MAKING FINANCIAL MARKETS WORK FOR THE POOR

ACCESS TO HOUSING FINANCE IN THE LOW-INCOME MARKET:

A REVIEW OF RECENT DATA

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INTRODUCTION

A fundamental goal of South Africa's housing policy is to enhance access to housing finance for low-income earners. Housing finance continues to be seen as a critical component of the government's overall housing policy in that it offers the opportunity for individual households to actively participate in improving their own housing circumstances rather than relying solely on government provision. Further, it assists families in realising the asset value of their houses – a critical intention of government's current housing approach.

While the 1994 housing policy set up an array of measures and institutions to facilitate increased access to bank and non-bank housing finance, very little research has considered the actual impact that these efforts have had. In 2004, a decade on, is it possible to say that they have been successful? Has access to housing finance broadened and deepened?

This report explores consumers' perceptions regarding these questions, using the FinScope™ survey[1] and other relevant survey data. The data highlighted in this report is especially relevant in the light of the recently announced Memorandum of Understanding ('MoU') between the Minister of Housing and the CEOs of the big four retail banks. The report tests some of the underlying assumptions about the impact of home ownership on wealth creation, given the distorted context of the housing market in South Africa and the often unanticipated stresses home ownership can place on household budgets. It also uses survey and industry data to identify current sources of housing finance including subsidies, loans and savings. Finally, the document includes a number of key challenges that may impact on the success of the Financial Sector Charter ("FSC") commitments in enhancing access to housing finance for the poor.

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[1] The FinScope™ survey (conducted in August 2004 among 2988 adults) is the most comprehensive survey of financial services usage in South Africa. While it surveys the South African market as a whole, it focuses specifically on low-income consumer *perceptions* of financial services. FinScope™ enables researchers to understand how customers interact with various financial products and channels. The spectrum of products includes formal and informal transaction services, investment and savings, short and long term insurance and credit. The survey also includes general respondent and household demographic and psychographic data to enable cross tabulation and segmentation. Because of its breadth and depth, the survey can provide insight into fairly specific product applications in particular market segments, such as the usage of credit for housing purposes by low-income customers. As with all survey-based data, however, care should be taken when interpreting findings. Respondents' answers reflect their perceptions which may not always be an accurate reflection of reality. FinScope™ data used in this report is from the 2004 survey.

THE HOUSING SHORTFALL

Despite government's significant achievement in the delivery of over 1,6 million housing units[2] in the 10 years since 1994, there is still a sizeable housing shortfall in South Africa. FinScope™ finds that 22% of the adult population[3] lives in informal dwellings[4]. Assuming an average of two adults per household, this suggests a housing need of approximately three million units. This is corroborated by StatsSA's Labour Force Survey, conducted in September 2004 ("LFS"), which found that almost 1,9 million households live in shacks and 1,5 million live in traditional dwellings, huts or structures made of traditional materials[5].

It would be tempting to leave the diagnosis of the housing problem at that. However, a review of LFS indicates that of the 8,7 million households in formal dwellings[6], almost 900 000 live in houses where the condition of the walls or roof is described as weak or very weak. Nine percent of these dwellings (123 000 units) appear to be subsidised (RDP) houses (8% of the 1,6 million RDP houses delivered to date)[7]. In addition, because of the spatial planning priorities of apartheid era policy makers, as well as the delivery imperative of the new regime, which prioritised scale delivery in some cases over location, a large proportion of formal housing stock is poorly located. According to FinScope™, over 11 million formally housed adults do not live near centres of retail economic activity[8].

According to the 2003 General Household Survey ("GHS"), despite delivery of almost one million subsidised houses in the five-year period between 1998 and 2003, the number of households in informal dwellings decreased by only approximately 400 000 during that time. The survey also

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[2] According to the Department of Housing, 1.611 million houses had been built or were under construction during the ten years from 1994 to 2004.

[3] 18 years and older

[4] FinScope™ Q46 Type of Dwelling. Informal dwellings include backyard outbuilding, garage, back room, shack, squatter shack, shack in urban area, other. Formal dwellings include brick house or part of brick house, flat, maisonette, townhouse other. The type of dwelling is identified by the interviewer during the interview.

[5] According to the survey, there are 12.6 million households in South Africa

[6] Informal dwellings include traditional dwelling / hut / structure made of traditional materials, dwelling / flat / room in backyard, informal dwelling/ shack in backyard, informal dwelling/ shack not in backyard e.g. in an informal/ squatter settlement or farm, caravan or tent

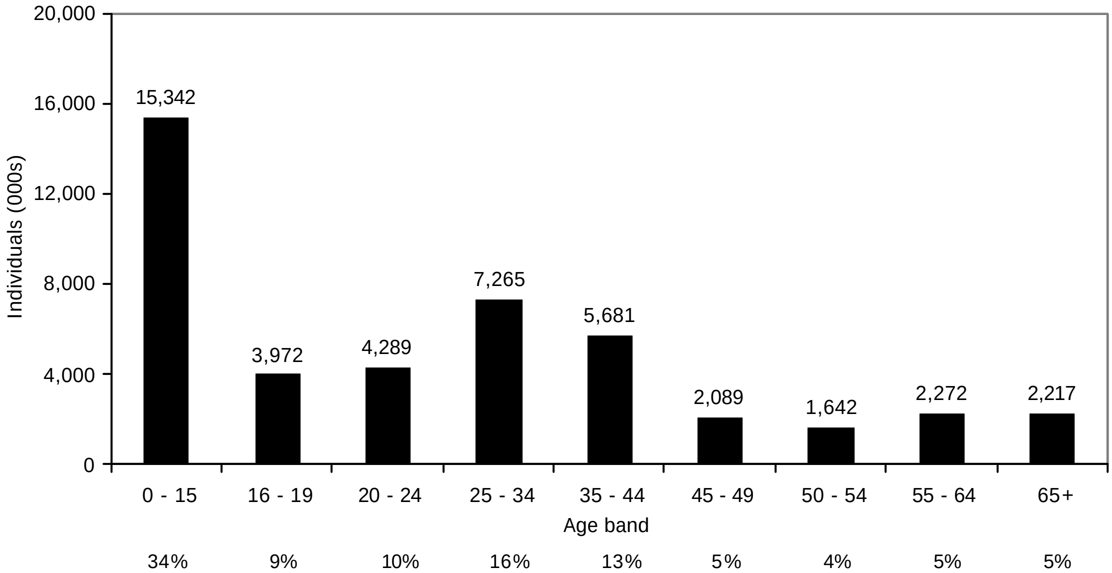
[7] The question in the Labour Force Survey is: "Did any member of this household receive a government housing subsidy to obtain this dwelling or any other dwelling?". It is therefore possible that the subsidy was used for another dwelling.

[8] This is proxied by respondents who say there is no bank, clothing store or restaurant near by.

finds that the number of households living in shacks remained static over the five-year period[9]. This is primarily because of an increase in the absolute number of households. According to that survey, while there were over three quarters of a million more households in formal dwellings in 2003 than in 1998, almost 60% of these households did not exist in 1998.

The increase in the number of households is partly explained by demographic realities. According to the 2001 Census, over half of South Africa's population is under the age of 25 while only 10% are over the age of 55. The creation of new households will therefore occur at a faster rate than the dissolution of existing ones.

Chart 1. Age distribution of the population



Source: Census 2001

Others have suggested that the RDP house itself, being too small at 30m² to accommodate an entire family, has precipitated an artificial split of households into multiple units. According to the LFS, 2,7 million mostly poorer[10] households have other dwellings aside from their main dwelling. This is most prevalent for households whose other dwellings are traditional huts, in all probability reflecting the required mobility of those in rural areas. However, approximately 1,4 million households whose main dwelling is a formal structure still have other, informal or traditional dwellings.

[9] According to the survey, there were only 12 700 fewer households living in shacks in 2003 than in 1998

[10] 2.5 million are households with monthly expenditure of less than R2 500

Chart 2. Types of main and other dwellings: Number of households with other dwellings

	Type of other dwellings					
Type of main dwelling	***Formal dwelling***	***Traditional dwelling / hut***	***Dwelling / flat / room in backyard***	***Shack***	***Other***	***Grand Total***
Formal dwelling	171,605	602,698	429,844	352,056	11,513	1,567,716
Traditional dwelling / hut	87,830	735,997	178,787	32,380	1,515	1,036,509
Dwelling / flat / room in backyard	5,050	5,220	1,557		1,134	12,961
Shack	13,731	8,973	9,543	42,134	1,555	75,935
Other	1,146	1,116	539	563	867	4,231
Grand Total	279,362	1,354,004	620,270	427,132	16,584	2,697,353

Source: LFS 2004

On the other hand, there is also evidence of overcrowding in current housing stock. According to the recently conducted Township Residential Property Market ("TRPM") survey[11], one quarter of township households include relatives or friends in addition to members of the nuclear family as residents in the house. This may be due to the shortage of alternative accommodation. As housing stock becomes available, the absolute number of households may increase as the household unit becomes smaller.

