

**THE EXTENT TO WHICH THE MORTGAGE INDEMNITY SCHEME FACILITATES  
ACCESS TO HOUSING CREDIT FROM PRIVATE FINANCIAL INSTITUTIONS TO  
LOW-INCOME HOUSEHOLDS IN THE FORMERLY REDLINED AREAS: A CASE  
STUDY OF UMLAZI TOWNSHIP.**

**By**

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attributed to the Centre for Science Development.**

## DEDICATION

TO MY LATE FATHER SAMSON, PHUNGUZULU (AH! NQABISILE) AND MY MOTHER GERTRUDE TANDIWE SIGCAU, FOR TELLING ME ABOUT THE IMPORTANCE OF EDUCATION FROM AN EARLY AGE AND TO MY BROTHERS AND SISTERS, ESPECIALLY LINDELA AND SIBONGILE WHO HAVE BEEN PILLARS OF STRENGTH THROUGHOUT MY ACADEMIC ENDEAVOURS.  
(NGEYAMATSHAWE LE INCWADI).

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## CHAPTER 1

### **1.1 Introduction**

Amongst the South African population there is a growing mass of unemployed people. In 1990 it was estimated that more than 45% of the country's economically active population (i.e. people who are willing and able to work) were unable to find employment in the formal sector of the economy. Consequently, many unemployed people are turning to the informal sector to earn a living. South Africa has traditionally had an over supply of lower level human resources (unskilled labour), but a relative shortage of high and middle level human resources (skilled labour) in specific occupations (Cawker and Whiteford, 1993). Because of the racist apartheid ideology that the past governments implemented, many of those who belong to the high and middle level human resources are white people. In black communities many of those who are working earn wages below subsistence level because most of them belong to the lower level human resources (semi-skilled and unskilled categories) and as a result they live in abject poverty. This is reflected by the fact that housing conditions are generally poor and the level of services is often of lower standard in their areas.

At present access to mortgage loans is largely denied to the majority of the South African population. Due to the low levels of income earned by the majority of the black population, it is almost impossible for them to afford high monthly mortgage payments

or to receive a substantial housing credit<sup>2</sup> from mortgage lenders. The major reasons for this denial are that such mortgages are largely not affordable and are of limited profitability to financial institutions. According to mortgage lenders the cost of administering smaller loans and bigger loans is not different, hence financial institutions prefer to give fewer bigger loans than to give too many small loans. Taking into consideration the higher risk involved with small loans, the real costs are however even greater. Here small loans refer to the loans under R30 000 (Seslija, 1995). The denial of housing credit to the majority of people in the country has adversely affected the delivery of housing. Efforts to remedy the situation, like the granting of Mortgage Indemnity Scheme's cover in formerly redlined areas should be seen as a step in the right direction. It is through such efforts that the majority of our people will be able to access housing that they desperately need.

## **1.2 Problem Statement**

After the withdrawal of the state as the provider of housing in the black housing market the private sector assumed the role of providing housing as they were doing with other racial groups. However during the late 1980s and early 1990s the situation in many black townships was characterised by service and rent boycotts, a continuous bond boycott on the side of the communities, bad lending policies and practices on the side of mortgage lenders (i.e. banks were not thoroughly screening the credit worthiness of their prospective bondholders), product defects on the side of the developers, the collapse of black local authorities and the difficulty in repossessing properties because of the breakdown in the due process of law. As a result of the organised bond boycotts

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taking place at this time mortgage lenders incurred huge financial losses. Consequently almost all financial institutions cancelled their involvement with the low-cost housing market in the black townships because of the financial risks involved in these areas.

The withdrawal by financial institutions from these areas continued even under the new democratic order that came into being in 1994. The continued withdrawal of mortgage lenders from the black townships has substantially slowed the process of housing delivery because housing developers can only build houses where they know there will be buyers. As people in these areas were unable to access home loans then that meant that there were no incentives for developers to build houses. The situation described above contributed to the continued increase of the already existing housing backlogs in these areas.

Thus, the South African Government of National Unity in its White Paper on Housing, has identified as one of its urgent priorities the need for the re-involvement of private sector financial institutions in the provision of housing, especially in those areas where they had withdrawn. In its White Paper on Housing the government has identified the availability of housing credit to the low-income housing market as one of its priorities. The need for the involvement of financial institutions in the provision of housing has been recognised because due the budget constraints that the government faces, it cannot provide for the needs of all those who need housing.

Thus, the government amongst other measures to find solutions to the disastrous housing crisis, has established the Mortgage Indemnity Scheme that is administered by the Mortgage Indemnity Fund. The rationale for the establishment of this Scheme, is that the basis of mortgage lending is that the loan is granted against the security and value of a fixed asset (residential property in this case). In the event of default by the borrower the lender is contractually entitled to attach and dispose of the property. Due to the continued breakdown of law and order in the black townships mortgage lenders were not able to attach and dispose of mortgaged securities. Thus a form of state intervention was needed until legal processes to help banks attach and dispose of mortgaged properties, could be reintroduced. This form of state intervention came to be realised in June 1995 when the Mortgage Indemnity Scheme was established. To ensure that the objectives of the Mortgage Indemnity Scheme are accomplished, the government launched a "vigorous and unprecedented" national and provincial campaign called Masakhane, to establish a culture of payment for rates and services received and the reinstatement of the due process of law in the affected areas (Record of Understanding, 1995).

The problem that this study seeks to address is that of the inability of low-income households in black townships, to access home loans from mortgage lenders. The consequence of this inability to access home loans is that people are not able to buy houses and those who want to sell their houses do not find buyers as prospective buyers are also unable to get home loans. This means that people cannot be able to

improve their situation, and if the situation is left to continue like this, it will lead to decay in these areas.

The study will specifically look at the effectiveness of the Mortgage Indemnity Scheme in addressing the inaccessibility of home loans by low-income households in the black townships. In doing this, the study will look at whether conditions in the black townships are conducive to reinvestment by financial institutions, i.e. have communities taken up the challenge of the Masakhane Campaign by paying for rates and services, and also look at level of bond repayments in the area of study and also look at the level of civil stability in the study area.

The study will also look at whether financial institutions have substantially began lending activities in these areas and if not, find out the reasons behind that, i.e. find out the problems they are facing that might be withholding their effective resumption of lending activities in these areas. The study will look at whether people are borrowing more and banks are lending more.

### **1.3 Aims and objectives of the Study**

The following are objectives of the whole study:

1. To assess the overall contribution of the Mortgage Indemnity Scheme towards housing delivery to low-income communities.

2. To examine the extent to which the Mortgage Indemnity Scheme's cover facilitates access to housing credit from private financial institutions by low-income households in the black townships.
3. To specifically look at whether the cover provided by the Mortgage Indemnity Scheme is making any difference in the attitude that was adopted by commercial banks in the late 1980's and early 1990's towards people living in black townships, i.e. are private financial institutions actively involved in lending activities in the black townships.
4. To make an assessment of the attitudes and the perspectives of black communities towards payment for bonds and mortgage lending in general.

#### **1.4 Assumptions**

The following assumptions are made in this study:

1. Low-income households lack access to housing credit that is offered by mortgage lenders.
2. The culture of nonpayment needs to be uprooted if mortgage lenders are to effectively invest their money in the low-income housing sector.
3. Mortgage lenders need a guarantee to invest their money in risky markets like the low-income housing market.



## **1.5    Research Question**

To what extent has the lending environment in the Black townships substantially changed after the introduction of the mortgage Indemnity Scheme facility?

## **1.6    Subsidiary Questions**

1. What are the aims and objectives of the Mortgage Indemnity Scheme?
2. What are the banks' current lending policies towards low-income households?
3. What are the causes of bond defaults in the black townships?
4. What role is the Masakhane campaign playing in establishing the culture of payment for bonds?

## **1.7    Chapter Outline**

The dissertation is arranged as follows:

### **Chapter 1**

Introduction and the outline of the research problem. Aims and objectives of the study are also outlined. The chapter also outlines the research question, its subsidiary questions and the hypothesis.

## **Chapter 2**

### **Methodology:**

This chapter will cover the methods that have been used in conducting the research. Issues to be covered include the types of interviews carried out and differences according to the type of information required. The type of sample used and its usefulness to the study will also be considered. The sample includes home loans managers, the community of Umlazi and the Chief Executive of the Mortgage Indemnity Scheme. These role players form the core of the study.

## **Chapter 3**

### **Conceptual framework**

This chapter firstly deals with the historical background of the black housing market from the turn of the century to the time when the new democratic government issued its White Paper on Housing. The chapter also reflects on the housing crisis which currently faces South Africa. Some figures, which are estimates of the housing backlogs, are given. The measures which the government and financial institutions agreed to undertake under the terms of Record of Understanding, are discussed. How the Mortgage Indemnity Scheme is structured and how it operates, is discussed in detail.

## **Chapter 4**

### **Case study**

The focus in this chapter will be on the study area. This will include a brief historical background of the area. The age structure, marriage profile and income profile of the respondents will be discussed, looking at the effect of these variables on the ability of individuals to access housing credit. The analysis will mainly be based on the responses and documentation received from the members of the community of Umlazi, four home loans managers and the Chief Executive Officer of the Mortgage Indemnity Scheme.

## **Chapter 5**

### **Conclusions and Recommendation**

Conclusions will be made based on the findings of the study and recommendations will be made on how to deal with some of the problems that have been identified in the research.

### **1.8 Hypothesis**

The Mortgage Indemnity Scheme's cover will positively change the banks lending policies and practices towards low-income households in the Black townships.

## **CHAPTER 2**

### **METHODOLOGY**

#### **2.1 Introduction**

As it was mentioned in Chapter 1, different organisations as well as the community of Umlazi were consulted for the purposes of this study. For each organisation and for the Umlazi community a different research method was employed to seek the kind of information that was necessary to make the study a success. Primary sources as well as Secondary sources of information were of great assistance to the execution of this study.

#### **2.2 Primary sources of Data**

Three different groups of people were of great assistance in making this study a success. These are:

- (i) Mr Nkululeko Sowazi, the Chief Executive Officer of the Mortgage Indemnity Fund which administers the Mortgage Indemnity Scheme.
- (ii) Home loans managers from Permanent Bank (Nedcor), Allied Bank (ABSA), Standard Bank and First National Bank. The reason for choosing these four financial institutions is that they are part of those institutions that are accredited by the Mortgage Indemnity Fund.

(iii) The respondents who are part of the community of Umlazi township.

### **2.3 Secondary sources of Data**

Various secondary sources were utilised in this dissertation. This involved looking at the relevant literature at the university libraries as well as getting material from other universities (articles from journals, magazines, other dissertations and theses). A lot of material used in this dissertation was received from the staff of the Mortgage Indemnity Fund head offices in Johannesburg. The author also read some newspaper articles on the Mortgage Indemnity Scheme.

### **2.4 Sampling Method**

A simple random probability sample was used for the survey of the Umlazi township. This sampling method was the only choice under the circumstances because the author was facing time constraints. Household units to be surveyed were identified by targeting the fourth house in a row in all the three sections of the township. Although simple random sampling is satisfactory mathematically, in practice it raises many difficulties. Because any combination of cases can be chosen, it is possible to choose a sample which is highly unrepresentative of the population. For instance, if there are five households earning R2 000 per month, a simple random sample may include all five or none at all.

Three sections of the Umlazi township were chosen as a sample of the larger population. These sections were selected to be representative of the whole population of Umlazi. The reason for choosing a sample is that it saves the researcher time and money since it reduces the number of individuals to be studied. "If the sample is chosen carefully, it is possible to generalize from it, that is to make statements about the whole relevant population on the basis of the sample" (Haralambos, 1994).

