



THE BANKING
ASSOCIATION
SOUTH AFRICA

RURAL HOUSING LOAN FUND

17 November 2008



- Welfare vs part welfare/part finance vs finance only
 - **Welfare = indigent (up to poverty line)**
 - **Finance = ability to repay debt over a period of time**
- Sustainable human settlements:
 - **Economic infrastructure (job opportunities, skills training)**
 - **Physical infrastructure (housing, basic services, public transport, shops)**
 - **Social infrastructure (health, education, safety & security, title)**
 - **Environmental infrastructure (land, air, materials, basic services)**
- Deepening market penetration by lenders
 - **Increase provision of intermediated housing, alternative tenure & incremental construction**
 - **Re-engineer housing value chain**
 - **Performance measurement**
 - **Legislative & regulatory reform**
 - **Capacity building along full housing value chain**
 - **Competition**
 - **Innovation**
 - **Government support (subsidies, tax incentives, cost of land acquisition/provision of services, materials discounts)**

LEARNINGS

TIME = RISK = COST

SKILLS (professional & artisan)

MATERIAL SUPPLIES

BASIC SERVICES INFRASTRUCTURE IS A PREREQUISITE (BULK & LINK)

IS WHAT IS BEING DELIVERED SUSTAINABLE ?

BENEFICIARY INVOLVEMENT - FINANCIAL, SWEAT EQUITY (NO FREEBIES)

DELIVERY AT SCALE

ENABLING & APPROPRIATE POLICY + GOVT. DEPARTMENTAL INTEGRATION

LENDERS (STAFF, OUTLETS, PRODUCTS)



Housing in South Africa

Dependant on Government for 'social' housing (7m hseholds)

Underserved* 'commercially-viable' market (2-4m hseholds)

Functioning market (3-4m hseholds)

Total = 12-14m hseholds (45m people)

Financial Sector Charter target market

- 2-4m households earning between R1 500 and R7 500 (+CPIX) monthly household income
- 2008 FSC targets

Rbn	Without Govt support
Origination	42
Targeted investment	
• Banks	8
• Other F/S	24

