an important role in origination and holding of housing loans on their balance sheet. While the loans books of these banks have been bought up, the loss of this capacity has resulted in fewer loans being granted and access to credit being limited. Acknowledging the role of smaller banks and the limitation of large banks, it is recommended that the state revise its banking act to make the entry hurdle lower for smaller banking institution and secondly ensure that liquidity constraints of such institutions can be fulfilled and facilitated by the regulator. The role of a banking supervision department within the Reserve Bank needs to become proactive rather than a reactive regulatory role. The trend in South Africa with respect to the Reserve Bank has been to sell assets of small banks that experience liquidity problems rather than to assist to build capacity and rehabilitate institutions that experience financial and governance problems. Deposit insurance can also be introduced to safeguard the interest of depositors. Unlike other international countries the South African Finance system does not enjoy the benefits of deposit insurance, this is potentially the role the Reserve Bank can play.

5.5.2 Institutional Modifications

5.5.2.1 One of the fundamentals of the finance and fiscal policies of South Africa is to reduce government's long term obligations that are facilitated through sovereign guarantees. This approach as described in chapter three section 3.4.2.1, forms the backbone of the fiscal policy of the South African economy. The implication of this policy is that institutions that have been guaranteed in the past continue to enjoy this facility while those institutions that require a government guarantee to raise funding at reduced cost which can be passed on to the end beneficiary are not able to do so. However, the state has created parastatals with its own equity and one such institution is the NHFC. While NHFC does not enjoy an explicit guarantee it does enjoy an implicit guarantee. This implicit guarantee stems from its relationship with government and its social mandate. It is therefore recommended that the current share capital of the NHFC be used to guarantee conforming housing loans that meet our credit standards. The level of

guarantee can be organized along a sliding scale from a 30% to 60% and possibly on a fee basis.

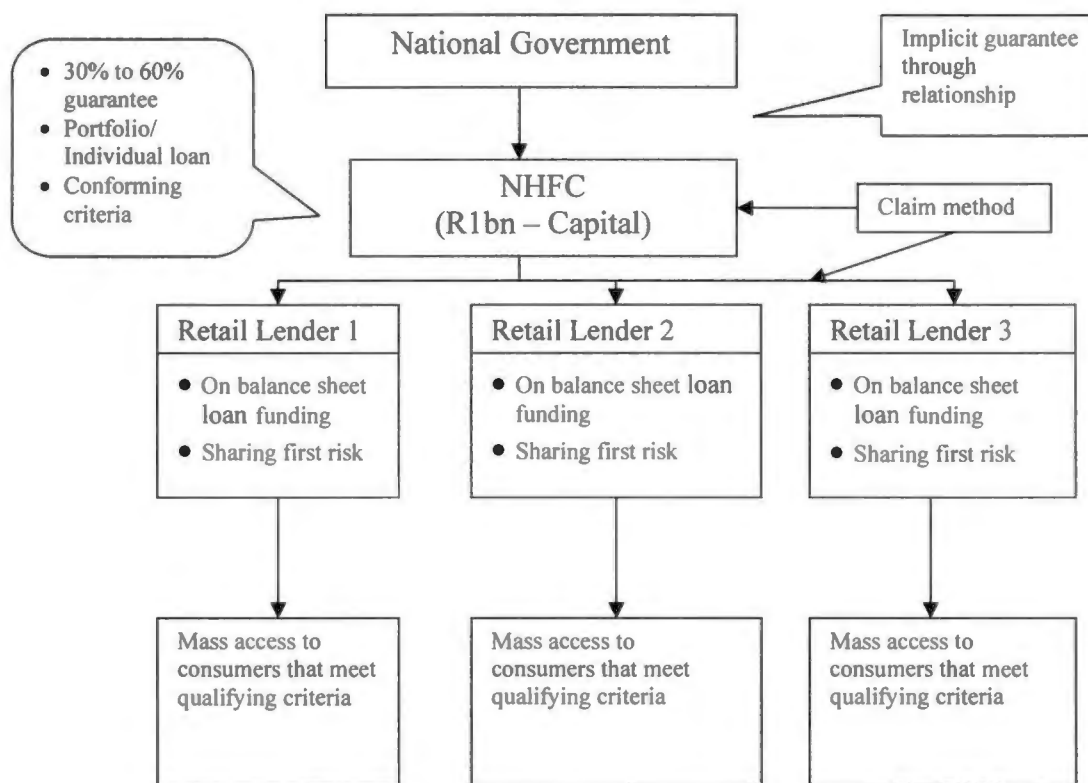


Figure 5.1 Graphical Representation of Guarantee Structure

The risks covered by the guarantee scheme should be those that the NHFC is willing and designed to absorb. Other risks can be assigned to third parties. This institutional modification from changing NHFC from a wholesale lender to guarantee mechanism will change the risk profile of the low and moderate income sector. Primarily, the banks and other mortgage lenders will be able to access these guarantees on either a portfolio or individual loan basis. The net effect of this institutional modification will be to provide the necessary protection that banks require to lend, assuming little as possible credit risk. It is envisaged that this will induce the banks to come and lend on scale to the low and moderate income market. This intervention should not be seen as a bailout guarantee in which creditors neglect to screen out those loans/

projects that do not deserve to be given credit which increases the risk of a currency crisis⁹⁵ (Neeman and Orosel, 2000:22).

5.5.2.2 The second possible option for institutional modification is an organization that can retail housing finance to the low and moderate income segment of the population. While this would be organized in the public sector this is not necessarily in competition with the existing banks because they are currently not involved in this market. What is envisaged under this recommendation is that one of the government sponsored institution become involved in retail lending, firstly, to develop the skill and art of lending to the low and moderate income earner of the market, secondly to develop a national infrastructure for intermediation and most importantly create a bank that is well managed and can serve as a demonstration case to the private sector that lending in this end of the market is possible and can be conducted in profitable and sustainable manner. Over time this retail responsibility can be transferred to the private sector. This recommendation is consistent with the current CRA bill in that it seeks to develop appropriate capacity, skills, infrastructure and demonstrates that low income housing lending can be done on a profitable basis. This responsibility can be transferred to the private sector when the market has developed confidence in dealing with the sector.

5.5.2.3 Chapter one reported that the eviction process is fraught with problems and has been difficult to implement in certain areas of South Africa. An institutional intervention like the establishment of specialized housing courts can deal efficiently with issuing eviction orders and the maintaining law and order while properties change ownership. This intervention will certainly remove the problem that banks currently have with execution and management of eviction orders. The inability to effectively evict, results in the redlining of specific areas.

5.5.2.4 Under the pending Community Reinvestment legislation banking institutions who are in the business of originating and holding loans have the option to lend directly to borrowers, lend

⁹⁵ In the South African situation banks and the NHFC will be key players who will have raise funds from international markets and will be exposed to currency risks. Therefore the underlying credit operations have to be able to manage currency risks.

to wholesale lenders, purchase securities or bonds of accredited institutions and / or lend to projects. This legislation provides the opportunity for a true public private sector partnership to take place in South Africa. It is recommended that the four banks commit to invest in a special purpose vehicle together with one or other state owned institution that is able to invest on a matching basis or share risk. The following is a diagrammatic representation of the model.

