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Own Your Home? Prove It!

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Richard Stovin-Bradford says banks could lend to more low-income earners if they had title to their homes

Prescriptive legislation exemplified by the Department of Housing's proposed (but now defunct) Community Reinvestment Bill - which could have forced banks to make housing loans to township dwellers - could have had disastrous systemic risk consequences for South Africa's private-sector banks.

Though the government once sought to coerce private sector banks into what analysts see as high-risk, low-return lending (as part of its social agenda in making housing available to the emerging segment), a study released this week reveals that the government itself has done little to create an enabling environment to encourage them.

Analysts say that forcing our retail banks to make home loans to low-income township residents - who often lack proof of property title as a result of years of administrative inefficiency, and whose properties cannot easily be used as marketable collateral - could have provoked a crisis of confidence in our banking sector.

Such prescriptive lending could have proved too much for the banking system and its foreign investors to bear, coming so soon after the small-bank crisis that culminated in BoE's rescue by Nedcor - a deal that chewed up so much of the bank's capital that it had to be recapitalized to the tune of R5.15-billion earlier this year.

A research project funded by the FinMark Trust, Ford Foundation, Micro Finance Regulatory Council/USAID, the National Treasury and the National Housing Finance Corporation, reveals significant failings by the government to apply existing legislation or to build execution capacity to define title in townships.

The project surveyed over 2 000 households and 400 entrepreneurs in 18 townships and squatter camps in four metropolitan areas, corroborating findings with available Deeds Registry information for a dozen of the sites.

The survey splits the township property market into four sub-sectors - informal (typically

shacks); incremental (subsidized "site and service" or RDP housing); old township (former rental stock built by the government between 1948 and 1960); and privately-developed (formal housing stock usually sold with mortgage finance from a bank).

It estimates that a fifth of South African households are in townships and that the majority fall into the lowest-income category (average household earnings of R3 546 a month). This is close to the lower-income limit that might qualify for a bank home loan.

Last year Business Times asked the big four banks - Absa, FNB, Nedbank and Standard Bank - how they were tackling the township home loan space.

They said that apart from continuing issues of a poor supply of quality housing stock, and unscrupulous developers of RDP-style homes, they faced escalating bad debts as a result of politically-motivated non-payment practices.

They also said that the weak legal framework for handling defaults, and the absence of a developed market for reselling properties (after defaults), further deterred them from lending to the township property segment.

This much is confirmed by the survey. Part of its proven hypothesis is that "the secondary property market in black townships in South Africa is ineffective and inefficient" and that "this is due to the legal, institutional and procedural constraints that frame it, rather than the financial factors regularly identified by policy makers."

Last year, Business Times wrote: "Add to [bankers' concerns] consumer ignorance about the implications of borrowing - interest rate fluctuations and the [now insurable] risks of unemployment and HIV-Aids - and the litany of reasons for not lending becomes overwhelming."

Mindful of the Financial Sector Charter's requirement for improved access to credit, the survey recommends to lenders - and the government - that a risk-sharing mechanism that limits lenders' loss in defaults to a more normal proportion of loan value be considered.

It said that "alternative loan products should be developed, linked to savings and insurance products, which will generate cash endowments".

Absence of proper title and a legacy of other bureaucratic issues has resulted in an "extremely limited" secondary market in the estimated R68.3-billion, 2.28 million household black township property market.

This contrasts with the situation in developed suburbs where estate agents are bracing themselves for another busy day of selling residential property.

The survey suggests that the lack of a well-oiled secondary market reduces the potential for wealth creation and upliftment - though it found that a surprisingly high number of residents had no intention of selling their hard-earned, government-funded or inherited

homes.

According to the Deeds Registry, the churn of proclaimed township property was only 8% in the past five-year cycle.

The survey found that only 12% of households interviewed had transacted in the secondary market in the same period.

The comparable turnover figure for developed suburbs of a similar profile is between 26% and 51%.

However, a significant proportion of the property churn in townships is the result of reposessions by lenders.

Much township property - especially in the informal, incremental and old township segments - changes hands without formally-documented change of title.

The survey says this indicates that the Deeds Registry is losing relevance and the lack of formal title undermines security of tenure for the new owner.

But title simply does not exist in informal settlement or squatter camps, which are often located on land occupied without the owner's permission.

Conventional mortgage finance is not easily obtainable for the lower echelons of the low-income segment.

But Absa's Pierre Venter said a mortgage bond is inappropriate, so his bank is looking at collateral replacement.

FirstRand Affordable Housing's Chris Hock and Standard Bank home loans director Clive Tasker said their companies offer products that tap into the state subsidy and local development finance institutions or non governmental organisations.

Bankers hope the survey - which is partly sponsored by the level-headed National Treasury - will ensure better understanding in other corners of government that some of the responsibility for their perceived failure to provide home-loan finance in the townships rests in the hands of the government itself - especially at the capacity-challenged local authority level.

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