Focus of Government/Private Sector partnership

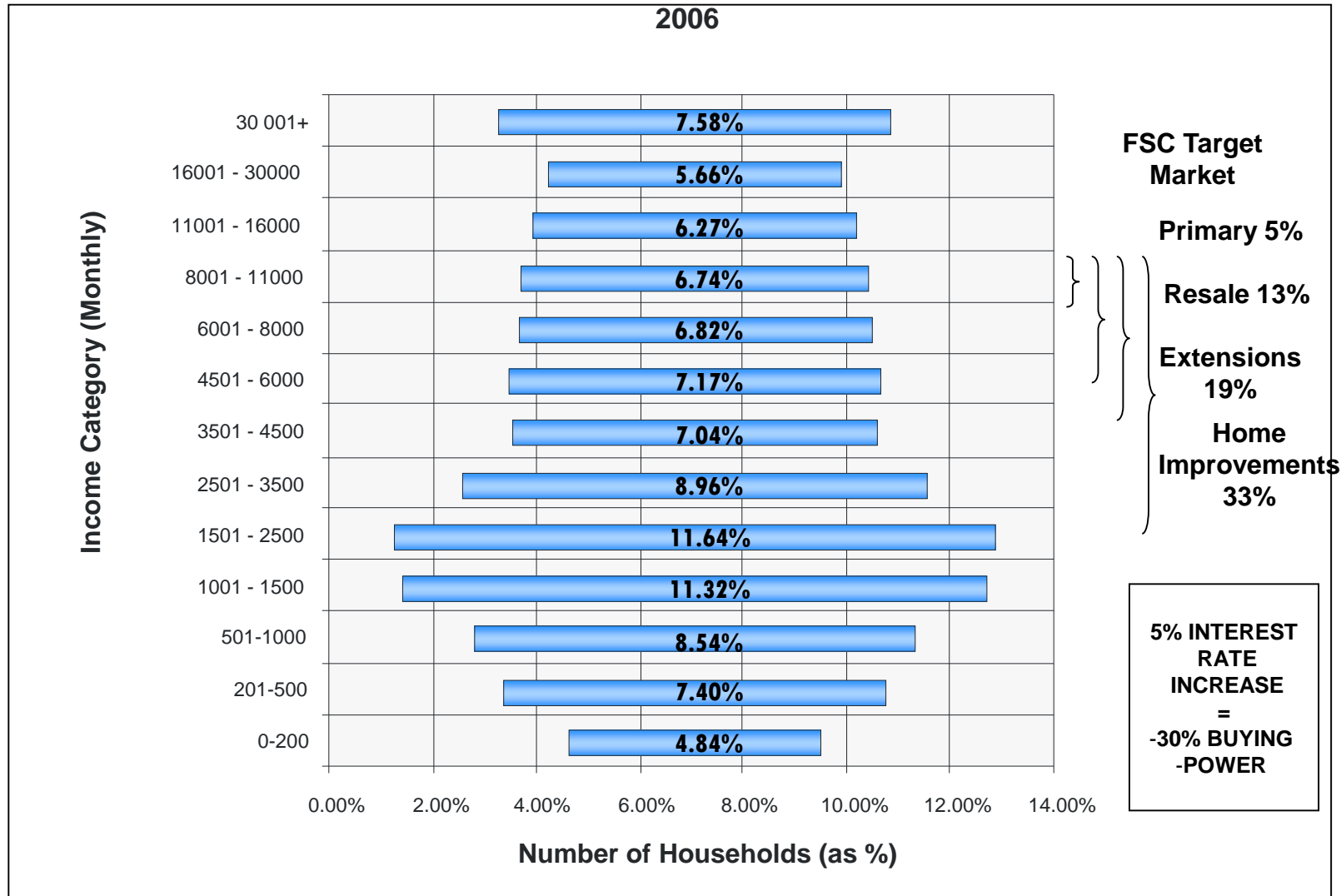
Doorway to success of BNG philosophy

* Sub-standard infrastructure and services, poor community