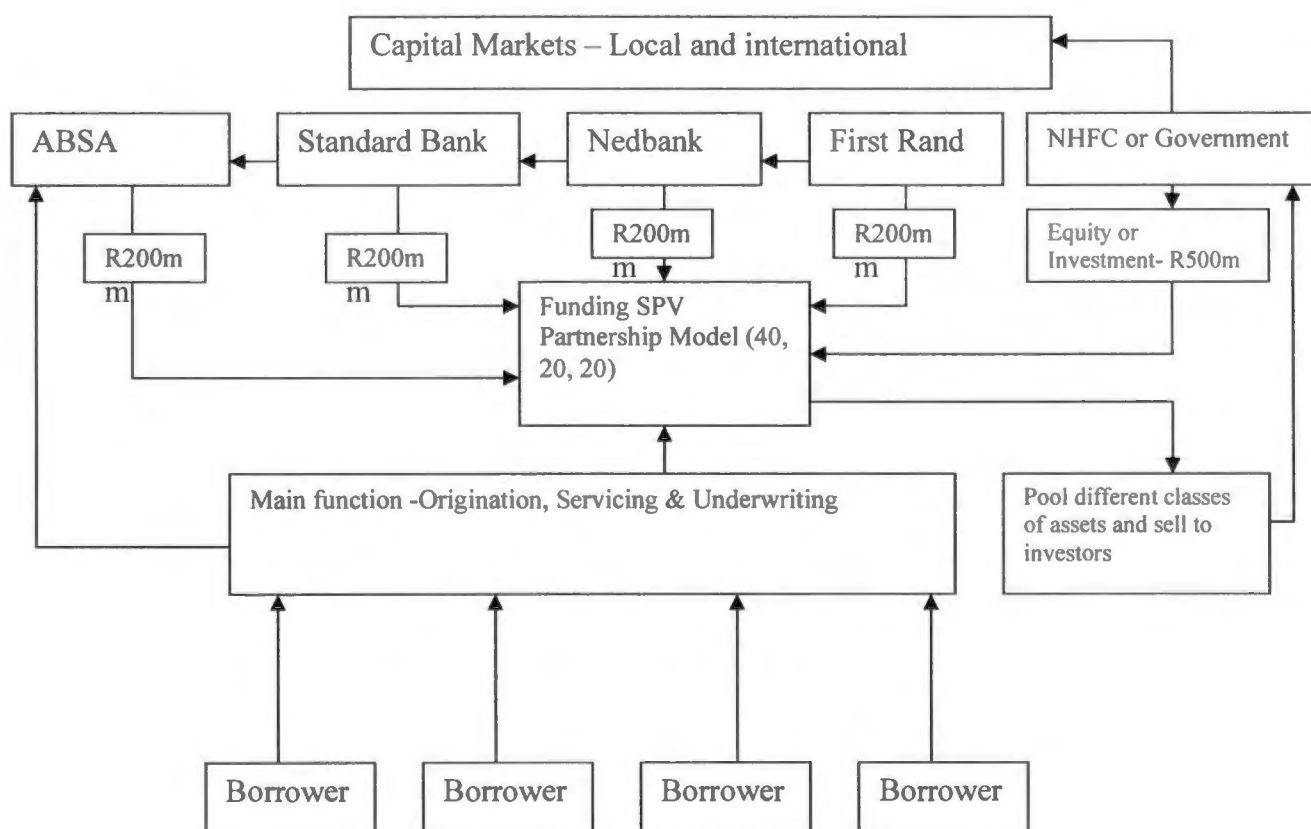


Figure 5.2 Graphical Representation of Partnership Model

In this model credit criteria is determined by the four banks and NHFC and origination, servicing and underwriting process are standardized. The four major banks will originate and service loans which meet the household income criteria of between R1500 to R7000 per month. This will translate into mortgage loans of between R20 000 and R85 000. The fees for mortgage loan origination and servicing can be determined jointly by the relevant parties. Loans that do not conform to the agreed standards can be kept on balance sheet of the respective bank.

Risks are managed through the funding structure which means that NHFC will hold junior debt and possibly mezzanine layers of funding and some equity while the banks will hold senior debt. This structure ensures that the public sector will take first loss in the event of first loss associated with default.

5.5.3 Operational Measures / Instruments

5.5.3.1 Consumer Education

Chapter one highlights the contagious effects of rent and service boycotts that are motivated by political, civil disobedience and economic reasons which have a crippling effect on the housing finance system. One of the ways to manage and avoid the continued occurrence of political and civil disobedience motivated payment boycotts is consumer education. Through this study the need for consumer education is highlighted as a key component that needs to be addressed so that consumers are aware of their responsibilities and obligations. It is the author's contention that national legislation is not required to enforce and / or ensure consumer education to take place. It is the current reality that if the lending community wishes to better understand their customer and ensure that the customer's behavior is consistent with the lender credit standards, then it's in the interest of lenders to ensure that all recipients of housing finance are properly educated about the responsibilities and obligations of a home owner.

With respect to consumer education it is recommended that the Banking Sector Education and Training Authority make available resources to develop a training programme for housing consumers and training the necessary staff at the retail banking level to conduct the requisite consumer education. A homeowner guide should be provided to each recipient of a loan that completes the programme.

5.5.3.2 Consumer Protection

On the physical building side the National Home Builders Registration Council has been established to ensure that residential dwellings conform to minimum building standards and this provides a measure of protection to the consumer in cases of poor workmanship.

Homeowners are also exposed to other forms of non housing debt. Predatory lending and poor lending practices by some lenders causes homeowners to become over-indebted. In times of medical emergencies and economic hardships households loose their ability to manage their income and expenditure which leads to defaults on housing loans. In these cases very little protection is afforded to the home owner.

It is therefore recommended that consumers be made aware of their rights in respect of loans and what recourse is available to them, this must a part of the above consumer education programme.

A second recommendation here relates to the role of the Micro – Finance Regulatory Council whose powers must be extended to include consumer protection of its members. For those who are not members an independent body should be set up to impose stiff fines on lenders that abuse borrowers. To facilitate this, consumer protection line should be set up and a specialized disciplinary process must be put in place to deal with lenders who act in a predatory manner.

5.5.3.3 New loan products

Chapter one and three have illustrated that the current players in the home loan business either use the mortgage or the micro-loan instrument to finance a home. Responses from potential homeowners in chapter three also indicates that loan products are inflexible and there is limited choice of financial products than can suit their individual needs. While more market research is required to develop new financial products, it is recommended that existing banks and non bank lenders develop new products that meet the socio-economic needs and risk profile of their clients. Two important factors need to be considered with respect to new product development. The first is the willingness of financial institution to intermediate in this market and it is hoped that the Community reinvestment legislation will promote this. The second is the necessary training required at the intermediary to develop staff that can be creative to deal with the specialized needs of individual borrowers.

To accomplish the above it is recommended that an industry wide effort be embarked on to train front end staff on what is commonly understood as the unbanked or under banked segment of our population. The major components of such an initiative would include the following:

1. Dealing with an unsophisticated client with respect and dignity.
2. Translation of complex financial and legal conditions
3. Willingness to structure loans that meets needs of individual borrowers
4. Providing on support and advise

The Banking Council has developed a Code of Conduct for its members to follow, however, the major weakness is the inability to measure its effectiveness. To transform this Code into a useful tool it is recommended that an independent body is set up to monitor and measure the performance of banking institutions with respect to their conduct. A system of penalties and rewards can be instituted to regulate and ensure good lending behavior and practices.