The sample size is 100 households. The reason for choosing only 100 households is that the author was faced with financial and time constraints. This number, although too small when one looks at the total population of Umlazi, will give a clear indication of the current trends in the lending environment in the Umlazi township between the time of granting cover to the Umlazi township and June 1997. The sampling frame is the income bracket between R1 500 and R3 500 because that is the group which the Mortgage Indemnity Scheme's cover is focusing on to access housing credit. Although when approaching a particular household the author could not know beforehand whether a particular household belonged to this income bracket, the majority of people (88% of the respondents) in the area belonged to the R1 500 to R3 500 income bracket.

## **2.5 Data Collection**

Interviews were conducted with officials from five different institutions. The first two interviews were with the Chief Executive of the Mortgage Indemnity Fund. The aim of

interviewing him was to find out the progress that has been made as a result of the inception of MIS cover. The issues that were discussed with him were these, whether they have been able to meet their objectives, how they (MIS) see their role in the context of the Masakhane Campaign, the biggest problem they have faced so far, the reaction of financial institutions towards the MIS, the reaction of communities towards the MIS, what is being done to meet the 50 000 loans a year target, the number of claims they have received from financial institutions, the number of covered areas and deferred areas, the number of loans they have triggered and the amount of investment since the inception of the MIS.

The Chief Executive Officer of the Mortgage Indemnity Fund is one official who, after assuring him that the information sought was for the purposes of a research, was interviewed twice successfully and when extra documentation was sought from him it was acquired without any difficulties.

After that interviews were conducted with four homeloan managers from the financial institutions mentioned above (**para. 2.2**). The aim of interviewing the financial institutions was to assess the availability and accessibility of homeloans for low - income housing. The questions posed to these officials were about the areas that they are actively involved in lending activities, the number of applications that they have received from these areas since the inception of the MIS cover, the number of approved applications, the number they have turned down and reasons for that, income

profiles of their applicants, rate of bond repayments prior and after the inception of MIS cover, their ability to repossess houses where bondholders have defaulted on their loans, and whether they perceive the MIS as addressing their concerns in formerly redlined areas.

Structured questionnaires, consisting of both closed and open - ended questions, were used in all the interviews with the above mentioned officials. Same questions were given to all the homeloans managers in the same order so that the same information could be collected from each and everyone of them. This method of data collection was chosen because the nature of the research required desired responses to specific questions. This research method is a commonly used device and is appropriate for use where the focus is on the relationship between variables. The structured questionnaire was also used because it is one of the fastest ways of collecting data and is normally useful in providing up- to-date information (Leedy, 1993)

The questions from the questionnaires were posed in personal interviews. In this way the author was able to get first-hand responses and was able to clarify any unclear issues timeously. This was also a way of avoiding any resistance from those interviewed, which is normally the case when interviews are carried over the phone or by leaving the questionnaire to be answered at the respondent's leisure. Leaving the questionnaire with the respondents and thereafter waiting for responses was avoided because it would have taken a lot of time to collect them and to get corrections where



the respondents made mistakes. Another reason is that there is no assurance of responses to those given the questionnaire when a researcher returns to collect them.

Respondents were interviewed face to face so as to make sure the questions from the questionnaire were understood clearly. This was a way of ensuring that respondents never avoided particular questions or even deliberately answered questions wrongly in attempt to get the interview over with. There were however, some disadvantages with this method as some of the respondents often failed to keep their appointments on many occasions. This led to a re-scheduling of the research to try and accommodate the set-backs. Some of the respondents were uncomfortable to releasing information and almost all of them said the information that was sought for the research was of a confidential nature and therefore cannot be released to outsiders no matter what is the purpose of seeking the information. This applied mostly to officials in the banking sector, who despite all verbal assurances that all their responses were in strict confidence and only for the purpose of the study, refused to give information that is crucial for the study. They always referred the author to their Head Offices as they said it is at that level that a decision to release confidential information can be taken. Attempts to get the information at that level also failed as the author was flatly told that it is the policy of the institutions not to release confidential information and therefore that policy could not be changed for him. This is one of the things which will put limitations on the findings of the study.

In the interviews with the Chief Executive Officer of the Mortgage Fund and the three of the four homeloan managers (who happen to be Africans), that cooperated during

the research, a tape recorder was used as away of recording responses. But before the tape could be put into use prior permission of the interviewee was sought. It was only on two occasions that people objected to the use of the tape. The first one was the Manager at Natal Building Society who ultimately did not cooperate and also the homeloans manager at Standard Bank. The interesting thing about these two is that both are not Africans and they seemed to be uncomfortable with the idea of being interviewed by an African. The use of a tape recorder helped in analysing the exact responses at a later time without any detail left out. It also helped in saving time that would have been wasted had the responses been hand written. The time saving tactic helped in avoiding negative responses due to lengthy interviews. The questionnaire that was administered on the community of Umlazi consisted mostly of closed questions with few open-ended questions. The use of closed questions was necessitated by the fact that the number of respondents was large and therefore the use of open-ended questions would not be suitable in the short time that was available to do the research. The questions that were posed to the respondents were around the following issues : personal data, respondents' understanding of the MIS, whether the household has applied for a homeloan since the area was granted MIS cover, success rate of homeloan applications because this will be a good measure of whether mortgage lenders have resumed lending activities at scale or they still continue with selective and discriminatory lending practices, reasons for the failure of their applications from those who had their applications turned down so as to look at whether they were justifiably denied home loans or not; income profiles of the households so as to find out whether a particular household is deserving to get a home loan or not, the amount of monthly

repayments, level of payment for rates and services because this is a good indicator of the community's stability, level of bond repayments, whether the sheriff of the court can evict a defaulting bond holder from a bonded property without hindrance from members of the community, and the community's reaction to evictions. It is hoped that through asking such questions the author has been able to provide the necessary data to answer the research question and to test the hypothesis.

## **2.6 Data Processing**

The data was processed manually. The data was analysed using the qualitative method. The responses of the individual respondents were first analysed individually and then as a whole. As most of the questions in the Umlazi survey were closed questions it was easier to group together similar answers and therefore to analyse the answers. With regard to the banks the task was made easier by the fact that there were a few respondents and also that there were few questions asked. The results of the survey will be presented and analysed in **chapter 5**.

## **CHAPTER 3**

### **DEVELOPMENT OF A CONCEPTUAL FRAMEWORK**

#### **3.1 Historical background of the black housing market in South Africa**

South Africa is currently facing a major housing crisis that has been caused by the apartheid system. Because apartheid policies and practices did not affect everyone equally, the housing backlog is also not spread equally amongst the population groups in South Africa. The group that is affected the most is the African population, followed by the Coloured population (Seslija, 1995).

The problems which face the black housing market can be traced back to the beginning of this century, meaning that this is not a new phenomenon. It is therefore imperative that this discussion be preceded by a detailed historical background of the black housing market and the laws that restricted and finally denied blacks access to land in the urban areas. This historical background will be discussed over certain time periods, as follows:

##### **3.1.1 The 1900-1923 period**

Ever since significant black urbanisation began with the discovery of diamonds and gold at the turn of the century, South Africa has experienced housing shortages with

regard to the black section of the population. During the period 1900-1920, rapid industrial development was encouraged, but a concomitant housing policy, to accommodate the increasing numbers in the black labour force, was non-existent (Wheeler, 1989).

The promulgation of the Black Lands Act of 1913 meant the transfer of ownership rights and control of land possessed by Blacks to the state. This forced the migration of landless people from rural areas to the cities. There was not enough housing provision to cater for the great number of migrants and this ultimately led to overcrowding. Subsequently there was an outbreak of diseases like Tuberculosis. The 1914 Tuberculosis Commission identified housing shortages as a major problem in the Native areas. Certain legislation evolved as a response to this uncontrolled and haphazard urbanisation, notably the Slums Act that was passed in response to the scare of the 1918 Influenza epidemic. This Act laid down a certain standard for the housing of industrial labour. A Commission of Enquiry following this epidemic resulted in the Housing Act being passed in 1920. It established the Central Housing Board, the first central resource structure for financing residential accommodation. The belief that the reserves were permanent homes of blacks seemed to be used as a justification for the insufficient provision of adequate housing for blacks (Wheeler 1989).

In terms of the 1920 Housing Act, local authorities could borrow money from the Administrator of the Province, or with his consent, from any other source to construct approved dwellings or carry out approved schemes. But the powers which the local

authorities were given by the Act were little used, in respect of black and coloured housing (Morris, 1981)

In 1923 the Natives (Urban Areas) Act was passed and it empowered local authorities to set aside land for black housing and to house blacks employed in town. In this way the state took responsibility for black housing needs. Local authorities were granted loans by the central government through provincial administrations to build rental stock in the townships. In this way the government was able to use its control over the housing issue to control the movement of blacks into the cities, because it was illegal to move into the cities without a work permit and a place to stay. This was one of the measures of discouraging the rapid urbanisation of blacks. The Act was amended in 1930 and in 1937 adding more influx control regulations that restricted the entering of towns by blacks. Local authorities during this period were able to provide housing for their black residents in areas set aside for this purpose, but this was not at a large scale. As a result housing backlogs grew and more people resorted to building shacks.

### **3.1.2 The 1936-1959 period**

In 1936 the Development Trust and Lands Act was promulgated. This Act created the South African Development Trust which was the administrative body which controlled all state owned land. This discriminatory legislation took away black people's right to own land anywhere within the Republic of South Africa. As a result blacks were denied opportunities to take housing loans because these are tied to land tenure rights of the

borrower. The land tenure rights that were available to blacks at that time were quit-rent grants, certificates of occupation, permission to occupy and communal ownership through tribal authorities. These rights that black people had, were not recognised by banks for purposes of security against loans that they granted. While this was the situation with blacks, their white counterparts were entitled to freehold titles to land and as a result they had a secure tenure to land which they could use to gain access to finance from financial institutions.

After the outbreak of World War 2 there was a large and rapid increase of black people in the urban areas which was due partly to the deterioration of the living conditions in the black reserves; and partly due to the labour needs of the expanding industrial and commercial sectors which were stimulated by the war (Morris, 1981).

In 1948 the National Party came to power with its commitment to the ideology of separate development between blacks and whites. In its urbanisation policy, blacks were regarded as temporary "sojourners" in white cities and therefore were expected to return to their "homelands". The Group Areas Act was passed in 1950. It provided for specific group areas for the various race groups and for the compulsory removal of non-white people from areas that had been declared white areas, to areas situated in the periphery of the cities.

During the 1950s mass low income houses for blacks were built by local authorities in many parts of the country and this included large-scale forced removals of blacks, coloureds and Indians in areas like Sophiatown, Cator Manor, etc. This substantially

reduced the existing housing backlogs but coupled with the forced removals, this created what is often called an "Apartheid city", i.e. white residential areas being situated in the inner areas of the city whereas black residential areas were situated on the periphery of the city, with the coloured and Indian areas in between. This situation to a large extent still prevails today.

### **3.1.3 The 1960-1975 period**

After 1960 up to 1975 the government focussed its attention on the development of homelands and further restrictions on the movement of blacks into white areas. Large scale housing and industrial development programmes were initiated in border towns and within homelands. Freehold title was to be available in homeland townships and families could rent or purchase houses. In this period local authorities required the approval of the Department of Bantu Administration before they could initiate any new black housing scheme in the white areas. The Department had to be satisfied that such housing developments were imperative and that it was not possible to provide such accommodation in an adjacent homeland (Morris, 1981).

### **3.1.4 The 1978-1986 period**

Prior to 1978 Blacks within the Republic of South could not privately own land nor could they have title to such land registered in any deeds Registry Office. In 1978 the newly appointed Minister of Plural Relations and Development (formerly the Department of Bantu Administration and Development) Dr C Mulder introduced the 99-year leasehold



scheme. This title is a real title that is capable of registration in the Deeds Registry Office. It is a right that is extended in perpetuity. It can be sold, bequeathed, leased or offered as security. While this was a step forward, the Minister reaffirmed his party's stand-point that blacks would not receive land ownership rights in white areas and that these new leasehold rights would not be granted to blacks in the Western Cape, which was to remain a Coloured preference area.

