

# Housing, saving & the bridge in between

Second Economy Strategy  
*Addressing Inequality & Economic Marginalization*

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# Background: Housing finance policy in SA



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# Background: 1994 housing challenge

- Low levels of income  
(1994 Housing White paper estimates)

Income category	Percentage	Number households
> R3,500	13,9%	1,15m
R2,500 – R3,500	5,6%	0,46m
R1,500 – R2,500	11,8%	0,98m
R 800 – R1,500	29,0%	2,42m
R 0– R 800	39,7%	3,30m
		8,30m

- Duplicated and poorly targeted subsidies
- Lack of end-user finance
  - Lack of appropriate retail lending capacity
  - Reluctance of formal financial institutions to lend in certain areas and to certain groups

- Socio-political and environmental issues
  - High expectations
  - Lack of consumer protection
  - Poor consumer education
  - Low levels of household expenditure dedicated to housing (est. 9% - Mayo)
  - Limited perceptions of housing: especially as an investment
  - Non-payment
  - Crime and violence
  - Other issues, such as traditional tenure

# Players and products: Different kinds of lending for housing



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# Players & Products

## ■ End user finance

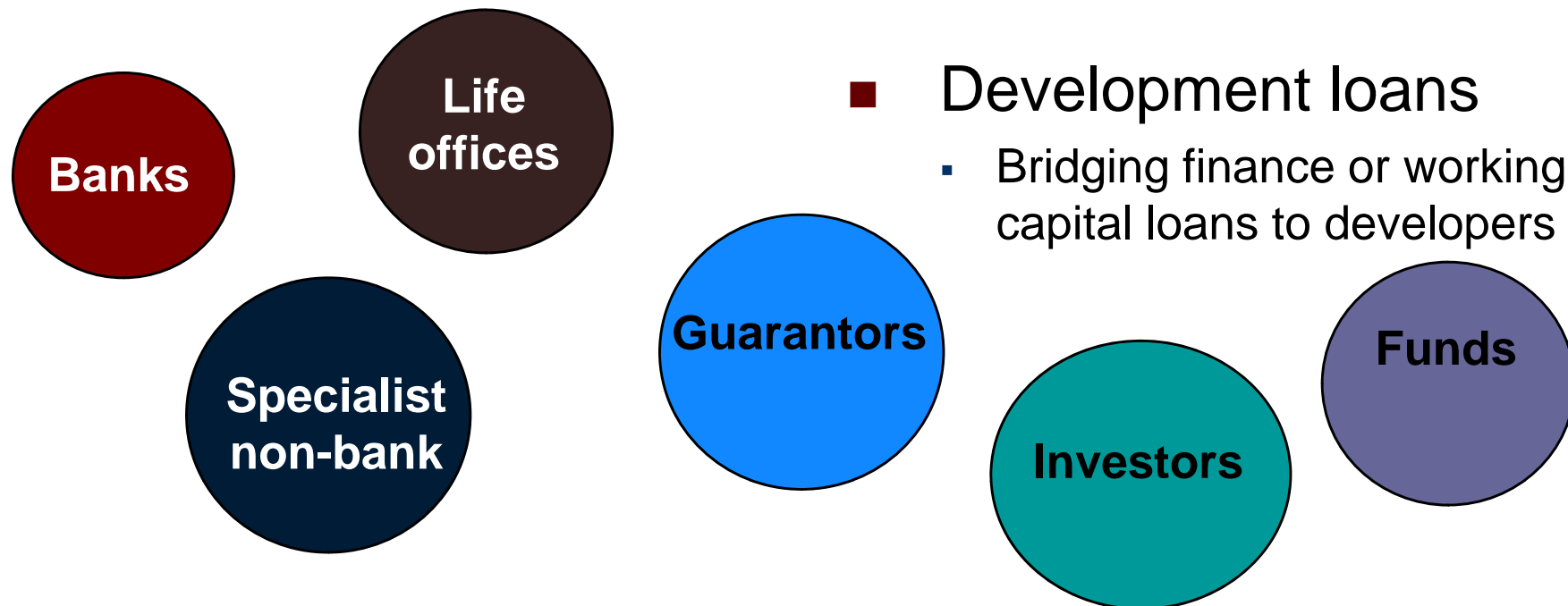
- Mortgage loans
- Pension-backed loans
- Micro loans

## ■ Wholesale finance

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

## ■ Development loans

- Bridging finance or working capital loans to developers



# Mortgages

## Standard Bank Dream Start Home loan

	Home loan for housing
Basic product description	<ul style="list-style-type: none"> <li>■ Home loan</li> <li>■ Can be used if for buying/building a new home</li> </ul>
Client requirements	<ul style="list-style-type: none"> <li>■ Minimum age: 18</li> <li>■ Proof of ID</li> <li>■ Sound credit history</li> <li>■ Proof of income: 6 months bank statement and latest salary slip if applicable</li> <li>■ Monthly income: R1 500 – R 6 000 joint income</li> <li>■ Proof of residency</li> <li>■ Expenditure statement</li> </ul>
Loan size	<ul style="list-style-type: none"> <li>■ Dependent on affordability as determined by the bank</li> </ul>
Loan term	<ul style="list-style-type: none"> <li>■ Minimum: 5 years</li> <li>■ Maximum: 30 years</li> </ul>
Collection method	<ul style="list-style-type: none"> <li>■ Cash or cheque at Standard Bank branch</li> <li>■ Debit order</li> <li>■ EFT</li> </ul>
Property / loan use requirements	<ul style="list-style-type: none"> <li>■ Proof of property: title deed</li> </ul>

# Pension backed loans

## FNB Smart Housing Plan

	Pension backed loan
Basic product description	<ul style="list-style-type: none"> <li>Flexible housing finance</li> <li>Pension fund savings used as security for loan</li> <li>Agreement with bank, employer, and pension fund</li> </ul>
Client/Company requirements	<p><b>Clients:</b></p> <ul style="list-style-type: none"> <li>Minimum age of 21</li> <li>Employed and contributing to pension fund for at least one year</li> <li>Applicant must be able to afford the loan instalment as per the NCA</li> </ul> <p><b>Company:</b></p> <ul style="list-style-type: none"> <li>Workforce of at least 50 employees</li> <li>Agreement of pension fund trustees to provide loans or guarantees</li> </ul>
Loan size	<ul style="list-style-type: none"> <li>Minimum loan size: R5 000</li> <li>Maximum loan size: Up to 80% of the after-tax benefits in the fund, but depends on rules of the fund</li> </ul>
Loan term	<ul style="list-style-type: none"> <li>Minimum term: 12 months</li> <li>Maximum term: 20 years subject to the loan being repaid in full prior to retirement</li> </ul>
Installment and collection method	<ul style="list-style-type: none"> <li>Minimum monthly instalment: R100</li> <li>Collected via payroll deduction</li> </ul>
Property/ loan use requirements	<ul style="list-style-type: none"> <li>Some type of proof of ownership although a title deed is not necessary. In the case of tribal land a letter from the chief would suffice</li> <li>Housing can be informal</li> </ul>

