

Lochner Marais, Lucius Botes, Andre Pelsler & Anita Venter

The non-payment of mortgage bonds in South Africa: The voice of defaulters¹

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Abstract

The aim of this article was to provide an understanding of the reasons for the non payment of mortgage bonds in the South African context. The article starts off with a brief history on housing finance under apartheid from 1948 to 1994. It then conceptualise current housing finance to the lower end of the market (mainly for black people) in South Africa. This is followed by a literature review of possible reasons that contribute to the non payment of mortgage bonds in the South African context and a brief overview of the methodology followed during the interviews with defaulters. In the fourth part of the paper, the results from the empirical survey are discussed. The results of the survey confirm previous research that financial reasons are a fundamental factor that influences the non payment of mortgage bonds. According to the respondents, other factors that influence non payment include educational problems, political interference and peer pressure, and the reaction and efficiency of the banks. The recommendations of respondents on solving the problem of non payment include shorter loan periods, improvement of bank management, and mortgage bond education. Reward programmes are also mentioned as a possible solution to defaulting. The study concludes that long term affordability is one of the main reasons that contribute towards the non payment of mortgage bonds. An additional conclusion is that financial institutions need to rethink their management of mortgage loans to lower income households.

Keywords: Mortgage bonds, non payment, financial institutions, South Africa

Dr Lochner Marais, Researcher, Centre for Development Support (IB 100), University of the Free State, PO Box 339, Bloemfontein 9300, South Africa. Tel: +27 51 401 2978, Email: <maraisl.EKW@mail.uovs.ac.za>.

Prof. Lucius Botes, Director, Centre for Development Support (IB 100), University of the Free State, PO Box 339, Bloemfontein 9300, South Africa. Tel: +27 51 401 3723, Email: <botesLJ.EKW@mail.uovs.ac.za>.

Prof. Andre Pelsler, Associate, Centre for Development Support (IB 100), University of the Free State, PO Box 339, Bloemfontein 9300, South Africa. Tel: +27 51 401 2653, Email: <pelsleraj.HUM@mail.uovs.ac.za>.

Anita Venter, Researcher, Centre for Development Support (IB 100), University of the Free State, PO Box 339, Bloemfontein 9300, South Africa. Tel: +27 51 401 2119, Email: <ventera.EKW@mail.uovs.ac.za>.

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Abstrak

Die doel met hierdie artikel is om die redes vir die nie betaling van verbande in die Suid Afrikaanse konteks te verduidelik. Die artikel begin met 'n kort geskiedenis, vanaf 1948 tot 1994, wat handel oor behuisingsfinansiering onder apartheid. Dit konseptualiseer dan die huidige behuisingsfinansiering aan die onderkant van die Suid Afrikaanse mark (vir hoofsaaklik swart mense). Dit word gevolg deur 'n literatuuroorsig oor maandelike redes wat tot die nie betaling van verbande in die Suid Afrikaanse konteks bydra en 'n kort oorsig oor die metodologie wat in die onderhoude met wanbetalers gebruik is. Die resultate van die empiriese opname word in die vierde deel van die artikel bespreek. Dit bevestig vorige navorsing, wat getoon het dat finansiële redes 'n grondliggende faktor is wat die nie betaling van verbande beïnvloed. Ander faktore wat volgens die respondente nie betaling beïnvloed, is opvoedkundige probleme, politieke inmenging en groepsdruk en die banke se reaksie en effektiwiteit. Respondente se aanbevelings om die probleem van nie betaling op te los, sluit in korter leningstydperke, die verbetering van bankbestuur en opvoeding oor verbande. Beloningsprogramme is ook as 'n maandelike oplossing vir wanbetaling genoem. Die studie kom tot die gevolgtrekking dat langtermyn bekostigbaarheid een van die hoofredes is wat tot die nie betaling van verbande bydra. 'n Verdere gevolgtrekking is dat finansiële instellings weer moet herbesin oor hoe hulle verbande aan huishoudings in die laer inkomstegroepe bestuur.