The advantages of the 99-year leasehold scheme, according to Morris, were that it would make private sector finance available to blacks who would be able to negotiate building society loans; enable employers to assist blacks to acquire their homes; give blacks the chance for capital formulation; and further the concept of individual ownership and entrench free enterprise values among urban black communities. However there were certain drawbacks to the scheme, which were, the increased initial and monthly expenditure, uncertainty regarding security of tenure, availability of finance and complex legal and administrative procedures (Morris, 1981).

But it was only in 1983 that the government announced its new housing policy of privatisation, whereby it allowed the private sector to actively participate in the provision of housing to the black communities. In this instance private construction companies were building houses and private financial institutions were providing loans to buy or to construct houses.

In 1986 legislation allowing Blacks to own property on a freehold basis was passed. This legislation also made it possible to convert 99-year leasehold property to full ownership but only if the particular land in question complied with the requirements of Section 46 of the Deeds Registries Act of 1937, which lays down specific requirements which relate to issues like adequate survey and general plan approval.

But by the time the government decided to allow the private sector to become involved in the provision of housing to the black communities, there was a huge housing backlog that could not be met by the new developments. Another contributing factor was the deteriorating economic situation during the sanctions period which led to high levels of unemployment, which ultimately meant that very few people could afford the newly built houses as many people could not meet the lending criteria to get housing credit. The situation in the black townships in the late 1980s and early 1990s (which has been described in Chapter 1) also did not help matters in terms of the provision housing to black households. As a result of that prevailing situation in the black townships, the current government after negotiations with mortgage lenders established the Mortgage Indemnity Scheme. The main objective of this scheme is to encourage mortgage lenders to resume lending activities in a sustainable manner in the black low-income housing market.

### **3.2 Housing Crisis in South Africa**

South Africa is currently facing a major housing crisis. Although there are presently no comprehensive statistical data regarding housing backlogs, some estimates suggest

that in 1995, of approximately 7.9 million South African households with an average of 4.97 people per household, 1.7 million households live in shacks on unsecured land and about 620 000 on serviced sites (White Paper on Housing). About 2.1 million individuals live in hostels (Barnard, 1994).

The size of the housing backlog varies from province to province and from city to city, with Gauteng and specifically areas around Johannesburg being the most affected as many people are moving to these areas because there are more job and business opportunities than any other part of the country. It is estimated that between 1990 and 2010 the future housing shortage for the PWV (Gauteng) province will be 1,162 million housing units, whereas the total housing shortage for South Africa is estimated at 3,1 million housing units (Walker, 1993). These estimates, although they might not be accurate, clearly show the enormity of the housing backlog in South Africa and the need to put every effort in finding solutions to this problem.

When the new Government of National Unity took office in 1994, it realised that due to the insufficient resources at its disposal it cannot meet the needs of homeless people from only its budget. It therefore recognised that sustained, substantial investment in housing from sources outside the national fiscus will be required. Therefore it embarked on a programme of mobilising private sector investment in the low-income housing market, especially in the black housing market where the private sector had withdrawn its investment. All of this is part of an attempt by the government to address the housing backlogs described above.

Delivery to the low-income housing sector had come to a virtual standstill when the Government of National Unity took office. The government had therefore to take the necessary steps not only to restore a level of delivery but also enable increases in sustainable delivery to a level where backlogs are dealt with. One of the steps it had to take towards dealing with housing backlogs was that of unlocking housing credit so that those who can afford it can access it to improve their housing conditions. Unlocking housing credit means that mortgage lenders have to resume lending activities in those areas where they had withdrawn. In order to effect a resumption of lending activities by mortgage lenders in the formerly redlined areas the government entered into negotiations with the Association of Mortgage Lenders (AML), representing the mortgage lending arms of the banks. These negotiations culminated in an agreement called the Record of Understanding between the Department of Housing (DoH) and the banks.

### **3.3 Record of Understanding**

The DoH and the AML agreed that a stable environment is required for viable private investment and at the same time the creation of a stable environment is dependent on and requires the incentives and benefits associated with the improvement of private living environment of people, supplemented by private investment and access to credit. In the preamble of the Record of Understanding it is stated that it is essential that the vicious and degenerative cycle of despair in many areas of the country should be

turned into a cycle of reconstruction and development through joint and simultaneous action by both the public and private sectors. In this regard the government committed itself to pursue an incentive-based approach to stabilise the living environments for many communities living in unstable and degenerating residential areas.

As a general strategy, the government committed itself to launch a vigorous and unprecedented national and provincial campaign called Masakhane, which is aimed at the resumption of payment for goods and services received and the reinstatement of the due process of law. This campaign will, however, only have the desired effect if matched by a simultaneous and equally vigorous campaign of engagement and investment by the private sector, ending their effective withdrawal from many affected areas from the late 1980s to the early 1990s. This national campaign will require intra-governmental agreement on the need for focused and priority attention on a multi-functional basis to areas where the public environment has substantially collapsed, and a concomitant commitment from the private sector to, once the level of stability of the public environment in these areas has substantially improved, invest and provide credit in such areas. It was recognised that the reinstatement of a habitable public environment has to be a precursor to the resumption of private investment and sustained development, and that the process of turning such situations around should as far as possible be initiated and driven from and by the communities and local governments involved.

On their side banks committed themselves to the provision of at least 50 000 loans on mortgageable properties to eligible borrowers falling within income categories qualifying for government subsidization. These loans ranging from R10 000 upwards, are to be distributed geographically and demographically in accordance with geographic and demographic profile of the population as a whole taking into cognisance areas that have been neglected in the past and applicable constraints. The intention of both the government and the Association of Mortgage Lenders is to increase this level of lending (50 000 loans target) on a sustainable basis, to the maximum possible sustainable level (Record of Understanding, 1995).

The government has made it clear that it is up to the communities to ensure that payment for services and bonds takes place and that there is respect for the law, because it is only when these things are present that banks will feel it is safe to lend (Home Truths, 1995). Here the government throws the gauntlet to the people to make their communities conducive to investment by taking up the challenge of the Masakhane campaign.

The government (through the relevant Provincial Housing Boards and the Mortgage Indemnity Scheme) will, therefore after objective assessment of all relevant inputs, recognise against identified criteria, those areas where conditions are conducive to viable development and will signal to the private sector that investment and the provision of credit for housing purposes is viable and required, through making housing subsidies and mortgage indemnity cover available in such areas.

### **3.4 Reasons for the reluctance of financial institutions**

The reluctance of financial institutions to resume lending activities in the formerly red lined areas is attributed to their experiences within these areas. This reluctance by banks affects mostly people who fall in the low-income category because they cannot afford to buy houses in areas outside the townships . There are different views as to whether these financial institutions are justified in withholding their investment from people who are in desperate need of their assistance.

Van Gass (1993) argues that most of the people who are in dire need of housing fall into the lowest income groups with few prospects of permanent employment in the formal sector or upward mobility. He further argues that the problem is not the unavailability of funds but that of targeting the already privileged and poor access to the majority of the available funds. He says most banks have become comfortable with addressing only those markets which they have historically targeted, i.e. high-income and middle-income groups.

Reekie (1996) argues that banks are faced with the problem of borrowing short and lending longer and therefore they have to try and minimise the risk exposure of their capital when they decide to lend. He further argues that for any business to succeed it must satisfy the needs of its customers and shareholders. Putting this in the context of the banking sector, he says banks have to ensure they act responsibly and in the

interests of their shareholders and depositors while at the same time they have to meet the needs of their borrowing customers. He says critics of the banks have tended to ignore the primary role of investors and depositors and the need to meet their needs. He says banks have been successful in funding a growing home lending book and he attributes this to the confidence of depositors and investors in the stability and integrity of the banking system in general and in banks in particular.

Van Gass, (1993) argues that the private sector in South Africa is characterised by a high degree of risk-averse behaviour and is driven by the profit motive. He says this is reflected in its general unwillingness to undertake developmental investments unless it is facilitated or prescribed by the government.

It is because of this high degree of risk-averse behaviour that banks demanded a guarantee before they could resume lending activities in areas that they had earlier redlined. It is the fear to lose more money if they lend to people in these areas that financial institutions felt that they needed to be protected against.

### **3.5 The Mortgage Indemnity Scheme**

The Mortgage Indemnity Scheme is a guarantee from the government that has been established to address the reluctance of the banks to engage themselves in programmes aimed at improving the housing conditions of low-income communities in the black townships which were formerly redlined by the banks. The Mortgage Indemnity Scheme has been established to encourage mortgage lenders to resume



lending activities at scale in the affordable housing market in a sustainable manner in neglected areas in the country. This mission will be achieved by providing cover to accredited lenders to indemnify them against political risks resulting from their inability to gain vacant possession of a bonded property due to a breakdown in the due process of law following default on a mortgage loan. The Mortgage Indemnity Scheme is a surrogate for secondary market (ability of homeowners to sell their houses) that does not exist because prospective buyers do not have access to housing credit. The Mortgage Indemnity Scheme will buy properties from lenders at fair market value, where at foreclosure the lender cannot obtain beneficial ownership of the property due to the breakdown in the due process of law. The cause of default will not impact on the process except for the exclusions mentioned below.

The Mortgage Indemnity Scheme's cover applies from June 1995 for a period of three years i.e until June 1998. Cover at the end of the three year period will continue only in areas where the risk covered has materialised and is still evident at the time. Cover for new grants can at any time, be suspended by the government. Cover in areas where the risk has not materialised at the end of the three year period may be reinstated by mutual agreement between the parties (Record of Understanding, 1995).

The Mortgage Indemnity Fund is wholly owned by the national government but it will be maintained by premiums paid by the borrowers. It is controlled by a Board representative of all stakeholders vital in the government housing sector. These stakeholders are the Department of Housing, Department of Finance, Department of

State expenditure, Department of Constitutional Development and Provincial affairs, Department of Justice, and representatives from the office of the Reconstruction and Development Programme, Masakhane, Servcon, Development Bank of Southern Africa, South African Police Services, South African Institute of Sheriffs and Provincial Housing Departments. The Mortgage Indemnity Fund falls under the National Housing Finance Corporation but it has a separate specialised management and staff (Mortgage Indemnity Fund brochure, 1996).

### **3.6 The key objectives of the Mortgage Indemnity Scheme**

When the Mortgage Indemnity Scheme was established it had to satisfy certain core objectives as part of its mission. It was to: encourage private sector banks to resume lending at scale in both the primary and secondary housing market in areas where lending was disrupted due past circumstances (bond boycotts in the late 80s and the early 90s); indemnify accredited financial institutions against loss where they are unable to repossess bonded properties due to a breakdown in due process of law; become an interface between government, private sector housing financial institutions and communities with an abnormal risk and in need of housing finance; facilitate in the first year, 50 000 loans in the government subsidised market and 100 000 loans annually thereafter in areas covered, in a sustained manner ( Mortgage Indemnity Fund Annual Review, 1996).

### **3.7 The key functions of the Mortgage Indemnity Scheme**

The following, are the key functions that the Mortgage Indemnity Scheme has to fulfill as part of its mandate : Assessing area specific risk factors in the housing environment and providing cover to accredited financial institutions willing to lend at scale in areas deemed ready for and in need of such cover; supporting payment normalisation programmes implemented by Servcon and accredited financial institutions in the interest of restoring a mutually beneficial relationship between borrowers and financiers; developing and operationalising an efficient claims system; gathering relevant information on Mortgage Indemnity Fund risk areas with the aim of devising remedial mechanisms, claims prevention strategies and general risk containment programmes where necessary (Mortgage Indemnity Fund Annual Review, 1996).