# Home improvement loan

## Blue Home Improvement Loan

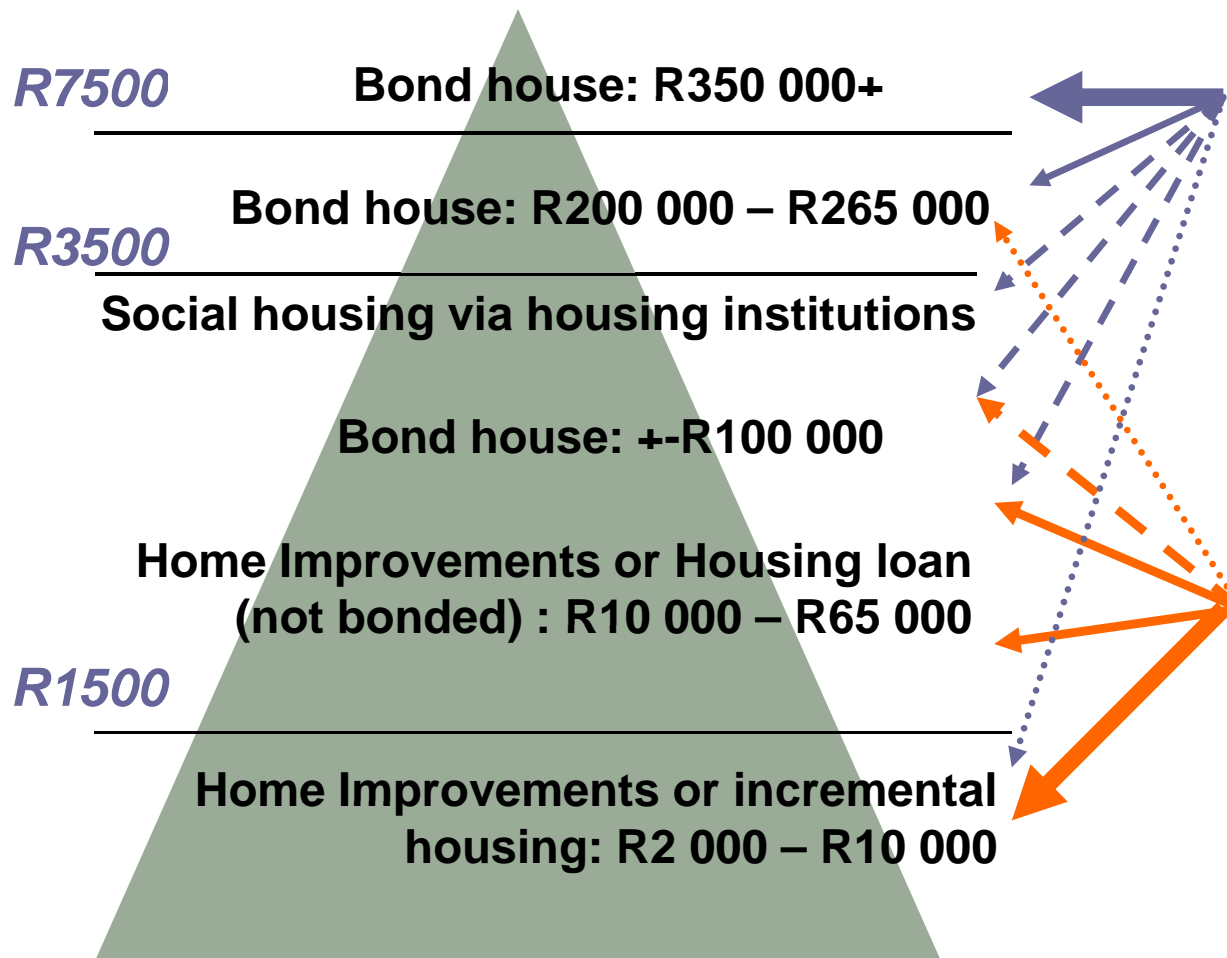
	Personal loan for home improvement
<b>Basic product description</b>	<ul style="list-style-type: none"> <li>■ Unsecured personal loan</li> <li>■ Used to purchase building material or for the payment of construction related costs</li> </ul>
<b>Client requirements</b>	<ul style="list-style-type: none"> <li>■ Minimum age: 18</li> <li>■ Proof of ID</li> <li>■ Proof of income: 3 months bank statement, most recent payslip</li> <li>■ Permanent employment for at least 1 year</li> </ul>
<b>Loan size</b>	<ul style="list-style-type: none"> <li>■ Minimum: R 1 000</li> <li>■ Maximum: R 15 000</li> </ul>
<b>Loan term</b>	<ul style="list-style-type: none"> <li>■ Minimum: 24 months</li> <li>■ Maximum: 36 months</li> </ul>
<b>Collection method</b>	<ul style="list-style-type: none"> <li>■ Debit order</li> <li>■ Payroll deduction</li> </ul>
<b>Property / loan use requirements</b>	<ul style="list-style-type: none"> <li>■ Credit is loaded onto the clients Blue Card which the client uses at a Cashbuild store to pay for products purchased</li> <li>■ Suppliers other than Cashbuild: valid quotation from the supplier is required. Blue pays supplier directly</li> <li>■ Property requirements – none</li> </ul>



# Unsecured loan

	Unsecured personal loan for housing
Basic product description	<ul style="list-style-type: none"> <li>■ Unsecured personal loan</li> <li>■ Can be used for housing purposes</li> </ul>
Client requirements	<ul style="list-style-type: none"> <li>■ Minimum age: 21</li> <li>■ Proof of ID</li> <li>■ Sound credit history</li> <li>■ Income source: wages or state pensions</li> <li>■ Proof of income: payslip or letter of employment for those who are formally employed, bank statements for at least 3 months for those who are employed in the informal sector</li> <li>■ Minimum personal income (employed): Minimum monthly income of R1 000</li> </ul>
Loan size	<ul style="list-style-type: none"> <li>■ Employed: R1 000 – R10 000</li> <li>■ Pensioner: R400 – R900</li> </ul>
Loan term	<ul style="list-style-type: none"> <li>■ Employed: 6 – 24 months</li> <li>■ Pensioner: 6 – 12 months</li> </ul>
Collection method	<ul style="list-style-type: none"> <li>■ Cash or cheque at selected retailers</li> <li>■ Debit order</li> </ul>
Property / loan use requirements	<ul style="list-style-type: none"> <li>■ None</li> </ul>