Sleutelwoorde: Huislenings, nie betaling, finansiële instellings, Suid-Afrika

1. Introduction

Housing delivery to the poor is a key element in the South African development framework. Soon after the first democratic elections, the South African Government embarked on a pro-poor housing policy, in terms of which the private sector has to play an important role (Republic of South Africa. Department of Housing, 1994; Tomlinson, 1998). One of the focal areas of this role is that of private-sector housing finance. The South African White Paper on Housing stresses the importance of private-sector housing finance in the following terms: "Unlocking housing credit is therefore seen as a fundamental requirement in order to facilitate the ongoing improvement of the housing circumstances of such households" (Republic of South Africa. Department of Housing, 1994: 23). The housing subsidy system in South Africa was also designed to facilitate private-sector housing finance, in addition to the public sector subsidy (Republic of South Africa. Department of Housing, 1994). These same sentiments are also expressed in the Housing Act (Act 107 of 1997) as well as the housing code. The latest policy document of the government 'Breaking New Ground' further emphasises the need for housing finance and suggests mechanisms to overcome the down-payment barrier, loss-limit insurance, funding for social housing, fixed interest rates, new product development, and monitoring (Republic of South Africa. Department of Housing, 2005). Various attempts have been initiated to ensure a larger degree of private-sector involvement since 1990 and, more specifically, since 1994. The Home Loan Guarantee Fund was established in 1990 to provide guarantees to short-term insurers in order to reduce the risk to financial institutions. The Botshabelo Accord was signed in 1995. Through an agreement, it enforced the positions of various role-players (and specifically the private sector) in the housing process. The National Housing Finance Corporation was initiated in the mid-1990s for the further support of private-sector housing finance. Other mechanisms that were implemented included the establishment of Servcon to address the problem of non-payment – mainly through 'right sizing' – and the mortgage indemnity fund, which was aimed at opening up areas for possible private-sector investment. In 2000, the Home Loan and Mortgage Disclosure Act (no 63) was passed (though not yet implemented) by Parliament, with the aim of promoting 'fair lending practices' requiring financial institutions to provide information regarding the provision of home loans (Republic of South Africa, 2000b: 1).

Despite these efforts to promote private-sector housing finance, not much progress has been made in the lower end of the housing market. In fact, Shisaka (2003: 25) points out that "Government has seen the withdrawal of ... major banks from its housing programme ..." In addition, approximately 50 000 household properties have been reclaimed by the original financiers. This boils down to an exposure of banks to a possible loss totalling approximately R2 billion, as a result of people's unwillingness or inability to pay for the houses any longer (Tomlinson, 1997; Porteous & Naicker, 2003). This reality has major implications for the willingness of financial institutions to grant mortgage loans in certain areas. Notwithstanding actions by the South African government, as well as a limited amount of relevant research (Tomlinson, 1999b; Porteous & Naicker, 2003), there still seems to be little understanding of the reasons that contribute to the non-payment of mortgage bonds. Meanwhile, empirical research in this regard has been limited, and the little that is available is already more than ten years old (Porteous & Naicker, 2003 with reference to the study conducted by the Home Loan Guarantee Fund in 1993). However, in most cases, this research conceptualised the problem well (Tomlinson, 1999b), although empirical evidence has not always been available. This article attempts to address this gap by means of empirical evidence obtained from a study conducted amongst some of the mortgage bond defaulters themselves.

Against this background, the aim of the paper is to provide an understanding of the reasons for non-payment of mortgage bonds in the South African context, on the grounds of an empirical investigation conducted amongst a group of home-owners who are either unwilling or unable to continue to pay their mortgages. The paper will take the matter even further by debating the implications of the results within the South African context. In fact, in this regard we would like to put forward two main arguments. Firstly, considering the fact that the research confirms previous research results, which led to the conclusion that financial inability and the inappropriateness of the mortgage lending instruments are the main contributing reasons for non-payment, the question is whether further pressure on the private sector is appropriate. Most of the current 'politically correct' arguments suggest that the private sector should be more innovative. We would like to argue that, although it is probably true that there is room for more innovation, extending housing finance to people who cannot afford it will not solve the problem. Secondly, the results of our research suggest that financial institutions could

benefit from improved client relationships and management practices – an aspect that has been mentioned in other research too (Tomlinson, 1997; Porteous & Naicker, 2003), but which, in our opinion, has been underplayed. In order to argue these two points, the paper is structured as follows: It starts off with a brief history of housing finance under apartheid. An attempt is then made to conceptualise housing finance to the lower end of the market (mainly comprising black people) in South Africa, after which a literature review is provided in respect of possible reasons that may be contributing to non-payment of mortgage bonds in the South African context. This is followed by a brief overview of the methodology followed during the interviews with defaulters. In the fourth part of the paper, the results from the empirical survey are discussed. Finally, a number of conclusions are drawn.

