Quarter 1 of 2011

Housing Finance
TEMPERATURE GAUGE

Centre for Affordable Housing Finance in Africa
A DIVISION OF FINMARK TRUST

The housing finance temperature gauge aims to provide indicative information on how lenders feel about the current status of access to housing finance and the payment performance of consumers with housing loans in South Africa. The findings below were derived after conducting a perception survey of the major mortgage providers and incremental housing financiers[1] for the first quarter ending March 2011.

The Survey was conducted towards the end of March 2011. At this point in time, the consensus forecast of real growth in the South African GDP for 2011 was 3.5%. The outlook was for rising interest rates towards late 2011, on the back of higher inflation expectations. Higher cost of living will be driven in 2011 by increasing, transport, food and electricity prices. Property economists were of the opinion that house prices, in real terms, are likely to decline in 2011[2] due to these economic factors and the prevailing high level of indebtedness amongst consumers.

Access to housing loans

Table 1: Trend in Loan Applications from Q4 2010 to Q1 2011

Housing finance segment	Much less applications	Less applications	The same	More applications	Much more applications
Incremental Financing	17%	0%	33%	50%	0%
Non-Bank mortgages	0%	67%	0%	33%	0%
Bank Mortgages < R350 000	0%	20%	20%	60%	0%
Bank Mortgages R350K to R500K	20%	0%	20%	60%	0%
Bank Mortgages >R500K	0%	20%	20%	40%	20%

Table 1 above indicates the trend in the number of home loan applications when comparing Q1 of 2011 with Q4 of 2010. As with other tables that follow, this table indicates the percentage distribution of the views of respondents according to different market segments[3]. Table 1 shows, that across market segments, the majority of respondents believed that applications for housing finance increased or stayed the same except for non-bank mortgages financiers who reported a decline in applications. Most financiers that indicated an increase mentioned that the increase was marginal.

Data released by the National Credit Regulator (NCR) indicates that loan applications for all credit products (mortgages, credit cards and personal loans) showed a year on year increase of 4% in Q4 of 2010. The rejection rate of applications was 43% in Q4 of 2010, the same rate reported in Q4 of 2009. Almost all respondents in this quarterly survey indicated that the two most predominant reasons for declining a loan application were affordability constraints or poor credit records.

Table 2: Disbursement activity from Q4 2010 to Q1 2011

Housing finance segment	Much less disbursed	Less disbursed	The same	More disbursed	Much more disbursed
Incremental Financing	17%	17%	17%	33%	17%
Non-Bank mortgages	0%	67%	0%	33%	0%
Bank Mortgages < R350 000	0%	0%	40%	60%	0%
Bank Mortgages R350K to R500K	0%	0%	20%	80%	0%
Bank Mortgages >R500K	0%	0%	20%	60%	20%

Table 2 illustrates that except for non-bank mortgage financiers most credit providers indicated that disbursements increased in Q1 of 2011 compared to Q4 of 2010. Most banks reported increased lending in all lending categories. Some respondents indicated that an increase in disbursements in the March quarter is, to some extent, influenced by seasonal factors. Typically, loan applications and processing taper off closer to the December holiday season.

1 List of participants are provided at the end of the document.
2 ABSA Housing Review Q1, 2011; FNB 4th Quarter estate agent survey, FNB Property barometer, Fixed investment review Feb 2011.
3 Please refer to the methodology section at the end of the document for a discussion on market segmentation.

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It is evident that some incremental financiers have showed renewed energy in new loans disbursed. Two such lenders have introduced new front end systems (including the use of mobile phone technology), that have significantly enhanced their ability to assess consumers and process loan applications. One of these also acquired more building material merchants as partners. Another incremental lender expanded their branch footprint which resulted in higher disbursements. One incremental financier has undergone a major company restructure and change of management which has adversely affected business in this quarter.