### **3.8 Mode of operation**

For an area to get Mortgage Indemnity Scheme's cover, an application has to be made to the Mortgage Indemnity Fund after which the area is assessed according to a certain criteria. If after cover has been given, the risk covered materialises, the Mortgage Indemnity Scheme will settle the lender's claim according to an agreed procedure.

Applications for Mortgage Indemnity Scheme's indemnity cover for a particular area can be made only by accredited financial institutions, local authorities and Provincial Housing Boards. The Mortgage Indemnity Fund will then send an assessment team

to the area which will gather information about the area and make a recommendation to the Mortgage Indemnity Fund board of directors. Area assessment teams interact with local authorities, civic structures, provincial authorities, church groups, residents and any relevant persons or structures for those particular areas. Then the Mortgage Indemnity Fund will cross-check with Servcon and Masakhane campaign, and thereafter make a decision where it will either approve or defer the application. Cover for an area may be deferred if the area does not meet the criteria that has to be met to get cover.

In deciding whether to approve cover for an area, the board will primarily assess the particular risk it covers financial institutions against in that area. The criteria it uses in this assessment has been determined by the Minister of Housing and Provincial Housing Ministers. In its assessment, the risk profile of an area is assessed according to three main criteria:

1. The state of local government administration: The effectiveness of local government in collecting rates payments and service charges and maintaining key services like roads, water, sewerage, refuse and electricity.
2. The state of civil stability: General social stability, including the existence, nature and reason for bond or rent boycotts, ability of officers of courts to carry out their functions and levels of crime and violence.

3. Housing performance statistics in the area : Mortgage defaults rates, levels of service payments, number of bonds and corresponding repossessed properties and non-performing loans.

The greatest weight goes to civil stability because that is the risk that banks are covered against. If cover is deferred, the local community and in particular local authorities are expected to work with civics and other community structures and banks to ensure that issues raised by the Mortgage Indemnity Fund board as preventing provision of cover are attended to. The Mortgage Indemnity Fund itself, via the Mortgage Indemnity Scheme's provincial forums will catalyse remedial mechanisms where invited by communities to do so. Re-application could then be made for re-assessment with the aim to facilitate provision of cover and eventual flow of home loans (Mortgage Indemnity Fund brochure, 1996).

### **3.9 Mortgage Indemnity Scheme's Provincial Forums**

In an effort to ensure sustained capacity for Mortgage Indemnity Fund's processes at a local level, the board of the Mortgage Indemnity Fund decided to establish Mortgage Indemnity Scheme forums in the provinces. The Mortgage Indemnity Scheme provincial forums in each of the nine provinces are the key communications mechanisms for the Mortgage Indemnity Fund's operation. They meet monthly and consist of key officials of provincial housing department, members of the Association of Mortgage Lenders,

sheriffs, office of the Masakhane campaign, Servcon, office of the Reconstruction and Development Programme, developers, civic organisations and other major stakeholders in the housing sector.

These forums monitor Mortgage Indemnity Scheme's provincial progress, province specific issues and devise remedial mechanisms and strategies where necessary. The forums have become one of the most crucial components of the Mortgage Indemnity Scheme's process, establishing crucial linkages between government, lenders and communities at the provincial level (Mortgage Indemnity Fund brochure, 1996).

### **3.10 Area Based Cover Facilitation Programme**

One of the main reasons why areas have not been granted indemnity cover by the Mortgage Indemnity Fund is that there is a bond boycott or some other form of group action in the area. In order to assist communities and financial institutions to resolve their disputes, the Mortgage Indemnity Fund has initiated the Area Based Cover Facilitation Programme with the aim of assisting disputing parties in reaching an equitable settlement, and to implement this settlement so that it occurs in a manner where all parties are satisfied. This settlement must be in accordance with the broad

principles established in the Record of Understanding and the mission of the Mortgage Indemnity Fund.

The Cover Facilitation programme is divided into two separate but complementary programmes. The first programme is the Dispute Resolution Programme which aims to assist communities and financial institutions in resolving their disputes, so as to enable the financial institution to meet with individuals in that area and address and resolve their bond default problems. The programme adopts a flexible approach that is solution oriented. The disputing parties are encouraged to select, from a range of services that are offered, the services (i.e. the parties can choose one or more of the services mentioned hereunder) that best suit their needs and requirements and the particular circumstances in which they find themselves. In order to assist the disputing parties to reach a settlement, the Mortgage Indemnity Fund offers the following services at its own expense:

#### (1) Facilitators

The Mortgage Indemnity Fund will, on acceptance of disputing parties allocate a facilitator to an area to assist the disputing parties in determining the key issues of the dispute and the way in which it can be resolved. The facilitator can either be a member of the Mortgage Indemnity Fund staff or an expert appointed by the Mortgage Indemnity Fund in this regard. The disputing parties are given a choice of facilitators. The facilitator will hold workshops and meetings with the parties either jointly or separately. The nature of the discussions will vary and will be dictated by the needs of the disputing parties.

## (2) Technical investigations

Technical investigations comprise of the Mortgage Indemnity Fund appointing a technical expert to undertake a specific investigation. The types of investigations will include for example: an assessment of the quality of the housing product [where required], an assessment as to whether the house was built in accordance with set specifications, an assessment as to whether the documentation surrounding the sale of the properties was conducted legally, and an assessment of the value of the property either at the time of sale or at the present day. In all cases the investigation will have a clear terms of reference and will be undertaken by an expert in that field who will be appointed by the Mortgage Indemnity Fund. The disputing parties will be given a choice of experts. The investigation will result in a report detailing findings which is made available to the parties.

## (3) Independent Commissions

Commissions of Enquiry are undertaken by a committee that is established through joint agreement by the disputing parties to investigate a specific issue and to make a recommendation or finding in this regard. The commission may hear evidence, gather facts and conduct investigations. The parties determine in advance whether the status of such findings will be binding on them or not. The Mortgage Indemnity Fund will assist the parties in forming such a Commission and if required can make available an independent chairperson to chair, arrange meetings and record findings.



(4) Mediation

Mediation occurs in areas where the dispute has been clearly defined and where the parties have agreed to a process whereby a resolution will be negotiated. The Mortgage Indemnity Fund will appoint a mediator who will manage the mediation process, usually through chairing meetings between the disputing parties. At such meetings the mediator does not sit in judgement of the disputing parties, but rather will assist them in finding solutions to issues and in resolving deadlocks. The disputing parties are given a choice of mediators to choose from.

(5) Arbitration

Arbitration occurs where the disputing parties are unable to come to a settlement on an issue through negotiation and the parties agree to settle through the use of an arbitrator. Arbitration comprises of a legal agreement whereby an arbitrator hears each disputing party's views and makes a judgement that is binding on all parties. The Mortgage Indemnity Fund will make an independent arbitrator available. The parties are given a choice of arbitrators to choose from.

The Dispute Resolution Programme is managed by the Mortgage Indemnity Fund but the Fund can only intervene in area if the disputing parties indicate that they require such intervention. In order for an area to participate, at least one of the parties must submit a formal letter requesting the Fund to intervene. The Fund will provide service/s provided it believes that it will result in the dispute moving towards a settlement. At any

stage if the parties indicate that they no longer require the Fund's services, the Fund will withdraw.

The second programme is the Education Outreach Programme, which is aimed at providing relevant information to housing consumers. The approach taken to providing information to housing consumers is two-pronged; a media campaign to raise general awareness and community leadership empowerment through training. The target population is that of bondholders and potential buyers in the low-income market in 83 focus areas in 9 provinces. Focus areas are identified in terms of the numbers of non-performing loans and properties in possession and general Mortgage Indemnity Fund exposure. The Education Outreach Programme is divided into a number of components which will be undertaken by a team of specialist implementors, but in order to broaden and maximise the impact of the programme all relevant stakeholders will be involved. The programme is divided into the following components : (a) A national awareness programme which includes advertisements on six national radio stations as well as billboard advertising in 6 provinces; (b) A focused awareness programme which includes running advertisements over four months in Bona and Drum magazines and posters and pamphlets in English, Zulu, South Sotho, Xhosa and Tswana that will be distributed in 83 national focus areas; (c) A national response programme which comprises of a toll-free help line manned by trained operators and four legal advice centres based in Durban, Johannesburg, Cape Town and Port Elizabeth where more personalised assistance is given, and a network of housing assistance agencies for referral; (d) A focussed response programme which entails inviting 250 key individuals in communities, from local government officials, housing support and advice centres

and office bearers in unions and civic structures, to participate in a two-day training programme. These individuals will be equipped with the relevant knowledge and information on a variety of housing issues as well as the necessary skills for communicating this information to end-users. A resource document on housing information has been developed which will form the basis for both the media campaign and the training programme. The document will provide background information on the housing environment, including the various processes involved as well as a reference guide to key organisations.

The aim of the Education outreach programme is to encourage co-operation under the normalisation programme, the resumption of bond payments and sustaining performance under the Payment Normalisation Programme, once agreements have been reached. An estimated four million people in the nine provinces are expected to be reached during the campaign because it is vital to reach people in need of housing finance and ensure a proper understanding of the processes and pitfalls. Maximum co-ordination with the National Housing Board, Department of Housing and provincial housing departments will be necessary to ensure optimal use of resources and cost effectiveness in implementation. Well informed communities are able to mobilise to overcome the obstacles preventing the flow of finance and to engage financiers on even footing (Mortgage Indemnity Fund information booklet, 1997).

### **3.11 Settlement of lender's claims**

Where at the foreclosure (i.e. after all legal processes have been exhausted), the lender cannot obtain beneficial ownership of the property due to the breakdown in the due process of law, and this happens during the period of the Mortgage Indemnity Scheme's cover, then the Mortgage Indemnity Fund will buy the properties from the mortgage lenders at fair market value. When this happens the lenders will be reimbursed the lesser of : R100 000 or lender's exposure on the loan or fair market value of the property. The fair market value of the property will be determined as follows: vacant possession and normal environment assumed and value based on locality, condition and nature of property.

The following procedure is followed in settling a lender's claim: the value will be determined in the first instance by the lender (limited to a maximum of the original value); if the Mortgage Indemnity Scheme disputes the value, it will arrange and be bound by a valuation performed by a mutually agreed and independent registered valuer; if the lender disagrees with this value, the claim will be settled by the lender receiving the outstanding balance in full and fifty per cent of interest arrears and foreclosure costs within agreed limits.

Lender's exposure on the loan is defined as follows: Outstanding balance when the loan is defaulted (limited to a maximum of the original loan granted); arrears interest subject to a maximum of 12 months; maximum of R5 000 foreclosure costs [including

R2 500 maximum for legal costs] subject to annual review by Mortgage Indemnity Scheme. The following exclusions apply in respect of losses incurred in Mortgage Indemnity Scheme covered areas. On new loans, losses due to non-adherence with industry standard lending criteria are excluded. On existing loans, loans not performing at the inception of the Mortgage Indemnity Scheme.