2. The South African housing policy and housing market between 1948 and 1994

This section reflects on housing policy and delivery after the implementation of apartheid in 1948. It is possible to divide housing delivery under apartheid into three phases. The first phase, between 1950 and 1976, was characterised by the provision of public-sector rental housing in almost all of South Africa's black townships (Wessels, 1989). This large-scale housing delivery in the townships went hand-in-hand with influx-control mechanisms and mainly comprised a way to clear up townships (Wessels, 1989; Krige, 1991). The second phase of housing delivery under apartheid housing is associated closely with the Soweto riots. The riots forced the apartheid government to consider 99-year leasehold and also led to the establishment of the Urban Foundation, which played an important role in changing government housing policies (Wessels, 1989). According to Wessels (1989), the third phase started in the mid-1980s, when it became possible for black South Africans to access ownership in South African townships. At the same time, influx control was abolished at the end of 1985. The government of the day attempted to create a black middle class (in areas called 'black spots'), which could support it in a democratic era (Wessels, 1989). Although the policy of orderly urbanisation that succeeded influx control still prevented the poor from gaining access to the cities, the acceptance of ownership for black people ensured that a new mortgage-bond market developed (Parnell, 1991). However, it was not long before the non-payment of these mortgage bonds was used as a mechanism to

support the political struggle against apartheid (Tomlinson, 1999b; Johnson, 1999). Part of the problem was the breakdown of normal legal processes in townships, as mortgage lenders were unable to secure possession of bonded properties and avoid the eviction of defaulting occupants (Porteous & Naicker, 2003: 193).

The apartheid history of housing delivery has probably influenced the existing housing market in former black townships in two fundamental ways. In the first place, normal housing mobility was virtually non-existent. Its absence was related to the control mechanisms of the apartheid state with regard to housing delivery and the fact that a limited housing market existed, as a result of the lack of land ownership. No culture of housing upgrading through mobility has thus developed over time. Furthermore, historically, virtually no housing market existed in black townships; and recent research suggests that even currently, little activity is under way (Rust, 2004). Secondly, the fact that housing delivery for black people was directly linked to housing in the South African black townships is related to the absence of housing mobility. The ability to be mobile and to upgrade was virtually absent.

3. The current South African housing market

When the African National Congress (ANC) came into power in 1994, it inherited a housing market characterised by severe abnormalities, as a result of the policies and political turmoil of the pre-democratic era (Republic of South Africa. Department of Housing, 2000a). Recognising the housing shortage in South Africa, the ANC promised to deliver one million houses to the poor within five years (ANC, 1994). At the same time, the Botshabelo Accord was signed between government and business to normalise the housing environment – in order to ensure a larger degree of private-sector housing finance as a supplement to public-sector housing finance, amongst other objectives. The one-million milestone was an important goal for the housing department of the post-apartheid government and was realised in 1999 by means of a targeted subsidy to the poor (Dimant, 2001; Schlemmer & Smith, 2001; Rust, 2003).² How-

2 The subsidy initially provided R15 000 to households in which spouses earned a joint income of R800; R12 500 to households with incomes of between R801 and R1 500; R9 500 to households with incomes of between R1 501 and R2 500; and R5 000 to households with incomes of between R2 501 and R3 500.

ever, despite this extraordinary achievement, very little of the housing delivery linked the private-sector and public-sector finance. The National Housing Finance Corporation (NHFC) estimates that, by 2000, less than 2% of housing subsidies provided by the state were credit-linked (NHFC 2000). In some of the latest research commissioned by the National Department of Housing, Shisaka (2003: 26) notes that the capital subsidy scheme has become increasingly less useful as a supply side intervention for attracting private-sector delivery.

According to Pillay (2003), it is possible to divide the current housing finance market into four segments.³ The first segment entails a significant number of households that fall into the category of those earning less than R1 500 per month. These households, in general, are unable to access private-sector finance (with the possible exception of finance from micro-lenders), and are mostly dependent on public housing finance by means of the subsidy. The second group comprises households earning between R1 500 and R3 500 per month. In addition to the state subsidy, low-income households that have an average household income of between R1 501 and R3 500 have access to supplementary finance through mortgages, pension/provident lending, micro-finance and instalment sales (Pillay, 2003; Porteous & Naicker, 2003). However, although the initial degree of access to private-sector housing finance was significant after 1994 (approximately 12% of all subsidies were linked to private-sector housing finance), it had decreased to less than 2% by the early 2000s. Housing-finance institutions began to regard investment in this market as being too risky and costing to administer. Another contributing aspect was the fact that the income bands were never expanded to accommodate inflation.⁴ A household income of R2 500 in 1994 is equal to an income of at least R5 000 in 2003. However, in 2003, such a household could not access a housing subsidy, owing to the fact that the income bands were still the same as in 1994. The third segment consists of households currently receiving an income of between R3 500 and R7 000 per month. These house-

3 This division is applicable to the time at which this study was conducted. New announcements by the Minister of Housing have resulted in some changes in this regard.

