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Nyandoro, Edith

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AN EVALUATION OF THE FINANCIAL SECTOR CHARTER AND THE COMMUNITY REINVESTMENT BILL AND THEIR IMPLICATIONS ON THE DELIVERY OF LOW INCOME HOUSING FINANCE IN SOUTH AFRICA

Edith Nyandoro

A Research Report submitted to the Faculty of Engineering and the Built Environment, University of the Wiwatersrand, in partial fulfillment of the requirements of the Degree of Master of Science in Building.

Johannesburg 2008

ABSTRACT

This research report is an account of the results of investigations into the critical analysis of the private sector's Financial Sector Charter (FSC) and the government's Community Reinvestment Bill (CRB) in comparing their anticipated advantages towards housing and housing finance for the low income sector in South Africa. 2 stages of data gathering were adopted; namely interviews with 5 Banking Council officials and 5 Ministry of Housing officials and a questionnaire survey with representatives from SACC, NALEDI, SANGOCO, COSATU and SANCO which are independent organizations, which amongst other duties, generally assist in serving the social needs of disadvantaged individuals in the society. Multi-criteria analysis and SWOT analysis techniques were used to analyse the qualitative data.

Results showed that the most critical aspect of the FSC is the establishment of risk sharing responsibilities between the government and the private sector, which still needs to be resolved. The private sector views the CRB as a forceful mechanism with strict requirements, which would result in the private sector's participation in provision of housing finance to the low income sector to be ineffective as they would be acting unwillingly. Independent organizations view the CRB as being lenient on the private sector. Evaluation of the CRB and FSC showed that ultimate success lies in the combined efforts between the government and private sector, which in turn lies in the settling of the Memorandum of Understanding on-going negotiations.

Key recommendations for addressing the low income sector housing and housing finance problems include; cultural adjustment of the banks towards low income sector individuals, formation of partnerships in dealing with housing and housing finance problems, establishment of efficient secondary property markets through amenities provision and infrastructure upgrading, identification of effective default management models, accommodation of new intellectual ideas and provision of different mortgage securities by banks and the government.

Keywords: **Housing, housing finance, low income sector, government, private sector.**

DECLARATION

I declare that this discourse is my own unaided work. It is being submitted for the Degree of Master of Science in Building Science (Specialised field of Property Management and Development), in the School of Construction Economics and Management, University of the Witwatersrand. It has not been submitted before for any degree or examination in any other University.

_____

(Signature of candidate)

_____Day of_____ (year) _____

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DEDICATION

This research report is dedicated to you Mrs. S.T Nyandoro; I love you mom!

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ABBREVIATIONS

CEO	Chief Executive Officer
COSATU	Congress of South African Trade Unions
CPIX	South Africa's Consumer Price Index excluding mortgage rate changes (CPIX) for metro and other areas, which is used by the South African Reserve Bank for its inflation target.
CRB	Community Reinvestment Bill
CSI	Corporate Social Investment
DFI	Development Finance Institutions (as defined by Section 2.19 of the FSC)
FSC	Financial Sector Charter
FSCC	Financial Sector Campaign Coalition
MIF	Multi-Lateral Investment Fund
MoU	Memorandum of Understanding
NALEDI	National Economic Development and Labour Institute
NEDLAC	National Economic Development and Labour Council
RDP	Reconstruction and Development Programme
ROU	Record of Understanding
SACC	South African Council of Churches
SANCO	South African National Civic Organisation
SANGOCO	South African (Non-Governmental Organisations) Coalition
SME	Small to Medium Enterprises

DEFINITION OF TERMS

Alternative Hypothesis is a hypothesis which is 'accepted' if the null hypothesis is rejected.

First Order Retail is as defined by Section 2.27 of the FSC.

Hypothesis testing is a procedure where sample data is used to reject or accept a claim, opinion, belief or assertion being made about the population.

Null hypothesis is the initial statement of a claim or opinion being made about the population (Viruly, 2005).

Redlining is a practice whereby lenders automatically regard homes in certain communities or certain census tracts to be 'unmortgageable' because of perceived high credit risks especially declining property values (Diamond, 2002). Examples of such areas include townships and informal settlements.

Targeted Investment is as defined by Section 2.34 of the FSC.

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND AND RATIONALE

Housing is the bulk of real estate in every country. Real estate is also the second largest cost center for firms, exceeded by labour only. A poorly functioning real estate market is a cost to the rest of the economy. Although much work has been done on relationships between real estate and banking crises in a number of countries, much more work still needs to be done, especially in developing countries. An example is that of South Africa where the government has had to step in to resolve problems centred on financial institutions providing housing finance to the lower income sector of the society. (www.worldbank.org/devforum).

Over half of the consumer debt is usually tied up in home mortgage and a number of other financial products bought by consumers at the same time as mortgage is taken out. The mortgage market has become one of the most important retail areas for general financial institutions. Non- banking financial services such as insurance and pensions are also increasingly drawn into the mortgage market. Mortgage finance has now firmly become part of retail banking from being considered as a separate banking sector. Therefore retail banking and mortgage finance have to be dealt with together. It is envisaged that in future all financial services will be obtained under one roof (Ball, 1990). Achievement of this level of service implies that different mortgage options will be easily available and accessible to cater for any person intending on purchasing a house, ranging from high to low income earners of the society. In South Africa negotiations between the government and financial institutions which are providers of mortgage, are still taking place. The government insists on a more regulated and transparent mortgage provision system to accommodate the low income sector of the

society, who fail in meeting the requirements of lending institutions. On the other hand the financial institutions suggest a free market system whereby the mortgage market is not controlled, but rather takes its own form and shape independently.

Basic housing or shelter is a requirement for every human being and the South African constitution ---'Section 26'---stipulates that every South African has a right to adequate housing (Mayekiso, 2005) and this goes hand in hand with finding a solution for ensuring that this right is fulfilled. Despite home ownership being referred to as being the backbone of a well-functioning society, there are other types of tenure that may be viable for housing provision. An example is that of The United States of America where there is owned households, market rental accommodation and public-private low rental accommodation (Whitefield, 2002). The concept of a Community Reinvestment Bill addressing the housing finance issue was adopted from the U.S.A. Financial institutions raise the argument that the proposed bill is an American concept and is not an ideal solution to the problem of housing finance in South Africa.

1.2 PRELIMINARY LITERATURE STUDY

Prior to 1994, a banking system which existed for the benefit of the "white" minority in South Africa in terms of acquisition of housing finance was in place (www.augie.edu). A new political government came into power in 1994 which faced a housing finance system which was inherently fragmented and unstable in that, to a great extent it only accommodated for the relatively higher income earners of society. In an endeavour to normalise the situation of non-provision of housing finance for the low income sector, several initiatives were presented by the government, ranging from; the Record of Understanding in 1994, the National Housing Code in 1997, the New Deal in 1998 and the Home Loan Disclosure Act (HLMDA) in 2000 (www.augie.edu). For more than half a decade the government tried to establish the best solution for availing housing finance

to the low to medium income sectors of the society, but this became a far-fetched dream as more and more since 1994 have migrated to the cities causing a further demand for housing and ultimately a reinforced emphasis on the government to assist in providing housing finance.

The Community Reinvestment Bill, CRB was first proposed in 2002 by Parliament. In a nut shell, it holds financial institutions accountable for any discriminatory practices indicated by the aforementioned HLMDA disclosure office and contributes through setting standards for banks to comply with so as to ensure the availability of housing credit to low and medium income housing finance borrowers as well as low to medium income areas (Diamond, 2002).

The financial sector came up with the Financial Sector Charter, FSC as a contribution to the establishment of an equitable society by effectively providing accessible financial services to 'black' people and by directing it into the targeted sectors of the economy (Financial Charter, 2002).

Due to the financial sector having proposed the introduction and establishment of the FSC, the government suspended the enactment of the CRB to give the financial sector a chance to make a contribution in solving the problem of housing through housing finance provision and its accessibility by the low income sector in South Africa. It was reported that the banks agreed, during the drafting of the charter, on the provision of about R42 billion towards housing finance to the R1500 to R7500 a month income sector between 2002 and 2008 (Sisulu, 2004). To what extent this R42 billion would reduce the housing finance problem for the low income sector was not clearly defined. The question that arises would be whether the government was diplomatic in allowing the financial sector to implement the FSC or enactment of the CRB would have been a more fruitful option in dealing with the problem of low income sector housing finance provision.

1.3 RESEARCH PROBLEM, OBJECTIVES AND HYPOTHESES

MAIN OBJECTIVE

The democratic government of South Africa since 1994 has been trying to find a solution to housing and housing finance inadequacies. The current housing backlog is double that of the anticipated levels, which is about 2.5 million (Dylan, 2005). This study is aimed at investigating the anticipated implications on housing, of the government's Community Reinvestment Bill, CRB and the financial sector's Financial Sector Charter, FSC as well as identification of possible ways of improvement of housing and its associated financing for the low income sector in South African urban areas.

SUB-OBJECTIVES

Research questions handled by the study include the following:

1. Do housing finance provisions of the Community Reinvestment Bill, CRB and those of the Financial Sector Charter, FSC effectively handle expected low income housing goals?
2. Do the voluntary transforming initiatives taken by the Financial Sector and its institutions guarantee to bring about more or less benefits for individuals and communities than the CRB would secure?
3. What guidelines should the government or the private sector introduce or follow to ensure equitable success to housing infrastructure provision and related finance?

HYPOTHESES

Enactment of the CRB would imply forcing the private sector to act unwillingly and this may further hinder the private sector from effectively addressing the financing of low income sector housing in South Africa. While implementation of the FSC would to some extent reduce housing shortages in the low income sector.

MAIN HYPOTHESIS

The bringing together of the provisions of both the CRB and the FSC can optimize the delivery of the low income financing housing requirements South Africa.

SUB-HYPOTHESES

The following two sub-hypotheses have been formulated to arrive at the main hypothesis:

1. The FSC does not provide alternatives should it fail to meet its goals. The CRB is being considered as a policy option should the FSC fail in meeting its goals.
2. Financial private sector lending institutions are using lending methods traditionally aimed for use by the higher income earning sector. There is a need to encourage the design of a range of products suitable for the low income sector.

1.4 RESEARCH METHODOLOGY

The research was based on the outcomes of the reviews of literature relevant to housing as well as the housing finance for the low income sector. Pilot interviews were conducted with a sample of ten representatives from the Banking Association and the Ministry of Housing in South Africa. A questionnaire survey was carried out with a sample of six representatives from independent organisations. The basis for analysis of the outcomes from the two stages of practical gathering of data was done by implementation of two models namely, multi-criteria analysis model and SWOT analysis model as a guideline for refinement of all the results that had already been acquired.

1.5 SCOPE AND LIMITATIONS

The chosen area of study is rapidly evolving and changing and hence a definition of the time frame is critical. The study and all assessments undertaken were restricted to the period ranging from February 2004 to December 2005.

The scope of the discussion was limited to the literature that was published by December 2005, concerning the on-going negotiations between the government's Department of Housing and the private sector with regards to the issue of housing and housing finance for the low income sector in South Africa. The research is partly based on the views of the parties involved in the negotiations, as well as views of some representatives of some independent organizations who were knowledgeable about the subject matter and were able to bring 'on board' sound opinions and interesting arguments.

The study only makes consideration of low to medium income housing finance in urban areas and excludes rural areas. It is entirely qualitative and is therefore limited to views and not the actual measurement of implications.

1.6 STRUCTURE OF THE REPORT

The report consists of five chapters. Chapter One is the Introduction which sets out the background, need for the study, research objectives and scope of the study.

Chapter Two gives background knowledge on the topic. Various forms of literature were used to acquire a thorough understanding of the topic as well as related issues and highlights some of the solutions to the same issue of inadequate housing and insufficient housing finance for the low income sector in developing countries.

Chapter Three shows the methods used to obtain all data as well as giving a report on how the research was carried out. It also shows methods used for analysis of the data obtained.

In chapter Four an analysis of the results obtained from the interviews and questionnaire survey is given accompanied by analyses and discussions of the results obtained in line with the achievement of the research objectives.

Chapter Five is devoted to conclusions and recommendations reached in the study.

CHAPTER 2: THEORETICAL FRAMEWORK

2.1 OVERVIEW

This Chapter contains the theoretical framework that informed this study. South Africa, falls in the category of developing countries therefore an introduction of low income housing situations, its funding and related problems prevalent in developing countries is given. An outline of the characteristics of the nature of housing loans and associated problems of its acquisition in low income areas is given. General solutions suggested by different authors to tackling these problems are then examined. Focus on the history and progression of the South African low income sector property market since 1994 is outlined. The Government through different initiatives and through the establishment of various organizations has played a major role in addressing the issue of housing for the low income sector and these have been discussed. Finally this chapter, focuses on the Financial Sector Charter (FSC) and the Community Reinvestment Bill (CRB), in defining their role in addressing the issue of housing for the low income sector and its financing. A commentary on the views by different authors on the anticipated success of the two initiatives by the private sector and the government respectively was given. A summary highlighting the key concepts derived from the literature study rounded up the chapter.

2.2 HOUSING FINANCE IN DEVELOPING COUNTRIES

HOUSING IN DEVELOPING AREAS

In developing countries housing is still considered somewhat of a residual factor. Investments in industry and agriculture are given much higher priority because governments consider it more important to become economically independent of other countries and to create more income for the local people. Once individuals have more income, they would be able to afford decent housing. This argument may be largely responsible for the lack of policy and planning for housing in most developing countries (Diamond, 1997a). This in many parts of the world has led to the birth of houses of standards officially unacceptable for human habitation situated in inappropriate locations known as shanty towns or squatter camps. These uncontrollable settlements grow in size and become more and more difficult to improve, let alone remove. This situation can be turned around so as to show that, the existence of such settlements reflects diversity of economic activity, perseverance and a sense of entrepreneurship. These positive factors can be utilized to produce better houses over a given period of time (Bayer, 1981).

GENERAL VIEWS ON HOUSING FINANCE

Areas occupied by low income families are usually characterized by rapid population growth, scarce job opportunities, inadequate welfare systems, large uncontrolled settlements of substandard housing as well as housing shortages. The problems of housing and housing finance are therefore more concentrated in these areas. Housing as accepted by all political systems world wide is a social good and therefore cannot be left entirely to the market forces to control unlike other non-basic goods that are controlled by a free-market system. State intervention via regulation and initiation is as old as mortgage finance itself (Ball, 1990). However it is evident in most countries that the state lacks the capacity to undertake the administrative and technical tasks required to make public

intervention systems work properly and equitably. In most instances scarce resources have been directed towards meeting the needs of a few instead of meeting the needs of many (Jorgensen, 1975).