5.5.3.4 Access to Information

The need for and lack of appropriate, relevant and accurate information about the low and moderate income housing market has been extensively discussed in chapter four. It is recommended that the following five categories of information must be widely and freely available to low and moderate income segment of the market.

1. Lender Profile and Contact

A comprehensive list of lenders who are active in this market must be produced. This document should contain contact details of specific people within the institution that are able to help clients with “special” needs. Other information could include eligibility criteria for loans, the different financial products and collateral requirements.

2. Government Subsidy Assistance

The Governments Subsidy Programme has led to misunderstandings and misinterpretation of the scheme. To correct this situation and increase the effectiveness of the subsidy programme a simple user-friendly guide is required. The guide should contain the eligibility criteria for a subsidy, describe the process and procedure for accessing a subsidy and lastly who to contact at a local level if problems are experienced. Provincial Government should also provide a list of all the different projects both public and private that are being implemented.

3. The Role of Estate Agents

It is recommended that the Estate Agency Board design a strategy and programme to promote its members to actively participate in the low and moderate income market. Estate agents play a critical role in bringing together buyers and sellers of property in the upper income end of the market and the same service must be extended to the lower end of the market. From a theoretical perspective and with regard to the efficiency of some housing finance systems discussed in chapter two, estate agents are vital in the value chain in the sale and acquisition of a home.

4. Secondary Property Market Sales

The upper end of the income market benefits from a weekly publication that advertises the available properties that are for sale. The internet also provides a rich source of information on properties that are for sale. This is however absent in the low and moderate end of the income market. It is therefore recommended that a partnership be struck between the public and private sector to set up an alternative publication and distribution medium that can inform the desire audience. This strategy must lead to the consolidation of all published information once the demand has been established in the market. This

recommendation does have cost implications and the lending players in the market must fit this bill because they ultimately will benefit the most from the increased sales and high volumes of transactions.

5. General Advice

In the main it is expected that financial institutions will be best suited to advise and provide some consumer education. But given our history with housing finance in South Africa it is also recommended that other bridging interventions be implemented. The first such intervention would be an advice center that can specifically assist clients with alternative ways and options that are available to deal with a potential default situation. In many instances due to the fear of blacklisting, homeowners are reluctant to engage banks on how to remedy the situation. As a result the situation deteriorate to a point where it is not possible rectify the problem.

The second such intervention must be a mechanism to rehabilitate potential borrowers that have been blacklisted in the past. This service can be provided by banks free with the possibility that in time this client could be advanced a home from the same institution. This intervention could provide financial institutions with accurate information on the repayment patterns and trends and the risk profile of the client. This information will be invaluable in assessing the credit when considering the advancement of a home loan.

5.6 Further Research Areas

5.6.1 Agenda 21 of the World Summit on Sustainable Development held in South Africa in 2002 placed on the world agenda two issues that have a potential on the finance of housing (World Summit, 2002). The first is the degradation of the environment in search of material for mass construction and the clearing of natural ecosystems. In South Africa construction of housing is dependant on the use of conventional material such as brick, cement, sand and stone. As discussed in chapter two housing finance systems in India and the use have become accustomed to financing residential buildings that are made with alternative material such as wood in the US and mud in India. The use of appropriate technology has actually led to a reduction in the cost of the house.

The second issue is the design of energy efficient dwellings. This imperative is directed towards saving energy and ensuring that natural resources are preserved for the generations to come. While alternative sources to electricity and the use of effective design techniques can reduce the use of natural fuels this, remains a challenge for many communities.

These two areas need further research to examine the application of alternative technologies in South Africa and the behavioral change necessary to ensure the proper use and acceptance of such technologies particularly for low income housing.

5.6.2 Since 2000 South Africa has experienced the demise of at least three small banks. Many have speculated on the reasons for the demise of these banks with any concrete evidence or research. The role of smaller niche banks has been explicated in chapter two and is vital in any housing finance system. They have developed specialized skills to deal with under served markets and understand the risk profile of their clients. Much more information and research is required to understand their potential role in housing and how they can successfully fill the intermediation gap that exist between large banks and the customer.

5.6.3 Research conducted by the NHFC consistently confirms preference of low and moderate income earners towards home ownership and less desire to rent a home. This

preference for ownership as opposed to rental needs to be researched to understand what are the physical and psychological factors that motivate either preference.

5.6.4 Chapter one has illustrated that defaults with respect to home still plagues the lending industry. Lenders are reluctant to lend based on their past experience. To change this situation research is required into understanding what are the actual reasons for defaults and how these can be mitigated.

5.6.5 In 1996 the government amended the Usury Act and an exemption included permitted Micro – Lending in an unregulated manner. This intervention led to the mass growth of the industry and widened access to credit. Lenders claim that loans are accessed for housing but this has not been verified. Therefore research is required to examine the impact of micro-lending on housing and what the potential would be for using the micro-lending industry to channel and distribute housing finance on scale.

5.7 Summary

The ultimate goal of eliminating backlogs through the availability of credit and state assisted housing programmes will contribute towards improving the socio-economic conditions under which low income and homeless South Africans live. To achieve this goal the following findings must be resolved.

Firstly, the supply of new and existing homes in the low and moderate segments of the market must be increased. Homes must be made available in different price categories to match the price expectation of different homeowners. Residential mobility needs to be promoted instead of an incremental approach, particularly amongst those that can afford mortgage loans as this will assist in the development of a vibrant secondary housing market for low and moderate income households.

Secondly, affordability must be addressed through state subsidies and through employer assisted schemes. Borrowers housing aspirations should be modest and take note of their income constraints when looking for a home. While an incremental housing approach can assist those with low incomes, those that have a source of regular income should save and take up a mortgage loan and trade upwards over time to acquire a home that meets their aspirations.

Finally, the lenders need to be more flexible with approaches on credit rationing which needs to be fair and non-discriminatory. While the lack of access to credit facilities is not an obstacle to the purchase of new or existing homes in the low and moderate income market, home loan education, flexible loan product design and the use of alternative collateral arrangements could encourage more low income households to take up a home loan.

Annexure A: QUESTIONNAIRE: Incidence Survey

UNFAH: Incidence Survey

QUESTIONNAIRE NUMBER:

FINAL RESPONDENT NAME:

GENDER: M F

AGE:

Hello! My name is I am working for an independent research organization called Social Surveys. We are doing some research about housing, and would like to ask you some questions.

Your answers will be confidential. People who look at all the answers will not see your name, and your answers will be put together with hundreds of other people who are being interviewed. There are no right or wrong answers. Your open and honest opinion is important. If you do not understand a question, please tell me.

Province	
Gauteng	1
KwaZulu Natal	2
Western Cape	3
Eastern Cape	4
Northern Province	5

Type of area	
Township	1
Suburb	2
Inner City	3
Informal settlement	4

Name of Area

ADDRESS:

Tel (H) Tel (W)

Type of house currently living in:	
Shack in informal settlement	1
Room in house	2
House	3
Outbuilding/backyard shack	4
Flat	5
Hostel	6

Interviewer pledge (sign when interview is complete): I certify that this is a true interview. It has been completed in full, with the respondent, and according to the instructions I received from Social Surveys.