4 Some adjustments have taken place with a media release by the Minister of Housing in August 2004.

holds are mainly dependent on private-sector finance, but such finance is virtually absent. The fourth segment comprises households earning above R7 000. Private-sector housing finance is available for this category. Furthermore, low-income households that are excluded from accessing housing subsidies include informally employed people and those who are employed in small businesses without a payroll deduction facility (Smit, 2003: 174). Although not exclusively, the non-payment for services has taken place in the income categories below R7 500 and, in the majority of cases, in former black townships in South Africa.

4. Possible reasons for defaulting on mortgage-bond payments in the low-cost housing sector: an overview

The available literature suggests the following possible reasons for the non-payment of mortgage bonds:

- financial and economic circumstances;
- the lengthy period linked to mortgage bonds;
- product defects;
- political and community reasons; and
- in-effective housing-education programmes.

In recent times, the possible influence of HIV/AIDS has also been mentioned as it usually leads to an increase in medical costs for a household (Tomlinson, 1999b; Porteous & Naicker, 2003). However, in an analysis that was carried out by the Home Loan Guarantee Company in 1993 (cf. Porteous & Naicker, 2003: 193), it was found that political issues were not among the main reasons for defaulting on mortgage-bond payments. According to the above analysis, the causes of defaults varied from problems in respect of affordability (59%) and lack of education (22%), to dissatisfaction with product delivery (11%) and, lastly, inappropriate lending mechanisms (4%) and political factors (4%). Each of these main aspects will now be examined in more detail.

4.1 Financial and economic reasons and the lengthy periods of mortgage bonds

Porteous and Naicker (1993) related the non-payment for services to an inability to pay in 59% of these cases. Research completed by the Centre for Development Support in South Africa confirmed the phenomenon of the inability to pay regarding the cost recovery related to service delivery (Botes *et al.* 2001; Mcgee *et al.* 2003; Pelser & Botes, 2003; Botes & Pelser, 2004; Pelser & Botes, 2004). Research conducted in the 1990s (cf. Wilson, 2001: 21-22) shows that South Africa lost jobs in most sectors between 1993 and 1998 – except for the financial services sector. The average annual job losses were estimated at 5,5% in mining, 4,3% in construction, 2,1% in transport, 1,4% in utilities, 0,9% in agriculture and 0,6% in manufacturing. According to the census data of 2001, the official⁵ unemployment rate among economically active people (aged between 15 and 65 years) had risen from 33,9% in 1996 to 41,6% in 2001. The unemployment rate amongst black Africans had increased from 42,5% (1996) to 50,2% (2001). Amongst black African women, unemployment had risen from 52,4% (1996) to 57,8% (2001). Besides retrenchment, other factors also influence the financial position of households and contribute to the non-payment of mortgage bonds. These factors include high interest rates,⁶ the inability to manage household incomes, incidental unexpected events such as illness or death and HIV/AIDS (Schlemmer & Smith, 2001; Rust, 2002; Tomlinson, 2002; Quindium Consulting, 2002). Since subsidies for people in the R1 501 - R3 500 income bracket have to be topped up with bonds and service payments, some of the beneficiaries in this income group may ultimately have less money for other essentials than would have been the case if they did not have housing finance obligations (Schlemmer & Smith, 2001: 46). Tomlinson (1999a; 1999b) argued that beneficiaries who fell into this income group were much

5 Official definition of unemployment: Statistics South Africa defines the unemployed as those in the economically active populations who have not worked during the last seven days prior to being interviewed, who want to work and are available to start work within a week of the interview, and have taken active steps to look for work or provide themselves with self employment in the four weeks preceding the interview.

6 It should be noted that interest rates are currently (early 2005) at some of their lowest levels in history in South Africa.

more likely to complain that their circumstances had worsened after receiving the subsidy and mortgage bond than were beneficiaries who had received the full subsidy. Many low-income borrowers are highly vulnerable when their financial circumstances worsen. When experiencing economic hardships, they are generally unable to protect themselves against the consequences of missing their monthly instalments (Tomlinson, 1999b). Other beneficiaries default because they misunderstand budget constraints or lack financial discipline. Poor households like these are inclined to over-borrow when their economic circumstances deteriorate (Rust, 2002; Tomlinson, 2002).