Lea (2005) outlines the problems of housing finance as a common problem in emerging housing property markets reflecting lack of appropriate infrastructure and conditions of lending. The reasons for these conditions being prevalent in the low income areas are attributable to; lower income households not being able to afford housing at market rates of interest or house prices, their incomes not being stable or documented, thereby banks not assisting them with housing loans or part credit histories may be poor resulting in banks failing to trust their potential to repay any housing loans fully and timeously. Therefore risks of providing finance to these households is often seen as too high by the private sector lenders to participate in.

Both Smith (1995) and Lea (2005) highlight the issue of risks involved in the provision of housing finance to the low income sector as being an impediment to provision of affordable housing finance although they use different approaches to defining these risks.

Smith's (1995) framework for analysing residential mortgage risks splits housing finance risk into two:

- Risk of default which is the risk to the banking system of non-performing loans, while on the other hand to the borrower it is the risk of over indebtedness and repossession. This can arise as a result of rising interest rates, falling employment rates, unemployment, ill-health, disability, loss of the main earner in a household, increase in number of dependants etc.
- Risk of asset depreciation: The defining characteristic of a residential mortgage is that it is secured against property. The sustainability of residential mortgage lending depends on the financial value of housing assets being maintained or increased in the medium term. If property values fall, both borrowers and their lenders become vulnerable to two risk factors namely, price volatility and asset deterioration which result in the risk of asset depreciation. The risk of asset

depreciation is a function of the quality and the condition of the actual housing stock, while price volatility is linked to the dynamics of housing as well as land and property markets. It is about how well housing performs as an investment and how effectively debts are protected from deflation. Volatile prices therefore imply losses or gains; hence they contain an element of risk.

Meanwhile Lea (2005) classifies the risks associated with housing finance as barriers to the provision of housing and considers this only in the context of affordable or generally low to medium cost housing. These risks are as follows:

- Credit risk: which is the risk to the lending institutions that the funds borrowed from them would not be returned with whatever interest or other changes are due on a timely basis.
- Liquidity risk: which is the risk to the borrowers that the money would be needed before it is due.
- Cash-flow risk: is the risk that any changes in the market conditions would alter the scheduled cash flow whether real or nominal among the parties involved in intermediation, this being the borrower and the lending institution. This includes interest rate risk and exchange rate risk.
- Agency risk: is the risk that a divergence of interest would cause either the lending institution or the borrower to behave in a manner other than that expected or agreed on.
- Systematic risk: is the risk that a crisis at one lending institution or one part of the system would spread to the rest of the property market system.
- Political risk: is the risk that the legal and political framework within which the lending takes place would change.

Lending is vastly risky both to the borrower and to the lender as discussed by both Lea (2005) and Smith (2005). Smith (2005) only goes as far as defining from a general perspective how this risk can be classified. With such a limited and general approach adopted, it is rather complex to quantify this risk in order to deduce methods of dealing with it. Yet Leah (2005) as shown above breaks down the risk into smaller classes in such

a way that it is quantifiable. The ability to manage and price the risks defined above is a major determinant of the availability and cost of housing finance as well as the provision of credit for affordable housing. Lea (2005) goes on to highlight how ability to successfully manage and control risk depends on the economic stability and an effective legal framework for property ownership and mortgage lending.

Porteous (2005) introduces a new and modified approach to the problem of housing finance for the low income sector for South Africa. He opposes the idea of only considering current systematic and individual risks affecting an economy in terms of housing financing shortages as the only way of solving the problem but also considers the effects of apartheid (Section 2.4) and learning from the past would provide a comprehensive solution particularly in South Africa. He firstly commends the laudable efforts of the South African government through various initiatives (Section 2.4) such as provision of RDP housing, learning from mistakes made, such as the unsustainable nature of these houses and development of new ideas of addressing the issue of housing and its finance.

The cornerstone approach to dealing with the issue of housing finance according to Porteous (2005) lies in solving 'the interest rate versus price house' dilemma. This is well illustrated in the following example;

Assuming a self amortising loan over twenty years (240 months), the resulting interest rate being 15% or less. Until recently rates available to the low income sector home loan borrower group have been higher than 15% due to them being riskier lenders. Lately as rates have generally fallen, house prices have generally risen. Given that an inverse relationship exists between interest rates and house prices, the higher the interest rate the lower the house price. However the calculated monthly installments are relatively high to the borrowers. On the other hand the lower the interest rate the higher the house price and the higher the initial payments that have to be paid by the borrower who might not be able to afford high initial lump sums.

Porteous (2005) expresses the above example as a risk factor both to mortgage lending institutions as they would be stuck with borrowers who are unable to afford bond repayments due to the high interest rates, if they were to escalate and borrowers have to consider taking the risk of financially burdening themselves by possibly having to settle for other smaller loans in addition to the mortgage loan to afford the initial payments.

2.3 SOLUTIONS TO HOUSING AND HOUSING FINANCE PROBLEMS

The two most important pre-requisites for attracting private capital for housing are macroeconomic stability and an effective legal framework for property ownership and mortgage lending Lea (2005). Macroeconomic stability is very important for several reasons. It has a major effect on the demand for mortgages. High rates of inflation and nominal interest rates are typical features of unstable economies which are also termed volatile economies and these features in turn have the effect of reducing the affordability of conventional mortgages. This occurs due to borrowers being exposed to rapidly varying interest rates caused by the unstable economy which may subject borrowers to potential shock and hence affordability problems. A volatile economy also affects the supply of funds and the characteristics of mortgages offered by lenders. In a volatile environment lenders are concerned about the risk that the borrowers may not pay debt repayments timeously as discussed above, since unstable economies promote impulsive spending. Hence lenders become more reluctant to offer long term loans such as housing loans. This may lead them to not offering mortgages or loans that in turn are less affordable to borrowers. Lenders and investors may prefer short term assets, in part because of the difficulties of forecasting inflation and interest rates. Investors must be able to forecast cash-flows with a tolerable level of variance in order to price and evaluate the risk of the investments. Variable rate mortgages are riskier for borrowers in a volatile environment as interest rates change causes payment shocks. In turn, this increases the risk of mortgage lending by lending institutions (Lea, 2005).

Concerning the issue of acquiring an effective legal framework for property ownership and mortgage lending Lea (2005) identifies issues related to land titles as a major barrier to housing finance in developing countries in general, of which South Africa falls into this category. A distinguishing characteristic of housing finance is the ability to put up the subject property as security of the loan. In most countries there are often legal impediments to the ability of a property owner to pledge residential property as collateral such as the consent to the loss of property in the case of default regardless of the amount of repayments made. Therefore an accurate and comprehensive land registration system is a necessary condition for effective title property rights (Lea, 2005).

In South Africa an economic climate of rather low and stable interest rates is prevalent. Lea (2005) states one of the failures of attracting private capital by individuals in housing markets as being macroeconomic instability. Consideration of volatile economies is made and therefore is currently not applicable to this study, but it would be necessary in forecasting and consideration of such a situation unexpectedly arising. This approach can not be completely ignored. While the issue of the legal framework affecting access to housing finance especially for the low income sector is essential for consideration as this is currently applicable to the South African situation.

Similarly Porteous (2005) agrees on the issue of securitisation being an impediment to acquisition of housing finance by the low income sector individuals, but also points out how the organisation, SA Home Loans since 1998 has been issuing mortgage backed securities. This ensures that defaulting on home loan repayments by the low income sector individuals is minimised.

Focusing on the South African low income sector housing situation, Porteous (2005) also points out how banks have developed a housing loan secured by a guarantee from a worker's retirement fund as a means of offering larger loans at lower income rates which is a part-solution to the dilemma mentioned in the example above.

On a more general note, it should be noted that the solution to housing shortages in low income areas not only lies in availing housing finance to the low income sector individuals, but other issues such as extension of supply of housing that conforms to differentiated types of demand in this sector. This involves further categorising the low income sector and attending specifically to the housing needs of each category in the low income sector as opposed to putting the whole sector under one common umbrella (Jorgensen, 1975)

It is essential to have the local groups of low income communities encouraged to play an active role in the service delivery of housing. Their involvement explicitly addresses the nature of their problems, at all stages of service delivery. Problems faced by these communities are not always pecuniary in nature but may include insufficient provision of roads, hospitals, schools, that may impede on general community development in these areas. This also has a negative impact on housing delivery. Formation of cooperatives is advisable as it ensures involvement of individuals in these areas. It also addresses other problems such as high unemployment levels which are a common characteristic of low income areas. Financial lending institutions suitable for such areas such as Building societies are an example of a solution for housing finance services in the form of cooperatives (Baken, 1992).

On the one hand home ownership is the backbone of well-functioning societies and on the other it may be considered as an important aspect of individual capital accumulation. Home ownership flourishes when it is part of a range of housing choices that include market rental accommodation and affordable public-private low-rental accommodation. Having a rather smooth flowing secondary market is also a target of ensuring housing market. An example is that of the United States of America, USA, where, there are three types of tenure; 65% of all households own the accommodation in which they live, 25% live in market rental accommodation and 10% live in affordable public-private low rental accommodation (Whitfield, 2002). This point is argued out by Porteous (2005) who points out how demand for rental accommodation has increased since 1994 and mentions how the South African government has been encouraging social rental housing through

the provision of affordable rental accommodation. More than 30 social rental housing institutions are currently in existence.

Formation of different lending institutions that continuously adjust their strategic roles to new circumstances for the benefit of the borrowers is another point of consideration. In some countries new institutions have muscled into mortgage markets sometimes even threatening the existence of traditional lenders. The world of mortgage markets has changed drastically in the last two decades. House mortgages have become one of the keystones of the much-talked about financial supermarkets of the future. The flow of funds into housing finance has become internationalised with mortgage backed securities and bonds increasingly traded on and between the major financial centres and large scale loans raised within the Euro markets. Financial systems of different countries are still very different despite widespread deregulation. Mortgage finance and its institutional frameworks are no exception because housing markets vary considerably between countries, there is therefore little likelihood of standardized systems of mortgage finance arising internationally in the near future (Ball, 1990).

Insurance can be tied up to a housing loan, which serves to cover against default on the loan repayments. This type of loan is known as an insurance tied loan and can be paid together with loan interests at a fixed or variable rate over the loan repayment period. Payment of this insurance secures both the borrower and the lender in the case of the borrower's failure to complete the loan the loan repayments. The argument that may arise with this type of loan is the ability of low income sector individuals in going an extra mile financially when they barely make it to affording regular loan repayments (Jorgensen, 1975).

2.4 S.A. LOW INCOME SECTOR HOUSING MARKET

In October 1994 a Record of Understanding, ROU between the former Association of Mortgage Bankers and the Department of Housing was signed. This was done in an endeavour to address issues of provision of housing finance to all sectors of housing nationwide, more specifically the low income sector. The ROU was terminated in 1996. On the 1st of April 1998 a New Deal between the Banking Council, Department of Housing and the MIF, Multi-Lateral Investment Fund, was signed in the same year to address issues that had been abandoned by the previously signed ROU. In terms of the two agreements repossessed properties with non-performing loans, which is loans not being repaid, as at 31 August 1997 and which were not rectified by May 1998 were to be placed in a portfolio management by an organisation, Servcon. This was done to assist in partly stabilising the low income sector housing market through a payment normalisation strategy. The rehabilitation strategy involved working around sale, rescheduling and rightsizing of loans. Servcon was to handle this process till 31 March 2006.

National Housing Finance Corporation, NHFC and National Urban Reconstruction Housing Agency, NURCHA came into the picture as an initiative to gear up expansion of provision for finance to services in the housing market. The role of NHFC was to provide loans, guarantees and other products to financial lenders in the low income sector. On the other hand, NURCHA provided guarantees and finance services to individual borrowers in the housing market as a whole. Until the year 2000 the private sector had not yet made a contribution towards assisting in the problem of housing or housing finance inadequacies in the low income sector. A method had to be formulated to acquire involvement of financial institutions to this situation that had yet again been neglected (Mthembi-Mahanyele, 2000).

The government saw a need to force banks back into this market as a result of legislative, political, environmental and socio-economic needs of the country. The housing

challenge was too big for the government to handle on its own so it needed the private sector to assist all for the benefit of the nation. Following this realisation the first piece of legislation to be released was the Home Loan and Mortgage Disclosure Act which attempted to identify any possible discriminatory lending patterns by financial institutions such as redlining (Definition of terms, pg x). Much work still needs to be done in terms of research to identify and assess the actual impact of the HLMDA with regards to eradication of such practices such as redlining. After the HLMDA, the Community Reinvestment Bill, CRB, was produced and set aside before being released as a result of the FSC to give financial institutions a chance to perform before enforcing the CRB as an Act (Sisulu, 2004).

THE ROLE OF THE NATIONAL HOUSING FINANCE CORPORATION

The NHFC, a developmental agency was established in May 1996 with the aim to facilitate access to housing credit by people who had been serviced by conventional banks. Its eminent goals being promotion of housing credit to an estimated 20% to 30% of South African households with low to moderate income families which could not access housing finance. NHFC sought to provide affordable housing solutions to the country's poor. NHFC's commitment was that of ensuring that every employed citizen has access to finance credit within their means, to acquire or to improve adequate housing for their families. The NHFC was successful in delivering, amongst others, the following:

- More than R1bn in approvals and a record amount of R800m disbursed. These funds were used to erect more than sixty two thousand subsidy linked new housing units and granting of end user loans to more than for hundred and twenty thousand low income families countrywide. This was achieved through linkages with accredited lenders such as Southfin, and building material suppliers like Bonus Building Suppliers and small banks like Unibank, Saambou and others.
- NHFCs primary mandate of breaking barriers that stand in the way of low income earners' ability to access housing finance was achieved by changing the lives of the poor and in so doing two million benefited from this process.

- Helped to establish and capacitate a total of twenty nine new Start-Up and Emerging Lenders as well as Social Housing institutions. In so doing, eight previously disadvantaged lenders were trained and brought on board. A total of five women lenders are now operating in their own communities and four other housing institutions have been capacitated.
- Changed views on myths centred on default on loan repayments in the low income sector, by building this market's ability to manage funds, risk and through its funding, encouragement of the need of being prudent and transparent in funding activities of the lending institutions in this market.
- Managed to decrease Cost to- Income ratio required to register for loan application in the low income sector, from 50% to 20%.
- Through one of its subsidiaries, Gateway, NHFC was able to secure private sector equity investment from two institutional investors. In the year 2000 for instance, Gateway made available R50 million to one of the small banks for the funding of one thousand and two hundred housing units. NHFC, through its own equity fund as able to fund the formation and capacitating of venture capitalist and previously disadvantaged and women entrepreneurs to a value of R18m (Mthembi-Mahanyele, 2000).

