

**IMPACT OF MORTGAGE POLICIES ON
HOMEOWNERSHIP IN
KWAZULU-NATAL**

by

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**DISSERTATION SUBMITTED IN FULFILLMENT OF THE
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M L SULTAN TECHNIKON

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Abstract

This research investigates the key question of whether banks discriminate against black people in the process of granting mortgage bonds which consequently affects homeownership in South Africa in general, and KwaZulu-Natal in particular.

The study is approached by way of an analysis of the residential mortgage activity of financial institutions in the region of KwaZulu-Natal to identify and assess patterns of discriminations, bureaucracy and disinvestments.

Data from banking institutions and building societies for the years 1993 and 1999 is gathered and analysed on a geographic basis in terms of their mortgage portfolios and recent mortgage activities. This is supplemented with additional information on home financing, population and housing characteristics collected through interviews with homeowners, conveyancing attorneys, estate agents and policy makers.

The analysis of the data collected indicates that:

- The proportion of bank-financed home sales is substantially higher in suburban areas than in 'townships' and rural areas.
- Bank loan mortgage lending is disproportionately lower in black neighbourhoods.
- The banks seem to concentrate on a small number of relatively large loans to better-off households.
- The banks have not adapted to low-income families or those with variable income but seem to limit their market to select areas and locations.

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ANNEXURE D

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submitted for a M.TECH. Degree in the Department of BLDG MNGT
& QUANT. SURV. Faculty of ENGINEERING. is the result of my own
investigation and research and that it has not been submitted in part or
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PREFACE

The work described in this dissertation/thesis was carried out by the author in the Department of BLDG MNGT & Q. SURV, Faculty of ENGINEERING, M L Sultan Technikon, from 6/09/1999 to 31/12/2001 under the supervision of

PROF P. UTTING

These studies represent original work by the author and have not been submitted in any form to another Tertiary Institution. Where use is made of the work of others, it has been duly acknowledged in the text.

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CHAPTER ONE

INTRODUCTION

1.1 PREAMBLE

It is generally accepted that housing, along with food and clothing, are basic needs of people. The 'basic need' approach to housing is that safe, decent, and sanitary housing is the right of all citizens. This internationally accepted view is expressed in The United Nation's Vancouver Declaration on Human Settlements as follows (Habitat: United Nations Conference, 1976):

"Adequate shelter and services are a basic human right which places an obligation on Governments to ensure to their attainment by all people, beginning with direct assistance to the least advantaged through guided programmes of self-help and community action"

Although the South African Government accepts the basic needs approach to housing it does not have the resources to provide housing at a scale that is required. Government's overall approach to the housing challenge is aimed at mobilising and harnessing the combined resources, efforts and initiative of communities, the private sector, and the State (Housing Code, 1996). This approach has been adopted against the backdrop of severe market and societal abnormalities associated with the policies and political turbulence of the pre-democratic era.

1.2 THE CURRENT HOUSING SITUATION

In South Africa housing is one of the foremost challenges facing the nation today. According to the Minister of Housing (Housing Policy, 1997) the challenges relate not only to the extent of the housing backlog and the diverse needs of the homeless and others who are inadequately housed, but also to the housing environment which has many weaknesses. Poverty, unemployment, economic stagnation and negative behaviour, together with financial and capacity constraints, make the task even more daunting.

In a speech at The World Leaders Build Function at Brits (Mthembu-Mahanyele, 10 August 2001), the Minister of Housing reported the following:

"Lack of shelter is one of the critical aspects of economic and social development that plunged the majority of our people into poverty. Countries throughout the world acknowledge the fact that the whole world is in the midst of a historic and radical transformation, not only in where people live, but also how they live. The movement of people from economically depressed areas to areas with better employment opportunities, which results in more demand for housing, is a challenge facing every country in the world."

"South Africa is, however, facing a unique housing problem. Whereas most countries are mainly focusing on meeting the emerging demands for housing resulting from new families and change in family size, South Africa first has to grapple with the two to three million housing backlog which is a legacy of past neglect of the plight of the majority of our people by the apartheid government which is also growing as a result of the same factors affecting other countries"

According to the Minister (Mthembu-Mahanyele, 13 August 2001) a total of 53.6% of the country's population live in urban areas, mostly in informal settlements because of the shortage of proper housing, with most of the rural families also forced to endure unacceptable living condition. Proper housing according to the Housing Policy is classified as: housing that must be habitable, in neighborhoods offering security services and access to facilities and jobs.

The phenomenon of both legal and illegal migration from countries in Africa and abroad further adds to the complexity of dealing with the housing issue.

1.3 SOUTH AFRICAN POLITICAL SITUATION REGARDING HOUSING FROM 1948 TO 1994

In 1948, the National Party led by Dr D F Malan, won the general election in South Africa. This election became known as the 'apartheid election,' although many of the building blocks of apartheid had already been formulated. The National Party attracted the vote of the Afrikaaner by playing the 'black issue'; this had been termed *baaskap* and *swart gevaar*. *Baaskap* refers to 'white supremacy' and *swart gevaar* literally means 'black danger'.

The government implemented the 'apartheid' classification system; for example, people were classified before 1994 as Black, Coloured, Indian and White 'race groups'. The Nationalist led government referred to the African group prior to 1994 as Blacks. After the first democratic elections of 1994 people are referred to as blacks (african, coloured, indian) and white. These terms are used throughout this dissertation.

The Group Areas Act of 1950 forbade different groups from living together and caused many people to be uprooted. This one Act alone segregated the different groups to live in different areas and very little contact was made between the groups other than in the city centre. The Group Areas Act and other apartheid legislation for many years cemented and entrenched areas where different groups should live

1.4 PROPERTY RIGHTS

According to Powel (1994) the Group Areas Act of 1950, revised in 1957 and 1966, had a major impact on property rights and the pattern of cities in South Africa.

1.4.1 Legislation affecting property rights

The Act enforced segregation of trading and residential areas, with unprecedented intervention by the State as to where people were permitted to

live or work. It was, however, not the first attempt by whites to impose segregation. Attempts at segregation in South Africa date back to the 1880's. Some of the major attempts at segregation legislation preceding the Group Areas Act of 1950 are summarised in Powel (1994).

1.4.2 Black ownership rights

Prior to 1978, Blacks, generally speaking, were not allowed to own property in the Republic of South Africa. The Black Lands Act of 1913 had qualified existing Black property rights and legalised ownership, transfer and control of land possessed by Blacks to the sovereign state.

Until promulgation of the Bantu (Urban Areas) Amendment Act of 1978, the large majority of Blacks paid rent while some held unregistered thirty-year leases. This new legislation afforded Blacks the right to lease property in South Africa under the 99-year leasehold system. This right was capable of registration and was transferable. If sold or bequeathed, the lease could be extended for a further 99-years in the new owner's name.

In 1986 the legislation was changed to allow Blacks full ownership of land. Full ownership is often referred to as 'Freehold Title'. Ninety-nine year leasehold could be converted to freehold title if the property complied with Section 46 of the Deeds Registries Act of 1937, which lays down specific requirements regarding the land itself such as adequate survey and general plan approval. Transfer duty and stamp duty are payable on freehold property but are not payable under the 99-year leasehold system.

Due to the more stringent regulations and increased costs associated with full ownership, the majority of Black properties were purchased under the 99-year leasehold system, and there was no marked eagerness to convert leasehold properties to full ownership.

1.4.3 Home ownership among Blacks

The number of leaseholds that were registered by Blacks as at 30 June 1990 was 61 855, while the number of freeholds registered as at 30 June 1990 was 2 676.

1.4.4 Further developments

Further legislative developments included the Free Settlement Areas Act of 1989, which allowed the settlement of all race groups in certain areas. The Act was not popular, and was rejected by most Coloured, Indian and Black leaders, in line with their opposition to the Group Areas Act.

In 1991, both the Group Areas Act and the Population Registration Act were scrapped. With the release of Mandela and other political leaders, there was a transitional period towards full democracy from 1991 to 1994. In 1994 the first democratic elections were held.

1.5 THE DYNAMICS OF URBANISATION IN SOUTH AFRICA SINCE THE 1960s

According to Mabin (1991) the housing situation has been characterised by large-scale urbanisation processes and governmental policies since the mid-1960s. Urbanisation is a long-term process and is multidirectional, and urbanisation policy is less certain and usually less successful than those who wish to reshape society might like to believe.

There is no doubt that the housing shortage is linked to South Africa's past 'apartheid' policies, influx control and racial segregation of residential areas. Influx control was a measure used by the Government prior to 1994 to prevent the flow of a particular group of people into an area not designated for that group. Of particular importance was the previous Government's attempt to keep the majority of the Blacks out of the urban areas through laws such as influx control.

Industrial growth in the cities was served by three kinds of labour pools: city, township and circular migration (Mabin 1991). City based labour included many literate to highly skilled workers, most of whom had jobs and housing. The city workforce found it increasingly segregated along race classification lines, as the application of the Group Areas Act to places like South End in Port Elizabeth proceeded. White workers made up a large proportion of the city-based labour force, together with some Indians and Coloureds in areas such as Bosmont (Johannesburg), Sydenham (Durban) and Athlone (Cape Town). Most African, Coloured, and Indian workers found themselves in (or looking for) accommodation in the townships. Townships were urban areas set aside for African people under apartheid.

In the townships, generally located on the peripheries of the cities, a small but growing proportion of the potential workforce shared the characteristics of those in the city proper. More and more students received the rudiments of their education in the expanding school systems, however imperfect their conditions and performance. Many households lived in council-owned, rented township housing. Townships were sometimes well serviced, like Daveyton near Benoni (electricity, water-borne sewage, streetlights, paved roads), and sometimes poorly serviced, like Duduza near Nigel (bucket sewage, unfinished streets, communal water). Wages were low, but so were rents and travel costs. Between township and city lay nothing and huge numbers of commuters travelling by subsidized rail and bus services. These were sometimes planned entirely to serve industry (example the rail service from Daveyton to Dunswan bypasses central Benoni and travels straight to the heart of a major industrial area). Also in African townships, and to a considerable extent within the working districts of the cities too, many workers lived in hostels. The term 'hostels' includes older compounds associated with private employers, and more recent municipal as well as employer-built accommodation. These places share a history of being intended to house workers of one gender, usually male, without their family and friends, and usually with collective use of kitchens, bathrooms, and bedrooms. Most of their inmates found cheap housing in these hostels while maintaining one or more rural bases. Thus the hostels provided the urban base for many such

circular migrants. These three elements namely, city, township and circular migration structured the urban environment of South Africa from the 1960s to the early 1990s

The massive growth of informal settlement after the democratic elections of 1994 demonstrates the failure of state policy towards urbanisation over the previous decades. But the condition and location of these settlements demonstrates the failure of the economy to provide for the basic needs of what has become a non-rural, but not always truly urban, population. This situation is most obvious in the shack areas around Durban and other cities in South Africa.

The abolishment of the pass laws and influx control measures in the new political dispensation granted complete freedom of movement of all South Africans and this in turn further aggravated the situation as people from the rural areas moved into the urban areas in search of a better 'life'. The net result is that the state, with limited financial resources is tasked with the difficult problem of housing a very large number of people.

1.6 AFFORDABILITY AND HOUSING FINANCE

1.6.1 Affordability

The limited resources of the State resulted in the suspension of the Government's programme of building housing units for rental purposes in 1994 and due to inaccessibility of finance for the majority of people in South Africa, many have no option but to live in deplorable conditions. Property developers are also contributing to the housing shortage for the lower income group by building units mainly for the middle to upper income group.

1.6.2 Housing finance

Access to long-term finance remains a major obstacle to the acquisition of housing by the poor. It has been shown (Manuel 2001) that low-income

people could afford to purchase houses if they were granted access to long-term credit.

According to the Minister of Finance (Manuel 2001) only about 30% of South Africans have access to any form of finance. In view of the relative importance of the mortgage lending institutions in facilitating the provision of housing, the role that these institutions play is coming under increasing scrutiny. Mortgage lending institutions are financial institutions such as banks and building societies that lend money to people for the purpose of purchasing fixed property that is land and building or land only.

1.7 NEED FOR THIS STUDY

There is a perception among the communities of KwaZulu-Natal, and particularly the Durban Metropolitan Area, that the mortgage lending institutions are contributing to this housing shortage by not lending to the blacks; that they are denying the housing needs of the people by not assisting in the widening of the homeownership base.

The banks on the other hand deny discriminating against the blacks in their lending. Despite this the Government has enacted legislation such as the Home Loan and Mortgage Disclosure Act 2000 that requires mortgage-lending institutions to lend to the blacks thus making finance more accessible to all.

The purpose of this study is to reveal whether the financial institutions do indeed contribute to the housing backlog and if so to what extent. The study also determines whether financial institutions discriminate in their lending. Furthermore, this study is intended to establish whether there is a link between the lending criteria used by the mortgage institutions and the housing shortage.

The study is also intended to provide answers to the following important questions:

- Are the mortgage lending institutions over cautious in their lending?
- Is lending disproportionately lower in poor neighbourhoods?
- Is lending in historically black areas (that is areas that were previously classified as African, Indian and Coloured residential areas) riskier than lending in other areas?

It is expected that this study will:

- Highlight the deficiencies in the lending policies of financial institutions,
- Influence future legislation on mortgage lending.

1.8 BENEFITS AND CONTRIBUTIONS OF THE STUDY

Three main parties are likely to benefit from the study.

- Policy Makers and Legislators would benefit from this study to assist them in making informed decisions.
- The community by improved access to finance, (influencing legislation relative to lending to the blacks) and thus acquiring their own homes.
- Top management and shareholders of the mortgage lending institutions are probably unaware of the practices of their branches and this study provides documented information. This study also establishes whether discrimination by mortgage lenders is just a perception or not.

1.9 FORMULATION OF HYPOTHESES

The hypotheses are:

Major Hypothesis

- Mortgage lending institutions discriminate on the basis of income and locality.

Minor Hypothesis

- Different socio-economic groups experience different results in obtaining home mortgages.

- Locality of the security and the income of the client determines approval or denial of loans.

Null hypothesis

- There is no discrimination in the lending policies of the Mortgage Lending Institutions.

1.10 SCOPE AND LIMITATIONS OF THE STUDY

The focus of the study is an investigation of the lending policies of mortgage lending institutions with respect of people of different income groups and locality.

The study focuses on the KwaZulu-Natal province as this can be regarded as a microcosm of South Africa. The housing crisis in this region reflects the situation of the rest of the country. It is further restricted to the geographical area of the Durban Metropolitan Area.

Only banks and building societies that deal with mortgage lending are investigated. The study excludes alternate lenders such as attorneys, micro lenders, finance 'houses', group schemes, pension funds etc.

The study focuses primarily at the formal housing situation of the region. The informal housing situation is excluded due to the lack of information. However, it is recognised that housing needs of the informal sector is taken care of by the people themselves.

1.11 IMPACT OF THE STUDY

The study:

- Examines the issues related to the right of equal housing opportunity and fair housing choice without discrimination.

- Economically gives mortgage lenders new opportunities to an untapped homebuyers market, thus increasing the money in the housing pool.
- Recommends a review process for loan applications so that applicants can be given every opportunity to qualify for a mortgage bonds, thereby assisting in alleviating the housing crisis to a certain extent.
- Encourages mortgage lenders to redistribute the money in the housing pool according to the demand.
- Increases the supply of housing to meet the demand for new home and assists in a growth of the construction industry, which in turn stimulates the economy of the country.
- Investigates whether disparities (between white and black people in KwaZulu-Natal) in lending patterns constitute evidence of discrimination (that is give special or different treatment to certain people).

As a result Government (policy makers), Non-Government Organisations and the banking sector are aided with an increased understanding of the impact the policies of mortgage lending institutions have on homeownership in the greater Durban area.

The Non-Government Organisations are able to direct more resources and energy in educating the people of their rights and equip them with the correct procedure in acquiring housing finance.

Government would be made more aware of the situation and implement policies to assist in alleviating the housing crisis.

1.12 OPERATION DEFINITIONS AND CLARIFICATION OF CONCEPTS

(This includes unusual technical terms related to the hypotheses)

- **Mortgage:**

Mortgage is a limited real right in the immovable property of the borrower or creditor. It gives the lender a claim on the borrower's house, etc as a security for payment of a loan to buy it.

- **Mortgagee:**

Mortgagee is a borrower or creditor who mortgages his or her property.

- **Mortgagor:**

Mortgagor is a person to whom the property is mortgaged. Mortgagor is the lender or debtor.

- **Mortgage Bond:**

A mortgage bond is an agreement that a person is bound to observe and one that has force in law. The real right is only constituted when the bond has been registered.

- **Home loan:**

A loan advanced by a financial institution to a person for the following purposes:

- purchasing a residence;
- purchasing single vacant stand;
- renovating or improving a residence, or
- building a dwelling.

The security is a registered mortgage bond or a pledge of a person's pension or provident fund rights.

- **Bondholder:**

Bondholder (mortgagor) is the lender of the money.

- **Mortgage Lending Institution (MLI):**

A financial institution that advances a loan against security of a mortgage on immovable property, example banks, building societies, etc.

- **Foreclosure:**

Foreclosure is the legal process by which the lender deprives a defaulting borrower of his or her rights in the mortgaged property. The method of foreclosure is a public sale of the property on the courthouse steps, with the proceeds of the sale going to satisfy the debt.

- **Property in possession (PIP):**

If the property is sold in execution the bondholder is entitled to buy the property. The purchase price is then set off against the mortgage debt.

- **Discrimination:**

Discrimination is unfair treatment of a person, racial group, minority etc. as defined in the Constitution.

- **Redlining:**

Redlining is the practice of refusing to grant home loans in certain areas - around which the bank draws a red line - or to accept property as collateral.

As this study pertains to an investigation of the lending patterns of banks and building societies, which deals with mortgage lending, these are collectively and synonymously are referred to as banks or financial institutions.

1.13 AWARENESS OF THE PROBLEM

Informal discussions with communities and major role players in the property industry, observation and personal experiences have given the impression that financial institutions discriminate in their lending.

Others have undertaken similar studies in the United States. Two famous studies are by Galster (1992) and Munnell et al (1992).

Their findings showed that black and Hispanic applicants were over fifty percent more likely to be denied a mortgage loan than whites, even after taking into account many factors relevant to the credit-granting decision. In the end they concluded that this disparity was the result of discrimination on the part of lenders active in the area.

1.14 KEY COMPONENTS OF THE STUDY PLAN

The problem, hypotheses and objectives of the study having been propounded, the study therefore centres on four key areas:

- survey of relevant literature;
- empirical study
 - survey among communities, estate agents and conveyancers (the estate agents and conveyancers are referred to in this study as professionals);
- survey of financial institutions;
- analysis and interpretation of the data, and
- findings and recommendations.

1.15 STUDY LIMITS

Requests for specific information from the financial institutions have not been forthcoming. The only data that is available however, are bonds that were granted for the period 1993 and 1999. This data has been obtained from SAPTG, a company that specialises in data collection.

1.16 LAYOUT OF DISSERTATION

**Chapter Two: The housing needs and mortgage finance of
South Africa**

As housing shortage and mortgage financing are the focal points of this study, this chapter begins with a detailed understanding of the existing housing condition of the country and of the province of KwaZulu-Natal. The issue of mortgage financing is thereafter examined, with particular emphasis on the role of financial institutions in the provision of housing financing in South Africa.

Chapter Three: Mortgage lending and discrimination

The major hypothesis that mortgage-lending institutions discriminate on the basis of income and locality is discussed in this chapter. The reasons behind redlining together with the financial institutions' views on arrears and foreclosures are explained.

Chapter Four: Governmental intervention

The introduction of the Home Loan and Mortgage Disclosure Act (referred to as the **Act**) confirms the views that there is disparity in the lending patterns of financial institutions in mortgage lending. Initial discussion centres on the South African Constitution, thereafter leading to an in-depth study of the **Act** and finally a critique of the **Act**.

Chapter Five: Research methodology and data collection

The methodology for the collection of the data and the techniques used in processing and analysing it is explained in detail. The construction, design and administration of the questionnaire, together with the records of the bonds granted in certain areas are also discussed.

Chapter Six: Data record and analysis

The data from the questionnaire is analysed using the SPSS computer package. Each question from the questionnaire is critically analysed and statistically tested. A descriptive analysis is conducted on the bonds granted.

Chapter Seven: Interpretation and recommendations

The core problem is investigated, and lending patterns evaluated. Finally this chapter serves to provide an overview of the preceding chapters. The findings of the study are discussed, and recommendations are made as to how this study could assist in alleviating the housing shortage in South Africa.

1.17 CONCLUDING REMARKS

South Africa is currently facing a housing crisis of daunting proportion and many believe that one of the main contributing factors underlying the housing shortage is the lack of finance.

This study establishes that mortgage lending is characterized by large-scale disparities, thus contributing to the housing crisis.

CHAPTER TWO

THE HOUSING NEEDS AND MORTGAGE FINANCE OF SOUTH AFRICA

2.1 AN OVERVIEW OF THE CURRENT HOUSING CONTEXT IN SOUTH AFRICA

2.1.1 Introduction

The ultimate responsibility for ensuring that housing opportunities are provided to all South Africans lies with the Government. Section 26 (1) and (2) of the Constitution (The Constitution, 1996) clearly stipulates that:

"Everyone has the right to have access to adequate housing. The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right."

The Housing White Paper (1995) states that:

"Government aims to establish a sustainable housing system which will eventually enable all South Africa's people to secure housing process with secure tenure, within a safe and healthy environment and viable communities, in a manner that will be a positive contribution to a non-racial, non-sexist, democratic and integrated society within the shortest possible time frame."

Almost 220 000 units need to be built yearly to keep pace with the growth of the South African population. It is estimated that nearly fifty four per cent of the population are living in about one and half million self-constructed informal dwellings (South African Yearbook, 1999).

The executive director of the Building Industry Federation of South Africa (BIFSA) says that insufficient government funding is one of the main reasons why low-cost housing delivery falls short of requirement. Ideally, the executive

director says, 5% of the total national budget should go towards housing instead of 2.3% currently allocated (Heard 2000).

In 1997 the National Housing Forum, a key actor in the development of a housing policy consisting of representatives of political parties, business communities, building industry, financial institutions, unions, and civic and development organisations, was restructured into the National Housing Forum Trust. It turned its attention to acting as a non-aligned facilitator in order to ensure that information concerning the new housing policy became available to all stakeholders.

2.1.2 The housing delivery process

Delivering housing involves a complicated process requiring certain steps and procedures to be followed. Briefly, housing delivery in South Africa requires the following:

- Assessing the housing subsidies
- Township establishment process
- Assessing the end-user finance

2.1.3 Housing subsidy

Key to the delivery of housing the poor household is the Housing Subsidy Scheme launched by the Minister of Housing in March 1994. The scheme is based on the following principles:

- That subsidy is paid to acquire affordable housing with secure tenure and minimum health and safety standards.
- That all households earning less than R3500 per month are eligible, but subsidy levels are linked to actual income so that the poorest households receive the greatest benefit.
- That the range of tenure and delivery options is accommodated.

- That private investment is encouraged so as to increase the value of what the subsidy delivers.
- That the subsidy is assessed once only as a grant and not as a loan.

The subsidy level linked to monthly household income is as follows:

Household Income	Subsidy
R 0 - R1 500	R16 000
R1 501 - R2 500	R 9 500
R2 501 - R3 500	R 5 000

Subsidy Mechanism

- *Consolidated Subsidies*

Consolidated Subsidies are available to households that previously received state subsidy, which is generally in the region of R7 500. This scheme was launched on 5 June 1994.

- *Project Linked Subsidy*

On the identification and initiation by community and/or developers of housing projects, the developers apply to the Provincial Housing Board for subsidies. Subsidies are awarded to households acting together as a group. This scheme was launched on 15 June 1994.

- *People's Housing Process*

People's Housing Process subsidy is intended to support the poorest household where the only form of financial assistance is a housing subsidy, and there being no other financial resources e.g. end-user finance. Because the householder undertakes the building operation the householder are also entitled to technical, logistical and administrative support. This scheme was launched on 19 August 1994.

- *Individual Subsidy*

Individual Subsidies are available to single households that are likely to be used to purchase a single housing unit. This scheme was launched on 5 June 1995.

- *Institutional Subsidies*

Institutional Subsidies are directed towards the establishment of social housing in South Africa. An amount of R16 000 is granted to households earning less than R3 500, irrespective of the income. These are paid directly to a social housing institution, which will then rent the dwelling through the use of one of the various rental agreements. This scheme was launched on 1 December 1995.

2.1.4 Township establishment

Township Establishment is the process of converting raw land into proclaimed land, which can be subdivided into plots and sold to buyers for which the specific plots can be registered in the Deeds Office. In the establishment of a township the following must be taken into account, namely

- Locality in respect of employment opportunities, essential infrastructure and amenities.
- Geo-technical engineering analysis, ensuring that the land is suitable for development.
- Institutional requirements such as compliance with the Provincial Land Use Ordinances, the Less Formal Township Establishment Act and The Development Facilitation Act.

2.1.5 Accessing of appropriate end-user finance

All the stakeholders in the provision of housing are in agreement that the key to a sustainable housing process is the availability and accessibility of credit. (Refer to section 2.1.1 as to the views expressed by the Building Industry Federation of South Africa on the low housing subsidy amount). Conventional banks and alternative lenders need to be more involved in the provision of financing for housing.

According to the Department of Housing financing for housing can be grouped as follows (Banking Council, 9 October 2000):

- **Group One: Formally Employed, Middle to High Income**
Householders must be competent, able and willing to buy in a viable housing market. A regular income in excess of R3 500 per month with access to collateral and security is the pre-requisite. Applicant can have access to conventional mortgage finance.
- **Group Two: Formally Employed, Low Income**
Householders must have regular income of between R800 to R3 500 per month and have access to collateral and security. This group should require small and medium housing finance.
- **Group Three: Informally Employed, Low Income**
Householders must have irregular income of R800 to R3 500 per month, have access to limited collateral and security and require small, unsecured loans.
- **Group Four: Low/No Income**
Fully subsidised market.

Mortgage Finance

Four large major banking groups, commonly known as the 'Big Four,' currently dominate the market for conventional mortgage financing. These four major banking groups, Standard Bank, ABSA, First Rand and Nedcor, together with other smaller banks had a total R195.3bn worth of mortgage loans in 1999 which accounted for 33% of all bank loans in South Africa, an increase of R5.9bn from 1998 or 38% of all bank loans (Banking Council, 7 November 2000).

Lending Criteria

In assessing whether the financial institutions considers granting a mortgage loan the following applies:

- The monthly loan instalment does not exceed a maximum of 25% of gross monthly income,
- That the household's total debt commitment does not exceed 35% of monthly gross income,
- That the repayment period is 20 years,
- That the date when the mortgage matures does not normally exceed the date the householder becomes 65 years, and
- That a deposit of 20% of the purchase price is available.

An investigation of some the above lending criteria together with other perceptions is the subject of this study.

Alternative Finance

- Micro loans/bank provided

These loans are relatively smaller (average R8 000) than the average mortgage bond, with a shorter term and a fixed interest rate. The loans are secured by a cession of the provident fund benefit of the householder and are deducted by 'payroll'.

- **Micro loans/payroll lender provided**

For those who do not belong to a provident fund but are formally employed, a special market called 'payroll' lenders e.g. Altfin and King Finance caters for these. These loans are small, usually less than R6000 with a repayment period of 24 to 36 months and interest fixed at around 43%. Installments are deducted by 'payroll'.

2.1.6 End-user finance facilitators and providers

The government realised that it cannot meet the massive housing needs of the poor on its own, given its limited resources (Ministry of Housing, 1997). To encourage public and private partnerships and to attract private investment to the low income housing market, the following institutions were established:

- **Home Loan Guarantee Company (HLGC)**

The HLGC was incorporated in March 1990 with the aim of providing guarantees of last resort for low-income housing, which are both mortgage-backed and non-mortgage backed.

- **National Urban Reconstruction and Housing Agency (NURCHA)**

NURCHA was established in May 1994 to facilitate access to finance for subsidy-linked housing projects, to encourage financing by the institutions for housing development and it shares the financial risks with the banks. Guarantees are provided for bridging and end-user financing.

- **Makulong Home Loans (MHL)**

MHL was established to make finance available for houses in the R20 000 to R50 000 price range. Householders must be in regular employment with a company that has a provident fund and the fund must be permitted to advance guarantees for housing and be credited by Gateway. The provident fund guarantee will account for at least half of the value of the loan.

- **National Housing Finance Corporation (NHFC)**

The NHFC was established by government in May 1996 as a development finance institution aimed at seeking ways to mobilise finance to create housing opportunities for low and moderate income families.

- **Servcon Housing Solutions (SHS)**

The SHS was launched in June 1996 as a joint venture between government and the banks. It was tasked with the mission of implementing a payment normalisation program.

- **Gateway Home Loans (Pty) Limited**

After a long feasibility and preparation process, Gateway Home Loans entered its pilot phase in April 1999. This followed the accreditation of the first primary market lenders-Standard Bank, People's Bank (a division of Nedcor Bank) and African Bank.

Gateway Home Loans was launched as a subsidiary of the state owned National Housing Finance Corporation with the aim to provide non-mortgage backed end-user finance for low-income employed people. The process is to acquire loans from the conventional banks through the use of guarantees from provident funds and the capital markets. Eventually Gateway will issue capital market securities that will be credit rated and traded in as tradable financial instruments.

2.1.7 Consumer protection

Consumer protection bodies have been set up to protect consumers from exploitation and malpractice, especially those consumers who are entering the property environment for the very first time. Consumers are urged to deal with reputable developers, contractors, estate agents, attorneys and lenders.

Listed below are the bodies established to protect potential consumers from exploitation:

- **National Home Builders Registration Council (NHBRC)**

The NHBRC was established in 1995 to protect housing consumers against builders who provide poor services. The NHBRC sets and maintain construction quality standards in the building industry and provides a warranty to all new homes built with the housing subsidy.

