



human settlements

Department:
Human Settlements
REPUBLIC OF SOUTH AFRICA

Private Bag X644 Pretoria 0001 RSA Tel (012) 421 1311 Fax (012) 341 8512
Private Bag X9057 Cape Town 8000 RSA Tel (021) 466 7600 Fax (021) 465 3610
<http://www.dhs.gov.za> Fraud Line: 0800 701 701 Toll Free Line: 0800 1 46873 (0800 1 HOUSE)

THE OFFICE OF DISCLOSURE

**Report in terms of Outcome Number 8: Sustainable Human Settlements and
Improved Quality of Household life**

FINANCIAL INSTITUTIONS REPORTING PERIOD

1 JULY 2016 – 30 SEPTEMBER 2016 (QUARTER 3)

1. BACKGROUND

The department has a Medium Term Strategic Framework (MTSF) as a guiding document to measure performance targets as set with an objective to the achievement of 1.5 million housing opportunities in partnership with the private sector (financial institutions). Since the financial industry has a critical role to play in realizing the objective of the Home Loan and Mortgage Disclosure Act 2000 (Act No. 63 of 2000) and the achievement of the MTSF targets it has been deemed necessary that they disclose information on a quarterly basis to the department through the Office of Disclosure. The Office has in partnership with financial institutions developed the quarterly reporting format for disclosure of information by financial institutions as a means to contributing to the MTSF targets.

2 PURPOSE

The purpose of this report is to present the information submitted to the Office to establish the lending patterns and practices of financial institutions for the reporting period 1 July 2016 to 30 September 2016. The report would also highlight the loan use and also track trends on a quarterly basis. The due date for submission of the information by financial institutions was 30 November 2016. There are some financial institutions who have submitted the information after the due date due to the fact that they have to comply with National Credit Act requirements at the same time and the HLAMDA information is voluntary. Some have chosen not to submit any return.

3. INFORMATION DISCLOSED

Financial institutions have disclosed information. The information has been collated and analysed. Some financial institutions submitted information after the due date of 30 November 2016.

4. FINANCIAL INSTITUTIONS THAT SUBMITTED RETURNS

4.1 Status of Quarterly Returns

Table 1 below indicates the status of 3rd Quarter Returns 2016 for the period 01 July 2016- 30 September 2016. The following financial institutions have provided nil returns and may not participate directly in the home loan market due to various reasons:

- Bidvest Bank limited;
- Capitec Bank Ltd;
- Citibank, N.A, South Africa Branch; and
- Standard Chartered Bank; Johannesburg Branch.

They may perform in the property market indirectly contributing to the production and sale of new housing units, via special purpose vehicles, which is currently unregulated in terms of HLAMDA.

| Status Of Quarterly Returns | | |
|-----------------------------|---|--|
| | REGISTERED BANKS | ANNUAL RETURN SUBMITTED OR NOT SUBMITTED |
| 1 | ABSA Bank Ltd | Not Submitted |
| 2 | African Bank Ltd | Not submitted |
| 3 | Albaraka Bank Ltd | Submitted |
| 4 | Bidvest Bank Ltd | Submitted (nil return) |
| 5 | Capitec Bank Ltd | Submitted (nil return) |
| 6 | Credit Agricole & Investment Bank SA Branch | Not submitted |
| 7 | FirstRand Bank Ltd | Submitted |
| 8 | Grindrod Bank Ltd | Submitted |
| 9 | Habib Overseas Bank Ltd | Not submitted |
| 10 | HBZ Bank Ltd | Submitted |
| 11 | Sasfin Bank Ltd | Not submitted |
| 12 | The S A Bank of Athens Ltd | Submitted |
| 13 | The Standard Bank of S A Ltd | Submitted |
| 14 | UBank | Not submitted |
| 15 | Investec Bank Ltd | Submitted |
| 16 | Mercantile Bank Ltd | Submitted |
| 17 | Nedbank Group Ltd | Submitted |
| | REGISTERED LOCAL | |

