



MAKING FINANCIAL MARKETS WORK FOR THE POOR

**The access frontier for housing finance in South Africa:
How low can you go?**

28 March 2006

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Agenda

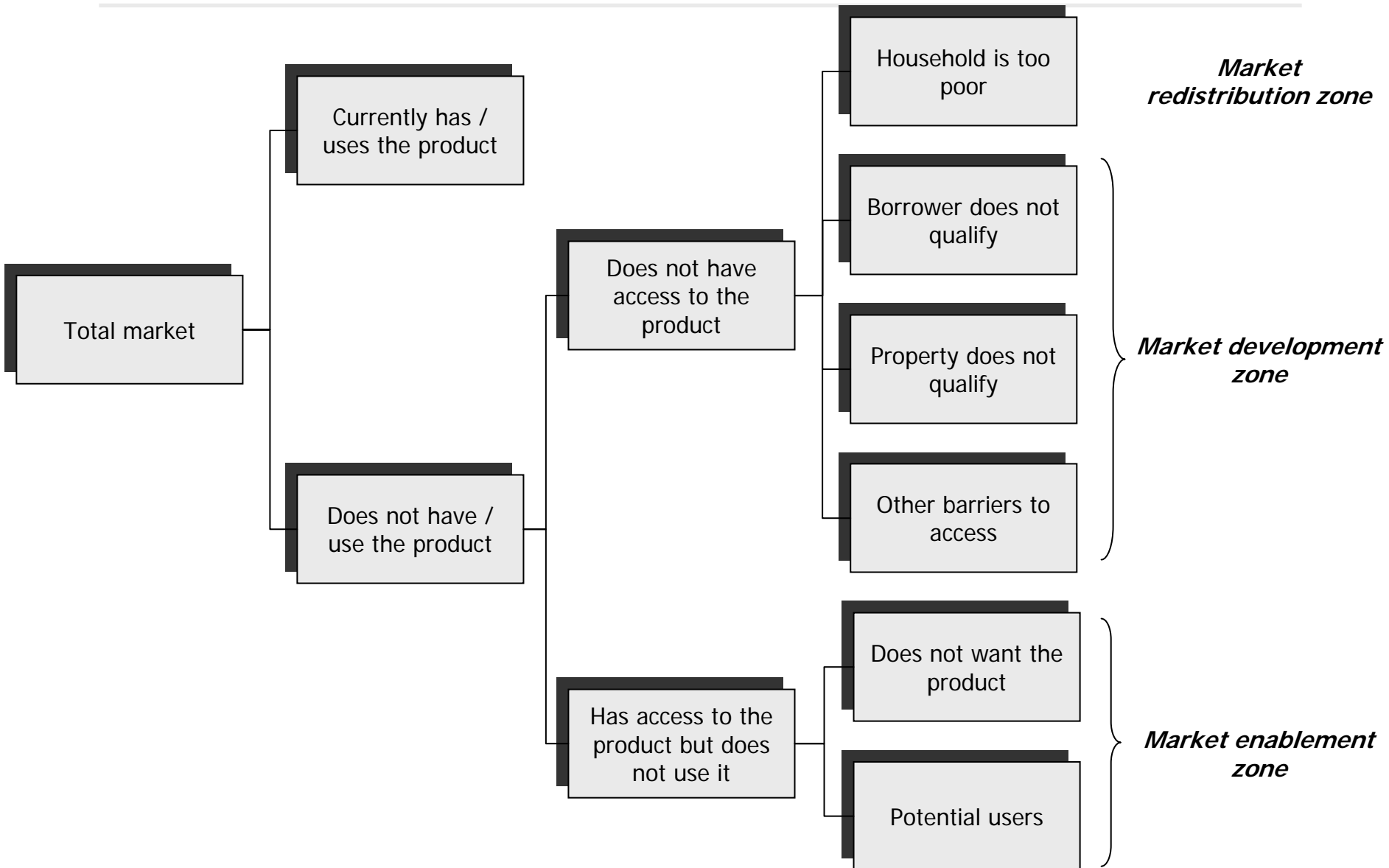
1. Introduction to the access frontier

2. Defining the market and product

3. Market zones

4. Conclusions

A framework for analysing access



Agenda

1. Introduction to the access frontier

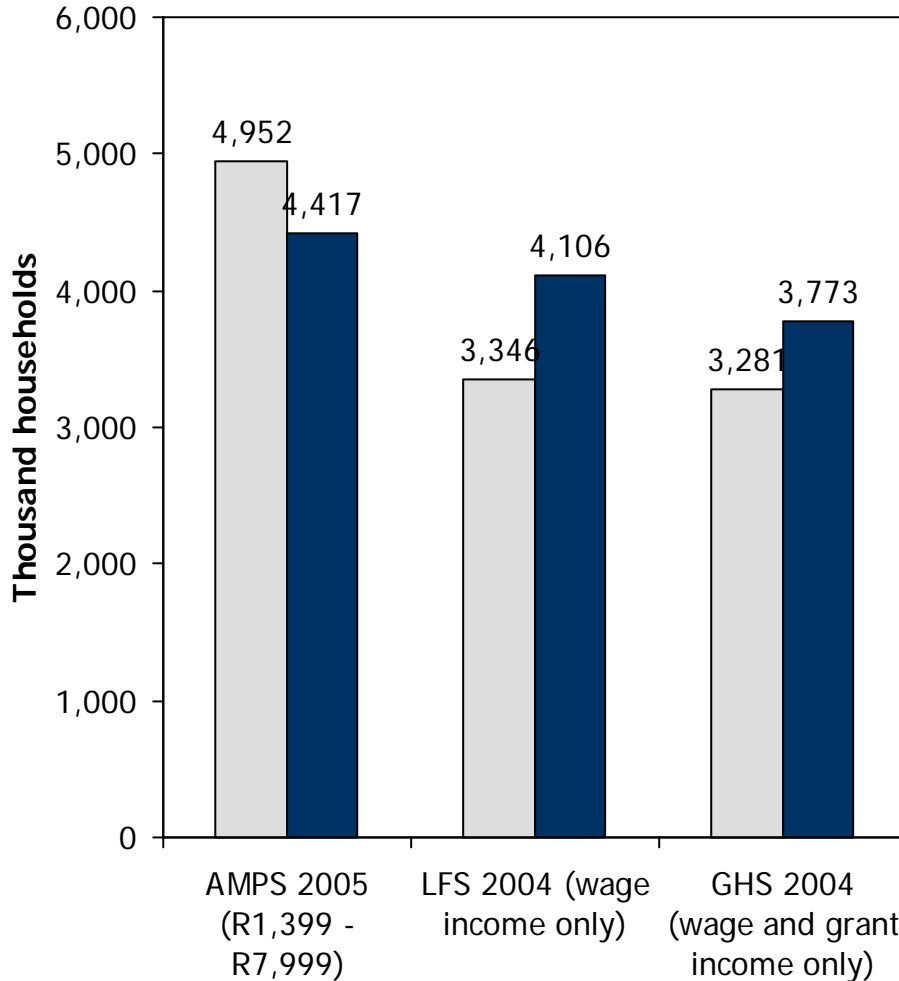
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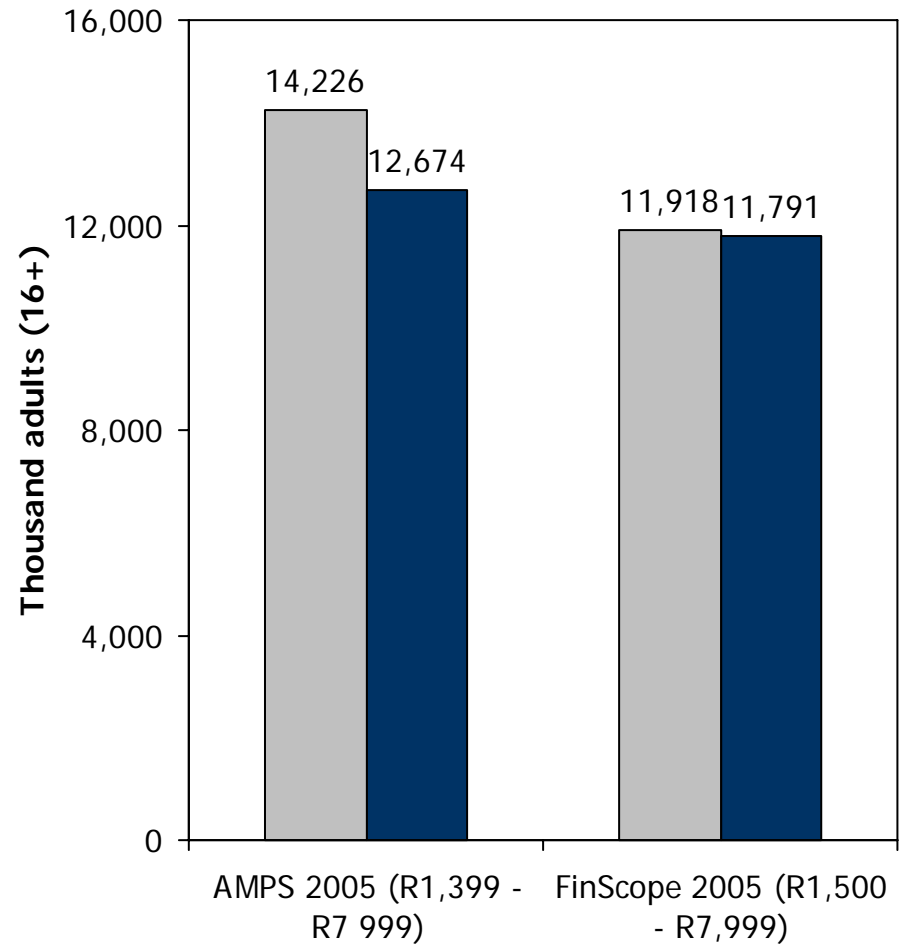
4. Conclusions