On 4 June 1999, the Government published the Housing Consumers Protection Measures Act (No 95 of 1998) in the Government Gazette. In terms of the Act, the National Home Builders Registration Council (NHBRC) became a statutory institution with the responsibility to provide protection for all new housing consumers against defined defects. The aim of this Act is to ensure an environment that promotes home owner and home builder empowerment.

- **The Housing Consumer Protection Trust (HCPT)**

The HCPT assist low-income-housing consumers by providing pre-emptive advice on all kinds of housing matters.

- **The Legal 1 Service**

The Legal 1 service is a service provided under the auspices of the Association of Law Societies. Legal advice including for housing matters is provided twenty-four hours a day. On payment of nominal membership fees a householder becomes a subscriber thus enabling access to legal advice.

- **The Agreement Board**

To ensure that the many alternative-housing products meet the required standards an 'Agreement Stamp of Approval' certificate is issued.

- **The Estate Agents Board**

Potential housing consumers should be careful to deal with only registered and licensed Estate Agents. These individuals are backed by the Estate Agents Fidelity Fund.

2.1.8 Other housing-related organisations

A number of housing-related organisations are also available that can assist individuals and communities gain access to housing. The organisations are as follows:

- **Habitat for Humanity**

This is a Christian housing organisation operating on a non-profit basis. Its function is to try to eliminate the housing crisis by creating decent shelter.

- **The Inner City Housing Upgrading Trust (ICHUT)**

This was established in 1993 with the objective of contributing to the revitalisation of Johannesburg's inner city through the facilitation of the housing programme.

- **The Social Housing Foundation (SHF)**

The Social Housing Foundation (SHF) was established in 1997 through the National Housing Finance Corporation to promote support and assist the integrated process of sustainable social housing in South Africa.

The SHF is a development support and capacity building organisation for the social housing sector in South Africa. It contributes towards the development of the housing industry and raises the profile of social housing as a valuable contribution towards low-cost housing.

- **South African Homeless People Federation/Peoples Dialogue**

This is made up of more than 1100 Savings and Loan Collectives throughout South Africa. Members of the Collectives are residents of informal settlements and backyard shack dwellers.

2.1.9 Government institutions involved in housing

The government is serious about the plight of the homeless people of South Africa. The government's concern is demonstrated by the establishment of the following Department, Portfolio Committee and Housing Boards.

- **The South African Development Board**

The South African Development Board was established in terms of the Housing Arrangements Act 1993. As amended in the Housing Act No.107, the National Housing Board has been abolished and replaced with the South African Housing Development Board. This board assists the Minister of Housing to monitor and implement the housing policy.

- **The Provincial Housing Boards**

The Provincial Housing Boards were established in terms of the Housing Act 1993. Their role is the execution of the housing policy. Applications for the Housing Subsidy Scheme are made to these boards.

2.1.10 New housing initiatives

During the Presidential Job Summit (1998), housing was recognised as job creation from housing delivery. This initiative focuses on piloting new approaches to affordable housing including promoting rental and alternative tenure options, developing new institutional capacity and creating a new funding mechanism.

2.2 EXISTING HOUSING CONDITION IN KWAZULU-NATAL

2.2.1 Introduction

The role of central government in housing is to formulate policy and to support the provinces in implementing the policy (Ministry of Housing, 1997).

In terms of schedule 4 of the Constitution, housing is the joint responsibility of national and provincial government, which must be enforced in terms of section 26 of the Constitution.

Section 7 of the Housing Act of 1997 further requires the provincial government to "*do everything in its power to promote and facilitate the provision of adequate housing*" in the province. The Provincial Housing Act, Act No.12 of 1998 was passed by the provincial legislature of KwaZulu-Natal in January 1999 and came into effect in April 1999. This legislation was passed to effect housing delivery in the province.

Although primary responsibility for housing in KwaZulu-Natal rests with the provincial government, many important role players such as financial institutions, developers, contractors, etc. all impact on the delivery process of the region.

One of the foremost challenges facing the provincial government is housing the people of the province. The challenges relate not only to the huge housing backlog but also poverty, unemployment and economic stagnation, making the task even more daunting.

This section also highlights the role that the financial institutions play in housing the people of the province. There is a perception that the banks selectively invest in certain areas of the province, thus not assisting in alleviating the enormous housing backlog.

Furthermore, according to Masemola (2000) housing delivery in the province has lagged behind in the provision of housing because of lack of clear policy direction, corruption, and the slow demarcation process.

2.2.2 Problems relating to housing delivery in KwaZulu-Natal

The housing sector of the province is characterised by enormous disparities between need and current delivery. According to the provincial Minister of

Housing (Makhaye, 8 August 2001), although a total of 224 169 'housing opportunities' had been created in KwaZulu-Natal since 1994, the province is still facing a backlog of 370 000 houses, which needs R6,8-billion to wipe out. According to the Minister 18 592 houses were completed in the 2000/2001 financial year compared with the average of 10 439 over the previous five years, while 26 092 serviced sites were completed.

Although there is a huge housing shortage or need this unfortunately does not necessarily translate into demand. The people of the province are very poor. Over half the population of 9.25million earns less than R1500 and nearly thirty percent less than R750 per month. At present the financial institutions will not lend to people earning less than R3500 per month.

Rampant corruption, apathy, low morale, problems related to the split of the department of Local Government and Housing, etc. according to the provisional Minister of Housing still need to be resolved. The Minister outlined some of the problems regarding housing in KwaZulu-Natal as follows:

- Prior to the June 1999 election, housing administration in the province was part of the larger department of Local Government and Housing. The old structure consisted of the Provincial Housing and Development Board. This was a body of experts outside the department who played a watchdog role by monitoring the implementation of housing projects. This was a drawn out process that was essentially driven by developers and usually took several months to produce any tangible form of houses. However, since the June 1999 election the KwaZulu-Natal Department of Housing, has transformed into a leaner and more focussed unit functioning effectively on policy guidelines.
- The introduction of individual subsidies has added to the problem. The scheme was open to widespread corruption. Due to the large number of applicants the department was unable to verify information. People were said to be giving non-existent site numbers to qualify for the one-off grant

of 16 000 thousand rand. In May 1998 a moratorium was placed on all individual subsidies and it was lifted in October 1999 after internal investigations were carried out.

- Further strain was added on the housing department funding in the provision of housing by the HIV/Aids epidemic. To cope with the epidemic the provincial government had to formulate an HIV policy. Children's villages for Aids orphans including home-based care had to be provided.
- The ever-increasing cholera cases are another epidemic that is depriving the housing funding programme. The provincial government has now had to spend a substantial amount of money in providing clean water in the rural areas.
- Vast tracts of rural land are under the tutelage of traditional leaders, and development of this land for housing purposes is severely hindered, all development has to go through chiefs, which often slows the pace of progress.
- The Local Government Property Rates Bill has caused a fair amount of consternation in the market place. The possible rates hike and the lack of transparency in regard to the bill had a negative effect in the provincial housing market.
- The uncertainty surrounding the question of the Demarcation Board has added to the housing shortage especially in the rural areas, as this will effect rates and taxes in these areas.
- The sharpening of the interest rate sensitivity, especially that interest rates may move upward as inflation rises and the rand depreciates further, confidence within the housing sector will drop, causing a drop in supply and an increase in demand.

2.2.3 Housing delivery - The Department of Housing in KwaZulu-Natal

The Department of Housing (KwaZulu-Natal) administers a number of housing subsidy instruments, which are used to fund housing delivery. The department administers the following subsidy schemes, which are provided by the central government:

- *Consolidated subsidy*

Consolidated subsidy scheme allows people who have already benefited from state assistance in the form of site-and-service scheme to further improve their living condition. As at March 2000, 25 projects have been approved.

- *Project Linked subsidy*

Project Linked subsidy is a project subsidy scheme, funds are made available to developers who then assist consumers to apply for the subsidy. To date 286 projects have been approved through this scheme.

- *People's Housing programme*

Peoples Housing programme is a scheme that assists people who wish to enhance their subsidies by building or organising the building of their own homes. This scheme will benefit 13 500 beneficiaries on completion.

- *Institutional subsidy*

Institution subsidy scheme allows institutions to make available existing properties or make available new properties for rental purposes with the view to allow tenants to own the properties after a defined period of time. To date 14 projects have been approved.

- *Rural housing subsidy*

Rural housing subsidy scheme is in its infant stage, having only been finalised in December 1999. Three pilot projects are currently in progress.

- *Rapid Land Release policy*

Rapid Land Release policy was developed to focus attention on settling people with initially rudimentary service and tenure. The idea is to fully develop the area at a later stage when occupants qualify for housing subsidy.

- *Transitional housing policy*

Traditional housing scheme is to provide temporary accommodation for destitute and impoverished homeless people living in inner cities areas. The scheme is designed to encourage people to move on and find more appropriate permanent accommodation.

Table 2.1 shows that project linked subsidies received the most approvals in 1999. During the period a total of 19 684 project linked subsidies were approved for a total subsidy value of some R353 million. During 1999 the Department processed 26 972 subsidy applications.

TABLE 2.1 SUBSIDIES APPROVED PER SUBSIDY INSTRUMENT 1999

Subsidy instrument	No of subsidies approved	Total subsidy amount (rand)
Project linked	19 684	353 011 637
Consolidated	2 242	16 873 500
Institutional	1 204	16 627 500
Transitional	900	10 867 500
Housing support	2 942	30 187 500
TOTAL	26 972	427 567 637

Source: Department of Housing - Annual Report 1999/2000

Table 2.2 shows that although project linked subsidies dominate all the subsidies in the regions, they are more predominant in the Coastal Region.

Inland Region received about 29% of the subsidy, whilst the Northern Region received only about 8 % of the total subsidy.

TABLE 2.2 REGION DISTRIBUTION OF SUBSIDY TYPE

Subsidy type	Coastal	Inland	Northern	Total
Project linked	12 426	5 007	2 251	19 684
Consolidated	2 242			2 242
Institutional	1 204			1 204
Transitional	900			900
Housing support		2 942		2 942
TOTAL	16 772	7 949	2 251	26 972

Source: Department of Housing - Annual Report 1999/2000

2.2.4 Bank's role in housing in KwaZulu-Natal

According to the KwaZulu-Natal Minister of Housing (Makhaye 2001) the housing sector plays a prominent role in the region's economy by contributing significantly to the gross domestic product, capital formation and reproducible wealth. The housing sector is important to the financial system, with long term loans for housing constituting a significant portion of the assets of the banking system. Five major banking groups namely ABSA, Nedcor, Standard Bank, First National Bank and NBS Bank dominate the mortgage market in the region.

While nearly forty percent of the assets of the country's banking system is in the form of residential mortgage, a very high figure surpassed only by the United States (US), access by the majority of the people of South Africa to this formal source of finance has been very limited. The mortgage interest rate in South Africa is considerably higher than the US. The current average mortgage interest rate in South Africa is 12.5% per annum whereas in the US it is 4% per annum.

2.2.5 Mortgage financing in the Durban Metropolitan areas

Table 2.3 shows the bank's discriminatory lending pattern for the Durban Metropolitan Area for the years 1993 and 1999. An examination of the figures reveals that lending in historically white residential areas far surpasses lending in historically black residential areas. A detailed analysis of the comparison of the lending pattern of the banks, together with the population of the areas is carried out in Chapter 6. Refer to Appendix 2 for a map of the Durban Metropolitan Area.

TABLE 2.3 BANK'S LENDING PATTERN FOR 1993 AND 1999

Suburb	No of bonds (1993)	Value of bonds (1993)	No of bonds (1999)	Value of bonds (1999)	Predominant group
DURBAN NORTH	155	56 792 115	134	42 132 438	White
KWA-MASHU	57	2 565 000	67	3 358 770	African
CHATSWORTH	188	16 920 000	231	27 720 000	Indian
UMLAZI	5	355 173	229	26 052 744	African
HAMBANATI	4	239 140	12	720 811	African
UMHLANGA ROCKS	140	52 500 000	125	43 750 000	White
PHOENIX	135	7 425 000	290	25 075 000	Indian
AMANZIMTOTI	325	38 057 878	121	21 240 034	White
KLAARWATER	4	537 988	8	375 277	African
BLUFF	107	13 750 000	77	12 939 284	White
BEREA	156	46 800 000	132	46 200 000	White
INANDA/NTUMZUMA	24	846 440	34	1755 012	African
KWADABEKA	0	NIL	16	1 186 376	African
UMDHLOTI	65	22 756 000	98	40 090 000	African
KWAMAKHUTA	0	NIL	21	964 381	African
TOTAL	1 665	259 544 734	1 596	293 560 127	

Source: SAPTG (2000)

TABLE 2.4 COMPARATIVE NATIONAL LENDING PATTERN FOR THE PERIOD
JULY 1998 TO JUNE 1999

Province	Bond value (000's)	No. of bonds	Population	Unit value	Pop/bond
NORTH WEST PROVINCE	R 1 252 615	18 036	3 562 000	351.7	197.5
FREE STATE	R 198 438	24 839	2 715 000	73.4	109.3
NORTHERN CAPE	R 1 818 358	11 148	5 337 000	340.7	478.7
WESTERN CAPE	R 13 956 846	80 376	4 200 000	3323	52.3
NORTHERN PROVINCE	R 605 219	8 454	875 000	691.7	103.5
MPUMALANGA	R 1 285 600	16 169	3 000 000	428.5	185.5
GAUTENG	R 17 566 350	141 963	7 807 000	2250	55.0
KWA-ZULU/NATAL	R 6 259 404	46 276	8 900 000	703.3	192.3
EASTERN CAPE	R 3 696 582	42 541	6 700 000	551.7	157.5

Source: SAPTG (2000)

Table 2.4 shows the lending patterns of the banks for the period July 1998 to June 1999 for the various provinces of the country, with KwaZulu-Natal being granted the third highest number of bonds, but with the highest per head of population (192.3). Gauteng has been granted the highest number of bonds although per head of population being only 55.0. The unit value of bonds granted in KwaZulu-Natal was only 703.3 as compared to the Western Cape of 3323, with per head of population of only 52.3. In proportion to the population KwaZulu-Natal should be granted the most number of bonds and Northern Province the least number. Table 2.4 clearly indicates disparity of mortgage lending by the banks.

2.2.6 Conclusion

The provision of adequate and affordable housing is critically important to the social and economic development of KwaZulu-Natal. The success of housing delivery will, however, be measured not only by the number of subsidies approved by the Department of Housing and the number of homes built, but also by the commitment shown by the major banking group in lending to all the people of the region.

2.3 THE HOME-LOAN MARKET SHARE

2.3.1 Introduction

Traditionally, the home-loan market in South Africa has been served by building societies. United, Allied, Perm, Natal and Saambou were the five major building societies that were actively involved in this market. The latter half of the 1980s however, saw increasing business being done by banks in the home-loan market (Powel, 1994).

The total home-loans outstanding to banks for 1999 was R196.093bn (South African Reserve Bank, 2000).

2.3.2 Detailed breakdown of home loan market share

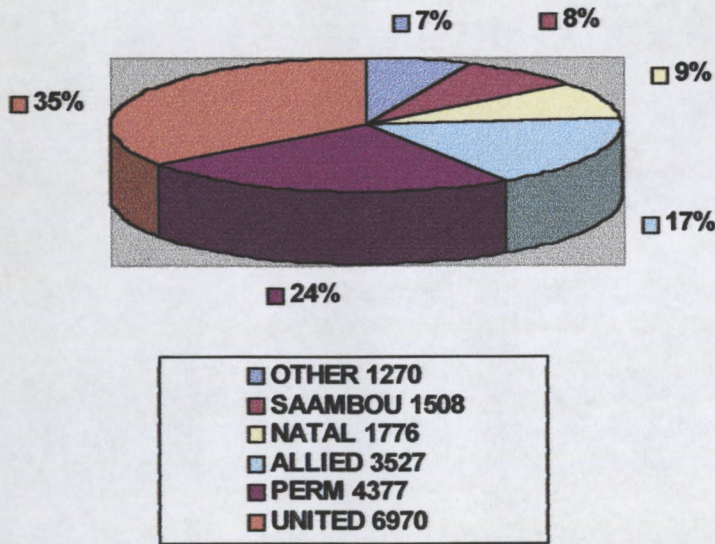
Figure 2.1 to Figure 2.3 and Table 2.5 to Table 2.10 gives an indication of the home loans market from the period 1985 to 2000.

Figure 2.1 Compares home-loan market share in 1985 with home-loan market share in 1990 (Powel, 1994).

Figure 2.1 shows the total amount of bonds granted in 1985 and 1990 being R 19 428 000 and R 55 940 000 respectively. This represents an increase of 288%. 1990 also had a number of new mortgage lenders as compared with 1985; namely Volkas, Nedbank, FNB, Standard and Bankorp, resulting in a sharp decrease of market share of the traditional mortgage lenders that were lending in 1985.

FIGURE 2.1: HOME LOAN MARKET SHARE

DECEMBER 1985
in R million



DECEMBER 1990
in R millions

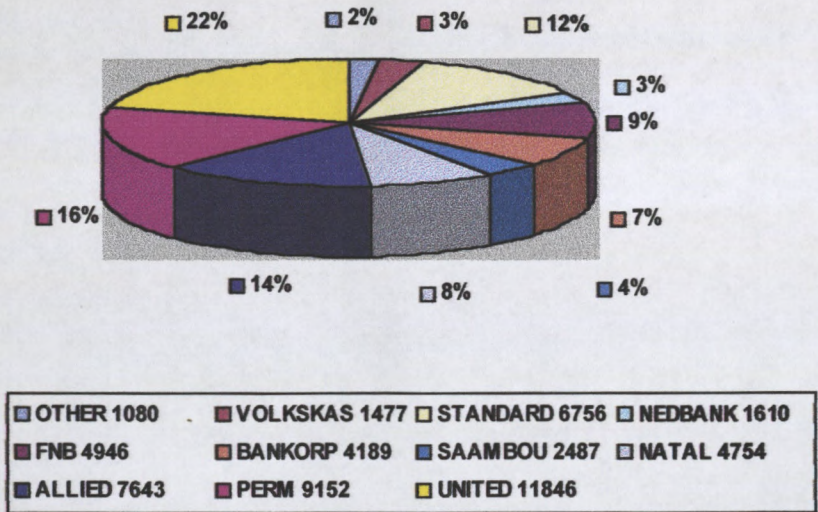


TABLE 2.5 COMPARISON OF MARKET SHARE

Banks / building societies	Market share - 1985	Market share - 1990
Saambou	8%	4%
Natal	9%	8%
Allied	18%	14%
Perm	25%	18%
United	36%	21%

Source: Powel (1994)

Table 2.5 shows the extent of the affect the new mortgage lenders had on the market share of those financial institutions that were engaged in home loans during December 1985.

The market share of the new mortgage lenders is shown in table 2.6.

TABLE 2.6: MARKET SHARE OF NEW MORTGAGE LENDERS
(DECEMBER 1990)

Banks / building societies	Market share
Standard Bank	12%
Nedbank	3%
FNB	9%
Bankorp	7%

Source: Powel (1994)

2.3.3 Involvement of banks in mortgage lending

The period from 1987 to 1990 saw the steady increase of banks in the home mortgage business. Figure 2.2 reflects how banks eroded the home loans share of building societies in the home loan market. A number of building societies merged with the bigger banking groups enabling them to capture a bigger share of the home loans market e.g. Permanent Building Society merged with Nedbank to form Nedcor Bank.

FIGURE 2.2: MARKET SHARE OF BANKS

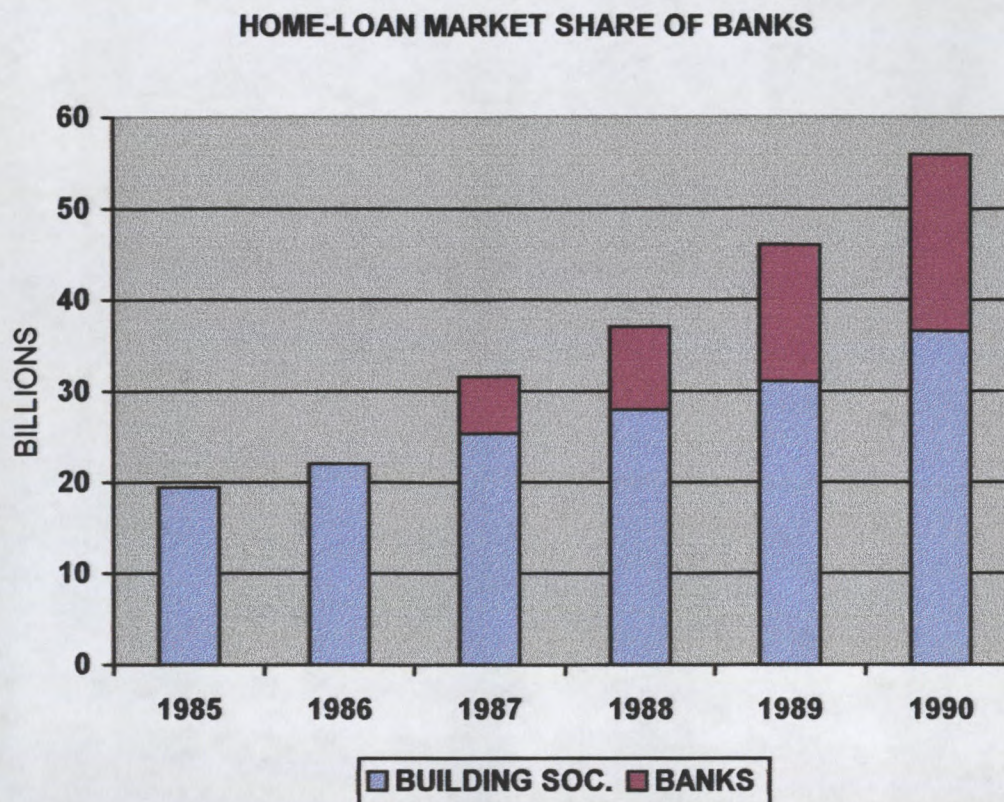


TABLE 2.7 COMPARATIVE MORTGAGE BONDS PER BANK: NATIONAL BOND REGISTRATION (JULY 1998 TO JUNE 1999)

Name of institution	Bond value (000's)	Market share %	No. of bonds	Market share %
Standard	R4 043 404	19.56	20956	20.65
FNB	R2 033 639	9.83	11186	11.03
ABSA	R6 882 362	33.25	35311	34.80
NEDCOR	R3 880 318	18.75	19776	19.49
INVESTEC	R 639 677	3.09	866	0.85
NBS/BOE	R1 969 694	9.52	7019	6.92
SAAMBOU	R1 243 621	6.00	6368	6.26
TOTAL	R20 697 715	100	101482	100

Source: SAPTG (2000)

TABLE 2.8 COMPARATIVE MORTGAGE BOND PER BANK: NATIONAL
BOND REGISTRATION (JULY 1999 TO 2000)

Name of institution	Bond value (000's)	Market share %	No. of bonds	Market share %
Standard	R5 929 877	16.80	24 355	17.11
FNB	R8 45 913	8.11	12 19	8.57
ABSA	R9 520 772	27.13	41926	29.46
NEDCOR	R4 925 939	14.04	23 968	16.84
INVESTEC	R771 556	2.20	1181	0.83
NBS/BOE	R3 904 669	11.13	11308	7.95
SAAMBOU	R1 505 986	4.29	6168	4.33
Other	R6 689 538	16.20	21214	14.91
TOTAL	R35 094 250	100	142 312	100

Source: SAPTG (2000)

Comparative mortgage bonds per banks indicating the market shares for periods July 1998 to June 1999, and July 1999 to June 2000, are shown in Tables 2.3 and 2.4 respectively. The number of banks involved in mortgage financing and the total value of home loans indicates the size of the mortgage industry in South Africa; however, despite this there is a housing shortage. One of the purposes of this study is to reveal whether financial institutions discriminate in their lending.

Any correlation between bond values and number of bonds as indicated in Tables 2.3 and 2.4 to possible **discrimination in mortgage lending** is discussed in detail in Chapter 7.

Table 2.5 shows the registration of bond on **all** properties nationally for the period July 1998 to June 1999. The total registration of **all** bonds was R46 639 412 000 compared to total bond value of R20 697 715 000, indicating mortgage market share of 44.34% of the total property market.

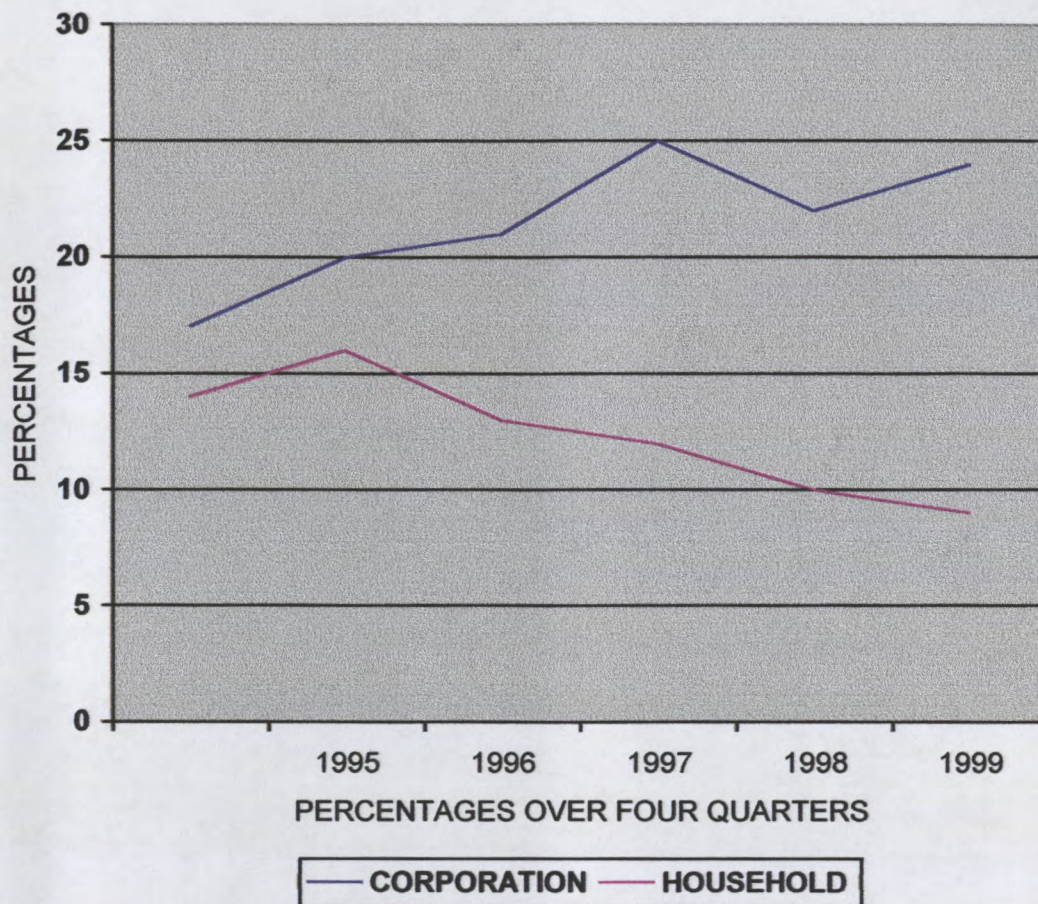
TABLE 2.9 COMPARATIVE NATIONAL PROPERTY BOND REGISTRATION (JULY 1998 TO JUNE 1999)

Province	Total registration of all bonds (R 000's)	No. of bonds	Population (million)
North West	1 252 615	18 036	3.562
Free State	198 438	24 839	2.715
Northern Province	1 818 358	11 148	5.337
Western Cape	13 956 846	80376	4.200
Northern Cape	605 219	8454	0.875
Mpumalanga	1 285 600	16169	3.000
Gauteng	17 566 350	141963	7.807
KwaZulu-Natal	6 259 404	46276	8.900
Eastern Cape	3 696 582	42541	6.700
TOTAL	R46 639 412	389 802	43 096

Source: SAPTG (2000) and South African Year Book (2000)

Table 2.9 also shows the pattern of distribution of finance to the various provinces of South Africa. Although KwaZulu-Natal has the highest population (8.9 million) it only gets 13.42% of the finance, as compared with Gauteng that has a lower population (7.807), but gets 37.66% of the finance.

FIGURE 2.3 CREDIT EXTENDED TO HOUSEHOLDS AS COMPARED WITH CORPORATIONS



Source: South African Reserve Bank (March 2000)

Figure 2.3 shows the difference in credit extended between households and corporations for the period 1996 to 1999. A steady decline in household's credit is noted. This is of serious concern to the Government, as any decline in the financing of households would have a negative impact in the provision of houses.

2.3.4 Interest rate, repro rate and margins

The decision by any bank to operate in a particular market is dependent on that bank's assessment of whether it can, on a sustainable basis, earn a sustainable return on its shareholders capital. South African banks operate on

a multitude of different markets, namely one that takes deposits, makes transactions and handles transactions ("lending and transaction markets"), and the other that trades for its own account, makes investments and gives advice ("knowledge and trading markets"). This study confines itself to the former that is the "lending and transaction market".

The decision of the banks to do business in any particular market, to any particular person or area for all intentional purposes is based on economic reasons (Banking Council, 4 July 2000). However, this is contrary to the thinking of many South Africans including the South African Communist Party (Randall 2000) who strongly feel that banks should re-invest their funds to the very people from whom they have taken deposits from, that is the masses.

Banks get most of their funding from the Reserve Bank through a system referred to as Repurchase or Repurchase Rate. Banks tender for a limited amount of funds against collateral of any maturity. Banks 'borrow' funds from the Reserve Bank by selling securities while simultaneously agreeing to repurchase the same securities at a predetermined price after a certain period of time.