4.2 Product defects regarding low-cost housing

Dissatisfaction with housing products is often a main reason for the decision by a low-income household to stop paying its mortgage or loan (Marais, 1997). One of many problems that have plagued housing delivery is the poor quality of houses (Zack & Charlton, 2003). In numerous cases, consumers' complaints have been valid. Many houses lacked proper foundations and developed cracks and leaks within a few weeks after erection (Tomlinson, 1999a; Cohen, 2000; Schlemmer & Smith, 2001). The unreasonableness of expecting people to pay for poor housing has also been noted (Johnson, 1999; Schlemmer & Smith, 2001; Tomlinson, 1997). Although Johnson (1999) as well as Pelsler and Botes (2002) focused only on the issue of payment for municipal services, they are of the opinion that a definite correlation exists between levels of services in a community and payment (or willingness to pay) for such services. It is often argued that poor service delivery has resulted in a decision by beneficiaries to withhold payment for services delivered (McDonald & Pane, 2003; Mcgee *et al.*, 2003, Pelsler & Botes, 2003; Johnson, 1999). This was indeed found to be the case in the Soweto survey of 2003 (see Pelsler & Botes, 2003). However, the outcomes of both the Wave 1 and Wave 2 surveys in the Mpumalanga province suggested no relationship between people's satisfaction with service delivery and their actual payment behaviour – in other words, people do not necessarily pay less frequently because they are unhappy with the level or quality of service provision (Botes & Pelsler, 2004).

4.3 Lack of understanding and/or information

Many low-income home-owners do not fully understand the regulations applicable to housing, or do not realise the consequences of non-payment, nor do they seek appropriate advice in the event of hardship or a crisis (Rust, 2002). Many owners have a limited understanding of the difference between structural problems and cosmetic faults. First-time, low-cost home-owners often do not understand that the quality of the product is the developer's responsibility and not that of the bondholder. When owners stop repaying loans as a result of structural defects, this is indicative of an inadequate understanding of loan conditions. Some beneficiaries assume that, when an assessor inspects a new house, he or she is certifying its quality. They do not understand that the bank is simply verifying whether the value of the house is equal to or higher than the value of the bond (Tomlinson, 1999b; Rust, 2002). Although the NHBRC have started to guarantee the quality of houses constructed under the project subsidies, it might still be a problem for years to come.

Many borrowers do not fully comprehend the nature or extent of their financial commitments because of limited education, inexperience and, often, inadequate information provided by financial institutions (Tomlinson, 1999b). Beneficiaries may misunderstand their repayment responsibilities because of the perception that the bank owns the property until it is paid off (Rust, 2002: 23). Some home-owners maintain that the banks constantly refuse to talk to them about reasons for non-payment, or to allow them to negotiate alternative instalment amounts for repayment that are more reasonable (Schlemmer & Smith, 2001: 46). Advice tends to be available on demand only.

4.4 Cultural and political factors

The origins of non-payment in the housing sector are rooted in the fact that the state played a limited role in low-cost housing delivery in the apartheid era. The apartheid regime used housing delivery as a means to segregate the different population groups. As a majority group, black Africans reacted with widespread resistance to the apartheid government through the boycotting of rent, as well as refusal to pay the fees charged for services and to make mortgage payments (Kroukamp, 1995; Parker, 1995; Sono, 1995). At the time, community civic leaders would organise collective action

to prevent evictions from taking place. When an eviction did occur, communities would make sure that the houses were occupied again as soon as possible. This resistance was supported by liberation movements in an attempt to break down a government that had no legitimacy for the majority (Jenkins & Smith, 2001; Tomlinson, 2002). It was expected that the culture of non-payment would decline after the political transition to a democracy. However, this did not occur – some people in the low-cost housing sector not only refuse to pay mortgage bonds or loans, but also resist being evicted. This culture of non-payment undermines the authority of the state and its capacity to deliver (Khan & Ambert, 2003: xxviii). It also increase risk of lending and banks to withdraw from this market segment.

4.5 Impact of HIV/AIDS

Rust (2003) is of the opinion that the low-cost housing-finance sector is unresponsive to important factors such as the impact of HIV/AIDS (Rust, 2003: 21). Given the progressive and life-limiting nature of HIV/AIDS, mortality rates among certain sectors of the South African population are likely to increase substantially over the next few years. It is estimated that more than a quarter of the economically active South African population will be infected with HIV by 2006. In developing countries, the AIDS epidemic lags behind the HIV epidemic by some eight to ten years – the length of time the condition takes to give rise to serious illness and death. From this perspective, South Africa is, only now, slowly entering a period of substantial and increasing deaths and disabilities – a situation which, according to projections, will peak between 2010 and 2015.

Arguably, the most severe impact of HIV/AIDS occurs at the household level. The broader macro-economic impacts of HIV/AIDS all originate at the household and individual level, which is where the real impact of the epidemic is felt. The household experiences a loss in income, owing to frequent absenteeism of the infected member from work, while household expenditure for medical expenses increases substantially. It is broadly assumed that few mortgage beneficiaries in the low-income sector will have access to sophisticated anti-retroviral medication and health management. Many HIV-positive individuals will only become aware of their HIV status when they fall ill, if at all. The death of the sick person results in permanent loss of income and, at the same time, an increase in household expenditure as a direct result of funeral and mourning costs. Taking

this into consideration, the mortgage lender is exposed to an escalating incidence of payment defaulting. The stigma associated with HIV/AIDS, along with the tendency towards non-disclosure among infected people, has serious consequences in respect of the non-payment of mortgage bonds (Quindiem Consulting, 2002: 9, 13, 37).