# Players & Products: Market focus



## Bank focus:

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

## Housing lender focus:

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

# Access frontier: How far is housing finance extending?



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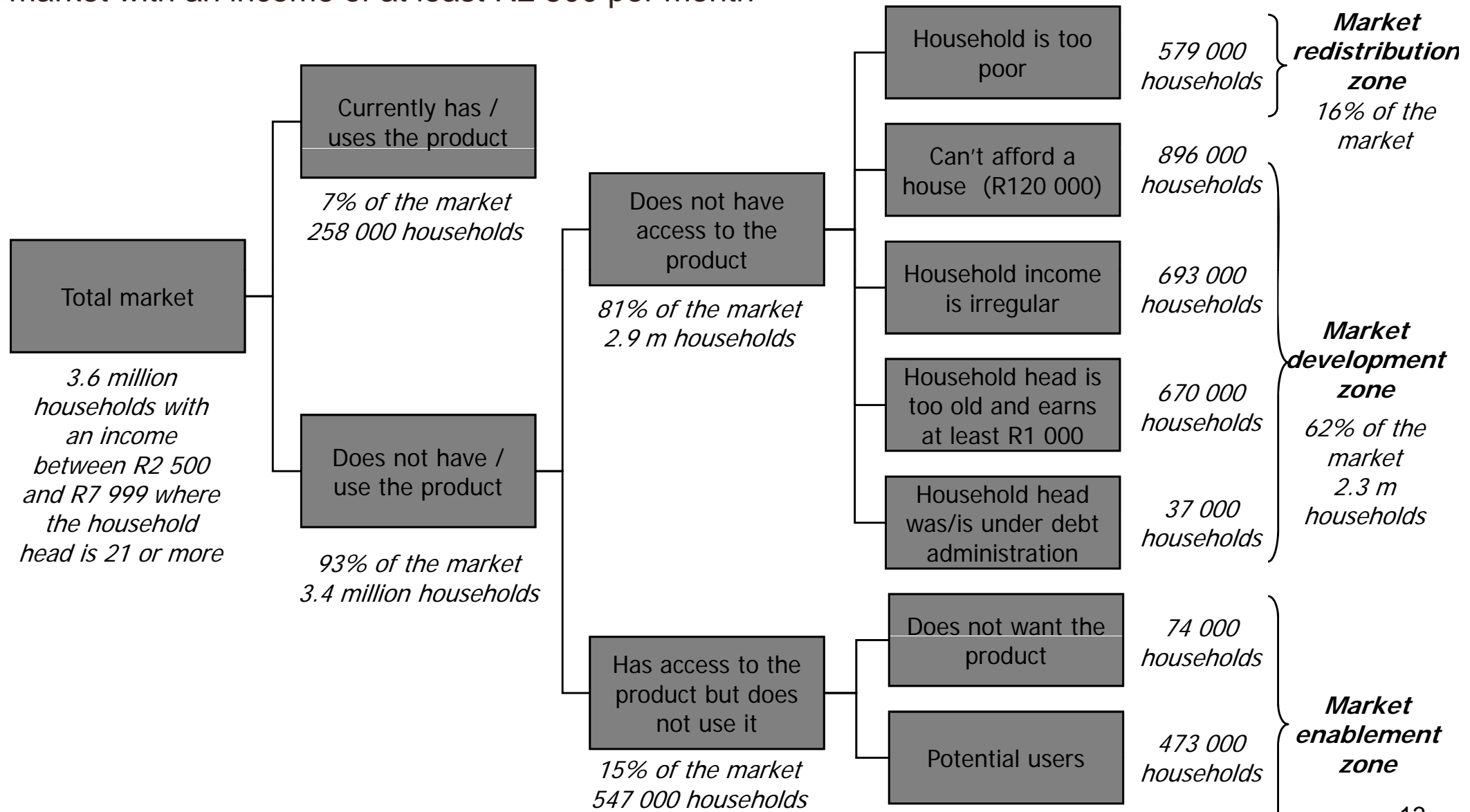
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## Access frontier: FSC lending has been good

Product	Number originated (Jan 04-31 Dec 07)	%	Value (R million)	%
Mortgage	209 491	26%	25 401	67%
Fully Guaranteed	212 740	26%	4 072	11%
Unsecured	219 906	27%	2 327	6%
Wholesale	167 797	21%	3 408	9%
Development loans	274	n/a	2 782	7%
<b>Total</b>	<b>810 209</b>	<b>100</b>	<b>37 990</b>	<b>100</b>

But success has not been widespread

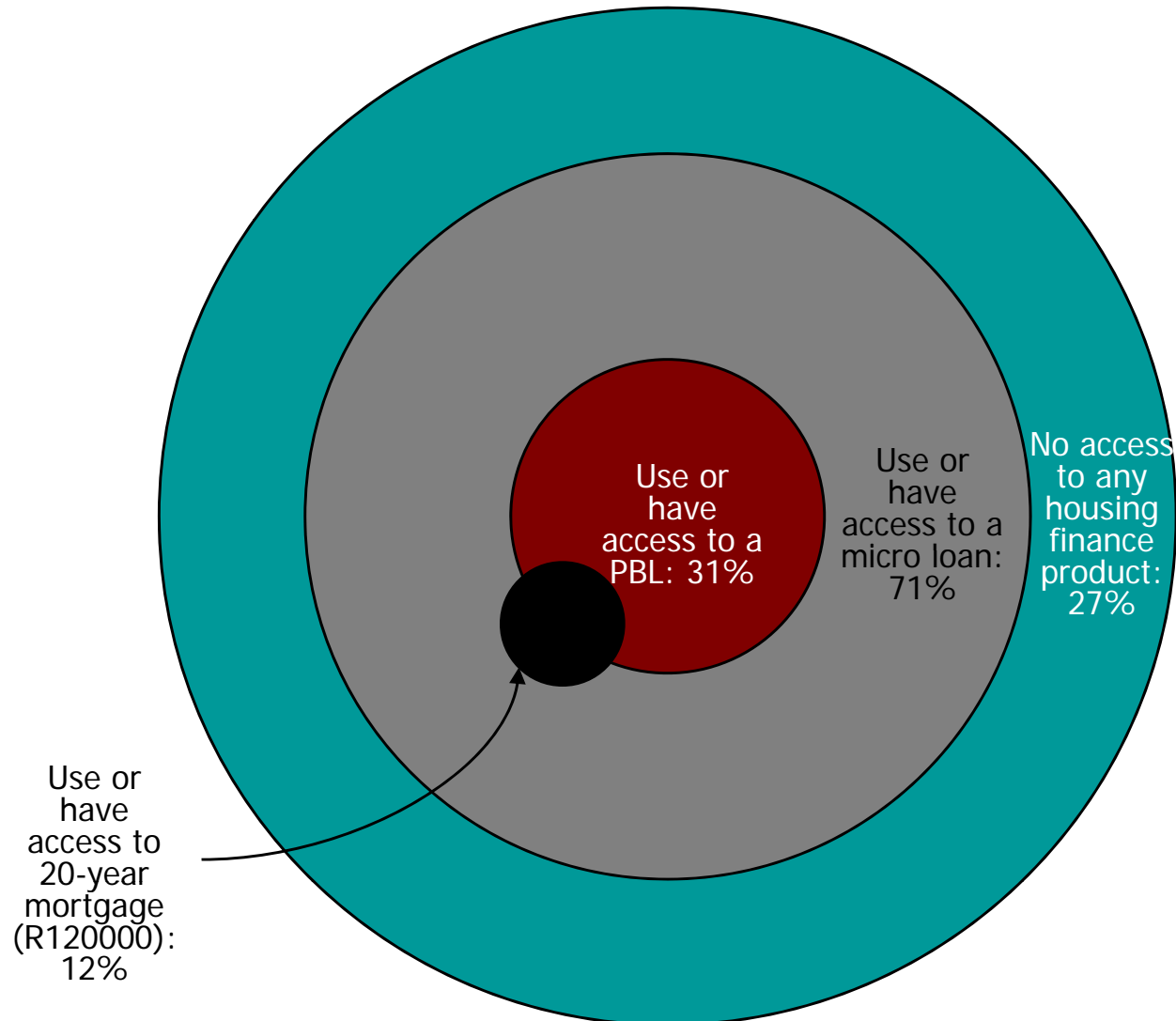
The analysis of access to mortgages is restricted to households in the target market with an income of at least R2 500 per month



It is estimated that around 27% of the market cannot access any housing finance products. Quantified constraints relate primarily to household well-being