When banks see the need to borrow funds more expensively from the Reserve Bank, to sustain their profitability they are compelled to pass the increased cost of the borrowed funds to the consumers in the form of a higher interest rate for hire purchase, overdraft and mortgage bond facilities.

On the other hand, should funds be raised at a lower cost from the Reserve Bank then banks reduce consumer rates in order to maintain their competitiveness. The interest margin is the difference between the rate of interest received and the rate of interest paid, and calculated as a percentage of the average value of loans over the year. In South Africa the margin is 3.7%.

Banks have the right to vary interest rates. A legal dispute was settled in the Supreme (High) Court of Appeal in Bloemfontein in 1999 when it was held that a clause conferring discretion on the banks to vary interest rate was valid.

2.4 THE ROLE OF FINANCIAL INSTITUTIONS IN THE PROVISION OF HOUSING IN SOUTH AFRICA

2.4.1 Introduction

Although the primary responsibility for housing in South Africa rest with the government, many important role players such as financial institutions, developers, contractors, building material suppliers, etc. impact on the delivery process.

The financial institutions role is further enhanced in the Housing White Paper (1995) where it is stated that one of the initial challenges facing all role players is the creation of a public environment conducive to attracting the necessary private investment, both of the household as well as that of the institutions. With the backlog estimated at between two and three million houses the government does not have sufficient funds to meet the housing needs for South Africa. The government is anxious to fulfil one of its policy objectives and is urging the banks to increase their lending in low-cost housing, and in sharp contrast the banks are equally anxious to protect policyholders and depositors. The banks view lending in low-cost housing as high risk. In an attempt to resolve this stand-off the government introduced legislative measures such as the Home Loan and Mortgage Disclosure Act 2000, compelling banks to disclose details of housing loans. This is discussed in more detail in Chapter 4.

The discussion in this section centres on a brief understanding of general banking in South Africa and thereafter focuses specifically to the role banks play in the provision of housing in South Africa.

2.4.2 An overview of the South African banking industry

The banking industry in South Africa consists of a sophisticated network of commercial banks, mutual, investment and merchant banks and various foreign banks. Four large major banking groups, commonly known as the 'Big Four' dominate the market. These four major banking groups, Standard Bank, ABSA, First Rand and Nedcor, each have national distribution networks and assets individually in excess of R120bn. Two other relatively large banking groups, BOE and Investec also with national distribution networks, each have assets in excess of R40bn.

The combined assets of these six groups account for approximately 88% of the market, except for resale and repurchase agreements where some of the overseas banks, or their branches, have a significant share of the market. The balance of the market is made up as follows (Banking Council, 7 November 2000):

- one medium-sized bank with assets exceeding R14bn;
- twenty five small banks with individual assets of less than R7bn;
- twenty five micro banks with individual assets of less than R1bn;
- three mutual banks;
- nine foreign-controlled banks;
- fifteen branches of foreign banks; and
- fifty five foreign banks' representative offices estimated to hold 4.3% or R31bn (1998: 4.7% or R31bn) of the total assets of all banks doing business in South Africa.

2.4.3 Finances of the banks

According to the Banking Council (15 July 2000) the South African banking industry is in a healthy state. The total funds of banks increased by 10.9% to R724.3bn in 1999, from R652.8bn in 1998. Total deposits amounted to R495.4bn (1998: R460.3bn). Although the major growth in 1999 was in the provision of overdrafts and loans, which showed an annual increase of 14.3%

or R24.8bn to R198.7bn in 1999 (1998: R173.8bn), a slow growth in credit extension during the year was experienced by mortgage loans, which increased by 3.1% year-on-year, or R5.9bn, to R195.3bn (1998: R189.4bn). This represented a decline in the share of total loans from 38 percent in 1998.

The total loans amounted to R588.7bn (1998: R540.5bn.), which is roughly equivalent to 73.5% of South Africa's 1999 Gross Domestic Product of R801.1bn (1998: R740.6bn).

TABLE 2.10 COMPOSITION OF BANK LOANS DECEMBER 1998

Loan product	Value (R,bn)	Percentage (%)
Mortgage loan	189.4	38
Instalment debtors	74.6	16
Credit cards	10.5	2
Over draft and loans	174.24	30
Others	17.8	14

Source: Banking Council (2000)

TABLE 2.11 COMPOSITION OF BANK LOANS DECEMBER 1999

Loan product	Value (R,bn)	Percentage (%)
Mortgage loan	195.3	33
Instalment debtors	74.3	13
Credit cards	11.6	2
Over draft and loans	174.24	34
Others	108.9	18

Source: Banking Council (2000)

Table 2.10 indicates the mortgage loans granted by the banks as at December 1998 being R189.4bn representing 38% of all loans. The mortgage loans granted as at December 1999 as indicated in Table 2.11 was R195.3b representing 33% of all loans. This decline in lending of home loans has a negative effect on the housing situation in South Africa.

2.4.4 Costs, income and profits of banks

According to the Banking Council (8 August 2000) the aggregate pre-tax net profit of all the banks for 1999, derived by adding true shareholders' profit, taxation and imputed cost of capital, was R9.4bn. Tax on the 1999 income amounted to R2.4bn and the aggregate after-tax profit was therefore R7.0bn.

Although the banks make substantial amounts of profit, there is a perception that they are not re-investing their monies to the areas that enable them to make the profit.

Table 2.12 indicates the operating costs for the 'Big Four' banks in South Africa.

TABLE 2.12 COST-TO-INCOME RATIO (BIG FOUR BANKS)

BANK	1999%	1998%	1997%
ABSA	63.3	65.4	67.2
STANDARD BANK	61.4	62.3	63.3
NEDCOR BANK	51.7	56.2	58.6
FIRST RAND	61.1	62.9	61.8

Source: 1999 *FINANCIAL REPORTS*

Table 2.12 clearly indicates the size of the banking industry in South Africa. The profits are relatively high considering that South Africa is a third-world country. For a country like South Africa to have such a healthy banking industry and a housing crisis at the same time shows that there is an imbalance in the distribution of investments.

2.4.5 Low-cost banking

The majority of South Africans have been excluded from the mainstream banking system because of high charges, minimum deposit requirements and low interest rates on savings account deposits. To provide affordable banking to the masses Cameron (2000) reports that the BOE Banking has joined

forces with retail group Pepkor to provide an innovative banking system that will cater for the poor. The basic elements of PEP Bank services will bring low-cost saving accounts to the unbanked and provide unsecured loan facilities to people, many of whom have been out from the mainstream banking.

2.4.6 The independent banking adjudicator and the code of banking practice

The Banking Adjudicator was first appointed in 1997 by the Banking Council to be an ombudsman for the industry. Thereafter a committee independent of the banks, but with banking representation, appointed an independent Banking Adjudicator on 1 March 2000.

The function of the Banking Adjudicator is to mediate in disputes between clients and banks.

After extensive discussions with concerned parties a draft new **Code of Banking Practice** was released to the public for discussion and comment in March 1999. The Code, which became effective on 3 April 2000, sets out the minimum standards of service and fairness that customers can expect from The Banking Council's member banks.

Any ruling given by the Banking Adjudicator is based on what is legal, and for the first time on what is 'fair and just' (Heard 2000). The Banking Adjudicator is commonly referred to as the banking 'watchdog'.

The new Code of Banking Practice was drawn up by the banks for the protection of the bank's clients. The following practices in the code regarding **mortgage lending** is of concern to the adjudicator (Clayton, 30 November 2000):

- Failure of the banks to take any responsibility for the quality of the building that a client intends purchasing or are building even though the bank sends a inspector to the property and charges a fee for it.
- Banks have been too quick to attach properties when borrowers fall into arrears without giving the borrower a little more time to pay the arrears or sell the property for a price that could cover the outstanding loan.
- Failure of banks to make sure that homes, which have been bought through bank loans, are properly insured.

According to the Banking Adjudicator (Heard 2000) a total of two hundred and eighty eight mortgage bonds-related complaints between April 2000 and July 2000 has been received from the general public.

2.4.7 The role of the assessor

An assessor is an employee of a bank, for the protection of the bank's interest. Assessors are accountable to the banks that employ them and their assessments are based on criteria that the banks set down. They are not expected to have the technical expertise of structural engineers or geotechnical engineers. Some bank assessors are Professional Valuers, but others are employed solely on the basis of their experience in the property market. The bank charges mortgage applicants a fee for carrying out valuations but does not make the valuations available to them or give them an opinion regarding the property.

2.4.8 The total South African property market

Due to the declining mortgage bond rate during the period 1999 to 2000, activity in real estate showed a positive response. This was evident in the increase in transactions from a low R5.9bn in the first quarter of 1999 to R9.9bn in both the first and second quarters of 2000. Three hundred and forty

six thousand home loans were granted in the first half of 2000 compared with two hundred and seventy thousand in the first half of 1999 (South African Reserve Bank, 2000).

2.4.9 The bank's view in the provision of housing for low-income communities

There is a perception that the banks are neglecting the needs of the poor by not investing sufficiently in low-income communities.

The Banking Council's of South Africa views lending to low-income communities as follows (Banking Council, 9 October 2000):

"Because of the low incomes of most township residents - a situation that would normally preclude them from obtaining a mortgage bond - the banks have generally had to adopt less stringent loan-approval practices to be able to grant these loans. For example, a township mortgage bond is typically underwritten in such a way as to bridge the affordability gap between what the household earns and what it needs to come up with for a deposit and monthly repayments. This may involve pledging pension/provident fund benefits, using guarantees provided by the employer, and/or purchasing a guarantee to cover much of the required deposit".

"The result is that many township borrowers, having been granted a loan to the maximum of what they can afford, quickly become overextended when their financial circumstances worsen. Spiking interest rates in particular can have a devastating effect on their financial situation. The South African economy has experienced three economic downturns since 1987. On each occasion interest rates have soared, and thousands of township borrowers have ended up finding not only their houses, but also their

pension/provident fund benefits at risk and their credit standing destroyed".

"This experience has clearly demonstrated that while traditional mortgage bonds are very successful in the conventional market, they are by-and-large inappropriate lending instruments for the low-income consumer. More specifically, the absence of collateral, combined with limited disposable income, has heightened the risk profile of this market".

"Today, out of 300 000 township loans made over the previous decade totaling more than R12bn, nearly 50 000 properties are in possession or non-performing".

2.4.10 Government and the banking industry relating to housing

There is a perception that most banks are engaging reluctantly at the lower end of the market and are not investing and increasing their business in this market, consequently various measures have been taken by the government, some legislative, to improve this situation. An example is the introduction of the Home Loan and Mortgage Disclosure Act of 2000.

Private credit for housing purposes is available but such credit is not readily accessible to most South African home seekers, and unlocking this housing credit pool is therefore seen by the government as one the fundamental requirements in order to facilitate the improvement of the housing crisis.

The government has insufficient funds to meet the challenges of housing the homeless people of this country on its own and it recognises that sustained substantial investment from the private sector will be required. According to the Housing White Paper (1995) the housing process must be economically, fiscally, socially, financially and politically sustainable in the long term, implying that there must be a balance between end-user affordability, the

standard of housing, the number of housing units required and the fiscal allocation for housing.

Due to the abnormal lending environment in many areas in the country prior to the 1994 democratic elections, large-scale withdrawal of finance by the banks to the lower end of the housing market was experienced. In order to resume lending activities to the lower end of the market the signing of the Record of Understanding (RoU) between government, represented by the Department of Housing, and the Association of Mortgage Lenders (AML) took place (Cobbett 2000). The RoU came into effect on 31 May 1995 and formed measures by the government to normalise the housing environment. The following risk measures were put into place.

Mortgage Indemnity Fund (MIF): The MIF was established in June 1995 and provided cover in 543 areas previously denied housing loans by financial institutions. A total of 188 of these areas were new development areas in which 271 000 housing units were provided. The seventeen financial institutions that were accredited by the fund had granted 144 000 loans amounting to R10 billion in MIF covered areas. The MIF closed on 31 May 1998.

2.4.11 Partnership between banks and government on housing

Since the late 1980s, enormous pressure has been placed on financial institutions to increase their exposure to low-income housing where risk is not always matched by return. In the Record of Understanding (RoU) signed between the government and the banks in 1995, the banks undertook to increase lending to this market on the assurances that the government would uphold the rule of law in these areas. The partnerships that are currently in place are Gateway and Servcon.

Servcon:

A joint venture between the banks and government to realise 33 000 of the non-performing loans (known as the 'ring-fenced' book), has just completed

the first two of the eight years specified in the agreement as being needed to normalise the loan portfolio (Banking Council, 9 October 2000). It offers households in default a range of options, including:

- subsidised rental;
- buy-back or loan reschedule;
- rightsizing – moving to more affordable housing; and
- special assistance for the aged and disabled.

Gateway:

This is a government-bank partnership set up in 1998 by the state-owned National Housing Finance Corporation for financing housing for the low-income and moderate-income household (Dasnois 2000). Gateway finances the scheme through a process called **securitisation**, which involves the pooling of loans granted by the participation banks. The scheme also involves the employer.

2.5 CONCLUSION

Housing the nation is one of the greatest challenges facing South Africa's democratically elected government (Tomlinson 2000). The extent of the challenge derives from the huge housing backlog and the desperation and impatience of the people to see results. According to Tomlinson (2000) the availability and accessibility of credit for housing purposes has been identified by the South African government as a key cornerstone in a sustainable housing delivery process. The significance of the banking industry in the provision of housing finance is evident by the investment of 38% of the banking industry's total loans and advances in the housing sector.

CHAPTER THREE

MORTGAGE LENDING, REDLINING AND DISCRIMINATION

3.1 HOME MORTGAGE ARREARS, DEFAULT AND FORECLOSURE

3.1.1 Introduction

South African banks continue to operate in highly competitive circumstances in which the building and retention of expertise, and the consolidation of activities around core business activities such as mortgage lending, are key to survival. According to the Banking Council (3 September 2000), it is a common phenomenon throughout the banking world that retail banking is declining in profitability. Banks are of the opinion that retail banking is riskier than wholesale banking. Banks have responded by cutting costs, increasing service charges and boosting volume throughput in order to maintain a satisfactory level on return of equity. It is common practice among many mortgage lending institutions to go to extraordinary lengths to achieve their targets of mortgage loans, thus totally ignoring the customer's predicaments in defaulting in repayment and possible foreclosures.

One of the challenging problems facing the ANC led government of South Africa is the failure of many township residents to pay their rates and services charges and mortgage bonds.

3.1.2 Definitions

The following are brief definitions that relate to this section.

- **Arrears:** a loan is considered in arrears at any time a payment is due and not paid.
- **Default:** a borrower is in default when he or she has failed to honour the terms of the mortgage bond, including not paying on time.

- **Foreclosure:** the legal process by which the lender deprives the borrower of interest in the property, which is normally considered as the last resort. Foreclosure is the means by which the mortgagee's equity of redemption is extinguished and the property is vested in the mortgagor (Brimlow and Clayton, 1994).

3.1.3 Effects of default and delinquency on service providers

The non-payment of rates and services charges has a direct relation to the sustainability of the local authority and other utility organisations. The survival of local authorities and utility organisation is dependent on payment by the residents. The banks are reluctant to finance home loans in areas that have a culture of 'non-payment' of services.

A survey conducted by the Development Bank of South Africa (Local Government Digest, 1977) as shown in Table 3.1, reporting that the Local Authority Loans Fund (LALF) was R880 million with a total of 425 local authority as borrowers in December 1996. The first default in the history of the fund occurred in June 1995. During the subsequent 18-month period the defaults increased to 48. As substantial amount of income for the local authorities comes from the collection of rates and services charges, the repercussion of non-payment is clearly evident.

TABLE 3.1 THE INCREASE IN DEFAULT FROM JUNE 1995 TO JANUARY 1996

Due date	Number of defaults	Number of borrowers	Default amount (R'000)	Book debt (R'000)
30 June 1995	1	406	25	832 000
31 December 1995	3	418	319	860 000
30 June 1996	15	421	2 400	870 000
31 December 1996	48	425	9 100	880 000

Source: Local Government Digest, 1997

The outstanding debt owed by individual consumers to Eskom where it is the direct supplier of electricity increased from R147 million in December 1993 to R847 million at the end of January 1997. This is indicated in Table 3.2.

TABLE 3.2 DEFAULT AMOUNT TO ESKOM FROM DECEMBER 1993 TO JANUARY 1997.

Date	Default amount
December 1993	R147 million
December 1994	R361 million
December 1995	R575 million
December 1996	R823 million
31 January 1997	R847 million

Source: Local Government Digest, 1997

Eskom is therefore finding it very difficult to maintain this section of the electricity supply component on a sound footing and is forced to subsidise the losses from a larger pool which includes big industries, mines and municipalities which buy bulk from it.

3.1.4 Government's involvement

According to the Banking Council (3 September 2000) attempts by the South African government in restoring a culture of payment through the 'Masakhana' campaign were not very successful. In many township areas, civil disobedience remains rife. The situation in some areas is such that the criminal justice system seemed to collapse to the point that legal enforcement of court decisions on household evictions has been extremely difficult to enact.

Government has realised the severity of the situation and with close consultation with the financial institutions and Servcon has embarked on a joint venture to realise the security on non-performing loans held by the financial institutions. For example, occupants of houses currently on Servcon's books have been offered various choices, including:

- Remaining in the house on an interim basis and paying a subsidised rent;
- Signing up for the rightsizing programme, whereby they will be moved to accommodation more in keeping with their affordability; or
- Repurchasing the house under certain conditions.

3.1.5 Causes of arrears

In the case of home mortgages, arrears are usually due to disruption of family income (Waller 1999). Normal causes for the disruption are unemployment, illness or accident, marital problems, and excessive use of credit. Typically the disruption is temporary, and the delinquency is cured within a few months. At worst, assuming that family income has been somewhat reduced, this type of delinquency can be resolved by re-negotiation of the loan.

A permanent disruption in family income, however, causes a more serious arrears problem. If long term unemployment is the reason for arrears, the borrower usually has only two options: sell or default. If the borrower opt to sell, he or she can simply repay the mortgage, or, if the mortgage is assumable, he or she may assign it to the buyer, in which case the mortgage becomes current again.

Occasionally, arrears occur despite the fact that the borrower has the ability to make the mortgage payment. Some borrowers are chronic delinquents who disregard their financial obligations even when they are able to pay. Such borrowers pay up their loans only after repeated warnings and threats from the lender.

Arrears also occur if the borrower decides to abandon the property and stops payment on the mortgage even though he or she is able to pay. This situation is normally precipitated by a decline in the property well below the mortgage amount. The delinquency occurs because the borrower has an economic

incentive to stay in the house, rent free, for as long as possible prior to foreclosure.

3.1.6 Cost of foreclosures

When mortgage payments are missed foreclosure may occur. This is the legal means that the financial institution can use to repossess or take over the home. When this occurs, the occupants must move out of the house. If the property is worth less than the total amount owed to the bank on the mortgage loan, the bank could seek a deficiency judgement. If that happens, the person not only loses the house, but also owes the financial institutional an additional debt.

At common law, a mortgagor is entitled to be reimbursed out of the mortgaged property for all costs, charges and expenses reasonably and properly incurred in enforcing or preserving his or her security (Brimelow and Clayton, 1994).

3.1.7 Consequences of foreclosures

Financial institutions do not really want to repossess homes as they are in the mortgage business and not the real estate business. What they really need is their money (Waller 1999). To the bank, foreclosure is the last resort, especially since the process is expensive, time consuming and unprofitable. Banks normally advice their clients to approach them if they are behind with their payments. It is essential to communicate openly with the banks. Some financial institutions assist with options and strategies. The banks may be able to assist in coming up with an alternate payment program to deal with a particular situation. If a home is lost in a foreclosure, a person will wind up with a 'black' mark on his or her credit history that will stay there for years; one that will scare off potential lenders who could assist in getting another house.

3.1.8 Bank's view on non-payment

The South African financial industry views non-payment in a very serious light (Banking Council, 7 November 2000). Non-payment eventually leads to bad debts thereby eroding the profit margin. The banks are of the opinion that concessions that have been given to their clients, especially in the townships, during earlier attempts to deal with the problems of non-payment, created an expectation that all is negotiable and that the harder and longer one resists, the greater the concessions that will be granted. To this end the industry, in a new attempt to normalise the lending environment, has decided no longer to award concession for non-co-operation.

3.1.9 Relationship between default and discrimination in mortgage lending

Van Order, et al (1993) devised a model for deducing any discriminatory lending practices in the US that makes it more difficult for the qualified minorities, that is African Americans, Hispanics and Asians, to obtain mortgages. However, according to George Galster (1992) this should result in the riskiest non-minority approved applicant being viewed as riskier than the riskiest minority approved applicant, and one should observe a lower risk profile for minorities because discrimination would have served to eliminate some of their compatriots, that is those who would have been approved had they not been minorities. This argument is further supported by Becker (1993) who states that according to the model, if lenders were discriminating, they would be granting mortgages to less qualified, riskier whites while denying them to their relatively more creditworthy minorities, and thereby observing a lower default rate on average for minorities than whites.

Cross as cited by Yinger (1996) disputes the findings for several reasons, the primary reason being that default is an unreliable indicator for lending discrimination. First, it is possible to have rampant discrimination while pools of minority and white group mortgage holders remain comparable with what they would be in a non-discriminatory world. The second reason is that it is

incorrect to assume that in a non-discriminatory world the whites group and minorities who were successful in obtaining mortgages will demonstrate an equal average rate of default on their mortgages.

Galster (1992) supports the argument that interracial comparisons of average default rates are unreliable indicators of the presence or absence of discrimination in the mortgage market.

Similar studies are relatively difficult to be conducted in South Africa due to the limited data available. This situation is poised to change after the approval of the Home Loan and Mortgage Disclosure Act (Government Gazette, 2000).

3.1.10 Arrears (delinquency) risk measurement

It is possible, as illustrated by Herzog and Earley (1970), that through regression equations, delinquency risk can be measured. The general form of the regression equation is:

$$r_d = a_1 + a_2 RLS + a_3 T + a_4 RPI + O_i + DN_i + SM_i + AB_i + P_i \\ + FJ + TLD_i + TLN_i + R_i$$

Where:

<i>rd</i>	=	risk delinquency
<i>RLS</i>	=	loan-to-value
<i>T</i>	=	term to maturity
<i>RPI</i>	=	monthly payment-to-income ratio
<i>O</i>	=	borrower occupation
<i>DN</i>	=	number of dependents
<i>SM</i>	=	marital status
<i>AB</i>	=	borrower age
<i>P</i>	=	loan purpose
<i>FJ</i>	=	junior financing
<i>TLD</i>	=	type of lender
<i>TLN</i>	=	type of loan
<i>R</i>	=	region

Herzog and Earley (1970) developed the risk equation by treating the dependent variable, loan status, as a dummy. The variable was assigned a value of zero if the repayments was not in arrears and a value of one if it was either ninety or more days delinquent or in foreclosure. The output of the estimated equation, when particular values are assigned to the dependent variables, should be a number between zero and one. The closer the number falls to one, the greater the probability that the loan will be in arrears or delinquent. The closer the value falls to zero, the less the probability of arrears or delinquent.

However, by using this equation there is no guarantee that a particular combination of observed values of variables will lead to a solution falling between one and zero. In cases where negative values or values greater than one arise, it is not possible to assign a probability interpretation to them. The regression equation is known as *risk equation*, and the outputs of this equation is known as *risk index*.

3.1.11 Conclusion

Charlene Lea (2000), Home Loans Guarantee CEO says that only education will save the day. Her group has provided R1.5bn to back 60 000 mainly non-mortgaged home loans and the bad debts are only two percent. According to her, education means understanding that there is no free house, discipline and eviction. She goes on to say that evictions make people understand the value of home ownership and paying on time.

3.2 EXPLORING THE REASONS BEHIND REDLINING

3.2.1 Definition

In the USA discrimination against black borrowers takes place at their neighbourhood or locality level, as well as the individual client level (Turner and Skinmore, 1999). Discrimination based on location is referred to as redlining. Some lending institutions in South Africa have maps with red lines

delineating areas within which they will not do business. An example of a redlined area in South Africa is Zone 9, Meadowlands, Soweto. The banks that have redlined this area are Amalgamated Banks of South Africa (ABSA), Perm and Standard Bank (Soggot 2000).

East and West Side of Cleveland, Ohio in the USA is also redlined (Margulis 1998)

Redlining occurs when financial institutions are reluctant to invest in areas that they consider being extremely risky. Certain geographic areas are singled out as bad risk for demographic reasons, such as high crime rate, inadequate infrastructure, racial change etc., so all applicants are denied home loans regardless of their personal credit worthiness.

3.2.2 Repercussions of redlining

Redlining is a form of discrimination that, according to many South Africans, is one of the key factors that has resulted in the enormous housing backlog this country is currently experiencing. The South African Human Rights Commission alleges that the practice of redlining is discriminatory because it targets mostly black people (Heard 2000). Banks tend to use certain criteria to determine the security value. The criteria are based more on a geographic basis and because of South Africa's historical legacy, this affects mainly black people. Redlining is passionately debated because its advocates contend in that the refusal by the financial institutions to provide adequate credit also accelerates the neglect of inner-city neighbourhoods (Margulis, 1998); an example is Hillbrow in Gauteng.

3.2.3 Redlining by financial institutions elsewhere

During the late 1960s and early 1970s redlining was extensively used in the US by private banks and other financial institutions to discriminate against minority communities and low-income earners by constantly denying them access to mortgage or home improvement loans (Benston 1981). Legislation is

now in place (see later under 3.2.5 Legislation) in the United States to outlaw this practice. Similar legislation has also been introduced in the United Kingdom.

3.2.4 Causes of redlining according to banks

According to the Banking Council (12 November 2000) redlining of geographic areas could be attributed to the following:

- Lack of infrastructure maintenance, e.g. roads not repaired, water main and sewerage systems leaking, broken street lights and so on.
- Increasing crime rate forcing people to leave an area in search of more secure environments with the subsequent reduction of property values.
- Overcrowding leading to deterioration of the environment. In South Africa's urban areas overcrowding sometimes results where properties, that for years were inhabited by owners/occupiers, are rented out. In many cases the new owners do not maintain the property, nor do they limit the number of people move into it resulting in degradation to the property and the immediate environment.
- Environment hazards emanating from nearby facilities such as factories, etc.
- Rubbish not regularly or systematically removed from the area.
- Special factors arising such as illegal occupation of land or unregulated taxi ranks nearby.
- Increasing unemployment in a particular area. The dependence on a single industry that may be in decline (example the gold mines in the Far

West Rand). Both micro and macro economic factors can result in depressed housing prices.

Normally the only security the bank has is the property, and this could lose value if degradation occurs. The banks through the Banking Council of South Africa are justifying redlining.

3.2.5 Legislation

The purpose of the legislation, Home Loan and Mortgage Disclosure Act 2000 (HLMDB), is to end discrimination on the grounds of race, gender, marital status, age, disability or any other criteria, example redlining, described by the Constitution (refer to Chapter 4 for a detailed discussion on the Home Loan and Mortgage Disclosure Act, 2000). This Act is intended to outlaw the long standing practice of banks redlining some residential areas ostensibly on the grounds of risk, which has often made it difficult for people such as township residents to obtain home loans. Many clients in townships, who would normally qualify for home loans because they have full-time employment and good credit ratings, have had their loan application rejected because they live in the wrong area.

Similar Acts, namely the Home Loan Disclosure Act (HLDA) of 1975 together with the Community Re-investment Act (CRA) of 1977 were enacted (in the US) to prevent the practice of redlining. Recent evidence from studies carried out in the United States, however, seem to demonstrate that difference in lending patterns is directly related to demand in credit and the risk in lending in an area.

According to the Transformation General Manager for the Banking Council of South Africa (Heard 2000), the legislation (HLMDB) will shed light on the banks' unofficial practice of redlining parts of townships such as Kwa-Mashu in KwaZulu-Natal, and Soweto and some inner-city suburbs such as Yeoville in Guatang.

3.2.6 Measuring redlining

Two techniques are used in the United States by the Department of Housing and Urban Development (HUD) to measure redlining. The first focuses on the case-by-case process of approving or denying loans. Redlining is said to occur when otherwise comparable loans are more likely to be denied in predominately black areas than for those houses in predominately white areas, even though all credit-relevant characteristics of applicants, properties and loans are the same. Conducting studies of this nature especially in South Africa is very challenging, however, as it is extremely difficult to find data with adequate information (refer to Chapter 1: Study Limitation). The only studies of redlining with such information are based on the Boston Fed Study (Munnell et al 1992).

The second technique focuses on aggregate lending outcomes (refer to Chapter Five). Here redlining is said to occur when predominately black areas receive a smaller volume of mortgage loans than white areas that are comparable in all other relevant respects.

3.2.7 Mortgage Indemnity Fund

Mechanisms such as the Mortgage Indemnity Fund (MIF) were put in place by the government in 1994 to encourage banks to lend to potential home owners, but since the winding up of the fund in 1998 there has been little effort by the government to force banks to lend to all customers fairly (Housing White Paper, 1995).

The MIF was established as a short-term solution. It provided the financial institutions with cover to obtain possession of vacant properties following default after all available legal remedies had been exhausted.

3.2.8 The financial institution's perspective on redlining

Speaking at the Housing conference in Durban, Mr. Tucker (2000), spokesman-in-chief of commercial banks, defended the controversial practice of redlining. According to the banks, there is no law and order in some geographic areas of South Africa. The general environment is also in such a poor state that it is not in the banks' interest to lend in these areas as it does not make economic sense for the banks to get involved. The banks' view is that in many areas there is a virtual mortgage boycott and it cannot foreclose on borrowers because of the collapse of law and order.

While defending the financial institutions stand on redlining, Mr. Tucker encouraged borrowers, however, to publicly shame bank managers who might be guilty of racism.