SIGNED: _____
(Interviewer's signature) (date)

INTERVIEWER NAME:

INTERVIEWER NO:

BACK-CHECKED BY:

DATE:

EDITED BY:

CODED BY:

SECTION A: FILTER QUESTIONS & HOUSING PROFILE

1a	Is there anyone in this house who is actively looking to buy / build a formal house?	Y	N
1b	Is there anyone in this house who was trying to buy / build a <u>formal</u> house within the last year, but has given up trying?	Y	N
1c	Is there anyone in this house who has been trying to buy / build a formal house for a long time, but has given up and decided to renovate instead?	Y	N

If YES to any of the above, ask: Can I speak to that person or the partner of that person?
If NO to both, close interview.

Continue interview with potential home buyer / builder or their partner:

2 How long have you been trying to buy or build a house?				
Less than 3 months	1	<i>[Close]</i>	19 months to three years	4
3 to 6 months	2		For more than three years	5
7 to 18 months	3			

3 What is the total monthly income of you and your partner together before tax and other deductions?						
Less than R1000	1	<i>[Close]</i>	R2601 to R4200	3	R6001 to R10 000	5
R1000 to R2600	2		R4201 to R6000	4	R10 000 plus	6
						<i>[Close]</i>

4 Which of the following did you do in an attempt to buy a house? <i>[Read out]</i>			
(1)	Have you looked at more than 3 houses / plans of houses with a view to buying or building a house?	Y	N
(2)	Have you put your name on a waiting list to buy a house?	Y	N
(3)	Have you contacted an estate agent?	Y	N
(4)	Have you contacted a developer / housing company with a view to buying or building a house?	Y	N
(5)	Have you obtained information about a housing subsidy?	Y	N
(6)	Have you obtained other information from the local authority with a view to buying or building a house?	Y	N
(7)	Have you saved a deposit of R2500 or more to buy a house?	Y	N
(8)	Have you been saving money for over a year specifically to buy / build a house?	Y	N
(9)	Have you / your partner asked family or friends to give you a loan to buy or build a house?	Y	N
(10)	Have you / your partner approached your employers for assistance to buy or build a house?	Y	N
(11)	Have you applied to a bank for a loan to buy or build a house?	Y	N
(12)	Have you applied to any other organisation or institution for a loan to buy or build a house?	Y	N

Respondent must answer yes to at least three of the above in order to be interviewed

5	For how many years have you been living on this property?	years
----------	---	-------

6a Which of the following statements best describes you? <i>[Read out - single mention only]</i>			
(1)	I/we own this property	1	→ Ask Q.6(b) & (c) below
(2)	I/we rent this whole property	2	
(3)	Our parents or other family members own this property	3	
(4)	Our parents or other family members rent this whole property	4	
(5)	I/we rent just this room / shack / outbuilding	5	
(6)	I do not pay for this accommodation	6	

Annexure B: QUESTIONNAIRE: Indepth Survey

UNFAH: Indepth Survey

QUESTIONNAIRE NUMBER:

FINAL RESPONDENT NAME:

GENDER: M F

AGE:

Hello! My name is I am working for an independent research organization called Social Surveys. We are doing some research about housing, and would like to ask you some questions.

Your answers will be confidential. People who look at all the answers will not see your name, and your answers will be put together with hundreds of other people who are being interviewed. There are no right or wrong answers. Your open and honest opinion is important. If you do not understand a question, please tell me.

Province	
Gauteng	1
KwaZulu Natal	2
Western Cape	3
Eastern Cape	4
Northern Province	5

Type of area	
Township	1
Suburb	2
Inner City	3
Informal settlement	4

Name of Area	

ADDRESS:

Tel (H) Tel (W)

Type of house currently living in:	
Shack in informal settlement	1
Room in house	2
House	3
Outbuilding/backyard shack	4
Flat	5
Hostel	6

Interviewer pledge (sign when interview is complete): I certify that this is a true interview. It has been completed in full, with the respondent, and according to the instructions I received from Social Surveys.

SIGNED: _____
(Interviewer's signature) (date)

INTERVIEWER NAME:

INTERVIEWER NO:

BACK-CHECKED BY:

DATE:

EDITED BY:

CODED BY:

SECTION A: FILTER QUESTIONS & HOUSING PROFILE

1a	Is there anyone in this house who is actively looking to buy / build a formal house?	Y	N
1b	Is there anyone in this house who was trying to buy / build a <u>formal</u> house within the last year, but has given up trying?	Y	N
1c	Is there anyone in this house who has been trying to buy / build a formal house for a long time, but has given up and decided to renovate instead?	Y	N

If YES to any of the above, ask: Can I speak to that person or the partner of that person?
If NO to both, close interview.

Continue interview with potential home buyer / builder or their partner:

2 How long have you been trying to buy or build a house?								
Less than 3 months	1	<i>[Close]</i>	19 months to three years	4				
3 to 6 months	2		For more than three years	5				
7 to 18 months	3							
3 What is the total monthly income of you and your partner together before tax and other deductions?								
Less than R1000	1	<i>[Close]</i>	R2601 to R4200	3	R6001 to R10 000	5		
R1000 to R2600	2		R4201 to R6000	4	R10 000 plus	6	<i>[Close]</i>	
4 Which of the following did you do in an attempt to buy a house? <i>[Read out]</i>								
(1)	Have you looked at more than 3 houses / plans of houses with a view to buying or building a house?						Y	N
(2)	Have you put your name on a waiting list to buy a house?						Y	N
(3)	Have you contacted an estate agent?						Y	N
(4)	Have you contacted a developer / housing company with a view to buying or building a house?						Y	N
(5)	Have you obtained information about a housing subsidy?						Y	N
(6)	Have you obtained other information from the local authority with a view to buying or building a house?						Y	N
(7)	Have you saved a deposit of R2500 or more to buy a house?						Y	N
(8)	Have you been saving money for over a year specifically to buy / build a house?						Y	N
(9)	Have you / your partner asked family or friends to give you a loan to buy or build a house?						Y	N
(10)	Have you / your partner approached your employers for assistance to buy or build a house?						Y	N
(11)	Have you applied to a bank for a loan to buy or build a house?						Y	N
(12)	Have you applied to any other organisation or institution for a loan to buy or build a house?						Y	N
<i>Respondent must answer yes to at least three of the above in order to be interviewed</i>								

5	For how many years have you been living on this property?	_____ years
6a Which of the following statements best describes you? <i>[Read out - single mention only]</i>		
(1)	I/we own this property	1
(2)	I/we rent this whole property	2
(3)	Our parents or other family members own this property	3
(4)	Our parents or other family members rent this whole property	4
(5)	I/we rent just this room / shack / outbuilding	5
(6)	I do not pay for this accommodation	6

