A Review of the Current State of Borrower Education for the Purposes of Affordable Housing Finance in South Africa

A Research Report

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by

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PLAGIARISM DECLARATION

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I certify that this submission is my own work.

I have not allowed and will not allow anyone to copy this essay with the intention of passing it off as his or her own work.

Dhesen Ramsamy

Cape Town

December, 2011
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BASA</td>
<td>Banking Association of South Africa</td>
</tr>
<tr>
<td>CPMD</td>
<td>College of People and Management Development</td>
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<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
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<tr>
<td>DFID</td>
<td>UK Department for International Development</td>
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<td>DHS</td>
<td>Department of Human Settlements</td>
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<td>FSC</td>
<td>Financial Sector Charter</td>
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<tr>
<td>HLGC</td>
<td>Home Loan Guarantee Company</td>
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<tr>
<td>M4P</td>
<td>Making Markets Work for the Poor</td>
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<tr>
<td>NGO</td>
<td>Non-governmental Organisation</td>
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<td>NHFC</td>
<td>National Housing Finance Corporation</td>
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<td>SIDA</td>
<td>Swedish International Development Cooperation Agency</td>
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1. INTRODUCTION

1.1 Contextualising the Research Area

“To make a property revolution, a leader has to do at least three specific things: take the perspective of the poor, co-opt the elite and deal with the legal and technical bureaucracies that are the bell jars current custodians.” – Hernando De Soto (2000:190)

South Africa like many emerging economies faces a great challenge with respect to meeting its citizen’s needs for affordable housing (Appendix A). Porteous (2005) argues that the housing finance issues facing the country emanate from two related factors: highly skewed income distribution and apartheid’s legacy including differentiated ownership rights according to both race and area.

The latter of Porteous’ factors and De Soto’s description of legal and technical bureaucracies could well extend to the (lack of) knowledge regarding property rights and financial systems in the South African context (De Soto, 2000).

From the perspective of financial institutions there are well documented barriers to the extension of mortgage finance in the affordable housing market. These include poor understanding of inherent risks, affordability issues especially when an initial deposit is required, poor returns in terms of conventional financial measurements, land usage issues, stock shortages and the risk of borrower default. (Lawrence, personal communication, April 19, 2011; Karley, 2006). There are of course counter arguments that seek to highlight the unnecessarily cautious behaviour of lenders in this segment of the market. A recent study (refer to appendix B) by consultancy Eighty20 sought to compare default rates and found that the proportion of non-performing loans in what was termed the charter target portfolio (affordable housing in the main) at 7.6%; lower than that of the entire base of active mortgage loans at 9.4% in January of this year (Muller, 2011).

Among the causes for borrower default itself, the lack of comprehensive borrower education has been highlighted by several researchers (Agarwal, et al, 2009; Hirad and Zorn, 2001; FinMark Trust, 2005). Honohan and King (2009) find financial education to be a clear predictor of usage of financial services in low income markets and with regards to mortgage finance in particular. Porteous (2005) suggested a combination of non-payment factors that constrained the low income housing market which included inadequate financial literacy with
regards to mortgage bonds among new home owners. Other research points to challenges in mortgage lending to the poorly served markets in South Africa and notes as a key issue, that many borrowers are unaware of the conditions and implications of homeownership through debt (Karley, 2006). Local borrower education service provider Sestmol, targets their programmes at the rights, contractual obligations, accountability and responsibilities of the prospective property owners believing that these are not adequately explained in a way that would demystify the financial process, thus leading to lower defaults (Setsmol, 2009). A 2006 household survey by FinMark Trust found that poor initial understanding of repayment requirements and insufficient information on statements from lenders were among concerns of borrowers (Pearson & Greef, 2006). This report also found key process gaps in respect of servicing procedures and borrower education.

Earlier research conducted by the Institut fur Projektplanung GmbH for the National Housing Finance Corporation and cited by Pearson and Greef (2006) found the following to be key reasons for default on housing loans:

- economic context regarding non-payment, including poverty and unemployment, and financial priorities,
- product defects regarding low-cost housing, including quality and size issues,
- generally poor understanding [among consumers] of low-cost housing issues, including lack of education and information, and communication problems.

Borrower education in its myriad forms; homeownership counselling, housing education and mortgage counselling has played a role to mitigate default risk as reported by Agarwal, et al., (2009) and Hirad and Zorn (2001). Elugardo and Klein (1998) describe the use of post purchase education and counselling in addressing some of the causes of defaulting payers by building relationships with homeowners, addressing a broad scope of underlying issues and facilitating comprehension of the risks, rewards and effort entailed in home ownership.

It can therefore be argued that greater consumer understanding of debt-based housing transactions may lead to better performance of such loans and thus remove some of the barriers to extension of such finance. Comprehensive homeownership counselling has also shown positive results in so far as homeowner’s begin to appreciate the asset and equity value of property (Sabatino, personal communication, November 3, 2011). These arguments are
the context within which this research will advocate for strengthening, expanding and coordinating the borrower education imperative in South Africa.

1.2 Problem Statement

Having established the existence of a body of research and literature that suggests that borrower education and financial literacy programmes could aid in reducing default rates on debt products, and thus facilitate greater extension of finance, it is clear that locally little research has been conducted to ascertain the state of or the efficacy of financial literacy programmes in general or borrower education specifically.

Such a study would assist in addressing risk aversion of financial institutions lending to this market - thus increasing access to such products. This research aims to assess and benchmark the local programmes and the context within which they are delivered and provide suggestions from a gap analysis.

Recognising the dearth of such research, local independent trust FinMark has recently sought to conduct a review of such programmes (FinMark Trust, 2011). The proposed FinMark study will be conducted at a financial literacy level and will thus not specifically target borrower education. Whilst acknowledging the significance of borrower education programmes, lenders and other key stakeholders freely admit to not understanding the scope or impact of current offerings (Lawrence, Mngadi, Venter, personal communications, October, 2011). This study will therefore seek to partially address the gap identified by going some way to defining the current state of borrower education programmes in the country. It will stop short of comprehensively assessing the efficacy of local offerings as a lack of data will render such an exercise inconclusive. The position of the researcher as a permanent employee of one the four major mortgage lenders will also prevent sharing of sensitive data regarding default statistics and internal assessments of competitors.

1.3 Research Question and Aims

1.3.1 Primary Research Question:

- What is the current state of borrower education for the purposes of affordable housing mortgages in South Africa?
1.3.2 Secondary Research Questions:

- How do local programmes compare to practices abroad both at a financial literacy level and more specifically at a debtor educator / borrower education/homeownership counselling level?
- What are the key challenges posed to the extension of borrower education programmes?
- Have the contributions of various stakeholders been adequate?

1.3.3 Study Aims and Objectives:

The primary objective is to determine the state of borrower education initiatives in the country. This will specifically aim to determine why such programmes are particularly necessary in the South African context, what regulations, codes and exigencies inform the provision of these programmes, who (if at all) oversees their provision, who provides such programmes and lastly what the scale, scope and delivery mechanisms of major borrower education programmes are.

Having attained the above stated objectives focus will then shift to benchmarking sampled programmes with international practices that have been found to improve the quality of loans written. This will include ascertaining the views on the success of such programmes from service providers, lenders, industry associations, nongovernmental organisations, development finance institutions, researchers and policy makers. Such analysis will lead to recommendations that will augment existing formats of borrower education.

A secondary objective will be to highlight the key challenges that impede the rollout of borrower education programmes to their fullest extent. In so doing, an argument will be made for greater focus on such programmes so as to increase the extent of lending.

This research will also seek to deliver an assessment of the various stakeholders involved and the adequacy of their response to borrower education imperatives. This assessment will be effected through the use of the Making Markets Work for the Poor Framework introduced in section 2.4.

1.3.4 Study Methodology:
The study incorporates a mixture of key informant interviews and case studies of three significant education programmes using cross section data and employing the qualitative approach. Refer to chapter 3 for a detailed discussion on methodology and research design.

1.4 Research Significance

Marshall and Rossman (1999) define four general areas in which a research study may be significant as: significance for theory; significance for policy; significance for practice and lastly significance for social issues and action.

The contribution of this study to the body of theory in this area in general is likely to be limited. However it will certainly highlight the literature gap that exists for causes of default in the South African low-income lending market and empirical studies determining the efficacy of borrower education. But as far as it is specifically applicable to low-income lending in South Africa it is expected to add value to policy, practice and social action as described below.

It is plausible that the study will provide value to policy regarding the provision of borrower education and financial literacy more broadly, including arguments for oversight and uniform objectives.

With regards to the significance of the study for practice it is hoped that benchmarking and gap analysis components will lead to augmenting and improving current programmes.

Lastly the social impact of poor financial literacy and debtor education that is likely to be highlighted will hopefully be used in subsequent arguments to enhance initiatives in this area.

1.5 Research Assumptions and Limitations

This research is based on assumption as detailed below. The limitations that flow from such assumptions are also discussed:

- The literature on South Africa’s state of borrower education is not vast. The few studies that do exist are not purely academic in nature and result from the needs of NGO’s, DFI’s and financial institutions. They are by this nature not very rigorous
from a methodology perspective. Use will thus be made of such studies in contexts and settings foreign to South Africa. Inferences from such studies will be made to the South African situation. In so doing some of the conclusions may be weakened as contextual challenges arise to inhibit their direct application.

- Borrower education and homeownership is variously defined by practitioners and may include the full gamut of activities beginning with basic literacy going through to pre-ownership counselling; debtor education; post-purchase counselling and finally distress-stage counselling. This study is primarily concerned with the education offered by major lenders only and will in some part assess the presence of these other elements.

- This study comments only parenthetically on the efficacy of borrower education. Due to the constraints founded in the lack of data, such an assessment was not practical.

1.6 Research Ethics

This research project was undertaken in strict accordance with the University of Cape Town’s and its Graduate School of Business’ research guidelines and principles. It is not expected that any of the research outputs will cause harm to the participants of the study.

With regards to the extent of transparency of the interviews conducted – no participant in this study was forced into divulging sensitive information. The financial standing and records of any consumer or service provider discussed or interviewed is not divulged in such a manner as to prejudice these individuals.

1.7 Chapter Organisation

The diagrammatic representation of the chapter structure for this research report in figure 1 below refers:

Chapter 2 will contain a review of definitions of both financial literacy in general and borrower education specifically. Following which, arguments from literature for and against borrower education will be presented. The next part of the literature review will detail
empirically based findings on borrower education. This chapter will also introduce the Making Markets Work for the Poor framework and review its application and relevance to this study. A review of South African studies in financial literacy and borrower education is presented and finally the uniquely South African perspective that frames affordable housing and borrower education is explored via literature.

Chapter Organisation

Chapter 1: Research Background: Context and Problem Statement, Questions, Significance and Limitations

Chapter 2: Literature Review: Definitions, Arguments For and Against, Frameworks, Empirical studies, SA perspective

Chapter 3: Research Methodology: Approach and Design, Data Collection, Sampling, Analysis

Chapter 4: Research Findings, Analysis and Discussion

Chapter 5: Research Conclusion & Recommendations, Future Research Directions

Figure 3. Chapter Organisation

Chapter 3 will present the proposed research methodology to be employed. It will include a summary of the research methods and design, the tools of research to be employed, sampling and analysis methods and an explanation of the limitations. Chapter 4 will present a summary of the research data, analysis and discussion of results and finally Chapter 5 will conclude the research and present recommendations to further the borrower education imperative. It will also suggest future research directions on the matter at hand.
2. LITERATURE REVIEW

“In considering means to improve the financial status of families, education can play a critical role by equipping consumers with the knowledge required to make wise decisions when choosing among the myriad of financial products and providers.... Financial literacy can empower consumers ... to obtain goods and services at lower cost. This effectively increases their household budgets, providing more opportunity to consume and save or invest....[E]ducation can help provide individuals with the financial knowledge necessary to create household budgets, initiate savings plans, manage debt, and make strategic investment decisions for their retirement or their children's education. Having these basic financial planning skills can help families to meet their near-term obligations and to maximize their longer-term financial well-being.”

- Alan Greenspan (2002)

2.1 Defining Borrower Education within Financial Literacy

The following section seeks to present a review of some key definitions of financial literacy and borrower education in particular. The rationale for defining both phrases stems from the fact that both these imperatives are still at a nascent stage in the South African context and several initiatives have sought to jointly address these matters.

Noctor, et al. (1992) define financial literacy as the ability to make informed judgements and to take effective decisions regarding the use and management of money. Later extensions of this definition are more pertinent to this study as they begin to consider debt-based transactions specifically. Such definitions include the ability to save for the future and learn strategies to manage or avoid debt (Common Wealth Bank Foundation, 2004a, p. 1).

A most comprehensive definition including the elements of planning, saving, credit profile and debt management is put forth by the National Community Reinvestment Coalition in the United States: It is a basic understanding of banking, savings and the importance of good credit that can allow a low or moderate income individual or family to save enough money to
actually buy a home or start a small business. (National Community Reinvestment Coalition, 1998). The definitions presented above make an argument for borrower education to be defined within the ambit of financial literacy. This research will take the view that borrower education, debtor literacy, debtor education and home ownership counselling are subsets of financial literacy and pertain specifically to literacy regarding mortgages or housing finance.

Block-Lieb, et al., (2002) envisions debtor education programmes that would aid in rehabilitating debtors, thus enabling them to function more effectively in the marketplace. Thus by definition it is aimed at the post-purchase and even distressed stages of the borrowing life cycle. Gross (1998), in testimony before the House Subcommittee on Commercial and Administrative Law in the American Senate, explained the need for debtor education to increase consumer responsibilities, improve consumer behaviour as well as to bring about economic efficiencies in consumer debt transactions (as cited in Block-Lieb, et al., 2002, p. 509).

Such a definition encompasses the various goals that such education seeks to address. In so doing it establishes that borrower education should not be limited to just an explanation of a debt transaction about to be entered into. With regards to the local context: South Africa’s Home Loan Guarantee Company defines borrower education as being aimed at providing home owners with the essential knowledge and skills required to access and manage housing finance (Home Loan Guarantee Company, 1999). By this definition the scope of initiatives encompasses both pre and post purchase stages, and if only implicitly, does accommodate addressing behavioural aspects of indebted consumers.

Hirad and Zorn (2001) specify that homeownership education and counselling are defined by the stage at which they are delivered. According to this definition, pre-purchase counselling is designed to prepare future homeowners for the debt they are about to assume and the implications of the transaction. It further introduces and encourages proper financial planning and money management. Post-purchase counselling by this definition involves budgeting, household maintenance and repair concerns.
2.2 On the Need for Financial Literacy and Borrower Education

Schagen and Lines (1996) express a concern over poor levels of financial literacy as they pertain to the quality of decisions made by consumers of financial products. Other researchers argue further that the need for higher levels of financial literacy has grown with deregulation of financial markets and the ease with which credit is now obtained (Beal & Delpachitra, 2003). This specific argument is perhaps now dated in light of the regulatory responses to the recent global financial crisis. Still, the underlying needs for financial literacy remain in developing countries as the push financial inclusion gains momentum. Individuals involved in the drafting of the Financial Sector Charter in South Africa expressed concerns over how realisable the aims of the charter were given the generally accepted poor levels of financial literacy among previously marginalised communities. The nature and extent of financial commitments related to a mortgage bond is poorly understood by most borrowers, due mainly to inadequate borrower education (Tomlinson, 1999).

While this seems sound in principle, questions arise about the existence of empirical evidence pointing to successful financial literacy programmes. Here several studies may be cited in defence of borrower education.

The first, being a recounting of the experiment that led to the founding of Grameen Bank in Bangladesh. In 1976 what began as economics experiment among a group of 42 indigent women in Bangladesh grew into the now well established, if often maligned concept of micro-finance. The experiment itself is now well documented and Grameen Bank and its founder Professor Muhammad Yunus have since shared the 2006 Nobel Peace Prize for their ground-breaking work in low-income lending. Grameen has since employed this model and its concomitant financial literacy programmes to extend this lending model to housing finance as well and report similar results (Grameen Bank, 1998).

The work of Hirad and Zorn (2001) is regarded as the first truly empirical study showing the benefit of borrower education and the study by Hartarska, et al., (2002) further established the efficacy of home-ownership counselling in decreasing payment default rates. These studies are detailed in the review of empirical studies in section 2.5.

In the context of low-income debt-based transactions a 2006 report by the Asian Development Bank in discussing micro-finance in the region found that better-educated clients inevitably reduce costs to micro-financiers and further state that policy makers need to
actively increase financial literacy among low-income households (Fernando, 2006). Still other authors seek to lessen the impetus for borrower education on the basis that it is inefficient and ineffective. Their case will now be presented.

2.3 The Case against Financial Literacy and Borrower Education

Much of the arguments against financial literacy are predicated on the need for systemic solutions to address levels of default in low-income lending. Willis (2008) argues against the efficacy of borrower education on 3 key fronts.

The first being the already wide gulf of understanding of financial and debt product and the rate of innovation in financial services products renders these education programmes dated. The second argument being that the cost it poses to providers (lenders and governments) outweighs the benefits. Lastly, the biases that are inherent in decision-making render the emotional component stronger than the rational aspects an education could impart.

A 2006 study by the National Association of Securities Dealers in the United States found; rather paradoxically; that consumer financial fraud victims were more financially literate than non-victims (National Association of Securities Dealers, 2006). Similarly Barber and Odean (2000) exhibit the excessive losses of financially literate household investors in their study and attributed this to overconfidence.

Knutson and Samanez-Larkin (2010) go further in explaining through neuroeconomics the predilection towards emotion-based decisions in personal financial affairs including mortgage finance (Knutson & Samanez-Larkin, 2010). The argument made by Willis (2008) is that bias and the lack of rational decision-making can often overcome even high levels of financial literacy.