Banking Council's General Manager (SAPA, 27 September 2000), acknowledged before parliaments' housing portfolio committee that banks do not provide home loans in 'high-risk' areas. The General Manager admits that banks redline certain areas, citing it as a bad financial investment. According to the Transformation General Manager for the Banking Council the banks sometimes have to make decisions on sound commercial grounds which can be construed as discrimination.

3.2.9 Possible remedies for redlining

Le Roux (2000), the Chief Executive Officer of the PA Group recommended the following options.

"1. The Purchaser would contribute by:

- i) Pledging of Pension/Provident Fund benefit*
- ii) Purchasing of Guarantee in place of non payment*
- iii) Paying of a deposit (probably the toughest one)*
- iv) Paying of a higher interest rate (a normal procedure when a financial institution consider a particular transaction more risky than normal).*

2. *The Seller: By making a collateral investment for a limited period i.e. two years.*
3. *The estate agent and mortgage broker: By pledging a percentage of their fees as collateral security for a limited period.*
4. *Government,: By supplying of guarantees. (This is the least acceptable alternative since it indirectly takes it from the pocket of the consumer at large.)*

With every interested party in a particular transaction committing something towards the security of the entire funding operation, confidence should be restored. The financial institution's risk would be limited, the seller wanting to sell would demonstrate commitment without which it would be unreasonable to expect the same from the financial institution. The same goes for the mortgage broker and the estate agent, who can hardly expect the financial institution to risk their funds when they themselves are not prepared to at least make a gesture.

I have personally had to sell a property in a so-called redlined area over the two past years and did exactly the above. It is a pleasure to now be able to record that my collateral investment has been released and a willing and able buyer is living in his own property with a mortgage that he would otherwise not have had."

3.2.10 Conclusion

Although there is not much evidence showing redlining having a racial connotation, there is ample evidence indicating that certain areas are discriminated against. According to Le Roux (2000), should any racial bias exist, the Home Loan and Mortgage Disclosure Act 2000 will most certainly expose the fact.

CHAPTER FOUR

GOVERNMENTAL INTERVENTION

4.1 THE SOUTH AFRICAN CONSTITUTION AND BILL OF RIGHTS

4.1.1 A brief history of the new constitution

The South African Constitution was drafted in terms of Chapter 5 of the Interim Constitution (Act 200 of 1993) and was first adopted by the Constitutional Assembly on 8 May 1996. In terms of a judgement of the Constitutional Court, delivered on 6 September 1996, the text was referred back to the Constitutional Assembly for reconsideration. The text was accordingly amended to comply with the Constitutional Principles contained in Schedule 4 of the Interim Constitution. It was signed into law on 10 December 1996 (South African Year Book, 2000).

The objective in this process was to ensure that the final Constitution is legitimate, credible and accepted by all South Africans.

The process of drafting the Constitution involved many South Africans in the largest public participation programme ever carried out in South Africa. After nearly two years of intensive consultations, political parties represented in the Constitutional Assembly negotiated the formulations contained in the Constitution text, which are an integration of ideas from ordinary citizens, civil society and political parties represented inside and outside of the Constitutional Assembly.

This Constitution therefore represents the collective wisdom of the South African people and has been arrived at by general consensus. The Constitution is the supreme law of the Republic; law or conduct inconsistent with it is invalid, and the duties imposed by it must be performed.

The Bill of Rights that forms Chapter 2 of the Constitution is the cornerstone of democracy in South Africa. It enshrines the rights of all people in the country and affirms the democratic values of human dignity, equality and freedom.

TABLE: 4. 1 SOUTH AFRICAN ACTS RELEVANT TO THIS STUDY

Number and year of law	Short title
Act 108 of 1996	Constitution of South Africa, 1996
Act 107 of 1997	Housing Act, 1997
Act 2 of 2000	Promotion to Access to Information Act, 2000
Act 4 of 2000	Promotion of Equality and Prevention of Unfair Discrimination Act, 2000
Act 63 of 2000	Home Loan and Mortgage Disclosure Act, 2000

Table 4.1 denotes the various Acts that are discussed in this chapter in relation to housing of people of South Africa (SA).

4.1.2 The Constitution and housing

On 1 April 1998 the new Housing Act, 1997 (Act 107 of 1997), came into effect. The Housing Act introduced a new housing dispensation for the country. It focussed on the implementation of an imperative in the Constitution of South Africa, 1996 (Act 108 of 1996), namely that everyone has the right to have access to adequate housing. The Housing Act also abolished the previously diverse apartheid legislation and replaced it with a single Act that focuses on the new housing priorities of South Africa.

The Housing Act provides for the termination of the previous housing subsidy dispensation and determines that the Minister of Housing must implement a national housing programme to phase out the housing subsidies granted in terms of the previous legislation. Chapter 2 of this study discusses in detail the various housing subsidies.

4.1.3 Regulatory measures in the banking industry

According to the Minister of Housing (Mthembi-Mahanyele, 6 October 2000), the banking industry is one sector in the country that operates without a regulatory framework except for its self-policing system. That, according to the Minister, has failed to address effectively the release of mortgage finance to the lower end of the market.

Furthermore, according to the Minister people have been refused loans on the basis of their race, gender, social class and their locality.

In addition the self-regulatory measures adopted by the banks has evidently failed (Mthembi-Mahanyele, 6 October 2000) to address the Constitutional rights of all South Africans. Section 9 of the Constitution states that:

"Everyone is equal before the law and has the right to equal protection and benefit before the law".

It further states that: ***"Equality includes the full and equal enjoyment of all rights and freedoms. To promote the achievement of equality legislative and other measures designed to protect or advance persons, or categories of persons, disadvantaged by unfair discrimination may be taken."***

Most South Africans have been denied access to housing finance based on the perceived discriminatory policies of the banks, this despite far-reaching implication of the Constitution. This denial has had a negative impact on the functioning of the housing market.

4.1.4 The Constitution and finance

Section 26 of the Constitutional stipulates that: ***"Everyone has the right to have access to adequate housing. The state must take reasonable***

legislative and other measures, within its available resources, to achieve the progressive realisation of this right."

The Home Loans and Mortgage Disclosure Act, 2000 aims at promoting fair lending practices among financial institutions which provide home loans; requiring the disclosure by financial institutions engaged in the provision of home loans of certain information in their reports and annual financial statements.

The ultimate aim is to promote the sustainable provision of home loans to under and un-serviced sectors of the population. This Act further implements the aims of the Constitution, which states that: *"everyone has the right to access to any information required for exercise or protection of any rights"*. The Act is aimed at discouraging discrimination on the basis of race, gender, social class and locality, whereas in the past there has been discrimination by financial institutions, on one or more grounds set out in Section 9(3) of the Constitution, when considering or granting home loans.

4.1.5 Racial discrimination, racism and the constitution

The United Nations Declaration on the Elimination of All Forms of Racial Discrimination states emphatically that racial discrimination is an offence to human dignity (Article 1). The International Convention defines racial discrimination as (General Assembly, 1963):

"As any distinction, exclusion, restriction or preference based on race, colour, descent, or national or ethnic origin which has the purpose or effect of nullifying or impairing the recognition, enjoyment or exercise, on an equal footing, of human rights and fundamental freedom in the political, economic, social, cultural or any other field of public life."

Racism is the means whereby 'race' becomes the basis of differentiation (Appiah 1992). It suggests that certain groups of people have common

inheritable characteristics that divide them from others, a kind of racial essence.

Appiah (1992) takes a step further in stating that:

"Racism is a belief system, a philosophy of life; a belief system whose purpose is to exclude or seek to diminish the value and self-esteem of another on the basis of race, colour, or characteristics associated with race, like language, culture, religion or place of origin."

Harris (1999) offers another definition of racism:

"Racists are those who explicitly or implicitly ascribe racial characteristics of others which purportedly differ from their own and others like them; these characteristics may be biological or social."

It is difficult to deal with racism effectively as racism is usually denied or unacknowledged. It is also difficult to attach racism to white people or institutions such as the major banks, which are predominately white owned and controlled, although common experience in South Africa does suggest that most perpetrators of racism are white South Africans or organisations that are white owned. It is therefore unacceptable to charge that every white South African or banks that are white owned are racist, and it is the aim of this study to determine whether banks in South Africa discriminate in their lending.

Dimitrini Petrova as cited in the South African Human Research Council Report (SAHRC, 2000) believes that the most sophisticated form of denial is the Constitutional argument, simply stating that the Constitution protects all rights and that there is equality. Petrova further suggests that to be concerned about racism is to deny equality or to seek protection beyond what the Constitution guarantees.

4.1.6 The Home Loans and Mortgage Disclosure Act and the Constitution

The aim of the Act is to require financial institutions to disclose annually reports of their lending patterns (Refer to Section 2 of this chapter). Although the Act was never intended to provide conclusive evidence of instances of discrimination, it was however, intended to be an aid in highlighting problem areas that need to be probed in more depth.

The Home Loan and Mortgage Disclosure Act of 2000 complements the Promotion of Access to Information Act, number 2 of 2000, and the Promotion of Equality and Prevention of Unfair Discrimination Act, number 4 of 2000 (known as the 'Equality Act'). The Promotion of Access to Information Act gives effect to section 32 of the Constitution, that is:

"Everyone has the right of access to any information held by another person and that is required for the exercise or protection of any rights"

The Equality Act on the other hand codifies the right to equality enshrined in Section 9 of the Constitution. In terms of this legislation discrimination on the basis of race or any of the prohibited grounds of discrimination is deemed to be unfair and unlawful. The Equality Act further mandates the Minister to introduce legislation and other mechanisms to combat unfair discrimination and promote equality.

An Office of Disclosure, consisting of a maximum of ten members appointed by the Minister of Housing is established by the Act.

The functions of the Office of Disclosure currently are as follows:

The Office -

- Must ensure that financial institutions comply with the Act and the provisions of item 4 of the Schedule to the Promotion of Equality and Prevention of Unfair Discrimination Act, 2000 (Act number 4 of 2000);
- Must advise the Minister on the format, content and timing of disclosure by financial institutions in terms of the requirements of the Act;
- May require financial institutions to substantiate information disclosed in terms of the Act where reasonable doubt may exist whether or not the information disclosed is fully accurate or comprehensive; and
- May investigate and institute proceedings to verify the validity of information as disclosed by a financial institution in accordance with the requirements of the Act, and for that purpose, such financial institution must afford the Office all reasonable assistance and access to premises and information to enable the Office to analyse and interpret such information.

4.1.7 Conclusion

South Africa is facing a complex challenge of transforming the institutions of government and the private sector at all levels, to eradicate the legacy of apartheid and to facilitate integration of all 'races'. The 1994 transition to democracy also brought a new Constitution that is legitimate, credible and accepted by all South Africans. This Constitution is set, among other things, to rectify the many injustices that were legitimised by the previous government.

4.2 HOME LOANS AND MORTGAGE DISCLOSURE ACT

4.2.1 Introduction

Legislation as signed by the President on the 8 December 2000 in the form of the Home Loan and Mortgage Disclosure Act of 2000 (the Act), by the

Department of Housing, requires financial institutions to disclose to government the details (as per Section 3 (1) of the **Act**) of home loans they make.

The purpose of the **Act** is:

"To promote fair lending practices, which requires disclosure by financial institutions of information regarding the provision of home loans; to establish an Office of Disclosure; and to provide for matters therewith" (Government Gazette, 2000).

According to the Minister of Housing, (Mthembi-Mahanyele, 21 October 2000) the **Act** would prevent ongoing discrimination by financial institutions against low-income South Africans on the basis of colour, gender and class.

According to the Banking Council the legislation is modelled on the US Home Mortgage Disclosure Act (HMDA) of 1974, that has been used as an important and effective instrument for determining whether 'race' and 'gender' are being used as discriminatory factors in granting loans for housing purposes (Banking Council, 22 September 2000).

The **Act** complements the Promotion of Access to Information Act, number 2 of 2000 and the Promotion of Equality and Prevention of Unfair Discrimination Act, number 4 of 2000. The former gives effect to section 32 of the Constitution, that is ***"Everyone has the right of access to any information held by another person and that is required for the exercise or protection of any rights"***. The latter that equates with the United States of America (US) legislation, the Fair Housing Act, states that it is an offence to discriminate on the grounds of race or gender.

The difference between the South African and the US legislation is that in the US the offence is classified as a civil one while in South African the offence is classified as a criminal one. In South Africa a person convicted of an offence

in terms of subsection (l) of the Act is liable to an option of a fine or a prison term.

4.2.2 Aim of the Act

The aim of the Act is to compel the financial institutions to disclose data showing where mortgage loans are granted and denied. It is a tool to aid enforcement by government of anti-discriminatory laws. All mortgage lenders are required to collect and report data regarding race, gender, geographic areas and characteristics of borrowers and applicants for mortgage loans. This legislation compels the financial institutions to divulge the total number of applicants with detailed information on: race and sex of applicants and co-applicants, the lender, the result, the amount, and the reason for denial, among other information.

The information is required from the lending institutions for each financial year. According to the Ministry of Housing, the Act seeks to achieve the following (Mthembi-Mahanyele, 6 October 2000):

- Promote fair lending practices among financial institutions which provide home loans;
- Ensure the disclosure by financial institutions engaged in the provision of home loans of information regarding such provision in their reports and annual financial statements;
- Encourage re-investment by financial institutions of financial resources in communities they serve, particularly poor communities (that is deposit that is taken from a particular community should preferably be invested in that community in the form of mortgage);
- Accelerate the elimination of distortions in lending practices, significantly levelling the playing fields; and

- Establish an Office of Disclosure to monitor compliance with the above disclosure requirement.

4.2.3 Offences and penalties

With regards the situation in the United States any infringement of the US Home Mortgage Disclosure Act (HMDA) of 1974 is a civil offence and is subject to administrative sanctions, including the imposition of monetary penalties. However, in South Africa the offence is a criminal one and any person convicted of an offence in terms of Section 15 (1) of the Home Loan and Mortgage Disclosure Act of 2000 is liable to an option of a fine not exceeding R100 000,00 or a prison term.

4.2.4 Limitations of the Act

Although the Act has good intentions and has the support of many organisations such as the Congress of South African Trade Unions (2000) and the Banking Council, disclosure of information although a necessity, is not sufficient enough to address the perceived discrimination by financial institutions.

In the US other legislative Acts such as the Community Reinvestment Act (CRA) of 1977, Fair Housing Act (FHA) of 1968 and Equal Credit Opportunity Act (ECOA) of 1974 supplement the Home Mortgage Disclosure Act of 1974 (Banking Council, 5 September 2000).

A brief discussion of the three Acts that supplement the US Home Mortgage Disclosure Act (HMDA) follows:

- Fair Housing Act: The FRA prohibits discrimination in housing, including the financing and insuring of transactions. Amended in 1974 to prohibit discrimination based on sex and again in 1988 to create an administrative enforcement system, the Housing and Urban Development (HUD).

Amended in 1996 to keep confidential the results of self-testing by institutions.

- **Equal Credit Opportunity Act:** The ECOA forbids discrimination based in all lending, including housing loans. Amended in 1976 to prohibit discrimination based on race, colour, religion, receipt of income from any public assistance program, and good faith exercise of any right under the Consumer Credit Protection Act.
- **Community Reinvestment Act:** The CRA outlawed the practice of 'redlining' by banks and other financial institutions. This Act compels the lenders to seek out opportunities in the local communities they serve. After the introduction of the CRA, lending in many 'ghetto' areas in the US was restored. The CRA defined the responsibility of financial institutions to provide equal treatment to all communities, including low and moderate-income communities.

The FRA, ECOA and CRA if supplemented to the Home Loan and Mortgage Disclosure Act (as it does the US Home Mortgage Disclosure Act), would be sufficient legislation to prevent any discrimination by financial institutions in South Africa. Its relevance to the South African situation would be as follows:

- lending discrimination would be prohibited under the ECOA;
- the geographic patterns that might be caused in part by individual-based discrimination would be prevented under the CRA; and
- discrimination including sex together with the keeping of confidential the results of self-testing by institutions would be legislated in the FRA.

Viewed against the Home Mortgage Disclosure Act of US from which the Home Loan and Mortgage Disclosure Act, 2000 gets its origin, the limitations are as follows (Banking Council, 22 September 2000):

- a) The Act only covers registered financial institutions that grant loans to the public for housing purposes. Many other financial institutions for example

SA Home Loans, do not fall under the ambit of government regulation but are an active participant in the loans industry. This legislation should cover all financial institutions whose business includes the granting of home loans.

- b) It is unreasonable to expect the financial institutions to include each and every application in the Annual Financial Statement as required by the Act. Only aggregated data should be included in the Annual Financial Statement. As the banking industry strives to remain internationally competitive, due consideration was not given to the cost factor when the Act was legislated. To minimise the cost the US government requires the reporting to be on a case by case basis submitted in electronic or 'hard copy' format. A similar system should be adopted in South Africa.
- c) The Act requires the applicants' race and gender to form an integral part of the report. This requirement could be extremely problematic due to the following:
 - i) It is difficult to define the 'race' of a person, or the 'race' the applicant regards him or herself to be.
 - ii) It is difficult to define the race of a mixed couple where both partners own the home.
 - iii) It is difficult to define the race of body corporate or partnership.
- d) Concern from the Banking Council regarding the breaching of confidentiality with respect to a financial institution's marketing and strategic information: According to the Council Section 3(3) of the Act when read with section 5(1)(d) will result in confidential marketing and strategic business information privy to each financial institution being made public.
- e) The Banking Council (22 September 2000) therefore propose:

"that the development of the reporting requirements takes the United States' experience into account with respect to format. Banks must be

consulted on cost and time implications in changing their practices and their systems. Moreover, certain requirements for information that are practically impossible to track should be revisited, and possibly scrapped altogether. Only 'completed' applications will be loaded onto the systems i.e. if an applicant refuses to fill in a form, e.g. race, it will not be loaded but reported under a special category. Housing financiers will not be responsible for cross checking information. That the last line of 3(1)(b) read "the total number and Rand amount of applications for home loans declined and that a housing financier must be given the opportunity to provide an explanation for its decision, either through written explanation or the use of prescribed codes". That the first line of 3(1)(c) read "the total number and Rand amount of home loans cancelled, i.e. fully repaid". That the first line of 3(1)(d) read "the total number and Rand amount of all home loans granted by a financial institution during the financial period in respect of which financial statements have been prepared". Disbursed loans to include: all housing finance re-advances, including second or subsequent loans. That the disclosure of lending information around discrimination 3(1)(d)(l) be limited to race and gender and that this is written into the statute to ensure that the appropriate data is captured by lending institutions (and to overcome customer resistance to the data capture process). Noteworthy is the fact that lenders do not keep records on race due to the historical significance of the issue. Banks that recently tried to introduce a race classification have had to remove it due to customer objections. They will therefore require a period of time to develop reporting systems to capture such data. They will never be able to provide historical comparisons in respect of periods prior to the development of the new system. Moreover, government will have to embark on an education programme to assure potential borrowers that the request for information on race is to eliminate discrimination rather than promote it. That "such other information as prescribed by regulation" is deleted. That financial institutions' marketing and strategic business information be treated as confidential".

- f) As stated in this chapter regarding offences and penalties, the US Home Mortgage Disclosure Act is subject to administrative sanctions, including the provision of civil monetary penalties. A similar approach should be taken in the South African Act. The criminal penalty is contained in the Equality Act.
- g) In the US the Home Mortgage Disclosure Act is expressly stated "neither the Act, nor the regulations are intended to encourage unsound lending practices or allocation of credit." A similar statement should be included in the Home Loan and Mortgage Disclosure Act.

4.2.5 The Act, an opportunity to study lending pattern

The Act now enables researchers to carry out in-depth studies on the lending patterns of the various financial institutions. Prior to its enactment in November 2000 studying the lending patterns was very difficult, as the financial institutions were very reluctant to divulge any data. All information was treated as confidential. The only information that was released was those that were required by the South African Reserve Bank. Calem (1995) states that the Home Mortgage Disclosure Act in the US enabled researchers to exploit the opportunity by examining patterns across low and moderate-income neighbourhoods in Philadelphia from 1990 to 1991. Various techniques such as regression equations relating to census-tract application and 'logit' equations are used to relate the approval or denial of applications, using applicant's income, and applicant's race and loan amount. The Act now enables similar studies to be carried out in South Africa.

4.2.6 Reliance on the Act data

Although the Act requires the lenders to compile and submit data that are useful in evaluating lending patterns and practices, the data should not form the sole basis for determination of discrimination, as much of the data relevant

to the determination of discrimination is not reportable under the Act (Galster 1996).

4.2.7 Analytic study of the data

As reported by Clayton (16 September 2000) there is an additional measure to prevent banks from hiding information. Auditors looking after banks' financial statement will have to comment specifically on the accuracy and the completeness of home loan information and whether the financial institution has met its obligations under the legislation. The information will be sent to the Office of Disclosure, which will analyse the data, identify discriminatory lending practices and make recommendations to the Minister of Housing.

Generally accepted statistical techniques similar to those used in studies in the US should be used to evaluate race, sex, marital status or age as factors in the banks lending decisions. The objective of this analysis should be not only to establish the existence of discrimination but also to identify institutions, which should warrant further investigation. The analysis should focus on acceptance, rejection and terms given to the borrowers.

The end product of the statistical analysis drawing data from the Act would be the information on home loan applications broken down by race, sex, marital status, age and geographic areas.

CHAPTER FIVE

RESEARCH METHODOLOGY AND DATA COLLECTION

5.1 AN OVERVIEW OF HOW THE RESEARCH IS CONDUCTED AND THE METHODS USED

This study focuses on the perceived unfair lending practices of the financial institutions from the perspective of the communities of the Durban Metropolitan Region. To this end a representative selection of communities are surveyed. This is further reinforced with views expressed by professionals, namely estate agents and conveyancers who play a pivotal role in the home loans industry.

An analysis is also carried out on information on the actual number of bonds granted to the various designated groups for the years 1993 and 1999, as supplied by SAPTG, a company specialising in data gathering.

Two questionnaires are developed, one is used to determine the various communities' attitudes, and the other is adopted to determine the views of the professionals.

The purpose of the questionnaires undertaken among the various communities, estate agents and conveyancers, is to test the research hypotheses.

The perceptions of the respondents are analysed. The ideal would be to test the viewpoints of communities of all areas of KwaZulu/Natal, but owing to limitations, this is not possible. So a representative subset is selected.

This chapter deals with:

- study area and definition of population
- construction of the questionnaires
- questionnaire design
- pre-testing the questionnaire

- administering the questionnaire
- survey methods

5.2 THE STUDY AREA

The study population consists of communities and professionals from the Durban Metropolitan Region.

5.2.1 Definition and distribution of the population

FIGURE 5.1 POPULATION DISTRIBUTION DURBAN METROPOLITAN REGION

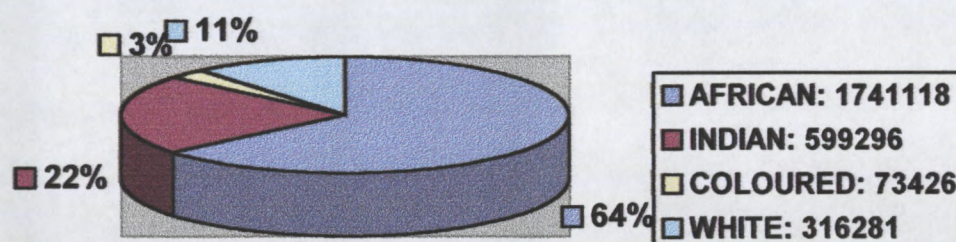


Figure 5.1 shows the demographics of the region based on the 1996 census figures. This is the desired size of the sample that was to be achieved. Table 5.9 (page 96) indicates the actual size of the sample achieved.

Appendix 1 shows the Durban Metropolitan Region and Table 5.1 shows the selected areas where the surveys on the communities are distributed. The respondents for the questionnaire for the professionals are from the same region. The questionnaire for the professionals is shown in table 5.2.

TABLE 5.1 DISTRIBUTION OF QUESTIONNAIRES (COMMUNITIES)

Area	Predominant group	Number distributed
Umlazi	African	25
Kwa Mashu	African	20
Ntuzuma	African	60
Chatsworth	Indian	30
Phoenix	Indian	40
Clare Estate	Indian	20
Newlands East	Coloured	25
Durban North	White	20
Bluff	White	30

TABLE 5.2 DISTRIBUTION OF QUESTIONNAIRE (PROFESSIONALS)

Group	Number distributed
Estate Agents	50
Conveyancers	40

5.2.2 Description of community respondents

Figure 5.2 and Table 5.3 shows the distribution of the respondents of the questionnaires in the Durban Metropolitan Area. The majority of respondents are from the Ntuzuma area (21.3%). This is followed by approximately 15% of the respondents from the Phoenix area. The least number of respondents is from the Clare Estate and Durban North areas (7.9%). Umlazi, Ntuzuma and KwaMashu constitutes 37.9% of the respondents; Phoenix, Clare Estate and Chatsworth constitutes 35% of the respondents; Durban North and Bluff constitutes 20% of the respondents whilst Newlands East only constitutes 8.3% of the respondents.

FIGURE 5.2 AREA RESPONDENTS LIVE IN

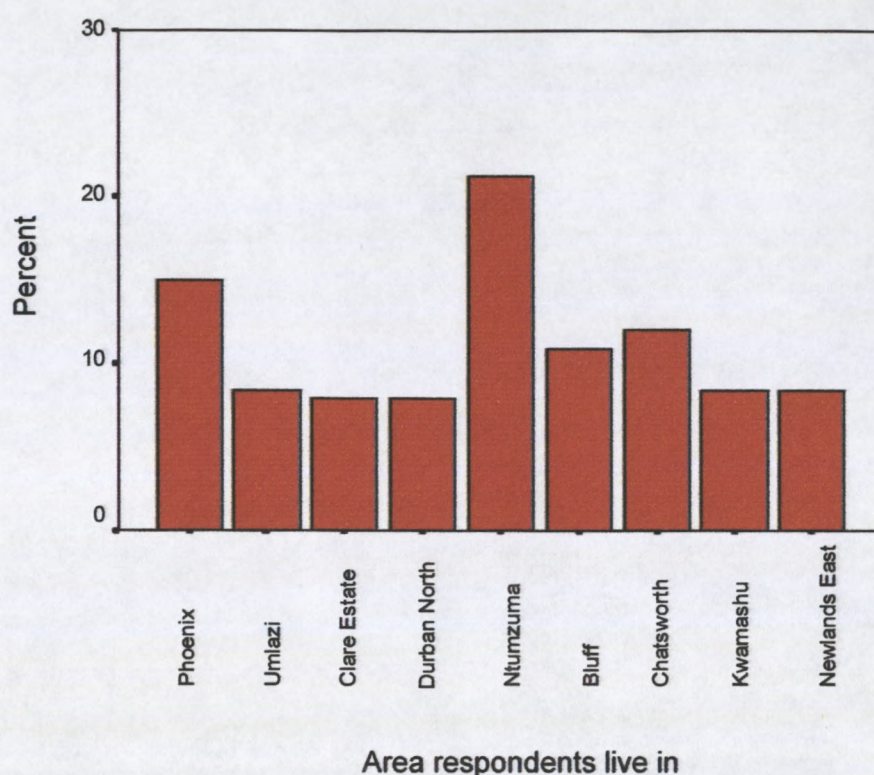


TABLE 5.3 AREA RESPONDENTS LIVE IN

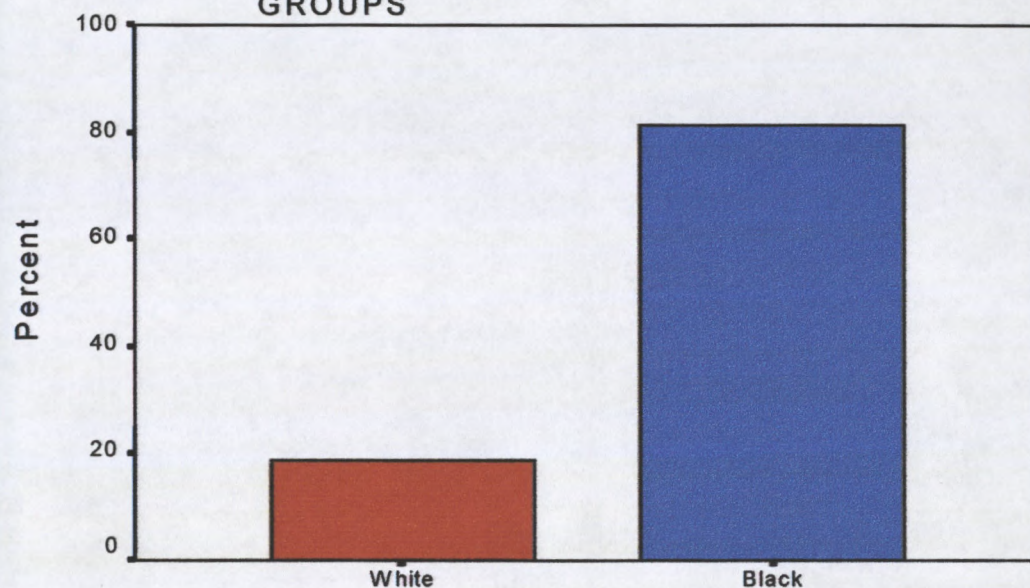
Area	Frequency	Percent
Phoenix	36	15.0
Umlazi	20	8.3
Clare Estate	19	7.9
Durban North	19	7.9
Ntuzuma	51	21.3
Bluff	26	10.8
Chatsworth	29	12.1
Kwamashu	20	8.3
Newslands East	20	8.3
Total	240	100.0

5.2.3 Areas grouped in terms of historically Black and White areas, for analysis

The areas were previously classified as African, Indian, Coloured and White areas. The African, Indian and Coloured areas are collectively termed as 'classified black areas' in 1993 and is now referred to as 'historically black areas', while the white areas in 1993 are termed as 'classified white areas'

and is now referred as 'historically white areas.' Figure 5.3 and Table 5.4 shows the distribution of the community sample.