5. Non-payment of mortgage bonds: Some empirical evidence

In the remaining part of this paper, the emphasis shifts to the results of the empirical investigation conducted for this study.

5.1 Methodological overview

In order to facilitate an investigation of the responses of mortgage defaulters, 100 telephone interviews were conducted with randomly selected current defaulters in respect of mortgage loans in the Gauteng province during the second semester of 2003. The majority of these interviewees resided in former black townships. Specific areas were Boksburg (27), Vereeniging (18), Germiston (12), Tokoza (11), Krugersdorp (6), Pretoria (4), Kempton Park (3) and Benoni (3). The focus of the questionnaire was on determining the reason for non-payment for services, as well as on trying to find possible solutions. The average registered bond amount at the time of the investigation was R41 532. According to Servcon, the average age of these registered bonds is approximately 10 years. The initial dates on which the bonds were taken out vary from 1988 to 1996. The gender distribution of respondents was 51% female and 49% male. In terms of the age breakdown, 3% were between 18 and 29 years old, 21% between 30 and 39 years, 45% between 40 and 49 years and 31% were older than 50. At the same time, however, almost a quarter of the households generated a total monthly income of more than R5 000. Of these, more than 10% fell into the income category of more than R7 000 per month. It should be noted that accessing the 100 respondents was no easy task. Ultimately, more than 150 respondents had to be contacted, as most people were fairly suspicious when the purpose of the phone call was explained to them.

5.2 The reactions of respondents and contributing reasons for non-payment

5.2.1 Financial reasons

As indicated in the literature overview, financial considerations were one of the main contributing reasons for the non-payment of mortgage bonds. In an open question, respondents were requested to indicate what they considered to be the main reason for not paying their mortgage bonds (see Table 1 below).

Table 1: Respondents' reasons for not paying off their mortgage loans

<i>Reason</i>	<i>N</i>	<i>%</i>
Became unemployed	45	34.8
Needed money for other expenses	21	16.3
Spouse became unemployed	17	13.2
Spouse became ill	14	10.9
Cannot afford monthly instalment	9	7.0
Other	23	17.8
Total	129	100.0

It is noteworthy that all the reasons given for non-payment are, to some extent, related to either a direct change in the financial situation of a defaulting household or, indirectly, to someone in the household falling ill. The main reason (mentioned by more than one third of the interviewees) related to unemployment. If the instances in which the spouse became unemployed are added, this means that 48% of the respondents cited unemployment as playing an important role. This correlates well with the results of a different question in response to which 46.8% of the respondents said that their mortgage bonds had become too expensive. As already noted in the literature overview, the increasing unemployment undoubtedly plays a role. In this regard, it should also be mentioned that, under apartheid rule, the South African economy had been fairly protected. The opening of the economy in the early 1990s and the

impact of globalisation have probably contributed to the levels of unemployment.

A second aspect related to the financial situation is the fact that 16.3% of the respondents claimed that they could not pay their mortgage bonds any longer, as they were obliged to use the money to pay for other expenses, while 7% indicated that they could not afford to continue paying their monthly instalment. A factor that has probably contributed extensively to this state of affairs is the fluctuation of interest rates in South Africa. At one stage, during the latter part of 1990, interest rates peaked at more than 20%. These fluctuations surely do have a major impact on household finances.

A third factor with major implications for long-term housing finance relates to the possible impact of HIV/AIDS. It is noteworthy that 17 respondents (13.2%) related their non-payment to the illness of a spouse. Although it is not possible to relate this directly to the impact of HIV/AIDS, it is probable that this factor does, in fact, play a crucial role in this regard. It is also noteworthy that the study conducted by Porteous and Naicker in 1993 did not in any way relate the non-payment of mortgage bonds to home-owners becoming ill.

The significant effect of poor financial means is further reflected in the fact that four out of every ten respondents indicated that they had been obliged to cut back on other expenses. The most prominent expenses entailed food, school fees and clothing. The problem of limited financial means was further assessed by asking respondents how they would spend an extra R500, if they had it. This strategy was aimed at achieving some understanding as to whether the respondents' alleged problem of limited finances was genuine or not. Thirty percent of the respondents indicated that they would spend the money on paying school fees; 21% responded that they would buy food; 15% would buy clothing; and 6.1% would pay for municipal services. Overall, these figures confirm the importance of the lack of financial means as a contributing reason for the non-payment of mortgage bonds.