Table 3: Number of mortgages disbursed by Banks and SAHL according to income category

Number of mortgages granted by large banks and SAHL per income category	2009 Q4	2010 Q4	YoY change	% distribution 2009 Q4	% distribution 2010 Q4
Individual income up to R5 500 p.m.	263	178	-32%	0.71%	0.42%
Individual income R5 500 – R7 500 p.m.	732	596	-19%	1.99%	1.40%
Individual income R7 500 – R10 000 p.m.	1 700	1 756	3%	4.62%	4.14%
Individual income R10 000 – R15 000 p.m.	4 710	5 288	12%	12.80%	12.46%
Individual income above R15 000	29 385	34 620	18%	79.87%	81.58%
Total	**36 790**	**42 438**	**15%**	**100.00%**	**100.00%**

Source: NCR Consumer Credit Report Dec 2010

Quarterly data from the NCR, in terms of the number of loans granted by banks and SA Home Loans (SAHL), indicates that only 6% of loans went to individuals earning less than R10 000 p.m. in Q4 of 2010, down from 7.3% in Q4 of 2009. The bulk of the lending continues to be in the highest income market, with 82% of loans disbursed to individuals with incomes above R15 000.

Performance of housing loans

Table 4: Trend in non-performing loans from Q4 2010 to Q1 2011

Housing finance segment	Arrears Increased a lot	Arrears Increased a little	The Same	Arrears decreased a little	Arrears decreased a lot
Incremental Financing	0%	50%	17%	17%	17%
Non-Bank Mortgages	0%	0%	33%	67%	0%
Bank Mortgages < R350 000	0%	0%	0%	100%	0%
Mortgages R350K to R500K	0%	0%	0%	100%	0%
Mortgages >R500K	0%	0%	20%	60%	20%

Respondents indicated whether the arrears portfolio when measured as a percentage of the total portfolio increased, decreased or stayed the same. The majority of mortgage lenders indicated a small decrease in arrears levels, indicating that consumer payment performance in Q1 of 2011 was slightly better than in Q4 of 2010.

Table 5: Ranking of the arrears levels in different bank mortgage segments.
3= highest level of arrears, 1 = lowest level of arrears.

Q4 Rank level of arrears	Up to R350K	Between R350K and R500K	Above R500K
Bank 1	3	2	1
Bank 2	3	2	1
Bank 3	1	2	3
Bank 4	1	2	3
Bank 5	2	3	1

An interesting pattern emerged from the relative ranking of arrears levels in different loan size categories. Two of the banks indicated that their highest arrears levels are to be found in the below R350K category, followed by the middle category and that their loans above R500K were the best performing. Interestingly, two other banks reported the exact opposite, indicating that the smaller sized loans were the better performers. Another bank indicated that their loans above R500K were the best performers followed by the below R350K category. For them, the middle category (between R350K – R500K) was the worst performing segment.

Three of the five banks interviewed indicated that consumers with loans of less than R500K appear to recover faster thus have a better cure rate from an arrears position than consumers with loans above R500K. Thus in some instances it was found that payment projections have proved to be too pessimistic on these market segments and thus these banks are relooking at their risk assessment tools. Data from the NCR for the quarter ending December 2010 indicates that overall arrears levels on mortgages have been declining somewhat over the past two years. In December of 2008, 87% of the total number of loans that make up the book of the large banks and SAHL were paid on time. In the December 2009 quarter, this improved to 88.4% and even further to 89% in Q4 of 2010.

Table 6: Trend in bad debt provisioning from Q4 2010 to Q1 2011

Housing finance segment	Provisioning Increased a lot	Provisioning Increased a little	The Same	Provisioning Decreased a little	Provisioning Decreased a lot
Incremental Financing	0%	50%	17%	33%	0%
Non-Bank mortgages	0%	0%	67%	33%	0%
Bank Mortgages < R350 000	0%	60%	20%	20%	0%
Bank Mortgages R350K to R500K	0%	60%	20%	20%	0%
Bank Mortgages >R500K	0%	60%	0%	40%	0%