FIGURE 5.3 DISTRIBUTION IN TERMS OF BLACK AND WHITE GROUPS



Distribution in terms of black and white groups

TABLE 5.4 DISTRIBUTION IN TERMS OF BLACK AND WHITE GROUPS

Group	Frequency	Percent
White	45	18.8
Black	195	81.3
Total	240	100.0

As this study is aiming to determine whether there is a difference in the lending patterns of banks in the various areas, the 9 areas are classified as being either historically white areas or historically black areas. From the 9 areas Phoenix, Umlazi, Clare Estate, Ntuzuma, Kwa Mashu, Chatsworth and Newlands East are considered as historically black areas, whilst Bluff and Durban North are seen as historically white areas. These areas are grouped together to form the two groups viz. historically white and historically black areas.

The majority of the respondents are from the historically black areas (81.3%). They consist of 7 out of the 9 areas that the questionnaires are distributed in, representative of the demographic of the region. The historically white areas made up 18.7% of the respondents. Although there has been some population movement (African to Indian, Indian and African to white areas), these are regarded as being insignificant.

5.2.4 Description of professional respondents

FIGURE 5.4: DISTRIBUTION IN TERMS OF PROFESSIONALS

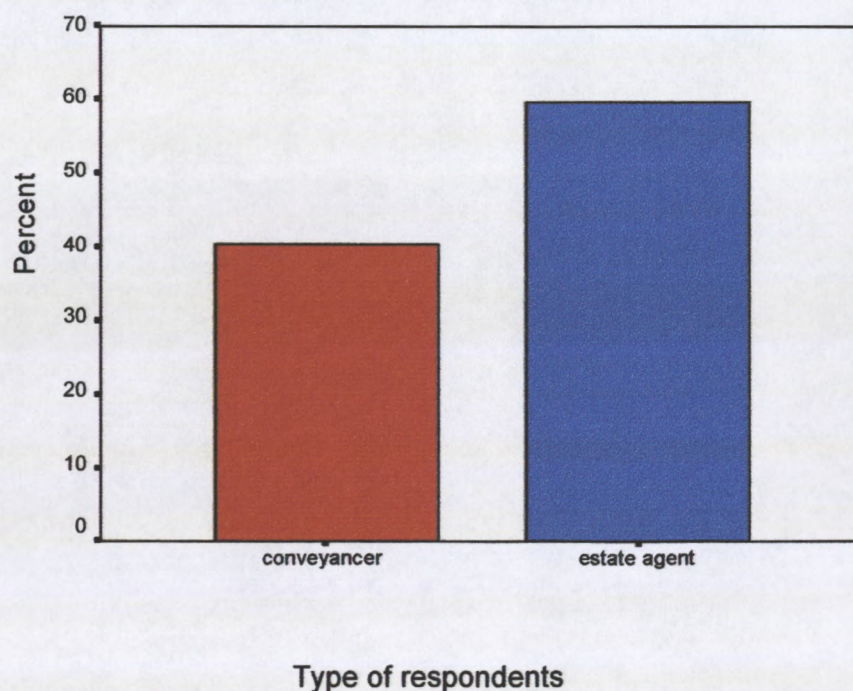


TABLE 5.5 DISTRIBUTION IN TERMS OF PROFESSIONALS

Respondent	Frequency	Percent
Conveyancer	29	40.3
Estate agent	43	59.7
Total	72	100.0

About 60% of the respondents are estate agents and the rest are conveyancers. For the purposes of this study the estate agents and

conveyancers are referred to as professionals. Figure 5.4 and Table 5.5 shows the distribution of professional sample.

5.3 CONSTRUCTION OF THE QUESTIONNAIRES

Two sets of questionnaires are used for this study, namely, one for the views from the community and the other from people who are actively involved in the home-loans industry, that is the professionals. Printed questionnaires are used, and are considered appropriate for the study as they comprise a series of questions designed to elicit responses on a given topic, in this instance to determine the lending patterns of financial institutions and the impact their lending policies have on home-ownership in KwaZulu-Natal. This is a frequently employed method in obtaining primary data from respondents (Fink: 1985).

The nature of the questions used in the questionnaires are:

- Structured questions, and
- Screening questions.

Structured or closed-ended questions are used to offer a list of acceptable answers from which respondents may choose. Three types of structured questions are used in the questionnaire:

- i) Dichotomous and trichotomous questions - two or three alternatives are offered, generally 'yes/no' or 'yes/no /do not know'
- ii) Multiple choice questions - in which more than one alternative is offered
- iii) Scaled questions - respondents are asked to provide an opinion on a four point, five points or six-point scale.

Screening questions are used where relevancy depends on the respondent's answer to a previous question, e.g. "If you answered yes to question 3 then"

5.3.1 Questionnaire design

The questionnaire is designed to elicit responses from the community and professionals. There are two questionnaires designed for different respondents/purposes. This section refers to the overall structure of the questionnaires. A total of 28 questions are posed to respondents, of which 16 are directed to the community and 12 to the professionals directly related to the property industry.

5.3.2 Questions to the community

Questions are posed to get the views on lending practices by financial institutions from the perspective of the communities of the region. Table 5.6 gives the reason for each question.

TABLE 5.6 QUESTIONS TO THE COMMUNITIES AND THE REASON

NO	QUESTION	REASON
1	Do you own this house or are you a tenant?	To differentiate the perception between owners and tenants.
2	Have you ever applied for a home-loan?	To ascertain the proportion of respondents whose home-loan application has been turned down, the reason why they thought it was turned down and type of service they received when they applied.
3	If you have applied was your application turned down?	
4	If your answer to question 3 was yes, why do you think your application was turned down?	
5	Describe the service you received from the bank when you applied for a home-loan?	
6	How would you categorise your knowledge of home-loans?	This is to determine whether there is any correlation between applications and knowledge.
7	Do you think there is a need for banks to educate your community in home-loans?	
8	Do banks adequately market home-loans in your area?	The marketing and financing views are observed in questions 8 and 9 respectively.
9	Do you think banks should get involved in financing of housing in your area?	This is to discover whether there is any correlation between marketing of home-loans and granting of bonds.
10	Do banks rate the geographical areas in which they lend on a scale according to risk?	Here the views on geographical area ratings, redlining, discrimination and lending patterns of banks are elicited from the respondents and the questions are designed to test the major and minor hypotheses.
11	Do you think your area is "redlined" by the banks?	
12	Do you think banks discriminate in their home-loan lending?	
13	Do you think that banks criteria are different for blacks and whites?	
14	Do you think banks rate their clients according to risk?	
15	Do you feel there is a need for government to get involved in home-loan lending by the banks?	The respondent's views are expressed regarding governmental involvement in the home-loan industry. This will be needed for a report to policy makers.
16	If your answer in question 15 is yes, state to what extent you consider home-loan lending by banks to be regulated?	

5.3.3 Questions to the professionals

The questions posed to the Estate Agents and Conveyancers are specifically undertaken to reinforce or negate the views expressed by the communities.

Table 5.7 QUESTIONS TO PROFESSIONALS AND REASON

NO	QUESTION	REASON
1	Do you think financial institutions discriminate in their home-loan lending?	These four questions are designed to assess the Professionals' perspective on discrimination, geographical area rating and the lending patterns of the financial institutions.
2	Do you think that financial institutions use different lending criteria for blacks and whites?	
3	Do you think that financial institutions rate the geographical areas in which they lend on a scale according to risk?	
4	Do you think that financial institutions rate their clients on a scale according to risk?	
5	How would you rate the financial institutions standard of service given to black home-loans clients as compared with white home-loans clients?	The views regarding the standard of services by the banks to their various clients are expressed by the respondents in Questions 5 and 6.
6	How would you rate the "turnaround" time in granting of home-loans to black clients as compared with white home-loans clients?	
7	Do you think that financial institutions adequately market their home-loan products in historically black areas?	The respondents express their views regarding the marketing of home-loans products in the various areas.
8	How would you categorise the black client's knowledge of home-loans?	Questions 8 and 9 examine the views of the respondents with regards to the communities' knowledge of home-loans and whether there is a need for education in home-loans for the various communities?
9	Do you feel that there is a need for financial institutions to educate the black communities in home-loans?	
10	To what extent do you think that financial institutions "redline" certain areas?	Responses on "redlining" are sought here.
11	To what extent do you consider home-loan lending by the banks to be regulated?	These two questions request the views regarding governmental involvement in the home-loans industry.
12	Do you think that there is a need for governmental intervention in the home-loans industry?	

5.3.4 Pre-testing the questionnaires

In order to test the structure and questions, the proposed community questionnaires are distributed to ten staff members of the ML Sultan Technikon who represent the communities. The proposed professional questionnaires are distributed to two Conveyancers and three Estate Agents. The questionnaire is completed in the presence of the researcher and immediate feedback obtained with regard to:

- Clarity of questions
- Understandability of questions
- Ambiguity
- Identification of semantic difficulties encountered when completing the questionnaire
- Identification of other queries and confusing aspects

The questionnaires were adjusted accordingly. The final questionnaires are shown in Appendix 2

5.3.5 Administering the questionnaires

As the empirical study forms the basis of this research it is imperative that the administrative aspects of the questionnaires be given priority.

- (i) **Community:** Six students assisted in interviewing the various communities. The students are given a covering letter, which provides details of the purpose of the study. The Technikon's stationery with its logo is used to lend credibility to the survey. To assist in the smooth operation of the process, students that assisted are drawn from within the community that they interview.
- (ii) **Estate Agents and Conveyancers:** Each questionnaire is accompanied by a covering letter, which provides details of the study and guaranteed

confidentiality. A reply-paid envelope is provided with each questionnaire sent in order to minimise the inconvenience to respondents. Initially, questionnaires to the Conveyancers were electronically mailed to expedite the process and save cost; however this proved futile due to many technical problems and the postal method is used instead.

5.4 THE SURVEY METHODS

The questionnaire is distributed among 90 professionals and 270 members of the community. The professionals consist of 50 estate agents and 40 conveyancers. Questionnaires to the professionals are coded for control and follow-up purposes.

5.4.1 Professionals

The returns from the professionals are monitored and those that have not responded by the end of the third week are telephonically contacted to ascertain whether they have indeed received their questionnaires, and also to stress the importance of their responses to the study. This proved to be very effective as the initial response rate increased from 69% to 78.9% as reflected in Table 5.3.

**TABLE 5.8 RESPONSE RATE OF ESTATE AGENTS AND CONVEYANCERS
(PROFESSIONALS)**

Group	Questionnaires dispatched	Questionnaires returned	Response rate (%)
Estate Agents	50	43	86
Conveyancers	40	29	72.5
TOTAL	90	71	78.9

A closer examination of Table 5.8 shows that the response rate for the Estate Agents exceeds the Conveyancers by 13.5%. This is probably due to the fact that Estate Agents are more in contact with the communities than the

Conveyancers. For the purposes of this study an overall response rate of 78.9% as reflected in Table 5.8 is considered adequate.

It should be noted that in some cases these responses are from individuals while in others they are group or company responses. An overall response rate of 89.9% from the communities as indicated in Table 5.9 is achieved probably due to the personal interviews conducted.

Table 5.9 shows a minimum response rate of 80% from Umlazi and Newlands East, with the maximum rate of 100% achieved in Kwa Mashu. In discussions with the students who conducted the interviews in Umlazi and Newlands East the researcher attributes the lower rate to the crime that is prevailing in these areas.

TABLE 5.9 RESPONSE RATE OF COMMUNITIES

Area	Main group	Interviewed	Responded	Percent responses
Umlazi	African	25	20	80
Kwa Mashu	African	20	20	100
Ntuzuma	African	60	51	85
TOTAL (African)		105	91	86.7
Chatsworth	Indian	30	29	96.7
Phoenix	Indian	40	36	90
Clare Eatate	Indian	20	19	95
TOTAL (Indian)		90	84	93.3
Newlands East	Coloured	25	20	80
TOTAL (Coloured)		25	20	80
Durban North	White	20	19	95
Bluff	White	30	26	86.7
TOTAL (White)		50	45	90
TOTAL ALL AREAS		270	240	88.9

Table 5.9 provides specific details with regards to the response rate of each community. An overall response rate of 88.9% is considered adequate for this study.

5.5 ANALYSIS OF BONDS GRANTED

An analysis of bonds granted for the years 1993 and 1999 is carried out on the data supplied by SPATG. Data for bonds granted in 1993 is classified according to the geographical group areas, as this was the period prior to the democratic elections of 1994.

Data for 1999 is classified into the same historical group areas with the predominant group analysed separately. Tables 5.10, 5.11, 5.12, 5.13 and 5.14 show the mortgage bonds that were granted to the different groups in 1993 and 1999.

TABLE 5.10 BONDS GRANTED IN AFRICAN AREAS

	Classified African areas		Historically african areas	
	1993 – Bond details		1999 – Bond details	
Suburbs	No. bonds	Bond amounts	No. Bonds	Bond amounts
Kwa Mashu	23	R927 970	81	R5 754 864
Inanda	0	NIL	34	R1 755 012
Ntuzuma	5	R46 558	25	R1 471 539
Inanda Glebe	5	R216 700	4	R322 840
Chesterville	2	R7 311	31	R1 568 552
Klaarwater	4	R162 711	8	R375 277
Mpumalanga	1	R1 452	19	R1 121 718
Umlazi	5	R355 179	229	R6 052 744
Kwamakhutha	0	NIL	21	R9 634 381
Lamontville	11	R653 102	10	R5 575 053
TOTAL	56	R24 409 983	462	R53 631 980

Source: SAPTG (2000)

TABLE 5.11 BONDS GRANTED IN INDIAN AREAS

	Classified Indian areas		Historically indian areas	
	1993 – Bonds details		1999 – Bond details	
Suburbs	No. bonds	Bond amounts	No. bonds	Bond amounts
Chatsworth	19	R134 424	210	R24 166 260
Shallcross	42	R4 005 087	26	R2 943 908
Kharwastan	14	R1 320 500	0	NIL
Burlington Height	3	R378 500	1	R 50 000
Phoenix	515	R31 163 187	514	R34 888 801
Duffs Road	2	R130 000	1	R 44 000
Umhlatuzana	8	R167 725	17	R 2 440 095
TOTAL	603	R38 299 423	769R	R64 533 064

Source: SAPTG (2000)

TABLE 5.12 BONDS GRANTED IN WHITE AREAS

	Classified White areas		Historically white areas	
	1993 – Bond details		1999 – Bond details	
Suburbs	No. bonds	Bond amounts	No. bonds	Bond amounts
Durban North	460	R154 215 059	434	R157 970 663
Queensburgh	404	R170 477 708	189	R43 208 981
Seaview	166	R23 195 384	98	R22 021 806
Westville	108	R23 972 477	70	R29 337 300
Amanzimtoti	325	R38 057 878	121	R21 240 034
TOTAL	1463	R409 991 506	912	R273 778 784

Source: SAPTG (2000)

TABLE 5.13 BONDS GRANTED IN COLOURED AREAS

	Classified Coloured areas		Historically coloured areas	
	1993 – Bond details		1999 – Bond details	
Suburbs	No. bonds	Bond amounts	No. bonds	Bond amounts
Wentworth	89	R17 009 970	125	R27 372 550
Austerville	39	R 2 551 298	13	R1 037 000
TOTAL	128	R19 561 268	138	R28 409 550

Source: SAPTG (2000)

TABLE 5.14 SUMMARY OF BONDS GRANTED UNDER STUDY

Group	No. of Areas or suburbs	Classified group areas		Historical group areas		
		1993 – Bond details		1999 – Bond details		
		No. of bonds	Bond amount	No. of bonds	Bonds amounts	Population
White	5	1463	R409 918 506	912	R273 778 784	203 384
Black	19	787	R60 301 674	1369	R146 574 594	1 414 283
TOTAL	24	2250	R470 220 180	2281	R420 353 378	1 617 667

Source: SAPTG (2000) and Durban Unicity: Urban Strategy Dept. (2000)

5.5.1 Summary of analysis of bonds granted

A descriptive analysis of bonds granted is presented in this section. The number of areas analysed is in proportion to the number of people who responded from each group. The data (that is only available) is for 1993, the period prior to the implementation of the new Constitution and two years after the Group Areas Act was abolished, and 1999, the commencement of this study.

YEAR 1993:

Although only 5 of the White areas are taken, the Table 5.14 indicates that in 1993 a total of R409 918 506 was granted to 1463 applicants; compared with the Black areas where 19 areas are taken, only R60 301 674 were granted to

787 successful applicants. The amount granted to the White areas exceeds the Black areas by over 6 times, and the number of successful applicants from the White areas were almost double that of the Black areas. Due to the lack of data as already stated, the exercise would have been more effective if the total number of applications was available for each area. However, it is clearly evident that in 1993 there was disparity in the lending pattern by the banks, heavily favouring applicants from the White areas.

Year 1999:

The Table 5.14 shows the amount granted to the 5 White areas as R273 778 784, this compared with R146 574 594 granted to 19 Black areas. This represents 87% more although the successful applicants of the Black areas exceed the White areas by 50%. However, considering the population of the Black areas (1 414 283) and the White areas (203 384), a difference of almost 6 times, one can easily detect a skewed lending pattern favouring the White areas.

The average loan amount granted to the applicants from the White areas is R300 000 as compared with the Black areas of R107 000, again favouring the applicants from the historically white areas.

5.6 CONCLUSION

This chapter provides the research methodology employed in the empirical component of the study, and an analysis and interpretation of the results is discussed in Chapter 6. Chapter 6 also discusses the administration and collection of the data.

CHAPTER SIX

DATA RECORD AND ANALYSIS

Data (from the questionnaires) received from the study population of 240 community respondents and 72 professionals are recorded on spreadsheets and the computer package SPSS. From these, graphs, frequency and contingency tables are formulated. Extensive statistical analyses using the 'chi-square' and 'goodness-of-fit' tests are conducted with the aid of the SPSS computer program.

This chapter deals with:

- i) statistical analysis of questionnaires
- ii) descriptive analysis of bonds granted

6.1 CHAPTER LAYOUT

Each question is presented in graphical and tabular form with Chi-square evaluation where relevant. This is followed by a discussion of the significance of the response to the question. The questionnaire forms an integral part of this study and each question is presented on a new page. The questionnaire from the community is presented and discussed first followed by the questionnaire from the professionals.

6.2 ANALYSIS

Surveys and questionnaires produce observations in the form of narration or numbers. Narration (in the form of responses stated in the participants' own words which are counted, compared, and interpreted using methods from communications theory and anthropology), is not used here. Numbers, or numerical data (which are derived from the two questionnaires used in this

research), are obtained when surveys or questionnaires ask respondents to, for example rate items on a scale of 1 to 5 where 5 represents a very positive feeling, and 1 a very negative feeling. The questionnaires and surveys that take this numerical form are analyzed using statistics, the mathematics of collecting, organizing, and interpreting numerical information. The results of statistical analyses are descriptions, relationships, comparisons, and predictions.

Techniques discussed by Fink (1995) and Burns (2000) are used in the analysis of the data obtained from the questionnaires. However, before moving on to describe, summarize and compare the data, there are a few questions that according to Fink (1995) need to be considered. These are:

- i. Does the questionnaire data come from nominal, ordinal, or numerical scales or measures?
- ii. How many independent and dependent variables are there?
- iii. What statistical methods are potentially appropriate?
- iv. Do the questionnaire data fit the requirements of the methods?

A discussion of these provides an understanding of how the analysis process of the research is carried out, and how and why the selection of specific statistical tests is made. For more details, see example in Fink (1995).

6.3 TEST USED IN THIS RESEARCH

Frequency and contingency table analyses are conducted to determine if there are associations between the area the respondents are from (namely former White or Black areas), and their responses to the various questions. When the classes in which the frequencies are grouped correspond to some attribute or descriptive quality, the frequency table is called a contingency table.

Chi-square significance tests are carried out for those relationships that are regarded as important to the research aims. The chi-square test is chosen

since there are single independent and dependent variables, of nominal type, of which chi square tests are ideal (Fink, 1995:51).

The Chi-square (χ^2) goodness of fit test is used in the analysis of the responses of the conveyancers and estate agents, to their questionnaires. This is carried out to determine whether the respondents would produce a distribution significantly different from that expected by chance.

The method of using χ^2 to test goodness-of-fit is this. Given the observed frequency (O), calculate the corresponding expected frequency (E) from

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

In general, a small value of χ^2 reflects small discrepancies between observed and expected frequencies and indicates a good fit. Tables are available (example Burns, 2000) which give, for each degree of freedom, the probability p that χ^2 will exceed a particular value that a test statistic must exceed for null hypotheses to be rejected, and that show that there is significant relationships, or differences. The choice of the value of p, between which the fit is considered bad, is necessarily arbitrary. The p value is the probability of obtaining the results of a statistical test by chance. The probability value is the probability that a difference at least as large as the obtained difference would have come about if the means were really equal. A value of 0.02, which is frequently used in social science research, is used in this study. This means that 2 out of 100 times or 2 percent of the relationship found would occur simply by chance. The relevant chi-square distribution for the first five degrees of freedom (Df) is given in Table 6.1. A value of 1 would indicate a perfect relationship, i.e. the value of one variable would increase by the same amount for each of increase in the value of the compared variable.

TABLE 6.1 DISTRIBUTION OF CHI-SQUARE

Df	0.1	0.05	0.02	0.01	0.001
1	2.706	3.841	5.412	6.635	10.827
2	4.605	5.991	7.824	9.210	13.815
3	6.251	7.815	9.837	11.345	16.266
4	7.779	9.488	11.668	13.277	18.467
5	9.236	11.070	13.388	15.086	20.515

Source: Burns (2000)

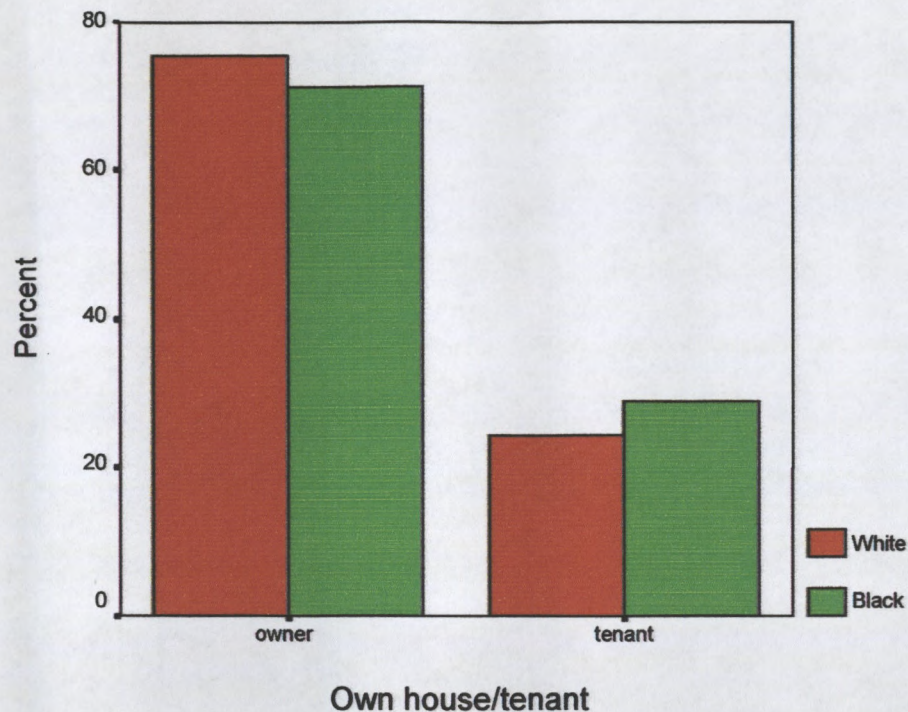
Finally, the responses from the estate agents and conveyancers, for individual questions are looked at. But first, there is a description of the respondents from the various communities, obtained from questionnaires distributed (refer to Chapter 5).

6.4 CROSSTABULATIONS FROM RESPONSES IN COMMUNITY QUESTIONNAIRE BETWEEN HISTORICALLY BLACK AND WHITE AREAS WITH OTHER VARIABLES

Contingency table analyses of the various responses to the questionnaire are presented. These are conducted to determine whether there are any associations between those from the black areas, or those from the white areas, and their responses to the same question. Chi square tests are used to test the significance of these associations.

QUESTION ONE

DO YOU OWN THIS HOUSE OR ARE YOU A TENANT?



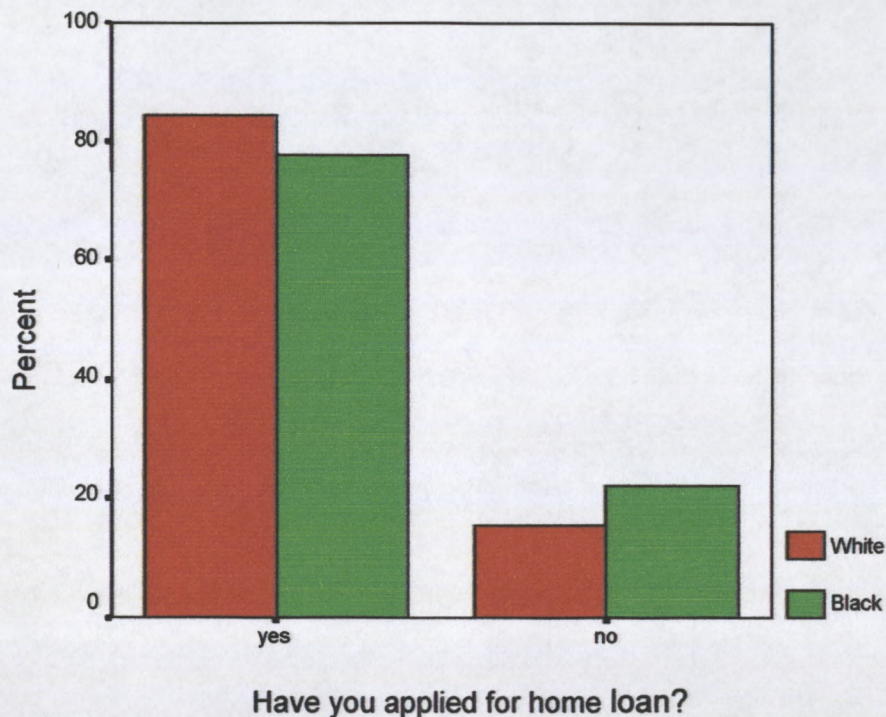
AREA IN TERMS OF BLACK AND WHITE GROUPS: OWN HOUSE/TENANT CROSSTABULATION

Predominant group		Own house/tenant		Total
		owner	tenant	
White	count	34	11	45
	percent	75.6	24.4	100
Black	count	138	56	194
	percent	71.1	28.9	100
Total	count	172	67	239
	percent	72	28	100

Responses from the historically white and black areas are similar, where about three-quarters of respondents from both areas are homeowners. This is because respondents only came from formal housing.

QUESTION TWO

HAVE YOU EVER APPLIED FOR A HOME LOAN?



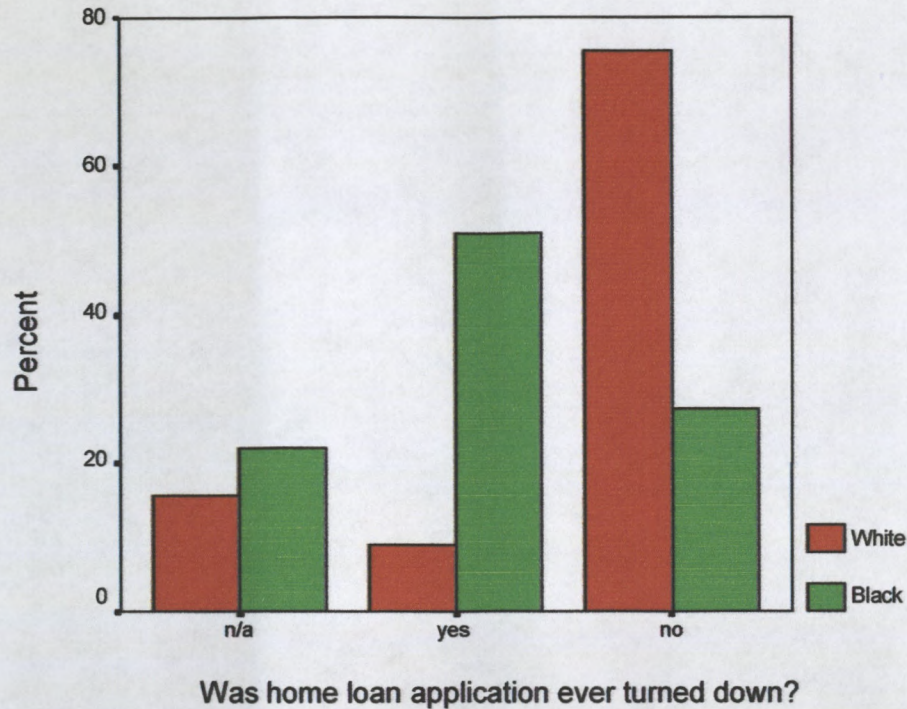
AREA IN TERMS OF BLACK AND WHITE GROUPS: HAVE YOU APPLIED FOR A HOME LOAN?

Area in terms of black and white group		Have you applied for home loan?		Total
		Yes	no	
White	count	38	7	45
	percent	84.4	15.6	100
Black	count	152	43	195
	percent	77.9	22.1	100
Total	count	190	50	240
	percent	79.2	20.8	100

The graph shows that the results for the two groups are similar, with almost 80% and 85% of respondents from the black and white areas applied for home loans respectively.

QUESTION THREE

IF APPLIED FOR A HOME LOAN WAS YOUR APPLICATION TURNED DOWN?



AREA IN TERMS OF BLACK AND WHITE GROUPS: WAS HOME LOAN APPLICATION EVER TURNED DOWN?