→ Ask Q.6(b) & (c) below

SECTION B: CURRENT HOUSING SITUATION

<i>If house is OWNED, (see 6(a) above) ask:</i>																											
6b	How did you come to own this property? <i>[Probe. Multiple answers possible]</i>																										
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 5%;">(1)</td><td style="width: 85%;">bought it with cash</td><td style="width: 10%; text-align: center;">1</td></tr> <tr><td>(2)</td><td>bought it with a bond or home loan</td><td style="text-align: center;">2</td></tr> <tr><td>(3)</td><td>bought it with a small / micro loan</td><td style="text-align: center;">3</td></tr> <tr><td>(4)</td><td>was allocated the land and built the house myself</td><td style="text-align: center;">4</td></tr> <tr><td>(5)</td><td>inherited the property from a family member / friend</td><td style="text-align: center;">5</td></tr> <tr><td>(6)</td><td>RDP house / subsidy house / got it from the government or local authority</td><td style="text-align: center;">6</td></tr> <tr><td>(7)</td><td>Other <i>[specify]</i></td><td style="text-align: center;">7</td></tr> </table>	(1)	bought it with cash	1	(2)	bought it with a bond or home loan	2	(3)	bought it with a small / micro loan	3	(4)	was allocated the land and built the house myself	4	(5)	inherited the property from a family member / friend	5	(6)	RDP house / subsidy house / got it from the government or local authority	6	(7)	Other <i>[specify]</i>	7	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr style="background-color: #cccccc;"> <td style="width: 5%;">6c</td> <td style="width: 95%;">If you were going to sell this property, how much would you sell it for?</td> </tr> <tr> <td style="text-align: center;">R</td> <td></td> </tr> </table>		6c	If you were going to sell this property, how much would you sell it for?	R	
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(2)	bought it with a bond or home loan	2																									
(3)	bought it with a small / micro loan	3																									
(4)	was allocated the land and built the house myself	4																									
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(6)	RDP house / subsidy house / got it from the government or local authority	6																									
(7)	Other <i>[specify]</i>	7																									
6c	If you were going to sell this property, how much would you sell it for?																										
R																											

SECTION C: HOUSING PURCHASE PROCESS

7	What is the main reason you want to buy / build a house now?
<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	

8 I would like to find out more about what you have done while you were trying to buy / build a house:																															
(a)	Which of the following did you or your partner try to get information about?	<i>[Read out & code for each]</i>																													
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 5%;">(1)</td><td style="width: 60%;">Did you try to get information about a housing subsidy?</td><td style="width: 10%; text-align: center;">Y</td><td style="width: 25%; text-align: center;">N</td></tr> <tr><td>(2)</td><td>Did you try to get information about which areas you could afford to buy property in?</td><td style="text-align: center;">Y</td><td style="text-align: center;">N</td></tr> <tr><td>(3)</td><td>Did you try to get information about areas where new houses are available?</td><td style="text-align: center;">Y</td><td style="text-align: center;">N</td></tr> <tr><td>(4)</td><td>Did you try to get information about your employer's housing policy?</td><td style="text-align: center;">Y</td><td style="text-align: center;">N</td></tr> <tr><td>(5)</td><td>Did you try to get information about which banks or other lending institutions you can go to for a loan or bond?</td><td style="text-align: center;">Y</td><td style="text-align: center;">N</td></tr> <tr><td>(6)</td><td>Did you try to get information on how to go about getting a loan or bond?</td><td style="text-align: center;">Y</td><td style="text-align: center;">N</td></tr> <tr><td>(7)</td><td>What other things did you try to get information about? <i>[specify below]</i></td><td></td><td></td></tr> </table>	(1)	Did you try to get information about a housing subsidy?	Y	N	(2)	Did you try to get information about which areas you could afford to buy property in?	Y	N	(3)	Did you try to get information about areas where new houses are available?	Y	N	(4)	Did you try to get information about your employer's housing policy?	Y	N	(5)	Did you try to get information about which banks or other lending institutions you can go to for a loan or bond?	Y	N	(6)	Did you try to get information on how to go about getting a loan or bond?	Y	N	(7)	What other things did you try to get information about? <i>[specify below]</i>			<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>		
(1)	Did you try to get information about a housing subsidy?	Y	N																												
(2)	Did you try to get information about which areas you could afford to buy property in?	Y	N																												
(3)	Did you try to get information about areas where new houses are available?	Y	N																												
(4)	Did you try to get information about your employer's housing policy?	Y	N																												
(5)	Did you try to get information about which banks or other lending institutions you can go to for a loan or bond?	Y	N																												
(6)	Did you try to get information on how to go about getting a loan or bond?	Y	N																												
(7)	What other things did you try to get information about? <i>[specify below]</i>																														

(b) What did you do in order to find an affordable or suitable property to buy?			<i>[Read out]</i>
(1)	Did you contact a developer or go to see a new housing development?	Y	N
(2)	Did you contact or visit an estate agent?	Y	N
(3)	Did you look independently at houses that were not part of a new development?	Y	N
(4)	What else did you do to try and find a house to buy? <i>[specify below]</i>	Y	N

- nothing

(c) (i) Where, if anywhere, did you go to try and get a bond or loan to buy a property?			
<i>Read out and circle if "yes". Multiple mentions possible</i>			
(1)	nowhere / did not try to get a loan at all	Y	N
(2)	to a mainstream bank	Y	N
(3)	to another financial institution	Y	N
(4)	to a money lender / private cash loan company	Y	N
(5)	to an organisation or NGO	Y	N
(6)	to your employer	Y	N
(7)	to a family member or friend	Y	N
(8)	anywhere else?	Y	N

If YES, specify:

→ Name/s: _____

→ Name/s: _____

→ Name/s: _____

→ Name/s: _____

→ Specify: _____

If respondent TRIED TO GET FINANCE from a bank or other lending organisation (2 - 5 above), ask:

(c) (ii) Please tell me: what happened when you went to... [name of bank / institution]?	
<i>If respondent DID NOT TRY get finance from a bank or other lending organisation (2 - 5 above), ask:</i>	
(c) (ii) Please tell me: why have you not tried to get a loan from a financial institution?	
<i>Get the whole story!</i>	

(d) Did you / your partner personally save any money specifically to buy/build a house?	Yes	No	-go to E below
--	-----	----	----------------

If YES:

(a) For how long were you saving money towards buying / building a house? months

(b) How much money did you save specifically for buying / building a house? R

(c) How did you save? What kind of savings scheme did you use?

(1) saved cash / hide money in the house	1	(5) stokvel	5
(2) savings account at a banking institution	2	(6) other [specify]	6
(3) savings account at the post office	3		
(4) fixed deposit or notice account at a bank	4		

(d) What specifically did/do you intend to use the money for in buying/building a house?

ASK ALL:

(e) Imagine if there was a small, local financial institution in your area, which offered fewer services than mainstream banks, but managed savings and provided loans for people's housing needs, as well as other development needs like small business development. Would you consider depositing your savings into such an institution?

Yes	No
-----	----

(e) Other than what we have already talked about, what else did you do in trying to buy / build a house?