Apart from the non-bank mortgage financiers, most respondents indicated that their provision levels have increased slightly during the first quarter of 2011 or stayed the same from an already rather conservative position late last year. Many indicated that since late last year they have been more cautious with provisioning given an outlook of increased pressure on the purse of the consumer and the pending BASEL III requirements.[4]

Table 7: Trend in bad debt write-offs from Q4 2010 to Q1 2011

Housing finance segment	Write-offs Increased a lot	Write-offs Increased a little	The Same	Write-offs Decreased a little	Write-offs Decreased a lot
Incremental Financing	0%	40%	20%	40%	0%
Non-Bank mortgages	0%	33%	33%	33%	0%
Bank Mortgages < R350 000	0%	80%	20%	0%	0%
Bank Mortgages R350K to R500K	0%	80%	20%	0%	0%
Bank Mortgages >R500K	0%	80%	0%	20%	0%

Most respondents indicated that they have written off a little more in Q1 2011 than Q4 of 2010. All banks remarked that the write-offs now are a reflection of loans that went bad about 18 months ago. Apart from this being the usual timeframe from point of delinquency to write-off, the NCA Debt counselling process has in many instances added to delays in the legal enforcement process.

Market prospects and industry news

Table 8: Future prospects for the housing finance market

Housing finance segment	Much poorer	Poorer	The Same	Better	Much better
Incremental Financing	0%	33%	17%	33%	17%
Non-Bank mortgages	0%	0%	0%	100%	0%
Bank Mortgages < R350 000	20%	40%	40%	0%	0%
Bank Mortgages R350K to R500K	20%	40%	40%	0%	0%
Bank Mortgages >R500K	20%	40%	40%	0%	0%

Incremental housing financiers have a mixed outlook for the future. The optimism of those who have indicated a better outlook appears to be internally driven with many of them recently introducing new systems to optimise loan origination and or increasing their foot print with more of their own branches or merchant relationships. Non-bank mortgage financiers believe that encouraging activity by mother bond financiers and increased activity by large high end developers bode especially well for the lower end housing finance market. Banks, however, are concerned about the future prospects of the housing finance market. Reasons provided include continued consumer affordability concerns, property market values remaining stagnant and concerns related to the cost of capital and BASEL III requirements.[4]

4 BASEL III is the new global regulatory standards on bank capital adequacy and liquidity and was developed in a response to the deficiencies in financial regulation revealed by the global financial crisis. BASEL III implies more stringent capital requirements especially applicable when a bank has low end mortgages and these products are packaged into derivative instruments. BASEL III will be phased in from January 2013 to January 2019.

During interviews with respondents the following key issues came to the fore.

Less use of mortgage originators. From 1 December 2010, ABSA has partnered with only one mortgage originator[5]. Other banks are also re-evaluating the use of mortgage originators and some have scaled down their use. It would appear that in some instances, loan performance is evaluated against the back-drop of the origination method, which informs the future loan origination strategy of the bank.

Credit granting policies less strict. Many respondents indicated that there has been a very slight relaxation in credit granting policies towards late last year. Some banks that have moved away from awarding 100% loan to value loans are now considering offering this again. One bank mentioned that they are revisiting some of their recent declined applications to see whether some of those clients now qualify under a slightly less strict granting regiment. Bad debt and write-off policies were mostly unchanged.

Affordable housing projects stable and increasing in some instances. Banks are not all in agreement on the delivery levels in the affordable housing pipeline. Two banks indicated that affordable lending was at some of its highest levels ever and that their relationships with large scale developers are growing and indicating a good pipeline of new units coming on stream in the near future. Three other respondents indicated that activity is stable and not much different from the recent past. Non-bank mortgage financiers are quite optimistic about the immediate future on the back of an increasingly strong presence of mother bond financiers.

Product Innovation in the affordable space. One non-bank mortgage lender indicated that cession agreements with chiefs of tribal land are resulting in more mortgage loans granted in rural areas. Another bank appears to be strengthening their direct loan origination channels by making use of a branch presence in lower income areas and the use of mobile technology communication tools.