***Estimated level of access to housing finance products in the FSC target market***

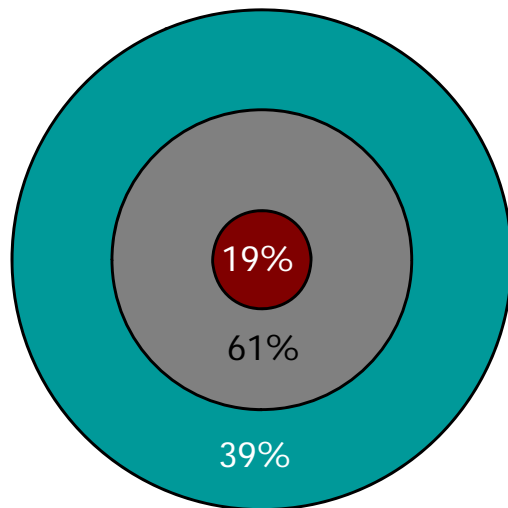
*(Households with an income of R1 500 – R7 999: 6.7 million households)*



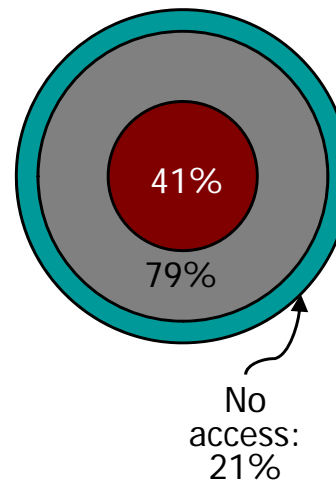
Access constraints appear to impact on higher income households as well, although the reliability of the estimates may be limited

***Estimated level of access to housing finance products in the FSC target market***  
*(By income sub-segment)*

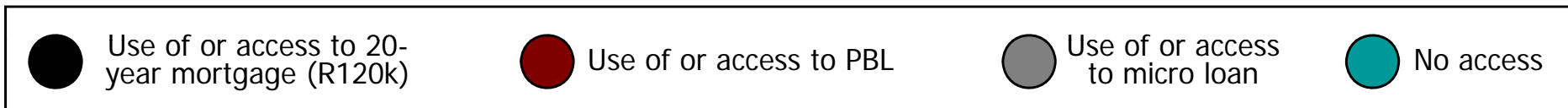
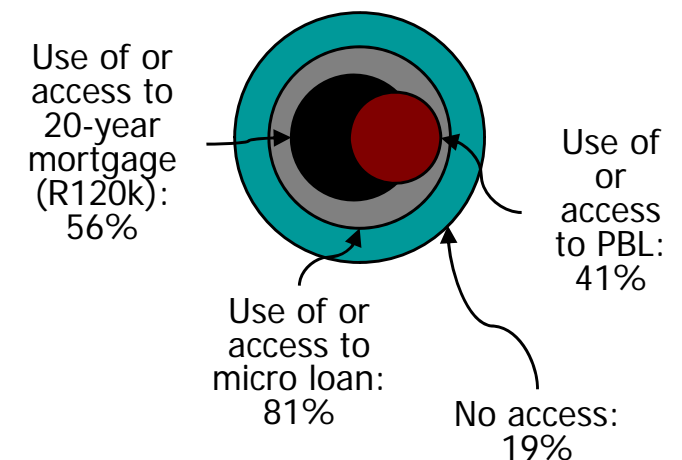
**Household income of R1 500 – R2 499**  
*(3 million households)*