The market is defined as those households who have a monthly household income of between R1 500 and R7 500. There are around 4 million households and 12 million adults in the target market

Estimates of the size of the target market: Households (000s)



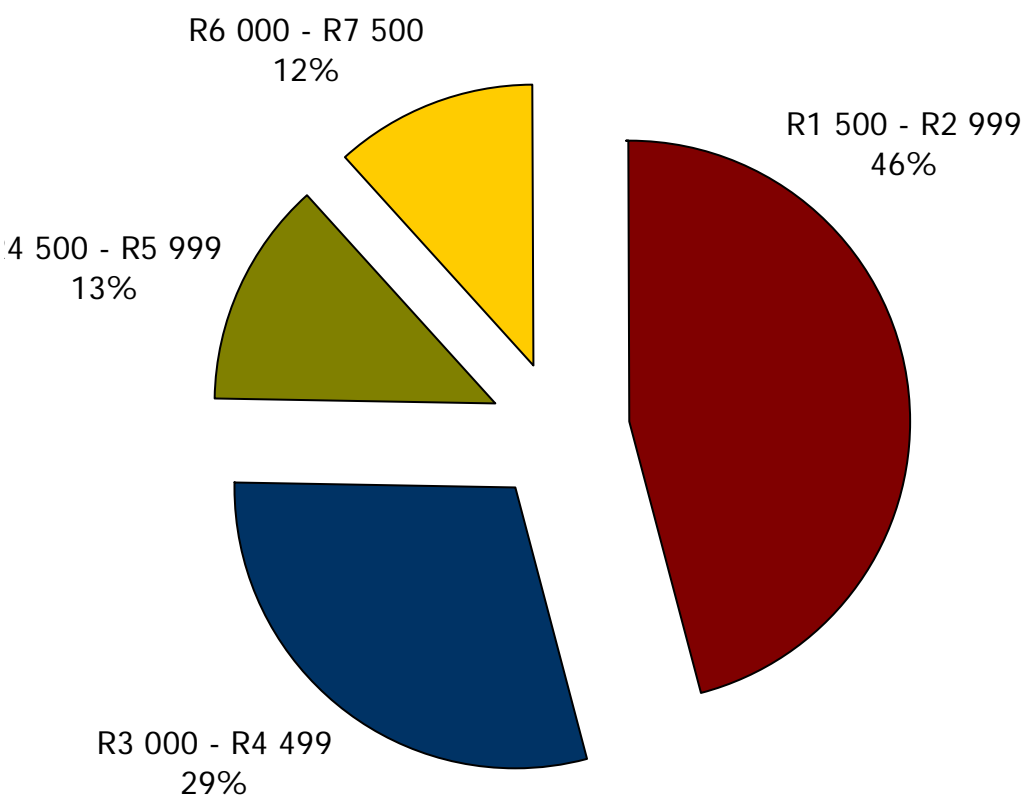
Estimates of the size of the target market: Adults (16+, 000s)



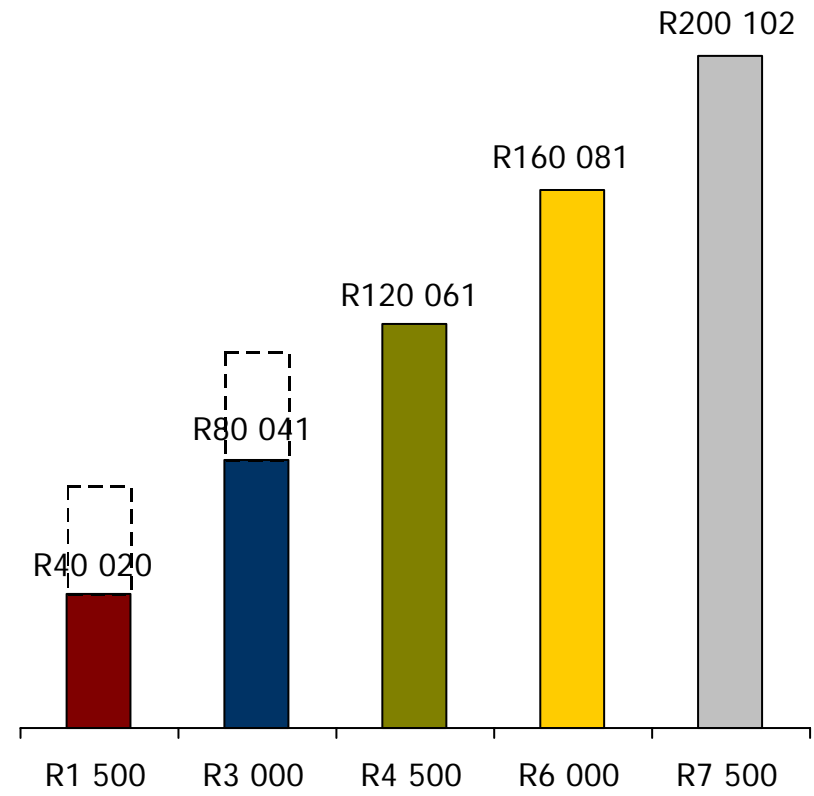
Survey finding
 Best estimate


Almost half the households in the target market earn less than R3 000 per month

Distribution of households by monthly household income



Maximum loan values (12.5%, 20-year loan, installment = 30% of income)