These arguments are all premised on an initial level of literacy and indeed financial literacy that are difficult to replicate for transactors or borrowers in developing economies. Functional literacy levels are not considered and further to this, no specific accounting is made for debt transactions at the “bottom of the pyramid” (Prahalad & Hart, 1998). To the extent that borrower education is specifically aimed at this market in the South African affordable housing market – the research will be mindful of, but not deterred by the literature reviewed immediately above.
2.4 Framework for Consideration

“The market mechanism which arouses passion in favour as well as against, is a basic arrangement through which people can interact with each other and undertake mutually advantageous activities. In this light, it is very hard to see how any reasonable critic could be against the market mechanism as such. The problems that arise, spring typically from other sources and include such concerns as the adequate preparedness to make use of market transactions, unconstrained concealment of information of unregulated use of activities that allow the powerful to capitalize on their asymmetrical advantage. These have to be dealt with not by suppressing markets, but by allowing them to function better and with greater fairness, and with adequate supplementation. The overall achievements of markets are deeply contingent on political and social arrangements” - Amartya Sen (1999:142).

Sen (1999) argues that free participation in economic activity is as basic a freedom as political and social freedoms. In an extension of this theme, Standard Bank director Kennedy Bungane is quoted as saying that “If having a vote is proof of political citizenship, then access to financial services is an ID card, establishing economic citizenship.” (Porteous & Hazelhurst, 2004, p. 18).

This section aims to introduce a key theoretical framework that is informed by and seeks to address systemic issues that impede financial market inclusivity. The Making Markets Work for the Poor (M4P) approach adopted by donors such as the Swedish International Development Cooperation Agency (SIDA) and the UK Department for International Development (DFID) is described as focusing unequivocally on the workings of markets, while further aiming to assess them and influence their impact on the economically disenfranchised (Porteous, 2004).

2.4.1 The M4P Framework Defined and Reviewed

The M4P framework defines a market as a system comprising of 4 key components: the enabling environment; rules of the game; support functions (including information and knowledge) and lastly the structure of participation and capabilities of core stakeholders of the market (DFID, 2008). This is diagrammatically represented in figure 2 below:
The application of the M4P framework for financial markets speaks specifically to (DFID; SDA, 2008):

- building holistic (describing role players as well) and transparent views of the market system and its functions;
- building mechanisms to intervene based on a detailed analysis of both the market and the needs of the poor within them;
- isolating the systemic constraints to inclusivity; and
- emphasising sustainability in any intervention.

This framework contemplates the role of government and other stakeholders in regulatory and broader measures to create sustaining environments for financial services at the lower end of incomes.

The M4P framework further argues that a regulatory context is set by the rules and processes such as prudential regulation and consumer protection among other things. South Africa’s own National Credit Act of 2007 and the recently promulgated Consumer Protection Act of
2011 both seek through regulatory means to provide for this sort of protection. The NCA establishes consumer education as part of prescribed responsible lending practices.

The M4P approach emphasises that these regulations are particularly significant in credit extension and impacts the performance of this sector. The information infrastructure it defines for the financial sector players takes several forms but specifically mentions consumer education programmes (DFID, 2008).

Whilst the use of the framework is further reaching than contemplated in this research, it is employed here to structure arguments for the role of financial literacy, specifically borrower education, in creating and sustaining inclusive markets and contextualise the role of national government and the private sector in facilitating an inclusive market.

2.4.2 Relevance of the M4P Framework to this Study

“We create institutions and policies on the basis of the way we make assumptions about us and others. We accept the fact that we will always have poor people around us. So we have had poor people around us. If we had believed that poverty is unacceptable to us, and that it should not belong to a civilized society, we would have created appropriate institutions and policies to create a poverty-free world.” - Professor Muhammad Yunus (2009)

This research has sought to evaluate the initiatives and adequacy of stakeholder response to the borrower education imperatives.

In the context of the M4P framework, the proposed study will specifically contemplate whether the policies, institutions and governance and informal rules and norms create a sufficiently conducive set of “‘Rules of the Game’. These are generically described as (Ferrand, Gibson, & Scott, 2004):

- rules such as contract, property, consumer protection, weights and measures, health and safety, competition and tax laws. While these are not market-specific, they might prove most important in shaping markets,
- sector-specific rules such as banking law in this case,
- non-statutory regulations such as industry codes of good conduct, quality standards and registers, such as the Code of Banking Practice.

The research will also pursue an assessment of the information and services that are deemed as “Supporting Functions”.

20
The roles of various stakeholders in government, private sector and civil society will also be revealed in the course of this undertaking and the adequacy of their initiatives will be assessed against their mandates primarily but also against their ideal engagement status as contemplated by the application of the framework.

2.4.3 Reviewing the Application of the M4P Framework

The M4P framework has been used variously to promote and assess the policy response to the provision of basic services, post-disaster market recovery, linking remote people to markets (Miehlbradt, McVay, & Tanburn, 2005), the performance of agriculture and non-farm rural economies in South Africa (Hitchins, et al., 2004), the support structures in place for small enterprises in Indonesia and Russia (Elliott & Hitchins, 2006) and most pertinent to this discussion the extension of financial services in South Africa (Porteous, 2004).

In applying the framework to the assessment of financial services in South Africa, Porteous (2004) explains the primary objective of M4P to be the “expansion of real choices offered to poor people by markets.” Porteous further states that mandatory indicators of such a market are (Porteous, 2004, p. 4):

- increasing usage of a service or product by poor people;
- the provision of alternatives for the poor;
- the service provided must be considered acceptable.

Porteous also frames the 2 key criticisms of the M4P approach: it is old (market enablement) thinking redressed and most importantly that it is too anecdotal and conceptual to survive any implementation exercise (Porteous, 2004, p. 6).

The application of M4P or “market enabling” strategies to the South African housing market has had inconclusive results and according to Porteous this had more to do with the insufficient or inappropriate implementation, rather than a failure of the approach itself. Still, there is a tacit acknowledgement that M4P, like Mayo and Angel’s (2003) enabling market approach remains a systemic solution that takes cognisance of “historic context or political process” (Porteous, 2004, p. 32). While Porteous makes mention of consumer education as part of enabling activity, this study does not specifically examine the “supporting functions” and “rules of the game” elements detailed by the M4P framework.
2.5 Reviewing Financial Literacy and Borrower Education Studies

The literature on South Africa’s state of financial literacy and borrower education is not vast. The few studies that do exist are not purely academic in nature and result from the needs of NGO’s, DFI’s and mainstream financial institutions.

Thus, use will be made of such studies particularly in low cost housing credit extension – mainly in the United States. Inferences from such studies will be made to the South African situation. In so doing some of the conclusions may be weakened as contextual challenges arise to inhibit their direct application.

2.5.1 Empirical Studies

This research finds much alignment with the point in time study by Quercia and Wachter (1996), who researched the subject matter when little was known regarding the efficacy of home-ownership counselling. Indeed as a key finding, they related the lack of such knowledge about how such counselling was carried out, let alone how it may be measured. The South African landscape of borrower education for now remains similarly under-researched. A clear definition of success in homeownership counselling resulted from their study and related to both the promotion of homeownership and the reduction of payment default (Quercia & Wachter, 1996). Very importantly their research also provided a framework within which the impacts of counselling may be empirically determined. Their suggested approach will however, not be adopted for the purpose of this research due to the lack of statistically significant sample data.

Strauss and Phillips (1997) researched the efficacy of homeownership counselling specifically in rural America and sought to parenthetically compare these to urban programmes. Their findings do resonate with the South African context in that they conclude that access to programmes in rural areas is poor given the sparse populations spread over large areas, with little or no public transport. Most interestingly, these authors found that even while very few kept records and clean data; most service providers remained convinced of the efficacy of their programmes.

McCarthy and Quercia (2000) explored the basis for the increasing spend on home-ownership counselling programmes given the dearth of evidence to show its efficacy and found that much needed to be done to quantify the effects of counselling on reducing defaults and
foreclosure costs. Another key finding of their study was the disparity or fragmentation in offerings resulting from “a large variety of providers offering qualitatively and quantitatively different homeownership training. The unregulated evolution of the provider industry, while promoting experimentation and creative approaches to expanding homeownership, has made it difficult to evaluate its effectiveness” (McCarthy & Quercia, 2000, p. 3). One other study also revealed the poor data collection and evidence gathering efforts of providers of counselling and made the case for data collection at a borrower level (McGilvray, 2000). Preliminary interviews (exploratory in nature) with subject matter experts indicated that similar findings will result from exploring the South African context (Lawrence; Rust, personal communications, April, 2011).

Arguably the strongest case for the extension of borrower education programmes was made by two separate studies, Hirad & Zorn (2001) and Hartarska, Gonzalez-Vega, & Dobos, (2002). The former, examined the performance of forty thousand mortgages originated under the Affordable Gold programme run by Freddie Mac and found that counselling can reduce 90-day mortgage default by nineteen percent on average. This study also made arguments for considering the format of counselling: one-on-one counselling was found to be more effective than class-based programs, home study or telephonic counselling. Their findings also suggest that counselling may not be effective across the entire borrower population and proffer the need for pre-program sorting of potential candidates to reflect relative risk.

The study by Hartarska, et al. (2002) was also an empirical study with findings showing that counselling could lead to a decline in payment default among low-income borrowers. The study was experimental in nature and the control group, having received no counselling, defaulted at twice the rate of the experimental group.

A survey of literature found but one comprehensive study that reported on both the timing of education interventions and very importantly the roles of various players in the borrower education value chain. Wiranowski (2003) recommended the integration of pre- and post-purchase counselling but importantly makes the case for defining a range of business models that could facilitate more efficient and effective involvement of NGO’s. This, so that their offerings would match the needs of lenders as opposed to their services being by virtue of their “charitable origins” (Wiranowski, 2003).
Work by Ards and Myers (2001) sought to answer a critical question that has much utility in the South African context as well – the role of borrower education and homeownership counselling in seeking to dispel myths and notions of and within previously disadvantaged borrower communities. Their research showed the impact of race-based policies on the understanding of financial instruments and credit habits – resulting in the main from a “legacy of barred opportunities to credit” (Ards & Myers, 2001). The South African context must surely exhibit similar traits by virtue of lender practices under the Apartheid dispensation. In this context, Hornburg (2004) argues that the success of borrower education programs cannot be tied into teaching budgeting and debt payment alone, but must address legacy issues as a systemic constraint.

Elliehausen, Lundquist and Staten (2003) employed credit bureau data for a three year study of a group of borrowers. The borrowers were split into a control and experiment group that did receive counselling. Very importantly their study was based on counselling at the stage at which borrowers were in financial distress. The study found that credit counselling at this critical stage is effective in improving overall risk profiles of consumers, reducing debt levels and instances of credit default.

2.5.2 A Critique of Empirical Studies Conducted to Date

None of the studies reviewed are aimed at a general assessment of borrower education programmes and in the main they seek to assess efficacy, while incongruently acknowledging that no singular definition of efficacy exists. Studies arrive at various conclusions regarding the definition of success or key outcomes of programmes but do not arrive at a consensus of these outcomes. There is an understandable but imbalanced presentation of declining default rates as a measure of success. Such a definition discounts other facets such as the number of potential borrowers who opt of out the debt obligation as a direct result of pre-purchase counselling, the extent to which home owners use knowledge gained from programmes to build and access equity or the extent to which borrowers proactively engage lenders in times of financial distress. No study takes aim at the optimal roles of the various stakeholders. While these studies have uncovered areas of efficacy and measurement, timing and formats, and funding and stakeholder engagement they are largely bereft of the socio-political context defining the South African reality. Thus while their application is not inconsequential, these findings are somewhat diluted in their application to the South African borrower education imperative.
2.5.3 South African Studies

Investigation to date reveals only one comprehensive review or stock take of financial literacy programmes locally. The 2004 survey by FinMark Trust undertook such a review of financial literacy programmes in South Africa.

The study reviewed initiatives of the primary stakeholders namely government, NGO’s, private consulting firms and financial services companies. A key finding of the survey was, that even with the myriad programmes on offer, certain communities (impoverished and rural areas) were still underserved. The study also uncovered gaps and misguided efforts in the reviewed programmes (Leach, 2005):

- Government programmes lacked coordination; quality standards, implementation capacity and a proactive stance.
- NGO programmes suffered primarily from limited resources and reach. They were also found to be reactive in nature.
- Private consulting firms had a limited reach; providing services mainly to large firms and their employees
- The financial services industry had an approach that was marketing focused and often lacked coordination.

The study recommended a national strategy on financial literacy which among other priorities (FinMark Trust, 2011 and Leach, 2005):

- Defined national objectives for financial literacy and provided a framework to facilitate efforts of various stakeholders.
- Defined gaps and opportunities for the imperative to address.
- Provided for oversight and coordinated national initiatives;
- Developed a clearing house for information for providers of financial education to share South African and international best practice.
- Facilitated the standardisation and accreditation of classroom-based programmes through existing qualifications frameworks
- Assessed and monitored financial literacy levels in South Africa.
The study, while by now dated, is useful in the holistic approach it assumed with financial literacy. Yet, this very point is what limits its usefulness to this study – there is no emphasis on borrower education in particular and little is clarified regarding education for the purpose of the extension of housing mortgage finance. Still, it provides a useful datum with which specific elements can be assessed – the progress toward a national strategy and framework, the interplay of stakeholders, standardisation and assessment are most pertinent in this regard.

Another project, conducted by the Mortgage Indemnity Fund sought to provide a directory of local borrower education programmes (Mortgage Indemnity Fund, 1998). The exercise proved successful in determining the various service providers, a description of their content, and their medium of provision among other administrative data. In excess of 50 service providers were identified.

The directory proves useful in that it presents a point in time view of the role-players involved in borrower education initiatives. This study has however specifically focussed on the education programmes provided by major mortgage lenders. Given that access to programmes in financial literacy and borrower education programmes has been shown to be poor (FinMark Trust, 2004), lender-run programmes prove to be the one initiative that no borrower can claim to have access issues with. To be sure, it is the only programme that a borrower is certain to have had access to before contracting to the mortgage debt obligation.

2.6 Affordable Housing and Borrower Education – A South African Perspective

“The apartheid system has devastated the country. Poverty is rampant and endemic. The conditions of life for the people continue to worsen every day. The needs that have to be met are both pressing and gigantic – housing, education, health, unemployment, nutrition and so on.” – Nelson Mandela (1990)

The story of housing in South Africa post its transition to a democracy in 1994 cannot be divorced from the dynamics of the previous Nationalist government’s racially-based housing policy (Merrill, 2001, p. 51). By the early 1990’s several protest movements were taking root and it is most apt to recount those aimed at crippling the Apartheid state’s financial services structures related to housing finance. A case in point would be the community-organised mortgage or bond boycotts (Karley, 2006). Such was the general distrust of the politically disenfranchised borrower at the time. The establishment of the National Housing Forum in
1992 to negotiate the conditions necessary for a national consensus in housing is essentially credited for the evolving housing policy in post-Apartheid South Africa (South African National Government, 2008). The forum comprised all stakeholders ranging from community groupings to the country’s main financial houses and established a common understanding of the exigencies of the country’s housing needs well before the official transition to democracy.

The Constitution of the Republic of South Africa holds that everyone has the right to have access to adequate housing. Under the current political dispensation, The Constitution of the Republic of South Africa of 1996, the Housing Act No. 107 of 1997 and the Comprehensive Plan for the Development of Sustainable Human Settlements 2004 give effect to national housing policy and strategy.

A national housing strategy proposed in 2008 by the Department of Human Settlements gives an indication of the scope of the housing backlog inherited by the African National Congress led - Government of National Unity. The new government (14 years into democracy by then) still faced the following challenges (South African National Government, 2008):

- An existing delivery gap demanding that ± 200,000 households be provided housing annually, this so that only the existing backlog may be addressed over a 10 year period
- a further ± 350,000 provision for newly formed households
- a national housing budget in the region of R1.4 billion per annum and most pertinent to this discussion,
- the fact that 45 - 55% of households in need would be unlikely to either afford housing or be able to access housing credit. To the extent that this last statistic is growing, the Department of Human Settlements recently found that in fact 70% of households are excluded from housing finance from the formal banking sector.

Housing policy has thus far contemplated both housing finance and housing subsidies but for the purpose of this overview, discussion will be limited to the former.

South Africa’s isolation did not greatly affect the extent to which major financial institutions were able to be competitive even by global standards. Yet even with the relatively sophisticated system, Karley (2006) asserts that to a large extent, the housing finance system has failed to provide sufficient formal housing finance. The reluctance of formal lending institutions like traditional banks and building societies to engage with low-income groups
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has often been cited in housing policy debates (Karley, 2006; Moss and Pillay, 2000; Porteous and Hazelhurst, 2004; South African National Government, 2008).

In 2005 a memorandum of understanding was signed by the housing ministry and the CEOs of the countries “Big 4” banks: Amalgamated Bank of South Africa (ABSA), First National Bank (FNB), Standard Bank and Nedbank. The agreements essentially committed all parties to establishing functioning housing markets in traditionally under-served areas through making finance available and accessible to low-income customers (FinMark Trust, 2005, p. 5). The agreement was grounded in the Financial Sector Charter of 2004, in which the country’s largest financial houses and banks committed to furthering development through financing activities. The Memorandum of Understanding required that the banks extend a minimum of R 42 billion in finance for what was defined as affordable housing. As noted by FinMark Trust, the assumption was that this would take the form of new lending via a basic home loan product with a pre-defined repayment schedule.

Lamenting the state and extent of lending to low-income households, Tomlinson (1999) describes key factors for mortgage default in this domain. She counts as one of these factors, the lack of consumer understanding and emphasises the need for lenders to inform borrowers of the cost and commitment required for such transactions (Tomlinson, 1999, p. 43).

The National Credit Act (NCA) of 2005 and its Regulations (2006) saw the South African government take significant strides towards regulating the nature and extent of credit based transactions. Goodwin-Groen (2006) relates that the act’s key goals were to combat “predatory lending, consumer abuses and out-dated, piecemeal and ineffective legislation on consumer credit.” (Goodwin-Groen R. P., 2006, p. 8). While the act does not make it mandatory for lenders themselves to provide consumer financial education, it does require that lenders be certain that borrowers understand the implications of debt-based transactions.