Stable rental payment performance. Payment performance in the housing rental market provides another view on consumers' ability and willingness to pay for housing. According to Tenant Profile Network (TPN) a rental market credit bureau, the payment performance in the rental market was stable towards the end of 2010. The R3 000 – R7 000 rent bracket remains the best performing with an overall good standing of payments at 84% of customers (71% paid on time and 13% paid late). This is followed by the R7 000 – R12 000 rental category. Interestingly the below R3 000 and the above R12 000 categories are equally the worst payers.

Rental payment performance 2010 Q4

Rental bracket	Good standing	Paid on time	Paid late	Not paid
R0 – R3 000	77%	60%	17%	23.00%
R3 000 – R7 000	84%	71%	13%	16.00%
R7 000 – R12 000	81%	64%	17%	19.00%
>R12 000	77%	50%	27%	23.00%

Source TPN Rental Monitor Q4 2010

Have you seen the FinScope 2010 results or visited the Affordable Land + Housing Data Centre?

Visit the new website of the Affordable Land + Housing Data Centre, tracking the affordable property market in South Africa! Go to www.alhdc.org.za

For more papers on housing finance, including past years' analyses into South Africa's housing finance access frontier, visit FinMark Trust's housing finance focus area page. Go to www.finmark.org.za, click on 'Focus Areas' and then click on 'Housing Finance'. For more information, please contact Kecia Rust on kecia@housingfinanceafrica.org, or call +2783 785 4964.

About the temperature gauge

The housing finance temperature gauge comprises data gathered from the four largest retail banks in South Africa, SA Home Loans, three non-bank mortgage financiers and six dedicated incremental housing financiers.

Banks. It is estimated that in terms of banks, the survey respondents represent more than 90% of the value of the residential mortgage market in South Africa. As the focus is on residential lending, no commercial bank participants were included in the survey.

Non-Bank mortgage financiers. There are few non-bank mortgage financiers active in South Africa. Due to relatively high funding requirements, few organisations exist without the assistance of government funding. For this reason this space is dominated by entities who either are government owned or rely heavily on government for capital. Our research indicated that out of the 9 provinces only about 3 (Mpumalanga, Limpopo, and Free State) provide mortgage finance as part of the developmental mandate of the provincial government. We have secured Risima Housing, part of the Limpopo Development Agency as a respondent in this survey. The other two respondents include Integer, funded by private equity, and Beehive which sources funding from the NHFC. In the next survey we hope to include all three the provincial developmental agencies and the likes of Eskom Finance Company and Ithala Ltd which are also active in mortgage financing.

Incremental housing financiers. One of the objectives of this study was to obtain responses from the bulk of the dedicated incremental housing financiers in South Africa. We have tested our respondent list against lenders supported by the NHFC and RHLF and found that we have included 6 of the 7 active, dedicated incremental housing finance companies in South Africa.

The RHLF and NHFC lists indicate a further 4 micro lenders whose main income is based on consumption lending, but who have an incremental housing product. We plan to include some of the views of these four lenders on their incremental books in the next survey.

Survey methodology. This document contains the results of the first quarterly survey of housing financiers. The housing finance temperature gauge is a perception survey, based on the perception that a lender has of the housing finance market. Respondents state whether circumstances are better, worse or the same when comparing the current quarter with the previous quarter.

The results shown in the tables above are displayed according to three categories of housing lenders. Banks, non-bank mortgage lenders and incremental financiers. For each category, the results reflect the percentage distribution of respondent answers across various options. No weighting was applied. Thus, in the banks category for example, SA Home Loans' answer has an equal weighting to that of each of the big four banks.

We would like to thank the following institutions for participating in the 2011 Q1 survey
Bank mortgage financiers: ABSA Bank, FNB, Nedbank, SA Home Loans and Standard Bank.
Incremental Financiers: Lendcor, Indlu, Norufin, Kuyasa, Izwe and Real People Incremental.
Non-bank mortgage financiers: Integer, Risima Housing Finance (Limpopo Development Agency) and Beehive Financial Services.