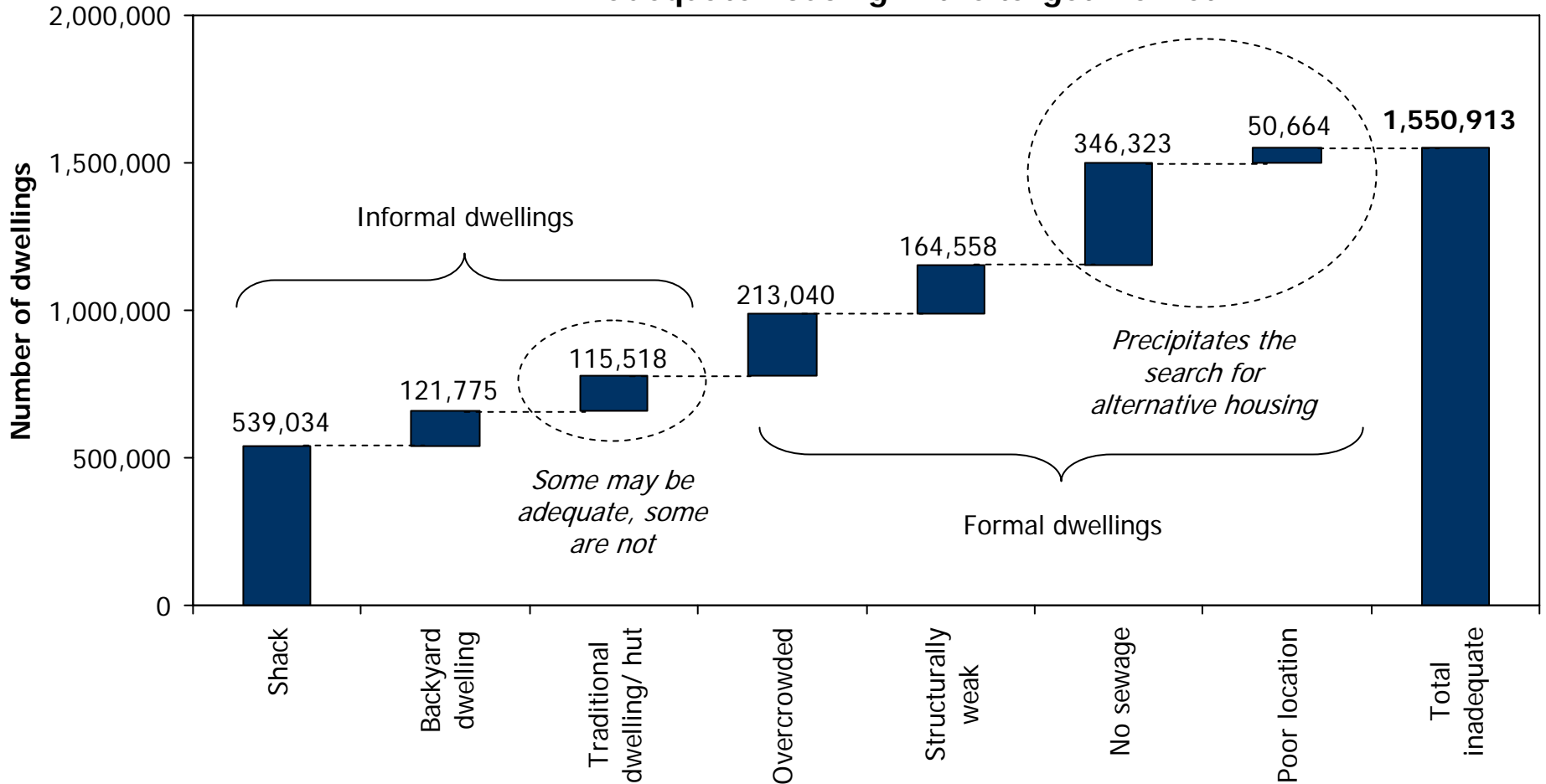


 Housing subsidy

Source: Labour Force Survey September 2004

Within the target market there are over half a million households in shacks. One million more dwellings are inadequate

Inadequate housing in the target market



A range of housing finance solutions is required

| | Loan term and size | Interest rate | Deposit and LTV | Qualifying criteria |
|--|---|---|---|---|
| ABSA (My Home) | <ul style="list-style-type: none"> ▪ Typical term: 20 years, max term: 30 years ▪ Min size: R20 000, max size: Subject to affordability | <ul style="list-style-type: none"> ▪ Variable rate: Prime linked (lowest rate is prime), based on risk ▪ Convertible adjustable rate: Option of 5 year fixed rate at base rate +2 | <ul style="list-style-type: none"> ▪ No deposit necessary if sufficient collateral is in place (HLGC 5 year collateral insurance or employer guarantee) ▪ Maximum LTV is 110% | <ul style="list-style-type: none"> ▪ Single or joint regular monthly income of R1 500 – R7 500 ▪ Must repay loan before retirement |
| FNB (Smart Bond) | <ul style="list-style-type: none"> ▪ Typical term: 20 years, max term: 30 years ▪ Min size: R20 000, max size: R240 000 | <ul style="list-style-type: none"> ▪ Variable rate: Prime linked (will provide loans below prime), based on risk ▪ Convertible adjustable rate: Option of 5 year fixed rate at base rate + 1-1.5 | <ul style="list-style-type: none"> ▪ No deposit necessary if sufficient collateral is in place (HLGC 5 year collateral insurance or employer guarantee) ▪ Maximum LTV is 108% | <ul style="list-style-type: none"> ▪ Single or joint regular monthly income of R2 500 – R10 000 ▪ Must repay loan before retirement |
| Nedbank | <ul style="list-style-type: none"> ▪ Subject to affordability | <ul style="list-style-type: none"> ▪ Variable rate: Prime linked ▪ Convertible adjustable rate: Option of 5 year fixed rate. Pricing depends on risk | <ul style="list-style-type: none"> ▪ Deposit requirement determined on the merits of each application. Other collateral will be considered ▪ Maximum LTV is 108% | <ul style="list-style-type: none"> ▪ Single or joint regular monthly income of R5 000+ |
| Standard Bank (Dream start) | <ul style="list-style-type: none"> ▪ Typical term: 20 years ▪ Max term: 30 years ▪ Size subject to affordability | <ul style="list-style-type: none"> ▪ Variable rate: Prime linked (lowest rate is prime less a quarter), based on risk ▪ Convertible adjustable rate: Option of 2 year fixed rate at base rate + 1 | <ul style="list-style-type: none"> ▪ No deposit necessary if sufficient collateral is in place (HLGC 5 year collateral insurance or employer guarantee) ▪ Maximum LTV is 103% | <ul style="list-style-type: none"> ▪ Single or joint regular monthly income of R1 500 – R6 000 ▪ One year stable employment ▪ Must repay loan before retirement |
| Beehive | <ul style="list-style-type: none"> ▪ Term: 12 years ▪ Min size: R20 000, max size: R150 000 | <ul style="list-style-type: none"> ▪ Fixed rate at 17% pa | <ul style="list-style-type: none"> ▪ No deposit necessary if sufficient collateral is in place (State guarantee or cession of pension fund) | <ul style="list-style-type: none"> ▪ First time homebuyer ▪ Single or joint regular monthly income of less than R10 000 ▪ Mostly government employees |
| Green-start | <ul style="list-style-type: none"> ▪ Term: 15 or 20 years (2 products) ▪ Min size: R30 000, max size: R230 000 | <ul style="list-style-type: none"> ▪ Variable rate linked to prime. No fixed rate option | <ul style="list-style-type: none"> ▪ 10% deposit or collateral in the form of employer guarantee (20%) | <ul style="list-style-type: none"> ▪ First time homebuyer ▪ Single or joint regular monthly income of R1 750 – R7 500 ▪ Formal employment ▪ Must repay loan before retirement |
| Mpumalanga Housing Finance | <ul style="list-style-type: none"> ▪ Term: 5 years ▪ Min size: R20 000, max size: R36 000 | <ul style="list-style-type: none"> ▪ Fixed rate at 16% pa | <ul style="list-style-type: none"> ▪ 5% deposit or collateral in the form of employer guarantee or HLGC collateral insurance | <ul style="list-style-type: none"> ▪ Single or joint regular monthly income of R1 500 – R3 500 ▪ Must repay loan before retirement ▪ House must be in Mpumalanga |