governance, and an undesirable social environment are currently barriers to lending



INCOME PROFILE

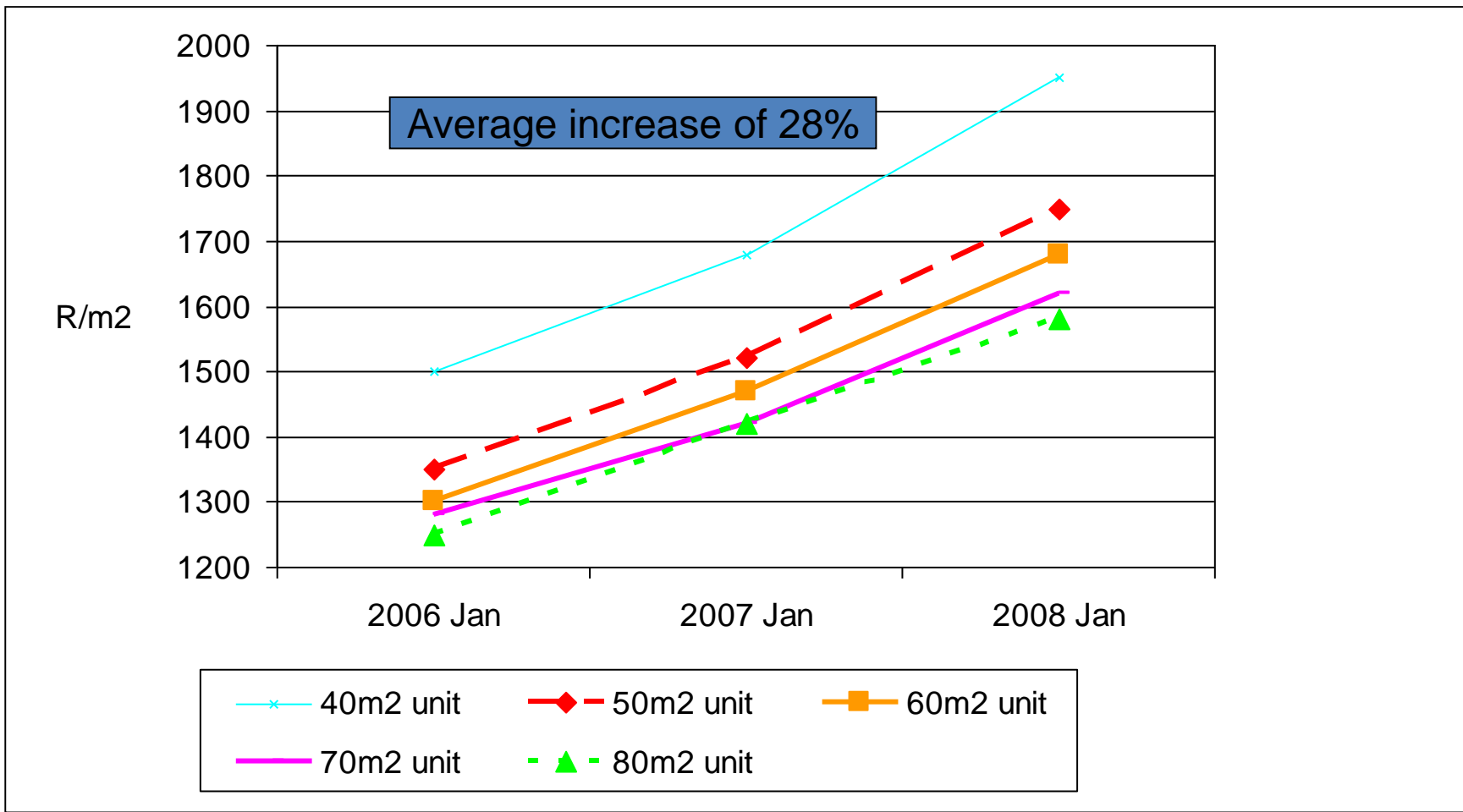
Households (%) by Household Income Category