Area in terms of black and white group		Was home loan application ever turned down?			Total
		n/a	Yes	No	
White	count	7	4	34	45
	percent	15.6	8.9	75.6	100
Black	count	43	99	53	195
	percent	22.1	50.8	27.2	100
Total	count	50	103	87	240
	percent	20.8	42.9	36.3	100

CHI-SQUARE TESTS

	Value	Df
Pearson Chi-Square	39.387	2
No. of Valid Cases	240	

SYMMETRIC MEASURES

	Value
Nominal by Phi	0.405
Nominal	
No. of Valid Cases	240

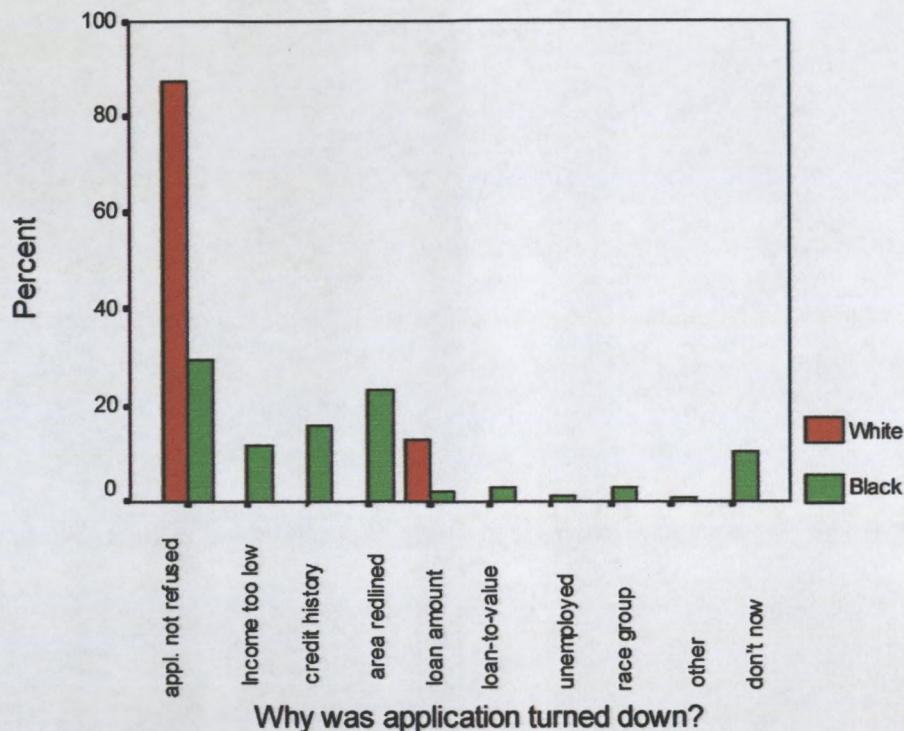
The graph indicates a vast difference in the percentage of home-loans being turned down from black areas, as compared with white areas: 51% black and 9% white. One in every two application from the black areas is turned down as compared to one in every eleven from the white areas. This confirms part of the main hypothesis that banks discriminates on the basis of locality. 43% of all applications for home loan is turned down. This is of grave concern as this does not assist in alleviating the housing crisis in the region.

A chi-square test is used to test statistical significance, since there is just one independent and one dependent variable, which are of nominal scale, as is required for this test.

From Table 6.1, a chi square value of 39.387 for 2 degrees of freedom occurs with a probability of less than 0.001. This significant relationship shows that people from historically black areas have been turned down more frequently when applying for home-loans than from historically white areas. The effective size is 0.405, indicating a medium effect.

QUESTION FOUR

IF YOUR ANSWER TO QUESTION 3 IS YES, WHY DO YOU THINK YOUR APPLICATION WAS TURNED DOWN?



AREA IN TERMS OF BLACK AND WHITE GROUPS: WHY WAS APPLICATION TURNED DOWN?

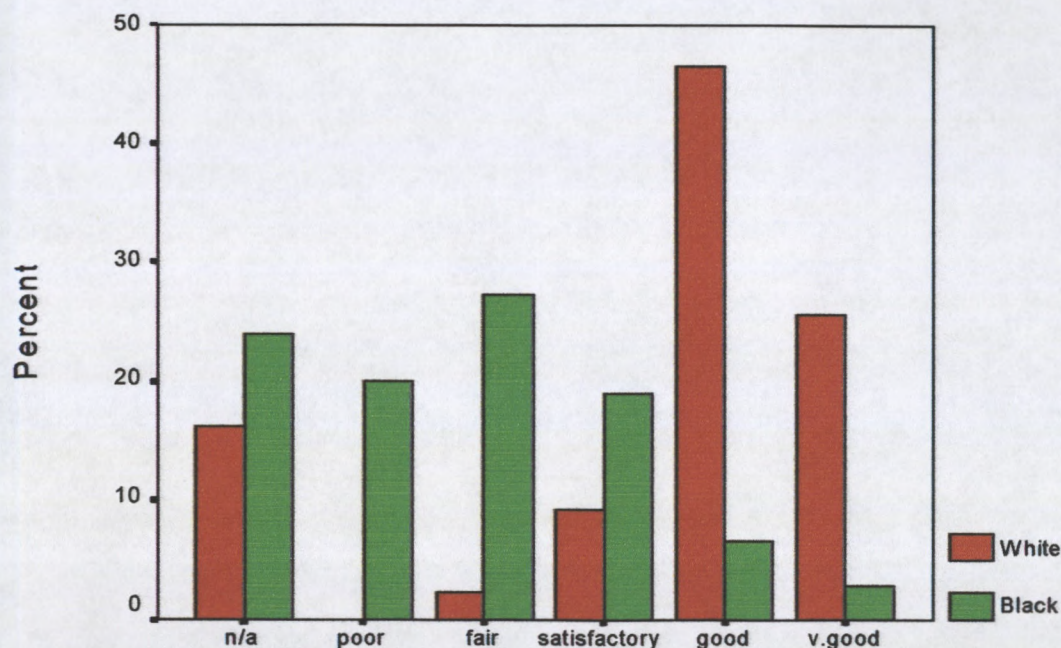
Why was application turned down?	Area in terms of black and white groups				Total	
	White		Black		Count	Percent
	Count	Percent	Count	Percent		
Application not refused	7	87.5	43	29.5	50	32.5
Income too low			17	11.6	17	11.0
Credit history			23	15.8	23	14.9
Area redlined			34	23.3	34	22.1
Loan amount	1	12.5	3	2.1	4	2.6
Loan-to-value			4	2.7	4	2.6
Unemployed			2	1.4	2	1.3
Race group			4	2.7	4	2.6
Other			1	0.7	1	0.6
Don't know			15	10.3	15	9.7
Total	8	100.0	146	100.0	154	100.0

The only reasons white areas' loans were turned down are because of the loan amount. For those from the black areas, the most frequent reason is that

their area is redlined, followed by their credit history, and income being too low. Although it is not the bank's official policy to redline areas, the people from the black areas strongly feel that a quarter of all their applications are turned down due to redlining. As most of the respondents indicated that income and redlining were the main reasons their home loans were turned down, this strongly supports the main hypothesis that banks discriminate on the basis of income and locality. 10% of the applicants from the black areas do not know the reason why their application was turned down because banks are not obliged to divulge reasons. Legislation should be put in place to force banks to give reasons for denial. This question also supports the minor hypothesis, that is, different socio-economic groups experience different results in obtaining home mortgages and locality of the security and the income of the client determines approval or denial of loans.

QUESTION FIVE

HOW WOULD YOU DESCRIBE THE TYPE OF SERVICE YOU RECEIVED FROM THE BANK?



Describe bank service when you applied for a home loan?

AREA IN TERMS OF BLACK AND WHITE GROUPS: HOW WOULD YOU DESCRIBE THE SERVICE YOU RECEIVED FROM THE BANK?

How would describe the service you received from the bank?	Area in terms of black and white groups				Total	
	White		Black		Count	Percent
	Count	Percent	Count	Percent		
Poor			36	26.5	36	20.9
Fair	1	2.8	49	36.0	50	29.0
Satisfactory	4	11.1	34	25.0	38	22.0
Good	20	55.6	12	8.8	32	18.7
Very good	11	30.5	5	3.7	16	9.4
Total	36	100	136	100	172	100

CHI-SQUARE TESTS

	Value	Df
Pearson Chi-Square	84.230	5
No. of Valid Cases	222	

SYMMETRIC MEASURES

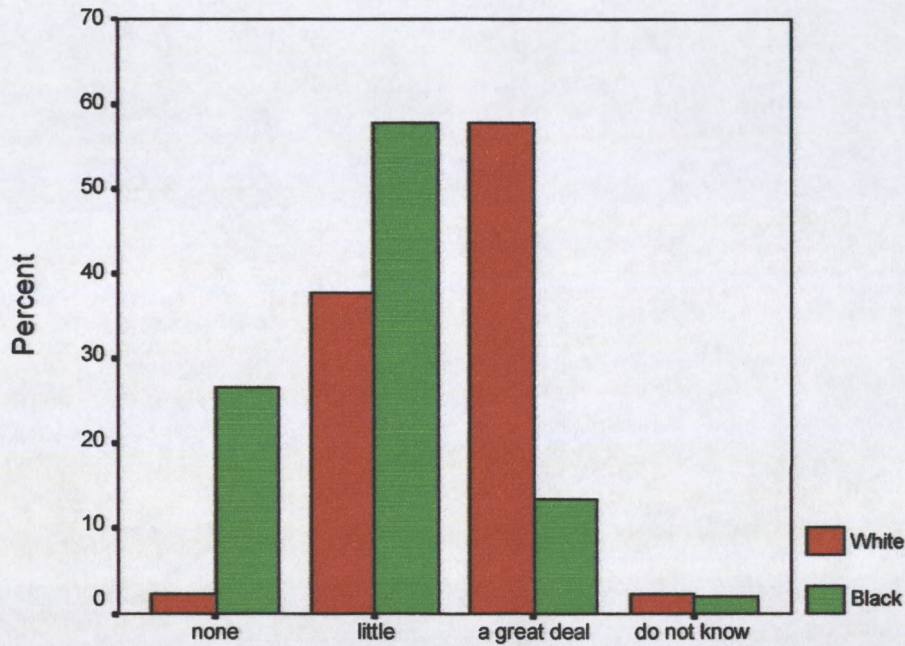
	Value
Nominal by Nominal Phi	0.606
No. of Valid Cases	222

The service received from banks differ, graph shows that the white group finds the service tends to be 'good' to 'very good' service, whereas the black area tend to find the service 'satisfactory' to 'poor'. Over 60% of the respondents from the black experiences fair to poor service whilst only 3% of the white group finds the service to be fair. 50 % of all the respondents experience unsatisfactory service from the banks. The quality of service contribute to the perception clients have of the banks and could lead to the approval or rejection of home loans.

From Table 6.1, a chi square value of 84.230 for 5 degrees of freedom occurs with a probability of less than 0.001. This shows that there is a difference in service received by the white group and black group. The effective size is 0.606, indicating a substantial effect.

QUESTION SIX

HOW WOULD YOU CATEGORISE YOUR KNOWLEDGE OF HOME LOANS?



Categorize your knowledge of home loans?

AREA IN TERMS OF BLACK AND WHITE GROUPS: HOW WOULD YOU CATEGORISE YOUR KNOWLEDGE OF HOME LOANS?

Are a in terms of black and white		Categorise your knowledge of home loans		
		none	little	a great deal
White	count	1	17	26
	percent	2.2	37.8	57.8
Black	count	51	111	26
	percent	26.6	57.8	13.5
Total	count	52	128	52
	percent	21.9	54.0	21.9

CHI-SQUARE TESTS

	Value	Df
Pearson Chi-Square	45.070	3
No. of Valid Cases	237	

SYMMETRIC MEASURES

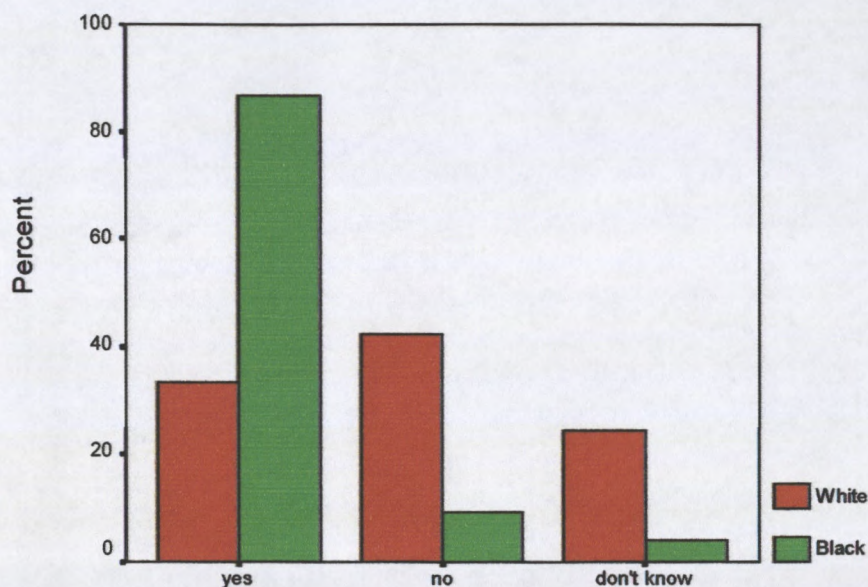
	Value
Nominal by Nominal Phi	0.436
No. of Valid Cases	237

58% of the respondents from the white area tends to indicate a great deal of knowledge, with only 2% having no knowledge, whilst only 13% those from the black areas have a deal of knowledge and 87% having. Over 75% of all the respondents have little or no knowledge.

From Table 6.1, a chi square value of 45.070 for 3 degrees of freedom occurs with a probability of less than 0.001. The effective size is 0.436, indicating a moderate effect.

QUESTION SEVEN

DO YOU THINK THERE IS A NEED FOR THE BANKS TO EDUCATE YOUR COMMUNITY IN HOME LOANS?



Need for banks to educate your community in home loans?

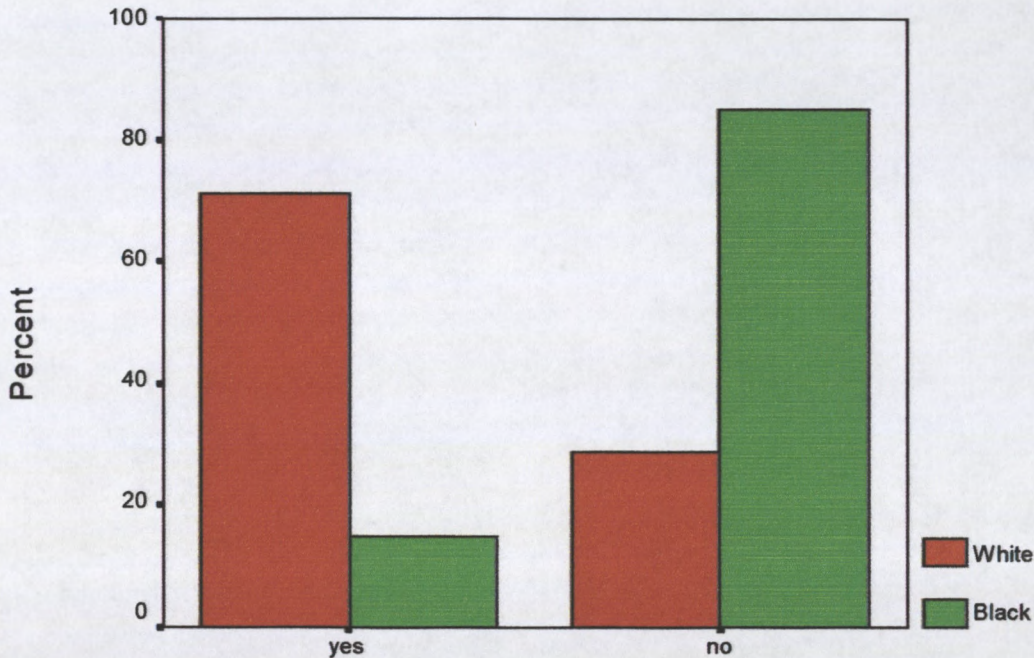
AREA IN TERMS OF BLACK AND WHITE GROUPS: IS THERE A NEED FOR THE BANKS TO EDUCATE YOUR COMMUNITY IN HOME LOANS?

Is there a need for banks to educate your community in home loans?	Area in terms of black and white groups				Total	
	White		Black		Count	Percent
	Count	Percent	Count	Percent		
Yes	15	33.3	169	86.7	184	76.7
No	19	42.2	18	9.2	37	15.4
Don't know	11	24.4	8	4.1	19	7.9
Total	45	100.0	195	100.0	240	100.0

The graph shows that 86% of those from black areas feels there is a need for education in home loans compared to only a third of the respondents from the white areas. There is definitely a need to educate people from the black areas on home loans. Knowledge of home loan and home loan products is essential if one wishes to acquire finance to purchase property.

QUESTION EIGHT

DO YOU THINK THAT BANKS ADEQUATELY MARKET THEIR HOME LOAN PRODUCTS IN YOUR AREA?



Do banks adequately market their loan products in your area?

AREA IN TERMS OF BLACK AND WHITE GROUPS: DO BANKS ADEQUATELY MARKET THEIR HOME LOAN PRODUCTS IN YOUR AREA?

Area in terms of black and white groups		Do banks adequately market their home loan products in your area?		Total
		yes	no	
White	count	32	13	45
	percent	71.1	28.9	100.0
Black	count	29	166	195
	percent	14.9	85.1	100.0
Total	count	61	179	240
	percent	25.4	74.6	100.0

CHI-SQUARE TESTS

	Value	Df
Pearson Chi-Square	61.004	1
No. of Valid Cases	240	

SYMMETRIC MEASURES

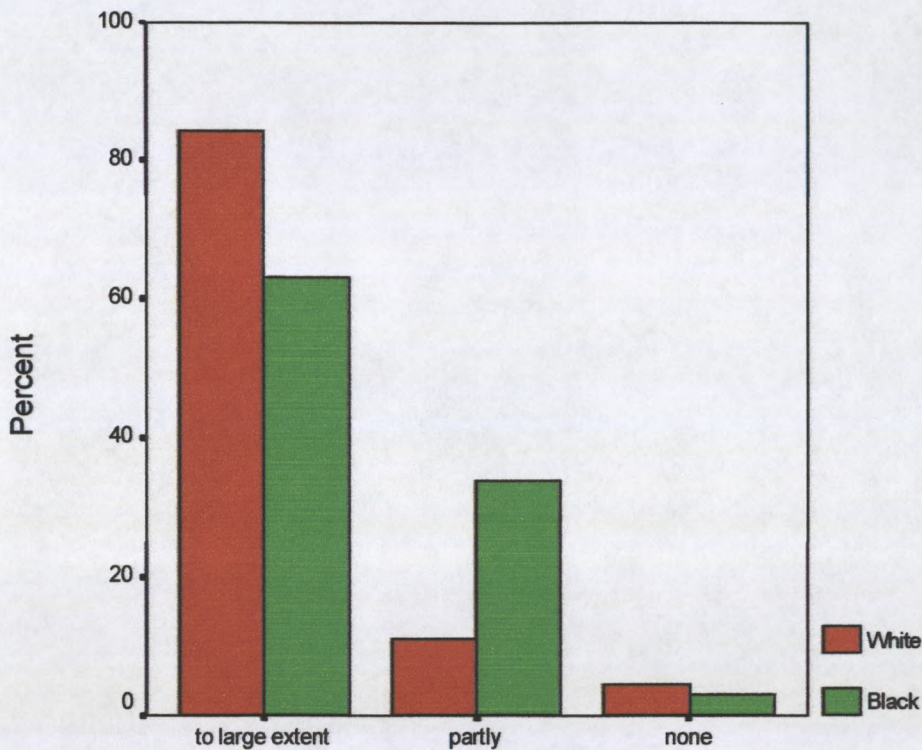
	Value
Nominal by Nominal Phi	0.504
No. of Valid Cases	240

With regards to whether it is felt that banks adequately market their products in the two communities, over 85% of those from black areas feel that banks do not market their products adequately, whilst the majority of those from white areas, that is 71% feel that they do. By not adequately marketing their products in the black areas, banks are preventing people from the black areas from entering the home loan pool as marketing makes people aware of the availability of home loans. Banks obviously are not effective in their marketing as 86% of all respondents feel that the banks do not adequately market their home loan products.

From Table 6.1, a chi square value of 61.004 for 1 degrees of freedom occurs with a probability of less than 0.001. The effective size is 0.504, indicating a moderate effect.

QUESTION NINE

TO WHAT EXTENT DO YOU CONSIDER BANKS SHOULD GET INVOLVED IN THE FINANCING OF HOME LOANS IN YOUR AREA?



Extent banks should get involved in financing home loans in your area?

AREA IN TERMS OF BLACK AND WHITE GROUPS: TO WHAT EXTENT SHOULD BANKS GET INVOLVED IN FINANCING OF HOME LOANS IN YOUR AREA?

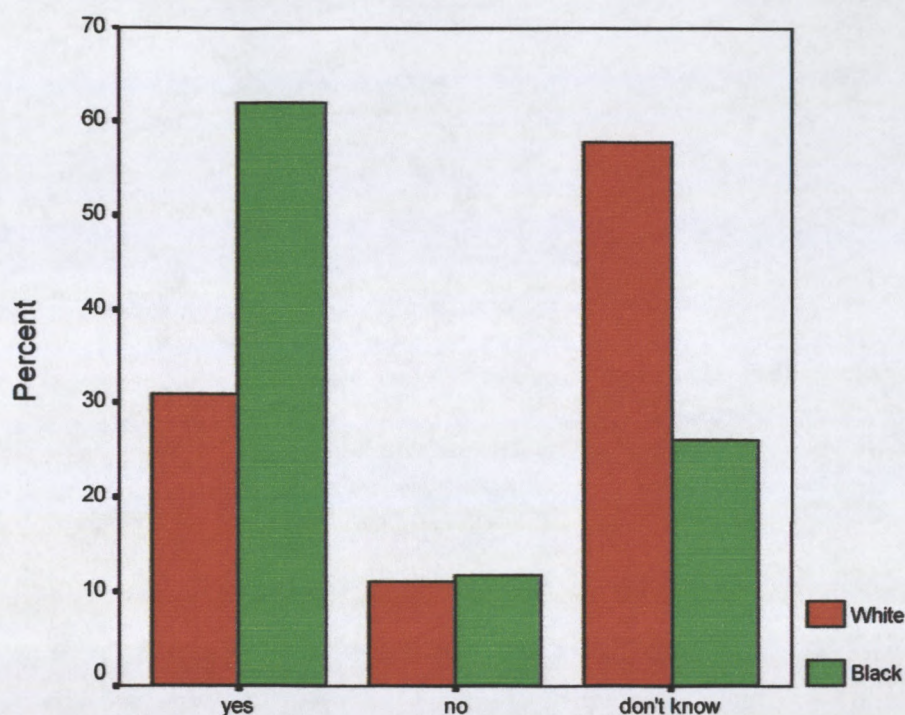
Area in terms of black and white groups	To what extent should banks get involved in financing of loans in your area?			Total
	To large extent	Partly	None	
White count	38	5	2	45
percent	84.4	11.1	4.4	100.0
Black count	123	65	6	195
percent	63.1	33.8	3.1	100.0
count	161	71	8	240
Total percent	67.1	29.6	3.3	100.0

The graph and table show that the majority of those from both white and black areas, 84% and 63% respectively, with the white area even more so, feel

there is a need for banks to get involved in the financing of home loans in their areas. According to the respondents the banks should be more involved in financing of home loans in all areas. Banks are currently investing 38% of the banking industry's total loans and advances in the housing sector (Tomlinson 2000).

QUESTION TEN

DO YOU THINK THAT BANKS RATE THE GEOGRAPHIC AREAS IN WHICH THEY LEND ON A SCALE ACCORDING TO RISK?



Do banks rate the geographic areas in which they lend on a scale according to risk?

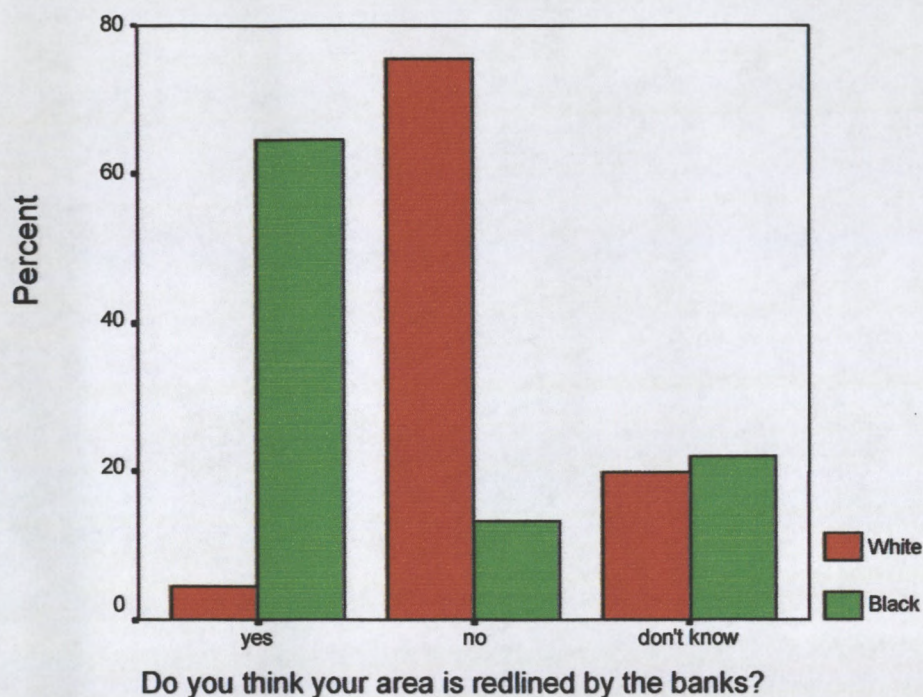
AREA IN TERMS OF BLACK AND WHITE GROUPS: DO BANKS RATE GEOGRAPHIC AREAS THEY LEND ON A SCALE ACCORDING TO RISK?

Area in terms of black and white groups	Do banks rate geographic in which they lend according to risk?			Total
	Yes	no	don't know	
White count	14	5	26	45
percent	31.1	11.1	57.8	100.0
Black count	121	23	51	195
percent	62.1	11.8	26.2	100.0
count	135	28	77	240
Total percent	56.3	11.7	32.1	100.0

Almost 60% of those from white areas don't know whether banks rate geographical areas in which they lend on a scale according to risk, whilst over 60% of those from black areas feel that banks do this. Just over half the respondents feel that bank rates geographic areas they lend on a scale according to risk.

QUESTION ELEVEN

DO YOU THINK YOUR AREA IS REDLINED BY THE BANKS?



AREA IN TERMS OF BLACK AND WHITE GROUPS: DO YOU THINK THE BANKS REDLINES YOUR AREA?

Area in terms of black and white groups	Do you think the banks redline your area?			Total
	Yes	no	Don't know	
White count	2	34	9	45
percent	4.4	75.6	20.0	100.0
Black count	126	26	43	195
percent	64.6	13.3	22.1	100.0
count	128	60	52	240
Total percent	53.3	25.0	21.7	100.0

CHI-SQUARE TESTS

	Value	Df
Pearson Chi-Square	81.514	2
No. of Valid Cases	240	

SYMMETRIC MEASURES

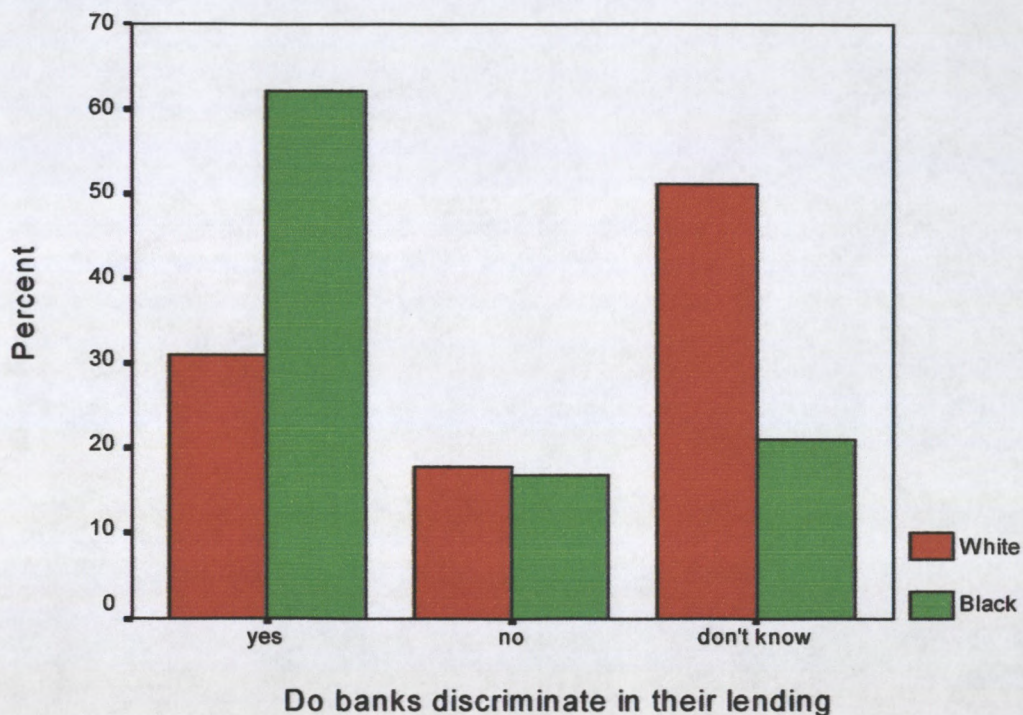
	Value
Nominal by Phi	0.583
Nominal	
No. of Valid Cases	240

65% of those from black areas feel that the banks redline their area, whilst 75% of those from white areas don't think their area is redlined. From the response of the question it seems that redlining mainly occurs in the black areas. Only about 4% of the white respondents feel that their areas are redlined. The response of this question strongly supports part of both the major and minor hypothesis.