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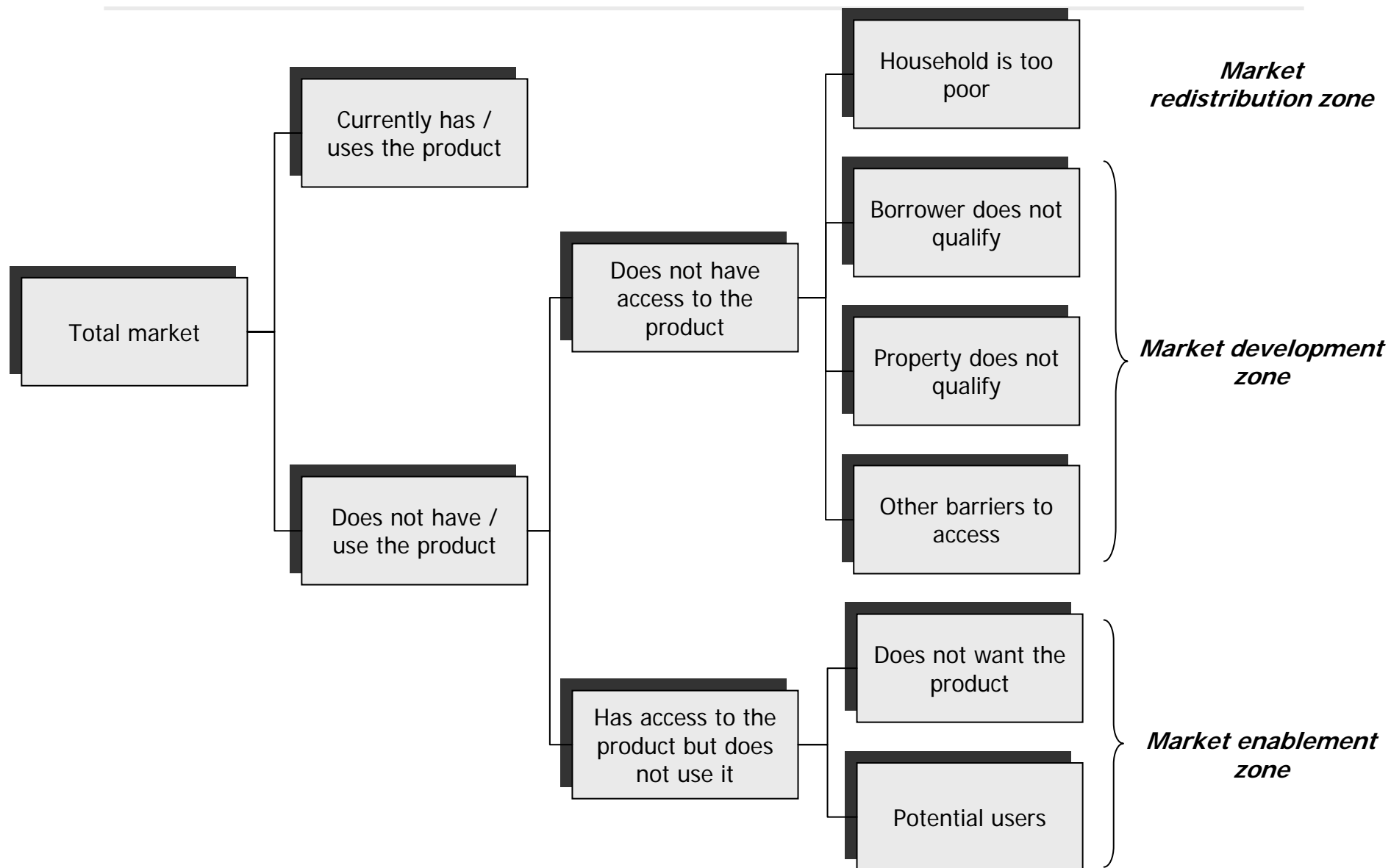
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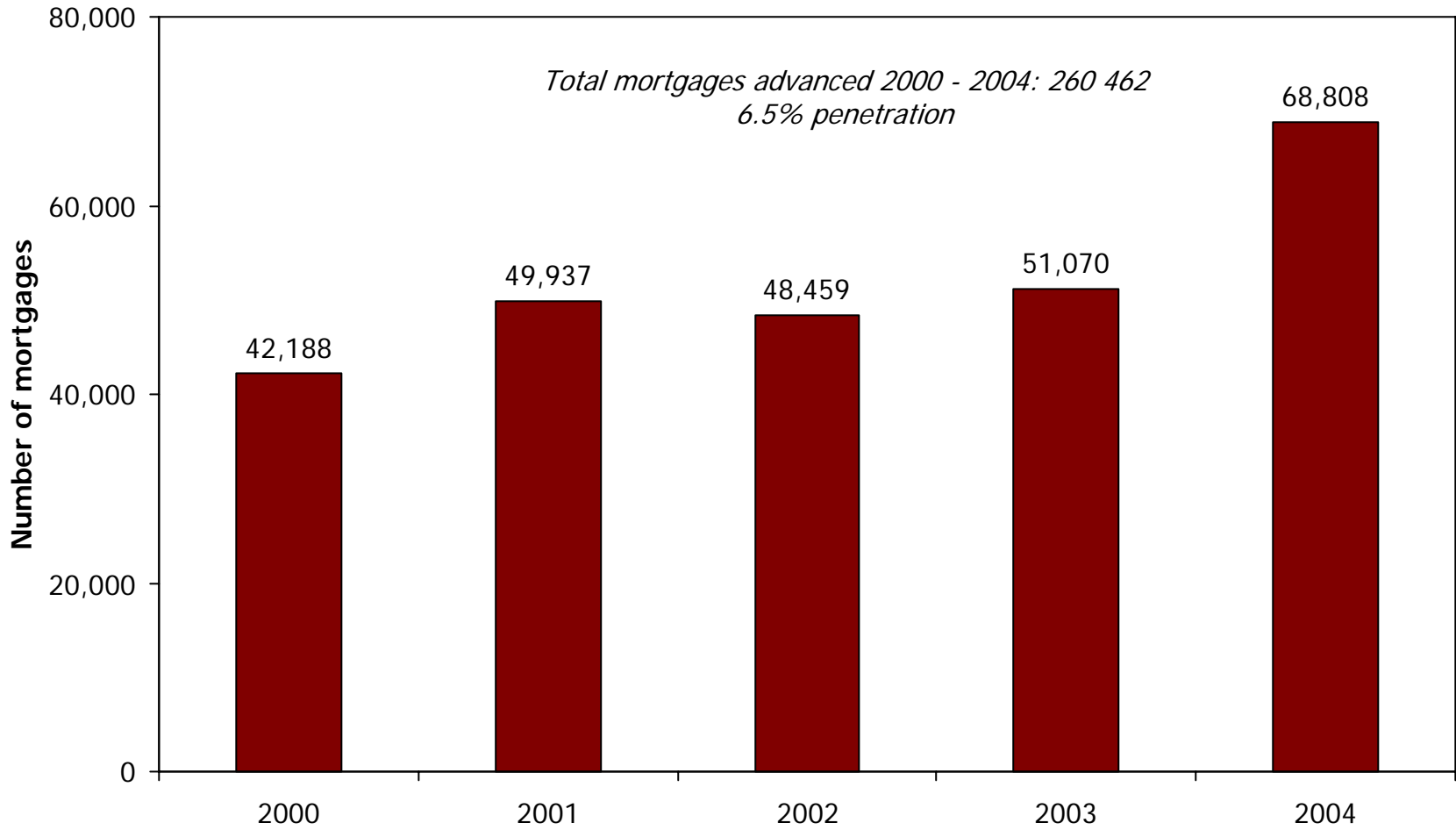
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Populating the access frontier



Accurate supply-side data is not available on the number of households in the target market who have a mortgage from a bank. Deeds office data provides an indication of recent advances

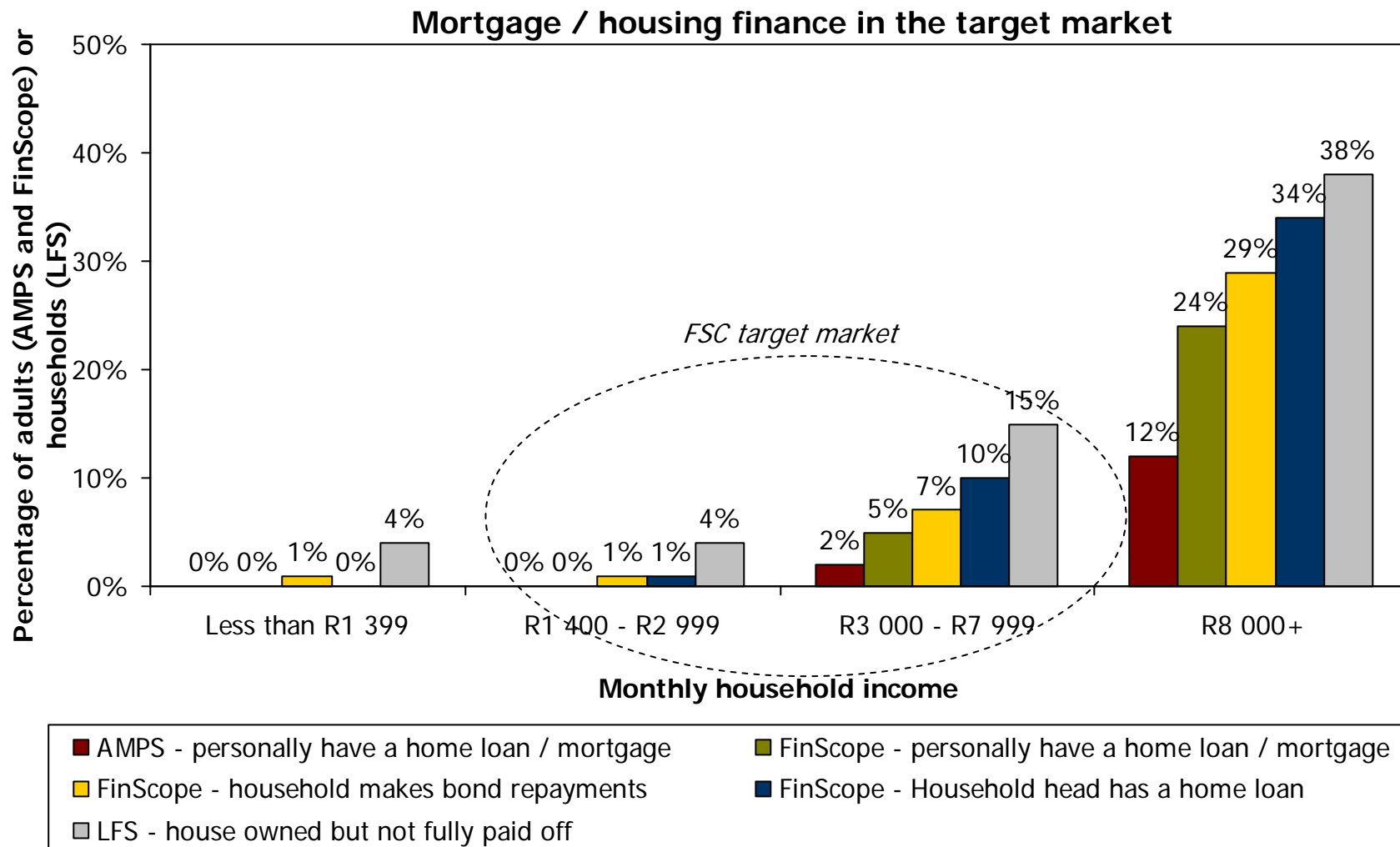
Mortgages in the affordable housing segment*