As it has been stated above, existing non-performing loans are excluded. Therefore it is necessary to give a definition of performing mortgages. These include : all loans registered for more than twelve months prior to the inception of the Mortgage Indemnity Scheme, and not in arrears for three consecutive months in the twelve months before the inception of the Mortgage Indemnity Scheme, are regarded as covered in terms of the scheme; if the loan was registered in the twelve month period preceding the inception of the Mortgage Indemnity Scheme and if the first default giving rise to the Mortgage Indemnity Scheme claim is within twelve months of the Mortgage Indemnity Scheme inception, then review twelve months from registration and unless there are three consecutive instalment defaults in that period, the loan is considered a performing loan covered by the Mortgage Indemnity Scheme; if there is evidence of successful rehabilitation subsequent to the three consecutive default instalments, the loan will be considered a performing loan and covered by the Mortgage Indemnity Scheme. This will be determined by repayment of full arrears and payment of full instalment for a further six consecutive months; or if the loan is rescheduled, full payments of new instalments for nine consecutive months. The lender is required to submit a report with each such claim setting out monthly performance of the loan in the twelve months before and twelve months after the inception of the Mortgage Indemnity Scheme, as

applicable. The lender is not required to submit proof that Mortgage Indemnity Scheme's approved lending criteria was applied in granting the loan as demonstrated performance of the loan at the inception of the Mortgage Indemnity Scheme is sufficient evidence of an appropriate lending decision; the payment by the Mortgage Indemnity Scheme of the lesser R100 000 fair market value or outstanding balance will limit the scheme's exposure (Record of Understanding, 1995). From this detailed information about the about how the MIF is structured and how it operates, the next chapter deals with the presentation and analysis of research findings.

## **CHAPTER 4**

### **RESEARCH FINDINGS AND ANALYSIS**

#### **4.1 Brief history of Umlazi Township**

Umlazi township is situated in areas which used to be known as Umlazi Glebe and Umlazi Mission Reserve. It was in the early 1940's as a result of the government's decision to relocate those people staying in the Cato Manor area, because in their eyes the area was turning into a slum, that the first hints were made for developing the Umlazi township within the area of the Umlazi Mission Reserve. The City Council initiated the development of Umlazi with the construction of more than 700 houses in Umlazi Glebe. Although this construction was completed in 1957, it was not until after 1960 with the removal of the residents of Cato Manor that the construction programme gained momentum. It was in May 1962 that the first houses became available at Umlazi for the residents relocated from Cato Manor (Braude, 1996). From these small beginnings Umlazi grew to become the largest township in KwaZulu-Natal today.

As with almost all black townships in the late 1980's and early 1990's, the situation in the area was characterised by service and rent boycotts which was used as a political tool to undermine illegitimate Local Authorities. This was coupled with a continuous boycott of repayments for homeloans and as a result almost all commercial banks stopped their involvement in the low-income housing market in the black townships

because of the financial risks involved in these areas. Black townships like Umlazi were therefore effectively excluded from any further mortgage lending .

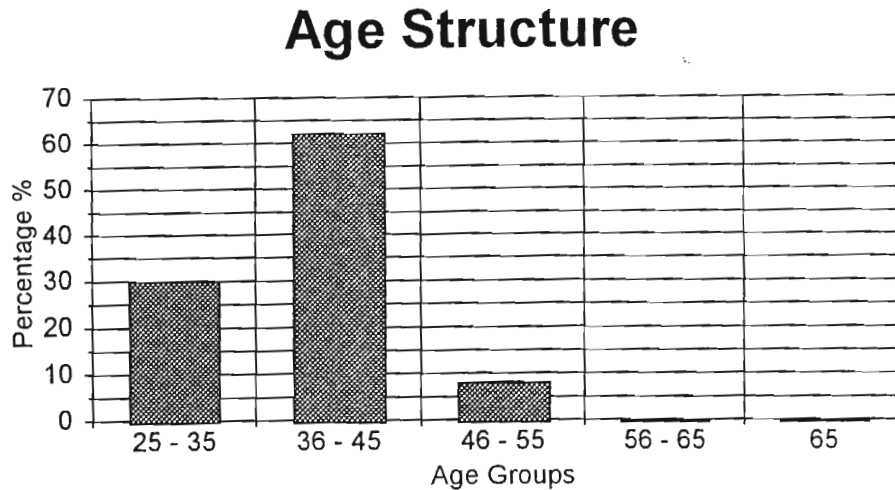
Thus, the government in 1995 decided to establish the Mortgage Indemnity Scheme to address the problem of the withdrawal of financial institutions from the black townships. The MIS cover is granted to areas that were once involved in bond boycotts and in new housing developments that are situated adjacent to those areas. The areas where the research was conducted have been recently developed (i.e. developed after 1994) which means that they were not involved in bond boycotts that affected mostly the old sections of the townships. The reason why the author chose the housing new developments in the township for the survey is that most of the people in the old sections of the townships do not have bonds and the purpose of the research was to find out whether those people who wanted to access bonds were able to. The kind of people who wanted to access bonds were the people who live in the recently built areas.

This chapter will deal with the presentation of research findings and analysis of the data that was collected from respondents in three sections of Umlazi that have been recently developed; information gathered during the interviews conducted with the staff of the MIF and also information that was gathered in the interviews with home loans managers from four financial institutions which are actively involved in lending activities in the area.



#### **4.2    The Age Structure of the Respondents**

The information about the age of the respondents was sought so as to determine whether age has a bearing on the ability of individuals to access housing credit and if it has any bearing at what stage in their lives are individuals likely to access loans. The study established that most of the respondents were between 36 to 45 and 46 to 55 age groups. These people have spouses and children. They said they bought their houses because they needed places to settle down with their families. The study also established that people in these groups have the highest success rate in their applications (**See Table 1**). The reason for the highest success rate amongst these age groups is that they earn salaries that are above R2 000 and they therefore meet the affordability requirement in the banks' lending criteria. This shows that the lending environment in the formerly redlined areas has improved for those who earn better salaries. The younger generation (25 to 35 age group) constitutes a minority in the study area. Respondents in this age group said they see an investment in housing as a long-term benefit and also as a way of getting away from living with parents and enjoying personal freedoms. The study also established that there are no old people buying in the area. Old people are settled mostly in the other sections of the township which comprise mainly of state owned houses that were initially built for rent. The reason for the absence of old people in the area is that they would not like to burden themselves with the responsibilities of a new bond late in their lives as some of them are already on pension or contemplating taking pension.

**Figure 1: Age Structure**

**(Source: Field Survey, 1997)**

Figure 1 (above) shows that the majority of respondents (62%) are between the ages of 36 and 45. The second largest age-group is the one between the ages of 25 and 35 and this group makes 30% of the respondents. The 46 to 55 age group is in the minority and it constitutes only 8% of the respondents. There were no respondents who belonged to the 56 to 65 age group and the above 65 age group also is not represented at all.

Table 1 (below) shows that the age group that has the highest success rate (about 74%) in their applications is the one between the ages of 36 to 45. The success rate for the 25 to 35 age group is 60%. Although their success rate is below that of the 36 to 45 age group, it is still relatively high because it is above 50%. The 46 to 55 age

group, although making only a minority of <sup>49</sup> respondents, has a 100% success rate in their applications.

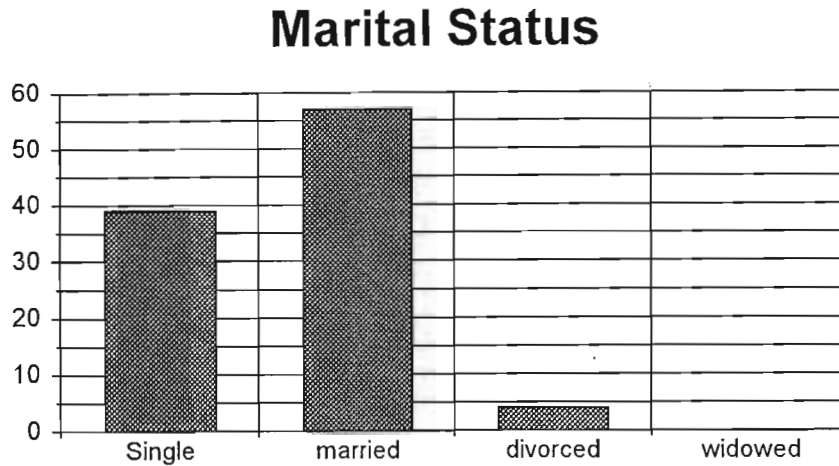
**Table 1: Age / Success of Applications**

AGE GROUP	SUCCESSFUL	UNSUCCESSFUL	TOTAL
25 - 35	18	12	30
36 - 45	46	16	62
46 - 55	8	0	8
<b>TOTAL</b>	72	28	100

Source: Field Survey, 1997)

### **3 Marriage Profile of the respondents:**

a majority of the married respondents have working spouses and this helped to improve the income profile of those households where both spouses are working. The improved economic situation of the households where both spouses are working is attested by the fact that married respondents have the highest success rate as compared to other respondents in the study area (**See Table 4**). This clearly indicates that financial institutions give housing credit to households with a better financial

**Figure 2: Marital Status**

**(Source: Field Survey, 1997)**

status. It was also established that the success rate amongst single people who applied for home loans is just above 50%. This clearly shows that single people do not have the same economic resources like their married counterparts and this therefore affects their ability to access housing credit. The study also established that all divorced people amongst the respondents were able to access home loans and the fact that they are on their own did not hamper their chances of accessing housing credit. These results have established that access to housing credit is made easier by households which pool resources together as shown by the success rate of married couples in this survey. It was also established that chances of accessing home loans are not that good for single respondents and this is attributed to the fact that they do not have the same resources as their married counterparts.

Figure 2 (above) shows that the majority of respondents (57%) are married couples. Single people constitute 39% of the respondents. Divorced people only make 4% of the respondents. There are no widowed people amongst the respondents.

Table 2 (below) shows that more than 56% of single respondents were successful in their applications and around 44% were unsuccessful. The success rate is significantly higher amongst married respondents who have an 80% success rate. Only 20% of respondents were unsuccessful amongst married couples. Table 2 shows that although the divorced respondents constitute a minority group in the study area, their 100% success rate is higher than that of any other group and this can be attributed to the fact that they are a small group and therefore may not be well represented in the sample.

**Table 2: Marital Status / Success of Applications**

MARITAL STATUS	SUCCESSFUL	UNSUCCESSFUL	TOTAL
SINGLE	22	17	39
MARRIED	46	11	57
DIVORCED	4	0	4
TOTAL	72	28	100

**(Source: Field Survey, 1997)**

#### **4.4 Employment Status:**

The respondents were asked a question regarding their employment status. The rationale behind asking such a question was to find out whether there is a link between the permanence or temporariness of the applicant's employment status and the success of an application. A follow up to that was to look at whether those who are permanently employed are subsidised by their employers. All of the respondents are permanently employed. 48% of the respondents are employed in the private sector and 52% of the respondents are either employed by the government or government parastatals. All those that are employed by the government or its parastatals have housing subsidies. The provision of employer's subsidies made it easier for them to access housing credit from financial institutions because the subsidies make up a substantial amount of money that goes towards bond repayments. As a result of the employer's subsidies they can even afford to take bigger loans that they could not afford from their salaries. About 30% of the respondents who work in the private sector are not subsidised by their employer and that makes it difficult for some of them to qualify for home loans. This especially affects those who are on low salaries, as it will be shown that the 28 respondents who were unsuccessful in their applications were earning salaries between R1 500 and R2 000; and this was coupled by the fact that they were not subsidised by their employers. These findings clearly indicate the role that is played by employer's subsidies towards helping low-income households to access home loans that they would not get at all if they were not subsidised.

Table 3 (below) shows that out of the 72 applicants whose applications were successful more than 83% were subsidised by their employers towards meeting their bond commitments. Only about 16% of the successful applicants were not subsidised by their employers. Of the 28 applicants whose applications were turned down, none had any subsidy from their employers.