The role of lenders in the cause of consumer financial education and specifically borrower education did not only come to the fore with the NCA. In the 2002 Financial Sector Charter, recognising the role they played in furthering financial literacy, banks committed to providing 0.2% of post-tax profit for consumer education (Financial Sector Charter, 2004, p. 10). Borrower education programmes have since evolved variously as in-house or outsourced bank-led initiatives.
Borrower education outside the auspices of lenders predates the Financial Sector Charter initiatives. Rust (1998) finds that “as early as 1993, the National Housing Forum’s task team on Consumer Rights and Education investigated ways to protect consumers and empower them to engage in the housing sector to their advantage.” (Rust, 1998, p. 6). Since then these programmes have largely been provided by Non-Governmental Organisations, Community Based Organisations, various local government agencies and a few private sector companies (Rust, 1998, p. 8).

2.7 Concluding Remarks Regarding Borrower Education Literature and the Specific Contributions of this Study

Determining the state of borrower education for the purposes of affordable housing mortgage finance is an exercise in determining the impetus for, the status quo and lastly the ideal state of the initiative. Literature reviewed in this chapter speaks to each of these three elements to varying extents. The review has depicted previous efforts in determining a need for borrower education both in the South African and other contexts. The case against borrower education is discussed. The status quo for the South African imperative was discussed in a limited manner due to the dearth of relevant and comprehensive studies. Lastly empirical studies were reviewed in a dual context: defining the characteristics that determine the state of the programme and secondly the ideal state depicted by literature regarding programmes that have worked.

Key studies that have influenced and informed the choice and scope of the proposed research include the work of David Porteous (2004) on the M4P framework and its application to the housing finance market, the work of Hirard and Zorn (2001) in exploring the efficacy of borrower education programmes in the United States of America, the work of the FinMark Trust (Leach, 2005) and the Mortgage Indemnity Fund (1998) in cataloguing and depicting the various financial literacy and borrower education programmes and lastly, the work of Karley (2006) and Tomlinson (1999) who have extensively studied the dynamics of mortgage lending at the lower end of the financial spectrum in South Africa.

These studies are all predicated on the unique challenges that face debt-based transactions to borrowers not completely au-fait with the sometimes complex processes and transactions involved in housing finance. They explore the systemic issues facing pro-poor housing finance and all make forceful arguments for the increased use of borrower education. Also
presented in the literature review are arguments against financial literacy and borrower education. These arguments were grounded in the belief that the rate of product innovation, the already wide gulf of consumer understanding, the negative cost-benefit ratios and lastly the sentiment-biases involved in credit decisions serve to reduce the efficacy of programmes.

The M4P framework was defined and reviewed in its applicability for the affordable housing mortgage market in general, and borrower education in particular. The framework aids in defining the approach of key stakeholders like national government in their efforts to facilitate an inclusive market.

Empirical studies reviewed in this chapter have dealt with several of the key characteristics of borrower education programmes. These studies reveal the importance of the definition and a common understanding of what success represents in a borrower education programme. The literature finds that no abiding definition of efficacy has been put forth or tested in-field, but suggests that declining default rates are a partial measure. The review reveals that data collection on the part of service providers is at best poor and in most cases not in place at all.

The literature further explores the significance of the timing of the intervention and finds that a pre-purchase, post purchase and a counselling stage in the event of financial distress to be most effective in addressing default rates. On default rates; a few of the studies have found grounds for the efficacy of borrower education programmes in driving down default rates. The literature reviewed is sparse in terms of addressing the ideal format of borrower education. One empirical study did however conclude that one-on-one counselling was most ideal followed by classroom based programmes, home study and then telephonic counselling.

Few studies undertook an assessment of stakeholder roles and the few that do, speak to a need for greater inclusion of diverse providers (NGO’s; DFI’s; lenders; community organisations). One study reviewed spoke of the borrower education imperative in the context of lending to previously disadvantaged communities and sought to prove the need to address borrower education from a perspective that dispels ingrained misconceptions and false notions on both the part of the lender and borrower.
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The literature reviewed has highlighted key facets that require investigation in order to determine the state of borrower education. The research design considerations factored these elements in a manner shown in figure 3 below:

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**Definitions and a measure of success**
- Explored through specific questions in key informant interviews:
  - **What, for you, is the main outcome of a borrower education program?**
  - **Given your experience thus far do you believe that a borrower education programme can adequately address default?**
  - **Has borrower education been effective in addressing what it’s intended to do?**

**Describing the current state of the imperative**
- Explored both through case studies and specific questions in key informant interviews:
  - **What in your view is the state of borrower education in SA?**
  - **Has borrower education been effective in addressing what it’s intended to do?**
  - **What are its failings?**
  - **What are successes that come to mind?**
  - Service providers are asked to specifically comment on the following:
    - **How many borrowers have you trained since the inception of your programme?**
    - **Who do you employ as trainers – what are their backgrounds / qualifications?**
    - **What languages do you train in?**
    - **Do you know how many of the borrowers you trained have since defaulted?**
    - **Do you know the general education levels of people you have trained?**
    - **What formats have you tried in your training programme (e.g. classroom, printed literature, videos etc).**
    - **Which format has proved most effective – do you have statistics to show which one is best.**
    - **What is the accreditation process you follow?**
    - **Which body does the accreditation? In your opinion which body is best placed to provide accreditation?**

**Challenges and redress**
- Explored both through case studies and specific questions in key informant interviews:
  - **What are key barriers to extending the programmes in SA?**
  - **Do you believe these to be generic or specific to the South African context?**
  - **What would your recommendation for improving the current state of borrower education be?**

**Stakeholder analysis**
- Explored through specific questions in key informant interviews:
  - **With regards to other role-players and stakeholders:**
    - **Who are they?**
    - **How if at all are their efforts coordinated?**
    - **What efficacy metrics are they “tied” in to?**
    - **What would you say their relative successes and failings have been?**

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No previous study has sought to determine the state of borrower education for the purposes of affordable housing mortgages in South Africa. This study accepts as a premise that borrower
education grows a viable housing market. It is in this context that this research study will add value to the national imperative. The findings will both highlight the current state of key programmes (through case studies), and in so doing highlight the characteristics of such programmes. While no measure of efficacy has been undertaken (due to limited post-education data availability) the results of the study are still of use in being able to compare local programmes with “best-practice” or proven programmes. Secondly, a holistic view of the exigencies of the imperative in the South African context is revealed through interviews with key stakeholders across the spectrum.
3.  RESEARCH METHODOLOGY

3.1  Research Design and Strategy

By definition, a research design is meant to provide a framework for collection and analysis of data (Bryman & Bell, 2007, p. 40). Saunders, et al. (2009) state that the research design is a “general plan of how you will go about answering your research question” and specify that it should include clearly stated objectives, sources of data and considerations of the constraints the researcher will experience (Saunders, Lewis, & Thornhill, 2009, pp. 136-137).

The primary and secondary research questions were informed at first by exploratory research including a literature review and a few exploratory interviews and unstructured discussions. These were conducted with respondents who are sufficiently involved in this specific area to be deemed “experts”.

The research philosophy adopted was an interpretivist epistemology as it was concerned with the meanings that participants in the research ascribe to various phenomena (Saunders, Lewis, & Thornhill, 2009, p. 324).

3.1.1  Qualitative versus Quantitative Considerations

In considering both the nature of the research questions and the methods of research design and data collection, both options were plausible. The first being the quantitative route of using customer data gathered from major lenders to generally model the throughput and directional success of borrower education programmes as investigated by Hirad and Zorn (2001), Agarwal, et al. (2009) and Elugardo and Klein (1998). This route was deemed unfit for the following reasons: the nascent state of borrower education programmes and the poor data collected by their providers (Lawrence, personal communication, April, 2011), the unlikelihood of major lenders being willing to share this data based on the researcher being employed at a competitor and lastly the sensitive nature of consumer information since the introduction of the National Credit Act of 2006 and the Consumer Protection Act of 2011.

The qualitative approach was thus adopted. Marshall and Rossman (1999) define this approach as using real-world observations, emerging from the interplay of the researcher’s direct experience, tacit theories and interest in practice amongst others. Given the systemic
nature of most issues under consideration in this particular undertaking, qualitative research also allowed a probing of the inner experience of participants and to discover the variables at play (Corbin & Strauss, 2008, p. 12). This approach was also aligned with the research philosophy that was adopted.

3.1.2 Research Designs and Strategies

Saunders et al., (2009) discuss research designs and strategies by defining the purpose of the research and then the strategy to be employed. Three classifications of research purpose are suggested: exploratory, descriptive and explanatory.

According to Robson (2002), the exploratory study is useful in determining what is happening, to seek deeper and newer insights and also to assess phenomena in a different light. It is also applicable in instances where the research aims to clarify ones understanding of a problem. It is advantageous in that it is flexible and adaptable to change (Saunders, Lewis, & Thornhill, 2009). Descriptive studies are described as presenting a clear picture of the phenomena on which ones research is based (Saunders, Lewis, & Thornhill, 2009). Lastly, explanatory studies are those that seek to establish causal relationships between variables (Saunders, Lewis, & Thornhill, 2009, p. 140). The research conducted was exploratory in nature. As such research designs and strategy must be viewed in this context.

Saunders et al., (2009) consider the following research strategies: experiment, survey, case study, action research, grounded theory, ethnography and archival research.

The experimental approach in its simplest form seeks to establish causal links between two variables (Saunders, Lewis, & Thornhill, 2009). It is mostly employed in exploratory and explanatory research. In what might be referred to as a classic experiment; an experimental and control group is established. To the former, the researcher applies a planned intervention or manipulation and to the latter, no such intervention is made. Dependent variables are measured before and after interventions are made and thus causal relationships may be investigated (Saunders, Lewis, & Thornhill, 2009). For reasons of ethics especially in instances where experiments involves beneficial interventions (increased borrower education for this example); the experimental approach or strategy is generally used for captive populations such as university students or employees of an organisation. In addition, Saunders, et al. (2009), describes how the fact that selected samples are small and atypical, means there is little external validity of findings (Saunders, Lewis, & Thornhill, 2009). This
approach was therefore not considered on the grounds that the timeframes of the proposed research would not permit an experimental design – it would not be possible to set up a control and experimental group, apply borrower education to one and measure the impact within a 4 month period. The ethics of allowing only one set of potential buyers access to the financial acumen needed is also questionable, and lastly potential borrowers can hardly be considered a captive audience.

Surveys are generally associated with the deductive approach and are generally associated with the collection of quantitative data, analysed using statistical methods (Saunders, Lewis, & Thornhill, 2009). This study was inductive in nature and for reasons explained above based on qualitative data, therefore surveys were not considered for use. Further to this, surveys require large sample sizes with random selection of respondents, and thus not feasible for this specific study.

Case studies are used to varying extents so as to provide descriptions, test theory or generate theory (Eisenhardt, 1989). For this study the role of case studies was primarily to describe the status quo of borrower education from a provider’s perspective.

The case study approach may be defined as “a strategy for doing research which involved an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence” (Robson, 2002, p. 178). This approach was deemed best to uncover the real context within which borrower education is carried out. To establish whether the findings of one case occur in other cases as well (Saunders, Lewis, & Thornhill, 2009, p. 146), a multiple case approach will be used. Case studies were carried out on three providers to be able to provide descriptions of the borrower education programmes themselves. Such studies typically combine collection methods such as archives, interviews, questionnaires and observations (Eisenhardt, 1989, p. 534). The case studies forming part of this research sought to establish the raison d’être of each provider, the profit motive (where one exists), and the approach to borrower education employed (proactive or reactive, classroom or readings based, point in time training or through the homeownership lifecycle). Further to this, data collected from such institutions was used to report volumes trained, relative successes, key issues and challenges faced in the provision of the service and lastly opportunities to explore in the borrower education imperative.

Reported strengths of the case study approach are the likelihood of generating novel theory which could be further tested with in-depth stakeholder interviews described later; the extent
to which emergent theory may be tested in the case construct and lastly the fact that resultant theory is likely to be empirically sound (Eisenhardt, 1989). However this study has also taken cognisance of the reported pitfalls of the case-based approach in so far as theory generated may be too narrow or idiosyncratic (Eisenhardt, 1989, p. 547). Care was therefore taken to limit the extent to which findings are generalised.

Saunders et al., (2009) state that action research is characterised by an explicit focus on action within an organisation, particularly in promoting change within that organisation. Further to this, the researcher is typically involved in the action for change. This research cannot employ such a research strategy as the researcher is very much external to organisations involved in the supply of borrower education.

Grounded theory is suitable to an inductive research approach and is useful to predict and explain behaviour (Saunders, Lewis, & Thornhill, 2009). The emphasis is on theory building, and as such this strategy is not best applied for this research. This study did in fact build on existing theory that propounds the extension of borrower education and sought to review the state of borrower education. Ethnography is rooted in the inductive approach (Saunders, Lewis, & Thornhill, 2009, p. 149). The researcher involved in such a study ideally immerses themselves in the social world being investigated and as such research tends to take place over an extended period of time – it was therefore not considered a suitable or practical strategy for this study. Finally, archival research uses as a primary source, administrative records and documents (Saunders, Lewis, & Thornhill, 2009). Due to the nascent state of borrower education programmes, little records of this nature exist. Archival research was therefore not a viable option for this study.

3.1.3 Time Based Considerations – Longitudinal vs. Cross Sectional Studies

This study employed the cross-sectional design, described by Saunders, et al. (2009) as a study of a particular phenomenon at a particular moment in time (Saunders, Lewis, & Thornhill, 2009, p. 155). The research sought to define the current status of borrower education and as such fits this definition well. A longitudinal approach which may be described as a representation of events over a given period (Saunders, Lewis, & Thornhill, 2009, p. 155) was clearly not appropriate given the limited timeframe of this particular study.
In summary then, this study incorporated a mixture of interviews with key informants (see section 3.2.2) and case studies of education programmes using cross sectional data, employing the qualitative approach.

**3.2 Procedure for Data Collection, Research Tools and Sampling**

A list of sources of data for qualitative research may range from interviews and observations to documentaries, documents and memoirs (Corbin & Strauss, 2008, p. 27).

Both primary and secondary data central to the research question was collected. The latter was collected mainly from annual reports, reports, commentary, presentations and working papers of the South African government, non-governmental organisations; service providers; development finance institutions, lenders and regulators or oversight bodies such as the Banking Association of South Africa. Primary data was collected through semi structured interviews with researchers, service providers, not for profit organisations, regulators and oversight bodies and lenders.

Zikmund, et al. (2010) describe research tools available to the qualitative researcher and most apt to this particular research study are conversations, depth interviews and semi-structured interviews (Zikmund, Babin, Carr, & Griffin, 2010, p. 142).

Conversations are described as a recorded unstructured dialogue which aids in gaining insights from enthusiasts and covering sensitive research areas. Stated disadvantages of this instrument are the diversions in the course of dialogue that can occur and the dependency on the researcher’s interpretation, (Zikmund, et al., 2010, p. 151). Conversations were used in the structuring and development of the research area. These were conducted with people with sufficient and relevant experience in the area to be deemed subject matter experts.

Depth interviews are described as one-on-one sessions between the researcher and respondent aimed at probing the knowledge and views of the latter. Advantages of the approach are that considerable insight may be accessed and such an approach may also lead to an understanding of unusual behaviours. Stated disadvantages are that the outputs are dependent on the researcher’s interpretation and that the results are no meant to generalise, (Zikmund, Babin, Carr, & Griffin, 2010, pp. 150-151). Depth interviews were conducted with service providers of borrower education.
Lastly, semi-structured interviews are open-ended questions requiring short essay-type responses. This instrument is useful for addressing specific issues and results are often easier to interpret than those of the preceding two instruments. Due to a lack of flexibility however, this instrument might not facilitate creative or new explanations to research issues, (Zikmund, Babin, Carr, & Griffin, 2010, pp. 151-152). Semi-structured interviews were conducted with key stakeholders (key informant technique) in the area of affordable housing and for whom borrower education is a clearly understood imperative.

It proved most apt to use non-probability or judgement sampling for the nature of this research undertaking as the probability of each case being selected is unknown (Saunders, Lewis, & Thornhill, 2009, p. 213). More specifically, convenience sampling was employed. Time constraints made this a suitable approach and the method is also known to have relative cost advantages. The method involves selection of cases that are most convenient until such time a determined sample size is reached (Saunders, Lewis, & Thornhill, 2009, p. 241). Stated disadvantages of the approach are the fact that there is very low likelihood of sample representivity and poor control of sample contents (Saunders, Lewis, & Thornhill, 2009, p. 236).

Bryman & Bell (2007), state that a larger the sample size reduces sampling error. It is also true that sampling in a heterogeneous population requires a larger population than if the population was homogenous. The heterogeneity in this instance arises from the different goals, objectives, resource levels and the differences in the raison d'etre of all stakeholders involved in the borrower education imperative. To this end the sample set of case studies and key informant interviews for this research study include the following:

3.2.1 Provider Case Studies

Case studies may be chosen to replicate previous cases or extend emergent theory, or they may be chosen to fill theoretical categories and provide examples of polar types (Eisenhardt, 1989, p. 537). The case studies used for this research were chosen to fill theoretical categories – these categories were derived from the sectors in which the organisations operate. Thus the study sought to sample both profit-based and non-profit suppliers of borrower education.

The research focussed on mortgage lending for the purposes of affordable housing and not housing micro-finance or subsidised housing. As such the lenders considered were the “Big
4” banks in the country. These lenders typically engage the services of a select set of borrower education service providers and early interviews (Lawrence; Venter, personal communications, April and October, 2011) suggest that the following criteria are applied:

Service provider will be accredited by anyone of the following Sector Education and Training Authorities (SETAs): Services, Finance, Banking and Construction. The service provider will have a national footprint and undertake to provide training at the convenience of the borrower. Further discussions with both lenders and researchers indicated that fewer than 5 organisations are engaged by the large banks. Thus the sample of service providers for this research represents a complete set of service providers.