Source: Deeds office data as reported in BASA study "Housing Supply and Functioning Markets"

Note: Affordable housing segment defined as those where the price is less than R200 000 and the installment is affordable to those earning between R2 500 and R7 500 per month

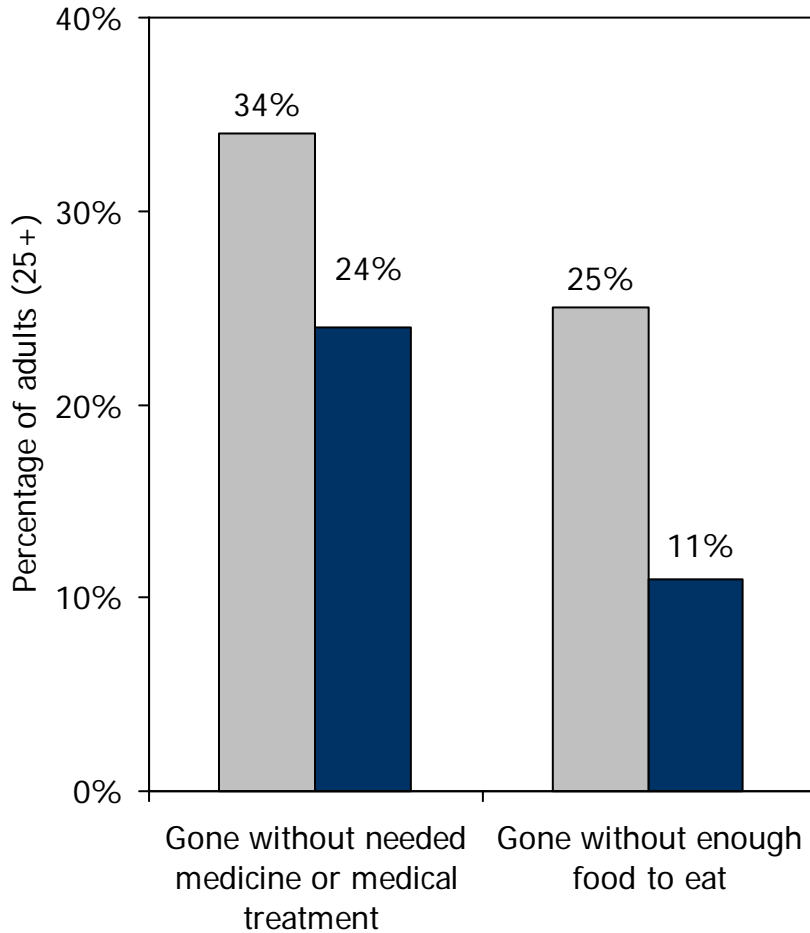
Surveys provide a range of estimates of usage



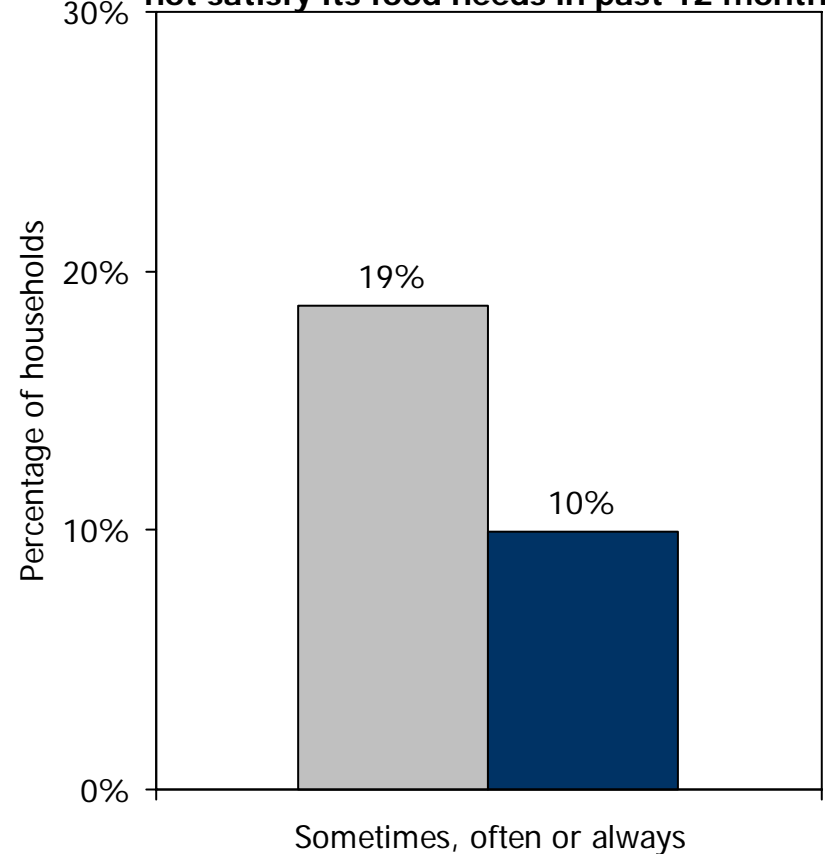
Best estimate of mortgage penetration in the target market: 5%

Although the market does not incorporate the 'hard-core' poor, poverty is a reality for many in the FSC target market

Adults (25+) in households in the target market that have sometimes or often..



Percentage of households in the target market that sometimes, always or often could not satisfy its food needs in past 12 months