(write a note under Q.9 "other" below)

9 (a) Now I would like you to think back on all these things you did to try and buy / build a house. I will read you a list. Please tell what order you did these things in: what you did first, second, and so on. Read out the whole list below, and rank in order (1,2,3...etc) under column (A) below: Write in "N/A" if respondent did not do this at all. (CHECK RELEVANT ANSWERS IN A-E ABOVE)

(b) Now for each of the things you did, please tell me how successful you were in getting what you needed. Read out the activities which the respondent did, and record under column (B) below:

		(A)	(B)			
		rank order or N/A	very successful	moderately successful	not at all successful	
(a)	tried to get information about buying / building a house		→ (a)	1	2	3
(b)	tried to find an affordable / suitable property to buy		→ (b)	1	2	3
(c)	tried to get a loan or bond		→ (c)	1	2	3
(d)	saved money specifically to buy or build a house		→ (d)	1	2	3
(e1)	other (specify):		→ (e1)	1	2	3
(e2)	other (specify):		→ (e2)	1	2	3

10 Which of the following statements accurately describes the situation you are in?		
<i>Read out one at a time. Multiple mentions possible.</i>		
(1) This is the first time you have tried to buy a house or property	Y	N
(2) You own a house already but want to buy / build a better or bigger one	Y	N
(3) You own a house already but need to move to a cheaper one	Y	N
(4) You have found a house or property that you want, but cannot get a loan to buy it	Y	N
(5) You haven't found a house to buy but are still looking	Y	N
(6) You have tried to buy a house but have given up now because you don't think you will be able to get one	Y	N
(7) Although you have been trying to buy/build a house for a long time you are not going to give up	Y	N
(8) You have been trying to buy a house and now have decided just to add onto your current house instead	Y	N
(9) Is there anything else that would help to describe the situation you are in? <i>[specify below]</i>	Y	N
<i>Other (specify:)</i> _____		

11 Thinking about the property that you have been trying to buy / build, what are the main reasons you haven't been able to buy or build a house yet?

SECTION D: HOUSING ASPIRATIONS

12 In which of the following types of areas have you been looking to buy a house? <i>Read out and code for each.</i>		
(1) Established formal townships	Y	N
(2) Traditionally "white" suburbs	Y	N
(3) Inner City areas (CBD)	Y	N
(4) New / modern housing areas	Y	N
(5) Rural areas	Y	N
(5) Other <i>[specify]</i>	Y	N

13 How likely would you be to consider the following? <i>[Read out and code for each]</i>		Very Likely	Likely	Neither likely nor unlikely	Unlikely	Very Unlikely
(1) Buying a flat in a high-rise building?		1	2	3	4	5
(2) Buying a flat in a 2-3 storey building where you walk up the stairs?		1	2	3	4	5
(3) Buying a starter house ie. a house with 1 to 2 rooms that is meant to be added onto later		1	2	3	4	5
(4) Rent a similar type of house / flat to what you wanted instead of buying		1	2	3	4	5
(5) Buying the land and building your own house		1	2	3	4	5
(6) Buying a house that shares a common wall with the neighbours (eg. semi-detached / row house)		1	2	3	4	5
(7) Buying a formal house on a separate stand/ property		1	2	3	4	5

If Respondent answers "unlikely" or "very unlikely" to any of the types of housing types above, write in the corresponding number and ask:

14 Why would you not consider..... [Read out statement]

statement no:

REASON

15 Now I'm going to read you a list of things that different people look for when they are deciding which area to buy property in. Please tell me which is the most important for you, then which is the second most important, and so on, so that I can order them from one to six.

SHOW CARD and read out the whole list.. Rank from 1 to 6 where 1= most important and 6=least important.

rank (1-6):

(1)	Good facilities like schools, shops, entertainment	
(2)	Good services like water, electricity, rubbish removal	
(3)	Convenience - close to transport and work	
(4)	A stable and safe environment with low crime rates	
(5)	A friendly or familiar neighbourhood where you can be close to family or friends	
(6)	Good quality houses and big properties	

(b) Is there anything else that you think is more important than these when deciding on an area to buy in?

specify:

16 (a) Thinking about the type of house you are planning to buy, and thinking realistically about what you feel you can afford, how many of the following types of rooms are you looking for?

Read out each and write in number of rooms (eg. 0, 1, 2)

(1)	Bedrooms		(1)	Bathroom / toilet	
(2)	Kitchen		(2)	Living room / lounge	
(3)	Dining room		(3)	Other [specify]	

Total number of rooms: [Add them up!] _____

(b) How much do you think it will cost you to buy a house of this size?	R
(c) If you got a loan to buy the house, would you pay it back over 10 or 20 years?	
(d) How much deposit do you think you will need to pay?	R
(e) How much deposit do you feel you can afford to pay?	R
(f) How much do you think the monthly repayments will be?	R
(g) How much do you feel you can afford to repay each month?	R

SECTION E: PERCEPTIONS

17 I am going to read you a list of statements. Please could you tell whether or not each one applies to you?		
Read out and code for each:		
(1)	One of the reasons that you have not been able to find a house to buy is because you could not find an affordable house	Yes No
(2)	One of the reasons that you have not been able to buy a house is because the financial institutions don't want to lend money to people with your level of income	Yes No
(3)	One of the reasons that you have not been able to buy a house is because the financial institutions don't want to lend money to people who are in informal employment or self employed	Yes No
(4)	One of the reasons that you have not been able to buy a house is because the financial institutions don't want to lend money to people who are already in debt	Yes No
(5)	You don't want to borrow money from a bank or another financial organisation because you don't trust them	Yes No
(6)	You don't fully understand all those different products the financial institutions have and feel unsure about how they can help you	Yes No
(7)	There are developers and builders that cheat people and you are scared to go to a developer in case this happens to you too	Yes No
(8)	The only houses that you can afford are those made from different materials, not brick, and you only want a brick house	Yes No
(9)	You need to sell your other house before you can buy a new one, and you are finding it difficult to sell your current house	Yes No
(10)	The only houses that you can afford to buy are starter houses which only have 1 or 2 rooms and you have to build on later - and you would rather wait until you can afford to buy a proper house	Yes No
(11)	You don't want to go to a bank to get a loan or a bond because you worry that if you can't pay they will give you a bad record, or "black-list" you, and you will never get a loan again	Yes No
(12)	You can't get a house because the banks won't give a bond to people who want to buy in the area that you want to buy in	Yes No
(13)	You feel that buying a house is quite a complicated process and you don't think you understand everything you need to know	Yes No

18 (a) Thinking about the property that you want to buy, what type of loan would you most like to have?	
Please listen carefully to the options that I will read out to you.	
Read out slowly and clearly - one answer only	
(1)	a bond, home loan or building loan from a bank - by which I mean a loan where you use your property as collateral / security, and pay it back over 10 or 20 years
(2)	a loan from a lending institution where you use your pension or provident fund as collateral, and pay it back over 5 years
(3)	A small loan of under R10 000 which you pay back in less than five years - you do not need any collateral or security, but you pay a higher interest rate.
(4)	any other kind of loan [specify]
<div style="border: 1px solid black; height: 15px; width: 100%;"></div>	
(c) Which particular organisation or institution would you most like to get a housing loan from?	
Name: <div style="border: 1px solid black; height: 15px; width: 100%;"></div>	

19 (a) If you got a loan to buy a property, would you prefer a fixed interest rate or a variable interest rate?

fixed	1
variable	2
don't know	3

(b) Ask all: Why do you say that?