The criterion used for selection of the following providers was threefold:

- The credentials of the supplier – care was taken to involve providers with a track record recognised both established independent researchers as well as financial services providers who to date have been central to the existence of providers.
- The accessibility of the supplier – logistics of the study prevented some service providers from being sampled. The need for frequent interactions meant that the provider would have to be suitably located geographically.
- The amenability of the supplier – the provider had to be aligned to the purpose of the study to the point that it freely engaged the researcher and would facilitate without delay or prejudice, the transfer of information.

Only three providers met such considerations. Given that they are collectively engaged with all major lenders, they represent a full sample of service providers.

The first being a Johannesburg based entity, Setsmol. The stated mission of the organisation includes the following: “To educate, inform, coach and mentor our clients in simple language about housing related issues.” Thus, seeking to address broad spectrum of issues related to housing and perhaps most pertinent are the following two statements: “To promote the culture of savings - this contributes towards the construction of houses.” and “To increase the awareness of consumers / realtors of the consequences of not fulfilling their contractual obligations.” (Setsmol, 2009). These latter statements speak to addressing financial behaviours and the legal ramifications of payment default. A list of available programmes include: Housing Consumer Education, Home–Ownership Education and Borrower Education.
A case study of the second organisation will provide key insights into the sustainability and commercial viability of such programmes. The Home Loan Guarantee Company is a section 21 entity that provides default guarantees for affordable housing finance. The company was established in 1989 and were “created in response to the reluctance of the financial sector to lend to a perceived high risk housing market” (Home Loan Guarantee Company, 1999). The company operates extensively (more than 705 localities in South Africa) and for this reason offers a national perspective of the issues being investigated.

The company initially provided borrower education to those clients who were in process and who wished to enter into a transaction to finance their homes. This service has since been discontinued and much insight is to be gained from both the archived results of its borrower education programmes and the reasons for abandoning this offering.

The College of People and Management Development (CPMD) will be the subject of the third case study. The organisation is a service provider to at least one of the major mortgage lenders and is expected to provide insights by way of their programme outcomes and highlights.

3.2.2 Key Informant Interviews

According to Marshall (1996) key informants are expert sources of critical information that are able to provide insights and information regarding the research area, by virtue of their specific personal skills or the role or position they occupy. The informants selected for the proposed study may certainly be defined in this light. Among the list presented below, many if not most of the individuals were central to or influential in the renewed borrower education imperative that emanated from the new political dispensation’s drive for affordable housing finance. In addition, all of the informants did meet the characteristics of a key informant (Marshall, 1996, p. 92):

- Role in community - formal role of the informant should expose them to the kind of information being sought by the researcher.
- Knowledge – beyond just having access to information sought, the informant will have synthesised this information in a meaningful manner.
- Willingness - it is critical that the informant be willing to share their acquired knowledge and cooperate fully with the researcher.
Communicability – the informant is able to transfer knowledge in an intelligible manner.

Impartiality - informants need to present as unbiased a view as possible or reveal the nature of their bias in a transparent manner.

The key informants who did fall into the consideration set based on the above mentioned criteria are listed below:

- General Manager: Human Settlements Cluster, Banking Association of South Africa (Industry Oversight Body)
- Work Stream Lead: Borrower Education, Banking Association of South Africa (Industry Oversight Body) and Head: Affordable Housing, Nedbank (Major Lender)
- General Manager: Housing Finance, First National Bank (Major Lender)
- Director: Centre for Affordable Housing Finance in Africa
- Senior Advisor: Mortgage Finance, Cooperative Housing Foundation International; International Borrower Education Programme Advisor
- Co-founder: Eighty20 Consulting (Researcher, Consultant)
- Director: Training and Skills Development Programmes, Capacity Development Unit, Department of Human Settlements (National Government)
- Research Analyst: National Housing Finance Corporation (Development Finance Institution)
- Director: Setsmol (Service Provider)
- Director: Rent2Buy and My Budget Fitness (Service Provider)
- Managing Director: The College of People and Management Development (Service Provider)
- CEO: Home Loan Guarantee Company (Service Provider)

The list of respondents above best suited a holistic contextualising of the research area as it involves most, if not all stakeholders in the borrower education value chain. Nutt (2002) observes that half of failed business decisions were made in a vacuum of the interests and informing process of stakeholders. Thus, providers from private sector and non-governmental organisations, representatives of financial services institutions, advisors who were key to the South African borrower education imperative (Banking Association of South Africa, Sabatino, the National Housing Finance Corporation), governmental bodies and lastly eminent researchers in the field formed part of the sample set.
Interviews with service providers formed a component of the case study approach used to document their current offerings. Interviews with financial institution, NGO’s, regulators and government bodies sought to explore their understanding of the borrower education imperative including: their perceived role, the significance they attach to the imperative, their views of the contributions of other stakeholders, their views of the key challenges and opportunities and lastly a view on the way forward.

3.3 Research Credibility

Saunders, et al. (2009) assert that research credibility hinges on both reliability and validity. Reliability, being the extent to which data collection and analysis methods will yield consistent results, whilst validity deals with whether a set of findings are truly about what they appear to deal with; or determining whether the relationship between two variables is causal (Saunders, Lewis, & Thornhill, 2009, pp. 156-157).

With regards to qualitative research in particular, LeCompte & Goetz (1982) have defined reliability as the consistency of observations between two or more researchers (internal) and the degree of replicability (external). Replicability is generally poor due to small sample sizes in qualitative research; however, consistency of observations is generally strong. In the case of the service providers sampled and the key informants interviewed for this study, observations were all based on a relatively recent history of the borrower education imperative. In this context the consistency of observations should not present an issue.

Validity in qualitative studies is often derided by quantitative researchers (Maxwell, 1992). Eisenhart and Howe (1992) argue against the purist definition of validity in its application to qualitative research. They assert that such research is essentially an argument and propose various alternate standards for such arguments. The issue of validity is understandably vague in such studies and does prove to be an issue specifically in determining whether relationships are causal (if findings are truly about what they appear to deal with). To this end only the repeatability of the relationship from one interview to the next or from one case study to the next can address concerns of validity.
3.4 Analysis and Interpretation

The analysis was based on both primary and secondary data gathered. Analysis of the data used an inductive approach and Thomas (2006) defines this as reflecting frequently reported patterns used in qualitative data. As argued by Bryman & Bell (2007, p.14) such an approach yields theory by drawing generalisable inferences from observations.

Following a recording process and summarisation, data gathered from interviews was analysed using a categorisation of meaning or coding approach. The coding approach required that numbers or symbols be applied to summarised or interviews output in order to arrange them into codes or categories (Cooper & Schindler, 1998, p. 413).

Strauss and Corbin (2008) cited in Saunders, et al. (2009) define three main sources of category or code names:

- the researcher may use terms emerging from the data collected,
- the codes or categories may be defined from the actual verbiage of respondents or interviewees; or
- they may be derived from terms uncovered from a literature survey. (Saunders, Lewis, & Thornhill, 2009, p. 493)

For the purposes of this specific study, all three sources were used to varying extents.

Bryman & Bell (2007) suggest an approach to coding or categorising using the following steps:

- Coding should ensue as soon as possible
- Reading of initial sets of transcripts, interview notes, etc.
- Repeating the above-stated process
- Reviewing the derived codes or categories
- Contemplating further general theoretical ideas in relation to the codes and data

Saunders, et al. (2009) state that the next step post coding is the unitising of data: a process in which relevant “units” of data are attached to the categories defined. A unit is described variously as a number of words, a line of transcribed data, a sentence, complete paragraphs etc. the next step will be to develop testable propositions from patterns and relationships that emerge in unitising. These propositions will be tested by seeking an alternative explanation or
examples that don’t conform to the relationship being tested (Saunders, Lewis, & Thornhill, 2009, p. 495). Such a process was followed for the analysis presented in Chapter 4.

3.5 Limitations to Study

Limitations to qualitative research are described by Bryman and Bell as being four-fold (Bryman & Bell, 2003, pp. 298-301):

- The subjective nature of the research – based on a reliance on the researchers own views on what is significant and personal relationships developed over the course of the research.
- The difficulty experienced in replicating the study – by nature the research it is unstructured and hence lacking a standardised approach.
- The issues of generalisation – as a result of the often small numbers of interviews conducted, applicability to other settings is problematic.
- The lack of transparency – due to inability to tell what the researcher actually did and how conclusions were drawn.

This undertaking may also be legitimately subject to such a critique. The question was informed directly by the researchers own knowledge of the affordable housing market. It will be difficult to replicate the exact set of interviews conducted, the order in which they were conducted or the nature of the data gathering. The data gathering process involved interviews with different sets of stakeholders involved in the general area of research and the number of interviews was small. Lastly, while every effort was made to document the data gathering and interpretation process it is likely that some uncertainty will beset critics of the eventual research findings.

Further to this, Marshall and Rossman (1999) argue that the limitations of a study are a function of the conceptual framework and research design. The limitations of the undertaking can be ascribed to 3 main areas:

- Resource limitations – time and cost factors in the conducting of interviews limited the quantum of primary research. Bryman and Bell (2003) describe issues of generalisation in qualitative research as a result of the often small numbers of interviews conducted and as such this study was subject to this fate.
• Access limitations – while every attempt was made to represent the view of a complete spectrum of stakeholders in this study, several possible informants were either not able to provide input within the timeframes of the research or declined invitations to respond.

• Data limitations – initial discussions with subject matter experts (Lawrence; Rust, personal communications, April, 2011) had revealed a dearth of data collection for existing programmes. This was in fact the case and this represents a limitation to the conclusions on the state of the programmes currently offered. Lastly, service providers would not in general, provide the content of their programmes as they believed it to be competitively sensitive information. This hampered the effort to present an analysis of the actual content used.
4. RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents a summary of the key informant interviews and case studies of borrower education service providers. This is followed by a prelude to the analysis that serves to summarise the key issues that were investigated. The analysis of the outcomes based on the methodologies discussed in chapter 3 will follow, before a brief coda to bring the literature themes, frameworks and the findings of this study full circle.

The key informants that were interviewed for this research project are well placed to provide insights into the affordable housing market in general as well as the role and state of borrower education. They represent a set of stakeholders that include DFI’s, NGO’s and NPO’s, researchers, practitioners, financial institutions, oversight bodies and national government. Refer to Appendix C for a list of questions posed to key informants.

Service provider case studies were conducted for three organisations. One of which has ceased to offer the service since the advent of the National Credit Act of 2006. The inclusion of this service provider is however crucial from the perspective of the evolution of the initiative. The sample of service providers represents at least three of the four lender’s chosen providers.

4.2 Summary of Interviews

4.2.1 Key Informant 1, General Manager: Human Settlements Cluster, Banking Association of South Africa

Regarding the extension of mortgage finance for affordable housing, the informant points to the affordability constraints in the market up to R 350 000 - a backlog of approximately 1 million units exists. The backlog is approximately twice the levels experienced in 2004. The informant believes that poor consumer credit records hampers further lending in this sector.

The informant asserts that economic hardship is the main cause for payment default in this, and any other segment of the market. There is, to his mind one exception, in that this segment of the market is characterised by less employable borrowers.
The informant states that a borrower education programme should ideally result in a more informed customer. This would entail informing consumers about more than just the financial obligation but also about details regarding the ups and downs of homeownership such as general upkeep and maintenance. The informant also stresses the importance of educating consumers as to the economic opportunity that home ownership presents. The informant asserts that the programme would need to properly present to consumers, an insight into the affordability of a mortgage and the risks involved in not being able to service the debt obligation. The informant opines that a successful borrower education programme would also be able to address default.

On the role and position of banks, the informant offers that banks have up to this point viewed borrower education programmes as a cost rather than a means with which to positively address risk on this portion of their mortgage books. In a previous role at a financial institution, the informant found empirical evidence to suggest that borrower education programmes do reduce loan default rates. The informant cites the example of one bank using a successful model for borrower education but finds the rest of the bank’s offerings to be substandard. The informant also recommends that banks seek to collaborate, rather than compete in the domain of borrower education. The informant states that this sort of cooperation might also bring about cost benefits.

On the failings of current programmes, the informant finds that the government is largely absent in furthering this imperative. He further relates the need for borrower education to follow more comprehensive and grass roots financial literacy programmes. For the informant, this would cover more basic details of personal finance management. The informant adds that lenders essentially inherit a base of customers who are already at a disadvantage by virtue of their poor or non-existent financial literacy levels. By this stage borrower education cannot address the myriad issues relating to general consumer education, financial literacy and debtor education.

With regards to successful programmes run elsewhere, the informant cites the use of independent borrower education centres in the USA that deal comprehensively with homeownership counselling. He concedes that funding for such initiatives in South Africa is largely lacking and that the recent financial crisis has meant the discontinuation of much of these centres.
Speaking on barriers facing the extension of borrower education programmes, the informant states that the cost implications are fairly onerous on lenders and that it is difficult to pass these costs to the consumer in this segment. Another barrier cited is the lack of evidence to determine the costs and returns of such programmes. The financial viability of these programmes depends on attaining a critical mass of borrowers to conduct programmes with, and this is not always viable. These costs are further heightened when programmes need to be run in remote areas to a smaller base of customers. The most commercially viable programmes are run in major centres such as Johannesburg, Durban and Cape Town.

The informant does not believe that any present legislation has been effective in driving the borrower education imperative as current legislation requires lenders to clarify product information more than conventional borrower education.

Regarding the various stakeholders, the informant argues that there is a need to coordinate their activities.

Finally, the informant lamented the lack of concrete evidence showing the efficacy of borrower education programmes in driving down default rates.

4.2.2 Key Informant 2, General Manager: Housing Finance, First National Bank

On the extension of finance for this segment of the market, the informant states that there is a general consensus that there has been a significant amount of finance in the affordable housing market but not enough to satisfy the demand. He further concedes that much more could be done to expand lending activity.

When questioned about the issues preventing further extension, the informant asserts that the availability of houses to satisfy the demand in the R3 501 to R7 000 monthly income bracket, where the majority of demand lies, is very low. He further believes that if there were sufficient stock priced around the R 150 000 value mark, the extension of credit would increase substantially.

Regarding the key reasons for payment default in this segment of the market the informant lists two factors: the first being the loss of employment and the second being over-indebtedness.
On the main outcome of a borrower education programme, the informant states that it should result in a consumers understanding of rights and obligations. He further believes that it must impart knowledge regarding how to budget and meet one’s financial obligations.

When asked about the banks experience thus far with the efficacy of their borrower education programme, the informant states that they believe it has achieved the goal of reducing default, taking into account defaults in this segment of market and stating that they compare favorably with default rates in the higher income market.

Commenting on the state of borrower education in South Africa, the informant asserts that there are few role players providing this service and that it is critical that programmes should be introduced much earlier on – for example, to potential customers applying for home loans. As a follow on question, the informant was asked to clarify whether borrower education has been effective in addressing what it is intended to do. The informant responded in the affirmative but clarified that borrower education can play an even bigger role if it were to be introduced earlier on.

On the failings of current programmes, the informant cites its main failing as the timing of the intervention - it is being introduced mainly after the home loan has been approved. Regarding successes of the current offerings, the informant reports that there are lower default rates when compared to the traditional home loans market. The informant also commented on the geographic limitations to extending the programme, mentioning that remote areas are a challenge and the availability of customers to attend the sessions is poor.

The informant provides the following recommendation for improving the current state of borrower education: “it needs to be introduced early on, even for those that are not ready to buy, but to prepare them for when they are ready to enter the market.”

When asked about the criteria employed in selecting a service provider, the informant states that knowledge of the market and experience are the key factors. On monitoring the output of service providers, the informant states that the lender would typically attend a sample of the sessions being provided by the service providers.

On the extent of financing based on outcomes of borrower education programmes, the informant believes that lending patterns will be positively affected once borrower education
is split into two separate sections: the pre-purchasing part that educates the borrower on what to look for when buying a property, with a second phase relating to education on how the mortgage bond functions and further information relating to matters such as increasing the value of your property.

4.2.3 Key Informant 3: Head of Affordable Housing, Nedbank Limited, Joint Work Stream Leader: Borrower Education, Financial Sector Charter

The informant believes that the mortgage extension for the purposes of affordable or low-cost housing has to date been inadequate, and further that the risk fundamentals of lenders are the largest constraint facing extension of mortgage lending for affordable housing. While he credits the Financial Sector Charter targets as aiding the imperative for lenders, he believes that the charter target alone has not found lenders increasing activity to the requisite extent. The informant also cites supply side issues such as land and development as impediments to greater activity.

The informant attributes the default phenomenon in the lending space to over-indebtedness and unemployment. Here he cites the events driving default behaviour as expenses arising from life events such as births, deaths, marriages and retrenchments. The informant stated that there is no evidence of delinquency as a conscious choice (refer to pre-1994 boycotts). In the course of the interview with the informant, there was no explicit mention of default as a function of poor understanding of debt obligations.

The main outcomes of a borrower education programme for this informant, is empowering the buyer to cope with home ownership in its broadest context. To this end it should impart the importance of responsible citizenship that is embedded with home ownership.

The informant also states that a declining arrears book and lower write-offs would be indicators of the success of such programmes from a lenders perspective. He believes this to be the reason that banks need to address the borrower education imperative more keenly, as opposed to viewing these programmes as corporate-social responsibility goals.

The informant cites a lack of empirical evidence of success as an impediment to greater penetration of borrower education programmes. He further believes that no programme has been run for a sufficient period of time to gather such evidence. Still, he cites the case of the
Home Loan Guarantee Company and their belief that the programmes they had run to be beneficial in so far as reduction in default rates.

On the state of borrower education, the informant asserts that there is no scale or significance to suggest that the imperative properly exists for the purpose of low-cost housing mortgages: “effectively, it’s non-existent” he states. To clarify, the informant believes few, if any of the lender’s programmes provide a complete and holistic approach.

