making housing finance accessible to low income communities
Building their Future

NHFC
NATIONAL HOUSING FINANCE CORPORATION

UNDERSTANDING THE CAUSES OF DEFAULTS IN THE
SOCIAL HOUSING SECTOR OF SOUTH AFRICA
March 2004

Presentation to Housing Research Seminar
By
NHFC

CONTENTS OF PRESENTATION

➢ Purpose and objective of study

➢ Methodology

➢ Main Findings

➢ Potential Role of NHFC

PURPOSE AND OBJECTIVES

➤ Objective: "… To gain an understanding of the underlying reasons on reluctance of end users to meet financial obligations by conducting a tenant survey ."

➤ Objective:… " To perform an analysis of the macro and local economic conditions including an overview of the issues impacting on development in the project areas."

➤ Objective: "…to undertake an assessment of eleven housing institutions loan management and credit control systems."

METHODOLOGIES ADOPTED

➤ Work Stream 1: Tenant Surveys

➤ Face To Face interviews with tenants based on agreed questionnaire with NHFC.

➤ Covering 900 Respondents Across 5 Provinces .

➤ Collation And Interpretation Of Data

METHODOLOGIES ADOPTED

➢ Work Stream 2: Economic Analysis

➢ Sourcing Publicly Available Documentation

➢ Meeting Selected Stakeholder Representatives
  o Area Chambers Of Business
  o Officers In Economic Sections Of Area Municipalities
  o Economists / Academics At local Universities

➢ Work Stream 3: Institutional Assessments

➢ Interviews With Management And Staff Of The Institutions

➢ Review Of:
- o Board Packs, Audited Financial statements, Business Plans, Policy & Procedures Manuals, Latest Available Management Accounts
- o Audited Financial Statements, External Auditors Correspondence, NHFC Risk Reports, Other Consultants' Reports

TENANT SURVEY FINDINGS

❑ AFFORDABILITY (60% unemployed – 70% informal employment)

➤ Falls Into Two categories
  o Those Earning Below R1,500; and,
  o Those earning Above R1,500 But Due To Other Financial Commitments Still Unable To afford

➤ Inability To Afford The Monthly Installments Arises From:
  o Loss Of Employment
  o Being Informally Employed
  o Lack Of Understanding Of Implications Of Tenant Agreements (Including Impact Of Water & Electricity Levies)

➢ **POOR QUALITY HOUSING**

- ▪ All Complained About Lack Of Maintenance and Defects.

➢ **LACK OF END USER INFORMATION**

- ➢ Tenants Understanding of Subsidy System
  - o Interpreted To Imply Free Housing
  - o Capitalised Upon By Political Activists

➤ POOR RELATIONSHIPS BETWEEN INSTITUTION AND TENANTS

- o No Tenant Committees
- o No proper Tenant Training conducted
- o Poor Communication (Newsletters, Meetings etc)

OTHER

- ▪ Non recipient of statements

ECONOMIC ANALYSES FINDINGS

- ECONOMIC STATUS OF STUDY AREAS

- Global Insight SA

  ➢ High Growth Rates Do Not Necessarily Translate Into Improved Socio-Economic Indicators
     o High Unemployment Reported Even In Areas Where There Is Reported Strong Growth

- University Of Potchestrom

  ➢ Large Scale Urbanisation is the key To Growth

INSTITUTIONAL EVALUATIONS FINDINGS

➢ Disconcerting State Of affairs: 72% of Institutions are in arrears

➢ All Except ONE Are Technically Insolvent

➤ IT Systems In Use

    o   Spreadsheets, QuickBooks, Pastel, in-house systems, Nicor and JD Edwards

➤ Are Arrears Due To Inadequate Technology Systems?   No

➤ Case For Increasing Staff No's & Skills?   Yes

POTENTIAL ROLE OF NHFC IN SECTOR

➢ New projects only undertaken if conform to stated viability criteria.

➢ Economic outlook form part of feasibility valuation by NHFC.

➢ Promoters of future projects critically evaluated, in particular developer driven.

➢ Minimum skills and capacity requirements at level that will guarantee success.

➢ Examine possibility of Satellite Offices in order exert influence over Institutions.

➢ Minimum criteria for Social Housing, including qualification and housing standards e.g. NHBRC or independent Builders/Developers professional indemnity insurance.

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DISCUSSION