Given these dynamics, quantifying and predicting the demand for housing is a difficult task. Based on the recent past, it may be prudent to expect that, despite the increased availability of well-located housing stock and finance in the future, the significant unmet demand for housing will persist for some time. It also casts some doubt as to the realism of government's promise to eradicate informal settlements by 2014[12].

THE MEMORANDUM OF UNDERSTANDING AND THE LOW-INCOME MARKET

On March 31 2005, the Minister of Housing and the CEOs of the country's largest four retail banks signed a memorandum of understanding ("MoU") in which all parties committed to creating functioning housing markets in previously under-served areas and to making home loan finance available and accessible to low-income customers. The MoU arises from the Financial Sector Charter signed a year and a half ago, in which the banking sector committed itself to providing more than R70 billion in development finance over the next five years. In terms of the MoU, the banks will provide "a minimum of R42bn in targeted investment for new affordable

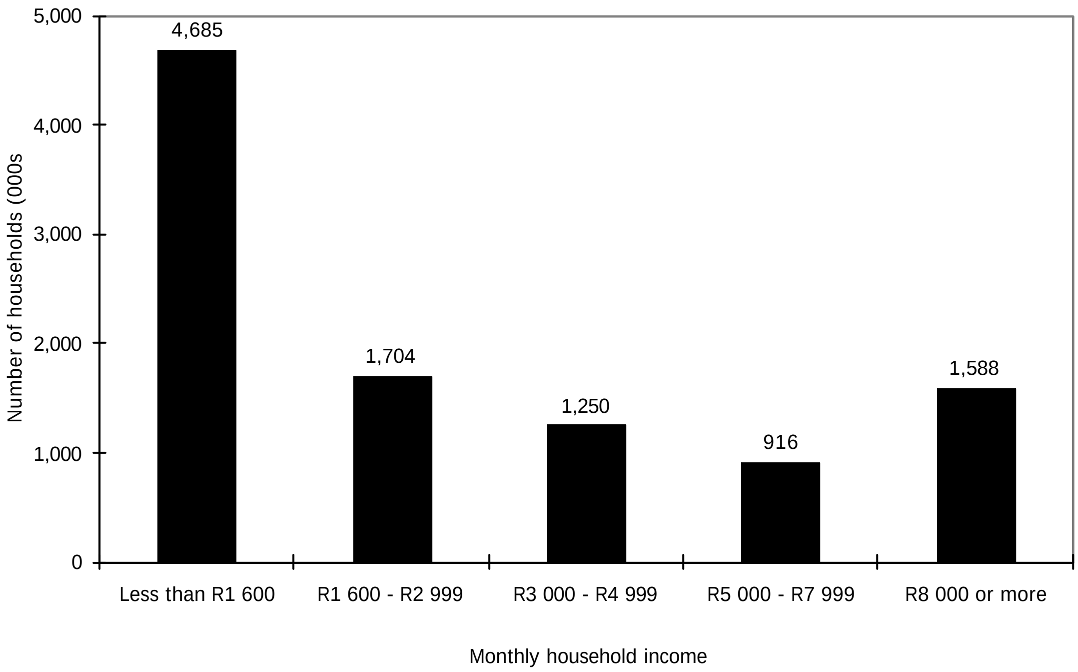
[11] This survey was conducted between November 2003 and February 2004 among 2002 respondents across 18 sites in four metropolitan areas (Johannesburg, Ekurhuleni, eThekweni, and Cape Town). The dataset is now available for free unlimited access on www.Eighty20.co.za.

[12] The Minister has made this promise on numerous occasions, including recently in her speech to the National Assembly, at the occasion of the tabling of the Budget Vote for the Department of Housing for the 2005/06 Financial Year, Cape Town, 17 May 2005

housing finance" for those with a household income of between R1 500 to R7 500 per month over the next three and a half years[13]. This is a significant amount. The total housing subsidy budget for 2005/6 at R4,8bn[14] is a little over one tenth of this commitment. In terms of housing provision, the R42bn could potentially provide access to finance for around three quarters of a million households in the target market. While the banks have provided no details on the types of products that will be brought to market, it is safe to assume that the bulk of new lending will be in the form of a basic home loan product with a predictable repayment schedule.

Because FinScope™ is a survey of individual adults[15] rather than a household survey, it cannot be used to determine the number of households in the market segment targeted by the MoU. The most recent version of the All Media and Product Survey ("AMPS") conducted by SAARF indicates that there are 3.87 million households with a gross monthly income of between R1 600 and R8 000. A further 4,68 million households earn less than R1 600 per month.

Chart 3. Number of households by gross monthly household income: AMPS



Source: AMPS 2004

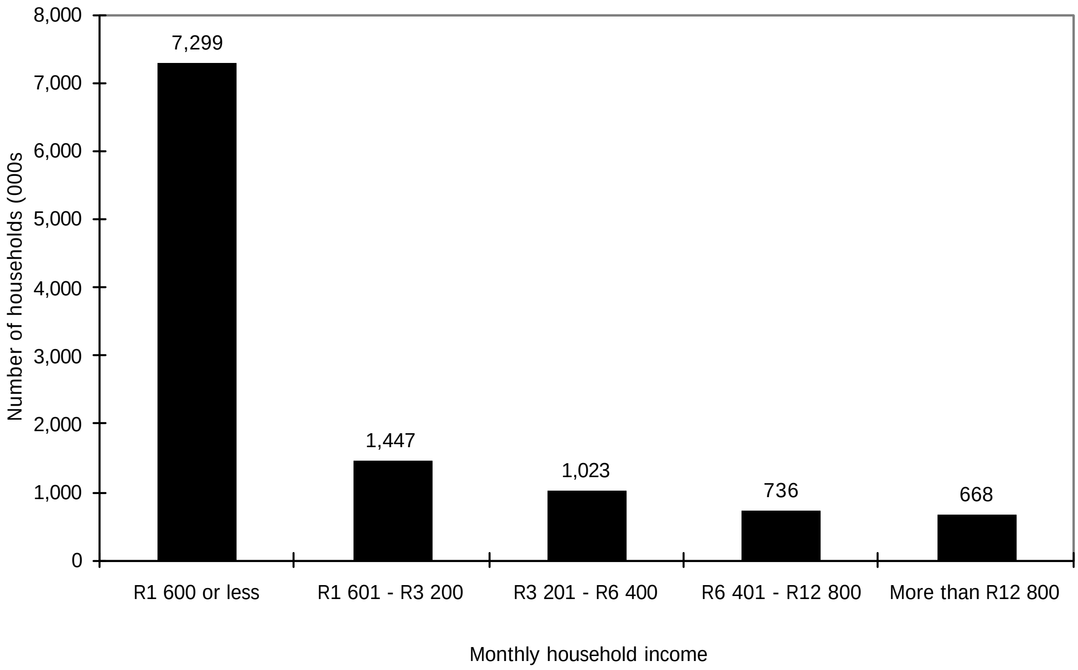
[13] Source: MoU between L Sisulu & Banking Association, Department of Housing

[14] Total budgetary allocation for the Integrated Housing and Human Settlement Development Grant. Source: Division of Revenue Bill 2005

[15] FinScope™ counts individuals over 16 and 18

However, AMPS appears to understate the total number of households in South Africa. According to that survey there are approximately ten million households in the country. In contrast, the 2001 Census reports a total of 11 million households. Of these, according to the census, approximately 7,3 million have a monthly household income of less than R1 600 and a further 2.4 million have a monthly household income of between R1 600 and R6 400[16].

Chart 4. Number of households by gross monthly household income: Census



Source: Census 2001

The LFS (2004) and GHS (2003) find a total of 12,6 million and 12,5 million households respectively. However, neither the LFS nor the GHS gathers data on total household income[17].