He cites the example of lenders who do conduct borrower education programmes and states that this is more out of a willingness to comply than a show of faith in the outcomes of the programme. The programmes offered by these lenders relate to the loan and finance perspectives as opposed to home ownership holistically. For the informant, this is the only time at which borrower education is empowering. In his view, focussing programmes only to encourage regular debt payments misses the opportunity to inculcate home-ownership practices and overarching budgeting and financial management education.

It is important to state at this juncture that legislation does not force lenders to actually conduct the programmes themselves, but does place the onus on the lender to ensure that the customer is fully aware of the contractual obligations entered into.

Asked about the point at which the imperative stalled, the informant confirms that borrower education was very much a work stream of significance during negotiations leading up to the Financial Sector Charter. Banks and national government jointly decided on the outcomes of the programme – relating to design, content and ownership. The first agreement in 2004 stalled as the government of the time did not effectively underwrite affordable housing mortgages. It was agreed at that stage that borrower education would be a pre-requisite to unlock such underwriting activity. The informant believes that the one billion rand risk fund now being touted by the Department of Human Settlements looks to reinvigorate the principles of the initial agreements.

On the failings of the current programmes, the informant believes that there is a failure of design and approach. In his view, borrowers see current programmes strictly from a compliance point of view and as such effective learning does not take place. On the matter of the timing of education, the informant cites that there is only one intervention conducted immediately before registration of bond. The informant asserts that education should begin before applying for finance and not when borrowers are already signing loan documents. It is,
in his view, a “sausage machine” as it is done en mass, with little or no attention paid to the synthesis of information on the borrower’s side. The informant believes comprehensive education needs to occur prior to, during and post the transaction, but stopped short of describing what these programmes would look like. He also states that programmes needed, for the moment, to be a hand-holding exercise and must be aimed at changing behaviour. The informant mentions that after taking ownership of their homes, the “pain points” for the consumer are in the few months after registration and laments that there is little or no support at this stage.

The informant does not believe that there are significant successes to report for local borrower education programmes.

On the role of the aforementioned guarantee fund, the informant states that it could well invigorate the borrower education imperative. The mortgage insurance fund would see the imperative as beneficial. He does however state that on this matter specifically government is not being prescriptive enough or leading the discussion.

The informant is of the view that banks will not voluntarily increase their efforts in this regard without some level of guarantee of the benefits. He further argues for greater cooperation between stakeholders; both at an inter-bank level and further between banks and national government. The informant further states that coordination has previously, and will in the future, come from the Banking Association of South Africa.

On the selection of borrower education service providers, the informant asserts that the provider must agree that education is to be undertaken at the convenience of the beneficiary, in their community and at a time that suits them and in their own language. Logistics surrounding the provision is also the concern of the provider. He asserts that the provider’s track record, registration with an appropriate SETA and a national footprint is also necessary. The informant does state that the design of content is the responsibility of the provider, the lender would however have some input to the design process.

Regarding the monitoring of the service provider’s delivery, the informant states that this is accomplished via feedback from the consumer and via weekly or monthly reporting of activity from the provider.

On the process that is followed, the informant states that the banks customers are sent through to the service providers. From time to time the service providers themselves would also get
potential borrowers into the programme. No commissions are paid to service providers on an origination basis as this would represent a conflict of interests.

The informant does not believe that legislation has really been effective in so far as addressing the borrower education imperative.

4.2.4 Key Informant 4, Director: Training and Skills Development Programmes, Capacity Development Unit, Department of Human Settlements

The informant finds that a few of the major lenders are progressive in their outlook to the affordable housing market, specifically in the manner they view the risk dynamic of this end of the market. She further asserts that even though the major lenders all consider the same income brackets in this space their definition of risk differs greatly. She believes this to be the main reason that several potential borrowers are turned away.

To the informant’s mind, the need to ensure maximum shareholder returns will naturally mean that banks choose more lucrative (higher value – lower risk) segments to participate in. This will in turn present as banks eschewing the “lower return” segments. The informant concedes that employment levels, employability and the credit standing of the affordable housing market segment do make it difficult to expand lending as these factors tend to mean higher default rates.

Regarding the central outcomes of a borrower education programme, the informant states that it should address a lack of borrowers understanding of their own roles and responsibilities vis-à-vis those of the lender. The informant further states that such programmes should be more holistic in addressing the need to present the house as an asset to be cared for and the broader value of a home owners place in the community. Such a programme, in the informant’s opinion, would help to reduce the non-payment behaviour exhibited in terms of municipal services as well as the housing finance facility itself.

When asked about whether such programmes could aid in driving down default rates, the informant responded that this would be the case only if the borrower education programmes took aim at early stage applicants and people who were still only considering the purchase of a home through mortgages. She further asserts that the programme should extend into the early stage of home-ownership as well (post the registration of a bond and borrower taking ownership of the house). Her final thought on this particular matter was that borrowers should be made aware of the options available to them in the event that they fall into a
distressed financial situation. This would pertain to who they could approach at the lender and how they could go about remediating a distressed situation.

On comparing the local programmes offered to international offerings, the informant could only offer a limited input. Referencing an Australian financial literacy expert (not yet identified to me) engaged by the Department of Human Settlements, the informant believes that there is a distinct lack of coordination of all the role players charged with delivering this imperative. She believes the initiative is fragmented and thus a single view of the state of borrower education is difficult to determine. The informant specifically lamented the lack of a single-point resource where a potential borrower is able to access basic information regarding debt access and obligations without first entering the buying process.

Thus, on the state of borrower education, the informant simply offered that in its current form, borrower education is poor. She believes that many people are not aware of borrower education programmes and their usefulness, where they are offered, or their options for financing. On this matter the informant believes the country is lagging behind other developing and emerging economies.

Regarding barriers to extending the imperative, the informant voiced her belief that stakeholder coordination does not exist. She further stated that government itself being in a state of flux meant that mixed messages on affordable housing and housing at large were being sent. She also stated that government had neither the capacity nor the resources to own the imperative solely. The informant asserts that a mind-set shift is needed so that delivering the borrower education imperative becomes as urgent a priority as delivery of other services prioritised by the department. In her opinion focussing on delivery of housing units alone is an exercise in short-termism.

While the informant believes that these barriers and challenges are not unique to the South African context in their entirety, she does make the point that developed economies have had a head start on the imperative. She further argues that the legacy of apartheid in its housing and education policy has meant the country needed to deal with more than is typically presented as challenges elsewhere.

The informant recommended that banks needed to do a great deal more in promoting the borrower education they have to offer. She further recommended that for the imperative to receive further attention, government needed to take a firmer hand with respect to policy
directives that demanded more of these programmes. While she believed that government should lead this process, lenders themselves needed to play the role of private sector lead, from both a resource and capacity perspective. She details that civil society needed to increase their presence too.

4.2.5 Key Informant 5, Co-founder: Eighty20 Consulting

As a researcher and consultant working periodically on financial access studies, the informant, above all else, asserts that the state of borrower education can only be determined by way of statistically significant efficacy or measurement studies.

She rightly states that there is a dearth of such studies in South Africa or for that matter on the continent. She believes that in a void of such studies, current offerings cannot be assessed or consequently make claims as to their efficacy. Her key criticism of local offerings is in this vain too; as she asserts that no impact metric is tacked on to the programmes.

Regarding default in this segment of the market; she believes that it is in the main a result of declining affordability due to income or expenditure shocks. She does however state that in the domain of “causes of default”, little or no local research has been commissioned.

The outcome of a borrower education programme in the informant’s opinion, is to inform borrowers of the product that they are getting, their rights and obligations arising from the debt and lastly some content that covers how to engage with lenders (when, where, how and why).

The informant argues that a range of stakeholders including government, institutions such as the National Credit Regulator and lenders all have an interest in the execution of borrower education. Noting that the regulator and government would ideally lead initiatives aimed at consumer protection, whilst lenders are best placed to lead aspects dealing with payment behaviour and consequently reducing loan default.

The informant refers to research conducted under the auspices of the Financial Education Fund pointing to anecdotal successes of financial institutions such as Teba Bank. Programmes at this institution are aimed at holistically addressing borrower behaviour by taking aim at savings and credit behaviour.
The informant concludes by stating again that well-designed studies regarding the efficacy of borrower education programmes are yet to be established internationally. She also laments the poor extent to which the subject has been researched locally.

4.2.6 Key Informant 6, Senior Advisor: Mortgage Finance, Cooperative Housing Foundation International

The informant believes that a borrower education programme may be proclaimed successful if it achieves multiple outcomes:

- Imparts and does not assume a critical level of financial literacy,
- Ensures that potential borrowers leave with an understanding of their preparedness to become a home buyer,
- Assess their ability to assume mortgage debt at a particular point in time,
- Understand the processes associated with property transfers and titling,
- Understand the transaction one may conduct within the amortisation period such as capital payments,
- Achieves a level of consumer protection by addressing specifics such as predatory lending, predatory purchasing and above all else,
- A programme may be judged to have been successful when a potential borrower decides that he or she is not prepared at that point to enter into a transaction from an affordability perspective.

The informant believes that lenders being the sole source of borrower education provision presents a conflict of interest. To illustrate the point further the informant describes the intense preparations undergone by potential borrowers in Palestine before they even approach lenders. Thus borrower education in such instances includes the engagement with a lender and how to best handle this part of the process. The informant points to the fact that such a programme would also facilitate smoother transactions during the actual credit application process.

Referring to South African programmes, the informant states that whilst funding for such programmes should be the responsibility of lenders, the running and administering of programmes should sit outside the realm of their responsibilities.
On the format of borrower education programmes, the informant expounds on the need for the material to be accessible above all else. She asserts that borrowers need to be able to relate to the material and illustrates this point by quoting examples of story, vignette and cartoon-based material that have enjoyed some level of success. The informant further recommends a mixed media approach for optimal outcomes; mentioning the use of printed materials, videos, cartoons and class-room based teaching in a combined approach.

The informant’s view on the content is premised on her belief that such education must be culture specific. Illustrating this point, the informant mentioned her experience in implementing such programmes in the Middle East where the concept of month to month budgets are not well established. Assuming this to be the case, programme coordinators realised a change in approach was required to first obtain buy-in on the usefulness of such a budget.

According to the informant, the content of the programme must make allowances for varying levels of literacy - financial or otherwise.

The informant states that programmes that are once-off interventions are fundamentally flawed as the scope of a borrower education curriculum may never be realistically be covered in such a session.

On the ideal duration of training programmes, the informant bases her view on the programmes rolled out in South Africa initially – these were 2 and a half hour sessions, during which the learner received comprehensive written materials. These materials were honed from input by lenders, regulators and developers.

The informant mentioned that the ideal size of such a classroom session was between 12 and 15 people. At such a teacher-student ratio the individual attention that is sometimes necessary is still possible. Regarding the booklet format for presenting training materials, the informant concedes its usefulness, particularly in instances where cultural norms meant that a wife or female partner would not be privy to the actual education session. The informant provides anecdotal evidence of instances where a wife was able to use such a booklet to understand the process and debt obligations.

The informant asserts that trainers should ideally be well versed in the exigencies of adult education.
When asked about whether borrower education programmes could fundamentally address default in this segment of the mortgage market, the informant asserts that no comprehensive study has shown this to be the case. In her view studies that have shown this to be the case are narrow by definition. Ultimately, the informant finds alignment with the view that even educated consumers could by virtue of irrational financial behaviours enter into debt based transactions they have not fully considered. The informant concludes this point by illustrating how gruesome and explicit education campaigns have failed to eradicate cigarette smoking.

Regarding challenges that borrower education programmes face, the informant mentions the lack of funding. In her opinion whilst borrowers could not immediately see the value of such programmes it is a challenge to switch to “borrower-pays” models. The informant states that governments need to assume some of the responsibility for funding as it remains in the interest of central governments to grow an educated market base.

On the state of programmes in South Africa, the informant’s overarching belief is that lenders have failed to quantify the value of the programmes undertaken and have not funded these sufficiently. It is her view that this limits both the scope of the total offering and the extent to which these programmes can be successful. On the issue of funding, the informant states that if mortgage insurers were more active in the South African market, borrower education would naturally fit their purposes and profit motive. She cites the example of the Home Loan Guarantee Company in South Africa.

When asked about ways in which to increase awareness of the utility and successes of the borrower education imperative, the informant states that a longitudinal study that tracked a control and experimental group of borrowers would address once and for all questions of success.

4.2.7  Key Informant 7, Research analyst: National Housing Finance Corporation. Work Stream Lead: Work Stream on Consumer/Borrower Education and Related Capacity Building on the deliberations with the Banking Association of South Africa.

The informant begins by noting that the Financial Sector Charter has been impactful in so far as banks are now more receptive to this segment of mortgage lending. He further asserts that lenders have done so responsibly.
With regards to causes of default in the affordable housing mortgage segment, the informant states that in part these relate to historic perceptions about home ownership (referencing the municipal rates and mortgage boycotts of the 1980’s). He also believes that a lack of understanding regarding the entire home ownership proposition (debt payment, upkeep, municipal rates) could contribute to defaults.

The informant also points to what he describes as a culture of entitlement that leads some borrowers to look on free housing provision with the mind-set that says: “If others are getting housing for free why should I continue to pay for my own housing needs?”

The informant describes how an increased bond deduction resulting from increasing interest rates could lead to a borrower believing that a bank’s profit motives drove the increase and thus borrowers would be inclined to withhold further payment.

According to the informant, a borrower education programme should thus holistically address the legacy perceptions about home ownership in addition to addressing the lack of knowledge surrounding debt obligations. The informant does however firmly believe that before such education can even be embarked upon, the foundations of financial literacy should have been attained through personal budgeting. In his view, the fundamentals of credit contracts and the implications of interest rates and inflation should form part and parcel of the programme. The informant describes how a borrower education programme should also address the asset based value of a home – in his view this would help reduce the occurrence of sales of “RDP – housing” to predatory buyers. The informant suggests there is evidence of people selling such homes to settle short term debt.

The informant states that in changing perceptions, a level of empathy from lenders needs to be ingrained in interactions with clientele from previously disadvantaged groups. He further believes that some element of a borrower education programme must be driven from the position of a caring and empowering lender. Concluding the informant’s considerations on default behaviour, he points out the default reasons common to all segments of the market – these being income or expenditure shocks.

The informant asserts that such an all-encompassing programme would certainly be able to reduce default rates in this segment of the market.

On the state of borrower education and specifically in reference to the role of lenders, the informant does not believe that lenders have adequately expanded borrower education
programmes in the hope of addressing default behaviour. His own research shows anecdotal evidence suggesting that banks only begin educating customers after positive credit assessments. He describes how a potential borrower walking into a branch would only be given a brochure and not talked through how they may proceed with educating themselves regarding the debt obligation they are about to enter into. He believes that a lack of empathy at this crucial stage in the borrowing life cycle has led to a strengthening of the perception that lenders are not concerned with this segment of the market.

In reference to stakeholder involvement, the informant specifically mentions an agreement between national government and the financial services industry that sought to expand on several Financial Sector Charter imperatives, consumer education being one. His prevailing view is that the consumer education initiative should be government led with critical input from the financial sector. He rationalises that consumer education is holistic and all-encompassing and that borrower education is a subset of this.

The informant further describes how a well-educated financial consumer “graduates” to becoming a borrower upon assuming a debt obligation and that this graduation should be preceded and followed by awareness of borrowing fundamentals.

The informant regards the role of lenders as central to the success of the borrower education programme. He believes that the efforts of lenders are best coordinated under the auspices of the Banking Association of South Africa. In the informant’s opinion, the role of BASA should include overseeing content generation and administration of the actual programme. The informant also saw a role for municipalities in furthering homeownership education goals.

On the role of NGO’s and DFI’s, the informant believes that the inclusion of communities in the home ownership education imperative necessitates the use of NGO’s by virtue of their involvement at a grassroots level. DFI’s in his view should aid the imperative by assisting lenders understand the market as well as guiding content updates.

Regarding the content of programmes, the informant believes that this should change to reflect underlying market shifts and should make allowances for changes to relevant legislation and the transaction process itself.
4.2.8 Key Informant 8, Director: Centre for Affordable Housing Finance in Africa

The informant offers that default in this segment of the mortgage market is also a function of income and expenditure shocks and equally prone to inflationary pressures that play out through higher interest rates and borrowing costs. Regarding this segment specifically the informant makes mention of the influence of “social-fabric” issues such as crime, drug addiction, higher unemployment in areas where these housing transactions are primarily made.

The informant believes that, especially in the case of first time buyers who transact on the very edge of their affordability, borrower education, if done well, should be able to assist consumers manage the stress of personal finances. Such programmes in the informant’s view must highlight and detail recourse for consumers – it should result in a customer who is comfortable enough to proactively call up a lender and ask for assistance, should the need arise.

The informant states that the main inhibitor is the positioning of these programmes which she likens to a Cardiopulmonary resuscitation (CPR) course – the need to know often is only made clear at the critical juncture when one actually requires it. Her view is that borrowers will in the main only understand the need for the programme once it is too late.

The informant concurs with the view that borrower education should not solely be the responsibility of lenders. She discusses the reality of a lender not wanting to comprehensively educate a consumer who isn’t already tied into a loan. Thus the model of lender-provided borrower education will mean that lenders only conduct education after the fact. This limits the outcomes of the programme itself. The informant suggests that lenders should view these programmes beyond their conventional risk mitigation uses but see them as social investment spend as well. The informant does however concede that in the absence of hard evidence regarding efficacy of borrower education programmes, banks may be led to spend for marketing rather than borrower education itself.

The informant describes models used in the United States of America where loan advice officers or housing counsellors are set up through donor funding to provide such education. In some instances these counsellors would be in regular contact with the potential borrower effectively coaching them through the transaction and even beyond into the home-ownership
stages itself. Such programmes are also known to cover areas of knowledge dealing with the home as an asset and accessing equity.