■ Household income: R1 500 - R2 999

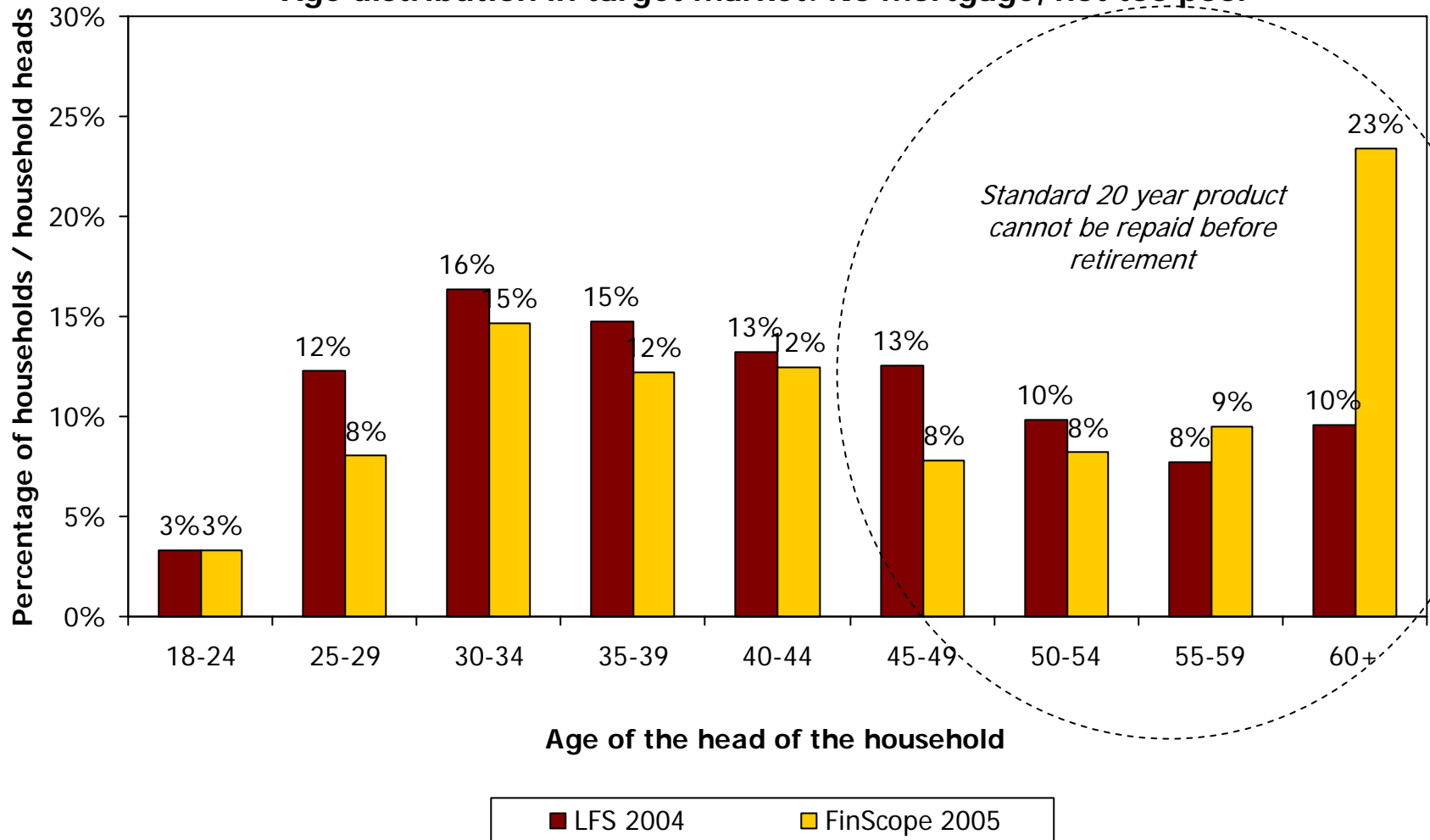
■ Household income: R3 000 - R7 999

Source: FinScope 2005, LFS 2004

Note: Income category for FinScope is R3 000 – R7 999

Between 40 – 50% of those who do not have a mortgage and are not too poor cannot access the standard 20-year mortgage product because they are too old

Age distribution in target market: No mortgage, not too poor

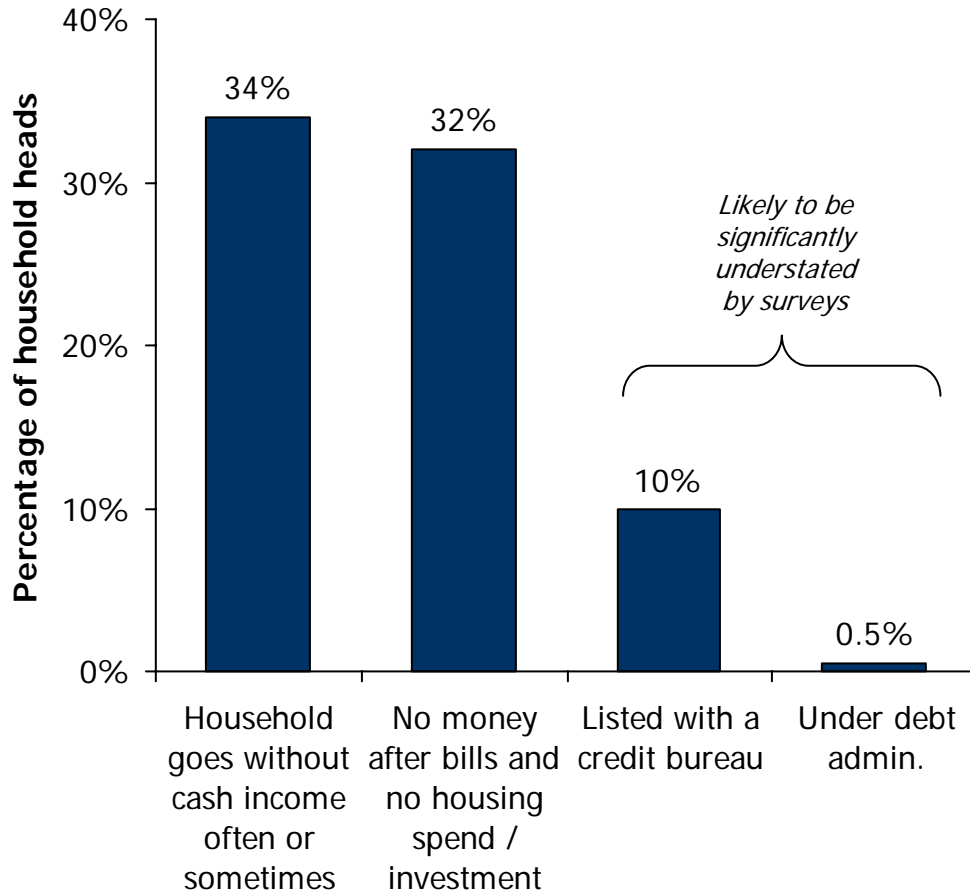


Source: LFS 2004, FinScope 2005

Note: Differences between LFS and FinScope arise because the LFS segment includes only wage income, whereas FinScope includes all income sources in the calculation of household income

Affordability and credit worthiness are significant barriers to access in the target market

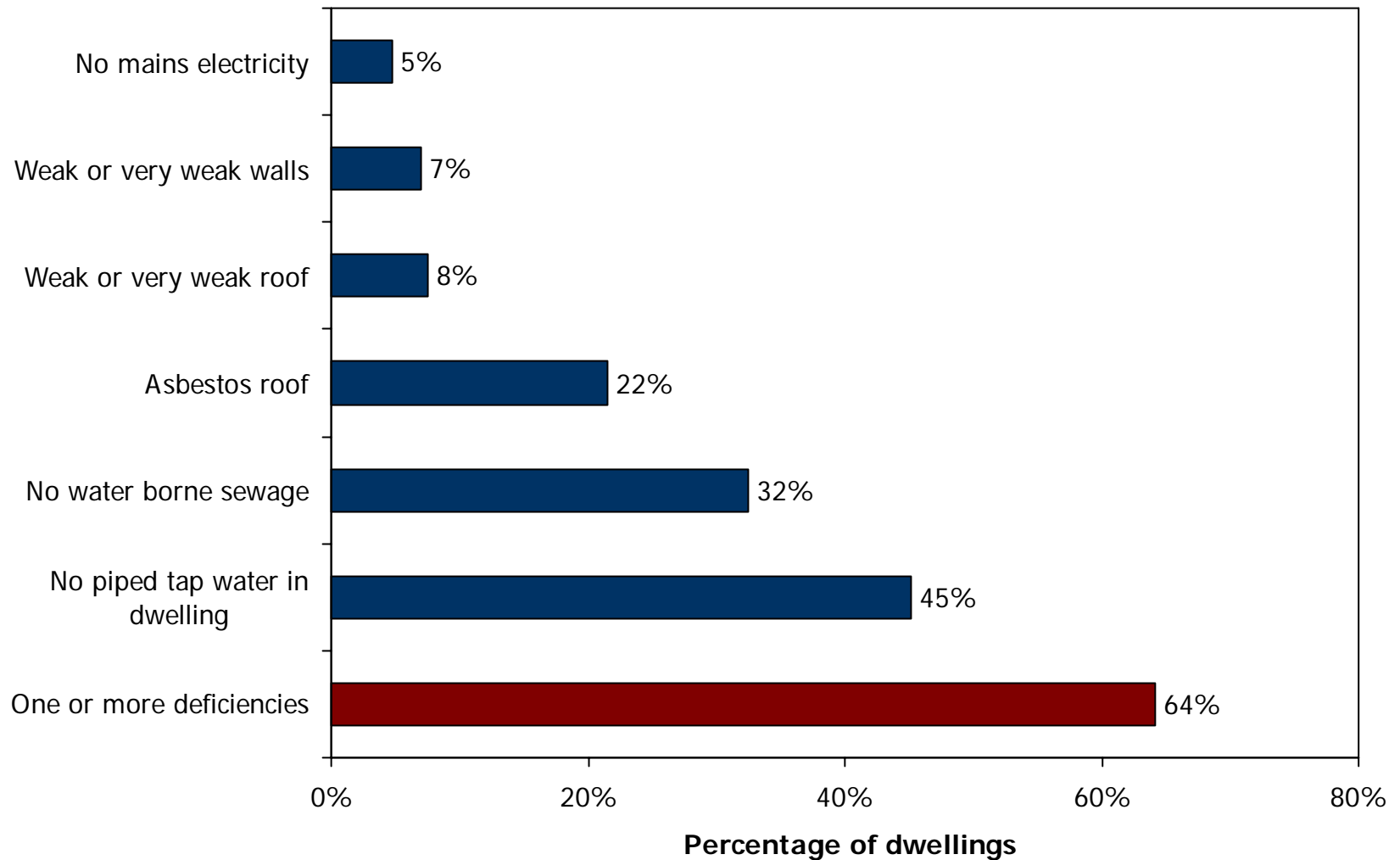
No mortgage, not poor in the target market



