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**CODE SERIES FS600, STATEMENT 600**

**FINANCIAL SECTOR CODE AFFORDABLE HOUSING STANDARDS**

**1. INTRODUCTION**

Home lending standards for qualifying loans are defined as set out in this paper. This document therefore seeks to define an:

- Affordable housing target market;
- "Gap" housing target market;
- Product definition guidelines.

**2. TYPES OF LENDING**

Affordable housing and "gap" housing constitutes both mortgage and non-mortgage backed lending for housing purposes and currently includes the following product categories, which may expand in the future.

- Mortgages;
- Non-mortgages:
  - Unsecured personal loans;
  - Secured non-mortgage loan (security provided in support of the loan is not a mortgage/indemnity);
- Residential development loans;
- Wholesale loans.
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**3. QUALIFYING LOAN STANDARDS**

Loans for all racial groups qualifying for inclusion must conform to the following standards:

- The purpose of the loan should be for housing (as set out under Product Category Definitions);
- Loans should conform to the requirements of the National Credit Act;
- Loans should be priced in line with regulated interest rate and fee limits specific to the various loan types.

#### **4. MEASUREMENT OF LENDING ACTIVITY**

The Affordable Housing target market is defined to be the approximate cost of bonded entry level housing in South Africa adjusted annually by the midpoint of the average Consumer Price Index (CPI) and the average Building Cost Index (BCI). Similarly, non-mortgage loans used for housing purposes (improvements/additions/purchases of a fixed nature (excludes white goods, curtaining etc.) is adjusted by the midpoint of the average CPI and the average BCI. The average annual CPI figure is obtained from published reports from SA Statistics and the BCI figure from the Bureau for Economic Research (Stellenbosch University).

For 2019 the Affordable Housing market as calculated by The Banking Association comprises households earning up to R24 300 per month, the "Gap" Housing market as households earning up to R22 000 per month and the minimum loan size for the non-mortgage market as R1 500 (See Note 4 for further details).

#### **5. DEFINITIONS**

##### **Household income**

Monthly household income is the primary criteria used to determine whether the lending activity may count towards the Affordable/Gap Housing origination and targeted investment targets.

Income is defined in terms of the National Credit Act, 34 of 2005 as follows:

"Household income means the combined gross income of the Applicant/s, which may include the income of any major person who shares their financial means/obligations with the Applicant/s.

Gross income includes income or any right to receive income but excludes monies which an applicant has a right to receive or holds in trust for another person.”

Business written within the target market:

Loans are deemed to have been written by a financial institution when a mortgage bond has been registered or in the case of non-mortgage loans when these loans are disbursed.

The gross monthly applicant/s income is determined when the loan is approved. For target market upper income qualification purposes, the date of approval of loans, both mortgages and non-mortgages is based on the quantum of the applicant/s income as at time of approval of a loan.

**Product category definitions**

See table 2 attached.

	<b>Mortgage Loans</b>	<b>Non-mortgage Loans</b>	<b>Residential Development Loan</b>	<b>Wholesale Loan Finance / Equity</b>
<b>Product Description</b>	Residential Property loans to end users collateralised by registering a mortgage/ indemnity within the Affordable	Loans equal to or greater than R1 500 with a term of more than 12 months within the Affordable Housing target market.	Short- or long-term finance to developers for the creation of housing stock within the "gap" housing market. See	Short- or long-term finance to corporates or intermediaries who on- lend to individuals or other entities for housing purposes within the target market.
<b>Includes</b>	First and further mortgage/ indemnity bonds.  Client driven switches.	Fully or partially secured loans to end users which is not collateralised by registering a mortgage/indemnity.  Further Advances. Unsecured loans used	Housing stock for any form of tenure e.g. ownership, instalment sale, rental.  New developments, conversions or upgrading of existing	All loans as per mortgage loans, non-mortgage loans and residential development loan finance.

<p><b>Comment</b></p>	<p>Income for the Affordable Housing target market to be adjusted annually by the midpoint between the average CPI and BCI indexes for the previous year. The "gap" housing target market will be redefined by the Department of Human Settlements from time to time. The Banking Association will advise members annually of the adjusted target market.</p>	<p>Only finance of a fixed nature for home improvements/additions/ home purchases may be included within this definition (excludes removable assets e.g. white goods, loose flooring, curtains etc.).</p> <p>Minimum loan amount and income to be adjusted annually by the midpoint between the average CPI and BCI indexes for the previous year. The Banking Association will advise members annually of the adjusted target market. Lenders will be required to demonstrate the usage of the funds</p>	<p>The target market differs in respect of origination/targeted investment. For origination scoring purposes the target market is restricted to the "gap" housing market segment definition. For targeted investment scoring purposes, the target market is restricted to the definition of Affordable Housing. The affordable housing target market will be adjusted annually by the midpoint between the average CPI and the BCI indexes for the previous year. The definition of the "gap"</p>	<p>Short- or long-term finance to corporates or intermediaries who on- lend to individuals or other entities for housing purposes.</p>
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	Mortgage Loans	Non-mortgage Loans	Residential Development Loan	Wholesale Loan Finance / Equity
			<p>market. Where housing units are to be sold, lenders are to determine the maximum unit price that qualifies for target market inclusion purposes at time of pay away of residential development finance funds.</p> <p>Where units are being developed for rental purposes, the developer will be</p>	