Source: Global Insight



GROWTH IN BUILDING COSTS m² FOR AFFORDABLE HOUSING UNITS

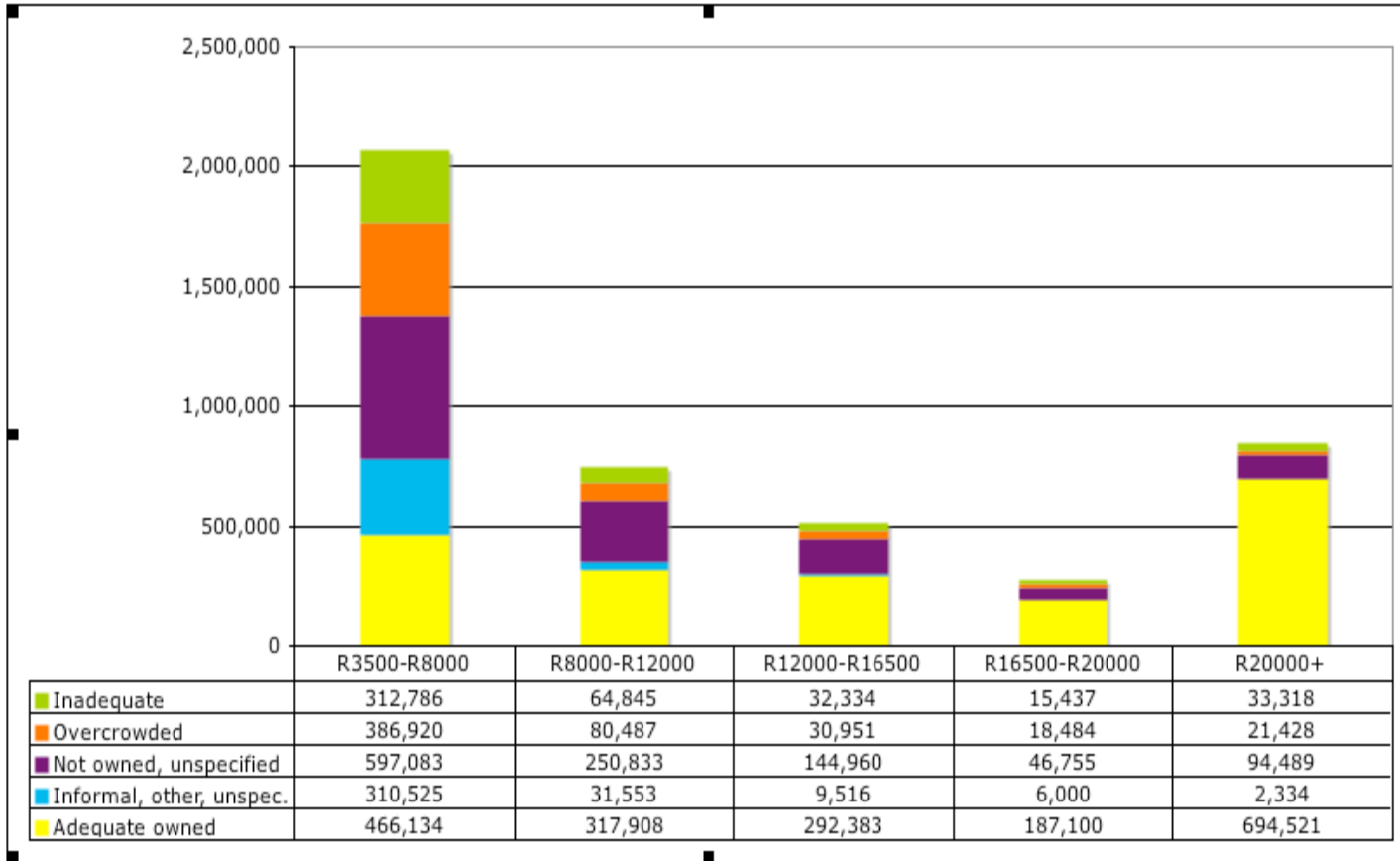


Source Viruly Consulting





Housing conditions for households earning above R 3500 per month





SIX CRITICAL SOLUTION COMPONENTS ARE INITIALLY REQUIRED TO ADDRESS THE MISSING INGREDIENTS TO EMPOWER LOW-INCOME BORROWERS TO ACCESS HOUSING FINANCE

Missing ingredients

- Access
- Affordability
- Realisable property value



Critical components of proposed solution

1. Lenders must be committed (staff, outlets, products)
2. Effective and efficient finance-linked housing subsidy scheme (mortgages/non-mortgages) to increase affordability in the low-income sector including removal of pre-emptive clause
3. Loss Insurance (LI) function to provide appropriate risk underpin for collateral deficiency (catastrophe)
4. Affordable long term fixed interest rate
5. Coordinated effort to establish fully functional housing markets
6. Coordinated consumer / borrower communication and education program

All six components are required (PPP) to effectively address the missing ingredients in a sustainable manner





REALISABLE SECURITY VALUE IS ESSENTIAL TO MAKE HOME LENDING POSSIBLE (AND AFFORDABLE TO BORROWERS)

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Home Loan Finance needs

- Reasonable size loan
- Repayment spread over many years to make instalment amount affordable
- Lowest possible interest rates