With respect to the failings of the current programmes, the informant observes that conducting education programmes at the time of the loan origination inherently makes for a less than great outcome. A further observation is made regarding who should be providing the education, the informant states that lenders are not sufficiently removed from the process to properly and comprehensively address consumer education. The informant states that local authorities and municipalities should play a greater role in the imperative; as should civil society organisations as they are more likely to provide holistic education outcomes.

The informant does not believe the one-off lecture format of delivery to be optimal and further opines that through-the-lifecycle education is essential. Here, the informant uses the analogy of learning to become a better driver while actually practicing the act of driving.

The informant believes that outcomes are inhibited by a lack of consensus on methodologies and formats. She further believes that a lack of funding and a general lack of will have led to the current state of borrower education. The informant states that borrower education needs to be “mainstreamed” within society. Programmes need to be readily accessible and promoted. The informant believes that current programmes may be improved if lenders have a point-person for customers to deal with on a personal basis. The informant suggests that to improve the current state the programme must be expanded to include home-ownership and citizenship education that includes knowledge regarding municipal rates, upkeep and maintenance issues. The informant asserts that these messages need to be pervasive and form part of the content of local television soap operas and national free-to-air programming.

The informant suggests that better outcomes may be facilitated if civil society, public interest groups and NGO’s played a greater role in the borrower education imperative. This is in keeping with her view that lender-led programmes have a narrow focus. The informant states that a lack of capacity will impede further involvement of the Department of Human Settlements. She does however suggest that the Department must include borrower education in its new housing initiatives. She further offers that the imperative could be positioned as a commercially viable programme to be run by a tertiary education institution or a private concern.
The informant suggests a model in which the consumer would also pay a part of the way towards borrower education programmes, believing that consumers’ appreciation of the programme is negatively affected by the fact that it is currently provided at no cost to them.

On content, the informant suggests that this needs to be continually vetted for accreditation and review. This should include feedback from actual users.

Lastly, the informant points to the fact that these programmes need to append a measurement leg to the offering, using default data in addition to the overall sense of the programme as determined by the consumer.

4.2.9 Key Informant 9, Managing Director: The College of People and Management Development.

The informant asserts that a borrower education programme should impart as much information about home ownership as possible. He further states that such education should ultimately prove itself in reducing loan default rates.

The informant declares that borrower education from a lenders perspective is conducted from a compliance stand point and is brought to bear on the industry through pressures of compliance to the Financial Sector Charter. As a result it is poorly supported by lenders – treated as a “poor-cousin” and disregarded as the powerful tool it could well be in creating and sustaining a market previously overlooked. To this end, the informant also believes banks are overlooking how significant this market could be due to their propensity to focus on higher value loans. The informant asserts that borrower education is therefore a means to cultivate a future customer base.

Regarding the efforts of lenders, the informant believes that more industry coordination is required, and that borrower education programmes are to be collaborated on as opposed to the current sense of competition among lenders. As such the informant makes an argument for the initiative to be led by the Banking Association of South Africa as successful outcomes are beneficial to the industry as a whole.

On the role of government, the informant states that while the Department of Human Settlements should not lead the borrower education imperative, it needs to establish market enablement policies through guarantee funds and the like.
On failings of the current format of programmes, the informant again asserts that for lenders the programme is conducted in a “tick-the-box” manner; which is to say from a perspective of compliance only.

4.2.10 Key Informant 10, Chief Executive Officer: Home Loan Guarantee Company

Regarding the outcomes of a borrower education programme, the informant states that it should ideally result in a consumer that is informed and empowered, ultimately leading to better performing loans in this segment.

The informant cites the performance of the HLGC insurance book as proof of the use of borrower education programmes to reduce payment default behaviour. The informant states that the organisation has never recorded default rates in excess of 2%.

On the state of borrower education, the informant laments the “dreadful” disposition of the current initiative. The informant finds fault with lenders primarily, stating that their compliance based approach limits the impact. To the informant’s mind, lenders have not fully understood the benefits of an empowered borrower.

The informant cites examples of the ‘bare-boned” approach she believes characterises the current approach, which is based on minimum input of effort and resources (time and finances). She believes that current offerings are not interactive enough, and by their nature, cannot truly assess the extent to which consumers have synthesised lessons and training materials. The informant also asserts that the content does not cover sufficient detail regarding specifics of the debt-obligations and how it should be maintained. She specifically mentions the lack of general home ownership education that might find consumers appreciating the asset value of housing.

The informant states that the actual borrower education programme needs to build on a foundation of financial literacy. The informant opines that one cannot deliver successful outcomes for borrower education in a void of basic financial literacy. Financial literacy is something the informant believes needs to be owned by the state. She offers that such programmes must begin as early as high schooling. She states further that such education needs to be expanded on in tertiary education institutions; the cost of which should be borne by national government.
On the coordination of borrower education programmes, the informant states that they should not be centralised or vetted as this might impede their success. She does however state that their basic content (paying on time, budgeting and repercussions of default) should be standardised.

The informant believes that the imperative should be owned by lenders themselves and offers that this level of ownership can only be fully assumed after lenders have come to understand the usefulness of the programme.

4.2.11 Key Informant 11, Director: Rent2Buy and My Budget Fitness

The informant points to anecdotal evidence of banks declining mortgage loans to consumers in this space as a result of an unpaid doctor’s bill. To the informant this is a symptom of the current misalignment of the internal credit processes of major lenders and the nuances of this segment of the market.

The informant contends that consumers in this segment do not fully appreciate the value of a credit record and as such cannot understand the repercussions of even seemingly insignificant defaults. It is for this reason that the informant champions comprehensive borrower education programmes.

The informant believes that borrower education programmes need to begin well before the actual origination of the mortgage loan – suggesting that budgeting skills and a customer’s own ability to assess affordability must precede the skills that deal with maintaining a debt obligation. To this end, the informant suggests the use of programmes that offer a model of “homeowner-apprenticeship”. During the term of such a programme, consumers may prove their ability to service the debt obligation. The informant also describes the need for a programme to adequately guide consumers through the first three to six months of ownership as it is this period in which most default occurs – this being a result of the “shock” of payment deductions and the lack of pre-planning for the mortgage payment.

The informant also sees shortcomings in current offerings in that they do not adequately address management of a debt during periods of financial distress. The informant describes how such a programme could prepare borrowers for restructuring debt payments whilst in the distress period. His overriding belief in this area is that consumers must be made to
understand not just their obligation but their prerogative at this juncture to jointly decide with lenders on a plan of remedial action.

As an attorney practicing in the default and distress space, the informant believes that lenders may, from time to time, not act in the best interest of the borrower thus forcing restructuring payments that aren’t realistic or sustainable.

On the current state of borrower education, the informant finds that programmes are conducted on a superficial level. He does not believe it adequately covers issues like asset values and realising equity in a home. The informant believes that a comprehensive process should mean a borrower education programme that lasts at least 6 months covering pre and post purchase phases. The informant concedes that there is a cost factor that lenders cannot overcome in furthering borrower education programmes and suggests these be repositioned in light of the risk mitigation it provides.

4.2.12 Key Informant 12, Director: Setsmol

The informant believes that there has been much progress with regards to the extension of mortgage finance for affordable housing since the advent of the Financial Sector Charter. He believes that the complexity of the home buying process along with factors such as affordability and credit records impede the extension to a great extent.

The informant asserts that the key outcomes of a borrower education programme are to aid the potential borrower in determining their affordability limits before entering into the debt contract. Its aim must be to create a more informed consumer - a consumer aware of the debt obligations, the various role players in the transaction, the actual process of the property transaction and the expectations of the lender and borrower.

He states that the programme should be cognisant of the historically based challenges that shape this segment of the market. When asked for clarity on this point, the informant describes the previously encouraged culture of non-payment (rates and mortgage boycotts) and the inherent distrust of financial services institutions. The informant also suggests that there is still a plethora of misguided notions prevalent among borrowers in this segment – he cites the anecdote of a borrower who stopped paying his mortgage as the roof had sprung a leak and the bank refused to fix it.
The informant further asserts that the programme needs to cover matters such as payment of municipal rates and taxes. He believes that in this way borrower education begins to create responsible citizens as well.

The informant opines that basic financial literacy (budgeting, spending and saving) should precede borrower education and to this end he believes that such literacy should form part of the schooling curriculum.

Regarding the state of borrower education, the informant believes that banks have rightly outsourced this aspect to service providers as they do not have consumer education as a core competency.

The informant believes that he has seen first-hand in his programmes the ability to address default through borrower education programmes.

On the timing of borrower education programmes, the informant believes that they are limited in their current format. He asserts that programmes should be extended into the default or distressed stages as well – where arguably such information is most pertinent.

On the key failings of programmes, the informant believes that they are in poorly funded. He also laments that most consumers do not appreciate the full use of such programmes. The informant states that current programmes do not have a long term outlook. He suggests that such a stance would also aid in developing generational relationships between this segment of the market and lenders. The informant believes that such programmes are not adequate to address systemic failures in financial literacy education levels. He further states that programmes are not properly promoted and awareness thus remains a constraint. The informant believes that the format of the current once-off intervention can never comprehensively address lack of understanding of the transaction and ownership.

Finally, the informant suggests a programme that would aid in remediating the credit records of marginally poorly rated clients. To illustrate this point further, the informant suggests that there are a vast number of potential borrowers listed at the credit bureau for relatively minor and in fact non-procedural transgressions. The informant suggests that programmes to assist such potential borrowers would enable a larger base of potential borrowers.
4.3 Summary of Case Studies of Borrower Education Service Providers

This section presents the summary of the case study portion, investigating the conditions under which service providers roll out borrower education programmes. Refer to Appendix D for a summary of key information.

4.3.1 The Home Loan Guarantee Company

Background

The Home Loan Guarantee Company is a Johannesburg based not-for-profit organisation that is in existence since 1989. The company was assisted in the start-up phase through non-interest bearing loans, and some grant funding.

The company has as its stated goals, the facilitation of “access to housing finance for lower income people through mobilisation and management of guarantees to organisations and institutions that provide home loans…” This is accomplished mainly through the provision of guarantees to lenders, where such risk mitigation cover is not commercially available.

Until 2006, HLGC also provided “finance related education and training to the affordable housing market.” It is in this context that the company is included in this research report.

HLGC viewed borrower education as a risk mitigant and thus their programme was a requirement for lenders to be able to access the Collateral Replacement Indemnity product for borrowers. The advent of the National Credit Act in 2006 required that lenders provide education to their borrowers. With the introduction of this Act, HLGC decided not to continue to provide the education itself. Until that time, lenders had been paying a portion of the borrower education costs, but the primary costs were borne by HLGC. This model was abandoned as it has proved financially unsustainable.

Analysis of Training Considerations

HLGC has trained approximately 34 000 borrowers in 14 years. Training was provided at an approximate cost of R 250 (as at 2006) per consumer while the cost itself was borne jointly by the company and lenders.
The company employed trainers with relevant experience, with the majority of their trainers being teachers and peer educators. The company also augmented these skill sets with “train the trainer” courses, while monitoring and quality assuring trainers on a regular basis.

Training was conducted in Basic English unless a group of borrowers spoke a common indigenous language, in which case it was conducted in that language. Manuals and other printed material were in English alone. The company believes that the bulk of consumers they trained were functionally literate.

The company maintains that less than 2% of those “graduating” from their programmes subsequently defaulted. In instances of default; internal records show these to be due to economic reasons such as retrenchment, increasing interest rates, irresponsible lending (poor screening, not applying accurate lending criteria), illness, divorce and death.

Regarding formats of training, the company used several, including class-room based teaching to small groups of ten to twenty borrowers at a time. The company also conducted role playing exercises and simulation exercises using ‘monopoly money’.

The company followed an accreditation process with the Services SETA and prior to the advent of the SETA’s, had international accreditation from Park Lane College, Leeds, in the United Kingdom.

4.3.2 Setsmol

Background

Setsmol is a private company that was formed in 2001 by Solly Molefe, a previous employee of the Home Loan Guarantee Company, also investigated as part of this research. The company’s vision relates to the promotion of borrower education within the low cost housing finance spectrum of activities. In doing so it aims “to make housing education a pre-requisite in housing delivery” and among other goals to “empower” the previously disadvantaged market segment with housing and “sustainable home-ownership” knowledge. Setsmol has a national footprint and has accreditation from the Construction SETA. The company is currently contracted to deliver the staff housing education programmes of a few corporates and is the service provider of choice for at least one of the 4 major mortgage lenders. Setsmol is a level 3 Broad Based Black Economic Employment contributor.
Analysis of Training Considerations

Training is provided in a U-shaped classroom setting. The company has found this to be a format better suited to the content of borrower education. The company has previously used brochures to deliver the bulk of the content and had found this to be ineffective. The company believes that brochures do not facilitate the addressing of deeply personal beliefs surrounding home-ownership beyond just the meeting of financial obligations arising from debt repayment. Setsmol also previously used videos and the interaction levels were found to be suboptimal. This was confirmed by customers who were made to try both delivery mechanisms. The company has thus decided to settle on the classroom based teaching method augmented by printed content and online resources as well. The company believes that the classroom based setup allows for integration of various cultural issues surrounding homeownership.

Regarding the training staff, the company seeks to maintain a minimum of 2 trainers per province, and currently has 15 contracted trainers. The company recruits mainly from the teaching profession as there is a belief that such individuals are particularly skilled in getting the often complex content across. In addition to this, the company finds that trained teachers are able to ascertain those periods when students do not connect with the material being delivered, yet do not express this explicitly by asking a question.

A maximum of 20 learners are trained at any given time, with a minimum of 15 required to make the session financially viable for the service provider. The programme is run as a 3 hour session and participants complete an evaluation form to test their understanding. Participants are also required to provide written and verbal feedback about what they have learned.

Setsmol provides programmes in the following areas:

- Housing Consumer Education
- Homeownership Education
- Borrower Education
- Tenant Education / Social Housing Education
- Needs Analysis / Research and Advice in housing delivery process - Policy
- Individual counselling in housing issues: Buying, Selling, Renting, Building and Social Housing
• Train the Trainer
• Breaking New Ground Policy

The director estimates that the company has trained in the region of 800 000 potential borrowers since 2001. This figure is likely to include the numbers trained on company programmes as well. The cost of the programme is approximately R 650 per borrower. This cost is for the lender’s account.

According to Setsmol records, approximately 7% of those trained withdraw applications after training – although this cannot be said to be a direct outcome of the education programme itself. The company believes that the withdrawals are a function of the significant transfer and bond registration costs to be paid by the consumer.

With regards to a profile of the consumers who have come through the programme, the company believes most to be of medium to high education levels. The director asserts that the majority of the people could read and write English and were able to calculate mathematical figures, especially important for the Setsmol budgeting exercise.

Setsmol is accredited by the Construction Seta, the company states that either the banking or construction SETA is well placed to provide accreditation.

4.3.3 College of People Management and Development

Background

CPMD is a Johannesburg based private company that has been providing training and development programmes for more than 20 years. The company provides training for private and public sector concerns.

The company states its mission as follows: “CPMD’s role is to provide and equip all practitioners with up-to-date and hands-on knowledge, through outcomes based education. This service we must render to the best of our ability and at the highest level possible. In the process we aspire to become the most successful private training institution in Southern Africa; by attaining competitive market share in the private training industry and training more delegates than any other private training institution.”
CPMD provides borrower education programmes to a few major lenders and other financial services institutions.

Analysis of Training Considerations

The company estimates that it has trained between one and two thousand borrowers on the programme. Regarding the costing of the programme, CPMD primarily charges a monthly retainer fee to the lender and then goes on to train a specified number of borrowers for that fee. The company estimates that this represents a fee of approximately R 350 per attendee for bank type borrower education.

Trainers are mainly recruited from borrower communities and do not necessarily need any qualifications. The company then undertakes an in-house, train-the-trainer programme. Trainers are usually young and unemployed with a minimum of a matriculation pass.

Training is conducted in English; however the community-based trainer model employed ensures that there is a means to cater for the relevant vernacular. The training format is solely classroom based. A typical class would consist of 15 to 20 borrowers. CPMD believes there to be a fundamental issue with technology based formats in that the type of delegate usually trained often does not have access to the technology prior to or post training. Training sessions are four hours long. These are conducted over weekends and may sometimes assume the form of 2, two-hour sessions. There are no scheduled follow up sessions. The training content covers the following areas:

- creating home ownership awareness
- presenting a formal, class room borrower education programme
- finding a home
- applying for finance
- concluding all legal formalities
- making regular home loan repayments
- resolving difficulties if and when they are experienced

CPMD certifies the attendee as competent following an assessment process requiring the borrower to complete a multiple choice test at the end of the session. Upon passing the assessment a competency certificate is issued to the borrower. The company does not track
the success of programmes by individual borrower default statistics. CPMD is accredited by the Department of Higher Education and Training, the SETA for finance, accounting and other financial services (FASSET) and the services SETA (SSETA).

4.4 Analysis and Discussion

The analysis and discussion that follows will seek to synthesise literature reviewed in chapter 2, the findings of this study as laid out in the sections immediately above and lastly the views of the researcher.

It is apposite at this stage to recount the critical areas of investigation. Their significance results from their prevalence in literature, their emergence in the interviews with key informants and from the case studies of service providers. They may be broadly banded as follows: those issues pertaining to the state of the programme directly and those issues which seem to border on the periphery of the imperative in its current state, but actually have a profound impact on the outcomes.

To the first set one may assign the following themes – definitions of outcomes of borrower education programmes and the ability of programmes to reduce payment default. This set also includes programme characteristics such as timing, content and format, the approach of lenders and their providing agents and programme oversight. All of which work to a description of the current state of borrower education.

To the second set we assign matters such a stakeholder analysis and adequacy assessments, the specific significance of grounding financial literacy, the effect of legislation, the impact of unfolding national housing policy, the need to address historically based impediments and finally the role of borrower education in the context of market inclusivity. All of which speak to the context in which programmes are delivered and systemic challenges and opportunities for borrower education as a national imperative.