**TABLE 3: Employer's subsidy / Success of applications**

Successful	Subsidised	Non-Subsidised	TOTAL
YES	60	12	72
NO	0	28	28
TOTAL	60	40	100

(Source: Field Survey, 1997)

#### **4.5 Familiarity with the Mortgage Indemnity Scheme's cover**

The respondents were asked about their familiarity with the cover provided by the Mortgage Indemnity Scheme. It was found that they were not aware of the fact that their area was covered by the Mortgage Indemnity Scheme. It was established that all the respondents did not know anything about the Mortgage Indemnity Scheme. They therefore did not know of the contribution that is being made by this mechanism towards ensuring that people have access to housing credit. This was not surprising

to the author because applications for Mortgage Indemnity Scheme cover for a particular area can be made only by accredited financial institutions, local authorities and Provincial Housing Boards. These institutions can make an application without necessarily consulting with communities except in situations where there are problems that need to be resolved between a particular community and a mortgage lender(s). As the respondents were not aware of the cover provided by the Mortgage Indemnity Scheme the author had to approach other institutions to find out who made the application for cover in the area. It was later established in discussions with the staff of the Mortgage Indemnity Fund, that cover for the area was made by a particular financial institution on behalf of the collective body of mortgage lenders that were prepared to resume lending activities in the area. The area was granted cover in June 1995. It was also established that when the application for cover was made, it was made to cover the existing houses and new developments which were to be built after the area was granted cover. Therefore it is not surprising that residents in the new developments are ignorant of the cover that was granted to their area.

The Chief Executive Officer of the MIF, when asked about the reaction of communities in formerly redlined areas towards the Scheme, said that most communities have not actually known about the MIS and when they have come to know about it, it is either through local authorities or bank officials. He said when they (MIF) engage directly with communities it is mainly proactively to sort out certain problems or through education programmes and in such situations they have found the attitude of communities to be positive. But he said that in some few instances (and these are far in between) the



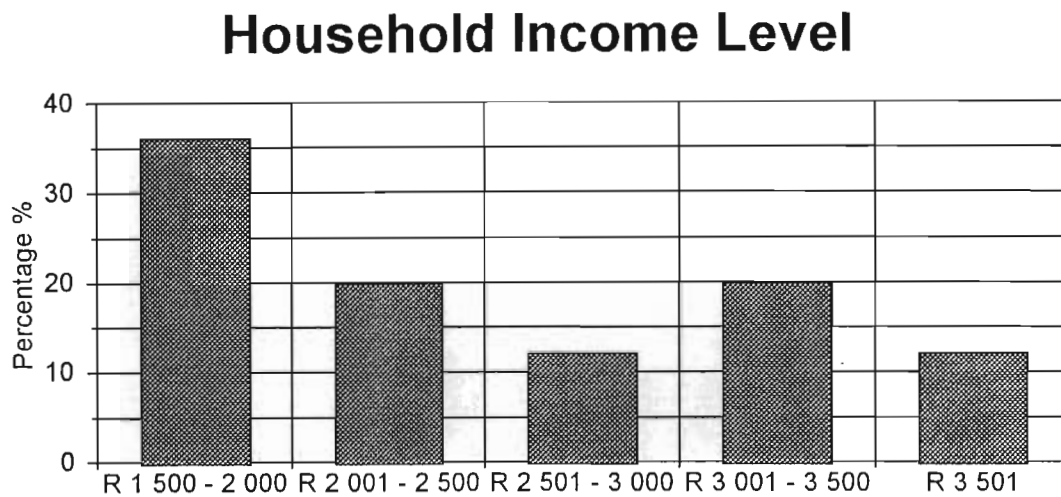
attitude was negative because people were not correctly informed of what the MIF is doing. Some communities were given the impression that the MIS had redlined them. This happened in some deferred areas and people there got the impression that they could not sell their houses because the MIS had redlined them. But according to him this a wrong impression because it was made clear in their agreements with the commercial banks, that the secondary market (selling of existing houses by their owners) is automatically covered even if an area is deferred. Their (MIF) overall impression is that the more they are seen to be assisting and facilitating cover for communities the more there is positive attitude towards the Scheme.

#### **4.6 Income Profile of the respondents**

The study established that most of the respondents can easily access home loans because the salaries that they earn are high enough for them to afford some of the packages that are offered by most financial institutions. But it should be emphasised that despite these favourable income levels, they would not have accessed these home loans if their area in was not covered by the MIS. It should also be noted that the area where the study was undertaken is a recent development. Therefore the relatively high incomes shown in the area do not apply to the whole township. They reflect the incomes of the people who live in the new development. The study also established that people who earn salaries between R1 500 and R2 000 are struggling to access homeloans and they also do not have housing subsidies from their employers. It was established that only respondents who were in this income bracket were unsuccessful

in their applications. This correlates with the information from the homeloans managers that were interviewed. They said that people in this income bracket can only afford small bonds with which they cannot buy a house because there are no houses that can be bought with the small loans that they can afford. For such people to afford bigger loans which they can use to purchase a better house they need assistance from their employers in the form of subsidies.

Figure 3 (below) shows that the majority of the respondents ( 64%) earn salaries above R2 000 per month. The figure also shows that 36% of the respondents earn salaries between R1 500 and R2 000 per month. People in this income bracket are in the minority when one considers the fact that 64% of the respondents earn above this income level.

**Figure 3: Household Income Level**

**(Source: Field Survey, 1997)**

Those earning between R2 001 and R2 500 constitute 20% of the respondents, with 12% earning salaries between R2 501 and R3 000 and another 12% earns between R3 001 and R3 500. The top earners earn salaries above R3 500 and they constitute 12% of the respondents.

Table 4 (below) shows the following income categories have the highest success rate (100% each): R2 001 to R2 500, R2 501 to R3 000, R3 001 to R3 500 and above R3 501. Only people belonging to the R1 500 to R2 000 income category were unsuccessful. This income category has a low success rate of just above 22% and about 77% of respondents within this income category were unsuccessful.

**Table 4: Income Category / Success of Applications**

Successful	R1 500- R2 000	R2 001 - R2 500	R2 501 - R3 000	R3 001 - R3 500	+ R3 501	TOTAL
YES	8	20	12	20	12	72
NO	28	0	0	0	0	28
TOTAL	36	20	12	20	12	100

(Source: Field Survey, 1997)

#### **4.7 Reasons given for turning down applications:**

The 28 respondents whose applications were unsuccessful, were turned down for lack of affordability. They were told that their salaries were too low for them to afford the home loans they needed to buy houses in the area where prices ranged between R50 000 and R75 000. Unfortunately the unsuccessful applicants were also not subsidised by their employers and if they were subsidised this would improve their affordability level. This clearly shows the part played by employer subsidisation towards affording a house.

In the interviews with the four home loans managers who cooperated, it was established that there are basically three reasons why they would turn down an application. Those reasons are:

(1) Affordability: If the applicant's income is too low for him to meet bond repayments and make a living at the same time, the bank will turn down such an application.

(2) Poor credit record: One of the things that the banks said they do before they grant a person a home loan is to run a credit check of the applicant to determine whether he is a reliable person who can make constant repayments on the loan. They (banks) said they generally refuse to lend to a person who has failed to meet his repayment commitments with other institutions where he has accounts. They said they look at such people as posing a great risk of not meeting their bond repayments. People who either have their names on the credit bureau or have had their names on the credit bureau in the past, will normally be turned down.

(3) Valuation: The banks said that before they would grant a bond on a house they first evaluate the house to determine whether it is worth the price it is sold for. They said this is done to protect the bank from incurring losses where they have to resell the house. All the four home loans managers said their institutions would not lend where the house does not have basic facilities like electricity, water, sewerage and where the structure is falling apart. One of the home loans managers said that his banks will not lend if the size of the house is less than 33 square metres.

In the discussions with the CEO of the MIF it was established that banks can no longer refuse to lend in a specific geographic area because they say there is no political stability, if the area has been granted MIS cover. Banks are obligated under the agreements they have with the MIF to lend in any area once the area has been granted cover. They can deny a person a loan only on commercial grounds if they believe that according to fair lending practice and credit guidelines the person does not qualify. But one disturbing fact is that although it seems to be clear that banks should end discriminatory practices in their lending criteria, one financial institution was, as recently as April 1997, talking of black townships as risk areas where they are not prepared to lend.

#### **4.8 Financial Institutions that are actively involved in the area**

The study established that five financial institutions are actively involved in lending activities in the Umlazi township. This was established by asking the respondents which financial institution granted them homeloans or in the case of those who were unsuccessful, from which financial institution(s) they applied for a homeloan. Of the 72 respondents who were successful, 22 had bonds with Allied Bank (A.B.S.A), 19 with First National Bank, 10 with Permanent Bank (Nedcor), 14 with Standard Bank and 7 with Natal Building Society. These are the five financial institutions that were approached by the author for the purposes of the study. The four financial institutions that cooperated stated they were fully involved in lending activities in all the black townships around Durban. They even went a step further to deny ever having stopped

lending activities in black townships. They said that black townships around Durban were not affected by organised bond boycotts that affected black townships in other parts of the country. This is just a denial of facts because if the situation was “normal” for their involvement in mortgage lending in the black townships, financial institutions should not have applied for MIS cover in the area as it would make no difference whether the area was covered or not.

It was also established that the way financial institutions initially responded to the Scheme was that of scepticism but that has changed over time. Their initial reaction was that they liked the Scheme in as far as it dealt with the existing problems they had in the black townships. However, according to the CEO of the MIF, as they got to interact and the understanding between the MIF and the banks evolved, they got to realise that it is not just a matter of only helping them or paying out claims to them as soon as they experienced some little problems but that the deal was structured in such a way that they met their obligations. The deal was structured such that defaulting communities were given opportunity to rehabilitate their situations and that banks did their fair share of lending. Some banks are beginning to see a long-term vision of their involvement in the black housing market because when they invest money in housing they invest in creating markets for the future in that they create employment opportunities and therefore create clients for themselves. But there are some institutions that have not grasped this and who are still looking at the black housing market as a problem.

#### **4.9 Awareness of services offered by other financial institutions**

When asked whether they were aware that other financial institutions were also offering homeloans like the institution where they applied, all the respondents said they were aware that not only the financial institutions that granted them homeloans offers that kind of service. They said that they were fully aware that they could have gone to any other financial institution to get a homeloan. The 28 respondents who were refused homeloans the first time they applied reapplied with other financial institutions. But again all these people were turned down by financial institutions for the second time. The reason for lack of success for the second time is basically the same reason given in the first application, which is lack of affordability. This means that even if the applicants had applied for the third time or many more times the applications would bear the same result if their financial/economic status had not changed.

#### **4.10 Savings with the institution and payment of a deposit**

Out of the 72 successful applicants 55% were saving with the institution where they got their loans. The other 45% were not saving with the institutions. Only 5,5 % of the successful applicants said this was a prerequisite for obtaining a homeloan from their financial institutions. The other 94,5 % said this was not a prerequisite for getting a homeloan, although some of them were saving with the institutions. This clearly shows that saving with the institution is not a prerequisite to getting a homeloan in most cases. This means that financial institutions are prepared to give a lot of people a chance to



access home loans without necessarily saving with them. That requirement would exclude some applicants and would therefore have an impact on the scale of access to housing credit from financial institutions.

Table 5 (below) shows the effect that housing subsidies have on the need to pay a deposit before an applicant can get a homeloan. Most of the subsidised successful applicants were not required to pay a deposit towards their loans whereas most of the non-subsidised successful applicants said the payment a deposit was a prerequisite. The payment of a deposit was not a prerequisite according to the majority of the successful applicants. About 62% of the successful applicants were not required to pay a deposit before they could get homeloans. The payment of a deposit was a prerequisite to only 38% of the successful applicants. The average amount of deposit required by the banks is 11,81 %. In the majority of cases (81%) applicants were asked to pay a 10% deposit, whereas it was only in 18% of the cases where applicants were required to pay a 20% deposit. These differences in the amount of deposit asked from applicants varied from institution to institution and this depended more on amount of loan the applicant was looking for.

Table 5 shows that of the successful applicants who were subsidised by their employers towards their housing needs 60% of them said that the payment of a deposit was not a prerequisite for getting a loan from the banks. Only 40% subsidised successful applicants were required to pay a deposit. Out of the 12 non-subsidised

successful applicants 66% said the payment of a deposit was a prerequisite for getting a loan, while only a mere 33% were not required to pay a deposit.