THE CURRENT LOW-INCOME SECTOR HOUSING SITUATION

The exodus to urban areas of rural people, since 1994 had not caused an obvious shortage in housing but the mushrooming of informal settlements has given a clear indication of apparent housing shortages accompanied by shortages of housing finance. Another trend that has been rather apparent is that of "de-densification". Due to the desire of families wanting to live independently have led to split of what used be large extended families staying in one unit. This set up has become less and less common and has also led to an increase in housing shortages in low income areas. Therefore the major challenge for the FSC was to devise reachable lending targets and methods for increasing affordable housing.

Table 2.1: Classification of Household Income Groups in South Africa

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Source: The Issue on Housing in the low Income Sector Property Market in S.A (Source: Dylan, 2005)

It should be noted that the South African population is approximated at forty five million with ten and a half million households. About ten million people have formal employment and about sixteen million use credit facilities of some kind. The above first two categories are assumed to be deriving income from formal employment and therefore represent the conventional markets. There is a need to design products appropriate for the last two categories in the above table thereby allowing penetration of the conventional markets by individuals from the other two categories. The government expresses the need for the FSC to define who bears the risk of failure of non payment by the low income sector individuals and how such risks should be allocated between public and non-public sectors. The government also suggests that increased penetration of the conventional property markets would bring about normalisation of non performing markets, which are the low income sector markets. Normalisation in this instance refers to low income sector property markets achieving the same level of performance and activity as the higher income property markets. In addition to this increased provision of finance for these markets as well as transparent performance measurement of housing finance institutions would yet be another positive feature towards normalisation of these markets. In terms of the FSC, CEOs (Refer to Appendix I) of the banks have agreed, during the drafting of the charter on the provision of about R42 billion towards housing finance to the R1500 to R7500 a month income sector between 2002 and 2008 (Sisulu, 2004).

Despite the efforts of the South African government the poorest of households earn less than 10% of the total income earned by all South Africans, and the richest top 10% earn more than half of the total income (Mpofu, 1999). This implies a huge gap between the low income and high income sectors of society which is a common characteristic of developing countries. Lack of available housing stock in the R60 000 to R100 000

bracket has impacted adversely on the potential growth of the secondary housing market for both low and lower middle income groups (Diagram 2.1). The housing department has been continuously challenging the private sector to build houses for this category of earners bearing in mind the favourable interest rates phase the country has been still experiencing over the past three years (Mpofu, 1999).

The banking sector still remains sophisticated and largely able to service the housing finance needs of the relatively more well-off households in South Africa (Mpofu, 1999).

Historically, housing was one of the instruments used by the government for implementation of policy of separate development. In areas outside the homelands, the majority of people were deprived of ownership and property rights (Bay Research & Consultancy Services, 2002).

From the early 1900s African Township property markets have been characterized by changing laws pertaining to rights being away at different times over the last a hundred years, poor social infrastructure and service delivery as a result of the fact that up to 1980, townships for Africans were seen as temporary areas, poor and limited housing delivery, often at inappropriately high standards which resulted in housing shortages and overcrowding. All of these factors have resulted in creation of a particular housing market with unique characteristics.'

Thus the following issues have been discussed:

- A shortage of overall housing in low income areas exists brought about by a shortage of housing in the secondary market. A secondary housing market is a market in which houses are freely bought and sold. Over the last five years there has been a reduction in the numbers of RDP housing projects being undertaken. Supply of housing has generally reduced as a result of various problems related to access of development finance and subsidy erosion through inflation. These problems indicate a stagnating primary market and therefore an interrupted flow of the secondary housing market in these areas.

- In 2004 townships had about 2.28 million households in their residential property market. While this market is functioning at expected levels, this creates 'dead capital' in the hands of the owners. This means that the property owners have properties that they possess with market values that are close to zero as they can't sell them off. During the apartheid era Black Townships operated as a closed market, this means that only residents of the township could buy and sell houses in these areas without outsiders being involved in the buying and selling of this residential stock. In addition to this, these townships received poor infrastructure and services. This directly influenced the way in which housing is delivered and property is valued and traded in these areas. An interesting and sideling thought is the issue of personal (sentimental) value versus the market value of the property. The former always seems to outweigh the latter and further studies have to be carried out regarding the influence of these issues on the secondary residential property market in low income areas.

Therefore in addressing the issues of total contribution of financial institutions in the form of the FSC, the government requires them to include methods of complete eradication of the aforementioned historically set patterns in the townships (Bay Research & Consultancy Services, 2002).

LOW INCOME HOUSING SERVICING TENDENCIES

The well known and well established International Housing Finance Services, IHFS, Fannie Mae, conducted a study to identify practices in the South African low income housing loan servicing by financial institutions and reported on their findings:
Banks believe that they are effectively reaching out to the low income households and claim that they have supporting statistical information in relation to this claim. In opposition to this claim, it was found that few institutions have in existence a branch presence targeted at low income households. In addition to this methods of communication that have proven to be effective for the middle and upper end of the market are being used with the low income sector. These methods are ineffective in

reaching out to the low income individuals as they are less educated and obviously require a method of communication that takes into account their various disadvantages. It was also found that most institutions rely mostly on 'automatic payroll deduction' as their only source of borrowers' financial status. These prove to be 'inadequate collection services' as incomes of these individuals are not entirely dependant on payroll information, a considerable proportion of these individuals are in informal employment (Fannie Mae, 2004).

In area management practices, the report states that banks fail to inform borrowers of the full-extent of suitable options for them and that lenders lack the ability to contact borrowers earlier in the default management process and that most lenders lack models that predict borrower default. The following conclusions were therefore drawn:

- Interviewed South African financial lending institutions do not illustrate early default management policies and practices that encouraged borrowers to neither contact the lender early when they first encounter financial hardship, nor do institutions pro-actively follow up with borrowers when loans first become remiss. The lack of a trusting relationship between low income housing loan services and low income borrowers prevents South African services from implementing best practices in low income housing loan arrears management (Fannie Mae, 2004).
- The ability of collection staff to develop 'trusting relationships' with borrowers greatly improves their ability to work with the borrowers to resolve loans that would have fallen into arrears. Yet the main objective of these employees in financial lending institutions should be to ensure that eviction is the last resort for borrowers that have fallen into arrears. These individuals should be empathetic to the circumstances of the low income sector individuals. The majority of the interviewed institutions do not currently employ a 'collections staff' that possesses these qualities. In addition most interviewed institutions have centralised this function, which works well from a control perspective but is not effective from a perspective of building a client relationship (Fannie Mae, 2004).

The report identifies problems in the lending services given by financial lending institutions and highlights ways of improvement based on these findings.

2.5 THE CRB AND THE FSC: AN INTRODUCTION

THE FINANCIAL SECTOR CHARTER

The Financial Services Charter is among the various charters that have been introduced by the financial sector in response to the government's attempt to encourage financial institutions to embrace its Black Economic Empowerment (BEE) strategy through the Community Reinvestment Bill, particularly as far as access to housing finance was concerned. At the NEDLAC Financial Sector Summit, held in August 2002, the Financial Sector committed itself to the development of the financial services charter to cause suspension of the government's enactment of the Community Reinvestment Bill (www.cliffedekker.co.za).

The Financial Sector made the committment to develop the financial services charter on the grounds that:

- Despite significant progress since the establishment of a democratic government in 1994, South Africa was still characterised by racially based income and social inequalities, a factor that hampers the country's ability to achieve its full economic potential.
- Black Economic Empowerment (BEE) is a mechanism aimed at addressing inequalities and mobilising the energy of all South Africans. It should contribute towards sustained economic growth, development and social transformation in South Africa.
- Inequalities also manifest themselves in the country's financial sector. A positive and proactive response from the sector through the implementation of BEE will

further unlock the sector's potential, promote its global competitiveness and enhance its world class status.

- Equally, the financial stability and soundness of the financial sector and its capacity to facilitate domestic and international commerce is central to the successful implementation of BEE (www.southafrica.info).

The logic behind the establishment of the Financial Services Charter was to ensure a commitment of the financial sector to actively promote a transformed, vibrant and globally competitive financial services sector that reflects the demographics of South Africa. The financial services sector committed itself to establishing a service delivery system less afflicted by inequality, but one that is competitive and able to provide accessible financial services to the previously disadvantaged communities and to direct investment to targeted sectors of the economy (Herzenburg, 2005). Furthermore, the financial services sector committed itself to investing in the housing market by developing policies that would allow for better access to housing by the lower income end of the market.

Below are some key points about the FSC:

- Voluntarily developed by the financial sector.
- Transformation Charter as contemplated in the Broad-Based BEE Legislation.
- Constitutes a framework and establishes the principles upon which BEE will be implemented in the financial sector.
- Represents a partnership programme as outlined by Government's strategy for Broad-Based BEE.
- Provides the basis for the sector's engagement with other stakeholders including Government and Labour.
- Establishes targets and unqualified responsibilities in respect of each principle and
- Outlines processes for implementing the character and mechanisms to monitor and report on progress (Bond, 2000).

THE FINANCIAL SECTOR CHARTER TARGETED INVESTMENT AREAS

The charter's area of concern amongst other objectives is mostly debt financing, any other forms of credit extension, equity investment in South African projects in areas where gaps or backlogs in economic development have been accrued and job creation, have not been adequately addressed by financial institutions. It specifically focuses on financing investment in:

- Transformational infrastructure projects that support economic development in underdeveloped areas and contribute towards equitable access to economic resources.
- Agricultural developments involving integrated support for resource-poor farmers through enabling access to and the sustainable use of resources.
- Low-income housing for households in the monthly income brackets, between R1 500 and R3 500 and between R3 500 and R7 000. This income band is to be increased in line with the CPIX on the first of January each year commencing on the first of January 2004 (www.cliffedekker.co.za).

The sections of the FSC that are most applicable to this study are:

Section 8.3.2 of the FSC: This makes reference to the home loan and all those entitled to receiving it, typically all those that fall in the low income sector. The FSC only makes consideration of the R1500.00 to R7000.00 income bracket as the lower R500 to R1 500 bracket is wholly taken care of by government's subsidies (Diagram 2.1).

Section 9.1.3.3 of the FSC: Refers to the risk mitigating measures and risk sharing arrangements between the Government and its DFIs on one side and the private sector on the other side. This may be the ultimate solution to the problem of finance for low income housing once the risk related issues between the two parties are settled. On-going negotiations are still taking place and are centred on finding an optimum solution that satisfies both parties.

THE COMMUNITY REINVESTMENT BILL

The CRB, as its main objective is specifically intended for provision of the minimum targets of lending for low and medium income households, for housing purposes and any associated issues. The CRB in its preamble bases its purpose on the need, according to the country's constitution, for everyone having the basic human right of having access to adequate housing. Therefore the state has to play a major role in ensuring compliance with this clause in the constitution. Also included in the preamble is the mention of the foundation laid by the HLMDA in the year 2000 (as discussed above). An office will be established to, assess, monitor and evaluate the financial institutions with regards to them meeting the objectives of the CRB. This office has to report to the minister of housing and the public to ensure transparency in the execution of its duties. The CRB gives an outline of the duties to be carried out by this office. A list of detailed and specific requirements and rules to be followed by the financial institutions in their borrowing practices and related issues as well as reinforcement of previously laid HLMDA rules such as eradication of 'redlining' (Definition of Terms, pg x) are provided. Financial institutions are given a clear indication of the manner in which lending to the low income sector has to be carried out in section 4 of the CRB. For the assessment of performance and monitoring of the financial institutions, sections 5, 6 and 7 of the CRB give the reporting requirements and methods of performance rating, as prescribed by the minister of housing. It is also required that written assessment of the financial institutions should be made by the office be kept as a record. The minister of housing is to consult with the ministers of finance, justice and trade an industry to ensure compliance with established statutes in terms of the CRB if or when it is passed as an Act. Exemptions and specific offences and penalties are given with regards to the non-compliance with the CRB by financial institutions in section 10 and 11 (SA Government, 1999).

2.6 ANALYSES OF THE CRB AND THE FSC

Although the Community Reinvestment Bill has been suspended by government because of the Financial Sector Charter protests at the strict nature of the bill and subsequent proactive action in developing the Financial Services Charter as an alternative to the Bill; it remains an important document that can be reactivated at any time should financial institutions fail to fulfill their obligations as set out in the financial services charter. It is therefore, a critical document that should form part of any discussion on housing finance in South Africa (Mayekiso, 2005). The government realised that the crisis in housing delivery was partly due to financial institutions' failure to invest and provide access to housing finance to previously disadvantaged communities; including the banks tendency to redline (refer to Appendix I) communities on the perception that it was risky to recoup investments should individuals default (Bond, 2000). This resulted in a decrease in private sector investment in the lower end of the housing market in 2002. This indication led to the drafting of the Community Reinvestment (Housing) Bill. The Bill aims at giving effect to the Constitutional right of access to adequate housing (Section 26 (1), in relation to and the State's obligation (Section 26 (2) of the Constitution) (www.gov.za).

According to these provisions, the state is obliged to take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of the right to adequate housing. The right of access to adequate housing, as envisaged in the constitution, suggests provision of more than just a roof over one's head. Therefore it means that adequate housing must be accessible to everyone without discrimination of any kind.

This could be achieved through making housing subsidies and finance available and by protecting the "poor" from unreasonable restrictions that impinge on their access to housing finance. The Bill is aimed at expanding access to finance, thereby boosting housing opportunities for low and medium income households (Mayekiso, 2005).

The Bill intends to move beyond the disclosure of information regarding home loans, as required by the Home Loan Mortgage Disclosure Act of 2000. It compels all financial institutions to engage in the provision of home loans to make finance available to the

lower end of the home loan market. Banks were required to set aside a portion of their funding to meet the needs of low and medium income households in accessing home loan finance (Streek, 2001).

The drafting of the Bill has been an important step towards fulfilling the state's obligation to provide adequate housing for every South African citizen in that it compelled financial institutions to draft the financial sector charter. If however the financial sector had not presented the charter then that may have possibly led to the enactment of Bill. It is critical to ensuring that all South Africans are afforded access to finance for housing. The Bill significantly forbids the practice of 'redlining' and encourages real investment and development of poor communities. Such developments are concerned with ensuring equitable access to resources and opportunities that should increase people's standards of living and destroy the barriers that impede access to housing rights (www.africacnccl.org).