**Household income of R2 500 – R4 999**  
*(2.3 million households)*



**Household income of R5 000 – R7 999**  
*(1.4 million households)*



# Market dynamics: At the heart of the problem

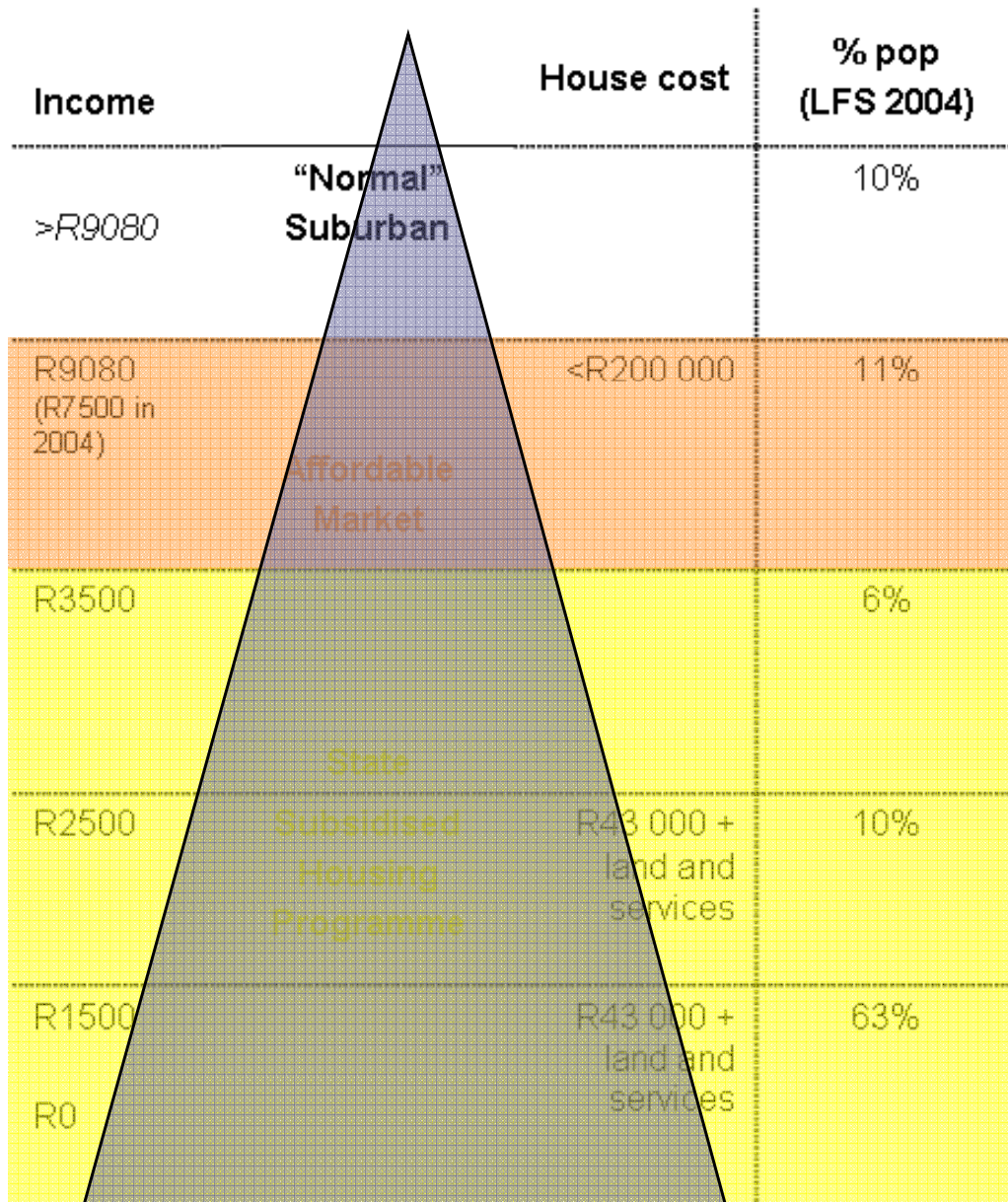


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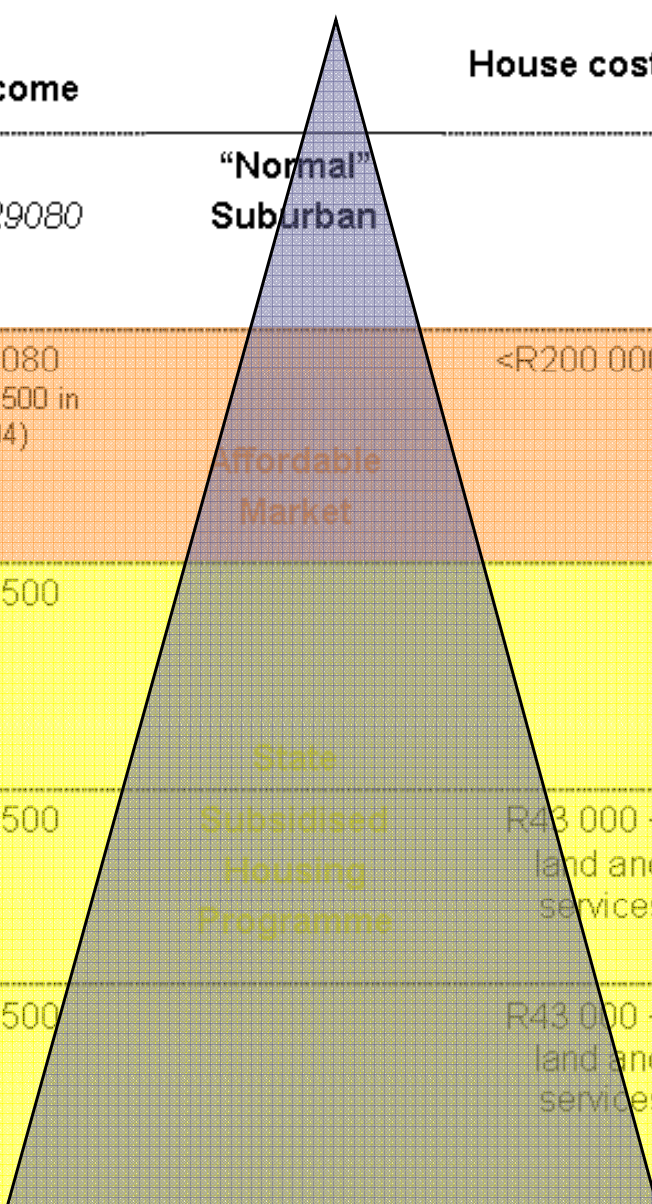


# Success?



# Success?

Income	House cost	% pop (LFS 2004)	Estimated backlog
>R9080		10%	None specified
R9080 (R7500 in 2004)	<R200 000	11%	± 650 000 units <R200 000 and growing
R3500		6%	About 2 million remaining: ± 2,3m subsidised units to date
R2500	R43 000 + land and services	10%	
R1500 R0	R43 000 + land and services	63%	



# Success?

Income	House cost	% pop (LFS 2004)	Estimated backlog	Ownership
>R9080		10%	None specified	Focus of delivery, rapid price escalation
R9080 (R7500 in 2004)	<R200 000	11%	± 650 000 units <R200 000 and growing	Average 20 000 – 30 000 units delivered annually
R3500		6%	About 2 million remaining:	No new housing delivered is affordable here
R2500	R43 000 + land and services	10%		± 2,3m subsidised units to date
R1500	R43 000 + land and services	63%		271 000 subsidised houses delivered in 2006/07 year
R0				

# Success?

Income	House cost	% pop (LFS 2004)	Estimated backlog	Ownership	Rental
>R9080	"Normal" Suburban	10%	None specified	Focus of delivery, rapid price escalation	Limited delivery now growing
R9080 (R7500 in 2004)	<R200 000	11%	± 650 000 units <R200 000 and growing	Average 20 000 – 30 000 units delivered annually	Social housing stock: <75 000 units total nationally
R3500		6%	About 2 million remaining:	No new housing delivered is affordable here	Some private sector rental: inner city & backyard
R2500	R43 000 + land and services	10%		± 2,3m subsidised units to date	Only subsidised housing
R1500	R43 000 + land and services	63%		271 000 subsidised houses delivered in 2006/07 year	BY rental; informal settlement; overcrowding
R0					