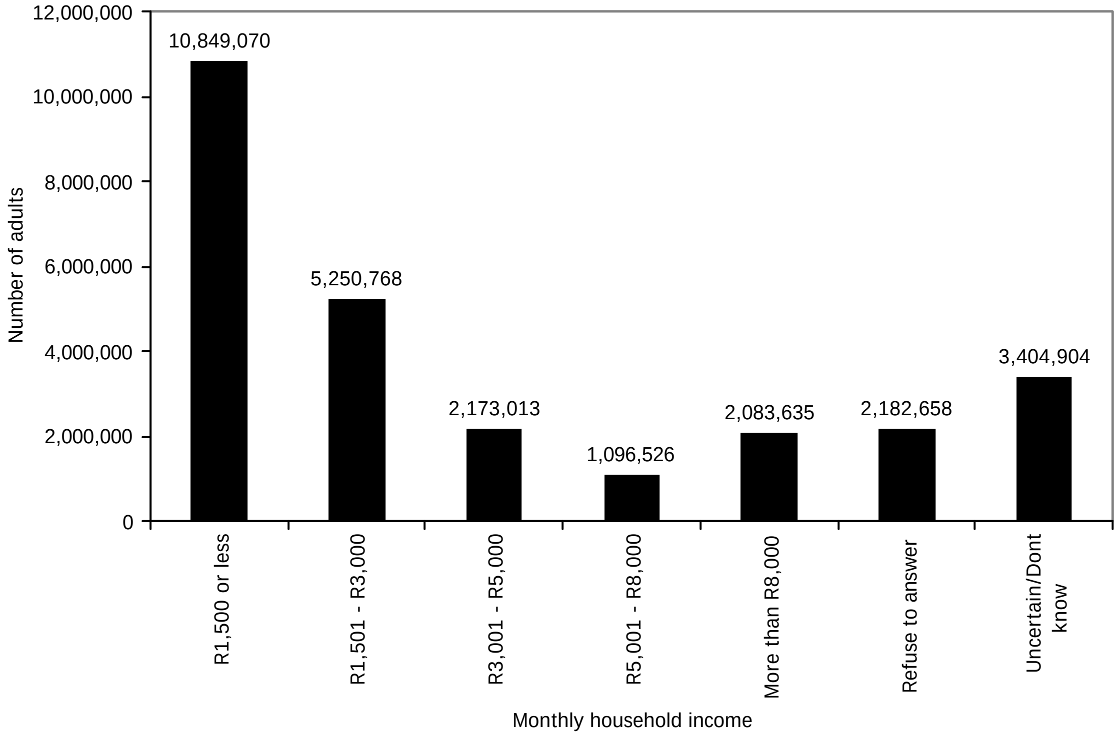
In terms of the adult population, according to FinScope™, 40% of South Africans over the age of 18 have a household income of less than R1 500 per month while slightly more than 30% have a monthly household income of between R1 500 and R8 000[18].

[16] Because of the way income data is summarised by AMPS and the 2001 Census it is not possible to report the data in line with the segmentation used in the MoU, nor is it possible to align and compare findings from these sources directly.

[17] Both the LFS and the GHS gather data on salaries and wages only. Income from other sources is not included.

[18] FinScope™ Q61; Total monthly household income before tax and other deductions. Includes all sources of income. FinScope™'s income segments increase in R1 000 increments from R2 000 to R5 000 and in R1 500 increments thereafter. It is therefore not possible to match the FSC target market directly to FinScope.

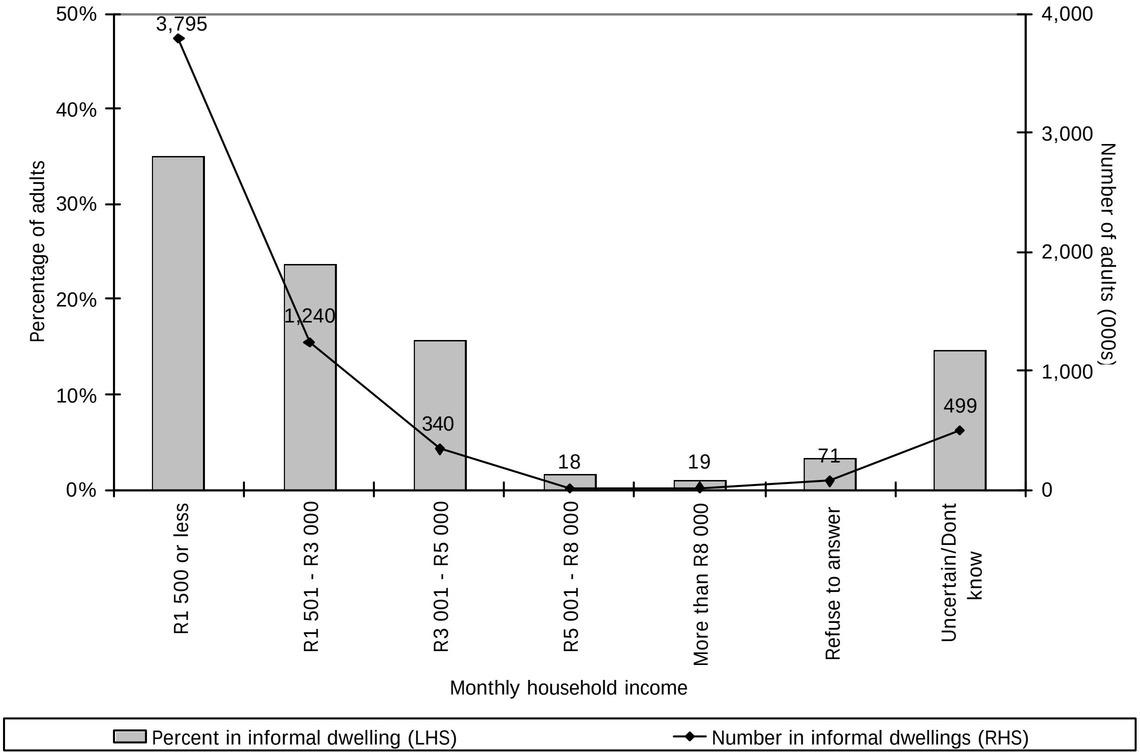
Chart 5. Adult population by gross monthly household income



Source: FinScope™ 2004

According to FinScope™, almost six million adults live in informal dwellings. While the majority has a household income of R1 500 or less, approximately 1,5 million have a monthly household income of between R1 500 and R8 000 and are therefore broadly within the MoU's target market.

Chart 6. *Dwelling type by monthly household income*



Source: FinScope™ 2004

However, affordability of housing finance cannot be determined by income alone. While those in the poorest households are not within the FSC's target market, FinScope™ indicates that a significant proportion of adults who are within the FSC target still cannot meet their family's basic requirements for food, water and fuel.

Table 1: *Poverty indicators: Percentage of adults responding 'Often' or 'Sometimes'*[19]

Monthly household income	Family gone without enough food to eat in last 12 months	Family gone without medicine or medical treatment that was needed in last 12 months	Family gone without clean water to drink and cook in last 12 months	Family gone without electricity in your home (apart from powercuts) in last 12 months	Family gone without fuel to heat your home or cook food in last 12 months
R1 500 or less	45%	44%	26%	34%	27%
R1 501 - R3 000	29%	32%	15%	23%	13%
R3 001 - R8 000	9%	21%	8%	15%	9%
R8 001 or more	6%	9%	4%	8%	5%
Refuse to answer	7%	8%	2%	5%	0%
Uncertain	17%	24%	10%	20%	11%

Source: FinScope™ 2004

[19] FinScope™ Q59

In addition, a significant percentage is unemployed and, at the time the survey was conducted, roughly one third were unbanked[20].

Table 2: Poverty indicators: Percentage of adults by monthly household income who are:

	R1 500 or less	R1 501 - R3 000	R3 001 - R8 000	More than R8 000	Refuse to answer	Don't know income
Unemployed or not working but looking for a job	41%	33%	19%	9%	11%	39%
Self-employed in the informal sector, e.g. sidewalk trader, casual labour	10%	7%	4%	2%	2%	3%
Unbanked	54%	36%	20%	10%	6%	50%

Source: FinScope™ 2004

HOUSING AND POVERTY

As recognized by the MoU[21], home ownership can theoretically be a powerful weapon in the fight against poverty. For many poor households, their home is their only asset. In an appreciating housing market, growth in the value of this asset can result in wealth accumulation that, in turn, can finance increased spending or additional income generating activities. Mortgage finance can be an important source of funds for new businesses. In addition, the ability to leverage a housing asset can provide a safety net in the face of unforeseen financial shocks such as loss of income or loss of, or damage to, household assets.

A requirement for housing-backed finance is obviously formal title. While a high proportion of poorer households regard themselves as homeowners (see Table 3 below), this perception is often not aligned with formal legal status.

[20] With the introduction of the Msanzi accounts this percentage is likely to have changed. However, no data is available on how many new banking customers are in the market segment with monthly household of R1 500 or less.

[21] One of the objectives of the MoU is to "Support wealth generation and economic empowerment through equitable access to home ownership"

Table 3: Perceived property ownership: Percentage of adults by household income[22]

Monthly household income	Own	Rent
R1 500 or less	78%	22%
R1 501 - R3 000	72%	28%
R3 001 - R8 000	65%	35%
R8 001 or more	72%	28%
Refuse to answer	79%	21%
Uncertain	81%	19%

Source: FinScope™ 2004

Many have only partial written proof of ownership and some have no documented proof at all, a characteristic more widespread in lower income segments[23].

Table 4: Written proof of ownership: Percentage of adults who own their homes[24]

Monthly household income	The land your home is built on	The actual building and the materials of the building	Both the land and the building	None	Don't know / Unsure
R1 500 or less	11%	7%	45%	18%	19%
R1 501 - R3 000	12%	9%	54%	9%	15%
R3 001 - R8 000	15%	9%	59%	5%	12%
R8 001 or more	12%	4%	76%	3%	6%
Refuse to answer	10%	4%	69%	2%	16%
Uncertain	6%	5%	36%	14%	39%
Grand Total	***11%***	***7%***	***51%***	***12%***	***19%***

Source: FinScope™ 2004

The TRPM survey delves more deeply into the type of written proof held by owners of various kinds of housing. It indicates that lack of formal proof of ownership is not only a legacy issue. A sizeable number of those in relatively new RDP houses have no documented proof of ownership (this is largely due to delays in the transfer process). This is surely a cause for concern for policymakers.