Basically, the Bill places positive obligations on private institutions to respond to social development needs through providing home loans to low and middle income earners. To achieve its purpose, the Bill establishes certain principles, targets and standards that need to be fulfilled by these financial institutions. These include:

- Refraining from refusing home loan finance purely on the grounds of socio-economic characteristics of the neighborhood in which the home is located.
- Refraining from the practice of redlining unless it is dictated by safe and sound business practice.
- Ensuring that borrowers know the outcome of their applications and if rejected they are also furnished with reasons why their applications were unsuccessful (www.gov.za).

If a financial institution is unable to meet the above mentioned standards by lending directly to the applicants, it is obliged to seek certain alternative forms of lending for them, including:

- Providing funding through prescribed wholesale lenders at a mutually agreed interest rate.
- Purchasing such wholesale lenders' securities and debt issues; and
- Providing funding directly to market lenders for them to make the funds available as loans.

The Bill specifically stipulates that financial institutions must not provide home loans in certain circumstances, for example, they must not provide a bond without due regard to a borrowers ability to repay it. This means that those who may not be able to repay home loans may be reasonably refused access to them (www.gov.za).

As mentioned in Section 2.5 above, the Bill forbids 'redlining' unless it is reasonably justifiable in terms of 'sound business principle or business necessity'. However the Bill is vague in properly defining the meaning of 'sound business principles' and 'business necessity'. These terms are arguably susceptible to abuse by financial institutions as a justification for excluding certain people from accessing home loans. Their open-ended nature may render the principle of forbidding redlining ineffective (www.gpghousing.org.za).

The Bill proposes that financial institutions that do not comply with its requirements should be liable for payment of fines not exceeding R 500 000 as a penalty for non-compliance. The institutional mechanisms and procedures outlined in the Bill will have positive consequences in terms of holding financial institutions accountable for facilitating access to home loans to low-income earners (Herzenburg, 2003). However, its offence provisions are a cause for concern as they are ambiguous and do not specify what penalties are to be applied in the event of repeated offences. In particular the fine of a specified amount might be perceived by banks as negligible, compared to the risk involved in extending loans to poor communities. Hence there is fear that such fines will become merely a business expense as redlining continues.

THE CHALLENGES FACED BY THE FINANCIAL SECTOR CHARTER

The South African financial sector, despite generally being recognised as "world class in terms of its skilled workforce, adequate capital resources, infrastructure and technology as well as a conducive operating, regulatory and supervisory environment, remains uneven in terms of its investment strategies and failure to deal with the issue of previously disadvantaged communities continuing to be marginalised in terms of investments. The following is an example of the crisis:

- There is a low level of black participation, especially of black women, in meaningful ownership, control and management, and high-level skilled positions in the sector.
- There has been an inadequate response by the sector to the increasing demand for access to financial services.
- The sector has not effectively provided credit to entrepreneurs, particularly black businesses.
- The national level of savings and investment is inadequate to support sustained economic growth and individual financial security.
- There is insufficient investment of the savings pool under the control of the sector into targeted investments of national priority.
- A large pool of funds circulates outside the formal financial system, including unlimited funds held by "stokvels", informal traders and other forms of short-term savings (www.gpghousing.org.za).

The financial services sector can contribute significantly towards economic growth, development, empowerment, poverty alleviation and job creation if they develop forward looking policies and strategies (Sassen, 1991). The financial services sector, however, acknowledges that access to first-order retail (Definition of Terms, pg x) and financial services is fundamental to Black Economic Empowerment and to the development of South Africa's economy as a whole. The attempt to set up the Financial Services Charter is a positive example of the sector's commitment to change and transformation.

In terms of the Declaration of the Financial Sector Summit on the 20th of August 2002, it was agreed that strategies would be put in place to ensure that the financial sector is more efficient in the delivery of financial services, which enhances the accumulation of savings and directs them towards development initiatives, such as housing finance (www.archtetafrica.com).

The charter also states that; in accordance with the arrangements between the financial sector, government and other stakeholders, various loans including low- income housing loans, agricultural loans and loans to black SME's (Definition of Terms, pg x)will be granted by the sector to individuals and organizations who meet the sector's specified criteria.

THE FSC'S CORPORATE SOCIAL INVESTMENT (CSI) INITIATIVE

One of the requirements of the charter is that each financial institution has a target of directing 0.5 per cent per annum of its post tax operating profits to Corporate Social Investment (CSI) (Herzenburg, 2003). CSI refers to projects aimed primarily at black groups, communities and individuals that have a strong developmental approach and contribute towards socio- economic transformation. CSI projects, as stated in the charter, may include but will not be limited to:

- Education: Support for community education facilities, programmers at secondary and tertiary education level aimed at promoting the industry, bursaries and scholarships, which are oriented towards the hard sciences.
- Development Programmes: Intended for youth and other target groups.
- Environment: Support for conservation projects, community clean up projects, food garden initiatives.

- Job Creation: Job creation projects external to the workplace or any commitments contained in empowerment financing.
- Arts and Culture: Support of development programmes, development of new talent
- Health: Support of community clinics, health programmes in the community and;
- Sport: Support of development programmes.

Housing is not only providing a roof over people's heads but creating functional, self contained and sustainable communities. It is critical therefore that the financial services sector invests in these service areas as well (Bond, 2000). Therefore this shows that the financial sector not only aimed at assisting towards housing finance provision to the low income sector but also creation of self contained and well functioning and sustainable economies in low income communities as a whole though CSI.

THE LINK BETWEEN FSC AND BROAD-BASED BLACK ECONOMIC EMPOWERMENT

In an attempt to encourage Black Economic Empowerment, the government passed the Broad-Based Black Economic Empowerment Act of 2004. The Act advocates both direct and indirect empowerment, direct empowerment, as defined in the Act, entails the promotion of ownership and management control of business by black persons and human resource development, including employment equity and skills development.

Indirect empowerment on the other hand refers to enterprise development through investing and joint venturing with black empowered or black owned companies, or investing in the development of small, micro and medium enterprises, affirmative procurement of goods and services and Corporate Social Investment. Indirect procurement of goods and services talks to the housing finance issue. It basically means that institutions and companies are compelled, especially non-black owned, to play a role in the provision of goods and services such as housing and infrastructural service to

previously disadvantaged unemployed or low income earners who cannot afford the services on their salaries (Herzenburg, 2003).

The Act also enables the Minister to recognize industry based charters which are developed voluntarily, on how black economic empowerment would be achieved in each of these industrial sectors, over an identified period of time. The Financial Services Sector, undoubtedly, has a significant influence on the economy, and as a result, is expected to have far reaching effects. It sets targets for black empowerment in the financial sector and simultaneously allows banks to meet part of their obligation by lending into the low end of the housing market (www.cliffedekker.co.za).

Equity transactions have resulted in a few low income sector enterprises becoming extremely wealthy, giving rise to the development of a few large black business conglomerates, which in itself is necessary in a normally functioning economy. However this has not resulted in bringing required levels of low income sector people into the mainstream of the economy. This is where skills development, employment equity, enterprise development, affirmative procurement and possibly corporate social investment become critical (Diamond, 1997b).

FINANCIAL INSTITUTIONS' CONCERN ABOUT THE CRB

The Community Reinvestment Bill basically sets some targets to be met by financial institutions. These targets stipulate that banks must provide mortgages to a specific number of people, a figure that would be decided upon by the Minister of Housing. Banks argued that such targets would force them to make loans to people who may not be able to afford to repay them which would constitute bad business practice. The banks criticised the notion of punitive measures designed for lack of compliance with the set requirements of the Bill and failure of the Bill to include incentives for banks complying with its requirements (www.southafrica.info).

The financial sector argues that reckless lending will not solve the problem of housing finance, but instead will exacerbate it. Poverty ultimately increases through defaulting on loans. Banks perceive most people in the low income sector as not having the financial stability to finance land acquisition through incurring debt. Banks have further expressed the need to investigate alternative forms of land tenure arguing that home ownership financed by debt may not necessarily be appropriate for poor communities (www.cliffedekker.co.za).

Institutions have particularly highlighted their inability to act on behalf of defaulters due to robust community action against corrective measures such as repossession. Unemployment and the breakdown of the rule of law in certain areas, makes the implementation of new loans extremely difficult (Diamond, 1995). Under these circumstances prescribing certain levels of lending can also amount to inappropriate lending with negative consequences.

Having experienced defaulting on repayments of loans by low income earners, in the 'past', financial institutions express the need for readdressing the causes of such problems. Furthermore financial institutions argue that the solution to the housing crisis in 'poor' communities may not lie in compulsory lending. They argue that the approach hides other social complexities, such as shortages of infrastructure that may require

intervention by government and other role players. The Bill is an important attempt to improve access to adequate housing for low and middle income households. However it may require considering some problematic aspects outlined above in order to ensure that housing rights are progressively realised by facilitating poor communities' access to private capital through loans (Mayekiso, 2005).

2.7 SUMMARY OF THE MAIN FINDINGS

The discussion presented in sections 2.2 and 2.3 above presented the views of different authors on the issue of housing and housing finance and housing finance shortages and three main schools of thought were deduced and these are as follows:

- Housing is a social good and a basic need for every human being and cannot be left entirely to market forces to control as with other goods; given that South Africa has a history of apartheid inequalities and that some individuals in low income areas have insufficient or no access to housing funds. Therefore property ownership and mortgage lending policies have to be more lenient on the low income sector individuals.
- The securitisation of bonds causes a reduction on interest rates, making loan repayments by borrowers more affordable and effectively reduces chances of them defaulting in their payments. This would also be a solution to an unexpected increase in interest rates or other sudden unstable economic conditions.
- In a study by Fannie Mae in section 2.4 reports of a lack of trusting relationships between lending institutions and low income sector borrowers were made and this could be improved by creating better methods of communication by banks in terms of providing housing finance education to the low income sector.

The FSC and the CRB are initiatives targeted at solving housing and housing finance shortages in South Africa. The findings from the literature merely identify possible causes of housing and housing finance shortages and possible solutions to these problems. What the literature review fails to do is evaluate the anticipated benefits of the two initiatives in solving some of the highlighted problems concerning low income sector housing and housing finance which this study hopes to achieve.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

DERIVATION OF THE RESEARCH HYPOTHESES

As previously stated in Chapter 1 the main hypothesis of the study states that:
The bringing together of the provisions of both, the CRB and the FSC can optimise the delivery of the low income financing housing requirements South Africa. The sub-hypotheses of this study are as follows:

1. The FSC does not specify alternatives in the case of it failing to meet its goals. Prioritisation of funds amongst different ministerial sectors such as agriculture, housing etc has not been clearly specified, which may result in other targeted sectors not effectively benefiting from the charter. Meanwhile the CRB does not take into consideration other forms of tenure that financial institutions should consider in providing financial assistance.
2. The FSC and CRB both look well laid out in 'black and white', but the answer to success of the two lies in the implementation which to a great extent lies in the reconciliation of the two to account for the deficiencies of the other when considered independently. This had been initially proposed for 2004, so as to come up with a Memorandum of Understanding between the two parties.
3. Financial lending institutions are using lending methods traditionally aimed for use by the high-income earning sector on the low income earning sector. There is a need to encourage the design of a range of products suitable for the low income sector.

All the above three hypotheses were derived from preliminary literature review done during the initial stages of the study, the proposal of the research in particular. Conceptualisation (Rugg, 2004) of the hypotheses led to the development of the research strategy illustrated in Diagram 3.1. The strategy was used to test (refer to Definition of

Terms, pg x for hypothesis testing) the null hypotheses and thus giving the study a justified conclusion.

RESEARCH METHOD

The nature of this research was such that the conclusions drawn partly depended on the views of representatives from the Banking Association of South Africa, Ministry of Housing officials and various representatives from different independent organizations; namely, NALEDI, SANGOCO, SACC, COSATU, SANCO (Definition of Terms, pg x). All these representatives formed the target population for the study. Their views were then refined by the use of analysis models, multi-criteria analysis model and 'SWOT' (Section 3.8) analysis were undertaken to complete the evaluation process of the FSC and the CRB. Data gathering and analysis was entirely qualitative.

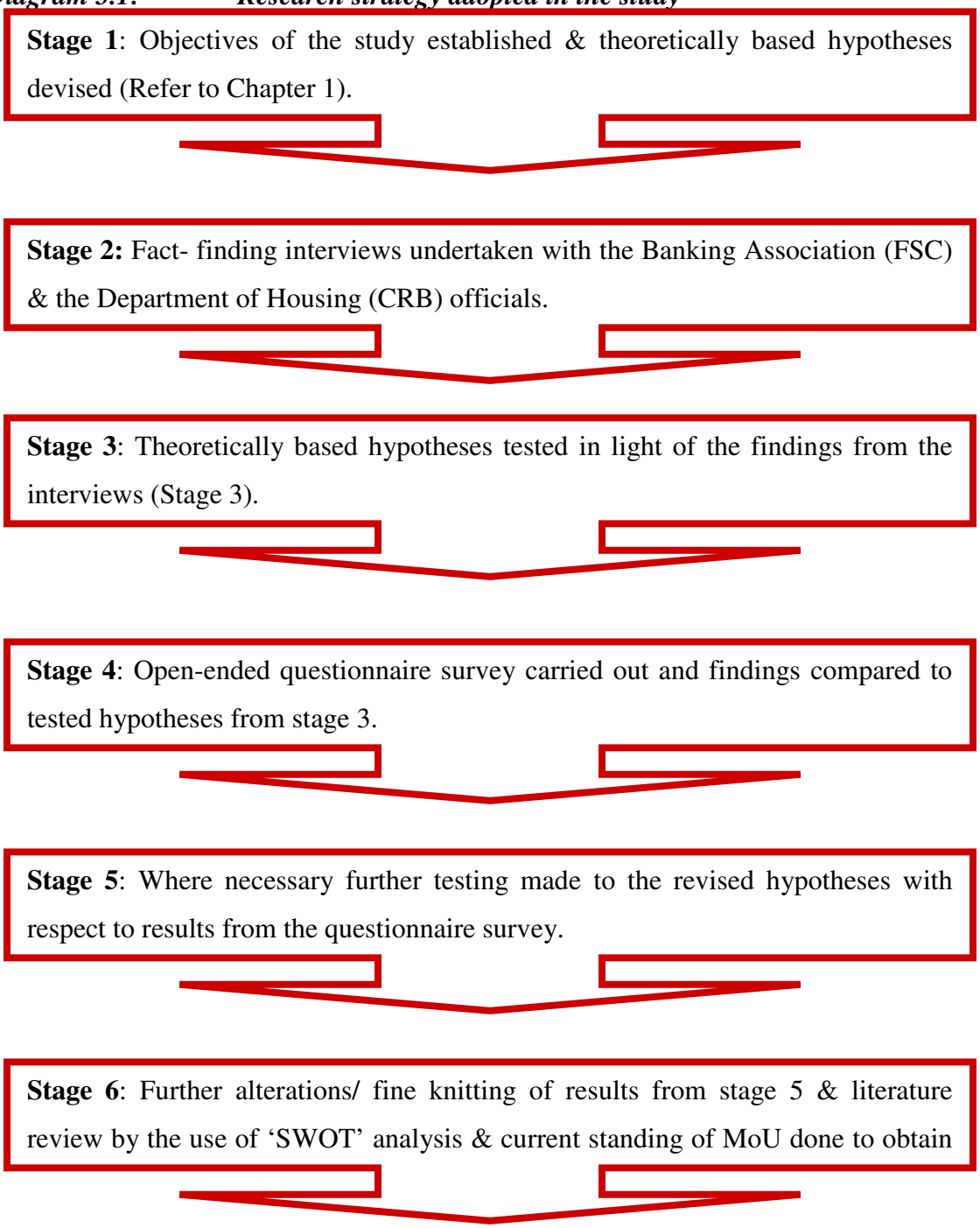
THE RESEARCH STRATEGY

Stage 1(Diagram 3.1) involved the devising of the theoretically based objectives which were wholly based on preliminary theoretical studies that were carried out before the study was embarked on (Chapter 1). A convenience sample comprising five Banking association officials and five Ministry of Housing officials was used in stage two. Fact-finding interviews were undertaken on the Banking Association representatives since they fall on the FSC implementing side while Ministry of Housing officials fall on the side of implementation of the CRB. Interviews were carried out in order to be able to compare the findings derived from these interviews in relation to the theoretically based hypotheses in Stage 1. In Stage 3 of the research theoretically based propositions were

amended in light of the findings from the interviews. In Stage 4 open-ended questionnaires were designed using constructs generated from the multi-attribute analysis model (Diagram 3.2). Findings from the questionnaire survey were compared to the amended in light of the findings from the interviews.