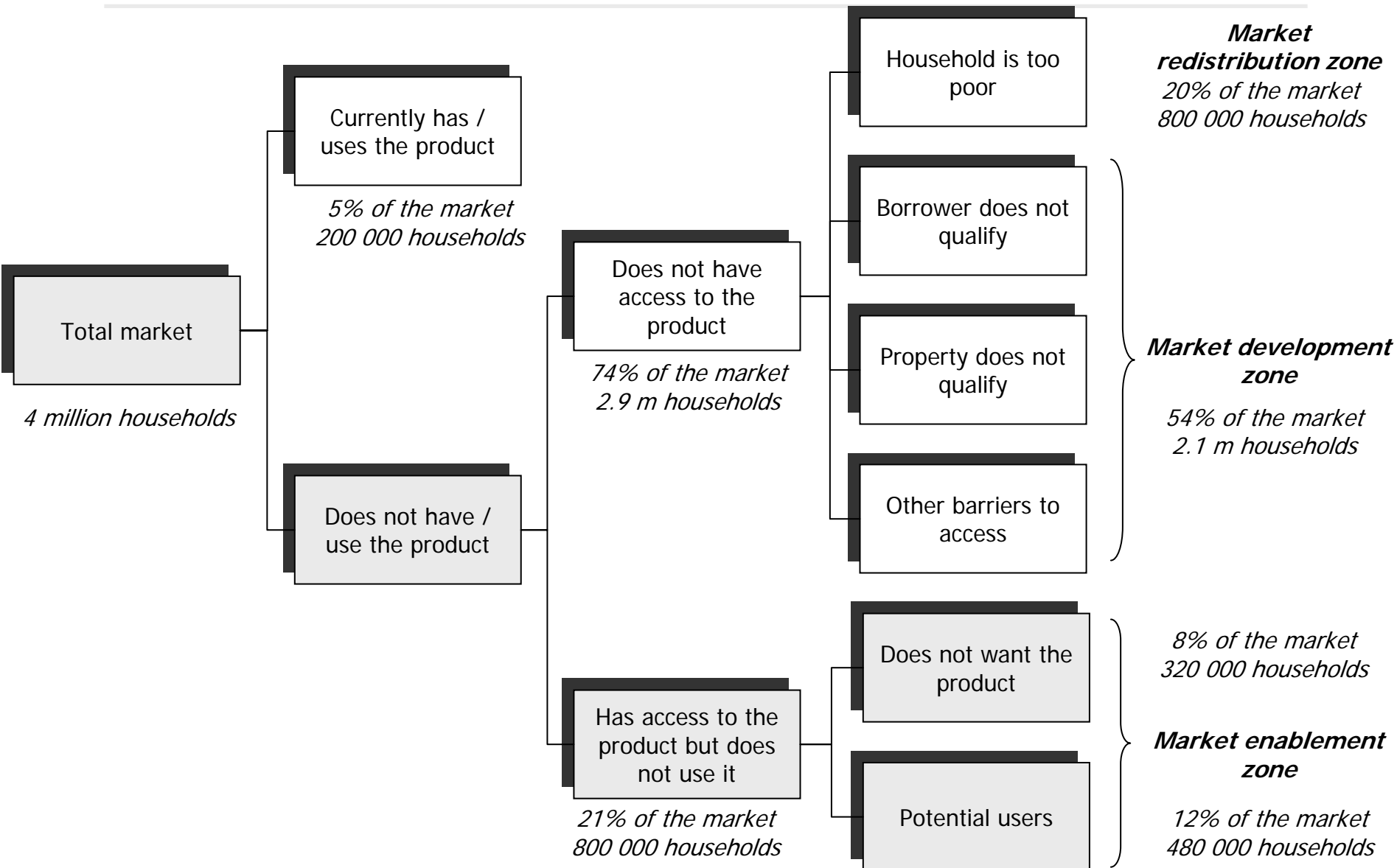
- How many potential borrowers are rejected because of affordability and / or poor credit histories?
- Is there scope for relaxing affordability criteria, particularly in light of the National Credit Bill?

Aside from constraints related to borrowers, properties must also meet with lender requirements. Many formal houses owned by those in the target market do not meet these requirements

Characteristics of formal, owned houses in the target market



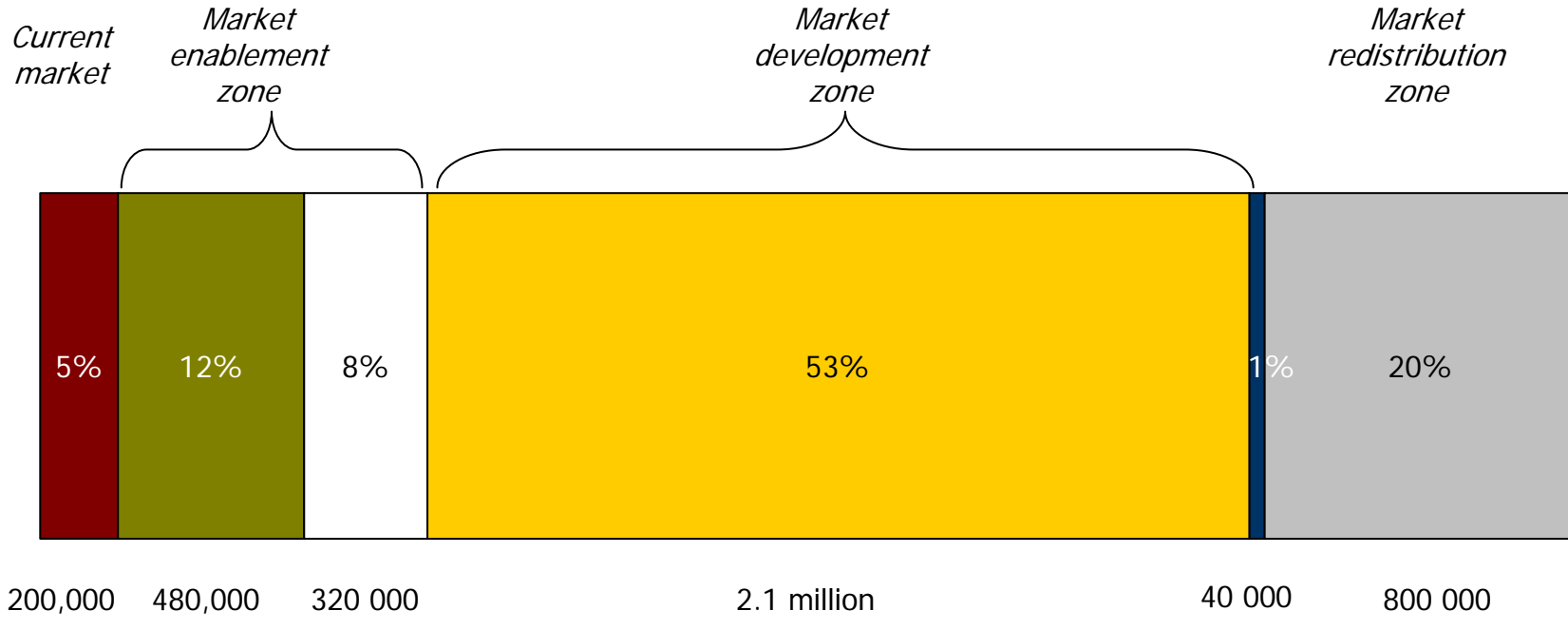
Populating the access frontier



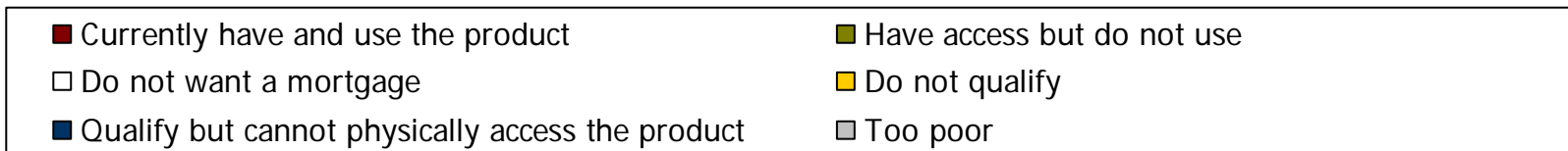
Based on a paper entitled "The Access Frontier as an Approach and Tool in Making Markets Work for the Poor" by David Porteous

