

# FINMARK TRUST

MAKING FINANCIAL MARKETS WORK FOR THE POOR

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## Access to housing finance in the low income market: A review of recent data

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A fundamental goal of South Africa's housing policy is to enhance access to housing finance for low-income earners. The Financial Sector Charter (FSC) and the Memorandum of Understanding, signed between the Minister of Housing and the big four retail banks, promise to lead to enhanced access to end-user housing finance – R42 billion is committed for targeting “affordable housing finance” to households earning between R1 500-R7 500 per month.

Recent FinScope™ data on households earning between R1 500-R8 000 suggests that the estimated 30% of South African adults that fall into the FSC target are not likely to all translate into demand for these newly available loans. Although housing policy categorises households in the FSC target market as “medium income” and not the “hard core poor”, poverty remains a very real issue. FinScope™ reports that about 1,5 million adults in the banks' target market currently live in informal dwellings – suggesting perhaps latent demand for housing and housing finance. However, about 28% of respondents from households in this income category describe themselves as “unemployed or not working, but looking for a job”; 6% describe themselves as “self-employed in the informal sector, e.g. sidewalk trader, casual labour”; and 30% of respondents from households in this income category describe themselves as “unbanked”. Many of these will find the new FSC loans inaccessible. Further, within the target market:

- 22% have gone without enough food to eat in the last 12 months OR 29% of those with a monthly household income of between R1 500 and R3 000 have gone without enough food to eat etc,...
- 28% have gone without medicine or medical treatment that was needed in the last 12 months
- 20% have gone without electricity in their home (apart from power cuts) in the last 12 months

Finscope™ also offers insights into people's attitudes and behaviour. It shows that few households in the banks' target market who currently own the formal housing in which they live, view their homes as a tradable asset: only 35% of respondents earning R1 501-R 3 000; and 56% of households earning R3 001-R8 000. These are the people the banks are relying upon to trade-up: sell their current homes and use bank finance to buy new houses while also creating new housing opportunities into which people lower down the housing ladder can move. Their limited faith in the asset value of their homes (while most probably realistic given neighbourhood property market dynamics) could be a serious stumbling block to the residential resale market the banks are relying upon to take up the newly available loans.

These and other issues raised in the paper test some of the underlying assumptions regarding the FSC housing finance commitments and the speculated potential for a disbursement of 250 000 affordable housing loans annually until the 2008 deadline.

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