The research strategy illustrated in Diagram 3.1 shows the processes followed in conducting the study from conception to completion. The processes were subdivided into 6 stages.

Diagram 3.1: Research strategy adopted in the study



Source: Research Methods for Business Students (Saunders, 2003)

In Stage 4 open-ended questionnaires were designed using constructs generated from the multi-attribute analysis model (Diagram 3.2). Findings from the questionnaire survey were compared to the tested propositions from stage 3 of the research. Where necessary

further qualifications where made to the revised hypotheses in Stage 5. This was done in light of the results obtained from the questionnaire survey. Stage 6 of the study involved further alterations undertaken on results of Stage 5 and selected theory from the literature review in Chapter 2 to derive satisfactory explanations to the research by implementation of SWOT analysis (Diagram 3.2). The results from the SWOT analysis were compared to the anticipated results of the MOU to highlight areas that the government still needs to address in terms of housing and its finance for the low income sector in South African urban areas.

THE SOURCE OF THE RESEARCH INFORMATION

The secondary information used in the research was obtained from different sources. Literature that discussed issues related to the research problem was thoroughly reviewed to assist in the refinement of the research topic as well as to embrace the consequences of the problem which the research hoped to solve. In addition to this the literature review helped in complementing related work done by other researchers. Sources of the literature reviewed included, the internet, recorded speeches, previous reports and papers published by other researchers, conference publications, government publications, various textbooks and newspaper articles. It was interesting to note that some information was obtained from broadcasted news on various television and radio stations, since the research topic is still a 'hot and burning' issue that is still undergoing intense negotiations between the private sector and the Ministry of Housing in South Africa.

SAMPLING METHOD

A non-probability sampling method was used for data collection and observation. This is a sampling method in which observations are not selected randomly but obtaining well selected observations sufficient enough to draw sound conclusions (Bower, 1973). This method was chosen because the research mainly sought to find out the anticipated effects of the FSC and CRB policies. It should however be noted that the FSC is still in its infancy stages of implementation and the CRB has not been enacted. Therefore not many people have an in-depth knowledge about this topic resulting in a small population size, suffice to say bias tends to shift towards the main groups which are; FSC implementing officials stood in to support the FSC while CRB implementing officials tend to support contents of the CRB.

The non-probability sampling method used was Judgmental or Purposive sampling (Saunders, 2003). This method of sampling is used to select the best sampling units to include in the samples gathered according to the researcher's discretion and based on the aforementioned factors justifying the small population size.

2 stages of data gathering were used namely, interviews and a questionnaire survey.
Pilot Interviews:

- 5 officials from the Banking Association were interviewed.
- 5 officials from the Ministry of Housing were interviewed.

Interviews were carried out not only to find out individualistic opinions of the interviewees as they are involved in drawing up of the FSC and the CRB, but also to embrace issues not captured in the literature review that would otherwise be critically relevant in meeting the objectives of the study.

INTERVIEW SURVEY

Preliminary interviews were conducted in order to obtain views with regards to the current developments in implementation of the FSC and the set requirements of the CRB as perceived by the private sector (Banking Council officials) and the government (Ministry of Housing officials).

Participants were asked to comment on critical issues to be considered in providing a solution to the issue of housing and housing finance for the low income sector in South Africa. Their views were based on the FSC and CRB set objectives. Interview questions were carefully formulated after review of the literature and key issues of the study had been outlined (refer to Appendix 2 for Interview questions).

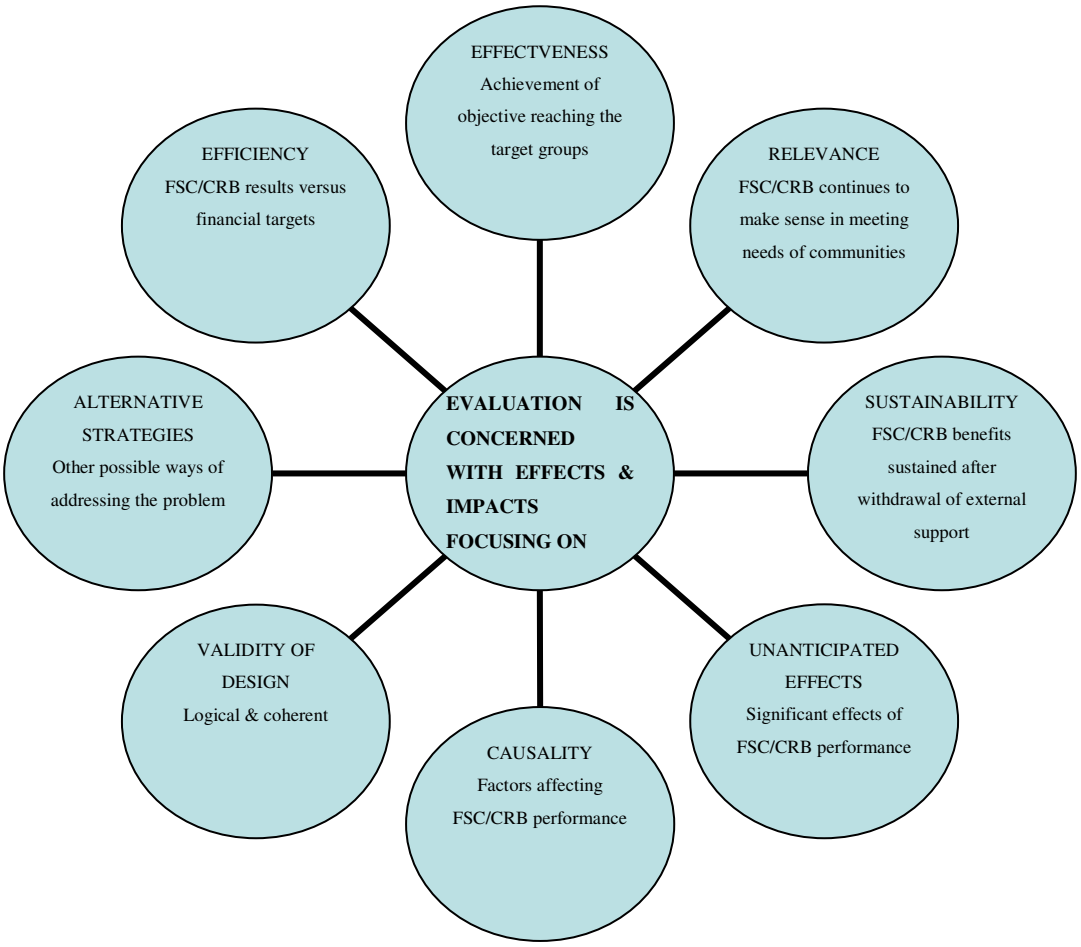
All preliminary interviews were personally conducted with the participants to ensure full participation, since the target population was very small and was justified by the research method. All respondents held senior positions in the Banking Council and in the Ministry of Housing as required by the study.

QUESTIONNAIRE COMPILATION AND ADMINISTRATION

The questionnaire was structured into two sections; the first being the demographic profiles of the respondents while the other section contained the main questions for the collection of qualitative data. The latter was divided into 8 main questions. As the multi-criteria evaluation model was used, the questions were all derived from this model (refer to Appendix 3 for questionnaire derived from Diagram 3.2 below).The multi-criteria model was adopted in this study as it is normally used for evaluation purposes for various

projects or business ventures in developing areas, that usually involve low income or poverty stricken individuals that require both private sector and government involvement. The projects usually require close monitoring and frequent assessment as various stakeholders would be involved. Similarly in this study private sector, the government and low incomes sector individuals are some of the parties involved or affected by the implementation of the FSC and the CRB.

Diagram 3.2: Multi-criteria evaluation Model



Source: Local Government (IPD, 2004)

The questionnaire was pre-tested for clarity and suggestions for adjustments and was then modified. This was one with two representatives from FSCC (Definition of Terms, pg x).

It was found that the questionnaire could be successfully completed in 20 minutes. For effective responses, personal, one-on-one sessions were held with the respondents to ensure the full participation of the respondents, due to the small sample size and for elimination of delays in respondents which would have had implications on the set time limits.

DATA ANALYSES

Data analyses were entirely qualitative. At each level of data analysis, data was reduced, displayed and conclusions were then drawn and verified from the displayed results.

Data reduction: This involves making summaries and selection of critical information that is required in meeting the study's objectives, as well as being comparable with the set hypotheses. The aim of this process was to transform and condense data to make it workable.

Data display: This involves organizing and assembling the reduced or selected data into diagrammatic or visual displays. Visual displays and diagrams can be developed to fit data specifically and assist in developing analytical thinking. Data displays help in recognizing relationships and patterns in data that may be evident.

Conclusion drawing and verification: These are done through deductive reasoning and also in relation to the goals set to be obtained by the study (Saunders, 2003).

SWOT analysis was adopted in stage 6 (Diagram 3.1) and is a simple method of analysis normally used in management of an organisation or business, used for the selection of a strategy or strategy for the business to follow for its success in meeting its goals or set objectives. SWOT analysis is merely an assessment of an organization's, 'S'trengths, 'W'eaknesses, 'O'pportunities and 'T'hreats in meeting its set objectives (Smit, 1992). The terms are as defined below:

- An ‘opportunity’ is a favourable or unexploited situation. It is usually a positive condition within which the project would be carried out.
- A ‘threat’ is an unfavourable situation. It is usually a set negative condition within the environment within which the project would be carried out.
- ‘Strength’ is a specific skill or other advantage that a project or business has which can be used to exploit an opportunity or to reduce or overcome a threat.
- A ‘weakness’ is the lack of a specific skill at the business, project or another disadvantage. A project team always tries to improve upon or eliminate weaknesses as these may result in a project failing to realise its objectives or fail completely.

SWOT analysis is a technique normally used to facilitate environmental scanning, especially regarding the impact of the external environment on a business or project. In the context of this study **(Diagram 3.1)**; by comparing the strengths, weaknesses, opportunities and threats of the FSC and those of the CRB, a logical framework for a systematic analysis of all proposals of the FSC and the CRB was obtained. SWOT analysis was adopted because of its simplicity and versatility yet it clearly brought out a conclusive basis for evaluation of the anticipated benefits of the FSC and the CRB required in meeting the objectives of the study (Kroon, 1995).

SHORTCOMINGS AND SOURCES OF ERROR

There was a limitation on the obtainable number of respondents for the questionnaire survey. Not many participants were well-versed on the topic, but the multi-criteria model is simple in application and so enabled basis for critical analysis of results and their discussion.

CHAPTER 4: DATA ANALYSIS AND DISCUSSION

4.1 OVERVIEW

This chapter presents the results obtained in this study , by a step by step implementation of the research method developed in Chapter 3 (refer to Diagram 3.1). At every stage data was presented, discussed and analysed. The summary of the findings obtained is presented at the end of this chapter.

4.2 STAGE 1: RESEARCH OBJECTIVES

The main objective of the study as stated in Chapter 1 is to investigate the anticipated implications on housing of the government's Community Reinvestment Bill, CRB and the financial sector's Financial Sector Charter, FSC as well as identification of possible ways of improvement of housing and its associated financing, for the low income sector in South African urban areas.

The sub-objectives of the study are:

1. Critically analyse the housing finance provisions of Community Reinvestment Bill, CRB and those of the Financial Sector Charter, FSC.
2. Compare whether or not the voluntary transforming initiatives taken by the Financial Sector and its institutions will bring about more or less benefits for individuals and communities than the CRB would guarantee.
3. Suggest guidelines that the government or the private sector may introduce to ensure equitable success to housing infrastructure provision and related finance.

4.3 STAGE 2: INTERVIEW RESULTS

The interview results comprised of two sets of views, those of the Banking Council officials (private sector) and those of the Ministry of Housing officials (government) and these were discussed in relation to the objectives of the study.

VIEWS OF MINISTRY OF HOUSING AND BANKING COUNCIL OFFICIALS

DEMOGRAPHIC BACKGROUND

Respondents' involvement in the housing field ranged from about 1½ years to 4 years and those from the Banking Council (private sector) ranged from 3 years to 20 years of involvement in the banking field. Highest formal qualifications of the respondents ranged from professional qualifications to university degrees and all respondents held senior positions in the government's Department of Housing. Therefore the responses to the interview questions were reliable and so ensured high credibility of results obtained from the study.