### **Note 1**

Household income is a foreign term to banks as it is applicant income that determines affordability and the legal relationship between bank and client. None of the banks record household income on their application forms or systems. There is also a strong view that self-declared household income is not reliable and would be an impractical and costly exercise to validate. In an analysis undertaken by the banks in 2004, it was found that there is a strong correlation between applicant income (comprising both individual and joint applicants) and household income. It was therefore felt that applicant income, whether single or joint, is a strong proxy for household income and a reliable and transparent measure.

### **Note 2**

For unsecured and secured non-mortgage loans, the borrower's income and not the joint income will be used for qualification purposes as these loans are granted to individuals based only on their own income and affordability, not joint income. Joint income is, on the other hand, generally recognised for mortgage loan lending purposes.

### **Note 3**

Residential Development plays the role of an 'enabler' as it increases the supply of housing stock. Lender funding is of a short-term nature.

### **Note 4**

For simplicity purposes, figures for the target market will be rounded up/down to the nearest R100.

The average cost of a primary market bonded entry home was deemed to be approximately R250 000 based on member market experience, coupled with research undertaken by The Banking Association with both developers and an external research company (Finmark Trust) in 2008. An upper income limit of R15 142 was therefore deemed to be appropriate by The Banking Association in 2009. Since this this figure has been adjusted annually by The Banking Association as per point 4 "Measurement of Lending Activity" above.

The “Gap” Housing target market is aligned to the Finance Linked Individual Subsidy Programme (FLISP) as defined by the Department of Human Settlements, as this subsidy programme is designed to bridge the affordability gap between households who

don't qualify for a fully subsidised home from Government but are unable to afford an entry level bonded home without partial assistance from Government. This is currently defined by the Department of Human Settlements (DHS) as households earning between R3 501 and R22 000 gross monthly income (as of 2018). From time to time DHS will redefine the FLISP target market. The Amended FS Code definition for the “Gap” housing will align itself to such amended FLISP definitions.

***Affordable Housing target market definition:***

For 2017, The Banking Association had calculated the monthly upper income limit for Affordable Housing to be R22 106 and rounded off to the nearest R100, R22 100.

For 2018 this is calculated as follows:

- CPI: average CPI for 2017 is 5.3%;
- BCI: average BCI for 2017 is 5.7%;
- The midpoint for CPI and BCI for 2018 is therefore 5.5%.

The upper income limit for Affordable Housing for 2018 is therefore calculated to be R23 321 (R22 106 + (R22 106 X 5.5%)) rounded off to the nearest R100, R23 300.

For 2019 this is calculated as follows:

- CPI: average CPI for 2018 was 4.7%;
- BCI: average BCI for 2018 was 4.0%;
- The midpoint for 2019 is therefore 4.35%.

The upper income limit for Affordable Housing for 2019 is therefore calculated to be R24 336 (R23 321+ (R23 321 X 4.35%)) rounded off to the nearest R100,

**R24 300. "Gap" Housing target market definition:**

For 2019, the income limit for "Gap" Housing is between R3 501 and R22 000.

**Non-mortgage Loans target market definition:**

For 2017, The Banking Association calculated the monthly minimum loan size for non-mortgage loans as R1 412, rounded off to the nearest R100, R1 400.

For 2018 this is calculated as follows:

- CPI: average CPI for 2017 was 5.3%;
- BCI: average BCI for 2017 was 5.7%;
- The midpoint for CPI and BCI for 2018 is 5.5%.

The monthly minimum loan size for non-mortgage loans for 2017 is therefore calculated to be R1 412 ( $R1\ 339 + (R1\ 339 \times 5.5\%)$ ), rounded off to the nearest R100, R1 400.

For 2019 this is calculated as follows:

- CPI: average CPI for 2018 was 4.7%;
- BCI: average BCI for 2018 was 4.0%;
- The midpoint for CPI and BCI for 2019 is 4.35%.

The monthly minimum loan size for non-mortgage loans for 2019 is therefore calculated to be R1 473 ( $R1\ 412 + (R1\ 412 \times 4.35\%)$ ), rounded off to the nearest R100, R1 500. Going forward, on an annualised basis, The Banking Association will continue to provide members with written confirmation of the target market definition for Affordable, "Gap" Housing and non-mortgage loans as defined in point 4 above.

**Note 5**

It is acknowledged that variable interest rate fluctuations have a marked effect on affordability levels within the target market.