[22] FinScope™ Q 47 "Does this household own or rent this dwelling?"

[23] The relatively high proportion of respondents who are unsure whether or not they have proof is worth noting. In some cases, these respondents may not be involved in household financial decision-making. In cases where the respondent is involved in financial decision-making, the levels of awareness are somewhat higher. 16% overall do not know if they have written proof of ownership. Where the respondent does not make financial decisions, 34% do not know.

[24] FinScope™ Q48a "Do you or does anybody in your household have written proof (in the form of a contract) that you / they own: The land your home is built on; The actual building materials of the building; Both the land and the building; No; Don't know"

Table 5: Written proof of ownership: Percentage who have bought / built / bonded their current homes[25]

Did you receive any documents that proved your ownership of the dwelling and what was it?	*Shack in an informal settlement*	*Shack in a site & service scheme settlement*	*Old township stock*	*RDP House*	*Private sector*
Received nothing	59%	37%	6%	19%	6%
Title deeds	6%	27%	62%	55%	44%
Bond contract from bank	0%	0%	7%	0%	38%
Receipt	9%	7%	18%	19%	8%
Stand permit	17%	29%	4%	4%	3%
Other	7%	1%	3%	4%	1%
Not Applicable	1%	0%	0%	0%	1%

Source: TRPM 2004

Of course, asset value is only realizable if the asset is traded. According to FinScope™, however, a noticeably low percentage of poorer adults recognise their home as a tradable asset. While this might be expected for those in informal dwellings, the proportion of those who own formal dwellings who view their homes as assets is still relatively low[26].

Table 6: Home viewed as a tradable asset: Percentage of adults by household income[27]

Homeowners in formal dwellings only

Monthly household income	*Yes*	*No*	*Don't know*
R1 500 or less	21%	53%	25%
R1 501 - R3 000	35%	44%	21%
R3 001 - R8 000	56%	28%	16%
More than R8000	74%	14%	12%
Refuse to answer	66%	19%	16%
Don't know income	29%	29%	42%

Homeowners in informal dwellings only

Monthly household income	*Yes*	*No*	*Dont know*
R1 500 or less	9%	66%	25%
R1 501 - R3 000	25%	46%	29%
R3 001 - R8 000	6%	54%	40%
More than R8000	22%	39%	39%
Refuse to answer	0%	76%	24%
Don't know income	7%	69%	24%

Source: FinScope™ 2004

[25] TRPM 52a "Did you receive any documents that proved your ownership of the dwelling and what was it?"

[26] Roughly one quarter of upper-income adults who own formal dwellings do not view their houses as tradable assets. It is not clear why this is the case.

[27] FinScope™ Q48d "Do you view your home as a tradable asset or not? By this I mean an asset that you can sell for money or take a loan against." 44% of adults do not view their houses as tradable assets. The balance, or 24%, don't know.

This finding is corroborated by the TRPM survey, which found that township homeowners are generally unwilling to sell their current homes[28].

Table 7: Attitude to current home: Percentage of homeowners

Which of the following described your thoughts about this dwelling most accurately while you were living there?	Percentage of house owners
It is accommodation, which I will SELL when it is necessary	34%
It is a home, which I will NEVER SELL – even if I have to move, family members will take over	66%

Source: TRPM 2004

It appears that homeowners, even those with written proof of ownership, are also not able (or willing) to leverage their housing assets for other income generating activities. Of the approximately 15 million formally housed, adult homeowners, around six million agree with the FinScope™ statement: "You often think you would like to start your own business but can't get credit"[29].

Table 8: You often think you would like to start your own business but can't get credit: Percentage of homeowners in formal dwellings by household income

Monthly household income	Agree	Disagree	NA/Dont know
R1 500 or less	49%	36%	16%
R1 501 - R3 000	48%	38%	14%
R3 001 - R8 000	36%	52%	12%
More than R8000	27%	59%	14%
Refuse to answer	22%	65%	13%
Uncertain/Don't know	38%	44%	18%
Grand Total	**40%**	**45%**	**15%**

Source: FinScope™ 2004

By and large, housing assets are also not leveraged as potential safety nets in the event of financial risks. FinScope™ reports that only 1% of homeowners would use their houses as collateral or security for additional finance, if faced by events such as the death of the main wage earner, the failure of a business or a serious illness of a household member. According to the survey, homeowners are more likely to sell their assets than to raise finance using their houses as collateral.

[28] TRPM Q71. Respondents include those who own (bought / bond / build) houses only.

[29] FinScope™ Q7b.

Table 9: Method of dealing with financial risks: Percentage of homeowners

	R1 500 or less	R1 501 - R3 000	R3 001 - R8 000	More than R8 000	Refuse to answer	Don't know income	Grand Total
Use your house or other property as collateral	1%	1%	1%	5%	1%	0%	1%
Increase your bond	0%	0%	0%	6%	3%	1%	1%
Ask neighbours, relatives, friends to give you money	22%	18%	8%	8%	5%	18%	17%
Don't know	14%	20%	12%	7%	14%	19%	15%
Take a loan from friends/family	17%	12%	17%	9%	5%	13%	14%
Take a loan from a bank	4%	9%	12%	25%	10%	6%	8%
Withdraw savings/investment	4%	12%	11%	16%	7%	6%	8%
Apply for government grant/aid	8%	7%	6%	6%	4%	6%	7%
Cash in insurance policies	1%	2%	4%	17%	12%	3%	4%
Sell assets e.g. house, car	2%	2%	4%	9%	8%	2%	3%
Take a loan from stokvel/burial society	3%	2%	2%	1%	1%	1%	2%
Other	2%	4%	2%	1%	1%	3%	2%
Take a loan from employer	2%	2%	5%	3%	1%	0%	2%
Apply for more credit	0%	1%	2%	3%	2%	1%	1%
Take a loan from mashonisa	1%	1%	1%	1%	0%	1%	1%
Take a loan from a micro-lender, e.g. African Bank	0%	1%	1%	1%	0%	0%	1%

Source: FinScope™ 2004

As an investment choice, the survey finds that adults are more likely to invest in improving their home (equally significant to all income groups) than to repay their mortgage bond or invest in other property. This also suggests that the use value of housing is prioritised over its investment, or financial asset value.

Table 10: Desired investment vehicles: Percentage of adults

	R1 500 or less	R1 501 - R3 000	R3 001 - R8 000	More than R8 000	Refuse to answer	Don't know income	Grand Total
Pay bond faster to settle sooner*	32%	57%	56%	43%	54%	44%	50%
Improving your home	22%	29%	24%	24%	21%	23%	24%
Investment in another house / flat / property that you rent out	6%	6%	16%	22%	23%	17%	11%
Investment in a plot of vacant land	6%	8%	13%	12%	12%	10%	9%
Holiday home / cottage / investment in a second home for yourself	4%	6%	14%	21%	16%	9%	8%
Investment in farm land	9%	8%	6%	7%	7%	11%	8%
Timeshare	2%	3%	5%	9%	9%	4%	4%
A savings account at the bank	60%	66%	59%	51%	48%	57%	59%
Burial society	27%	24%	18%	16%	16%	27%	24%
A Post Office savings account	22%	22%	11%	9%	10%	22%	18%
Savings policies, endowments or life insurance with insurance co	12%	19%	24%	33%	26%	17%	18%
Unit trusts	8%	13%	24%	23%	13%	14%	13%
Stokvel or savings club	13%	14%	11%	7%	6%	14%	12%
Retirement annuities	7%	13%	15%	28%	17%	11%	12%
Shares on the stock exchange	6%	12%	15%	16%	7%	11%	10%

Source: FinScope™ 2004

* Note: Only those in households that make bond repayments are used as the denominator to determine the percentage of adults who selected the option "Pay bond faster to settle sooner". It should be noted that, because of the small number of respondents in low-income segments who have bonds, the confidence intervals are fairly wide.

The relatively low level of interest among lower-income households in investing in property, is not surprising given banks' past reluctance to lend to certain market segments and the non-functioning state of secondary property markets in many low-income or township areas. It reinforces the need for institutional and market reform, in addition to a widespread titling programme, if the 'dead' capital tied up in housing is to become a source of enrichment. It also emphasizes the need for greater awareness, on the part of homeowners, of the full value of their housing assets.

EIGHTY20

In an environment where housing markets do not function and housing assets cannot be readily leveraged or sold, increasing access to formal housing and housing finance can perversely increase the burden of poverty.

According to the TRPM survey, at least a quarter of township dwellers currently do not pay for housing.

Table 11: Within your current situation, do you prefer to buy or rent a dwelling? Percentage of township dwellers by current dwelling type

	House	Shack	N/A	Grand Total
Buy	69%	44%	49%	55%
Rent	7%	22%	15%	13%
N/A Prefer to live for free like I do at the moment	18%	34%	29%	26%
Don't know	2%	0%	4%	3%
Not Applicable	4%	1%	3%	3%
Grand Total	100%	100%	100%	100%

Source: TRPM 2004

The shift from informal to formalised home ownership can add significantly to a household's non-discretionary monthly expenditure. Research conducted in the late 1990s found that rates and services could amount to over R150 per household per month[30]. In addition, unlike those in informal housing who can repair or maintain their own dwellings, those in formal houses often have to pay trained and relatively costly providers to do so.