MAIN QUESTIONS

Objective 1: Views on Critical Analysis of the FSC and CRB Provisions

Firstly the government officials expressed that, if government itself had not initiated the introduction of the CRB then the private sector would not have made a move towards committing themselves towards problems related to low income housing. Sections 8.3.2 and 9.1.3.3 precisely relate to this study. These sections make mention of risk handling issues concerned with serving the low income housing market, but do not specify risk sharing responsibilities between the government and the private sector. Two types of risk have to be handled:

- Financial risk: this risk is also referred to as commercial risk or loss limit risk. This type of risk is associated with the borrower defaulting on loan repayments

due to different reasons, e.g. retrenchment, as in the Protea Glen evictions discussed under Objective 3. The FSC proposed that they would take responsibility of this form of risk with the assistance of the government i.e. they share the risk.

- Hedging risk: this is the risk associated with infrastructure deficiencies resulting in the private sector being unable to fund the low income sector and the same risk causing a lack of property values appreciation in these areas, causing a dysfunctional property market in these areas.

Effectively the private sector proposes that the government becomes liable for the 65% of the total risk in the provision of financing to the low income sector while the private sector take up the remaining 35% to all the risks involved in financing the low income housing sector. Banking Council officials do not view Sections 8.3.2 and 9.1.3.3 of the FSC as pre-conditions but rather as targets that they hope to achieve with or without government assistance, although they do admit that government involvement and mitigation would improve on targeted results as discussed under objective 2.

Meanwhile, Section 4 of the CRB gives financial institutions a clear indication on the manner in which lending to the low income sector has to be carried out, placing special emphasis on elimination of discriminating tendencies of the lending institutions. Banking Council officials expressed that if the government was to impose the CRB legislation, then they would be forced to act involuntary and this would jeopardize the banking system as a whole which may also affect the medium to high income sector. They were of the view that the whole property market should operate freely without government intervention as this would affect the natural cycles of this market. In addition to this, they expressed that finance problems are not the only issue being faced by the low income sector but a better functioning secondary market would be more ideal as a solution to the housing shortage problem in these areas. They perceive the CRB as a direct method of trying to solve a South African low income housing problem with an American solution, since it was adopted from the USA and therefore they are of the view that it would need to be altered to suit the South African situation.

Objective 2: Comparison of Voluntary Transforming Initiatives of the FSC and CRB

The private sector had initially proposed R42billion investment towards low income housing and had further reassured the government that they would increase this to R52billion if the government was to accept the 65% to 35% risk allocation defined above.

While on the other hand the government officials were of the view that the private sector wanted to share with the government in handling of risk and even have the government carrying more of the costs associated with them handling the risk, while they made no mention of sharing of the profits harvested from this investment. As goes for any business venture profits or returns are the rewards for taking the risk of embarking on a particular business venture. The Ministry of Housing officials does agree though, that the R42billion that has been aimed at by the private sector for investment towards low income housing would have an enormous impact on the housing problem in this sector. After doing a simple mathematical calculation; if R100 000 was given to every household in this sector this would translate to four hundred and twenty thousand households that would have homes. The government officials express the fact that this would certainly take away the pressure from the government, if this proposal indeed came to pass.

It is also interesting to note that different banks have throughout 2005 come up with different products in terms of encouragement of a saving culture amongst the low income individuals, as this was established as one of the problems, associated with the low income sector. Banks operate in a competitive market and would not disclose information on their products but through media advertisements it is evident how banks have taken a step towards meeting the goals of the FSC. This was one of the voluntary initiatives by the Banking Council applicable to this study.

The government since 1994 has expended approximately R38billion towards low income housing in terms of the RDP houses built nationwide. The Banking Council questions the value of these houses to the people and the appreciation potential of the values of

these houses. They place doubts on the effectiveness of these houses in terms of them being 'resaleable' and them being of the required value to the owners and the occupants. The government proposes to spend R5.6billion towards low income sector housing in 2006. Besides the amounts spent a further initiative was the proposal of introduction of the CRB to ensure both private and public sector involvement in the struggle towards housing the disadvantaged and eradicating apartheid socio-economic wounds. Already various initiatives through different organizations discussed in Chapter 2 of the study were all government initiatives towards dealing with the housing situation in the low income sector.

Objective 3: Suggestions on Guidelines to be used by the Government and Private Sector to Ensure Equitable Success

Firstly the government pointed out that if the commitments laid out by the Banking Council in the FSC were fulfilled, then success in terms of solving the problems of the low income housing and its finance would be ensured. They strongly emphasised on the need for banks to change their lending culture towards the low income sector individuals as was supported by the Fannie Mae report discussed in Chapter 2 of this study.

Deriving an understanding of this market was suggested as one of the methods of dealing with this problem. Some government officials suggested that the banks rather than directing funds towards research on the low income housing market by foreign researchers such as USA's Fannie Mae, these funds could instead be used by the government who would act as an intermediary between the private sector and the low income sector. With regards to loan granting assessment to individuals, banks determine this by the use of the Credit Bureau records. This is whereby an individual who is blacklisted by the Credit Bureau is automatically disqualified from obtaining a home loan, for an amount as low as R50. The government officials perceive this as inappropriate means for determining one's fate of being granted a home loan and this method does not wholly depict an individual's loan repayment capacity. They suggest that banks use different criteria for determining one's ability to acquire finance for housing. This follows the incident of the Protea Glen Evictions whereby:

"In July of 2004, evictions in Protea Glen, a middle-income privately developed suburb in Soweto, Gauteng raised several separate but related issues. Working under instruction from the banks, the sheriff issued eviction orders to residents who had defaulted on their bond repayments. Residents resisted eviction and eventually the Minister of Housing, Lindiwe Sisulu intervened. The story that wasn't explored in detail was how this situation arose. The Housing Minister acknowledged that the banks were operating entirely within their legal rights" (Rust, 2004). Government officials perceive the banks as being insensitive to the needs of the low income sector by at least trying to have individual monitoring of lenders rather than dismissing them off as a group of defaulting clients. Some of the people are reported to have paid up to 4 months advance repayments, but still faced eviction.

It was also brought out that low income earners are expected to have higher interest rates of approximately 16%, due to them being riskier clients, while normally interests are charged at approximately 10%. Some government officials suggested that banks work in stages of reduced interest rates. This is achieved through dropping it from 16% down to say 13% and down to 10% throughout the loan repayment period, as clients prove their loyalty to loan repayment commitments, rather than having a fixed and extremely high 16%. This high interest rate may rule out the low income sector from acquiring loans. Banks may achieve this by creation of different financing options 'tailor-made' for the low income sector (Rust, 2005).

On the other hand the Banking Council officials completely deny the issue of low income sector individuals being mistreated when it comes to them approaching banks for home loans. They went on to explain that perceptions of low income individuals not being offered the same service as other home loan seekers is what still remains and they mention how banks have changed their approach. Suggestions made by these officials are that partnerships with mind set changes of seeing banks as mistreating low income individuals should be formed. In this way different stakeholders are involved and through reaching consensus with regards to different issues, equitable success would be ensured in the provision of housing and its finance for the low income sector. In addition

to this the Banking Council officials claim of lots of intellectual capacity sitting on their Board, that still needs to be unleashed, but the climate not conducive because of the government setting conditions on them. The interviewed Banking Council officials did not go into detail, as to which limitations the government was placing on them, that impeded on the potential to provide better solutions to the low income sector.

The Banking Council officials also strongly pointed out that the solution to housing for the low income sector not only lying in its financing but that the break through to the problem is through having a functional secondary market in the low income areas. Again with regards to the Protea Glen Evictions the following was discussed:

"In a normal market when homeowners fall on hard times and are unable to meet their mortgage obligations, they sell their homes and use the equity from the sale to buy cheaper and more affordable housing. In this way home ownership is understood world-wide to be a kind of safety net against bad times. Yet in South Africa's townships, however, this isn't the case. In these areas the secondary market is dysfunctional. The Protea Glen residents could neither find a buyer for their homes nor could they find cheaper homes as an alternative. They were locked into their homes with no where to go. Due to their inability to sell their homes the equity the Protea Glen residents invested in them was worthless. When the banks repossessed their homes, they lost the houses they had long been investing in. Some of these residents were reported to have been close to completing their bond repayments, but lost their residential properties regardless of this condition. Therefore an effective secondary market would reduce both the level of default as well as the levels of loss on default. This is because the ability to sell properties quickly at a near market related price would enable households who can no longer meet their mortgage repayments to sell and downsize themselves without legal intervention. If the situation degenerates to the point of repossession, the properties still can be sold at market related values in a shorter period" (Rust, 2004).

4.4 STAGE 3: TESTING OF HYPOTHESES

The hypotheses from stage 1 which were based on preliminary literature review, were tested based on the findings from the interview survey and the following hypotheses were results were obtained:

1. Sections 8.3.2 and 9.1.3.3 of the FSC precisely and directly relate to this study. Due to the Ministry of Housing and the private sector not having reached consensus concerning the issue of risk sharing responsibilities, this currently forms the most critical aspect of the FSC. The rest of the FSC seems convincing to the government officials, but the abovementioned sections still need to be ironed out.

   The CRB exerts pressure on the private sector to act involuntarily and imposing the CRB legislation on the private sector, would jeopardize the natural functioning of the property market as a whole in South Africa given that, the upper end of the country's property market, based on world-wide standards is really performing well. The CRB does not take cognisance of other factors affecting the low income sector property market such as the functionality of its secondary market. It only focuses on the financing aspect, related banking practices and how these should be monitored.
2. Until the government had proposed the introduction of the CRB, the private sector had not presented any initiatives in as far as contribution towards assisting the low income sector with housing or its financing was concerned. While on the other hand they have guaranteed to form as much as the government has performed through provision of R42billion towards home loans. The government in the last 11 years has spent close to R38billion on housing in the low income sector. Yet so much more can be achieved with both the private sector and the government working jointly. This would be achieved through the settling of the on-going negotiations of the Memorandum of Understanding between the two parties.
3. Equitable success may be achieved by the following suggestions:

- If the private sector fulfills the commitments laid down in the FSC.
- Culture adjustments by the banks have to be made together with the specific understanding of the workings of the low income sector market.
- Leniency on the individuals given their apartheid disadvantageous background by the banks is encouraged. This can be done by adjustment of the criteria used for granting loans to the low income individuals and use of varying interests rates as opposed to fixed, extremely high interests rates.
- Formation of partnerships in dealing with low income housing problems between different stakeholders is encouraged.
- Accommodation of new intellectual ideas should be promoted to adjust set perceptions which may hinder progress.
- Establishment of an effective secondary market in the low income areas through infrastructure upgrading, etc and other factors would resolve issues associated with defaulting on loan repayments of the low income sector individuals.

4.5 STAGE 4: QUESTIONNAIRE FINDINGS

DEMOGRAPHIC BACKGROUND

Representatives from five chosen independent organizations all had at least five or more years in their organizations. Their highest formal qualifications were all professional qualifications, such as journalism, public relations, etc. The organizations do not only deal with matters related to housing, but the representatives that volunteered to take part in the questionnaire survey were those that have had a follow up on the on-going meetings between the government and the private sector with regards to the issue of housing and its finance for the low income sector in South Africa. Therefore their contribution in terms of the evaluation of the FSC and the CRB was considered to be valid.

MAIN QUESTIONS

This stage of the research was mainly done for the purpose of evaluating the Financial Sector Charter, FSC and the Community Reinvestment Bill, CRB. The use of the multi-criteria evaluation model was made in formulation of the questions for the questionnaire as well as analysis of the responses to these questionnaires. This model was employed because of its relevancy to the study and the fact that evaluation can be determined at any stage of a project, be it planning, implementation or after a project has been carried out. It is therefore applicable to the evaluation of the CRB as it has undergone planning and has not been implemented. It is also applicable to the FSC which is undergoing implementation. Results from the survey are presented in the tables below. Table 4.1 presents results on evaluation of the CRB, while Table 4.2 presents the results on the evaluation of the FSC. These were obtained from the questionnaire responses. Tables 4.1 and 4.2 are to be used in conjunction with Diagram 3.2 to derive an understanding of how the model was implemented. For each factor of evaluation, a (yes/no) response was to be given to assess whether the CRB or FSC had an impact concerning that particular factor. The effect of the impact was then specified (refer to Tables 4.1 and 4.2).

Table 4.1: CRB Questionnaire Survey Results (Refer to Diagram 3.2)

EVALUATION OF THE CRB(QUESTIONNAIRE RESULTS)			
	FACTOR OF EVALUATION	IMPACT (YES/NO)	EFFECT
1	EFFECTIVENESS	YES	→compelled private sector to introduce the FSC which in turn caused the private sector to make a contribution towards the problem of housing and its finance in the low income sector. →to have the private sector meeting all the objective of the CRB might involve forcing its members to act involuntarily, which is why they are adamant to make the FSC successful.
2	EFFICIENCY	YES	→monitoring of lending practices of lending institutions would ensure elimination of discrimination; therefore more individuals would stand better chances of obtaining housing loans.
3	RELEVANCE	YES	→an increase in the stock of properties in the low income sector would reduce housing shortages.
4	SUSTAINABILITY	YES	→ensures that defaulters' reasons for failing to keep up with loan repayments are investigated before eviction from their properties is carried out.
5	ANTICIPATED EFFECTS	YES	→involvement of the private sector, whether positive or negative, is ensured.
6	CAUSALITY	YES	→failure of the private sector to fulfill its commitments of the FSC may result in them having to comply with the terms set out in the CRB.
7	VALIDITY OF THE DESIGN	YES	→it is logical & applicable to the low income housing sector as it takes away all ailments of discrimination of individuals to accessing from lending institutions & promotes fair lending practices.
8	ATERNATIVE STRATEGIES	YES	→penalties are given to institutions that fail to comply with set out terms in the CRB, but the CRB does not specify any course of action if its implementation is not successful.

Table 4.2: FSC Questionnaire Survey Results (Refer to Diagram 3.2)

EVALUATION OF THE FSC(QUESTIONNAIRE RESULTS)			
	FACTOR OF EVALUATION	**IMPACT (YES/NO)**	**EFFECT**
1	EFFECTIVENESS	YES	→with the progress made thus far, most respondents were convinced that the FSC will indeed meet its set objectives, including the R42billion target in terms of home loans provision.
2	EFFICIENCY	NO	→R42billion is targeted for spending for low income housing between 2004 and 2014, with a review period in 200othing 8. Between 1January 2004 & 1January 2005 nothing had been spent due to some delay in staff appointment, hence to this date, the FSC has not been efficient.
3	RELEVANCE	YES	→there will be an increase in housing stock in the low income areas & a 'saving culture' amongst the individuals in these areas is encouraged.
4	SUSTAINABILITY	NO	→when the low income sector individuals default on loan repayments, no grounds for explaining their circumstances are given before eviction takes place.
5	ANTICIPATED EFFECTS	YES	→Low income sector individuals getting an insight on the workings of loans and related loan education is ensured.
6	CAUSALITY	NO	→none have been identified as yet.
7	VALIDITY OF THE DESIGN	YES	→logical & applicable to the low income sector although respondents expressed sentiments of lending institutions not having in-depth understanding of this specific market.
8	ATERNATIVE STRATEGIES	NO	→in the case of the FSC failing to meet its objectives, it does not present any recourse or alternative strategy for meeting the housing and housing finance needs of the low income sector.