4.4.1 On Acceptable Outcomes of a Borrower Education

There was consensus regarding the fact that a borrower education programme needed a far more holistic approach than what is currently being offered. To this end, most informants described holistic as dealing with homeownership issues beyond the actual debt obligation itself. The literature reviewed also offered similar insights with one study specifically
recommending that a successful program must combine two goals of promoting homeownership and reducing default rates (Quercia & Wachter, 1996).

Several interviewees listed budgeting and prepayment (capital repayments), home upkeep and maintenance, municipal rates and taxes, the asset value and equity opportunities, budgeting and coping in financial distress situations as successful outcomes. There were also several mentions of the consumer protection aspects that would address the prevalence of predatory transactions (reckless lending and forced or distressed sales).

The views expressed by informants and the corroborating literature does not in itself present a concern, however, there is a vast difference in the landscapes of the empirical studies and literature reviewed and that of the current South African context. This difference arises predominantly as a result of the lack of supporting and augmenting programmes in South Africa. Empirical studies reviewed in this study are able to speak holistically of “homeownership counselling” due to the fact that potential borrowers may, in the course of their home buying process, encounter service providers from various sectors, NGO’s, community organisations and private entities who actively market and promote the need for homeownership education. Thus, even before engaging with a lender, potential borrowers are able, through the budgeting and awareness content, to make self-assessments of their ability to assume and maintain the debt obligation. Moreover, content regarding homeownership, the value of the home as an asset and myriad related items are extended to the “learner”.

In South Africa, there is no evidence, empirical or otherwise, to suggest that borrowers have had previous access to such pre-purchase education. Many borrowers encounter such content in the very limited programmes currently offered through lenders. By this stage they have already been approved from a credit worthiness and affordability perspective.

It is difficult to speak of a holistic outcome of a borrower education programme by way of a direct comparison with best practice. The simple truth is that the lack of supporting programmes such as financial literacy, the lack of content dealing with home equity and asset values, maintenance, the importance of consistent maintenance of rates and property taxes cannot facilitate a holistic outcome. The programmes currently offered seek to primarily address matters of debt obligation. These programmes are often the only programme encountered by a borrower.
In summary, it is ideal to achieve holistic outcomes from a borrower education programme. This can be accepted to mean a programme that addresses homeownership in totality (maintenance, equity and asset value, management of debt obligations, relationship with lender, property tax and rate regimes). It is however not feasible in light of the fact that borrower education is for now a programme run by banks and that much of these outcomes cannot fully be covered in existing programmes. If programmes from other service providers ranging from national government, NGO’s and community organisations were to gain ground, such outcomes become possible.

4.4.2 On the Ability of Borrower Education Programs to Address Payment Default

Very few interviewees would deny that the borrower education imperative could reduce payment default rates in this segment of the market. Several were however reluctant to pronounce on the matter in the absence of concrete evidence (methodologically sound research). Service providers were most adamant, based on their records, that programs could radically reduce default rates.

Literature suggests that homeownership counselling in underserved markets in the United States of America have been found to reduce payment default rates (Agarwal, et al., 2009; Elugardo and Klein, 1998; Hirad and Zorn, 2001). Quercia and Wachter (1996) suggest mechanisms through which counselling can aid in default reduction – essentially by influencing those most at risk to opt out of homeownership. With regards to borrower education specifically, there is research to suggest that the skills taught improve the chances of better budgeting and payment of debt obligations, thus reducing default rates *ibid*.

The focus on empirical evidence to suggest that borrower education can address payment default in affordable housing mortgages is both limiting and confounding. It is understandable given that lenders incur significant costs in rolling out these programmes. If one considers however that causes of default studies have not thus far concluded that the lack of debtor education is the primary cause of default, this focus loses import.

To argue against this focus from another perspective, the definition of success or efficacy metrics must extend beyond the traditional measure of default rate reduction. Such a narrow metric implies that borrower education programmes are able to address causes of default such as economy-wide income and expenditure shocks. This notion is patently incorrect and serves only to reduce the perception of efficacy. Programmes must also be measured by the number
of proactive engagements between lender and borrower at times of distress and very importantly, must include the measure of how programmes have aided consumers in building and accessing equity in mortgaged properties.

4.4.3 On the Timing of Interventions

Most respondents took issue with education being a one-off intervention and described an ideal programme that consisted of a set of interventions beginning well before potential borrowers entered into a transaction.

There was further consensus that well-timed interventions would see programmes targeted at the pre-purchase, transacting, post-purchase and distressed stage of the consumer life cycle. The implication for design of such programmes is discussed later on.

A few respondents spoke of the need for a through-the-lifecycle approach that required counselling as per models used in the United States of America. Here the borrower is able to approach an assigned counsellor who advises on ad-hoc and long-term management of the credit facility. With regards to the local context: South Africa’s Home Loans Guarantee Company defines borrower education as being aimed at providing home owners with the essential knowledge and skills required to access and manage housing finance (Home Loan Guarantee Company, 1999). By this definition the scope of initiatives encompasses both pre and post purchase stages and, if only implicitly, does accommodate addressing behavioural aspects of indebted consumers.

Hirad and Zorn (2001) specify that homeownership education and counselling are defined by the stage at which they are delivered. According to this definition, pre-purchase counselling is designed to prepare future homeowners for the debt they are about to assume and the implications of the transaction. It further introduces and encourages proper financial planning and money management. Post-purchase counselling by this definition involves budgeting, household maintenance and repair concerns.

Other research seems to suggest that “just-in-time” education is more likely to succeed for “adults who are about to make an important financial decision, particularly education delivered at the point of sale…” (Mandell, 2006).

The timing discussion in the South African context is moot, again by virtue of a lack of supporting programmes. Borrower education conducted by lenders is by and large the only
intervention encountered by borrowers. This further constructs the case for entrenching national financial literacy programmes and product-specific post purchase programmes. For example, post purchase counselling, while necessary, is largely non-existent in South Africa. Such programmes have been found to reduce early stage defaults (within the first few months of the mortgage contract).

Another crucial aspect is the role of counselling at the time of financial distress. In South Africa, such counselling is largely the domain of debt counsellors working under the provision of the National Credit Regulator. Were lenders to provide post purchase counselling, programmes of this nature could arguably work proactively to engage borrowers rather that await the outcomes of restructured obligations (resulting from a debt counselling process).

4.4.4 On Matters of Oversight

Although many agreed that it was in the best interests of the lender to lead, fund and conduct this effort some believed this represented a significant conflict of interests. Several informants argued for a greater level of government involvement with regards to oversight. Thus no consensus was reached on who should coordinate or oversee the borrower education imperative.

Key literature reviewed either presents the lack of oversight and coordination in financial literacy and consumer education programmes as a matter for concern or argues for greater stakeholder engagement (FinMark Trust, 2004; Wiranowski, 2003).

The argument for oversight is perhaps only pertinent if there were a plethora of initiatives to speak of, being run by myriad organisations deriving from various motives. This is not the case for borrower education in South Africa.

The lack of oversight is only an issue in so far as it makes for poorly focussed programmes. However given that borrower education is for now mainly the domain of major lenders; oversight will by nature be limited.

Oversight in the South African context would perhaps also address issues such as a lack of buy-in from lenders on matters regarding programme efficacy. It would also serve to bring down boundaries that prevent sharing of best practice and make for a collaborative approach as opposed to the competition ethos that characterises the status quo.
Oversight of existing programmes should ideally belong in the realm of the Banking Association of South Africa. As a focal point the association will serve to review current offerings for scope and efficacy and possibly provide further impetus for broadening the scope with other stakeholders such as national government through the Department of Human Settlements.

4.4.5 On the Role of Financial Literacy

Several respondents believe that borrower education may never realize its full potency in a void of foundational financial literacy. Previous researchers also find that borrower education has a purpose in a “broader array of financial literacy and credit counselling programs” (Hornburg, 2004, p. 5). Regarding financial literacy, there was a significant level of consensus that this was a national imperative and as such needed to be government led. There were also several respondents who shared the view that such education needed to form part of the school curriculum. A scoping and strategy study conducted in 2004 found, in a similar vein, that due to the fact that “financial literacy is viewed as a process of lifelong learning, early learning is critical to the success of a programme.” (FinMark Trust, 2004)

Financial literacy falls outside of the scope of this specific study. Given the overlap in definition and the arguments for a holistic education to include debt based knowledge – commentary on this is not misplaced in this discussion.

Globally, financial literacy programmes have gained ground mainly due to the embedding of such education in school curriculums. South Africa has been making positive strides in this direction but given that this is fairly nascent, a vast majority of borrowers will not have had the privilege of such programmes. Secondly, while no empirical evidence has been found to suggest this, it is fairly intuitive to suggest that general financial literacy programmes should precede more specific product-related (personal loans and micro-finance, credit cards, vehicle finance, mortgages) borrower education. In the South African context then, it is plainly disingenuous to argue for extending borrower education programmes without advocating for broader, further reaching and legacy-addressing financial literacy campaigns.
4.4.6 On the State of Borrower Education

There was a sense among many respondents that the status quo was not sustainable as current offerings were too narrowly focussed to be impactful. There were also a few informants who believed that there was insufficient awareness of current offerings.

Many believed that a lack of funding meant that the current programs would be limited in outlook, scope and reach.

There was little comment regarding the format of the education programmes as most believed that a mix of mediums and the predominant classroom based approach was acceptable.

The timing of the intervention was found wanting as it happened too late in the home buying process to have full effect. Matters of timing and the relevant literature are discussed in section 4.4.3 above.

The state of the borrower education imperative in South Africa is a function of the following factors: definitions of outcomes of borrower education programmes, the ability of programmes to reduce payment default as well as key programme characteristics such as timing, content, format, the approach of lenders and their providing agents and programme oversight.

The characteristics uncovered through this research show that the programme is not vastly different to programmes in the United States of America and other countries (Palestine was specifically mentioned). Key differences arise from the fact that South African programmes rely on a single intervention. Direct comparisons of content serve a limited purpose for the very same reason. South African programmes have done little by way of experimentation with media formats for delivery of content. This cannot however be stated as a fundamental criticism, given that only a comprehensive efficacy assessment can determine ideal formats and content media.

Regarding definitions of key outcomes, it is remarkable that there is complete alignment from a South African and international perspective. This suggests that we burden the limited offering currently available in a void of the myriad interventions other programmes use. It is simply unreasonable to expect such outcomes from what seems to be a 3 to 4 hour long single intervention undertaken in a time that is by its essence ex post facto.
Thus the current state of borrower education as determined by comparison is less than adequate. In context however these programmes appear to bear a burden of delivery that is both ill-considered and unreasonable.

Ideally, national government, civil society and private lenders should seek to provide a complete array of services targeting the various stages of financial engagement, beginning with financial literacy, and then covering specific debt based products from an access and maintenance perspective. The programmes will be cognisant of the local historical context and buyer profiles (education levels, societal idiosyncrasies, language preferences) and deliver within these constraints. The programmes must be funded through both the national fiscus and private sector funds. The programmes will cover all aspects detailed in section 4.4.1 above. Metrics for efficacy need to be established and included in the programme implementation considerations. Coordination should sit at a national government level and capacity for this must be built and maintained.

4.4.7 On the Provision of Services: The Question of Who Should Provide

Several respondents believe that banks were best placed to conduct the programmes as lenders had both the resources required and immediate benefit of a successful outcome. There were, however, dissenting voices who believed that lenders had a conflict of interest in conducting borrower education as they would naturally only benefit from the extension of finance as an outcome. Other suggestions were for the programmes to be owned and managed by national government through the auspices of the Department of Human Settlements. Two commentators did express concern that this department had neither the skillset nor the resources required to do so.

Given that holistic programs need to cater for both pre and post purchase counselling; there are arguments to be made for an approach that allows more role-players to offer such services. Hornburg (2004) makes similar representations but cautions that service providers not directly linked with the transaction would need to ensure mechanisms are in place to consistently be in tune with changes to mortgages services, products and processes.

To summarise this matter, it is apt to raise the conflict of interests that arise from a lender conducting borrower education programmes. This is borne out by the fact that lenders do not conduct such programmes at a stage early enough to facilitate a client’s self-disqualification. It is however an issue that can be described as a design flaw.
The State of Borrower Education in South Africa

The Financial Sector Charter envisioned banks providing this education without fully appreciating the apparent void of systemic elements such as broader and established financial literacy, broader service provision by unrelated parties (NGO’s community organisations). Who, for example, assists consumers with how to approach and deal with lenders? The ideal state would see an array of programmes: early stage and pre-purchase programmes conducted by service providers external to financial services, borrower education regarding debt repayment and perhaps elements of upkeep and asset or equity value, conducted by both banks and local municipalities and, lastly, post purchase programmes led by lenders and independent debt counsellors.

4.4.8 On the Current Approach of Lenders to Borrower Education

Several respondents stated that lenders should not be adopting a competitive approach in the provision of borrower education. These respondents believed that more good was to come from a collaborative industry approach as this would ultimately mean a more informed and possibly lower risk market on the whole. Literature reviewed did not provide sufficient insight into this particular aspect as programmes reviewed were largely provided outside of the lending industry per se.

This speaks specifically to lenders approaching borrower education from a more collaborative manner. Only better outcomes can result. Such an approach may facilitate sharing of successes and could ultimately lead to industry-wide measurement of efficacy.

4.4.9 On the Effect of Legislation on the Imperative

None of the respondents who commented on the matter found any piece of relevant legislation (the National Credit Act or the Consumer Protection Act) to successfully further the scope and outcomes of the borrower education imperative.

The emergence (not the scale or scope, but just the emergence) of South African lender-led programmes may be ascribed to the National Credit Act’s requirements regarding consumer education. A similar argument is presented in the global context (Hornburg, 2004).

Prior to this borrower education was largely missing, if one is to assume that other service providers (NGOs, national government, community based organisations) do not have the scale to reach most consumers.
Legislation is effective only in so far as forcing lenders to provide a programme. The scope and outcomes of the programme cannot, by any manner, be legislated. Several informants see this as lenders only addressing borrower education as a compliance matter; implying it is therefore undertaken with limited buy-in and commitment. One might conclude therefore that legislation will have limited outcomes and perhaps unintended consequences (limited programmes).

4.4.10 On the Likely Impact of the Loan Guarantee Fund

In 2011, the Department of Human Settlements announced a R 1 billion insurance fund that would assist lenders by addressing the apparent risk in lending to this segment of the market. Several respondents commented on the likelihood of borrower education receiving a renewed focus once the fund is instated. The reason for this view is premised on the model previously employed by guarantee funds that required compulsory borrower education before granting of loans. It is also accepted by these respondents that, for the fund to be sustainable, the government would seek to focus on a more comprehensive risk mitigation approach further necessitating a broader borrower education initiative.

It is quite plausible that the guarantee fund would increase government stake in the success of lending outcomes. Simply put, paying out on default claims will become costly enough for government to further mitigate risks by providing or forcing the provision of more comprehensive borrower education programmes.

4.4.11 On the Need to Address Legacy Matters

Although this theme did emerge frequently in feedback from key informants, it cannot be said to have been a unanimous finding. It certainly warrants further attention in characterising the market that receives borrower education and then, by extension, in questioning whether borrower education should aim to address these matters.

As Merill (2001) posits, the story of housing in South Africa post its transition to a democracy in 1994 cannot be divorced from the dynamics of the previous Nationalist government’s racially-based housing policy. There is also the matter of historic anti-lender boycotts and distrust reported by Karley (2006). In the United States of America, research has shown the impact of race-based policies on understanding of financial instruments and credit habits – resulting in the main from a “legacy of barred opportunities to credit” (Ards & Myers, 2001). The South African context must surely exhibit similar traits by
virtue of lender practices under the Apartheid dispensation. In this context, Hornburg (2004) argues that the success of borrower education programs cannot be tied into teaching budgeting and debt payment alone.

Well placed key informants speak to the persistence of historically based notions and have argued that borrower education should fundamentally realign consumers’ beliefs. Borrower education programmes in their current format are well placed to address these matters. Mistrust between lenders and consumers are best addressed in a dialogue between these parties – the current programmes facilitate such an interaction. It is however not feasible to conclude that lenders alone should address these matters. National government, through its housing policy programmes, must cater for re-education initiatives that directly adddress and correct such notions. It is also necessary to educate consumers of the raft of legislation that now offers protection against such matters as overcharging on credit agreements, extra-procedural credit bureau listings and repossession or eviction processes.

4.4.12 On the Format of Borrower Education Programmes

Few respondents outside of service providers were keen to provide a definitive stance on matters pertaining to the format of borrower education delivery. Most were in agreement that an in-person approach was best suited to the market being served. Service providers believed that the classroom-based teaching session was best, but agreed that this could be augmented with written materials as well. The Home Loan Guarantee Company, while no longer providing programmes, claimed to also find success in simulations (with “Monopoly money”). Empirical studies suggest that individually based (one-on-one) formats are best, followed by classroom programmes, home study and telephone counselling (Hirad & Zorn, 2001).

The classroom format used by all the service providers investigated for this research project is well suited for the South African context on many fronts. It enables direct communication and allows an astute facilitator the opportunity to work intimately with potential borrowers and assess areas of difficulty. Printed material, while useful to augment classroom training, cannot replace this format. Such materials are useful in involving spouses or partners that are not always able to attend education sessions for reasons of availability or cultural idiosyncrasies (perhaps the male is the primary decision maker). It is however unreasonable to expect great outcomes if a single classroom based session is the only intervention in
borrower education. Practically, experimenting with different options implies that service providers and lenders conduct some level of efficacy assessment – this is not the case.

4.4.13 On Matters of Market Inclusivity and Enablement

Gross (1998), in testimony before the House Subcommittee on Commercial and Administrative Law in the American Senate, explained the need for debtor education to increase consumer responsibilities, improve consumer behaviour as well as to bring about economic efficiencies in consumer debt transactions (as cited in Block-Lieb, et al., 2002, p. 509). Several respondents spoke of the role of borrower education is creating and sustaining a housing market at the lower end of the traditional market.

