

Business Day

HUMAN SETTLEMENTS

Housing bank must keep an eye on debt

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SA's housing policy and finance regime has generally been unresponsive to the needs of people earning between R3,500 and R15,000 a month.

Households in this income group earn above the threshold income eligible for fully subsidised RDP houses and too little to qualify for bonded houses.

Many resort to informal backyard rentals for accommodation — not always conducive to a safe and healthy living environment — and only in exceptional cases qualify for site and service stands, a rental unit through social housing institutions or a mortgage bond with the assistance of the Finance Linked Individual Subsidy Programme.

The programme has been marred by banks' lack of interest in financing low-cost housing, a limited supply of affordable housing stock in well-located land and underfunding by provincial governments.

With the recent establishment of the Human Settlements Development Bank, the government expects to unblock the policy and financing bottlenecks that hamper the accessibility and delivery of affordable housing to the gap market.

The bank was formed by integrating the National Housing Finance Corporation, the Housing Loan Fund and the National Urban Reconstruction and Housing Agency.

It is expected to play a significant role in facilitating faster access to housing finance to more than 3-million people in the housing gap.

If successfully implemented, the integration will generate cost efficiencies and minimise duplications, thereby unlocking the resources required to expand the top of the income band from R15,000 to R20,000 — as the Department of Human Settlements has already hinted.

While the target of providing assistance to 3-million individuals within the housing gap market augurs well for scaling up housing delivery and reducing the backlog, modelling results from research undertaken by the Financial and Fiscal Commission in 2013 show that loan-based housing finance interventions intended to assist individuals in this income band may be rendered ineffective by their high levels of overindebtedness.

A significant number of households are unable to qualify for mortgage bonds because of adverse credit records and this is likely to remain a big challenge for the Human Settlements Development Bank or any financier seeking to extend long-term credit to the low-to middle-income groups.

Little has changed with respect to the level of household indebtedness since 2013. Furthermore, the Gauteng City-Region Observatory Quality of Life Survey 2015 shows the level of indebtedness for those earning less than R12,800 a month increased at a higher rate than it did for higher-income groups.

From 2013 to 2015, the level of indebtedness for lower-income groups increased about 10%, while it remained constant for higher-income groups.

With slow economic growth and the prospects of higher inflation, higher interest rates and higher levels of unemployment, household indebtedness is likely to remain high, making mortgage finance inaccessible.

This will be exacerbated by the fact that the rate of inflation for low-value and medium-value housing units (valued at less than R250,000 and between R250,000 and R700,000, respectively) is increasing at a faster rate than both higher-value units (which are valued at between R700,000 and R1.5m) and luxury housing units (more than R1.5m).

Between 2015 and June 2016, inflation for low-cost housing units increased from 10.1% to 16.7% and for medium-cost housing units from 5.1% to 5.75%. The corresponding rate for high-value and luxury housing units over the same period fell from 5.6% to 4% and 6.4% to 3.3%, respectively.

For the Human Settlements Development Bank to be effective in increasing access to mortgage finance to the housing gap market as well as leveraging private sector investment in low-cost housing and ensuring better loan recovery, the proposed funding instrument must be accompanied by voluntary and robust debt rehabilitation programmes.

Failure to tackle overindebtedness will not only compromise the ambitious target of reaching 3-million people but may also endanger the financial sustainability of the bank and even plunge eligible applicants into a debt trap.

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