The above results clearly seem to support the conclusions in the literature about the inappropriateness of the conventional mortgage lending instrument. They also indicate that there is probably room for more innovative lending instruments.

5.2.2 Educational issues

The survey also covered the respondents' reactions when asked to indicate whether they had a clear understanding of how their bond repayments worked. Sixty-five percent of the respondents indicated that the bond loan had been explained to them when they took up the bond. In contrast, an alarming proportion of respondents – 23% and 9% respectively – reported that the bond loan had never been explained to them, or that they were uncertain as to whether the conditions for repaying the bond had been explained to them. In the context of taking up a mortgage bond, a lack of proper education probably does not comprise a fundamental contributing reason for non-payment for services. However, the results probably indicate that a far better educational process is required when a mortgage bond is approved. In fact, 3% of the respondents indicated that, even though they had received instruction, they did not understand the consequences in the case of non-payment.

5.2.3 Political interference and peer pressure

The virtual absence of political reasons for non-payment of mortgage bonds reflected by this survey is interesting. This is in contrast to the results of the research by Porteous and Naicker (2003). Although political motivations were probably more prominent in the mid-1980s and early 1990s, very little evidence of such motivations was found in this survey. However, in response to a specific question as to whether anybody had ever tried to persuade the respondent not to pay off his/her bond, 12% answered in the affirmative. This figure was lower than the percentage of respondents who indicated that they had been urged not to pay for municipal services. Issues relating to peer pressure seem to be more relevant. Approximately 19% of the respondents mentioned that they would consider discontinuing the payments on their bonds if they knew they would get away with it. A further 21% of the respondents indicated that they would stop paying their mortgage bonds if other people were not paying. These results also have major implications for the way in which banks operate, as well as for the normal legal process. What seems to be clear is that banks should not leave defaulters under the impression that they (the banks) are not serious about recovering their loans.

5.2.4 Reaction and efficiency of the bank

The efficiency of the bank should be considered at two levels. In the first place, one should consider the normal communication of banks with their clients and, secondly, the reaction of banks after the failure to pay the first instalment. The ways in which the banks manage their accounts and the problems that arise at the onset of non-payment, seem to be an essential consideration. Although it is not always possible to compare survey results with the actual actions of banks, only 54% of the respondents indicated that they had received monthly statements on their bond accounts. A further 18% indicated that they had only received such statements once in six months, 9% had received statements once a year, whilst 17% indicated that they had never received such statements. A further 2% were uncertain. In addition, approximately one out of every five respondents said that they did not understand the statements that they had received. These figures reflect the limited realisation of financial institutions in respect of the need to manage their housing finance in these areas in more detail and more regularly. In addition to this problem, a further 21% of respondents mentioned that they had a limited understanding of the financial statements sent to them regarding their mortgage bonds.

The second issue relates to the bank's response after the failure to pay the first instalment. Although this aspect is, once again, being considered from the point of view of the client, a number of interesting aspects should be mentioned. Firstly, only 52% of the respondents reported that they had been contacted by the bank within the first month. Interestingly enough, 34% had received a letter and 18% of the respondents had been contacted telephonically. The fact that such a low percentage of respondents had been contacted by phone indicates that this is an aspect on which banks could certainly improve. Furthermore, only 6% of the respondents mentioned that a bank official had made a private appointment with them. An alarming 22% of the respondents said that they had received no reaction from the bank. In contrast, 84% of the respondents said that they had visited the bank to explain their situation. When asked what the bank should do in similar cases, 42% of the respondents suggested that the bank should sit down and discuss the problem with the client – something that has not happened in practice, according to respondents. What is clear is that banks need more strict credit control and prompt reaction.

The above results suggest that the banking sector will have to manage bonds for lower-income people with a far more 'hands-on' approach than seems to be the case at present.

5.2.5 Actions of the defaulters

Having considered the issue surrounding the reaction of the financial institutions, the focus shifts to the action taken by the respondents after defaulting. Respondents mentioned several steps that they had taken to pay their arrears. The largest proportion of respondents (38.1%) indicated that they had arranged for a fixed monthly instalment. Attempts to borrow money from elsewhere (friends, family, other financial institutions and micro-lenders) were reported by 16.8% of respondents while 24.8% indicated that they had taken no remedial steps. In addition, respondents were asked whether they had cut back on other expenses to pay their arrears. Almost four out of ten respondents indicated that this was indeed the case.