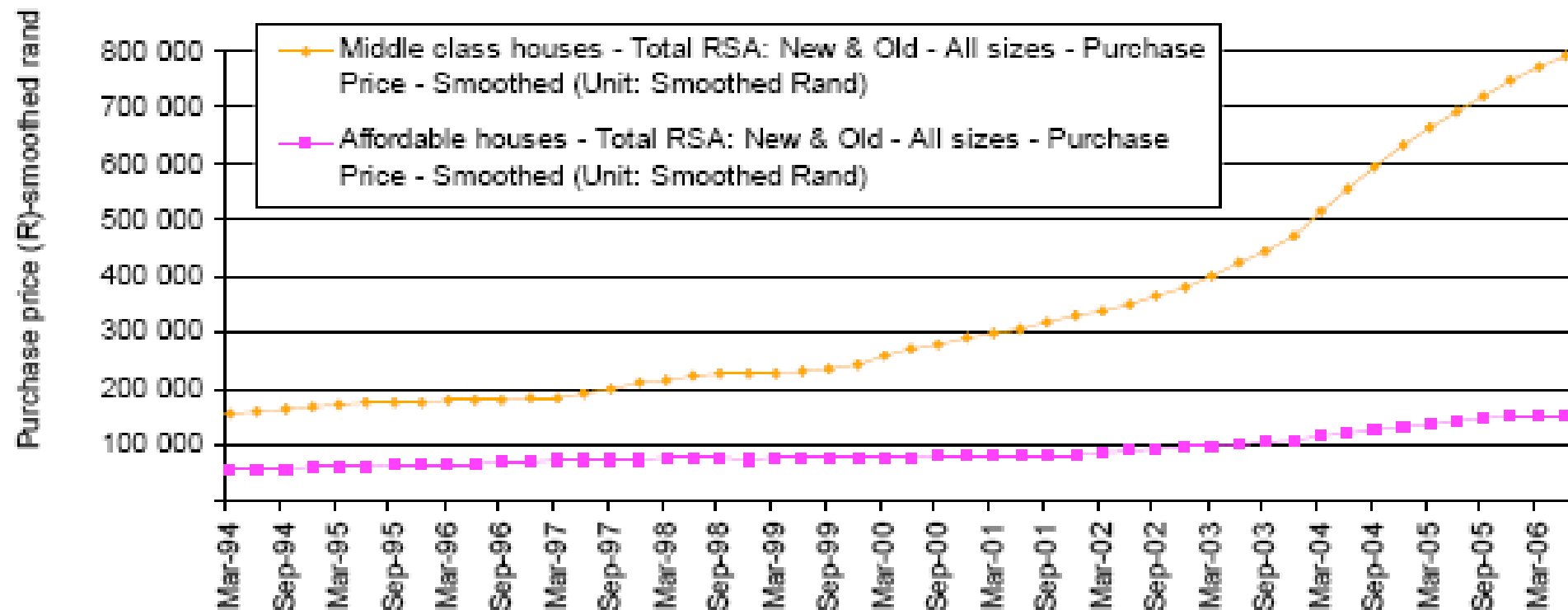
**G**  
Affordable Market

**A**  
State

**P**  
Subsidised Housing Programme

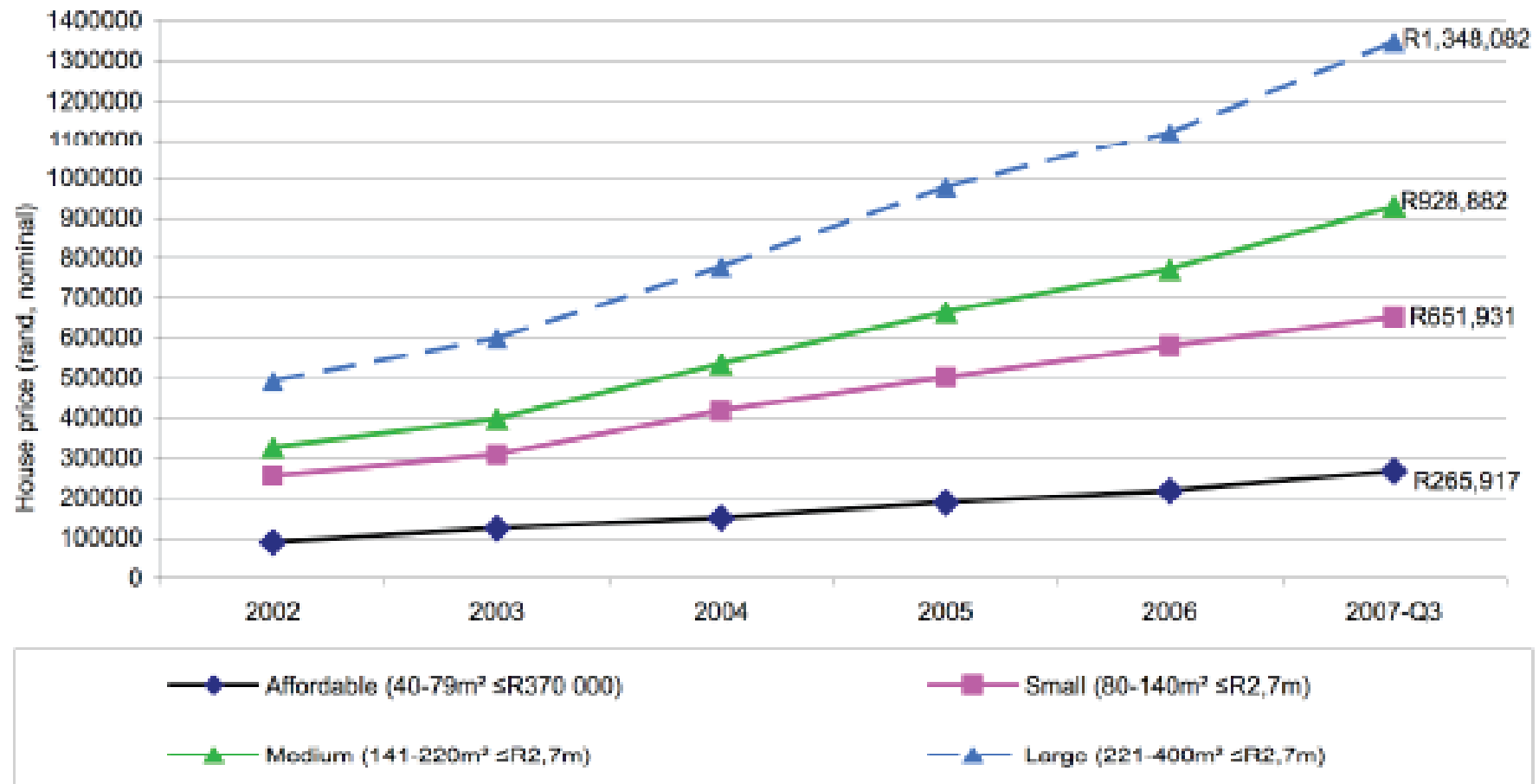
# Success?

Avg house price growth from 1999 – March 2006 (Source: ABSA House Price Index)



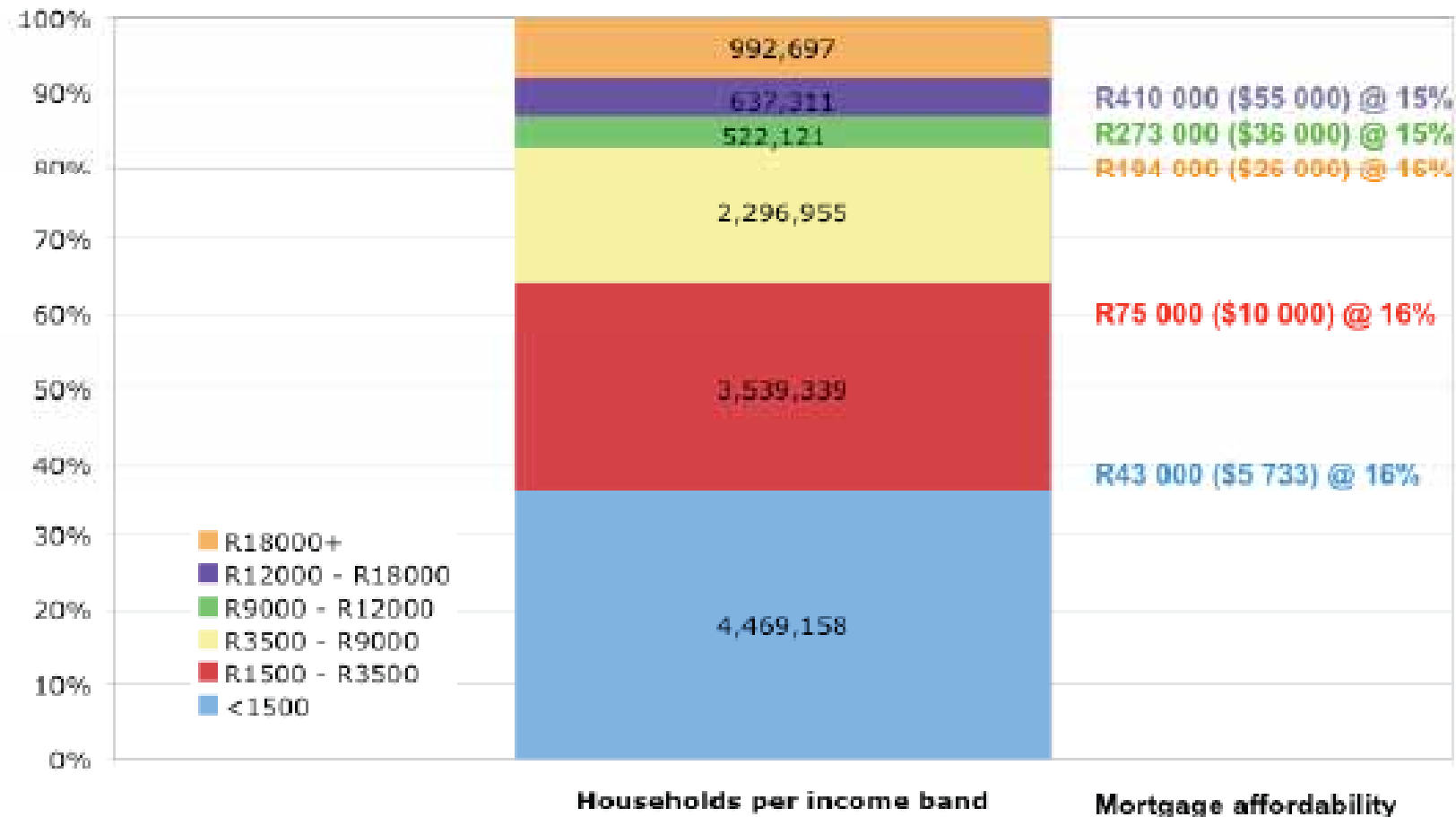
# Success?