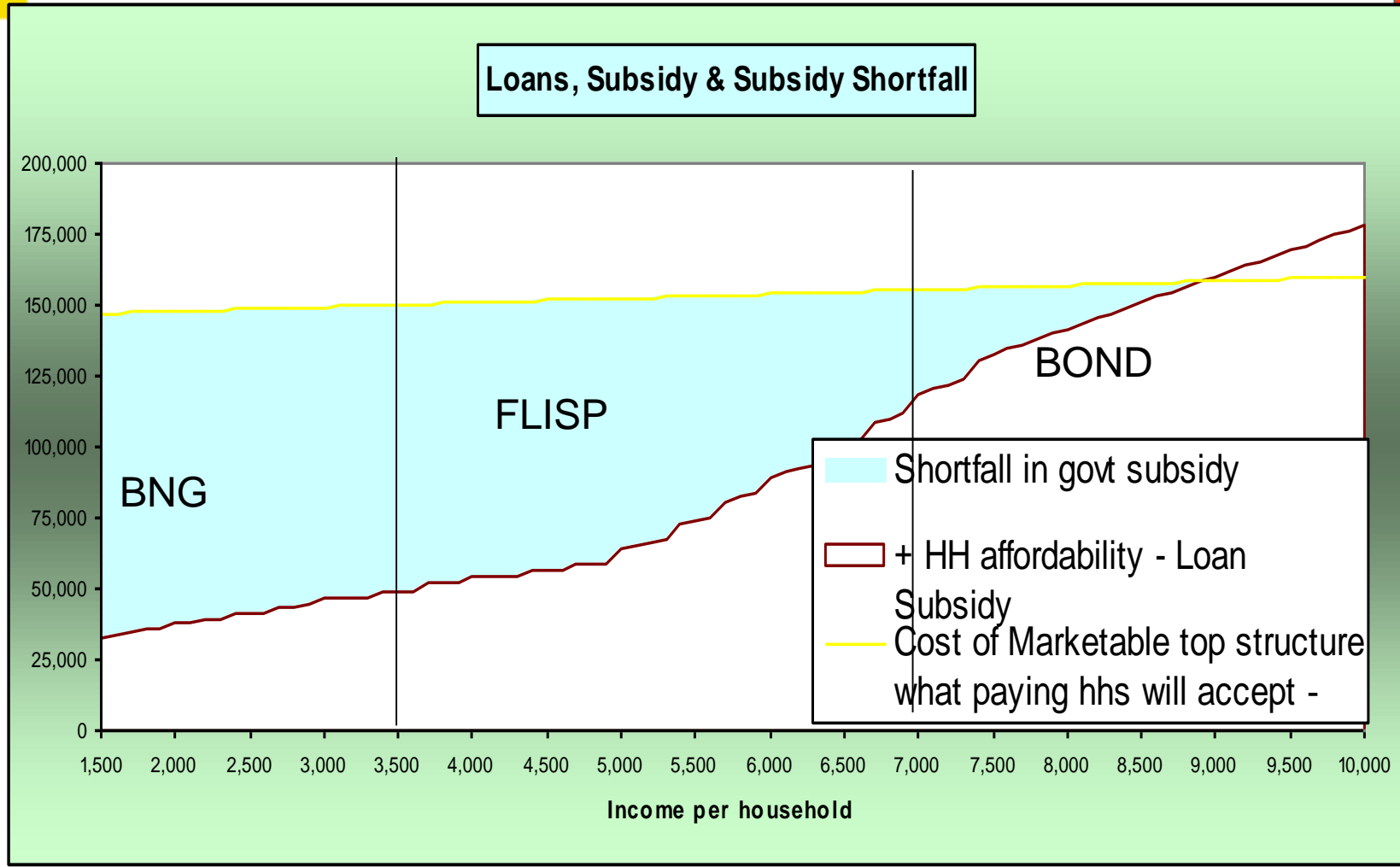
Therefore to make lending possible...

- Attempt to predict borrower income/affordability well into the future
- Lower risk premium (and thus lower rate) achieved because security value is realisable

Unable to do this business if ...

- Income is not predictable
 - Security cannot be attached and value realised
- 

LOANS, SUBSIDY & SUBSIDY SHORTFALL



FSC ORIGINATION ACHIEVEMENTS (BIG 4)

Value of loans

	Mortgage	Fully Guaranteed	Unsecured	Developer	Wholesale	Total
2004	7,262	1,013	338	88	658	9,359
2005	6,045	1,083	552	530	828	9,037
2006	6,319	1,181	216	954	1,016	9,686
2007	5,775	795	1,221	1,211	906	9,908
2008Q1	966	127	373	97	71	1,634
2008Q2	772	171	396	173	65	1,577
Total	27,139	4,369	3,096	3,052	3,545	41,201