**Table 5: Employer's subsidy / Payment of a deposit**

EMPLOYER'S SUBSIDY		PAYMENT OF DEPOSIT		
		YES	NO	TOTAL
	YES	24	36	60
	NO	4	8	12
	TOTAL	28	44	72

(Source: Field Survey, 1997 )

#### 4.11 Overall assessment of lending:

The majority of the respondents (91%) feel that those who want to get home loans to buy houses in the area can get them. They have a clear understanding that no one is entitled to be granted a home loan even if the person cannot afford a loan. Only 9% of the respondents feel that the lending environment is bad. These are people who feel that the terms and conditions relating to their loans are unfair because of "high" monthly

repayments which make life difficult for them in that they cannot afford things that they are used to.

The study established that the lending environment in the formerly redlined areas is showing a substantial improvement from what it was before the inception of the MIS cover. There are positive signs showing in the results of the Umlazi survey where about 72% of the respondents were able to access homeloans from financial institutions. The figures indicating the number of loans granted in MIS covered areas in the province of KwaZulu-Natal since the inception of the Scheme in June 1995 to the May 1997, show that financial institutions are really actively engaged in lending activities in the formerly redlined areas.

The figures in Table 6 show that 11,450 loans have been granted in the province of KwaZulu-Natal since the inception of the Scheme and the total value of home loans that have been granted since the inception of the Scheme is R1, 04 billion. The average number of loans granted per month is 498. This is a substantial amount when one considers the fact that as recently as 1994 there was virtually no lending in many of the areas that are covered by the MIS. There is also substantial lending by financial institutions in the government subsidised housing market i.e. households which have incomes ranging between R0 to R3 500. Table 7 shows that financial institutions have granted 2,572 loans with a total value of R123, 597, 000 in government subsidised housing market in MIS covered areas in the province of KwaZulu-Natal. The average number of loans granted per month in this sector is 112. The figures in both Table 6

and Table 7 show consistency in the lending environment because there is no substantial difference in the total number of homeloans granted each month.

In the discussions with the CEO of the MIF it was established that as a result of the MIS cover, nationally, financial institutions have invested an amount of around R7 billion (in mortgage bonds) in formerly redlined areas and adjacent areas since the inception of the Scheme. Looking at the above statistics it is clear that the MIS has been able to trigger substantial investment by financial institutions in areas which, before its inception, would not have been considered as viable markets for investment.

The study also established that a number of areas with long standing bond disputes between particular financial institutions and certain communities, have been amicably resolved with the assistance of the MIF through its Dispute Resolution Programme. The main reason for the involvement of the MIF in resolving disputes is to protect the Scheme against claims that might be brought by mortgage lenders in areas where the disputes continued. The MIF says the payment of claims is something they try to avoid at all costs. As a result of the MIF's intervention good relationships between disputing parties have been re-established. The resolution of those disputes helped to unlock a lot of money which would not have been invested if the antagonistic relationship between communities and financial institutions continued. The number of resolved disputes increases daily as disputing parties find solutions to their problems.

It was also established that as a result of MIS cover financial institutions have introduced new products for the low-income housing sector. These products are offered by specialised departments within the financial institutions, which are called the "Affordable housing market" home loans or as one institution terms it the "RDP housing market".

**Table 6: Number of loans and Value of loans in MIS covered areas**  
**(Irrespective of income and loan size)**

<b>Month Ended</b>	<b>No. of Loans</b>	<b>Value of Loans</b>
Cumulative to May 1996	6,122	571,314,000
June-96	441	45,556,000
July-96	477	54,127,000
Aug-96	471	45,778,000
Sep-96	535	44,543,000
Oct-96	579	48,465,000
Nov-96	507	45,853,000
Dec-96	357	30,070,000
Jan-97	399	36,666,000
Feb-97	407	37,397,000
Mar-97	409	21,144,000
Apr-97	350	18,333,000
May-97	396	40,816,000
<b>Totals</b>	<b>11,450</b>	<b>1,040,062,000</b>

**Source: Mortgage Indemnity Fund, June 1997)**

**Table 7: Total number of loans and value of loans in the Government Subsidised Market (MIS Covered Areas)**

<b>Month Ended</b>	<b>Number of Loans</b>	<b>Value of Loans</b>
Cumulative to May 1996	996	39,876,000
Jun-96	126	6,314,000
Jul-96	146	7,491,000
Aug-96	147	8,459,000
Sep-96	194	10,115,000
Oct-96	155	8,331,000
Nov-96	132	6,493,000
Dec-96	94	4,333,000
Jan-97	127	7,086,000
Feb-97	126	6,546,000
Mar-97	109	6,034,000
Apr-97	113	6,416,000
May-97	107	6,103,000
<b>Totals</b>	<b>2,572</b>	<b>123,597,000</b>

(Source: Mortgage Indemnity Fund, June 1997)

#### **4.12 Repayment of bonds**

Currently there is a 100% repayment of bonds in the area. This high repayment rate is not a surprising finding when one considers the fact that people in the sections where the survey was done are people that have recently bought their homes and they bought homes at the time when bond boycotts were coming to an end. Bondholders know their responsibilities when it comes to repaying their bonds. An interesting finding of the survey is that even the 27,7% of respondents who feel that some of the terms and conditions relating to their loans are unfair, are in fact repaying their bonds.

The average payment per month by the respondents is R990. The person making the highest repayment is paying R1682 per month and the person who pays the lowest instalment is paying R300 per month. The huge difference in the amount of monthly repayments can be attributed to the fact that the sizes and prices of the houses are not equal and also to the fact some of the respondents are subsidised by their employers while there are those who are not subsidised. The average interest rate on the bonds is 20%. The author found that most people did not know the interest rate charged on their bonds. The author had to find out from the banks the interest rate that they charge on homeloans. All the banks that are involved in mortgage lending activities in the area charge an average interest rate of 20% on a homeloan. This interest rate can differ depending on the amount of money involved. Coupled with this 100% repayment record



on home loans there is also a 100% payment record for services like water, sewerage, electricity and refuse collection. People in the study area are not charged rates because the local authority still has to do an evaluation of their properties.

**Table 8: Understanding of terms and conditions / Repayment of bonds**

UNDERSTANDING	REPAYING BOND	TOTAL
YES	68	68
NO	4	4
TOTAL	72	72

The study established that above 94% of the bondholders said that they understood the terms and conditions relating to their bonds. But this should not be interpreted as saying that they understand all the finer details of the contracts they entered into. Their understanding goes as far as knowing their obligations under the agreements they signed with the financial institutions. Only a mere 5% said they did not understand the terms and conditions relating to their bonds (**See Table 8 above**). Interestingly this group was not totally in the dark about the contracts they entered into with the banks because almost all of them understood their responsibilities which are set out in their contracts.

They only had problems with the following aspects:

1. That bond repayments are increased without being consulted and this affects their budgeting because they cannot afford some of the things they used to have. They therefore feel that they should be consulted before an increase on monthly repayments. The issue of increments in bond repayments is an issue that they feel powerless about and feel that banks are using their power to force it upon them.
2. The interest rates increase often without corresponding increases in wages and salaries. These people feel that the government should regulate increases in interest rates so that these go hand in hand with an increase in wages and salaries.

Table 9 (below) shows that about 72,3% of the respondents (52 out of 72) feel that the terms and conditions relating to their loans are fair. Only about 27,7 % of the respondents (20 out of 72) feel that the terms and conditions relating to their loans are unfair.

**Table 9: Fairness of terms and conditions / Repayment of bonds**

FAIR	REPAYING BOND	TOTAL
YES	52	52
NO	20	20
TOTAL	72	72

**(Source: Field Survey, 1997)**

#### **4.13 Eviction of defaulters**

On the question of the eviction of defaulting bondholders, all the respondents are of the opinion that a Sheriff of the Court can evict a defaulting bondholder without the interference of members of the community. In fact some of the respondents mentioned only one occasion where someone was evicted in the neighbourhood and there was no interference by community members. About 70% of the respondents were aware of the incident mentioned above as the only time where there was an eviction in the area. The person involved had to be evicted because he failed to make bond repayments as he had lost his job. From the fact that some of the respondents were not even aware of any eviction in the area and those who were aware of an eviction only quoted one incident, makes it clear that people in the study area are quite serious about their responsibilities. This is also supported by the fact that there is a 100% repayment record in the area. On their side financial institutions stated that they have been able to evict bond defaulters from properties without the interference of the communities. They said this differed from area to area. In order to avoid vandalism of the properties while they stood empty, banks had to employ security to guard the house until new occupants settled in.

Of the 68 people who responded to the question on their reaction to evictions, 52% felt it was wrong to evict people who defaulted on their bond repayments and 48% felt it was okay to evict such people. This shows that the community is almost equally divided on this issue. Those who feel it is wrong to evict a person from a house are saying it

is unfair to throw families on the streets without providing them with alternative accommodation. Those people who feel it is okay to evict bond defaulters say that if the person cannot afford a house there is no reason why that person should be allowed continued occupation of the house without paying for it.

It was also established from the MIF that although there is a rate of default on some homeloans in MIS covered areas, the MIF had not yet received any claims as a result of such defaults. This means that the MIF has managed to unlock around 7 billion Rands against 0 Rands claims (this information was true on the 13 May 1997). But it must be remembered that it is not just as a result of default that mortgage lenders are entitled to a claim, they have to exhaust all legal remedies and the legal system must fail before they can get entitled to a claim. Information from homeloans managers confirmed that there were few defaulters but at the time of the interviews the banks had not yet lodged any claims with the MIF as a result of such defaults.

#### **4.14 Conclusion:**

Although the study has its limitations, it has managed to make an assessment on whether the Mortgage Indemnity Scheme has been able to make an impact in the mortgage lending environment. From the research it is evident that the Scheme has managed to leverage a lot of private sector money towards the delivery of housing to low-income households in black townships. Again it is clear that financial institutions

are not yet prepared to go down in their affordability requirements. As a result a lot of people who earn salaries below R2 000 cannot access home loans that will enable them to purchase houses that are available in the market. The amounts of loans that banks are prepared to give to such people are so small that they cannot buy anything except if they have financial assistance (housing subsidies) from their employers. The role played by employer subsidisation in accessing home loans has been clearly outlined in this research, in that a lot of people who would not have been able to access housing credit were able to as a result of such assistance.

## **CHAPTER 5**

### **CONCLUSIONS AND RECOMMENDATIONS:**

#### **5.1 Summary:**

The dissertation set out to investigate whether the cover provided by the Mortgage Indemnity Scheme has been able to trigger a flow of housing credit (end user finance) from commercial banks to low-income households in the formerly redlined areas throughout the Republic of South Africa. Umlazi township near Durban was used as a case study to establish the existing trends and patterns in the lending environment in formerly redlined areas. The government in its White Paper on Housing identified the mobilisation of private credit for housing purposes as a central aspect of its approach to housing. They said that this was necessitated by the realisation that State resources are limited and therefore if the government efforts to “House the Nation” are to succeed, it should be able to leverage non-state resources towards the low-income sector. The dissertation assesses the impact of the Mortgage Indemnity Scheme on the leverage of non-state (private sector) finance towards the provision of housing to low-income households in the black townships.

#### **5.2 Conclusions:**

The dissertation established that as a result of the MIS cover banks have started to lend in areas which, before its inception would not have been considered for mortgage

lending. There has been a substantial change in the approach of commercial banks towards low-income communities in the black townships after many of these areas were granted MIS cover. The target group which the Mortgage Indemnity Scheme cover primarily aims to access housing credit from private financial institutions are people whose salaries are below R3 500. People in this income bracket are in the government subsidised market.