House price appreciation in SA (Source: ABSA Residential Property Perspective Q3)



# Success?

**Mortgage affordability in South Africa by income band**



(15-16% over 20 years, 30% i2i)

# Three key problems

- Insufficient attention to the finance affordability of low income households
  - Those below the threshold can contribute to housing costs
  - This would reduce the number of units required, and hence the backlog
- Need to support incremental housing
  - May be regarded as ‘politically incomplete’
  - But would have addressed the backlog much more quickly
  - And introduced less distortion to market dynamics
- Opportunity for the development of housing microfinance
  - Private efforts have delivered excellent results
  - The success of the FSC has shown willingness of the supply side



# Long-term saving by the poor: Six rational hurdles to saving

# #1 Short-sightedness

- Members of LSM 1-5 find it hard to save for the long term
- Common to all, but worsened by shortening life expectancy

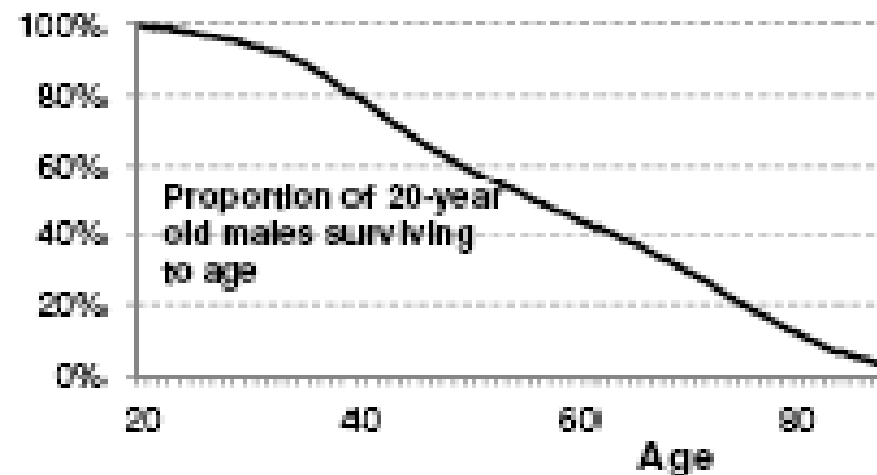


Figure 8. Proportion of 20-year old males surviving into old age.  
Source: AISSA 2009 model, whole SA population, standard assumptions

*Genesis (2008:17)*

## #2 Affordability constraints

- It is simply difficult to put aside any money

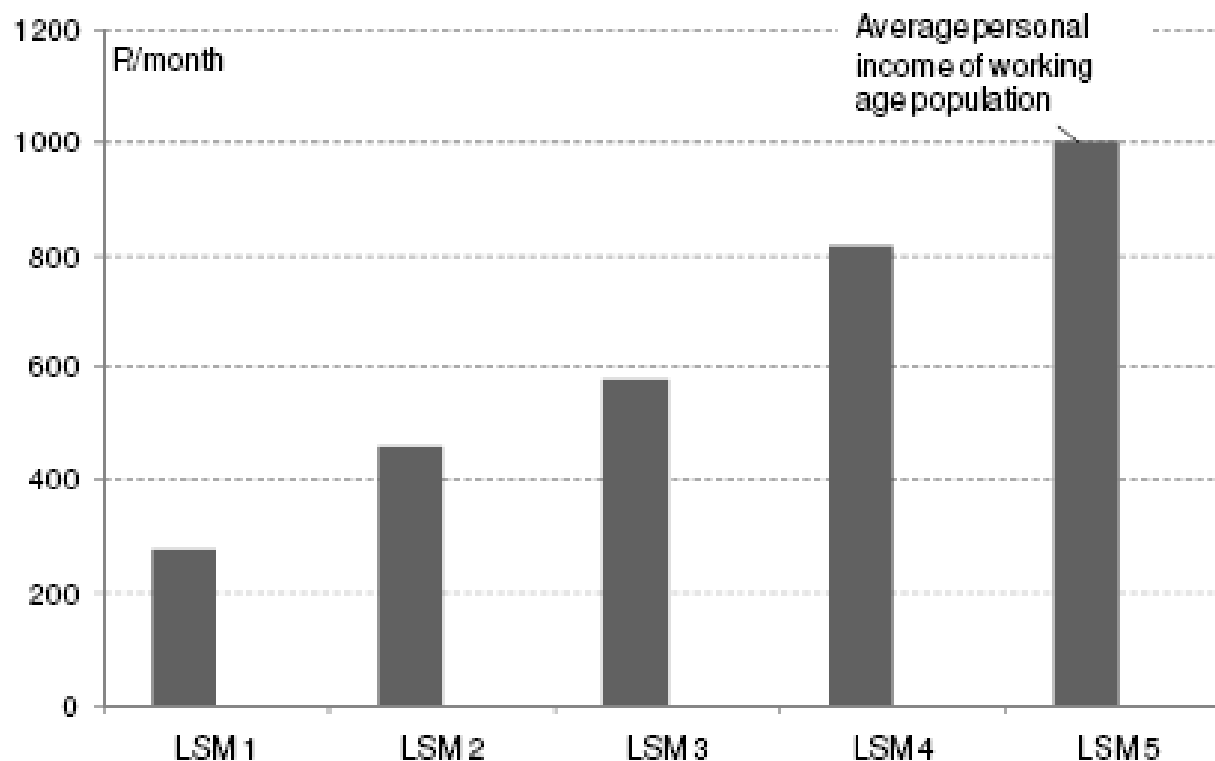


Figure 8. Average personal income of the LSM1-5 working age population<sup>20</sup>.

Source: FinScope (2006)

Genesis (2008:20)

## #3 Community motivation

- Reciprocal giving often takes up excess income

Income	Average per month	% of income
Regular wages	R 343	48%
Remittances received	R 201	28%
Child grant	R 162	23%
Casual work	R 4	1%
<b>Total income received</b>	<b>R 710</b>	<b>100%</b>

Table 4 & 5. Rebecca's monthly income & expenditure  
Source: *Financial Diaries (2005)*

*Genesis (2008:21 & 22, modified)*

Expenditure	Average per month	% of income
Food	R 186	28%
Rent	R 137	20%
Crèche	R 56	8%
Total credit payment	R 52	8%
Remittances given	R 51	8%
Transport to work	R 43	6%
Clothing	R 41	6%
Household products	R 40	6%
Shoes	R 18	3%
Other energy forms	R 15	2%
Entertainment (cinema, etc.)	R 13	2%
Domestic workers	R 8	1%
Transport to shopping	R 7	1%
Cell phone (rental, airtime)	R 2	-
Outside phone	R 1	-
<b>Total expenditure</b>	<b>R 670</b>	<b>100%</b>

## #4 Automatic & means-tested income

- Social Old Age Grant may make it difficult to overcome opportunity costs & means test disincentivizes saving