| | | |
|----|---|------------------------|
| | BRANCHES OF FOREIGN BANKS | |
| 18 | Bank of Baroda | Not submitted |
| 19 | Bank of China Ltd Johannesburg Branch | Submitted |
| 20 | Bank of Taiwan South Africa Branch | Submitted |
| 21 | China Construction Bank Corporation Johannesburg Branch | Not submitted |
| 22 | Citibank NA | Submitted (nil return) |
| 23 | Commerzbank AG | Not submitted |
| 24 | Deutsche Bank AG | Not submitted |
| 25 | HSBC Bank plc Johannesburg Branch | Not submitted |
| 26 | Societe Generale Jhb Branch | Not submitted |
| 27 | Standard Chartered Bank Johannesburg Branch | Submitted (nil return) |
| 28 | State Bank of India | Submitted |
| 29 | JPMorgan Chase Bank NA Johannesburg Branch | Not submitted |
| | REGISTERED MUTUAL BANK | |
| 30 | Finbond Mutual Bank | Not Submitted |
| 31 | GBS Mutual Bank | Submitted |
| 32 | VBS Mutual Bank | Submitted |
| | OTHER | |
| 33 | Eskom Finance Company SOC | Submitted |
| 34 | Ithala Ltd | Not Submitted |
| 35 | Risima Housing Finance Corporation (SOC) Ltd | Not Submitted |
| 36 | SA Home Loans Group | Submitted |
| 37 | Nqaba Finance 1 (RF) Ltd | Submitted |

4.2. COMPLIANCE

4.2.1 REGISTERED BANKS

There was compliance to the extent of 65% by this category. The non-compliance aspect can be largely ascribed to those that do not participate in the housing/mortgage market.

4.2.2 REGISTERED LOCAL BRANCHES OF FOREIGN BANKS

There was compliance to the extent of only 42% by this category. The non-compliance aspect can be largely ascribed to those that do not participate in the housing/mortgage market. However, it should be noted that this category also have nil returns.

4.2.3 REGISTERED MUTUAL BANKS

There was compliance to the extent of 66% by this category.

4.2.4 OTHER

Compliance in this category is at 80%

4.2.5 OVERALL COMPLIANCE

The overall compliance was 60%

To boost the overall compliance with the Act, amendments thereto are currently being processed for submission to Parliament, which should have the desired effect.

5. SUMMARY OF MORTGAGES AND UNSECURED CREDIT AGREEMENTS

5.1 SUMMARY OF CREDIT AGREEMENTS

Financial institutions receive applications from mainly two sources i.e. their customers and from Intermediaries/ Brokers. The loan originators/brokers submit initial loan applications received to all financial institutions to increase the chance of an applicant being approved for funding by at least one financial institution. These results in more than one financial institution reporting the same applicant in their reported applications received. Hence there are multiple duplications in numbers submitted to the Office. This in turn affects the number of approved/declined applications and related amounts as well.

From the information provided by financial institutions there is a high rate of rejections by financial institutions. This could be attributed to applicants not meeting the credit scoring process practiced by financial institutions. Financial institutions do not provide reasons for declines when submitting information on a quarterly return.

It is clearly evident that in terms of provincial demographics, most of the credit granted is in Gauteng province followed by Western Cape and KwaZulu - Natal. It appears that in these three provinces there are increased activities in the home loan market. These could be as a result of employment opportunities in these provinces and migration to same. There seems to be a fair amount of credit being granted in the North West Province.

The lowest credit has been granted in the following provinces ie Limpopo Northern Cape, and Free State Province.

The office will also engage in discussions with financial institutions to ascertain the reasons for houses being repossessed with a view to advice the Minister on a way forward in dealing with such repossessions.

It is also evident that there are more applicants using finance for improvements or upgrading compared to the purchasing of an existing unit. This trend could be linked to the decline in the supply of new housing units and the more stringent criteria applied by financial institutions in granting of building loans and for purchasing of existing units. Furthermore the availability of reasonably priced suitable land is very scarce for individuals to construct new units. However, the values of loans taken for purchasing of existing units are higher than that for improvements. Bondtakeover/switches refer to those persons who wish to move their loan from one financial institution to another. Some financial institutions indicated that the following uses for home loans were also recorded for example:

- Bond takeover/switches;
- Investment;
- Revolving mortgage loans;
- Property taken over by spouse;
- Claim backs ; and

5.2. MORTGAGE AGREEMENTS

Analysis reflects the value and volume of credit agreements entered into. This pattern reflects that fewer credit agreements are being entered into with lower value of loan values and applicants are taking out higher loan values. It could also be that people do not wish to register a mortgage bond for a lower loan amount due to legal costs and other related costs; hence they would rather opt for an unsecured loan with a shorter loan term period. The attendant costs associated with mortgage lending (transfer costs, bond costs, legal fees and acceptable deposit) is also a barrier to entry.