New formal homeowners also face social pressure to increase their discretionary spend on items such as furniture and white goods (see FinScope™ data in Table 12 below – ranking of furniture purchases). The data illustrates that relatively more of those in lower income households would prefer to spend a large sum of money on furniture (second only to housing) than those in higher income households (who rank furniture as fifth after buying a car, saving the money, paying off debts). The prioritisation of appliance purchases is also ranked higher among low-income households than higher income households. Recent qualitative research conducted by the Unilever Institute found that many low-income households that had purchased fridges often could not afford to buy food for more than one day[31].

[30] Source: "The impact of the transition from informal housing to formalized housing in low-income housing projects in South Africa" Warren Smit, 2000

[31] My Home: Shelter, Shack or Showroom by the Unilever Institute

Despite the low perceived asset value and relatively high cost associated with home ownership, a house is still regarded by most South Africans as an aspirational purchase. FinScope™ reports that more than half of all adults across the board would spend a lump sum on buying a house[32] - the most popular choice across a range of options for all market segments. This finding is corroborated by an omnibus survey of 2 000 urban and 1 500 rural respondents, recently conducted by Research Surveys. 93% of respondents to that survey agreed that it is important to own your home.

Table 12: Spending preference for a large sum of money: Percentage of adults by monthly household income

Spending preference for large sum of money	R1 500 or less	R1 501 - R3 000	R3 001 - R8 000	More than R8 000	Refuse to answer	Don't know income	Grand Total
Buy a house	60%	62%	54%	40%	34%	57%	56%
Buy furniture	45%	43%	33%	18%	18%	33%	37%
Save it	37%	40%	38%	33%	26%	36%	36%
Buy a car	26%	34%	42%	37%	24%	42%	32%
Start a business	28%	24%	19%	18%	11%	27%	24%
Pay off childrens education	23%	22%	17%	14%	14%	24%	21%
Extend / renovate house	23%	19%	20%	15%	13%	15%	20%
Buy appliances	14%	13%	13%	8%	7%	11%	12%
Pay off debts	9%	12%	16%	21%	14%	5%	11%
Other	7%	10%	8%	8%	8%	11%	8%
Travel/go on holiday	4%	8%	11%	20%	12%	10%	8%
Pay off house	2%	5%	7%	12%	13%	4%	5%
Long-term insurance e.g. life cover	2%	5%	7%	7%	2%	2%	3%
Pay off car	1%	1%	2%	6%	4%	3%	2%
Dont know	2%	0%	0%	0%	4%	1%	1%

Source: FinScope™ 2004

The desire to own a home is most noticeable in lower-income market segments where current housing is inadequate.

Table 13: Spending preference for a large sum of money: Percentage of adults by monthly household income and current dwelling type

Spending preference for large sum of money	R1 500 or less	R1 501 - R3 000	R3 001 - R8 000	More than R8 000	Refuse to answer	Don't know income	Grand Total
Buy a house - currently in a formal dwelling	53%	60%	52%	40%	33%	56%	51%
Buy a house - currently in an informal dwelling	74%	69%	67%	43%	67%	65%	72%

Source: FinScope™ 2004

[32] This finding is more pronounced for respondents who do not own their homes as shown below.

	R1 500 or less	R1 501 - R3 000	R3 001 - R8 000	More than R8 000	Refuse to answer	Don't know income	Grand Total
Buy a house - homeowner	57%	58%	44%	27%	25%	54%	51%
Buy a house - renter	71%	74%	71%	72%	70%	71%	72%

SOURCES OF HOUSING FINANCE

GOVERNMENT HOUSING SUBSIDIES

The vast majority of those who are inadequately housed are unlikely to be able to afford a house without financial assistance – according to FinScope™ 3.8 million adults who live in informal dwellings have a monthly household income of less than R1 500 per month and a further 1.2 million have a monthly household income of between R1 500 and R3 000.

Households who earn less than R3 500 per month, and who have never formally owned property before, currently qualify for government housing subsidies. The prevailing subsidy amounts are a function of household income with poorest households (those with a monthly household income of R1 500 or less) receiving a full subsidy of R31 879[33], corresponding to the cost of an RDP house.

Table 14: Department of Housing subsidies

Subsidy categories: Monthly household income	***Subsidy 2005/2006***
R0 - R1 500	R31 879
R1 501 – R3 500	R29 400 (Own contribution: R2479.00 or sweat equity)

Source: Department of Housing

Beneficiary households earning between R1 500 and R3 500 (with a few exceptions) are currently required to contribute R2 479 towards their house in order to qualify for the subsidy. While the underlying sentiment of this requirement is understandable – even poor households should contribute something towards their own homes – it may effectively prevent very poor households from accessing the subsidy. Sourcing a lump sum of R2 479 is a significant challenge for households earning between R1 500 and R3 500 a month. FinScope™ data on stokvel contributions provides a useful proxy for the amount a household can save. The weighted average stokvel contribution of adults in households with a monthly income of between R1 500 and R3 000 is R157. Assuming zero transaction costs and one stokvel member per household, these households would have to save for 16 months to accumulate the required amount.

[33] This is the quantum of the subsidy as of 1 April 2005. Previously, the amount was R28 279.

In light of this, households may choose rather to participate in the construction of their homes, providing what is known as "sweat equity" instead of the R2 479 financial contribution. Alternatively, households that have at least one formally employed and banked wage earner, who has a good credit record and is not already over-indebted, can access credit from commercial micro lenders. While specialist housing lenders charge rates of between 40% and 67% per annum, including insurance, for a 12 month loan of R3 000, the large banks typically charge all-in rates of upwards of 100%[34]. Determining the percentage of poorer households that qualify for a micro loan is not possible given available data. Those that do not may well make use of unregulated lenders who are likely to charge significantly higher rates. The R2 479 requirement therefore potentially translates into a much greater financial commitment than government intended, as households seek to accelerate the accumulation of that amount by taking on a micro loan.

According to the Department of Housing, 1,315 million subsidized (RDP) housing units were transferred to qualifying beneficiaries, between 1994 and 2004, while a further 116 583 were constructed and allocated to beneficiaries but hadn't, by March 2004, been transferred. However, the LFS finds that, as at September 2004, there were only one million RDP household beneficiaries[35], far lower than the official statistics. FinScope™'s finding that 1,2 million adults live in government-subsidized houses[36] also appears to understate actual supply if one assumes there are, on average, close to two adults per household as per the subsidy eligibility criteria. Given that a relatively low proportion of subsidized housing has formally changed hands (the required holding period for subsidized housing was changed from eight years to five years on April 1, 2005), one can only assume that this discrepancy arises from low levels of awareness by some household members of how their housing was paid for, or that a "free house" means that a subsidy has been received.

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[34] In April 2005 African Bank, the largest term micro lender in the market, charged 124% per annum for a standard debit order loan of R3 000 paid over 12 months

[35] The question in the Labour Force Survey is: "Did any member of this household receive a government housing subsidy to obtain this dwelling or any other dwelling? Do not include housing subsidies for government employees". The range for the 95% confidence interval is 966 122 to 1 049 032.

[36] FinScope™ Q50a.: "Is this house subsidized by another party, e.g. employer, state or government?"

Table 15: Housing subsidies by household income: Number of adults in government subsidised houses

Monthly household income	Number of adults
R1 500 or less	544,524
R1 501 - R3 000	182.670
R3 001 - R8 000	145.159
More than R8000	139.999
Refuse to answer	63,054
Don't know income	129,962
Grand Total	***1,205,368***

Source: FinScope™ 2004

Aside from existing housing subsidies that target the poorest of the poor, in September 2004 the Minister of Housing announced plans for a "deposit subsidy" in her new human settlements strategy. The intention is to assist households earning between R3 500 and R7 000 per month to access loan finance that will become available through the housing finance commitments made by the banks in respect of the FSC.

LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

According to the LFS, around 500 000 households with a monthly expenditure of R5 000 or less, or roughly 4,5% of the total, use some form of housing finance[37]. FinScope™ provides some insight into the funding source. Only 98 000 of the 13,4 million adults, with a monthly household income of less than R3 000, say they personally have and make use of mortgage bonds or housing loans[38] (according to AMPS, the figure is 23 000). From a household perspective, the survey finds that 178 000 of these adults, or 1,1% of the market, live in households that make bond repayments[39].

According to FinScope™, a further 144 000 of the 3,3 million adults with a monthly household income of between R3 000 and R8 000 personally have mortgages (this is broadly in line with

[37] These households own dwellings that are not fully paid off. While not directly comparable, the 2001 Census found that just over three quarters of a million households with an income of R3 200 or less, or 8% of the market, make use of housing finance. According to the Census 3.8 million households with monthly income of R3 200 or less own dwellings that were fully paid off while the LFS found that 7.4 million households with household expenditure of less than R5 000 own dwellings that are fully paid off (this includes formal and informal dwellings).