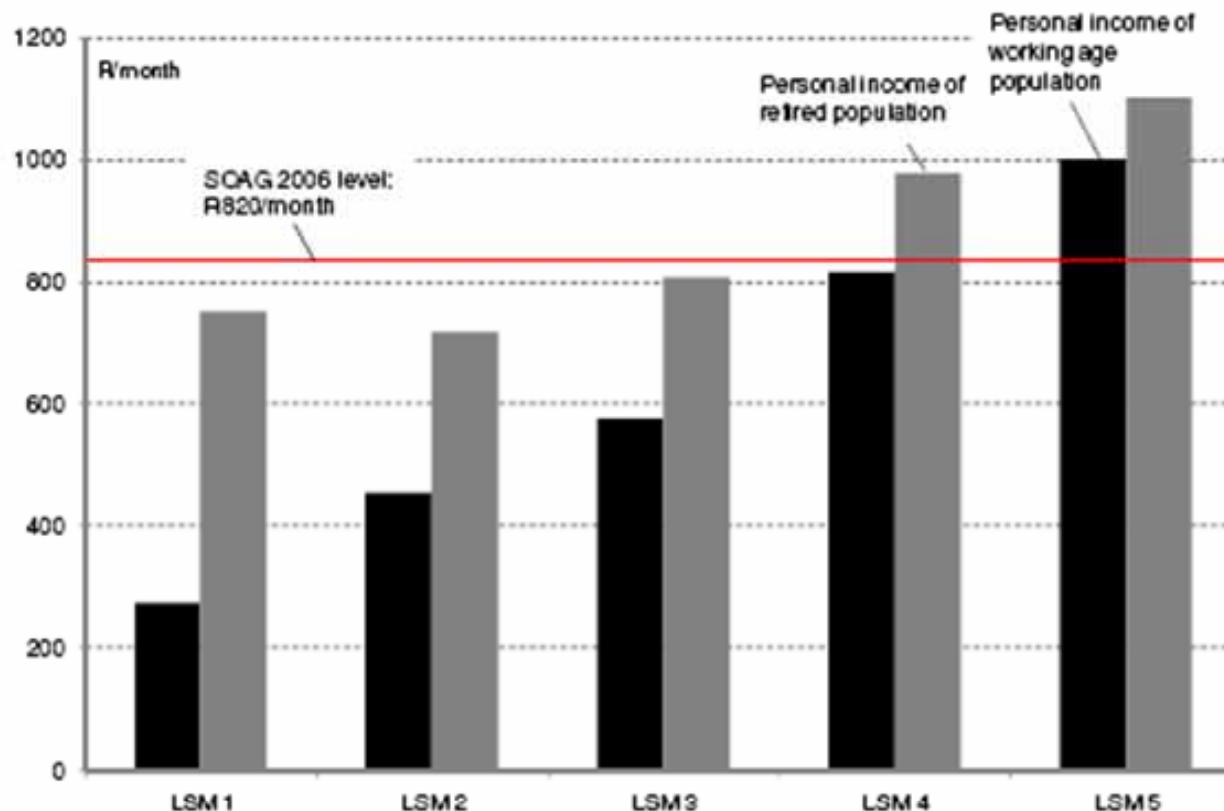


Figure 9. LSM1-5 income comparison: working age vs. retired<sup>23</sup>

Source: FinScope (2006)

Genesis (2008:24)

## #5 Unattractive vehicles

- Products seen as inflexible, expensive and unwieldy

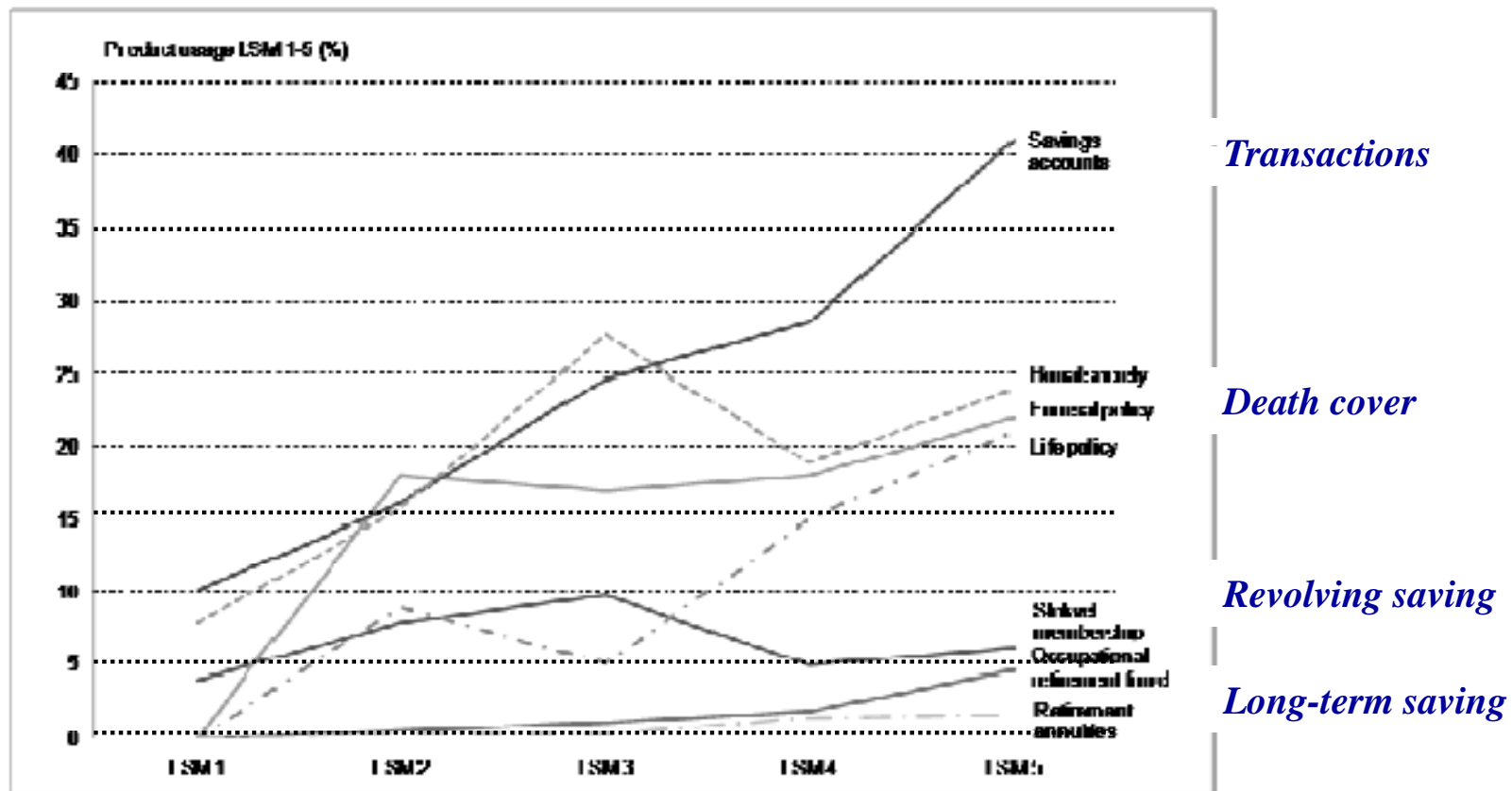


Figure 4. LSM1-5 financial product usage  
Source: FinScope South Africa 2006

## #6 Opportunity cost

- Specific alternatives are regarded as more important

### Housing

*“You have financial security if you own a house”*

*“It is a lifetime investment”*

*“I can have a tenant and they can pay rent to me. I can buy food with the money”*

*“You can get buried in your own house when you die.”*

### Education

*“My kids are going to make sure that I am taken care of.”*

*“[Education.] is an investment because this child will improve the status of the family, and be of help.”*

*“God will give me one to look after me.”*

# Saving study: policy implications

- A number of lessons have been learned:
  - The disincentives of the means test are severe
  - Compulsion may not always be appropriate
  - Saving should be defined more broadly than has been hitherto accepted
  - The consequences of policy must be considered more thoroughly and holistically