

Sexwale aid for poor seen as boon for banks

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When Mzukona Mantshontsho approached a real estate agent about buying a two-bedroom, 300,000 rand (\$37,500) house in a new development south of Johannesburg this year, she told him he'd need a 10 percent deposit for his application to be considered, and his salary was too low.

Human Settlements Minister Tokyo Sexwale, who spent 13 years in prison with former President Nelson Mandela and served in his first post-apartheid government, is trying to help South Africans like Mantshontsho, who lost his first home and his unblemished credit record when he was laid off 10 years ago. The government's new Finance-Linked Individual Subsidy Programme (FLISP) is intended to make it easier for low-income buyers to get loans.

"I am in a committed relationship, hence my desperate need to have property," said Mantshontsho, a 37-year father of one who earns 6,500 rand (\$852) a month as a journalist at a non-profit community newspaper, and rents his home. "I've been looking for two years, but affordability through the banks has been an issue. The agent told me I would have to earn at least 9,000 rand for her even to consider my application."

Reducing the country's housing backlog, which has grown to 2.3 million from 1.5 million in 1994 when the African National Congress took office after the nation's first all-race elections, is a key unmet goal in the transition to a multiracial democracy. The government is falling behind even after building 4 million low-cost homes, and 16 percent of the population lives in substandard housing, as banks tighten lending standards while property prices fall.

Down Payment Help

The government plan, known as FLISP, reduces the initial home loan amount for first-time buyers of properties that cost 300,000 rand or less by serving as a down payment, bringing mortgage-financed housing within reach of low-income earners. The nation's banks are counting on the subsidies, together with a government mortgage guarantee program due later this year, to help revive lending, stagnant since 2009 as the economy slowed and lending criteria tightened.

Mortgage lending growth in South Africa slowed to 1.2 percent in the year through February, from 3.3 percent a year earlier, according to central bank data. The pace of growth was as high as 9.9 percent in 2009 as the central bank cut its benchmark interest rate to a three-decade low of 5.5 percent and kept it there for a record 18 months. FLISP may lift lending in the affordable-home segment, which accounts for about 5 percent of the nation's 831 billion rand mortgage market.

'Huge Impact'

"It's going to have a huge impact on the market," Nicholas Nkosi, director of affordable housing at Standard Bank Group Ltd. in Johannesburg, said by phone. "One of the reasons for the slump in mortgage lending is affordability, and this subsidy will address that."

Standard is the biggest lender in South Africa's low-cost housing market, with 12 billion rand of loans, about 30 percent of the market, Nkosi said. Affordable-housing loans account for 4.2 percent of the lender's mortgage book.

"We want to double that by 2015," Nkosi said. "It is a hard target but it is achievable. It is a market we're focusing on."

Sexwale, 59, a former member of the ruling African National Congress's military wing who left government for business in 1997 before returning to President Jacob Zuma's cabinet in 2009, introduced the new finance-linked subsidy on April 1 and plans to start the mortgage guarantee plan later this year. South Africa should also consider creating a state-owned construction company to reduce the cost of building new homes, he told lawmakers in Cape Town on May 9.

Who Qualifies?

Under FLISP, households earning between 3,501 rand and 15,000 rand per month qualify for subsidies ranging from 87,000 rand to 10,050 rand, depending on income, in terms of the program. The subsidy amount is inverse to household income, according to government documents.

Prospective home buyers receive the subsidy only if they qualify for a mortgage to buy a new house for less than 300,000 rand in a housing development approved by the National Housing Finance Corp., a unit of the Department of Human Settlements. The subsidy takes the place of a cash deposit.

About 10 percent of South Africans, or 4.5 million people, predominantly blacks, live in self-built shacks in so-called shanty towns in South Africa's six major urban areas, according to the Human Sciences Research Council, a Pretoria-based, government-funded research organization. Another 6 percent live in rural dwellings.

Apartheid's Legacy

South Africa's housing backlog is partly a legacy of apartheid, which consigned black people to rural areas or so-called townships on the outskirts of cities. More affluent suburbs closer to city centers were reserved for white South Africans, who make up about 4.6 percent of the population.

Black South Africans like Mantshontsho, who covers community news for the Cosmo City Chronicle, a free newspaper, were barred from owning property in South Africa's urban areas. Government houses built since 1994, when the African National Congress came to power, are typically 40 square meter brick structures, with two or three rooms, running water and electricity. The homes, known as RDP houses after the government's Reconstruction and Development Plan which conceived them, were often built on available land far from urban centers.

Mantshontsho pays 1,500 rand a month rent to share a three-bedroom house in Cosmo City, a sprawling RDP development south of Johannesburg where he is also looking to buy a home. While he'd prefer to live closer to the city center, where his workplace is located, housing there is unaffordable, he said.

Slowing Growth

Slowing economic growth, unemployment of 24 percent, inflation that's almost doubled since September 2010 and household debt levels, on average, of 75 percent of disposable income, have put mortgage loans out of reach of many consumers. In addition, South Africa's National Credit Act came into effect in 2005, establishing strict criteria for bank lending, said Jacques du Toit, a real-estate analyst at Absa Group Ltd. in Johannesburg, a unit of Barclays Plc and South Africa's second-biggest mortgage lender.

"It's not that we don't want to lend," Du Toit said in a phone interview. "To a large extent, the problem is on the demand side. Mortgages tapered off quite significantly during the recession and haven't really recovered. The National Credit Act has tightened lending criteria, and many consumers are still battling with impaired credit records."