ANALYSES AND DISCUSSION OF RESULTS

The CRB satisfies all the 8 factors of evaluation in the multi-criteria evaluation model (refer to Diagram 3.2). Therefore it is bound to be a success although when factor 8 is critically analysed it is evident that no mention is made of alternative strategies in case the CRB was to fail in its implementation.

On the other hand, the FSC does not satisfy four out of eight of the evaluation factors in the model. The FSC is not efficient at this moment in time, because of failure to realize any meeting of financial targets currently. Of the targeted R42billion, after one year, none has been spent as yet. The FSC does not satisfy sustainability as it does not take into consideration any assistance to be provided to defaulting individuals and if its financial assistance is withdrawn, individuals would financially 'collapse' as in the case of the Protea Glen evictions and taking note of the fact that the financial institutions have not made any adjustment to such cases. Causality does not actually amount to a negative impact, as the performance of the FSC is not dependant upon performance of the CRB. It works independently which is neither a positive nor negative aspect. Again the FSC does not provide any strategies that it would adopt in the case of its implementation failing. In terms of financial institutions failing to follow the obligations set out in the FSC no penalties are charged. Well-performing institutions are rather awarded points on the scorecard, which sets out minimum targets that should have been fulfilled by 2014. The points awarded are basically for securing long term, financially secure and stable contracts with the government.

Based on the overall anticipated impact of the CRB and FSC in tables 4.1 and 4.2, it may seem as though the CRB stands a better chance of success than the FSC, but what has to be noted is that the multi criteria model employed may be used for evaluation purposes at any given point in time. The CRB is being evaluated in its planning phase because its implementation has not yet commenced, while the FSC is being evaluated in its implementation phase. This is a possible reason for it having more negative aspects than

the CRB. If they were both being evaluated in the same phase, then the results would be more comparable and more accurate.

GENERAL COMMENTS FROM QUESTIONNAIRE RESPONDENTS

Most respondents expressed opinions of the government being rather too lenient on the private sector in terms of providing contributions that could assist the low income sector in terms of housing and some strongly felt that the CRB should have been legislated without giving the private sector a chance with the FSC. With regards to the Protea Glen evictions, most respondents felt that the evicted individuals were not given a fair chance to have their cases investigated for appropriate handling. An example was given of how a household with 11 occupants and only one being the 'bread winner' who happened to be a mine worker. He got retrenched, leaving him and his 10 dependants homeless after the evictions. According to some respondents these kinds of cases compel low income sector individuals to resort to 'loan sharks' who charge them abnormally high interests rates, ranging from 100% to 300%. With such situations respondents suggested both government and private sector to be more lenient on these individuals as well as providing them with safer and less harsh financial lending institutions. Some respondents commented on how after 1994, the economic growth of South Africa rose by approximately 4% and how financial institutions gained from this growth. Yet the financial sector chose to reinvest into the upper end of the property market were business appeared to be more lucrative, while the low income sector was left to struggle on its own.

4.6 STAGE 5: QUALIFICATION OF HYPOTHESES

The hypotheses from stage 3 which were based on the preliminary literature study, review and open-ended interview questions, were further tested according to the findings

from the questionnaire survey, which involved use of the multi criteria evaluation model. The following amended hypotheses were obtained:

1. Sections 8.3.2 and 9.1.3.3 of the FSC precisely and directly relate to this study. Due to the Ministry of Housing and the private sector not having reached consensus concerning the issue of risk sharing responsibilities, this currently forms the most critical aspect of the FSC. The rest of the FSC seems convincing to the government officials, but the abovementioned sections still need to be ironed out. Most of the respondents from the independent organizations were of the view that the CRB suspension was an act of leniency on the private sector, following the Protea Glen evictions.

   The CRB exerts pressure on the private sector to act involuntarily and imposing the CRB legislation on the private sector, would jeopardize the natural functioning of the property market as a whole in South Africa given that, the upper end of the country's property market based on world-wide standards is really performing well. The CRB does not take cognisance of other factors affecting the low income sector property market such as the functionality of its secondary market. It only focuses on the financing aspect, related banking practices and how these should be monitored.

2. Until the government had proposed the introduction of the CRB, the private sector had not presented any initiatives in as far as contribution towards assisting the low income sector with housing or its financing was concerned. While on the other hand they have guaranteed to perform as much as the government has performed through provision of R42billion towards home loans. This R42billion was targeted for spending from the period beginning 2004, but nothing has been spent thus far i.e. December 2005. The government in the last 11 years has spent close to R38billion on housing in the low income sector. Yet so much more can be achieved with both the private sector and the government working jointly. This would be achieved through the settling of the on-going negotiations of the Memorandum of Understanding between the two parties.

3. Equitable success may be achieved by the following suggestions:

- If the private sector fulfills the commitments laid down in the FSC.

- Culture adjustments by the banks have to be made together with the specific understanding of the workings of the low income sector market.
- Leniency on the individuals given their apartheid disadvantaged background by the banks is encouraged. This can be done by adjustment of the criteria used to for granting loans to the low income individuals and use of varying interests rates as opposed to fixed, extremely high interests rates.
- Formation of partnerships in dealing with low income housing problems between different stakeholders is encouraged.
- Accommodation of new intellectual ideas should be promoted to adjust set perceptions which may hinder progress.
- Establishment of an effective secondary market in the low income areas through infrastructure upgrading and other factors would resolve issues associated with defaulting on loan repayments of the low income sector individuals.

It should be noted that the underlined factors were the additions derived from stage 4, while all other findings were consistent with stage 2 findings.

4.7 STAGE 6: FURTHER QUALIFICATIONS

SWOT ANALYSIS

Up to this point only views of the Banking Council officials, Ministry of Housing officials and a selected few representatives from different independent organizations have been used in the analyses of data obtained. At this stage, SWOT analysis (refer to Section 3.8) included the use of selected information from the literature review in Chapter 2. The following results were obtained:

The CRB and the FSC are to be implemented in a market with the following social climate:

OPPORTUNITIES

1. Both private and public sector involvement as a foundation that currently exists have teamed up to find a solution to housing and housing finance for the low income sector. This is the cornerstone approach to dealing with this problem.

THREATS

1. Since 1994 there has been a sharp increase in rural to urban migrations. This has been accompanied by splits in the 'extended family' set up, due to groups of split families desiring to live independently. To add on to this there is limited housing delivery in low income areas. All these factors amount to housing shortages in the low income sector property market. This leads to an increase in the quantity of houses and amount of finance for housing demanded in these areas especially houses costing between R60 000 and R100 000.
2. Due to a history of apartheid, low income areas (usually townships) are characterised by poor social amenities provision which include poor social infrastructure, and poor service delivery and limited housing delivery. This was as a result of these areas being regarded as temporary areas of residence.
3. The number of existing households, 10.5million, outnumbers the number of the formally employed, 10million. This gap suggests a considerable number of individuals in informal employment who possibly require being educated regarding financing for housing. In addition to this some low income individuals are not well educated and this being accounted for by various disadvantages and so require consumer education on housing finance options.
4. Recently there has been an increase in problems related to access finance for developers coupled with a subsidy erosion due to inflation have caused a reduction in the supply of housing in the low income sector housing market.
5. Housing shortages in the secondary market exist due to stagnant primary markets. Since the supply of houses has reduced there is an interrupted flow of the buying and selling of housing stock on the secondary market.

6. The lack of a trusting relationship between low income housing loan services and low income borrowers prevents South African services from implementing best practices in low income housing loan arrears management.
7. A large pool of funds circulates outside the formal financial system, including unlimited funds held by 'stokvels', informal traders and other forms of short term saving.

STRENGTHS

The FSC is characterised by the following positive features:

1. It specifically focuses on financing investment in:

a. Transformational infrastructure projects that support economic development in underdeveloped areas and contribute towards equitable access to economic resources through BEE.

b. Low income housing finance for households with a minimum income of R 500 per month and for households with a stable income in the excess of R1 500 per month and less than R7 000 per month.

2. Housing involves creating functional, self contained and sustainable communities. According to the FSC, each financial institution has to direct 0.5 of its annual after tax profits towards CSI.

The CRB is characterized by the following positive features:

1. It is aimed at expanding access to housing finance, thereby boosting housing opportunities for low and medium income sector households.
2. It compels financial lending institutions to engage in the provision of home loans, to make finance available to the lower end of the home loan market. This was done in such a way that banks set aside a portion of their funding to meet the needs of the low income households in accessing home loan finance and thus private sector involvement is ensured.

WEAKNESSES

The FSC has the following negative features:

1. Most financial institutions lack models that predict borrower default in that borrowers are contacted late in the default management process.
2. The FSC does not provide any alternative strategies in case the intended plans of operation are not successful in implementation.

DISCUSSION OF RESULTS

By application of SWOT analysis to a project, or in this case the CRB and FSC seek to exploit their opportunities and strengths. Threats and weaknesses are to be countered in order to reduce their influence or if possible eliminate them completely to achieve success in the implementation of the FSC and CRB. If possible the opportunities and strengths are exploited in such that they override some of the threats and weaknesses as in the case of the results displayed above.

Teaming up of the private and public sectors would result in the maximum possible provision of low income sector housing which would significantly reduce the housing shortages in these areas. It is also the FSC and CRB's common objective to extend housing finance resources into low income areas through increasing its access to more people in these areas. In so doing borrowers are discouraged from sourcing funds from informal traders. The FSC's transformational infrastructure projects and the CSI funds are essential for improvement of social amenities and education provision regarding loan facilities in the low income areas. Monitoring of banking practices of financial institutions of the CRB ensures that trusting relationships are developed between the financial lending institutions and the low income sector individuals. Therefore threats 4 and 5 and weaknesses 1 and 2 remain unresolved.

OBJECTIVES SET OUT BY THE MOU BETWEEN THE MINISTRY OF HOUSING AND THE BANKING ASSOCIATION OF SOUTH AFRICA

The Minister of Housing, The Banking Association, and the CEOs of the banks ABSA, FNB (Appendix, 1), NEDCOR and Standard Bank, signed a MoU on 31 March 2005 to establish a partnership to with the following objectives:

1. To facilitate the creation of properly functioning housing markets in previously under-served areas and to make home loan finance available and accessible to those previously denied access.
2. To facilitate the implementation of the housing and other relevant sections of the Financial Sector Charter (FSC) that enhances and contributes to the development of sustainable human settlements.

In implementation of these objectives the following mandated areas were assigned teams from the government and the Banking Council, with a Joint Negotiating team to offer guidance to:

i. CONSUMER/ BORROWER EDUCATION

Both parties have an obligation for education. The government was to be responsible for Consumer Education, while the banks were to be responsible for Borrower Education. The consumer and borrower education curriculum would be developed jointly, while implementation would be coordinated, the actual implementation, would be done by each party individually. Each party would be responsible for their respective costs. The set of products being developed by the banks would be targeted mainly at the housing FSC target market.

ii. INDIVIDUAL FINANCE LINKED SUBSIDY(DEPOSIT SUPPORT)

Both parties agreed that the subsidy would attach to the individual and not to the property. Subsidy amounts in the R1 500 to R3 500 level would remain unchanged from the current policy, and that the joint working team would investigate further models to achieve a smooth ladder and equitable distribution of subsidy benefit up to and including a R7 000 monthly household incomes.

iii. IMMEDIATE IMPEDEMENTS(LEGISLATIVE)

Both parties agreed that the approach to be adopted by the joint working team would be in the context of the constitution, legislation, parliamentary processes, and South Africa's history. Consideration should be given to the needs of this target market to achieve normalisation. The department of Housing would through its channels, facilitate the raising of issues that the banks have with respect to the National Credit Bill and which the department of Housing agreed to have relevance to housing delivery which had not been raised before by either

party. Both parties also confirmed the need for a Home Loan Code of Practice in the target market with appropriate sanctions and participation by the Banking Ombudsman. The parties further agreed that the handling of the rates and taxes by municipalities was an essential issue that needed to be addressed. The joint team would engage with necessary organizations on how to address this matter especially with regards to consistent interpretation of current regulations, and upholding of the rule of law. The parties also stressed that BEE should be addressed under the Terms of Reference, and would be addressed across various teams, with every team having BEE as a criterion.

iv. PRODUCT INNOVATION AND RELATED FUNDING(DIFFERENT PRODUCTS BY BANKS)

The government noted that the banks, considered a fixed rate lending product, related funding mechanism, and a loss insurer to be critical to successfully addressing the FSC target market. The government agreed that a fixed rate product needs a hedging mechanism.

v. RISK UNDERPIN (COLLATERAL DEFFECIENCY/LOSS LIMIT INSURANCE)

The government further acknowledged that it did have a role to play in risk underpinning. As part of the mutually agreed process, the government would explore the various options including market and non-market possibilities and would revert with a response on how to take this matter further after fully completing internal processes. Further, it was agreed that the government team would explore different options towards presenting a firm proposal. Thereafter, the joint working team would explore all proposals and present a report by July 2005 to the Joint Negotiating team for negotiation and conclusion (Moue Progress Report, 2005).

The MoU parties seemed to have reached some form of consensus regarding all its areas of concern, except for the one issue of loss limit risk insurance. No conclusion was made in July of 2005 as had been required. The date for the report presentation has since been postponed to some time in 2006.

It is interesting to note that the unresolved threats 4 and 5 from the SWOT analysis are addressed in the MoU. The problem of subsidy erosion due to inflation in 4 is addressed by factor (ii) in the MoU, in that the government and the banking council agreed on jointly working together towards investigating on other models to resolve this problem. Factor (v) in the MoU addresses threat 5 in the SWOT analysis in that all the immediate impediments affecting delivery of housing in the low income sector market and causing stagnancy in the secondary housing market were legislated to achieve normalisation in these markets. Yet weaknesses 1 and 2 from the SWOT analysis still remain unresolved.

4.8 CONCLUDING INTERPRETATIONS

Hypotheses derived in stage 5 were further adjusted based on the results of the SWOT analysis and the application of the MoU objectives, and the following concluding main results were obtained:

1. Sections 8.3.2 and 9.1.3.3 of the FSC precisely and directly relate to this study. Due to the Ministry of Housing and the private sector not having reached consensus concerning the issue of risk sharing responsibilities, this currently forms the most critical aspect of the FSC. The rest of the FSC seems convincing to the government officials, but the abovementioned sections still need to be ironed out. Most of the respondents from the independent organisations were of the view that the CRB suspension was an act of leniency on the private sector, following the Protea Glen evictions. From application of the multi-criteria model and SWOT analysis to this study, the lack of alternative strategies by the FSC in the occurrence of failure of its implementation was identified as one of its weaknesses.