Note: Totals do not add up to 100% because of rounding

Around 75% of households in the target market do not have access to mortgages



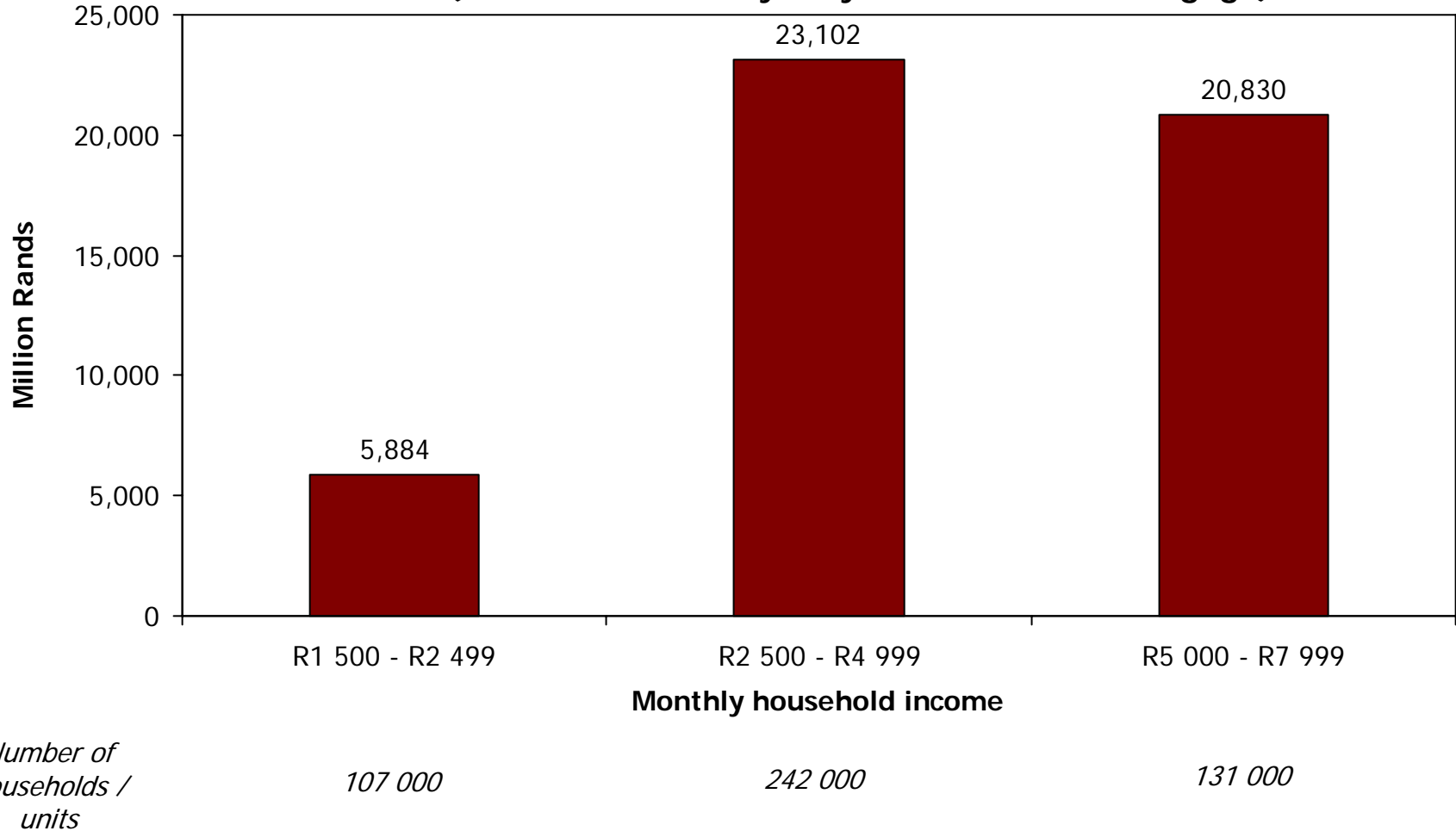
23% single member households
10% live in informal dwellings



Note: Totals do not add up to 100% because of rounding

Excluding those who say they do not want a mortgage, assuming all those who have access obtain one, the total value of loans granted would be around R50 billion

**Total market potential (Rands): Market enablement zone
(excl. those who say they do not want a mortgage)**



Assumptions: Installments calculated at 30% of household income, interest rate is 12.5% and term is 20 years

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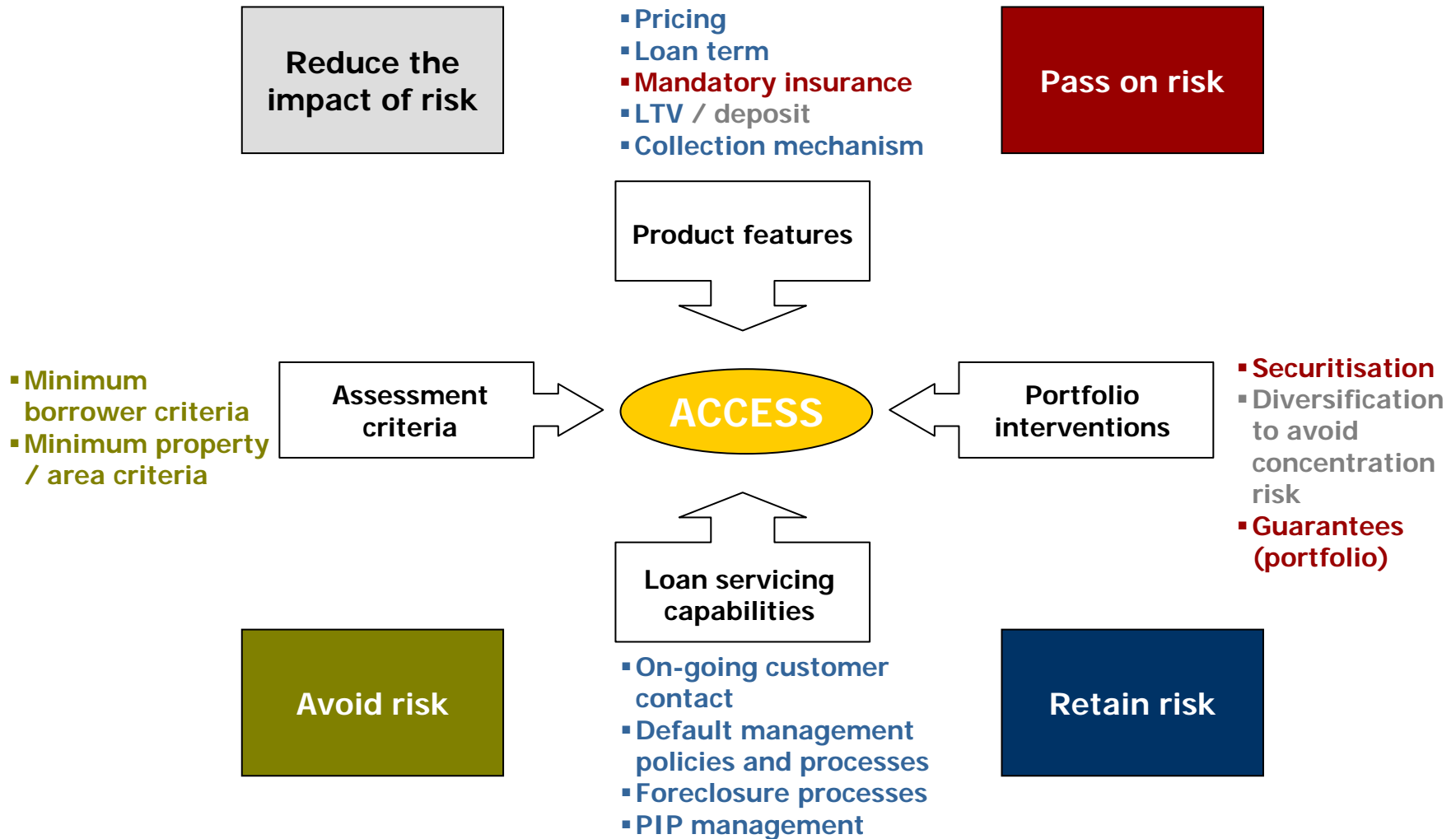
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Product development and innovation is critical to enable lenders to manage risks associated with the target market AND increase access



The analysis prompts a number of questions

Housing availability

- Is access to mortgages constrained by lack of houses or are there other constraints that would prevent access even if houses were available?
- Data: ±480 000 households can access a mortgage, 70 000 affordable mortgages granted each year ⇒ Churn is around 15% per annum

Loss limit insurance

- What lender criteria could responsibly be relaxed given the current product profile? How will this be affected by the National Credit Bill?
- Is the LLI primarily about increasing access or about facilitating participation of other FS players in the provision of housing finance principally through securitisation of low-income mortgage loans?
- If the LLI is not principally about access, what is?

Market needs and bank focus

- Is the focus on the existing mortgage products appropriate given the needs and characteristics of the target market?
- Can banks configure to provide incremental housing loans?
- In what way would bank participation in the provision of incremental housing loans increase access?

Data and disclosure

- Why is data on the low-income market so sensitive?
- Need for implementation of HLMDA

For more information contact...

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