[38] FinScope™ Q2a "We are going to talk about your personal experience with various products and services. Please tell me about your experience with each of the following, using this scale; Never had, Used to have in the past but not now, Have now and use, Have now but don't use"

[39] FinScope™ Q49 "Does this household currently make bond repayments or not?"

AMPS[40] which finds that 164 000 adults in this segment have mortgages), although almost 400 000live in households that make bond repayments.

Table 16: Mortgage loans by household income: number of adults and segment penetration

	Personal experience with mortgage bond or home loan: Have now and use - Number in segment	Personal experience with mortgage bond or home loan: Have now and use - Percentage of homeowners in segment	Does this household currently make bond repayments: Yes - Number in segment	Does this household currently make bond repayments: Yes - Percentage of homeowners in segment
R1 500 or less	24.168	0%	86.379	1%
R1 501 - R 3000	73.869	2%	91.213	2%
R3 001 - R8 000	143.894	6%	392.673	18%
More than R8 000	458,037	29%	798,872	53%
Refuse to answer	575,187	32%	657,534	38%
Don't know income	73,280	2%	279,715	10%
Grand Total	***1,348,436***	***6%***	***2,306,387***	***11%***

Source: FinScope™ 2004

FinScope™'s estimates appear to be broadly in line with industry data. The Banking Assocation estimates that, from 1994 to 2004, some R18,4 billion was invested in approximately 350 000 mortgage loans of R150 000 and below. This represents 20% of the total number of mortgage loans extended during the same period[41]. This estimate quite possibly overstates lending to the low-income market, as the property value often exceeds the bonded amount. In addition, the effects of inflation, together with the relatively low property values that prevailed in 1994, might make the uniformly applied cut-off value of R150 000 too high.

A review of more recent deeds office data may be more indicative of the extent of lending in the low-income market. That data shows that, for the 2003 calendar year, there were about 21 000 full title and 8 000 sectional title transactions below R150 000 with bond finance. The total value of these loans amounts to approximately R2,85 billion[42]. Thus, even if the full R42 billion earmarked by the FSC is not new mortgage finance, the sheer scale of the intervention, supported by the government's deposit subsidy, is likely to lead to significantly increased mortgage penetration rates over the next three and a half years.

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[40] AMPS 2004B

[41] The average loan size is estimated to be approximately R65 000. The total value of these loans represents 8% of the total book held by the banks. 4.5% (down from 7% in 2003) are currently registered as non-performing. ABSA, the largest home loan lender in the market, reports that in 2004, non-performing loans average 2.8% of total mortgage advances (down from 4.3% in 2003).

[42] Date provided by BlueValue (www.indeed.co.za)

Of course, the mortgage instrument is not universally appropriate across the low-income market. High transaction costs, associated with bond registration, make mortgages especially expensive. Assuming that households with an income of R2 500 per month can afford to spend at most 25% of their household income (R625 per month) on housing[43], a 20-year bond, at 16% interest, and a 10% deposit would generate a capital amount of R50 580, from which an estimated R3 500[44] would be required for transaction costs associated with conveyancing and bond registration. Added to the subsidy entitlement of R29 400, this would afford the household enough finance to buy a house for just under R80 000. This of course raises the next question that the banks have been asking for some time: is stock at that value available?

Other forms of credit are often more appropriate for housing finance in the low-income market. However, reported usage in this regard is also low. Data from FinScope™ indicates that only 325 000 adults with a household income of less than R3 000 per month, or 2% of the segment, have ever taken loans to buy a house or to finance home improvements. Over 90% of these adults have sourced loans to buy a house from a bank or financial institution while sources such as micro lenders[45] are reportedly insignificant for this purpose.

Table 17: Loans to buy a house by household income[46]

		Source	
Monthly household income	***Reason for loans ever taken: to buy a house***	***Bank or financial institution***	***Micro lender***
R1 500 or less	1%	86%	0%
R1 501 - R 3000	2%	99%	1%
R3 001 - R8 000	7%	97%	0%
More than R8 000	23%	98%	0%
Refuse to answer	34%	96%	0%
Uncertain/Dont know	3%	100%	0%
Grand Total	6%	97%	0%

Source: FinScope™ 2004

While loan sourcing for purposes of house repairs or painting is slightly more diverse, banks or financial institutions continue to play the most important role.

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[43] Although at this low level of income, 25% is understood even by banks to be ambitious. Most households in this income range have financial responsibilities that would leave a far smaller proportion of their household income available for housing.

[44] Source: Kecia Rust

[45] The distinction between 'bank or financial institution' and microlender is perhaps not clear to respondents. African Bank is given as an example of a microlender in an earlier question of the survey, but could be regarded as a bank or financial institution by respondents during this section of the questionnaire.

[46] FinScope™ Q15a and Q15c

Table 18: Loans to repair or paint a house by household income[47]

Monthly household income	Reason for loans ever taken: to repair or paint a house	Source: Bank or financial institution	Source: Micro lender	Source: Mashonisa / Cash loan shop
R1 500 or less	1%	21%	0%	36%
R1 501 - R 3000	2%	18%	2%	0%
R3 001 - R8 000	4%	75%	6%	13%
More than R8 000	6%	73%	1%	0%
Refuse to answer	2%	96%	1%	0%
Uncertain/Dont know	1%	32%	24%	0%
Grand Total	2%	54%	4%	10%

Source: FinScope™ 2004

Care should be taken when interpreting this data. Survey respondents are often reluctant to admit that they engage in practices deemed to be undesirable, such as borrowing money. In this regard, the usage of micro lenders is significantly understated in FinScope™ as it is in other consumer surveys such as AMPS and the Labour Force Survey. FinScope™ reports that a total of 308 000 adults have loans from formal micro lenders[48]. Yet African Bank alone has an active client base of well over one million. Supply-side data, collected by the MFRC from registered lenders, provides a more accurate picture. While segmentation of that data by household income is not possible, registered lenders report that around 10% of the 1,2 million loans disbursed by the industry every month are for housing[49].

SUBSIDIES AND LOANS FROM OTHER SOURCES

Aside from formal and informal lenders, other sources of finance include employers and friends and family. According to FinScope™, employers are currently not a significant source of housing funding for low-income workers – either in terms of loans or housing subsidies. Less than 400 000 workers across all income segments have employer-provided housing subsidies, and only around 140 ,000 have borrowed money from employers, friends or family for housing.

[47] FinScope™ Q15a and Q15c

[48] 147,000 live in households with an income of less than R3000 per month. FinScopeTM Q2a “We are going to talk about your personal experience with various products and services. Please tell me about your experience with each of the following using the this scale; Never had, Used to have in the past but not now, Have now and use, Have now but don’t use.

[49] Source: MFRC published industry statistics

Table 19: *Adults who have:*

Monthly household income	Employer-provided housing subsidy: Number of adults	Employer-provided housing subsidy: Percentage of homeowners	A house bought by borrowing money from an employer/friend/family: Have now and use	A house bought by borrowing money from an employer/friend/family: Have now and use: Percentage of homeowners
R1 500 or less	35,772	0%	24,972	0%
R1 501 - R 3000	30,975	1%	12,048	0%
R3 001 - R8 000	134,880	6%	37,816	2%
More than R8 000	101,523	7%	10,152	1%
Refuse to answer	52,016	3%	25,897	1%
Don't know income	34,819	1%	29,031	1%
Grand Total	***389,985***	***2%***	***139,916***	***1%***

Source: FinScopeTM 2004

Data on township dwellers from the TRPM survey indicates that only 12% of township homes are financed at least in part by employer-provided subsidies or loans.

FinScopeTM indicates that sources such as employers and friends and family are used more frequently for lower value loans for repairs or maintenance than for housing purchases.

Table 20: *Loans to buy a house and repair or paint a house by household income*[50]

Monthly household income	Reason for loans ever taken: to buy a house	Source		
		Employer	Family / friends	Other
R1 500 or less	1%	12%	12%	2%
R1 501 - R 3000	2%	0%	0%	0%
R3 001 - R8 000	7%	1%	9%	0%
More than R8 000	23%	2%	0%	0%
Refuse to answer	34%	2%	1%	0%
Uncertain/Dont know	3%	0%	0%	0%
Grand Total	6%	2%	2%	0%

Monthly household income	Reason for loans ever taken: to repair or paint a house	Source		
		Employer	Friends / Family	Other
R1 500 or less	1%	15%	25%	18%
R1 501 - R 3000	2%	36%	20%	25%
R3 001 - R8 000	4%	12%	0%	0%
More than R8 000	6%	18%	16%	0%
Refuse to answer	2%	4%	0%	0%
Uncertain/Dont know	1%	0%	44%	0%
Grand Total	2%	17%	15%	8%

Source: FinScopeTM 2004

[50] FinScopeTM Q15a and Q15c

The potential importance of employer-related housing finance is recognized by government's new housing strategy. It calls for private sector employers to play an "active role in the housing process for low to moderate-income earners". In this regard, government as the employer of over 20% of formal sector workers[51] also has an important role to play.