From Table 6.1, a chi square value of 81.514 for 2 degrees of freedom occurs with a probability of less than 0.001. The effect size is at 0.583, which shows a more than moderate effect.

QUESTION TWELVE

DO YOU THINK THAT BANKS DISCRIMINATE IN THEIR HOME LOAN LENDING?



AREA IN TERMS OF BLACK AND WHITE GROUPS: DO BANKS DISCRIMINATE IN THEIR LENDING?

Area in terms of black and white groups	Do banks discriminate in their lending?			Total
	yes	no	don't know	
White count	2	34	9	45
percent	4.4	75.6	20.0	100.0
Black count	126	26	43	195
percent	64.6	13.3	22.1	100.0
count	128	60	52	240
Total percent	53.3	25.0	21.7	100.0

CHI-SQUARE TESTS

	Value	Df
Pearson Chi-Square	81.648	2
No. of Valid Cases	240	

SYMMETRIC MEASURES

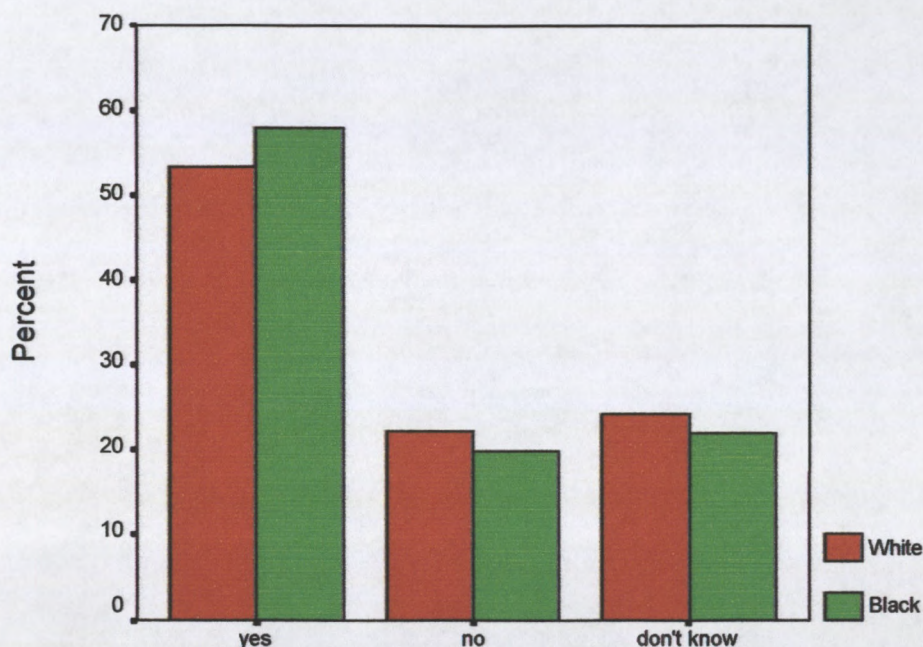
	Value
Nominal by Phi	0.279
Nominal	
No. of Valid Cases	240

More than half of the respondents from the white areas don't know whether banks discriminate in their lending, but about 30% of them think that they do. With regards to those from black areas, 62% feel that banks do discriminate. Just over half of all respondents feel that banks discriminate in their lending and this supports both the major and minor hypotheses.

From Table 6.1, a chi square value of 81.648 for 2 degrees of freedom occurs with a probability of less than 0.001. The effect size is at 0.279, showing some significant effect, which cannot be ignored.

QUESTION THIRTEEN

DO YOU THINK THAT BANK'S CRITERIA ARE DIFFERENT FOR BLACKS AND WHITES?



Do you think bank's criteria are different for blacks and whites?

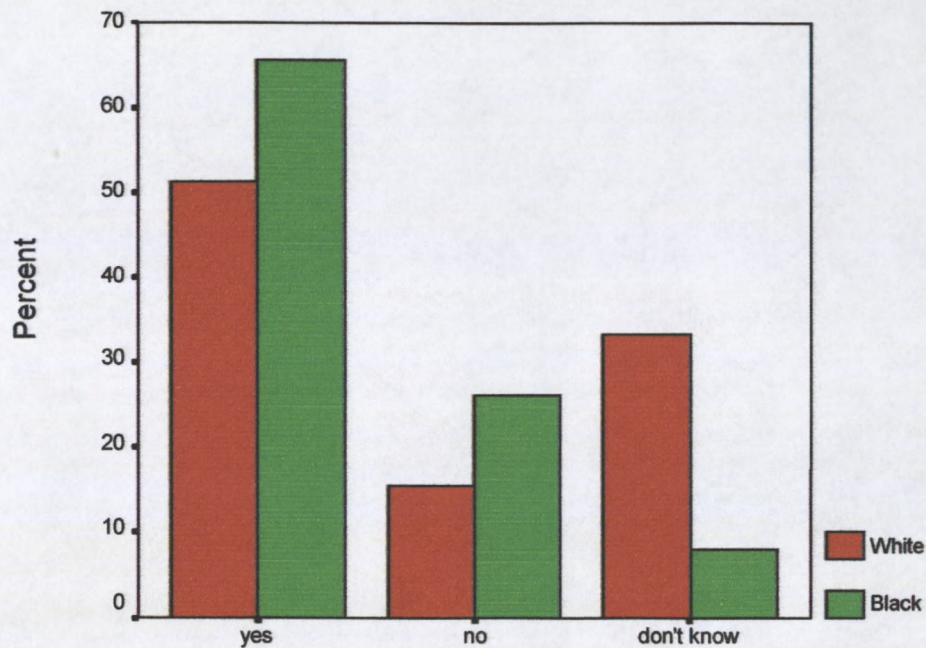
AREA IN TERMS OF BLACK AND WHITE GROUPS: DO YOU THINK BANK'S CRITERIA ARE DIFFERENT FOR BLACKS AND WHITES?

Area in terms of black and white groups		Do you think banks` criteria are different for blacks and whites?			Total
		yes	no	don't know	
White	count	24	10	11	45
	percent	53.3	22.2	24.4	100.0
Black	count	113	39	43	195
	percent	57.9	20.0	22.1	100.0
	count	137	49	54	240
Total	percent	57.1	20.4	22.5	100.0

More than half the respondents from both black and white group (58% and 53%) feel that banks have different lending criteria for blacks and whites. This is discrimination, which supports both the major and minor hypothesis.

QUESTION FOURTEEN

DO YOU THINK THAT BANKS RATE THEIR CLIENTS ACCORDING TO RISK?



Do banks rate their clients according to risk?

AREA IN TERMS OF BLACK AND WHITE GROUPS: DO BANKS RATE THEIR CLIENTS ACCORDING TO RISK?

Area in terms of black and white groups	Do banks rate their clients according to risk?			Total
	yes	no	don't know	
White count	23	7	15	45
White percent	51.1	15.6	33.3	100.0
Black count	128	51	16	195
Black percent	65.6	26.2	8.2	100.0
Total count	151	58	31	240
Total percent	62.9	24.2	12.9	100.0

CHI-SQUARE TESTS

	Value	Df
Pearson Chi-Square	20.800	2
No. of Valid Cases	240	

SYMMETRIC MEASURES

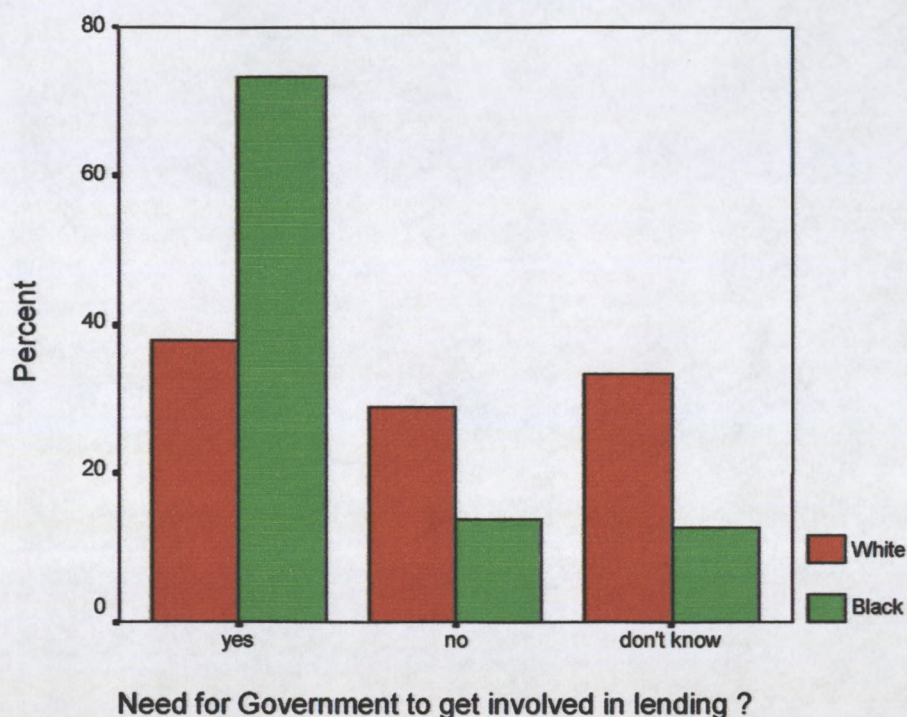
	Value
Nominal by Phi	0.294
Nominal	
No. of Valid Cases	240

65% of those from black areas feel that banks rate their clients according with risk, as compared with just over 50% of those from white areas. About fifteen percent more black respondents feel that banks rate clients according to risk and this supports the minor hypothesis.

From Table 6.1, a chi square value of 20.800 for 2 degrees of freedom occurs with a probability of less than 0.001. The effect size is at 0.294, showing it has a significant effect.

QUESTION FIFTEEN

DO YOU FEEL THERE IS A NEED FOR GOVERNMENT TO GET INVOLVED IN HOME LOAN LENDING BY THE BANKS?



AREA IN TERMS OF BLACK AND WHITE GROUPS: NEED FOR GOVERNMENT TO GET INVOLVED IN LENDING BY THE BANKS

Area in terms of black and white groups		Need for Government to get involved in lending by the banks			Total
		yes	no	don't know	
White	count	17	13	15	45
	percent	37.8	28.9	33.3	100.0
Black	count	143	27	25	195
	percent	73.3	13.8	12.8	100.0
	count	160	40	40	240
Total	percent	66.7	16.7	16.7	100.0

CHI-SQUARE TESTS

	Value	Df
Pearson Chi-Square	21.128	2
No. of Valid Cases	240	

SYMMETRIC MEASURES

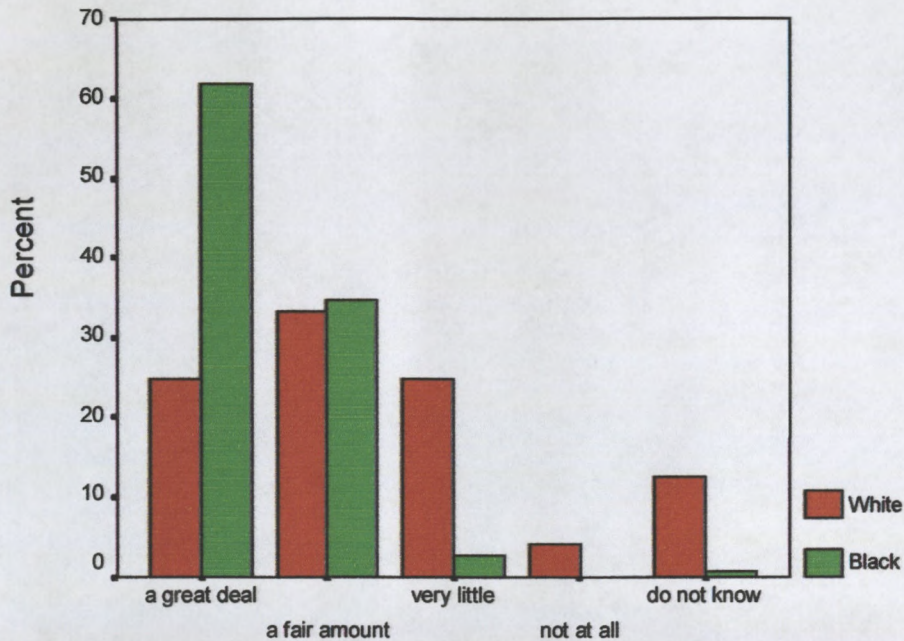
	Value
Nominal by Nominal Phi	0.297
No. of Valid Cases	240

Most of those from the previously black areas, 73%, feel there is a need for government to get involved. Meanwhile about 37% of those from white areas feel that way. Currently government's involvement in the home loan industry is purely on a monitoring basis (that is, Home Loan and Disclosure Act 2000). It is left to the policy makers to introduce further legislation.

From Table 6.1, a chi square value of 21.128 for 2 degrees of freedom occurs with a probability of less than 0.001. The effect size is at 0.297, indicating some effect.

QUESTION SIXTEEN

STATE TO WHAT EXTENT YOU CONSIDER HOME LOANS LENDING BY THE BANKS TO BE REGULATED?



State to what extent you consider home loans lending by the banks to be regulated?

AREA IN TERMS OF BLACK AND WHITE GROUPS: TO WHAT EXTENT IS LENDING BY BANKS TO BE REGULATED?

Area in terms of black and white groups	To what extent are lending by banks to be regulated?					Total
	a great deal	a fair amount	very little	Not at all	do not know	
White count	6	8	6	1	3	24
Percent	25.0	33.3	25.0	4.2	12.5	100.0
Black count	89	50	4		1	144
Percent	61.8	34.7	2.8		0.7	100.0
Count	95	58	10	1	4	168
Total percent	56.5	34.5	6.0	0.6	2.4	100.0

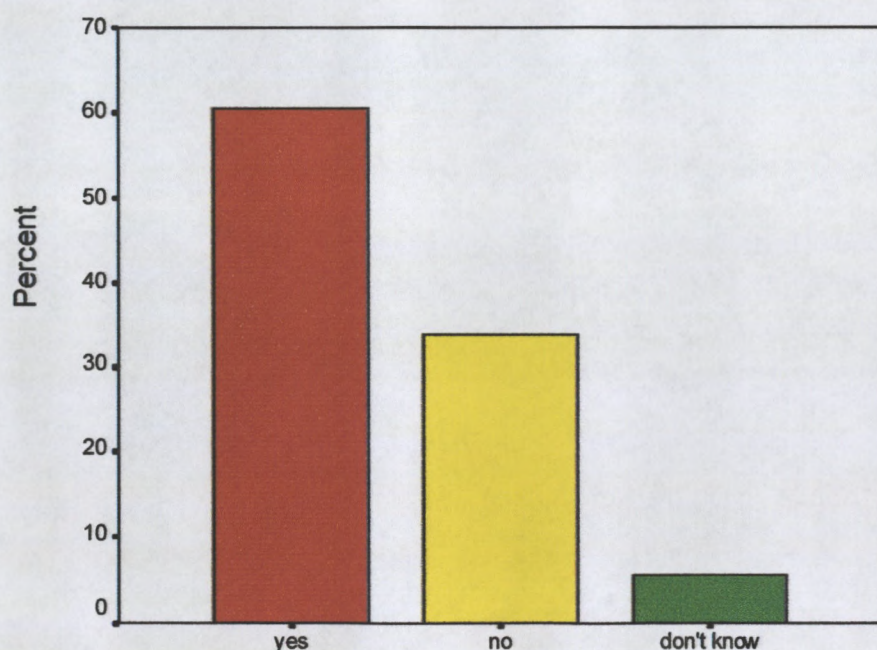
58% to whites and 97% to blacks considers a large amount of regulation. Less than 56% of the respondents consider lending by banks not to be regulated, that is most of the respondents consider regulation.

6.5 RESPONSES OF ESTATE AGENTS AND CONVEYANCERS TO QUESTIONNAIRE

The following are the response of the professionals to the various questions in the questionnaire. A 'goodness-of-fit chi square' test is used for some of the questions.

QUESTION ONE

DO YOU THINK THAT FINANCIAL INSTITUTIONS DISCRIMINATE IN THEIR HOME LOAN LENDING?



Do financial institutions discriminate in their home loan lending?

DO FINANCIAL INSTITUTIONS DISCRIMINATE IN THEIR LENDING?

	Frequency	Percent
Yes	43	60.6
No	24	33.8
Don't know	4	5.6
Total	71	100.0

The graph and table show that about 60% of the respondents feel financial institutions do discriminate in their home-loans lending compared with 33% that felt that they do not. This is very similar to the response from the black

areas in the community questionnaire where 62% felt that banks discriminate in their lending. Once again both the major and minor hypotheses is strongly supported by this question.

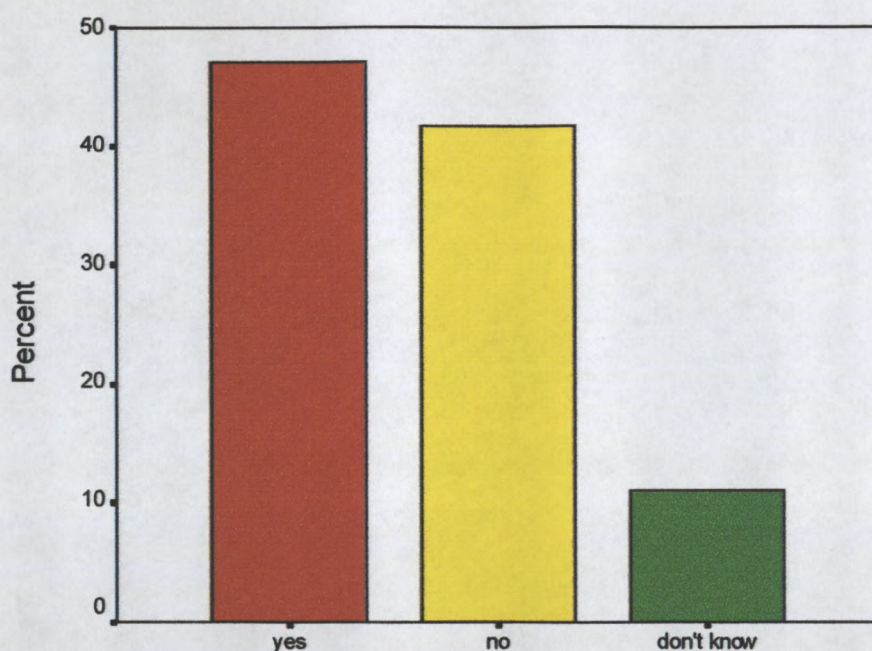
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	32.141	2

From Table 6.1, a chi square value of 32.141 for 2 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

QUESTION TWO

DO YOU THINK THAT FINANCIAL INSTITUTIONS USE DIFFERENT LENDING CRITERIA FOR BLACKS AND WHITES?



Do financial institutions use different criteria for blacks and whites?

DO FINANCIAL INSTITUTIONS USE DIFFERENT CRITERIA FOR BLACKS AND WHITES?

	Frequency	Percent
Yes	34	47.2
No	30	41.7
Don't know	8	11.1
Total	72	100.0

Results indicate that 47% feel that financial institutions use different criteria for blacks and whites; and almost the same number (that is 41%) feel that the banks do not have different criteria, the remaining 11% do not know. The same question from the community questionnaire indicates a higher result of 'yes'. The professionals do not support the community's view regarding whether banks use banks using different criteria for blacks and whites.

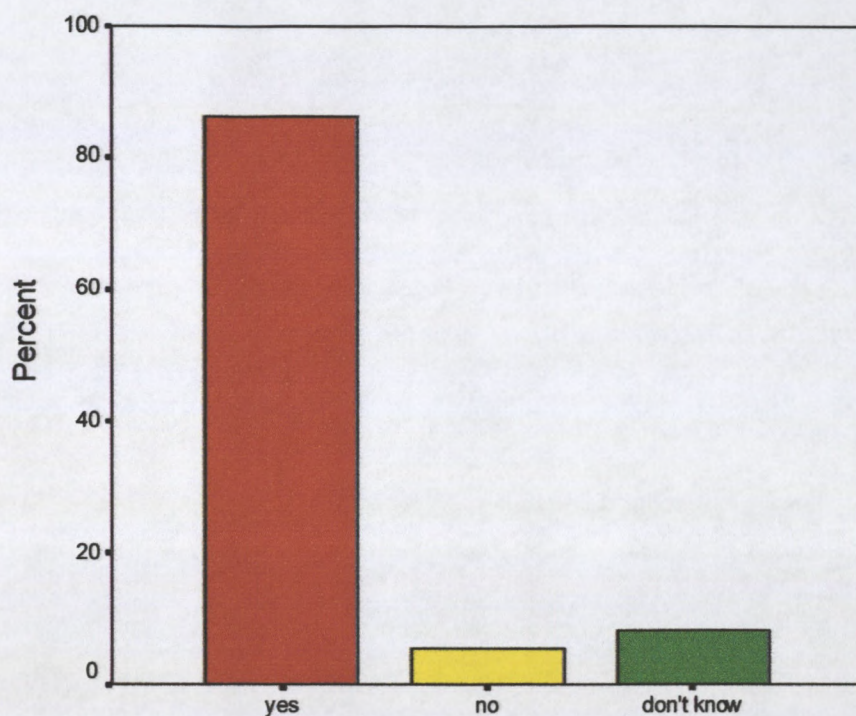
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	16.333	2

From Table 6.1, a chi square value of 16.333 for 2 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

QUESTION THREE

DO YOU THINK THAT FINANCIAL INSTITUTIONS RATE THE GEOGRAPHIC AREAS IN WHICH THEY LEND ON A SCALE ACCORDING TO RISK?



Do financial institutions rate geographic area in which they lend on a scale according to risk?

DO FINANCIAL INSTITUTIONS RATE GEOGRAPHIC AREA IN WHICH THEY LEND ON A SCALE ACCORDING TO RISK?

	Frequency	Percent
Yes	62	86.1
No	4	5.6
Don't know	6	8.3
Total	72	100.0

As per the graph and table, 86% of the professionals thinks that financial institutions rate the geographic areas in which they lend on a scale according to risk, as compared with 5% that think the opposite. The professionals strongly support the views of the respondents from the community particularly from the black areas (62%) regarding this question. The minor hypothesis is strongly supported.

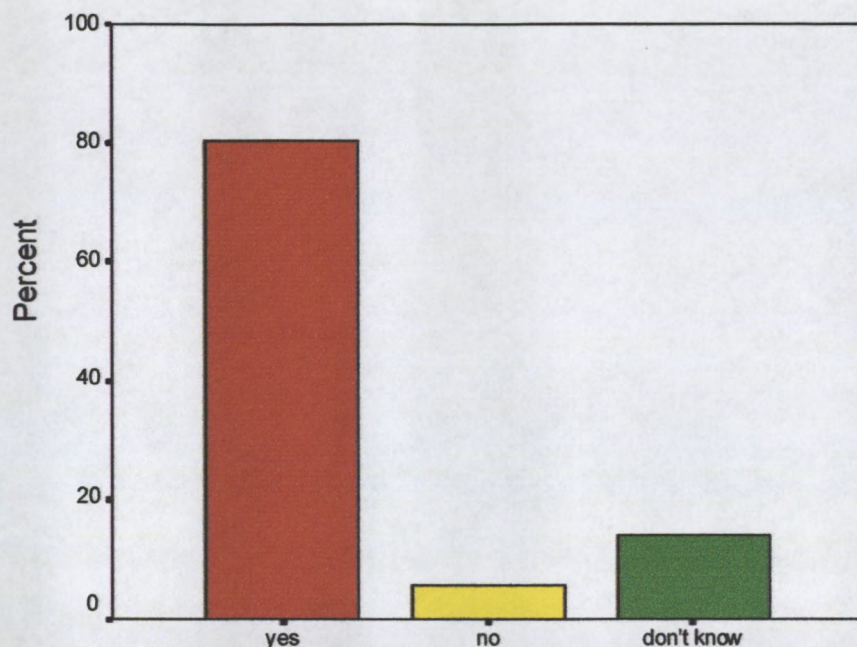
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	90.333	2

From Table 6.1, a chi square value of 90.333 for 2 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

QUESTION FOUR

DO YOU THINK THAT FINANCIAL INSTITUTIONS RATE THEIR CLIENTS ON A SCALE ACCORDING RISK?



Do financial institutions rate their clients according to risk?

DO YOU THINK THAT FINANCIAL INSTITUTIONS RATE THEIR CLIENTS ON A SCALE ACCORDING TO RISK?

	Frequency	Percent
Yes	58	80.6
No	4	5.6
Don't know	10	13.9
Total	72	100.0

80% of the respondents think that financial institutions do rate their clients on a scale according to risk, whilst 5% feel otherwise and the remaining 13% do not know. The professionals reinforces the views expressed by the communities where over 60% feels that banks rate their clients according to risk, thus supporting the minor hypothesis.

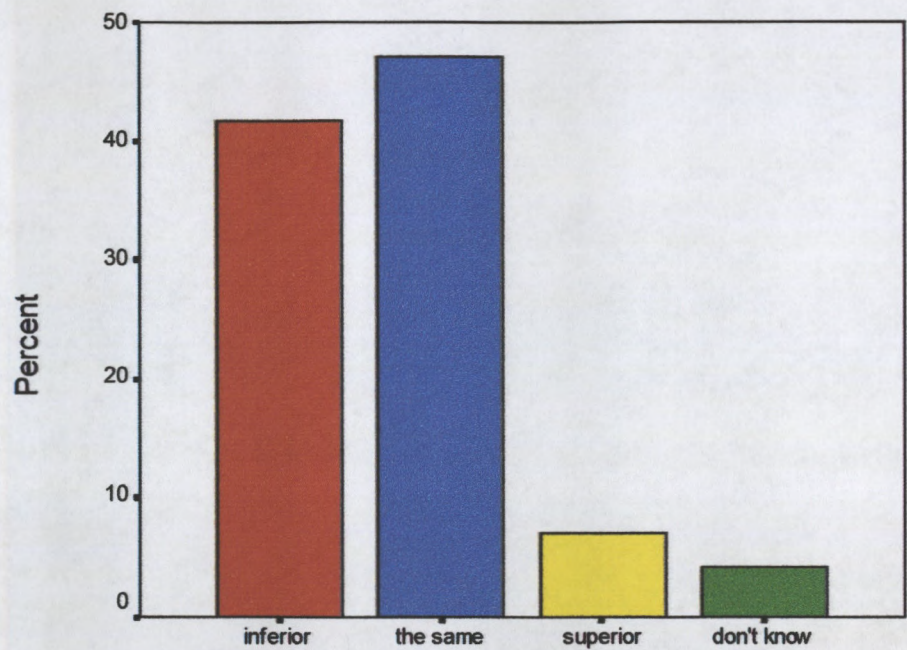
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	73.000	2

From Table 6.1, a chi square value of 73.000 for 2 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

QUESTION FIVE

HOW WOULD YOU RATE THE FINANCIAL INSTITUTIONS' STANDARD OF SERVICE GIVEN TO BLACK HOME LOAN CLIENTS AS COMPARED WITH THAT OF WHITE HOME LOAN CLIENTS?



Standard of service given to black as compared with white clients

RATE FINANCIAL INSTITUTIONS' STANDARD OF SERVICE GIVEN TO BLACK AS COMPARED WITH WHITE HOME LOAN CLIENTS

	Frequency	Percent
Inferior	29	40.3
the same	34	47.2
superior	5	6.9
don't know	4	5.6
Total	72	100.0

The majority of responses fall to the left of the graph, showing inferior or to the same standard of service given to black home loan clients as compared with white home loan clients.

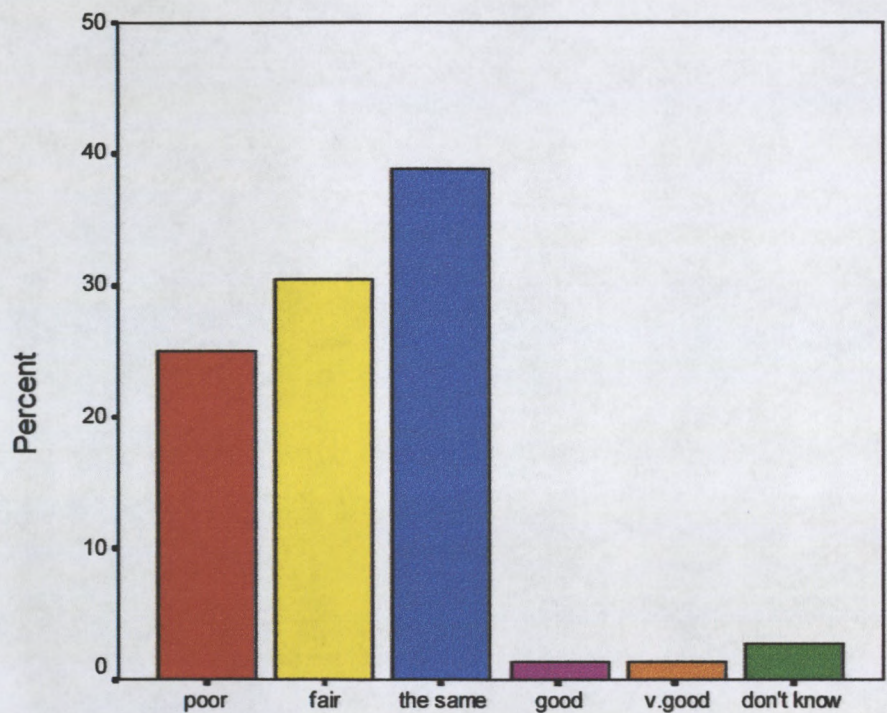
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	69.111	4

From Table 6.1, a chi square value of 69.111 for 4 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

QUESTION SIX

HOW WOULD YOU RATE THE TURNAROUND TIME IN GRANTING OF HOME LOANS TO BLACK HOME LOANS CLIENTS AS COMPARED WITH WHITE HOME LOANS CLIENTS?