In the Umlazi survey it was established that most of the respondents earning less than R3 500 but above R2 000, were successful in their loan applications. But those people earning less than R2 000 were found to be struggling to access home loans because their salaries were considered to be too low by the banks to afford bonds that would enable them to purchase houses that are available in the market. The study established that these people can only afford bigger bonds if they have financial assistance from their employers. People earning below R2000 should be catered for by institutions which are called non-traditional lenders whose specific target market are people who do not meet the lending criteria of commercial banks.

From the research it is clearly evident that those households with a greater pool of resources like married couples where both spouses are working, have better chances of getting homeloans and most of the married couples are middle aged people. There is also a clear link between employer subsidisation and the majority of the applicants' ability to access housing credit because all those who were subsidised by their employers were able to get homeloans whereas all the unsuccessful applicants were not subsidised by their employers.

Most of the major signatories of the Record of Understanding within the mortgage lending fraternity are actively involved in lending activities in the study area. The assertion by certain banks that they never stopped lending in black townships around KwaZulu-Natal and that the inception of the MIS cover was not a prerequisite for their involvement in these areas, shows that these institutions feel guilt for the kind of approach they had adopted towards black communities in the past. Their assertions amount to blatant lies because they (banks) would see no need for MIS cover in these areas if they had been continually involved with as they claim

The positive trends and patterns shown in the Umlazi survey are confirmed by the lending statistics for the Province of Kwazulu-Natal from the inception of the MIS (June 1995) to May 1997. These statistics are from a document that was provided to the author by the officials of the Mortgage Indemnity Fund. These figures show the number of homeloans granted to the whole province. A breakdown of homeloans that have been granted to people living in MIS covered areas around Durban and more specifically the number of homeloans granted to people from Umlazi could not be obtained from the banks and the MIF. The provincial figures will suffice to give an indication of lending trends and patterns in MIS covered areas around the province.

One of the interesting findings of the study is that the MIF has been able to effectively manage its risk exposure and in the process it has managed to gear up investment of private sector money to the value of 7 Billion Rands in MIS covered areas countrywide.



For this great achievement the CEO of the MIF and his staff deserve congratulation and praise for the role that they have played in the government's efforts to deliver housing to the millions of homeless people.

The study established that people in the study area were not familiar with the MIS cover. The fact that all the respondents in the Umlazi survey were not aware that their area was covered by the Mortgage Indemnity Scheme and were also not aware of the existence of the MIS is a cause for concern.

The study also established that some of the respondents had problems with the fact that financial institutions increase bond repayments without consulting them. They said that these bond increases adversely affected their standard of living in that they end up being unable to afford some of the things they used to have before the increments.

### **5.3 Recommendations:**

The MIS should, through its provincial forums embark on a more concerted publicity campaign to reach out to all communities so that those bank officials who still look at some black townships as risk areas where they would not grant loans, should be exposed as early as possible. To supplement this, the MIS should have a helpline whereby people who experience discriminatory mortgage lending practices could report such incidents so that they could be dealt with in the strongest possible terms. This is

necessary because ignorant or uninformed communities will not know that banks are obligated under the agreements they have with the MIF, to lend in their areas if those communities do not know anything about MIS cover. This will ensure an end to discriminatory lending policies where people would be denied loans because they live in a specific geographic area.

Government should impose severe penalties on those institutions that still continue with discriminatory mortgage lending policies like in the report that was found an article in "The Star" newspaper, where banks were accused of redlining in areas around Johannesburg. The way the banks operated in the Johannesburg area situation was to give each suburb or township a rating. One bank's rating system is reportedly called "Gapu" which stands for Good, Average, Poor, Unsuitable. As a result of this system affluent areas generally have Good ratings and townships have an Unsuitable rating. In Unsuitable areas the bank was reportedly unwilling to lend at all whereas in Poor areas it would lend only if the buyer has a substantial deposit. This is an example of practices that need to be uprooted if people are to have access to housing credit; and as already said before the government should act harshly against institutions continuing with such practices.

Those financial institutions that continue to look at black townships as risk areas should change their attitude towards black communities. They should look at these communities as part of their constituents rather than as appendages of their

mainstream activities. Black communities, through their savings with the banks and building societies, make up a substantial part of their businesses and therefore should also enjoy the same access to their facilities like their White, Indian and Coloured counterparts.

To avoid the misunderstanding about increments in bond repayments on the part of the bondholders, banks should explain everything to their clients during the homeloan education workshops that they conduct with prospective home buyers. It is in these workshops that people should be made to understand that banks have a prerogative to increase monthly repayments whenever the need to do so arises and also explain under what circumstances will banks increase monthly repayments. Clients should be made to understand they will not be consulted in such instances but they will be informed in advance of forthcoming changes in the amounts they are paying per month.

Some homeloans managers feel that the existence of the MIS should be prolonged because they say that the problem the Scheme was established to address is an ongoing one. They would rather prefer to have the Scheme as a permanent feature in the mortgage lending market. It is clear from this that mortgage lenders are still uncomfortable about lending in the areas where they once experienced problems. But these perceptions stem from misunderstanding the role that the Scheme is supposed to play in the mortgage lending arena. They do not understand that the role of the Scheme is to facilitate the establishment or re-establishment of relations between borrower communities and mortgage lenders where they had broken down. It seems

that they do not understand that the MIF's role is a temporary one that cannot go on forever. The fact that due to MIF's efforts a sense of stability and normality has been brought to the mortgage lending environment and also the fact that due processes of law are followed without any interference from communities, means that the fears that mortgage lenders had in the past have been largely addressed. This therefore means that by the time the MIF terminates its operations it would have met its mandate because it was never meant to be a long term mechanism but rather a short term mechanism.

The establishment of the MIS cover is not based on any international experience, rather it is an effort that was undertaken to deal with the unique circumstances that were prevailing in South Africa at the time of its inception.

The results of the Umlazi survey, when read with the statistics of lending trends and patterns for the Province of KwaZulu-Natal and for the rest of the country, clearly show that the introduction of MIS cover has positively changed the mortgage lending landscape in the black townships and adjacent areas. The research findings clearly show that the Umlazi situation is not an isolated situation that cannot be found in the rest of the country. The MIF has played its role to facilitate the establishment of good relationships between mortgage lenders and borrower communities. What is left now is for both parties to continue working together in a manner that would be beneficial to both of them without the need to involve third parties like the Mortgage Indemnity Fund.

The role played by the Scheme since its inception has been a good one which by the end of the Scheme's existence will not necessarily be needed as it was at the time of its inception.

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**APPENDIX 1**

**GLOSSARY OF TERMS**

1. **MIS:** Mortgage Indemnity Scheme.
2. **MIF:** Mortgage Indemnity Fund.
3. **Scheme:** Mortgage Indemnity Scheme.
4. **Fund:** Mortgage Indemnity Fund.
5. **CEO:** Chief Executive Officer.
6. **AML:** Association of Mortgage Lenders.
7. **DoH:** Department of Housing

**APPENDIX 2****QUESTIONNAIRE 1 : UMLAZI COMMUNITY**

1.How old are you?

25-35	
36-45	
46-55	
56-65	
+65	

2.What is your marital status?

Single	
Married	
Divorced	
Widowed	

3.What is your employment status?

Permanent	
Temporary	

4. In which employment sector are you employed?

Private	
Public	

5. Are you receiving a subsidy or any financial assistance from your employers?

YES	
NO	

6 (a) Are you familiar with the MIS facility?

YES	
NO	

(b) What is your understanding of it?

--

7 (a) Have you applied for a home loan after your area was granted cover by the MIS?

YES	
NO	

(b) Was the homeloan application successful ?

YES	
NO	

(c) If the answer is NO, what was the reason given for turning down the application?

--

8. From which institution did you apply?

--

9. Are you aware that other financial institutions are also offering homeloans in the area?

YES	
NO	

10 (a) Have you applied to another financial institution for a home loan after your application was turned down?

YES	
NO	

(b) Were you successful?

YES	
NO	

11 (a) Are you saving with the institution from which you obtained your loan?

YES	
NO	

(b) Was this a prerequisite to obtaining a loan?

YES	
NO	

12 (a) Was the payment of a deposit a prerequisite to obtaining a loan?

YES	
NO	

(b) If yes, what was the percentage required?

--

13. What is your overall assessment of mortgage lending in the area especially under the MIS cover?

GOOD	
BAD	

14. In which one of the following income categories do you fit in?

A.	R1 500 - R2 000 p.m	
B.	R2 001 - R2 500 p.m	
C.	R2 501 - R3 000 p.m	
D.	R3 001 - R3 500 p.m	
E.	+ R3 501	

15. Are the terms and conditions attending to the bond understood?

YES	
NO	

16 (a) Are the terms and conditions attending to the bond fair according to you?

YES	
NO	

(b) If not, what aspects are you not satisfied with?

--

17 (a) Are you repaying your bond ?

YES	
NO	

(b) If not, what is the reason?

--



18. How much are you paying back per month?

--

19. What is the interest rate on the loan?

--

20 (a) Are you paying for rates and services ?

YES	
NO	

(b) If not, what is the reason ?

--

21 (a) Can the Sheriff of the Court evict a defaulting bond holder from a bonded property without hindrance from members of the community?

YES	
NO	

(b) If not , what is the reason ?

--

22(a) Is there any eviction that you are aware of?

YES	
NO	

(b) If so, what is your reaction towards it?

It is Wrong	
It is Okay	

**APPENDIX 3****QUESTIONNAIRE 2: FOR HOME LOANS MANAGERS**

1. Is your institution actively engaged in lending activities in the formerly redlined areas (Black townships) which have been provided indemnity cover by the Mortgage Indemnity Scheme?

YES	
NO	

2. If not, what are the reasons?

--

3. Which areas are you actively involved in?


4. Can you give an indication of how many home loan applications has your institution received from people living in MIS covered areas since they were granted cover?

--

5. How many home loans have you approved since the areas were granted cover?

6. How many home loan applications from these areas have you turned down?

7. What were the reasons for turning down those applications ?

8. In which income category do many of your applicants fit in the following income categories?

A	R1 500 - R2 000
B	R2 001 - R2 500
C	R2 501 - R3 000
D	R3 500 and above.

9. What was the rate of bond repayments in these areas before they were granted cover by the Mortgage Indemnity Scheme (June 1995)?

GOOD	
BAD	

10. What is the rate of bond repayments in these areas after they were covered by the Mortgage Indemnity Scheme ?

GOOD	
BAD	

11. Have you been able to get vacant possession of bonded houses that have been defaulted upon after foreclosure (after all legal processes have been exhausted)?

YES	
NO	

12. Do you think the Mortgage Indemnity Scheme cover is an enough guarantee for you to resume lending activities in formerly redlined areas?

YES	
NO	

13. If not, what do you think needs to be added in the existing cover arrangement or what problems do you need to be addressed in these areas before you resume lending activities?

--

#### **APPENDIX 4**

##### **QUESTIONNAIRE 3: CHIEF EXECUTIVE OFFICER OF THE M.I. F**

1. Can you say whether the Mortgage Indemnity Scheme has been able to meet its objectives since its inception in June 1995?
2. Can the Mortgage Indemnity Fund force financial institutions to lend in areas that have been granted MIS cover?
3. How do you see the role of the MIF in the context of the Masakhane Campaign?
4. Since the inception of the Scheme what can you say is the biggest problem it has faced?
5. What has been the reaction/attitude of financial institutions towards the Scheme?
6. What has been the reaction/attitude of communities in the formerly redlined areas towards the Scheme?
7. The 50 000 loans a year target was not met in 1996, what do you think could be done to meet the target or to improve on it in 1997?
8. So far has there been any claims by financial institutions to the Scheme, and if there are any, how much money have you paid out as a result of such claims?
9. Is the Mortgage Indemnity Scheme based on any international experience, if so, on what model?