Employer-provided funding may well be attractive for some who currently cannot, or choose not to, get funding from financial institutions. While the proportion of company-employed adults in informal housing is not insignificant (see Table 21 below), those in the formal sector typically earn relatively high wages and most are likely to meet the credit granting criteria of financial providers without specific intervention by their employers, particularly in light of the FSC.

Table 21: Adults who work for a salary or wage from a company by household income and dwelling type

Monthly household income	Number of adults	Percentage in formal dwellings	Percentage in informal dwellings
R1 500 or less	668,375	64%	36%
R1 501 - R 3000	930,172	77%	23%
R3 001 - R8 000	1,054,557	90%	10%
More than R8 000	1,056,458	100%	0%
Refuse to answer	720,287	97%	3%
Don't know income	393,535	98%	2%
Grand Total	***4,823,384***	***88%***	***12%***

Source: FinScope™ 2004

SAVINGS

Government's new housing strategy notes that savings or insurance products that enable accumulation of housing funding may be better suited for low-income households that cannot afford medium or long-term instalment finance. The TRPM survey indicates that personal savings already constitute an important source of housing finance. Around 30% of township homeowners made use of savings to pay for their homes.

[51] Source: LFS September 2004. Includes central, provincial and local government as well as parastatals

Table 22: How did you pay for the dwelling? (If bought or built)

Loan from the bank / lending Institution	42%
Savings / Stokvel/ Own money	29%
Loan / housing subsidy from employer	12%
Not Applicable	5%
Built in stages when I had money	3%
Other	2%
Loan from family / friend	1%
Money from family/friends	1%
Pension payout / Life policy	1%
Retrenchment package	1%
Paid of the previous owner over months	1%
Loan from building material supplier	0%
Loan from micro lender	0%

Source: TRPM 2004

According to FinScope™, the most popular savings product used by the low-income market is a savings account at a bank. This is not to say that all those with savings accounts use them to accumulate funds. Roughly one third of those with savings accounts agreed with the FinScope™ statement, "You tend to take most of your money out of your bank account as soon as you get it". With the introduction of the low cost Mzansi accounts, the number of bank savers may have increased. In the absence of more detailed bank-provided data on the income profile of Mzansi account holders, researchers will have to wait for the next FinScope™ survey, due to be released towards the end of 2005 to assess whether this is the case.

Table 23: Savings or investment products: Percentage of segment

	R1 500 or less	*R1 501 - R3 000*	*R3 001 - R8 000*	*More than R8 000*	*Refuse to answer*	*Don't know income*	*Grand Total*
Savings account at the bank	23%	42%	60%	74%	64%	33%	39%
Burial society	21%	23%	25%	19%	20%	17%	21%
Pension fund	1%	5%	17%	40%	35%	4%	10%
Savings policies, endowments or life insurance with insurance co.	1%	4%	14%	46%	34%	6%	10%
Stokvel or savings club	6%	11%	11%	9%	6%	6%	8%
Retirement annuity	0%	3%	13%	35%	26%	4%	8%
Provident fund	1%	4%	13%	26%	18%	4%	7%
Voluntary contributions to a pension or provident fund	1%	1%	9%	21%	15%	2%	5%
Savings book	5%	5%	4%	10%	5%	2%	5%
Post Office savings account	4%	4%	1%	1%	8%	4%	4%
Unit trusts	1%	0%	2%	11%	8%	1%	2%

Source: FinScope™ 2004

The use of pension and other life office funds for housing finance purposes has been suggested[52]. The banks, too, offer home loan products that are secured with the borrower's pension and provident fund withdrawal benefit. However, according to FinScope™, aside from bank accounts, penetration of formal savings products in the low-income market is relatively low.

[52] Source: "A financing strategy to break the housing logjam" by the Housing Financing Strategy Committee referenced in Rust (unpublished) "State of Access to Housing Finance in South Africa", prepared as input report to Porteous & Hazelhurst (2004) Banking on Change: Democratising Finance in South Africa 1994-2004 and beyond

This is especially true of contractual savings products that are often available to those in formal employment only, or require a minimum monthly contribution beyond the means of low-income households. According to FinScope™, relatively few of those in households with a monthly income of less than R3 000 currently have these products (see Table 23 above).

FinScope™ also indicates that a very small percentage of those in informal dwellings currently have contractual savings products.

Table 24: Contractual savings products: Percentage of adults in informal dwellings

Monthly household income	Pension fund	Provident fund	Retirement annuity
R1 500 or less	1%	2%	0%
R1 501 - R3 000	4%	3%	3%
R3 001 - R8 000	14%	17%	0%
More than R8 000	22%	0%	0%
Refuse to answer	43%	11%	0%
Don't know income	0%	0%	0%
Grand Total	***3%***	***3%***	***1%***

Source: FinScope™ 2004

Despite the fact that poorer households are often unable to meet their basic needs, the desire to save is surprisingly high. Over a quarter of those in the poorest households try to save regularly, often going without basic requirements. For those that try to save regularly, it appears that this may be central to the individual's risk management approach rather than a way of funding planned future purchases.

Table 25: Savings practices: Percentage of adults who agree

Monthly household income	You try to save regularly	You go without basic things so that you can save	You are saving for something specific (percentage of those who try to save regularly)
R1 500 or less	26%	18%	34%
R1 501 - R3 000	44%	24%	40%
R3 001 - R8 000	62%	32%	46%
More than R8 000	82%	34%	64%
Refuse to answer	80%	34%	50%
Don't know income	40%	23%	51%
Grand Total	***44%***	***24%***	***46%***

Source: FinScope™ 2004

Informal savings mechanisms such as stokvels and burial societies (not strictly a savings mechanism as they contain a significant element of risk financing) are relatively more common in the low-income market. While it may not be possible to leverage these assets directly for housing finance, they are interesting for two reasons. Firstly, they indicate a real capacity to save within the target market. Secondly, they potentially offer formal financial providers a means of servicing small-scale savers in the low-income market efficiently. FinScope™ reports that 75% of stokvel members, with a monthly household income of between R1 500 and R8 000, contribute R200 or less every month. Research recently conducted as part of the Financial Diaries Project[53] indicates that stokvel members often contribute very small amounts daily. While it may not be possible for banks to facilitate this type of savings activity on an individual basis, they can and sometimes do interact with low-income customers through group accounts.

IMPACT OF THE FSC ON ACCESS TO HOUSING FINANCE

In assessing the likely impact of the FSC on access to housing finance it is worth revisiting the definition of access. In a recent paper, David Porteous[54] notes that actual supply or usage is often a subset of access – consumers may have access to a product but prefer not to use it. However, because usage, unlike access, can be measured over time it is a useful metric.

In assessing whether the market functions effectively for the poor, Porteous outlines two necessary and sufficient conditions; that usage of the product by the poor increases over time and that there are alternative products available.

With regard to the first condition, the introduction of additional lending capacity will clearly have a significant impact on the market. However, greater transparency on the part of credit providers is required to accurately determine current and future levels of access to housing finance for the poor. While FinScope™ provides an indication (given the tendency of respondents to understate credit usage as well as some confusion with respect to product terminology), survey-based monitoring is imprecise. The Department of Housing, therefore, aims to establish the Office of Disclosure, under the Home Loan and Mortgage Disclosure Act (2000), to ensure that lending trends can be monitored and that financial providers comply with the requirements of the FSC.

However, there are two further complications. In the first instance, this form of monitoring is unlikely to be effective for unsecured loans, an important source of housing finance used by low-income households for incremental housing development or repairs. Given that money is

[53] The Financial Diaries Project examines financial management in 167 poor households in Langa, Diepsloot and Lugangeni by means of fortnightly interviews. More details on the project are available at www.financialdiaries.com

[54] "Making Financial Markets Work for the Poor", October 2004, commissioned by FinMark Trust and available at www.finmarktrust.org.za

fungible, identifying the specific application of any unsecured loan is often impossible. At best, researchers and regulators will have to rely on the stated purpose of the loan recorded by lenders at the point of sale. Secondly, it is important to monitor usage in the various income sub-segments, within the target market. Households with a monthly income of R7 000 are very different to those that earn R2 000. Ideally, the MoU should be refined to incorporate more specific targets, based on sub-segment size, to ensure that the poorest households in the target market get their fair share of the allocated capital. One might assume that, because the bulk (62%) of the population in the FSC target market is at the bottom end (earning between R1 500 and R3 000 per month), this will automatically occur. However, when weighted by the rand value of the average loan, the relative size of the poorest sub-segments within the target market is somewhat diminished.

With regard to the second criteria by which markets are assessed, namely the availability of a range of products, the impact of the FSC is ambiguous. Here, we will need to observe developments in the competitive space, as the individual banks take on the broad FSC commitments. Banks already offer a range of home loan products in addition to mortgages. These include loans secured by the borrower's pension and provident fund, or smaller, unsecured loans. Presumably this will continue.