It is clear that the gap market is facing huge challenges in accessing credit for housing finance purposes. It is clearly evident that most of the applications approved are from income levels R15 000 and above, which FLISP product does not feature because of the under performance of the financial institutions including the DFI's in this area. This depicts an under performance by financial institutions in the low to medium income group (R3501 – R15000) which are supposed to be receiving government incentives such as FLISP to enable access to housing finance. The data clearly indicates that the introduction of the FLISP instrument has failed to positively impact the market with concomitant volumes of home loans. The FLISP model requires restructuring to fit current market dynamics to the benefit of the lower income market which it was intended to serve. The trend points towards the inability of financial institutions to significantly penetrate the market below the R15 000 income level.

Most credit is used for the purchasing of an existing unit, followed by building loans and improvements or upgrading. It is therefore encouraging to note that these types of loans are different types housing opportunities during the reporting period.

Some financial institutions indicated that the following additional uses for home loans were also recorded for example:

- Bond takeover;
- Investment;
- Revolving mortgage loans;

5.3. UNSECURED CREDIT TRANSACTIONS

A growing pattern is the use of unsecured loans for the purpose of home improvements. An unsecured personal loan refers to loans which are repayable over a period of time in instalments where there is no security that the credit provider can rely on to recover debt if default occurs. It has been established through the financial institutions that although an applicant may indicate on the application form that the unsecured loan is for home improvements, such funds could be used for any other purpose. Consumers perceive unsecured personal loans to be easily accessible and over shorter tenors than mortgage loans, despite the high cost of this finance. Financial institutions have indicated that once an unsecured loan has been granted they cannot trace that the funds were used for the original purpose stipulated.

It would appear that consumers are opting for longer term contracts. This could be attributed to lower monthly payments over the longer term. It is also evident that unsecured credit seems to be an easy option for many consumers. It is also noted that there are many applicants using short term loans up to 12 months. This could be as a result of qualifying criteria set by financial institutions.

From the analysis it is evident there are many micro loans taken. This trend could be attributed to people taking out smaller loan amounts for minor services they need to render upon themselves. However, the highest number and volume of loans are in the size band R15.1K+. It would appear that unsecured loans are still popular amongst those who need smaller loan sizes. It does not make sense when the loan is needed for paying off debt etc, as these unsecured loans come with a higher interest rate condition. It would appear that many people are still opting for unsecured credit as it may be that lending criteria are not as stringent when applying for a mortgage loan.

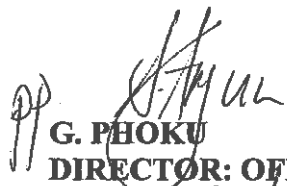
The analysis indicates that the lower income earners are facing huge cash flow challenges; hence they have to opt for unsecured loans. It therefore suggests that the gap market is facing huge challenges in accessing credit for housing finance purposes. It is also surprising to note that those earning >R15000 are also accessing unsecured credit for their use. It is clearly evident that most of the applications approved are from income levels R15 000 and above, which FLISP product does not feature because of the under performance of the financial institutions including the DFI's in this area.

The analysis depicts that unsecured credit is also being accessed for the use for improvements or upgrading building loans and purchasing of existing units. These unsecured loans could be were applicants use the finance for minor improvements to their homes. They would opt for this type of finance as there is no need to register a mortgage bond as the price of the property could be of a low value.

6. CONCLUSION

From the information disclosed by financial intuitions for the 2nd quarter, it is evident that lower income families are facing challenges in accessing mortgage finance for housing purposes. The data shows that unsecured credit as a means to access funds is still popular. This could be attributed to the ease in obtaining unsecured credit. From the figures on mortgage agreements most credit is used for the purchasing of an existing unit, followed by building loans and lastly improvements or upgrading.

Obtaing finance for housing purposes seems to be a challenge for the lower income earners. This trend is seen in the number of unsecured loans being granted. The rejected applications from HDP's are also excessively high. Engagements to address the rejection rate needs to be held with financial institutions as a way to fast-track means to the achievement of MTSF targets. It is also suggested that engagements with financial institutions be vigorous and meaningful in order that poorer households can access finance through registered financial institutions instead of going the unconventional route as these paths put the poor into greater debt.


G. PHOKU
DIRECTOR: OFFICE OF DISCLOSURE
DATE 12 December 2016



MS. T. MOJA
ACTING CHAIRPERSON: OFFICE OF DISCLOSURE
DATE 12/12/2016