Number of loans

	Mortgage	Fully Guaranteed	Unsecured	Developer	Wholesale	Total
2004	57,324	56,106	40,660	2	35,124	189,216
2005	53,159	58,787	51,720	39	45,974	209,679
2006	43,721	59,635	30,736	166	53,677	187,935
2007	55,287	38,212	94,265	88	33,023	220,875
2008Q1	9,235	3,089	26,783	35	1,234	40,376
2008Q2	6,855	6,458	29,878	27	2,321	45,539
Total	225,581	222,287	274,042	357	171,352	893,619

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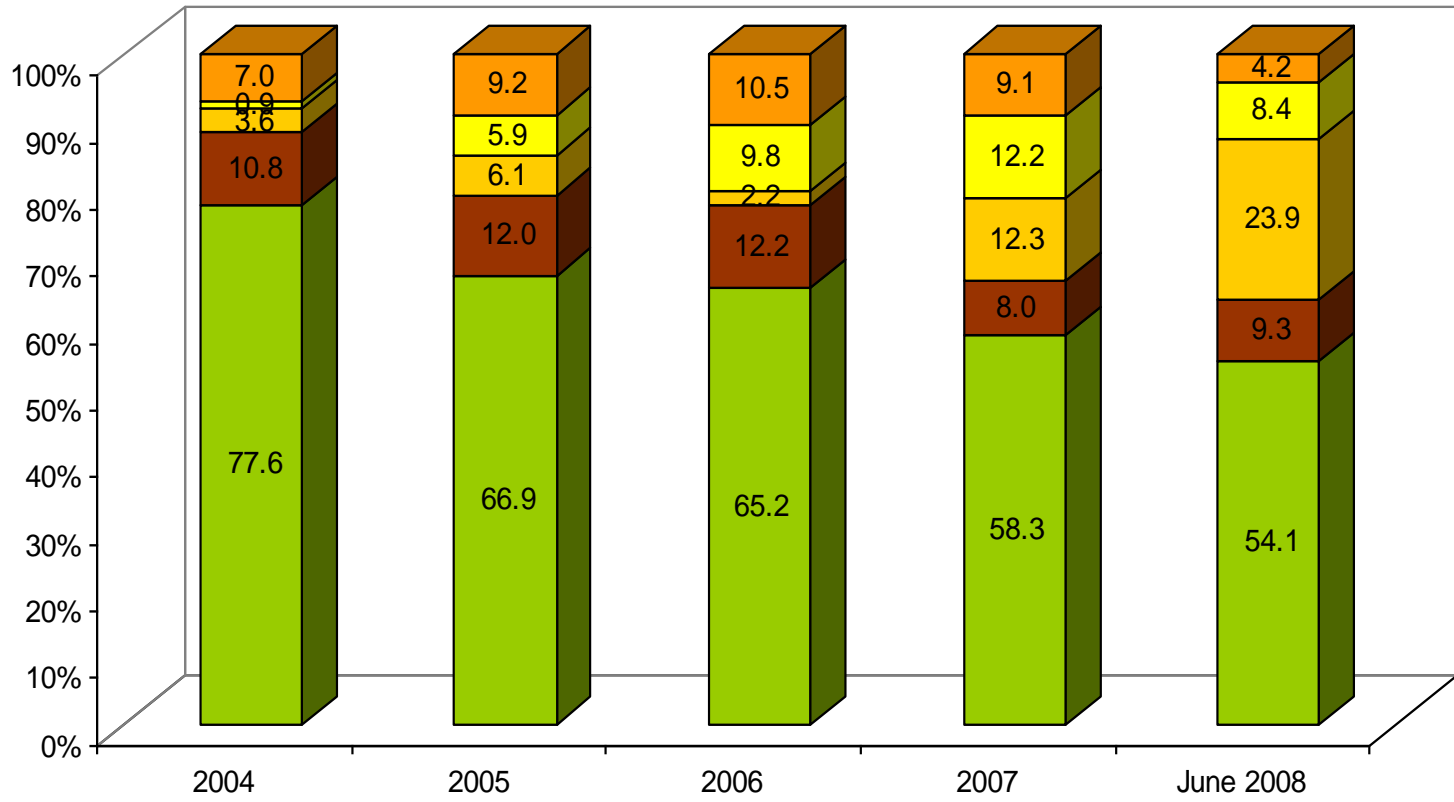
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11 100