The M4P framework prioritises the supporting functions and “rules of the game” in seeking to facilitate systemic changes to the market system. The range of such functions and rules should ideally focus on risk mitigation, transparency, efficiency, cost reduction and innovation (DFID; SDA, 2008).

Borrower education and the role it has in most of these focus areas is crucial. Key informants at the national Department of Human Settlements and Banking Association of South Africa argued for greater intervention of national government to oversee and facilitate more successful outcomes (Nxumalo, Venter, personal communication, 2011).

One respondent argues that while the Department of Human Settlements should not lead the borrower education imperative, it needs to establish market enablement policies through guarantee funds and the like (Jay, personal communication, October, 2011).

While national government and key stakeholders have thus far made positive strides toward enabling a property market at the affordable housing end of the spectrum, some systemic challenges have not been addressed. The framework suggests that market inclusivity is impeded by the lack of information and knowledge as part of an array of ‘supporting functions”. This research allows sufficient insight into this aspect to lead one to believe that much ground is to be made in the challenge of creating an informed market.
4.5 Coda: Closing the Loop

This chapter seeks to synthesise the results of in-field data collection, the directions suggested by empirical and theoretical literature and lastly the views of the researcher. In so doing, conclusions may be drawn on the key research questions. Before doing so however, some matters require the sort of resolution that would be misplaced in the preceding discussion.

Generally speaking, the state of borrower education has been addressed from three perspectives. These perspectives are the actual programme characteristics, the environment that informs the specific exigencies of South African programmes and lastly by comparison to offerings illustrated in empirical studies or by key informants.

While empirical studies suggest characteristics of successful programmes, they almost uniformly make the case for in-context application of these attributes. While there is a strong case to be made for direct application of these “best practice” anecdotes, some concepts are diluted in efficacy by the fact that there is not a vast array of interventions in so far as general consumer education is concerned.

The environment that characterises the South African market does share some similarity with case studies and empirical literature reviewed. The credit behaviour and notions of previously disadvantaged communities are particularly relevant to this discourse. As too are arguments for entrenched early-stage financial literacy programmes that ideally precede borrower education, a globally relevant concept. Stakeholder response to the need for borrower education is however largely irrelevant for comparison. There is a well-established borrower education imperative in many instances of empirical studies reviewed. South Africa’s own initiatives are barely two decades in the offing. The vastness of both stakeholder identities and involvement is thus not yet replicable in South Africa.

Lastly, the need for market inclusivity, as presented through the M4P framework, was studied in a limited manner through a high level assessment of the supporting functions, most pertinently information and knowledge. The framework suggests that the government, civil society and the private sector are all equally responsible for facilitating the extension to previously excluded segments for a more broadly inclusive and sustainable market. This intersection of efforts is largely absent in so far as borrower education in South Africa is concerned.
5. RESEARCH CONCLUSIONS

5.1 Conclusions and Recommendations

This study aimed to determine the state of borrower education for the purposes of affordable housing mortgages in South Africa. The research undertaking also sought to compare South African programmes with offerings abroad, define key challenges posed to the extension of programmes and finally to make an assessment of the contributions of the major stakeholders. Based on the literature reviewed, key informant interviews and case studies of service providers, the following conclusions were reached:

The current state of borrower education, as determined by comparative analysis and stakeholder interviews, is less than satisfactory. Programmes are aimed at educating buyers who have not, in the main, been prepared either from a basic financial literacy perspective or from a point of view that allows for a safe period of guided personal finance analysis.

Current offerings do not address what has been referred to as homeownership education; a term that is meant to convey the holism of an understanding that extends beyond the debt transaction but includes matters of maintenance and upkeep of the property, the asset value of home ownership and the creation and utilisation of equity.

No preparatory programme exists to assist borrowers for engagement with the lender, which is itself a potentially daunting and unsettling process for many borrowers in the lower income segment.

Current programmes do not extend into the post purchase phase period where many have stated consumers typically flounder. This is evidenced by the magnitude of defaults within the 3 to 6 month period. The need for programmes to extend to the stages of financial distress was also uncovered.

There is a dearth of empirical evidence to convince key stakeholders of the efficacy of programmes that have been running to date. Whilst service providers and some lenders have noted positive trends resulting from borrower education programmes, no definitive and comprehensive study exists to prove this correlation.
Defining success in these programmes seems to present a challenge. Any definition of success and or efficacy metric must extend beyond the traditional measure of default rate reduction. Such a narrow metric implies that borrower education programmes are able to address causes of default such as economy-wide income and expenditure shocks, which is patently incorrect and serves only to reduce the perception of efficacy. Programmes must also be measured by the number of proactive engagements between lender and borrower at times of distress and, very importantly, must include the measure of how programmes have aided consumers in building and accessing equity in mortgaged properties.

A common definition of the outcomes of a borrower education programme is not shared by key stakeholders. While most parties agreed on the aim of reducing loan default, many referred to the holistic education required that would accomplish most, if not all, of the following elements:

- Ensures that potential borrowers leave with an understanding of their preparedness to become a home buyer,
- Assess their ability to assume mortgage debt at a particular point in time,
- Understand the processes associated with property transfers and titling,
- Understand the transaction one may conduct within the amortisation period such as capital payments,
- Achieves a level of consumer protection by addressing specifics such as predatory lending, predatory purchasing and above all else,
- A programme may be judged to have been a success when a potential borrower decides that he or she is not prepared at that point to enter into a transaction from an affordability perspective

Challenges that emerged through this study relate to the lack of augmenting initiatives such as financial literacy programmes and various related activities serving to holistically educate borrowers. There is also the challenge relating to the lack of presence of other stakeholders, as the initiative is led solely by lenders. The challenge presented by a lack of cooperation between lenders and the resulting loss of potential economies of scope and scale for programmes has also emerged. Lastly the imperative is challenged by the lack of a focal point that would serve to champion and coordinate borrower education.
Regarding the role of the various stakeholders, no resounding conclusion could be drawn from the interview process. Some respondents expressed support for the status quo that finds lenders responsible for the running of programmes. Others felt that this presented an inherent and insurmountable conflict of interest, which inevitably meant that programmes would be narrowly focussed and covering little more than the debt servicing aspects. There were many who argued that the Banking Association of South Africa provided a natural focal point to coordinate and administer the industry wide effort. There was an overriding view that government, through the auspices of the Department of Human Settlements, needed to play a central role – yet no abiding definitions of what this would practically mean emerged. Some respondents believed that there was a need for government oversight of programmes or that government needed to own the foundational financial literacy programmes.

There was a sense that recent developments in the national housing policy programme, specifically the advent of a risk guarantee fund, would see the borrower education imperative rejuvenated. This view was premised on government needing to sustain the guarantee fund via more comprehensive risk mitigating approaches.

Recommendations for the remediation of the effort are grounded in conclusions on the status quo, input from key informants regarding the path to better outcomes and, finally, literature suggesting best practice approaches.

The borrower education imperative cannot be built on anything but a solid foundation of financial literacy education. It is, therefore, recommended that early stage financial literacy needs to receive national focus. There is empirical evidence to suggest that these programmes are best introduced into the schooling curriculum and fortified at tertiary education level where possible.

It is recommended that borrower education be grown beyond its current lender-led format. The involvement of civil society, non-governmental organisations and community based organisations will begin to address concerns that lenders have no interest in extension of the scope of the programme beyond debt-repayment aspects. Who for instance currently prepares borrowers on how to even engage with lenders?
Current lender-led programmes need to extend well beyond the on-boarding of borrowers and must attempt to assist borrowers during empirically established “pain-points” such as the first 3 to 6 months of the loan term and especially during periods of financial distress.

5.2 Future Research Directions

The findings and conclusions arising from this research undertaking highlights the need for a body of future research. Such research would seek to further the aims of the borrower education imperative by:

- Providing the empirical evidence to suggest that borrower education can in fact reduce the incidence of loan default.
- Establishing a sound approach to borrower education methodology incorporating content design, optimal format and mix of delivery and finally addressing political and cultural idiosyncrasies in the South African context.
REFERENCES


The State of Borrower Education in South Africa


Overview of the affordable housing market: Volume of stock

The property market analyst Lightstone indicated that the affordable-housing market currently represent 3.5 million properties with a collective value of R850 billion. Of these, 2.3 million properties stand at a lower level in the affordable segment (properties valued below R250 000) and 1.2 million properties stand at a higher level in the segment (properties valued at between R250 000 and R450 000). However, the report indicates that there is still a shortfall in the number of properties required to meet the demand. Lightstone estimates a shortfall of between 5 million and 6 million properties valued under R100 000; and a shortfall of 1 million properties valued in the range R100 000 to R200 000. The report furthermore indicates that the property market is very concentrated in key nodes, as more than half the housing stock is in Gauteng, Western Cape and KwaZulu-Natal (Lightstone, 2011).

*Excerpt from the Department of Human Settlements Annual Report (2010/11)*
APPENDIX B: RISK PERCEPTIONS IN AFFORDABLE HOUSING LOANS

Less income, less default

Joan Muller
Thursday, 15 Sep 2011

Are SA banks pricing in too much risk when lending to lower-income earners? It appears so.

New research commissioned by FinMark Trust, in association with credit consultants Eighty20, suggests that banks may well be overestimating the risk of default among households typically earning less than R8000/month.

The study reveals that, in contrast to popular opinion, the affordable housing market poses a lower risk of mortgage default than its more affluent counterparts.

Kecia Rust, head of FinMark’s housing finance division, says the aim of the study was to track the performance of the home loans originated between 2004 and 2008 by the four major banks in terms of the financial services charter.

Though banks originated a total of R44.8bn in mortgage finance to households earning R1400-R7999/month in the five-year period — comfortably exceeding the charter target of R42bn — no data has been provided on the performance of these loans until now.

The Eighty20 study shows a noticeable increase in defaults in the broader home loan market since 2004. The percentage of non-performing loans (in arrears for more than three months) of all active mortgage loans hit 9.4% in January this year. In the charter target portfolio, however, the figure for mortgage arrears was lower, at 7.6%.

“Though the same pattern of deterioration is visible with respect to loans granted to lower-income earners, this segment of banks’ mortgage books hasn’t reached a level [of default] similar to the overall market,” says Rust.

Eighty20’s mortgage performance data appears to lend some credence to human settlements minister Tokyo Sexwale’s view that banks are charging too much to lower-income home buyers. At the annual conference of the African Union for Housing Finance in Sandton last
week, Sexwale urged banks to lower their interest rate margins on mortgage products aimed at the lower end of the housing market. “It doesn’t make sense for banks to be trying to make money out of the poor,” he said.

Sexwale referred to government’s proposed R1bn mortgage guarantee fund, saying his ministry is in talks with the Banking Association of SA to find the best way to implement the programme. He said the fund, which will reimburse banks in cases of default, should encourage them to increase their lending to the so-called gap market. The latter can generally afford to buy houses priced from R100000 to R250000, with a household monthly income of R3500-R10000.

It’s not clear when government’s R1bn guarantee fund will be implemented, but Pierre Venter, the Banking Association’s GM of banking and financial services, says the process could take 12-18 months to finalise.

Though the guarantee fund is welcome, Venter doubts it will help close the affordability gap.

“Government’s guarantee may well mitigate banks’ cost of risk somewhat, but it doesn’t mean that pricing will be aggressively reduced. I will be surprised if banks shave more than 1%-2% off their overall interest rate charges.”

Besides, says Venter, access to credit is no longer the key issue.

“The fact that banks exceeded the charter lending targets in the five years to end-2008 and have since continued to generate home loans to the tune of R4bn/year to the gap market shows that they are more than willing to lend to lower-income households.”

The greater problem, says Venter, is that there’s very little, if any, stock available priced below R250000. To afford that, a family needs to earn around R10000/month.

Rust says that leaves a substantial 20% of all SA households out in the cold. The latter earn too much to qualify for a government-subsidised house but not enough to afford the most basic of entry-level homes.

APPENDIX C: INTERVIEW QUESTIONS

Questions for DFI’s

1. What, for you, is the main outcome of a borrower education program?
2. What in your view is the state of borrower education in SA?
3. Has borrower education been effective in addressing what it’s intended to do?
4. What are its failings?
5. What are successes that come to mind?
6. What are key barriers to extending the programmes in SA?
7. What would your recommendation for improving the current state of borrower education be?
8. Does your mandate envision a specific role for you in the borrower education landscape?
9. How have organisations such as yours looked to play a role in the borrower education imperative?
10. What has your experience been in this regard:
   - Who are the players you have engaged?
   - How if at all are their efforts coordinated?
   - What efficacy metrics are they “tied” in to their efforts?
   - What would you say their relative successes and failings have been?

Questions for Lenders

1. Do you believe that the extension of finance for low cost housing in SA has been adequate thus far?
2. If not, what would you say are the key reasons for poor extension of finance in affordable housing?
3. What would you say are the main causes of default in lending in this space?
4. What, for you, is the main outcome of a borrower education program?
5. Given your experience thus far do you believe that a borrower education programme can adequately address default?
6. What in your view is the state of borrower education in SA?
7. Has borrower education been effective in addressing what it’s intended to do?
8. What are its failings?
9. What are successes that come to mind?
10. What are key barriers to extending the programmes in SA?
11. What would your recommendation for improving the current state of borrower education be?
12. As a lender what has been the extent of your involvement in the imperative.
13. How do you select service providers – what criteria is applied?
14. How are providers monitored?
15. Is the efficacy of the programme you commission evidenced in lending patterns?
16. With regards to other role-players:
   - Who are they?
   - How if at all are their efforts coordinated?
   - What efficacy metrics are they “tied” in to?
   - What would you say their relative successes and failings have been?

Questions for Service Providers

1. What, for you, is the main outcome of a borrower education program?
2. Given your experience thus far do you believe that a borrower education programme can adequately address default?
3. What in your view is the state of borrower education in SA?
4. Has borrower education been effective in addressing what it’s intended to do?
5. What are its failings?
6. What are successes that come to mind?
7. What are key barriers to extending the programmes in SA?
8. Given that programmes abroad have been found to address default and improve loan quality, how applicable are these practices to SA?
9. What would your recommendation for improving the current state of borrower education be?
Stakeholders Related Questions:

1. Who are they?
2. How if at all are their efforts coordinated?
3. What efficacy metrics are they “tied” in to?
4. What would you say their relative successes and failings have been?

Questions relating to Practices:

1. What format do you use for training – what have you tried – what is most effective?
2. What cost
3. Who pays
4. What measures for outcomes and efficacy
5. What frequency
6. Who trains
7. What timeframe?
8. Who oversees / grants accreditation if applicable?

Questions for Researchers and NGO’s

1. Do you believe that the extension of finance for low cost housing in SA has been adequate thus far?
2. If not, what would you say are the key reasons for poor extension of finance in affordable housing?
3. What would you say are the main causes of default in lending in this space?
4. What, for you, is the main outcome of a borrower education program?
5. Given your experience thus far do you believe that a borrower education programme can adequately address default?
6. What in your view is the state of borrower education in SA and can you contrast this with the imperative in other developed and emerging economies?
7. Has borrower education been effective in addressing what it’s intended to do, again are you able to provide a comparative view?
8. What are its failings?
9. What are successes that come to mind?
10. What are key barriers to extending the programmes in SA?
11. Are such barriers generic or unique to the SA system and if generic how have they been addressed elsewhere?
12. Given that programmes abroad have been found to address default and improve loan quality, how applicable are these practices to SA?
13. What would your recommendation for improving the current state of borrower education be?

Stakeholders Related Questions:

14. Who are they?
15. How if at all are their efforts coordinated?
16. What efficacy metrics are they “tied” in to?
17. What would you say their relative successes and failings have been?

Questions relating to Practices:

18. What format
19. What cost
20. Who pays
21. What measures for outcomes and efficacy

Questions for Policy and Oversight Bodies

1. Do you believe that the extension of finance for low cost housing in SA has been adequate thus far?
2. If not, what would you say are the key reasons for poor extension of finance in affordable housing?
3. What would you say are the main causes of default in lending in this space?
4. What, for you, is the main outcome of a borrower education program?
5. Given your experience thus far do you believe that a borrower education programme can adequately address default?
6. What in your view is the state of borrower education in SA and can you contrast this with the imperative in other developed and emerging economies?

7. Has borrower education been effective in addressing what it’s intended to do, again are you able to provide a comparative view?

8. What are its failings?

9. What are successes that come to mind?

10. What are key barriers to extending the programmes in SA?

11. Are such barriers generic or unique to the SA system and if generic how have they been addressed elsewhere?

12. Given that programmes abroad have been found to address default and improve loan quality, how applicable are these practices to SA?

13. What would your recommendation for improving the current state of borrower education be?

14. Do you believe that consumer credit policies are effective in driving the penetration of such programmes?

Stakeholders Related Questions:

15. Who are they?

16. How if at all are their efforts coordinated?

17. What efficacy metrics are they “tied” in to?

18. What would you say their relative successes and failings have been?
## APPENDIX D: TABULATED SUMMARY OF CASE STUDY FINDINGS

<table>
<thead>
<tr>
<th>Provider</th>
<th>Format</th>
<th>Cost-Model</th>
<th>Content</th>
<th>Assessment</th>
<th>Tracking of Post Programme Customer Behaviour</th>
</tr>
</thead>
</table>
| HLG C    | Class-room based. Includes simulations. | Subsidised; partial lender payment | • creating home ownership awareness  
• presenting a formal, class room borrower education programme | Competency test | Yes                                            |
| Setsmol  | Class-room based | Lender pays | • creating home ownership awareness  
• presenting a formal, class room borrower education programme | Competency test | Yes                                            |
| CPMD     | Class-room based | Lender pays | • creating home ownership awareness  
• presenting a formal, class room borrower education programme  
• finding a home  
• applying for finance  
• concluding all legal formalities  
• making regular home loan repayments | Competency test | No                                              |
- resolving difficulties if and when they are experienced