20 (a) If you get a loan to buy a house but later find that you cannot afford the monthly repayments, what will you do?
DO NOT PROMPT. Complete column A below

(b) Did you know that you can.... ?
Read out those that were not spontaneously mentioned, and complete column B below

	(A) unprompted	(B) prompted	
(1) approach the lender / bank to negotiate terms of payment	1	Y	N
(2) sell the property and buy a cheaper house	2	Y	N
(3) get help from an organisation in moving to a property you can afford	3	Y	N
(4) rent part of your property (like a room or outbuilding) to get money	4	Y	N
(5) rent out the whole house and move to another property you can afford	4	Y	N
(6) other [specify]	5		

21 (a) If you buy a house but later feel that you want to upgrade to a better house, what will you do?
DO NOT PROMPT. Complete column A below

(b) Did you know that you can.... ?
Read out those that were not spontaneously mentioned, and complete column B below

	(A) unprompted	(B) prompted	
(1) sell the property and get another loan to buy another house	1	Y	N
(2) use the original property as a form a security for a new loan	2	Y	N
(3) rent out the original property and buy a new house	3	Y	N
(5) other [specify]	4		

22 If you had R20 000 cash to spend on your housing needs, what would you use it for? [Unprompted]

1	buy a house
2	put down a deposit on a house
3	buy a piece of land and build a house
4	improve, renovate or extend this current house
5	other: _____

23 If a bank was prepared to lend you R50 000 to buy a house, would you prefer to pay it back over a period of... [read out]

1	5 years,
2	10 years,
3	15 years, or
4	20 years

SECTION F: DEMOGRAPHIC DETAILS

24 (a) What is your marital status [Read out]			
1	single		
2	single - living with partner		
3	married by customary law		
4	married by western law		
5	engaged to marry		
6	divorced or separated		
7	widowed		
SELF Partner			
(b) Gender (M/F)			
	SELF Partner		
(c) What is your age?			
	SELF Partner		
(d) What level of education have you completed?			
(e) And your partner / spouse?			
SELF Partner			
1	none	1	1
2	up to Std 2 / Gr 4	2	2
3	Std 3 - Std 5 / Gr 5-7	3	3
4	Std 6 - Std 9 / Gr 8-11	4	4
5	Matric / Grade 12	5	5
6	Diploma - Technikon	6	6
7	Degree - University	7	7
8	any other skills training	8	8

25 (a) Which of the following best describes your current employment status? [Read out]			
(b) And your partner / spouse?		SELF	Partner
1	formally employed	1	1
2	informally employed	2	2
3	self employed	3	3
4	unemployed - looking for work	4	4
5	stay at home by choice / housewife	5	5
6	retired with pension fund	6	6
7	retired without pension	7	7
8	too ill to work - has disability grant	8	8
9	too ill to work - no disability grant	9	9
10	studying full time	10	10

25 Where do you plan to retire? [Read out all]	
1	your own home at the place where you grew up
2	your family's home at the place where you grew up
3	your own home somewhere else but not where you grew up
4	your family's home somewhere else but not where you grew up
5	to a home you will build specially for your retirement
6	the area where you are living now but not the same house
7	the house where you are living now
8	don't know / haven't decided
9	other [specify]

26 (a) Please think about the other members of your household where you are living now. What is their relationship to you and how many of each type of household member is there?			
<i>Complete column A below</i>			
(b) Now please think about your household in the new property you want to move to. By this I mean all those who will move to the new house when you find a house, including those currently living elsewhere. What is their relationship to you, and how many are there?			
<i>Complete column B below</i>			
<i>[write in number]</i>			
	(A)	(B)	
	this home	new home	
(1)	spouse / partner		
(2)	own children		
(3)	father / mother / in-laws		
(4)	sister / brother		
(5)	cousin / aunt / uncle / neice / nephew		
(6)	other relatives		
(7)	friends		
(8)	tenants / people who rent a room		

SECTION G: INCOME & EXPENDITURE

27 Thinking now only about yourself and your partner / spouse if you have one, what is the total income earned before tax and other deductions - including money from self / informal employment, pensions and investments? Please remember that this information is completely confidential.

<i>Self</i>	<i>Spouse / partner</i>
-------------	-------------------------

28 After tax and all deductions, how much money did you and your spouse / partner earn last month from... *[read out one at a time]*

(1) take home salaries from formal employment?	R <input style="width: 80%;" type="text"/>
(2) income from self / informal employment?	R <input style="width: 80%;" type="text"/>
(3) rental from lodgers and tenants?	R <input style="width: 80%;" type="text"/>
(4) money from family members living elsewhere?	R <input style="width: 80%;" type="text"/>
(5) drawings from UIF (Unemployment Insurance Fund) or maternity?	R <input style="width: 80%;" type="text"/>
(6) Pensions and disability grants?	R <input style="width: 80%;" type="text"/>
(7) Other sources? (specify)	R <input style="width: 80%;" type="text"/>

29 Thinking about deductions made from your and your spouse's salary from formal employment, which of the following are taken off your salaries (deducted) before you receive your money, and how much is deducted monthly?

(1) repayments of housing bond / home loan	R <input style="width: 80%;" type="text"/>
(2) tax	R <input style="width: 80%;" type="text"/>
(3) repayment of loan from pension / provident fund	R <input style="width: 80%;" type="text"/>
(4) repayment of personal loan from employer	R <input style="width: 80%;" type="text"/>
(5) anything else? (pension fund contributions, etc)	R <input style="width: 80%;" type="text"/>
<i>(specify):</i> <input style="width: 90%;" type="text"/>	

30 Are either you or your spouse/partner eligible for housing assistance (eg. a subsidy) from your employer?

	Yes	No	
--	-----	----	--

If yes ask: What type of assistance would you or your partner be able to get?

31

a) Which of the following are you currently paying regularly? *[read out one at a time - complete column (a)]*

b) When do you expect to finish paying them back? *[read out each circled item and complete column (b)]*

[read out each circled item]

(a)	(b)				
	within 1 year	2-5 years	5-10 years	> 10 years	don't know
1 Vehicle instalments (if you bought a vehicle)	1	2	3	4	5
2 Hire purchase / lay-buy accounts	1	2	3	4	5
3 Bond / home loan repayments	1	2	3	4	5
4 Other loans from banks / money lenders	1	2	3	4	5
5 Loan from provident / pension fund	1	2	3	4	5
6 Personal loans (from employer, family, friends)	1	2	3	4	5
7 Clothing accounts (Edgars, Sales House, etc.)	1	2	3	4	5
8 Credit Card accounts (Mastercard, Visa, etc)	1	2	3	4	5
9 Furniture accounts / lay buys / hire purchase	1	2	3	4	5
10 other accounts (please specify)	1	2	3	4	5