NUMBER OF LOANS

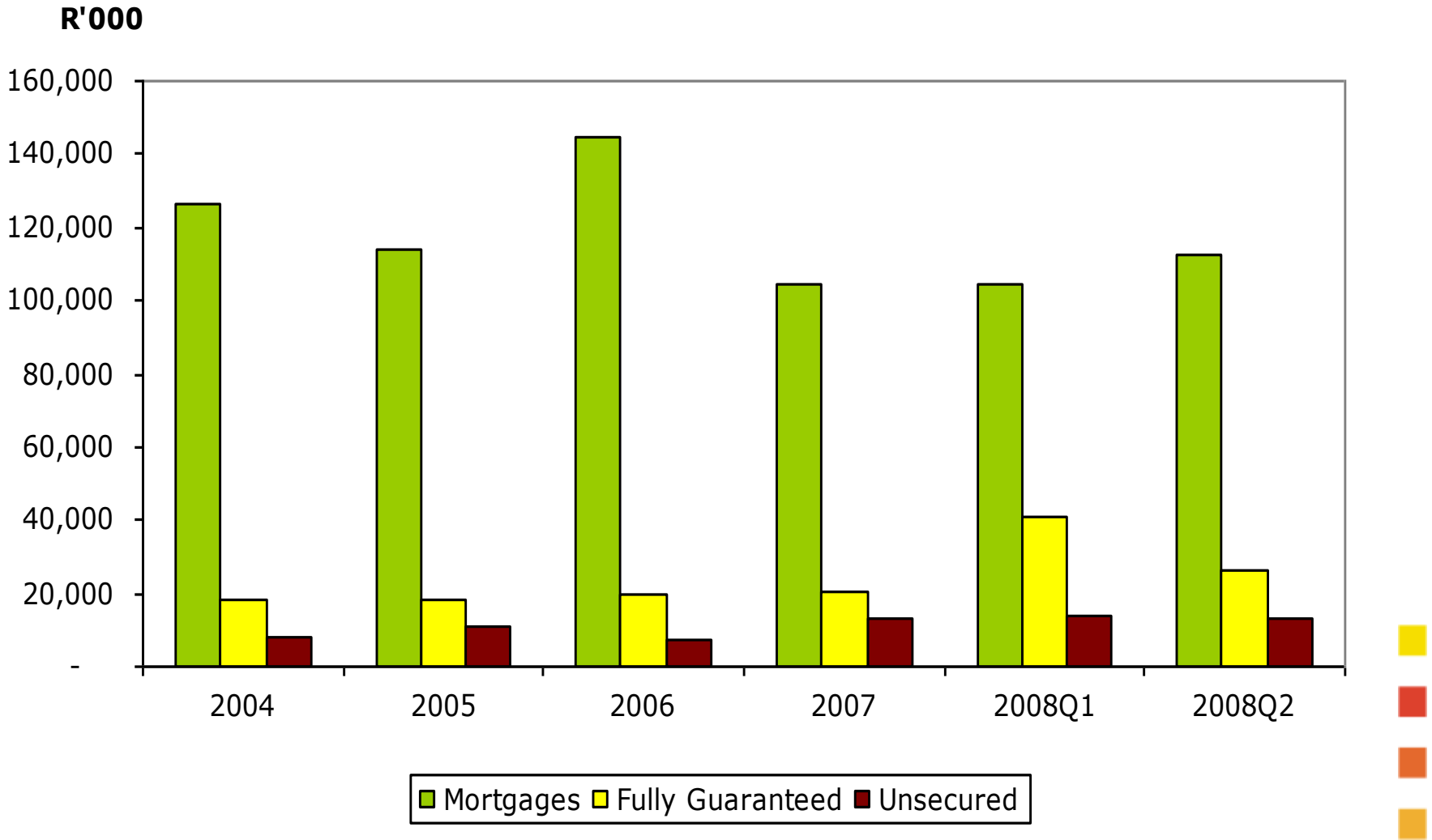


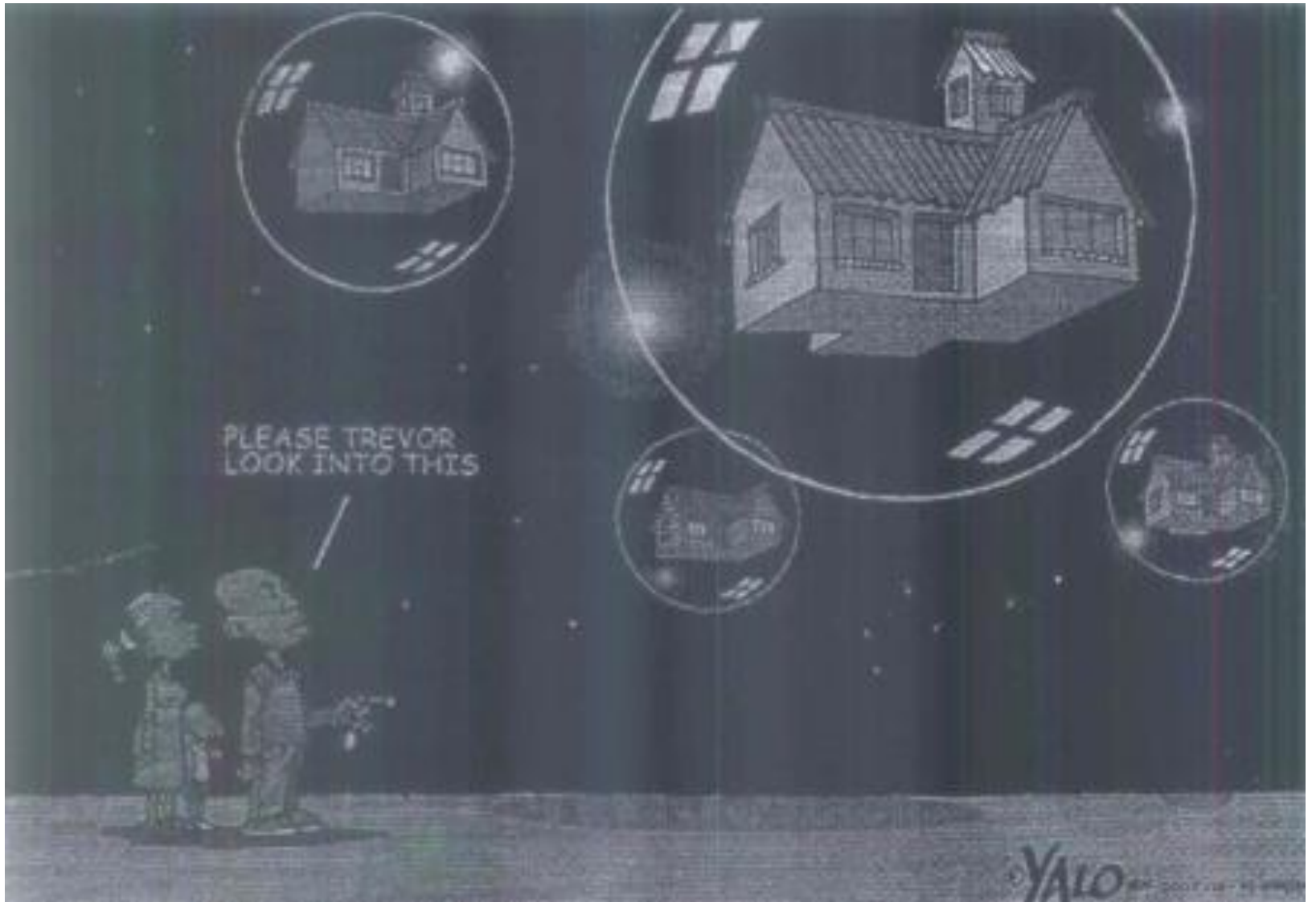
■ Mortgage ■ Fully Guaranteed ■ Unsecured ■ Developer ■ Wholesale





AVERAGE LOAN SIZE







THANK YOU