5.3 Suggestions to solve the problems

Respondents were also invited to suggest alternatives and make recommendations. From the results, it seems that a range of possible actions could be undertaken to address the problem of non-payment. Tomlinson (1999b) has already suggested that alternative financing methods should be considered. Special consideration should be given to financing models that cover shorter periods. Our research supports this proposal on two grounds. Firstly, the reasons for non-payment suggest that the 20-year period of a bond leaves many households vulnerable should they lose their regular income. Secondly, the fluctuating interest rates also make it difficult to keep the repayments low. It should be mentioned that some progress has been made in this regard and that a number of alternative products have been developed lately. Although they might offer different forms of security and although their repayment levels might entail shorter periods, the monthly instalments are not necessarily lower.

Although long-term income is a prerequisite for mortgage bond payments, the results of the survey also suggest that bank management in respect of default and mortgage-bond education should be improved and intensified. This was confirmed in the answers of respondents to a question on what banks should do to ensure mortgage bond payments (see Table 2).

Table 2: Respondents' suggestions for increased mortgage bond payments

<i>Suggested actions</i>	<i>N</i>	<i>%</i>
1. Explain constantly why it is important to pay off the bond loan in time	51	29.5
2. Lower the monthly instalment	38	22.0
3. Keep regular contact by means of letters	32	18.5
4. Ensure that the applicant can afford the loan	18	10.4
5. Other suggestions	12	6.9
6. Uncertain	10	5.8
7. Implement an incentive/loyalty programme	8	4.6
8. Impose heavy penalties for late/non payment	4	2.3
Total	173	100.0

The most prominent suggestion relates to continued education and awareness with regard to payment. Approximately 48% of the respondents expressed a desire for this. These respondents either asked for constant awareness in respect of payments, or requested regular contact by means of letters.

At the same time, 22% of the respondents mentioned that consideration should be given to lowering the monthly instalment. However, interest rates usually impact on instalment amounts and are extremely difficult to manipulate – except by extending the payment period. However, this is also not preferable.

Reward programmes were also mentioned by 8% of the respondents as a possible method of improving mortgage bond payments. The current reward systems in the South African environment are fairly common. In general, individualised rewards were considered more acceptable than community-based rewards. For example, 87% of the respondents favoured a "lucky-draw" system and nearly 83% were in favour of receiving bonus points that could be used for purchasing household goods. Seventy-eight percent said that regular and consistent payment should be rewarded with lower interest rates. However, just over 50% of the respondents felt that communities with a good record of payment should be rewarded by benefiting from development projects.

Another suggestion that was put forward by 24% of respondents was that banks should make absolutely sure that applicants can

afford mortgage bonds before approving such bonds. This is, to a certain degree, in conflict with current government pressure to enhance private-sector finance to the lower end of the market.

Nearly 46% of the respondents mentioned that, if they were the bank, they would immediately discuss the problem with the specific client – something which had not happened in their experience. Another area of management that could be improved is that of payment methods. Approximately 69% of the respondents indicated that their method of payment was by means of cash. A further 26% and 4%, respectively, mentioned that their payments were deducted from their salaries or their bank accounts. When asked which method of payment they would prefer, 32% mentioned salary deductions, while 22% opted for deductions from their bank account. Only 45% expressed a preference for cash payments. These results are a clear indication that, at the level of payment methods alone, banks could reduce their risks to a considerable degree.

6. Recommendation

The results of the survey have confirmed previous research results, which indicate that long-term affordability (or the lack thereof) due to poor health or unemployment is one of the main causative factors contributing towards the non-payment of mortgage bonds. In fact, a fairly large proportion of respondents suggested that banks should make sure that prospective clients can afford the services. On the other hand, government is placing increased pressure on the private financial sector to increase the financial services in the market. Although there is always room for the development of innovative lending instruments, a simple increase in mortgage loans to poorer areas will not solve the problem. In fact, it could lead to an increase in non-payment, which in turn could result in an increased need for risk management on the part of the bondholder.

The second main conclusion on the basis of this study is that financial institutions need to rethink their management of mortgage loans to lower-income households. Banks may consider payment mechanisms that differ from current practices, as well as a more direct approach in the event of non-payment. In addition, a continued process of education will be required. Although previous research has alluded to these issues, the current research has highlighted them as mainstream arguments that need careful consideration.

In the light of the main findings, the research suggests that government should be far more careful in respect of trying to force financial institutions to provide housing finance to those who cannot afford it. Secondly, banking institutions should change their current management processes in the lower end of the market. A far more direct and 'hands-on' approach than the current process is required. This should be enhanced by continuous contact and education of the client. Other key recommendations include ensuring that life insurance is made available to beneficiaries without increasing the payment rate significantly.

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