But will there be any new "FSC" initiated home-loan products – like the Mzansi account for instance, which clearly derives from the FSC process? Or is FSC housing commitment just about more money that will be available through the same products and channels? And, if a new, Mzansi-style home loan is indeed introduced, will this dominate the market so significantly as to overshadow (and undermine) existing products? Certainly, there is always the risk that delivery, at scale, of an undifferentiated, low cost home loan product, by those with the most developed distribution infrastructure, will crowd out innovation from other players.

The critical issue is that the FSC provides the various financial sector players, in the financing of low-income housing, the opportunity for a much broader engagement. Even life insurers are obliged to direct further resources to meeting the housing finance needs of the poor – they can earn 17 points for what the FSC calls "targeted investment". And the progress being made also offers opportunities to other sectors as they consider the development of their own transformation charters. Just recently, for instance, the housing minister called on the mines to address the housing conditions of their workers[55]. This employer focus could be facilitated with support from the banks, and not just in the mining sector. The Minister also anticipates increased lending by banks to social housing institutions, along the lines of ABSA's recent investment in the Brickfields Housing Development[56] launched by the Johannesburg Housing Company in July in Newtown, Johannesburg[57].

The timing of the FSC and MoU (fortuitously or purposefully) coincides with other important legislative developments in the credit environment. Up to now, policymakers have noted the absence of appropriate loan products for houses that cost between about R40 000 (i.e. the subsidy plus R10 000, the maximum size of a micro loan) and R100 000 (which some say is the threshold where a mortgage loan becomes viable). The provisions of the proposed new National Credit Bill are likely to have a significant impact in this product space independently of the FSC targets. These provisions remove the size and term limitations (R10 000 and 36 months respectively) that currently circumscribe lending activities above the usury rate. Once it is enacted, the new legislation will remove regulatory barriers to risk-based loan pricing and available funding is likely to increase significantly.

Other important delivery barriers will, however, remain. These include physical access to banking infrastructure. In this regard, FinScope™ contains a physical access index that combines the respondent's physical proximity to a bank (in the case of those who are banked) and various reasons for being unbanked (for those who are not). Those in lower tiers have lower levels of physical access. The survey finds that a significant proportion of those targeted by the MoU have limited physical access to banks. Clearly a decentralized approach (which is contrary to banking trends of the past ten years) will be required if banks are to reach their target market. Partnerships with NGOs and non-bank lenders might also offer opportunities for banks to extend their penetration deeper into the target market.

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[55] Raised in Minister Sisulu's speech to the National Assembly, at the occasion of the tabling of the Budget Vote for the Department of Housing for the 2005/06 Financial Year, Cape Town, 17 May 2005

[56] The Brickfields Housing Development is a R980m residential development consisting of 650 one to three bedroom rental units. It is reputedly the largest public-private partnership in residential housing development in South Africa. R35m has been provided by the Gauteng Housing Department and the Gauteng Partnership Fund. The National Housing Finance Corporation has contributed R25m, while the City of Johannesburg provided land. The private sector provided R70m through Anglo American, Absa and AngloGold. More information on the development is available on www.joburg,org.za.

[57] As told by the Minister herself to Vuyo Mbuli on SABC2's morning live show, Friday, 20 May 2005 at 7:45am.

Table 26: *Physical access to formal financial institutions index*

Monthly household income	***Tier 1***	***Tier 2***	***Tier 3***	***Tier 4***	***Tier 5***	***Tier 6***	***Tier 7***	***Tier 8***
R1 500 or less	51%	3%	20%	8%	6%	7%	3%	2%
R1 501 - R 3000	36%	3%	16%	14%	8%	12%	7%	5%
R3 001 - R8 000	18%	2%	11%	8%	9%	21%	17%	14%
More than R8 000	10%	0%	3%	5%	13%	18%	27%	25%
Refuse to answer	10%	0%	4%	7%	6%	16%	26%	32%
Don't know income	46%	1%	12%	4%	5%	8%	12%	12%

Source: FinScope™ 2004

Aside from physical access, low levels of financial sophistication within the target market could potentially also inhibit delivery. According to FinScope™, only 40% of those with a monthly household income of between R1 500 and R8 000 know that the word used to describe annual price increases is "inflation"[58].

Perhaps a better indicator of financial sophistication is FinScope™'s Financial Summary Measure ("FSM"). This statistic provides a useful proxy for overall levels of financial awareness and propensity to purchase financial products[59]. Those in FSM tiers four and above are regarded as relatively sophisticated. According to FinScope™, just over half of those in households with an income of between R1 500 and R8 000 are in tiers four and above, amounting to almost 4,6 million adults. Of these, 90% live in households that currently do not make bond repayments and are thus potential candidates to absorb a large part of the additional housing finance to be provided by the banks. The market appears both large enough and sophisticated enough to absorb the additional credit to be extended in terms of the FSC.

[58] FinScope™ Q65: "Every year in South Africa prices go up by a certain amount. What is the word used to describe this increase in prices?"

[59] FSM classifies each individual on the basis of four components: Financial penetration (take-up of both formally and informally provided financial products and services); Physical access to banks; Attitudes to money (comprised of financial knowledge and control and financial discipline) and Connectedness and optimism.

Table 27: Financial Summary Measure by household income

Monthly household income	FSM Tier 1	FSM Tier 2	FSM Tier 3	FSM Tier 4	FSM Tier 5	FSM Tier 6	FSM Tier 7	FSM Tier 8
R1 500 or less	34%	28%	15%	13%	7%	3%	0%	0%
R1 501 - R 3000	22%	21%	14%	19%	16%	7%	1%	0%
R3 001 - R8 000	10%	11%	8%	19%	20%	21%	10%	1%
More than R8 000	2%	8%	2%	5%	15%	26%	22%	20%
Refuse to answer	4%	7%	3%	7%	14%	29%	20%	17%
Don't know income	27%	25%	9%	9%	13%	9%	3%	4%
Grand Total	***23%***	***21%***	***11%***	***13%***	***12%***	***11%***	***5%***	***4%***

Source: FinScope™ 2004

An important proviso is that these relatively sophisticated individuals have the financial capacity to take on additional credit. While it is not possible to assess the level of household indebtedness accurately using recent surveys[60], assuming the full R42 billion earmarked by the MoU is new credit, it will have a dramatic impact on indebtedness levels within the FSC's target market. It is estimated that total gross annual income generated within that market is approximately R141 billion[61]. Holding all other things constant, the additional credit could increase the debt-to-income ratio in this market significantly over the three and a half year timeframe stipulated in the MoU.

It is unlikely though that other things will be held constant. Much of this credit will replace other lending. Given that the large retail banks generally do not act as wholesale providers of finance (though this might also change with the FSC), the introduction of additional credit, together with the proposed reckless lending provisions of the National Credit Bill, could mean that other providers of credit to the low-income market could face a significant decline in their share of total credit extended to this market. Formal micro lenders (whose collective loan book stood at R17,6 billion at the end of February 2005[62]) and retailers could be hardest hit.

The real challenge for banks will be to find ways of lending to households that meet the income criteria of the FSC but rely on informal sector wage earners to do so. Of the approximately eight million households who rely on salaries or wages and other non-farm income as their main

[60] According to FinScope, of those in the MoU target market who have debt, around 20% spend upwards of half their income on debt repayments. However, reported usage of credit is exceptionally low with almost 85% claiming that they make no debt repayments.

[61] This is a lower limit calculated by multiplying the average estimated gross monthly personal income within each FinScope™ income segment by the total number of adults aged 18 and over in that segment who have a monthly household income of between R1 500 and R8 000. The calculation may understate segment income as it excludes approximately 5.6 million adults (20%) who do not know (12%) or refuse to disclose (8%) their household income.

[62] Source: MFRC published industry statistics

sources of income, around 2,2 million households[63] include informal employment among contributions to household income. Finding ways to incorporate informal (and often sporadic) earnings into a household's credit assessment will be a challenge for the banks. So too will be the design of flexible products that align with such a household's variable income profile. This is an area critically in need of innovation.

CONCLUSION

Up to now many mainstream housing finance providers overlooked or actively avoided the low-income market, while others interacted with it in a fairly narrow product range. The concrete commitments contained in the FSC will no doubt change this. A prerequisite for the development of products that are both affordable and sustainable for this market is a well-developed understanding of end-user behaviour. Because of limited exposure to this market, banks lack proprietary data with which to inform both strategic choices with regard to product and market development, as well as operational decisions such as credit assessments. In this context, surveys such as FinScope™ become indispensable. They potentially enable providers to enhance their understanding of the market and may challenge outdated beliefs as to the risk profile of the low-income market, formed at the height of the social unrest of the apartheid era. To facilitate this process, this report will be updated annually as new FinScope™ information becomes available.

Given the importance of experience in assessing credit risk, the sharing of broad credit performance data, in addition to mandatory volume data, could also prove tremendously useful. Banks and other financial institutions, as well as policymakers, have much to learn about the impact of housing finance on low-income households. The pooling of cross-sectional data from a wide variety of lenders could become an invaluable resource as we collectively begin to penetrate the low-income market and enhance access to housing finance for all.

[63] Source: LFS September 2003

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