33 Which of these items are bought or paid for regularly in this household?					
34 On average, how much do you spend on this item per week, per month, or per year? [write expenses into appropriate columns]					
INTERVIEWER: READ OUT FULL DESCRIPTION OF EACH ITEM:	Buy / pay regularly (circle)	HOW OFTEN & HOW MUCH?			OFFICE (month)
		PER WEEK	PER MONTH	PER YEAR	
MAIN HOUSEHOLD GROCERIES all food, washing / cleaning products / etc. from a supermarket, vegetable store, general dealer, butcher, etc.	1	(R) WEEK	(R) MONTH	(R) YEAR	
TOP UP GROCERIES bread, milk, things you run out of	2	WEEK	MONTH	YEAR	
CHEMIST ITEMS medicines, cosmetics, etc. from chemist	3	WEEK	MONTH	YEAR	
MEDICAL & DENTAL EXPENSES hospital, clinic, doctor, inyanga, dentist - treatment and medicines	4	WEEK	MONTH	YEAR	
FUEL FOR COOKING / HEATING coal, wood, paraffin, gas (not petrol)	5	WEEK	MONTH	YEAR	
VEHICLE INSTALLMENTS for own vehicle's) - paying off purchase price	6	WEEK	MONTH	YEAR	
PETROL & VEHICLE MAINTENANCE for own vehicle's) - services, parts, etc.	7	WEEK	MONTH	YEAR	
PUBLIC / OTHER TRANSPORT for the whole family - not own vehicle	8	WEEK	MONTH	YEAR	
EDUCATION school fees, uniforms, books, stationery, etc.	9	WEEK	MONTH	YEAR	
BUYING CLOTHES include all clothing accounts (not school uniforms)	10	WEEK	MONTH	YEAR	
MAINTAINING CLOTHES dry cleaners, tailors, shoe repairs, etc	11	WEEK	MONTH	YEAR	
FURNITURE & HOUSEHOLD EQUIPMENT including accounts, hire purchase, lay-buys	12	WEEK	MONTH	YEAR	
INSURANCE household goods, car (not life insurance)	13	WEEK	MONTH	YEAR	
STOKVEL, BURIAL SOCIETY, CHURCH, all contributions to societies & organisations	14	WEEK	MONTH	YEAR	
SAVINGS & INVESTMENTS life assurance, building society, etc. (excluding st	15	WEEK	MONTH	YEAR	
DEPENDENTS AT HOME pocket money, etc (not clothes or school)	16	WEEK	MONTH	YEAR	
DEPENDENTS ELSEWHERE money you send to family members not living with you - including maintenance	17	WEEK	MONTH	YEAR	
BOND / RENT PAYMENTS	18	WEEK	MONTH	YEAR	
SERVICES water, electricity, rubbish collection, rates	19	WEEK	MONTH	YEAR	
TELEPHONE phone bills, public phones, cell phones	20	WEEK	MONTH	YEAR	
REPAYMENT OF LOANS FROM PENSION / PROVIDENT FUND (include monthly deductions from salary)	21	WEEK	MONTH	YEAR	
REPAYMENT OF LOANS FROM BANKS / MONEY LENDERS (excluding housing bond & car)	22	WEEK	MONTH	YEAR	
REPAYMENT OF PERSONAL LOANS from family, friends, employer, etc.	23	WEEK	MONTH	YEAR	
ENTERTAINMENT sports, movies, clubs, restaurants, etc	24	WEEK	MONTH	YEAR	
PERSONAL CARE hairdressers, beauticians, psychologist	25	WEEK	MONTH	YEAR	
ALCOHOL & TOBACCO PRODUCTS shebeens, beer halls, cigarettes, snuff, etc.	26	WEEK	MONTH	YEAR	
HOME ENTERTAINMENT videos, tapes, CD's, books, magazines, etc.	27	WEEK	MONTH	YEAR	
HOLIDAYS travelling, accommodation & treats	28	WEEK	MONTH	YEAR	

Annexure: C: QUESTIONNAIRE: Key Stakeholder Interviews

Questionnaire: PHD Study: Key Stakeholder Interviews

Questionnaire Number

Final Respondents Name

Gender

Age

Introduction

Purpose of interview

Confidentiality

General Questions

Province	
Gauteng	1
KwaZulu Natal	2
Western Cape	3
Eastern Cape	4
Northern Province	5
Free State	6
Mpumalanga	7
Northern Cape	8
North West	9

Type of Institution Interviewed	
Large Bank	1
Small Bank	2
Micro-finance	3
Housing Association/ Institution	4
NGO	5
Government (Loc, Prov, Nat)	6
Consulting	7
Academic	8

Specific Questions

1.3 How would you define the low to moderate income housing market in South Africa?

Income levels	
R0 to R1 500.00	
R1 501.00 to R3 500.00	
R3 501.00 to R7 500.00	
R7 5001 +	

1.4 Keeping the above definition in mind, what influence or how successful has the National Housing Policy been in the delivery of new units in the low-income market?

Influence	Response
Very Successful	
Moderately Successful	
Not at All Successful	
Uncertain	
Other	

1.5 To what extent is the stock of existing homes available for resale in the low-income property market?

Availability of Secondary Stock	Response
Not Available	
Somewhat Available	
Available	
Quite Available	
Abundantly Available	

1.6 Is there a wide range of differently priced homes available to potential low-income homeowners?

Yes	No

1.7 Why do say that?

1.8 Does your institution play a role in the low- income housing market?

Yes	No

1.9 If not playing a role in this market, why is your organization not active in this market?

1.10 Describe the available products and loan sizes and relevance of these products offered by your organization.

Loan Product	Response
Mortgage	
Unsecured Micro Loan	
Secured Micro Loan	
Payroll Deducted Micro Loan	
Cash Collected Micro Loan	
Other	

Loan Sizes	Response
R0 to R1 500.00	
R1 501. 00 to R3 500.00	
R3 501. 00 to R7 500.00	
R7 501.00 to R10.000.00	
R10.000.00 to R20. 000.00	
R 20.001.00 to R50.000.00	
R50.001.00 to R80.000.00	
R80.001.00 +	

c) Relevance

1.11 Common belief is that potential homeowners cite credit as one of the main factors that impede delivery of housing. To what extent do you agree with this statement?

Fully Agree	Agree	Neither Agree nor disagree	Disagree	Completely Disagree Ddisagree
-------------	-------	-------------------------------	----------	----------------------------------

1.11.1 Why do you say that?

1.12 Can you briefly describe the housing credit granting process in your organization? (ask question if applicable)

1.13 How would you describe the performance of the secondary property market in the low-income segment of the market? Briefly explain your response.

V.Good	Good	Not v.Good	Poor
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1.13.1 Explanation

1.14 How would you describe the performance of the primary housing market in South Africa?

Very Good	Average	Poor
-----------	---------	------

1.15 What are major and challenges and problems that are being experienced by the different role-players.

1.16 To what extent are economic conditions and interest rates (product pricing) influencing the finance of low- income housing?

Probe

Probe

- 1.17 What do you think is required to ensure banks return to perform the function of mainstream housing lenders to this market?

Interventions	Response
Government Guarantee	
Risk sharing Instruments	
Enforcement of law and order	
Production of Assets (Subsidized Housing) priced on market principles	
Housing programme for the poor and indigent with no expectation of private involvement	
Change in Strategy toward LIH	
Change in credit criteria of lenders to manage risk	
Change in attitude and skills of bankers to deal with LIH market	

- 1.18 Do you think the non-bank lenders have a role to play in housing finance in this market?

YES	NO

Explain?

- 1.19 What national policy changes would you recommend to improve the delivery of housing finance?

Policy Changes	Response
Promote Demand driven Subsidies	
Introduce Community Reinvestment legislation	
Link subsidies to credit	
Allocate subsidies to wider income range (R0 to < R10.000.00)	
Promotion of site and service schemes	
Private model for Social Housing	
More risk sharing from Government	

1.20 How can the role of the housing parastatals be enhanced to facilitate greater flow of private capital in low income-housing finance?

1.21 Does local government play in the delivery of housing for low-income earners?

YES	NO

1.22 What do you believe the function of local government to be in the finance of housing for designated income groups?

1.20.1 How would they go about doing this?

1.21 Do you have any other suggestions on how financing of this sector can be stimulated?

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