The CRB exerts pressure on the private sector to act involuntarily and imposing the CRB legislation on the private sector, would jeopardize the natural functioning of the property market as a whole in South Africa given that, the upper end of the country's property market, based on world-wide standards is really performing well. The CRB does not take cognisance of other factors affecting the low income sector property market, such as the functionality of its secondary market. It only focuses on the financing aspect, related banking practices and how these should be monitored.

2. Until the government had proposed the introduction of the CRB, the private sector had not presented any initiatives in as far as contribution towards assisting the low income sector with housing or its financing was concerned. While on the other, the private sector through the FSC, has guaranteed to perform as much as the government has performed through provision of R42billion towards home loans. This R42billlion was targeted for spending for the period beginning 2004, but nothing has been spent thus far. The government in the last 11 years has spent close to R38billion on housing in the low income sector. Yet so much more can be achieved with both the private sector and the government working jointly. This would be achieved through the settling of the on-going negotiations of the Memorandum of Understanding between the two parties.

3. Equitable success may be achieved by the following suggestions:

- If the private sector fulfills the commitments laid down in the FSC.
- Culture adjustments by the banks have to be made together with the specific understanding of the workings of the low income sector market.
- Leniency on the individuals given their apartheid disadvantaged background by the banks is encouraged. This can be done by adjustment of the criteria used for granting loans to the low income individuals and use of varying interest rates as opposed to fixed, extremely high interest rates.

- Formation of partnerships in dealing with low income housing problems between different stakeholders is encouraged and the MoU is a step forward in achieving this.
- Accommodation of new intellectual ideas should be promoted to adjust set perceptions which may hinder progress.
- Establishment of an effective secondary market in the low income areas through infrastructure upgrading and other factors would resolve issues associated with defaulting on loan repayments of the low income sector individuals.
- Financial lending institutions have to devise methods or identify models that predict borrower defaulting in that borrowers are contacted earlier in the default management process as identified in the SWOT analysis.

4.9 CONCLUSIONS ON HYPOTHESES

The research sought to test the initially stated hypotheses which are the null hypotheses (Definitions of Terms, pg x)). Based on the main results in section 4.8 which are the alternative hypotheses to the study, it was essential to determine whether the null hypotheses were to be accepted or rejected based on the main results, which were the alternative hypotheses (Definition of Terms, pg x)). This was done in order to meet the objectives of the study.

Sub-hypothesis 1: This was partially acceptable in that the FSC does not specify alternatives in the case of it failing to meet its goals. The prioritization of funds amongst different ministerial sectors was not a relevant issue to this study and so was rejected. The CRB not taking into consideration different forms of tenure was also rejected as this is actually accounted for in the CRB.

Sub-hypothesis 2: This was accepted because the voluntary transforming initiatives of the FSC and those of the CRB independently are outweighed by the combined efforts of the two parties. Anticipated benefits from the combination are dependant on the finalizing of the MoU negotiations.

Sub-hypothesis 3: This was accepted as financial lending institutions do need to expand on the range of products available to the low income sector for housing finance. This alone is not the only suggested solution more results were given in the main findings of the study below.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 MAIN FINDINGS AND CONCLUSIONS

The main objective of the study was to investigate the anticipated implications on low income housing finance of the government's CRB and the financial sector's FSC. The main hypothesis initially proposed was that the enactment of the CRB would imply forcing the private sector to act unwillingly and this may further hinder the private sector from effectively addressing the financing of the low income sector housing in South Africa although implementation of the FSC would to some extent reduce housing shortages in the low income sector. The results of the study showed that this is true based on the following findings:

Views on the Critical Analysis of the FSC and the CRB Provisions

After critical analysis of the FSC and the CRB it was found that:

- The Ministry of Housing officials and the private sector have not agreed on the issue of risk sharing responsibilities and this is the most critical aspect of the FSC to be considered by both parties.
- Sections 8.3.2 and 9.1.3.3 of the FSC precisely and directly relate to the critical issue of risk sharing responsibilities between the government and the private sector.
- Lack of alternative strategies by the FSC in the case of its failure in implementation was identified as a weakness of the FSC.

- The CRB is seen by the private sector as exerting pressure on them to act involuntarily and it being imposed on them thereby jeopardising the natural functioning of the South African property market as a whole.
- The private sector views the CRB as not considering other non-pecuniary factors affecting the low income sector property market such as the smooth functioning of the secondary market, which would be a solution to some of the housing related problems in these areas. They were of the view that the CRB only focuses on the financing aspect of the housing problems, banking practices and how they should be monitored.
- Independent organizations view the CRB suspension as an act of leniency by the government on the private sector following cases such as the Protea Glen evictions were residents were evicted out of their homes without being given a chance to justify or argue out their circumstances.

Comparison of the Voluntary Transforming Initiatives of the FSC and those of the CRB

The government spent approximately R38billion over the past 11 years on RDP housing for the low income (R1500 per month and below) sector property market while the private sector proposes to spend at least R42billion for the period commencing in 2004 for housing finance in the R 500 to R7 000 a month income range. Yet so much more can be achieved with their combined efforts in the following areas:

- Consumer borrower education
- Individual finance-linked subsidies
- Product innovation and related funding mechanisms
- Risk underpinning for collateral deficiency
- Immediate legislative impediments to properly functioning housing markets

The low income housing market would thus benefit in all these areas. This would be achieved through the settling of the on-going negotiations between the two parties involved.

Suggestions on the Guidelines to be used by the Government and Private Sector to ensure Equitable Success.

The suggestions on the guidelines to be implanted by the government and the private sector to ensue equitable success in providing solutions to housing and housing finance problems formed part of meeting the objectives of the study and are presented as recommendations in section 5.2.

The study was successful in meeting all its objectives as shown in the findings presented above and the suggestions outlined below. Based on the findings of the study, the main hypothesis was proved to be correct in that the consolidation of the provisions of both, the CRB and the FSC can indeed optimize the delivery of the low income financing housing requirements in South Africa. It may therefore be deduced that since the financial sector was given the platform to implement the FSC, failure to do so may allow for the government to enact the CRB thus ensuring delivery of housing finance to the low income sector. In this way provisions of both the FSC and CRB are exhausted.

5.2 POLICY AND RECOMMENDATIONS

Listed below are some possible areas of improvement derived from the study. Equitable success in low income housing and its finance may be achieved by the following suggestions:

- If the private sector fulfills the commitments laid down in the FSC.
- Culture adjustments by the banks have to be made together with the specific understanding of the workings of the low income sector market.
- Leniency on the individuals given their apartheid disadvantaged background by the banks is encouraged. This can be done by adjustment of the criteria used for granting loans to the low income individuals and use of varying interests rates as opposed to fixed, extremely high interests rates.

- Formation of partnerships in dealing with low income housing problems between different stakeholders is encouraged and the MoU is a step forward in achieving this.
- Accommodation of new intellectual ideas should be promoted to adjust set perceptions which may hinder progress.
- Establishment of an effective secondary market in the low income areas through infrastructure upgrading, etc and other factors would resolve issues associated with defaulting on loan repayments of the low income sector individuals.
- Financial lending institutions have to devise methods or identify models that predict borrower defaulting in that borrowers are contacted earlier in the default management process.
- Provision of different forms of mortgage securities by financial lending institutions, intermediaries and the government.

5.3 GAPS IN THE STUDY AND AREAS FOR FURTHER STUDY

The study does not discuss different models or loan options that the banks can use to increase the borrowing options available to low income sector individuals for housing finance. An example is that of use of different forms of securities. It also does not look at how other similar developing countries like Malaysia successfully dealt with the same problem of housing and housing finance problems for their low income sector. Therefore further topics of study would be; Different Housing Finance Options that can be used by South African Financial Lending Institutions to Target the Low Income Sector and Formulation of Solutions for the Low Income Sector Housing and Housing Finance Crisis by Application of the Malaysian Success Story.

5.4 ENDING NOTE

All the objectives of the study were successfully met. The FSC and CRB were extensively evaluated based on opinions of Banking Council officials, Ministry of Housing officials, representatives from independent organizations and the multi-criteria mode for evaluation model and SWOT analysis were further implemented for further evaluation. It can be concluded that the goals of the study were successfully met.

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APPENDIX A: SEMISTRUCTURED INTERVIEW DOCUMENTS

Research Topic: An Evaluation of the Financial Sector Charter and the Community Reinvestment Bill

Research survey by

Ms Edith Nyandoro
Faculty of engineering and built environment, University of the Witwatersrand

INTERVIEWEE'S CHOICE OF DATE AND TIME SLOTS

Kindly tick any two dates and time slots among the options indicated below:

PREFERED DATE:

☐ 31/10/05 (Mon) ☐ 02/11/05 (Wed) ☐ 04/11/05 (Fri)

☐ 01/11/05 (Tues) ☐ 03/11/05 (Thu) ☐ Other: _____

TIME:

☐ 09:00 – 09:30 ☐ 10:00 – 10:30 ☐ 11:00 – 11:30

☐ 12:00 – 12:30 ☐ 13:00 – 13:30 ☐ 14:00 – 14:30

☐ 15:00 – 15:30 ☐ 16:00 – 15:30

☐ Other (kindly specify)_____

Please indicate your name:_____

Physical contact address:_____

(For interview)

_____

Kindly fax this sheet to: **011 339 8175**. Attention: **Ms Edith Nyandoro (Tel: 0724311402)**

Thank you!

Edith Nyandoro
(Researcher)

Francois Viruly
(Supervisor)

An Evaluation of the Financial Sector Charter and the Community Reinvestment Bill

Research survey

By
Edith Nyandoro
Faculty of Engineering & the Built Environment,
University of the Witwatersrand

INTERVIEW WITH :

SECTION 1: DEMOGRAPHIC BACKGROUND

PERSONAL:

1. How long have you been in the Housing field?

_____

2. What is your highest formal qualification?

_____

3. What is your status in the Housing Sector?

_____

SECTION 2: MAIN QUESTIONS

The Financial Sector Charter, FSC and the Community Reinvestment Bill, CRB are both initiatives that target the improvement of low income housing and the availability of low income housing financing in South Africa.

1. What is your view of the FSC commitments to low income housing?

2. Do you think the pre-conditions placed on the government in terms of Section 8.2.3 and 9.1.3 of the FSC are acceptable?

3. What is the status of the Memorandum of Understanding MOU signed by the Minister of Housing and the banks on 31 March 2005?

4. What are the obstacles to finalising this MOU?

5. What are your views on the legislation of the CRB and the FSC?

6. Which of the two, FSC and CRB in your opinion would provide a better solution for the provision of low income housing?

7. Would the government reconsider reintroducing the CRB and why?

8. How much has been spent by the government towards low income housing since 1994 till now?

9. In your view, what parameters should be considered to determine the successes of the FSC and the CRB?

10. Based on the drafting of the FSC, up to R42bn was intended for the R1500-R7500 income bracket towards housing to be used up between 2002 and 2008, what is the progress thus far?

11. Do you have any additional comments to this topic?

Thank you for your time!

APPENDIX B: QUESTIONNAIRE SURVEY DOCUMENTS

Questionnaire covering letter



Faculty of Engineering and the Built Environment

University of the Witwatersrand

Private Bag 3, Wits 2050, South Africa

Mr……..

P.O Box 31287

Braamfontein 2017

Fax: (011) 4085112

15 November 05

Dear Sir,

An Evaluation of the Financial Sector Charter and the Community Reinvestment Bill

The view has been widely expressed that, reconciliation between the Financial Sector Charter, FSC and the Community Reinvestment Bill, CRB in the form of the Memorandum of Understanding, MOU between the private sector and government would provide an ideal solution to the problem of housing and housing finance faced by the low income sector in South Africa. This is the premise of a Masters Research study at

the University of the Witwatersrand, the outcome of which will benefit immensely the low income sector housing market.

To meet the objectives of the research, the attached questionnaire has been carefully designed and pre-tested among Financial Sector Charter Coalition members, and will take about 25 to 30 minutes to complete. A careful selection has been made of reputable members of independent organizations with in-depth understanding of the research topic, including yours, to participate in the survey.

We therefore request your response to the survey. By responding, you would be making a major and expectedly lasting contribution ultimately to the policy implementing officials will assist in addressing the significant issues surrounding acquisition of housing finance and housing in the low income sector. Your response will also enhance the reliability of the findings of this research.

In return for your participation, we undertake to provide you with an advance summary of the key findings of the study and publish the findings in popular media for the property industry. We also undertake to respect strictly your anonymity by using your responses only as qualitative data for the research.

May you kindly fax back the questionnaire to the aforementioned fax number.

Thank you in anticipation, for your helpful response.

Yours sincerely,

Edith Nyandoro
(Researcher)

Francois Viruly
(Supervisor)

An Evaluation of the Financial Sector Charter and the Community Reinvestment Bill

Research survey

By
Edith Nyandoro
Faculty of Engineering & the Built Environment,
University of the Witwatersrand

SECTION 1: DEMOGRAPHIC BACKGROUND

PERSONAL:

1. How long have you been in the Housing field?

_____

2. What is your highest formal qualification?

_____

3. What is your status in the Housing Sector?

_____

SECTION 2: MAIN QUESTIONS

1. Do the Community Reinvestment Bill, CRB and Financial Sector Charter, FSC meet their objectives as far as reaching the low income sector in terms of housing for the low income sector and what is the potential of doing so dependant upon?

2. What is the progress thus far in meeting of the set financial targets by the FSC; if the CRB had been in acted would better results have been obtained presently?

3. Are the FSC and the CRB appropriate in meeting the needs of the low income sector?

4. When aid from the CRB and the FSC is withdrawn, can the low income sector afford to sustain itself through loan repayments?

5. What are other intended results of the FSC and CRB, both beneficial and non-beneficial to the low income sector?

6. What are the factors affecting the FSC and the CRB performance?

7. Are the FSC and CRB logical and applicable to the situation of availing finance for housing and housing to the low income sector? (Are their objectives obtainable?)

8. Are there other means of addressing the problem of unavailability of housing finance and housing delivery to the low income sector?

Any other comments and/or suggestions? (Kindly attach separate sheets, if necessary.):

Kindly fax this questionnaire to: **011 339 8175**. Attention: **Ms Edith Nyandoro**

Thank you for your time!