Rating turnaround time in granting of home loans to black clients as compared with white clients.

RATE TURNAROUND TIME IN GRANTING OF HOME LOANS TO BLACKS AS COMPARED WITH WHITE HOME LOAN CLIENTS.

	Frequency	Percent
Poor	18	25.0
fair	22	30.6
the same	28	38.9
good	1	1.4
very good	1	1.4
don't know	2	2.8
Total	72	100.0

With regards to the turnaround time in granting of home loans to black clients as compared with white home loan clients, results are as follows:

Most feel that turnaround time is the same (about 40%), however, 56% thinks the turnaround time to be poor or fair, whilst less than 3% feels it to be good or very good. This question supports part of the minor hypothesis.

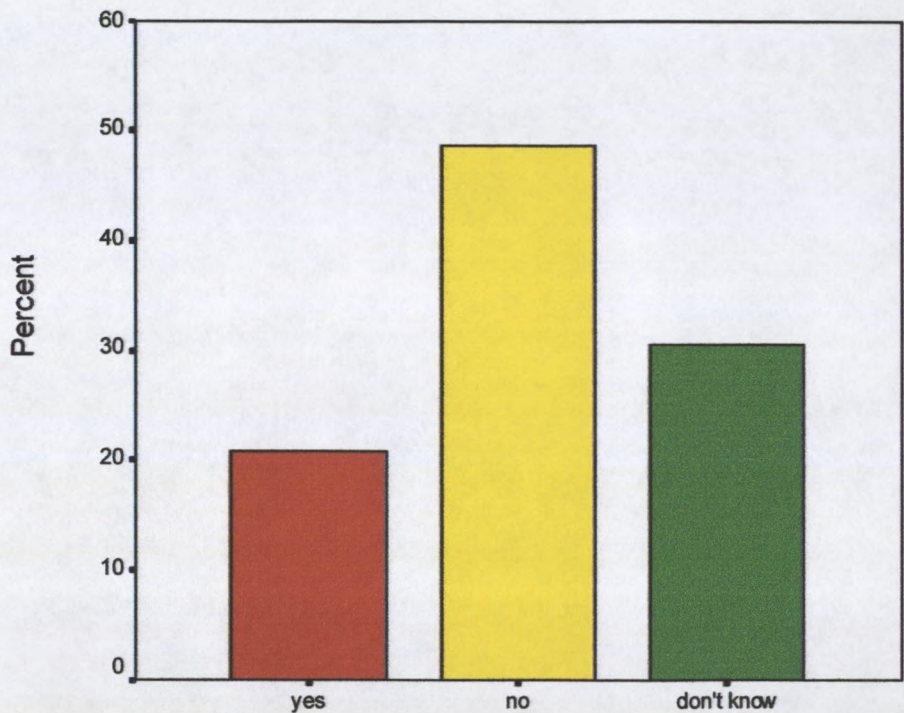
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	61.167	5

From Table 6.1, a chi square value of 69.111 for 4 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

QUESTION SEVEN

DO YOU THINK THAT FINANCIAL INSTITUTIONS ADEQUATELY MARKET THEIR HOME LOAN PRODUCTS IN HISTORICALLY BLACK AREAS?



Do financial institutions adequately market home loans in historically black areas?

DO YOU THINK FINANCIAL INSTITUTIONS ADEQUATELY MARKET THEIR HOME LOAN PRODUCTS IN HISTORICALLY BLACK AREAS?

	Frequency	Percent
Yes	15	20.8
No	35	48.6
Don't know	22	30.6
Total	72	100.0

Approximately half the respondents thinks that the financial institutions do not market their home-loan products adequately in historically black areas, 30% did not know, and 20% thinks that they do market their home-loan products adequately. The professional's response is relatively low as compared to the community's response regarding the same question where over 85% felt that banks do not adequately market home loan products in black areas.

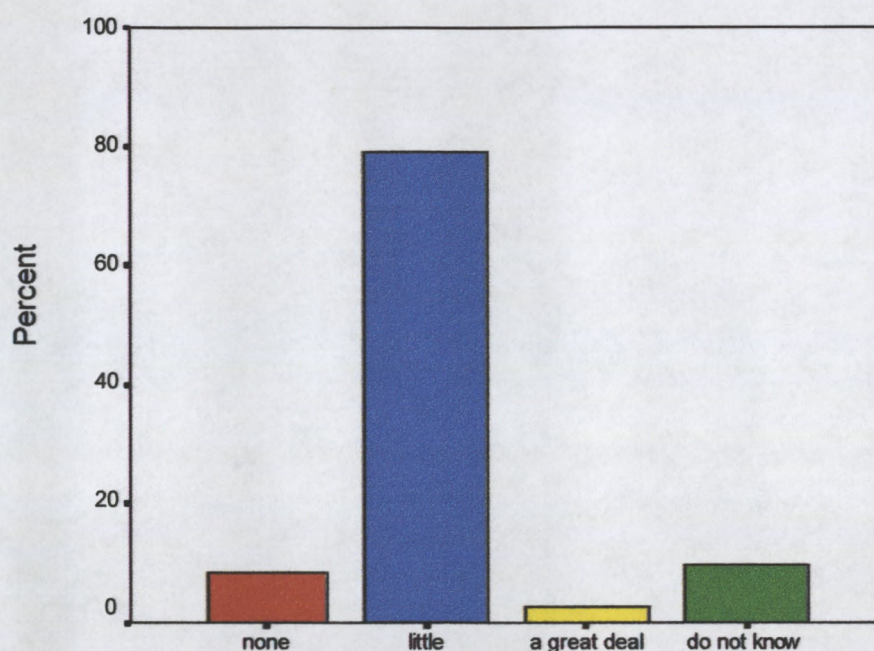
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	8.583	2

From Table 6.1, a chi square value of 8.583 for 2 degrees of freedom occurs with a probability of less 0.02. This shows that these results are not due to chance, and therefore have significance.

QUESTION EIGHT

HOW WOULD YOU CATEGORISE THE BLACK CLIENT'S KNOWLEDGE OF HOME LOANS?



Categorize the black client's knowledge of home loans

HOW WOULD YOU CATEGORISE THE BLACK CLIENTS KNOWLEDGE OF HOME LOANS?

	Frequency	Percent
None	6	8.3
Little	57	79.2
a great deal	2	2.8
do not know	7	9.7
Total	72	100.0

From the graph and table it is clear 88% of the professionals think that black clients have little or no knowledge of home loans while only 3% thinks that they have a great deal of knowledge.

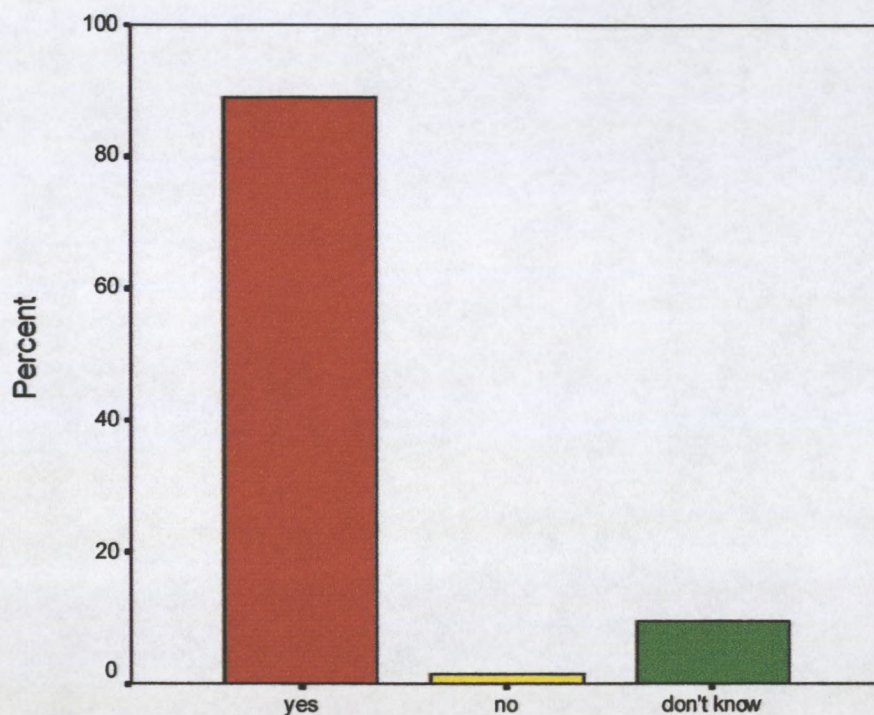
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	113.444	3

From Table 6.1, a chi square value of 113.444 for 3 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

QUESTION NINE

DO YOU FEEL THAT THERE IS A NEED FOR THE FINANCIAL INSTITUTIONS TO EDUCATE THE BLACK COMMUNITIES IN HOME LOANS?



Need for financial institutions to educate black communities in home loans

IS THERE A NEED FOR FINANCIAL INSTITUTIONS TO EDUCATE BLACK COMMUNITIES IN HOME LOANS?

	Frequency	Percent
Yes	64	88.9
No	1	1.4
Don't know	7	9.7
Total	72	100.0

The majority of respondents (approximately 89%) feel that there is a need for financial institutions to educate black clients in home loans. This is similar to response from the community from the black areas where 86 % saw the need for education in home loans. The response from the professionals reinforces the need to educate black clients in home loans.

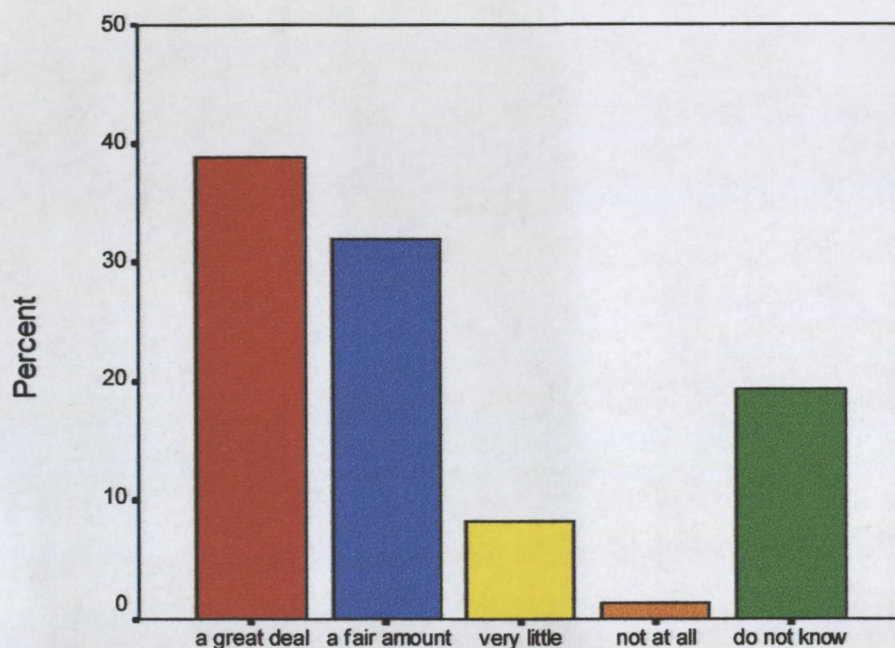
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	100.750	2

From Table 6.1, a chi square value of 100.750 for 2 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

QUESTION TEN

TO WHAT EXTENT DO YOU THINK THAT FINANCIAL INSTITUTIONS REDLINE CERTAIN AREAS?



To what extent do financial institutions redline certain areas?

TO WHAT EXTENT DO FINANCIAL INSTITUTIONS REDLINE CERTAIN AREAS?

	Frequency	Percent
a great deal	28	38.9
a fair amount	23	31.9
very little	6	8.3
not at all	1	1.4
do not know	14	19.4
Total	72	100.0

Most respondents think that banks redline certain areas. 79% think that banks redline certain areas a great deal to very little whilst just over 1% think that banks do not redline at all. This is similar to the response from the community from the black areas where 65% felt that banks redline their areas.

This is a significant response as it supports both the major and minor hypotheses.

From Table 6.1, a chi square value of 81.514 for 2 degrees of freedom occurs with a probability of less than 0.001. The effect size is at 0.583, which shows a more than moderate effect.

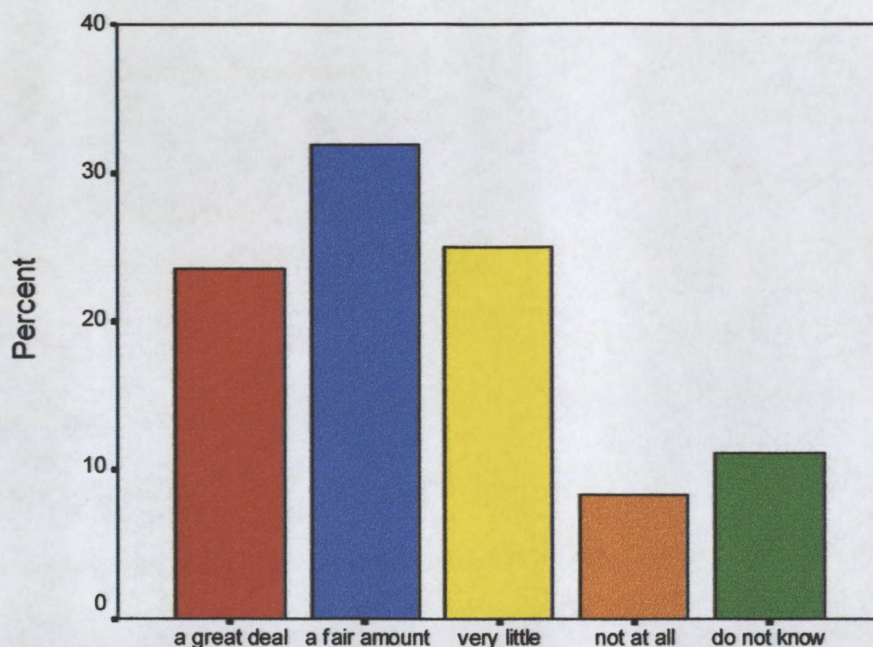
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	35.361	4

From Table 6.1, a chi square value of 35.361 for 4 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

QUESTION ELEVEN

TO WHAT EXTENT DO YOU CONSIDER HOME LOANS LENDING BY THE BANKS TO BE REGULATED?



To what extent are home-loans lending by banks to be regulated?

TO WHAT EXTENT ARE HOME LOANS LENDING BY BANKS TO BE REGULATED?

	Frequency	Percent
a great deal	17	23.6
a fair amount	23	31.9
very little	18	25.0
not at all	6	8.3
do not know	8	11.1
Total	72	100.0

The extent to which home loans lending by the banks to be regulated is shown in the graph and table. 56% of the respondents consider that home loans lending to be regulated a great deal to very little whilst only 8% thinks that they should not be regulated at all. This supports the community's response where the majority felt that home loans lending by banks should be regulated.

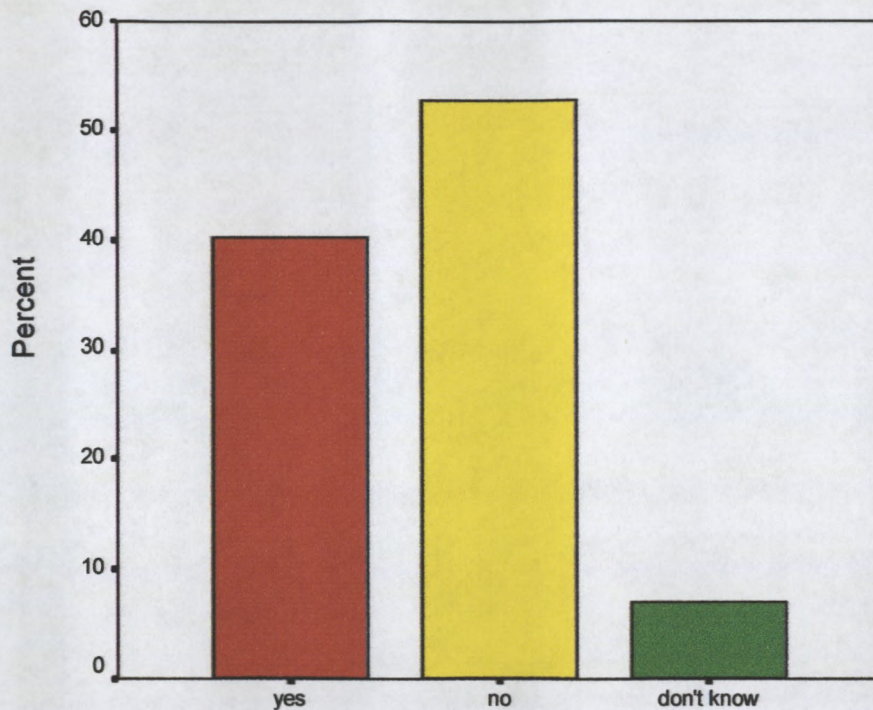
GOODNESS OF FIT TEST

	Value	Df
Chi -Square	14.250	4

From Table 6.1, a chi square value of 14.250 for 4 degrees of freedom occurs with a probability of less 0.01. This shows that these results are not due to chance, and therefore have significance.

QUESTION TWELVE

**DO YOU THINK THERE IS A NEED FOR THE GOVERNMENT TO GET INVOLVED
IN LENDING OF HOME LOANS BY THE BANKS?**



Need for Government to get involved in lending by banks

**DO YOU THINK THERE IS A NEED FOR GOVERNMENT TO GET INVOLVED IN
LENDING BY BANKS?**

	Frequency	Percent
Yes	29	40.3
No	38	52.8
Don't know	5	6.9
Total	72	100.0

The majority of the professionals as indicated in the graph and table feel that there is no need for governmental involvement in home loans lending. This is almost 53% of the responses, with approximately 40% indicating that governmental involvement is necessary.

GOODNESS OF FIT TEST

	Value	Df
Chi -Square	24.250	2

From Table 6.1, a chi square value of 24.250 for 2 degrees of freedom occurs with a probability of less 0.001. This shows that these results are not due to chance, and therefore have significance.

6.6 COMPARISON OF RESPONSES OF THE QUESTIONNAIRES BETWEEN COMMUNITY AND PROFESSIONAL

6.6.1 Type of service received from the bank

There is a difference in service perceived to have been received from the banks by the white and black groups. 46% of the white group feel that the service received is very good whereas only 25% of the black group feel that the service received is very good. 47% of the black group feels that the service they received is poor to fair. It is important for the banks to realise that half the black clients feel that the service is unsatisfactory.

47% of the professional responses feel that the black group receives the same quality of service as the white group and 40% feel that the service received is inferior to the white group. Considering the responses from the community and professionals, the perceived difference in the quality of service appears to be insignificant.

6.6.2 Knowledge of home loans

57% of the white group indicate that their knowledge of home-loans is 'a great deal', whilst 58% of the black group categorise their knowledge as 'little'. In comparison 80% of the professionals feel that the black groups' knowledge of home-loans is very little.

Following from this, almost 90% of the Professionals and 87% of the black group feel that there is a need for banks to educate the people from historically black areas in home-loans.

6.6.3 Adequate marketing of home loan products

Almost 50% of the professionals feel that banks do not adequately market their home-loan products in historically black areas, which reinforces the feelings of respondents from the black areas, where 85% feel the same.

6.6.4 Rating of geographical areas in which banks lend on a scale according to risk

86% of the professionals feel that banks rate the geographical areas in which they lend according to risk, as compared with 62% of the black group and only 31% of the white group who feel similarly.

6.6.5 Rating of clients by the banks according to risk

80% of the professionals feel that banks rate their clients according to risk, as compared with 65% of the black group and 50% of the white group who feel similarly.

6.6.6 Discrimination by banks on home loans lending

31% of the white respondents and 62% of the black feel that banks discriminate in their home-loans lending, as compared with 60% of the professionals who feel similarly.

6.6.7 Are banks' lending criteria different for blacks and white?

53% of the black group, 60% of the white group and 47% of the professionals feel that banks' lending criteria is different for blacks and whites.

6.6.8 Extent to which banks redline certain areas

Almost 39% of the professionals feel that banks redline certain areas to 'a great deal'. 75% of the white group do not think that their areas are redlined whilst 65% of the black feel that their areas are redlined.

6.6.9 Extent to which lending by banks to be regulated

25% of the white group, 61% of the black group and 23% of the professionals think that lending should be regulated by 'a great deal'. 33% of the white group, 34% of the black group and 31% of the professionals feel that it should be regulated by 'a fair amount'. It appears that the majority of the respondents feel that the extent to which lending should be regulated by the government range from 'a fair amount' to 'a great deal'.

6.6.10 Need for governmental involvement in the home loans industry

40% of the professionals feel that government should be involved in the home-loans industry, whilst 52% did not think so. 37% of the white group feels that government should get involved whilst 27% did not think so. Finally 73% of the black group feels that governmental involvement is necessary in home-loans lending whilst 16% thinks that they should not be involved.

6.7 CONCLUSION

The results presented in this chapter show strong support for the following hypotheses:

Minor Hypothesis - different socio-economic groups experience different results in obtaining home mortgages.

Major Hypothesis - mortgage-lending institutions discriminate on the basis of locality.

The findings are as follows:

- banks discriminate in their lending
- banks are over cautious in their lending
- certain areas are redlined by the banks
- blacks have a limited knowledge of home loans
- there is a need for blacks to be educated in home loans
- government should play a more active role in the home loans industry
- there is a lack of marketing of home loan products in the black areas
- banks to a certain extent are denying the housing needs of the majority of the people

The analysis of the data, an essential step in reaching the objective of the study is presented in this chapter. What follows in Chapter 7 is the interpretation and recommendation of the findings, followed by discussion of the null hypothesis.

CHAPTER SEVEN

INTERPRETATION AND RECOMMENDATIONS

7.1 INTRODUCTION

This concluding chapter reviews the findings of the research into the key question of whether banks discriminate against blacks in the process of granting mortgage bonds for housing.

The topic is approached by way of a brief overview of the current housing situation in South Africa and the circumstances since the 1960s that led to this.

The discussion then focuses on the role of financial institutions and their current practices in the provision of housing loans. This is followed by an empirical study of public perception of the banking sector and their policies with respect to lending to certain sections of the population and in certain areas. The results of the survey are then analysed and recommendations made.

Chapter 7 encapsulates the findings of the preceding chapters, a review together with an interpretation of the empirical study, and making recommendations to improve the provision of housing in KwaZulu-Natal.

7.2 REVIEW

The study was initiated as the result of perceptions that financial institutions discriminate in their lending on the basis of income and locality.

The primary objective is to determine the extent to which financial institutions contribute to the housing shortage in KwaZulu-Natal, and to ascertain whether financial institutions discriminate in their lending and establish whether there is

a possible link between the lending criteria used by the financial institutions and the housing shortage.

An analysis of the information gathered leads to the conclusion that there is significant evidence in terms of the community and professionals opinions to suggest strong support for the major hypothesis.

7.3 INTERPRETATION OF THE EMPIRICAL STUDY

The empirical study pertains to questionnaires administered to the representative communities of the Durban Metropolitan Area and Estate Agents and Conveyancers (referred to as the professionals).

The following findings have emerged as a result of the empirical study:

- According to the findings there is strong evidence indicating large-scale disparity in lending by the financial institutions in KwaZulu-Natal. The empirical study clearly shows that financial institutions tend to disproportionately favour the white community when home loans are granted, thus contributing to the housing shortage in the black areas.
- It is also ascertained that the different groups experience different results in their attempt to acquire home-loans. The results of the questionnaire re-enforce this point. The outcome of the study reveals that half of the applicants living in historically black areas had their applications for a home loan turned down. This statistic is viewed as very high when compared with the mere 9% (or 1 in every 11) of home loan applications that are turned down from individuals living in historically white areas. Reasons for this practice according to the respondents include their credit history, low income and the fact that the banks view their area as a high-risk area. In terms of the individuals from the historically white areas, their applications are supposedly only turned down due to the high loan amount that is requested.

- Whilst the questionnaire responses indicates that the majority of respondents from the historically black areas are homeowners, it is clearly evident from both the respective communities and professionals that respondents living in historically black areas have a limited or no knowledge of home loans. There is a definite need for banks to educate the black community about how home loans operate and the procedure involved. An interesting perception surrounding the type of service those banks render is found. Whilst the respondents from the historically white areas rate the banks service as good to very good, the respondents from the historically black areas rate the banks service as unsatisfactory to poor.
- Regarding discrimination, the overwhelming response is that financial institutions discriminate in their lending. In terms of banks being guilty of discrimination regarding home loan applicants, over half of respondents from historically white areas remain unsure of this practice while nearly a third believe that the banks engaged in this behaviour. On the other hand almost two thirds of respondents from historically black areas allege that banks are guilty of discrimination and 58% of these respondents believe that banks have different lending criteria for blacks and whites. Residents from the historically white areas share this sentiment as half of them think that banks have different lending criteria for different groups.
- There seems to be a clear understanding of the need for marketing of home loan products in the residential areas as nearly three quarters of all respondents feel that banks do not adequately market their product. Majority of the blacks feel that the banks do not adequately market their home loan products in their areas whilst only about a third of the whites feels the same. As marketing plays a vital role in attracting clients to their products in any business, it could be perceived that in the case of home loans in black areas banks use the strategy of not marketing aggressively to limit their lending in these areas.

- In an attempt to further establish the existence of inconsistency in the lending policies of banks, bonds granted in historically black areas are compared with bonds granted in historically white areas. This analysis compares the 1999 (historical group areas) bond results and notes the discrepancies. It is found that the overall loan amount granted to the historically white areas far exceeds the loan amount granted to the predominately black areas. In terms of monetary value the average loan granted in historically white areas is R300 000 as compared with applicants from the historically black areas whose average loans amount to only R107 000. The study also reveals that although the number of successful applicants of historically black areas exceeds the historically white areas by 50%, considering the population difference that is a difference of almost 6 times more people in historically black areas, one can easily detect a disparity in lending, favouring the historically white areas.

- A factor that reaffirms the claim of disparity in lending is an analysis of the 1993 bond results (predominant group areas). The number of successful applicants from the predominately white areas is almost double when compared with the amount of successful applicants from predominately black areas. Furthermore the total amount granted to the predominately white areas exceeds the predominately black areas by almost 7 times, in only 5 areas of the predominately white areas as compared with 19 areas of the predominately black areas. Arising from these results, one can conclude that the banks are guilty of discrimination when it comes to their lending policies.

- It becomes apparent that governmental intervention in the home loan industry is necessary to force banks to lend to the majority of the people, although this view is not shared by most of the white community and the professionals. According to the respondents from the previously black areas, 73% feel that there is a need for government to get involved whilst only 37% of the respondents from the previously white areas feel that way.

The majority of the professionals (53%) feel that there is no need for governmental involvement in home-loans lending, with approximately 40% indicating that governmental involvement is necessary.

7.4 RECAPITULATION

The central conclusion of this research is therefore that the evidence clearly points to the culpability of banks in discriminating against the blacks that are mainly blacks. The data on mortgage lending clearly shows a bias towards more economically well off individuals and residential areas. There is no doubt that low-income people could afford to buy homes if they were granted access to long-term credit. Research conducted in developing countries clearly demonstrates that the poor can effectively participate in the housing process, given the finance.

Access to finance is an obstacle that is frustrating the efforts of people who wish to house themselves. Given the limited resources of the Government and the enormity of the housing problem, it is difficult to imagine how any significant progress can be made in the future without a more fundamental resolution of the mortgage issue and the role of banks in this. The attitudes of the banking sector must change, understanding and commitment must grow and action must follow to ensure that everyone is able to occupy a place of his or her own.

These results derive from the formal housing sector - the major unaddressed problem of informal housing and the need to investigate informal housing remains remains.

Unfortunately no change is likely to occur until the Government acts decisively to ensure that banks act more equitably in making funds available in adequate amounts and in the appropriate locations.

7.5 RECOMMENDATIONS AND CONCLUSION

The empirical findings of this research indicates that there is a need for the authorities to investigate the lending practices of the financial institutions.

- The FRA, ECOA and CRA if supplemented to the Home Loan and Mortgage and Disclosure Act (as it does the Home Mortgage Disclosure Act of US), should be sufficient legislation to prevent any discrimination by financial institutions in South Africa. Its relevance to the South African situation would be as follows:
 - i. lending discrimination would be prohibited under the ECOA;
 - ii. the geographic patterns that might be caused in part by individual-based discrimination would be prevented under the CRA; and
 - iii. discrimination including sex together with the keeping confidential the results of self-testing by institutions would be legislated in the FRA.

Generally accepted statistical techniques similar to those used in studies in the US could then be used to evaluate race, sex, marital status or age as factors in the banks lending decisions. The objective of this analysis should be not only to establish the existence of discrimination but also to identify institutions that discriminates, which should warrant further investigation. The analysis should focus on acceptance, rejection and terms given to the borrowers. To be fair to the financial institutions the report should include information such as arrears and foreclosures.

- The banking sector must make sufficient funds available for housing the blacks in the proper locations.

- Prevent redlining of areas.
- Government to act decisively against banks that discriminate on the basis of race or locality etc.
- Government should encourage and assist financial institutions to deepen financial services and lending.

While some definite progress has been noted, contribution of the banking industry towards meeting the housing needs fall far short of what is required. Further research needs to focus on the root causes of the housing problem and the political, institutional and legal changes that are required to bring about large-scale housing delivery.

The serious obstacles that have been identified in this research are not likely to be removed without a broader reform initiated by Government. The socio-economic characteristics of mortgage bond applicants and the neighbourhoods in which they wish to live should not be given the over-riding importance that it is currently given.

The point to be made is the need for more research to draw conclusions and inform Government policy. In addition to the need for more research is a need for a more fundamental change in attitude on the part of the banking sector or financial institutions in order to allow a more flexible approach to the problems, such as redlining and the notion that it is riskier to lend to black people, highlighted in this study.

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	Unicity Boundary	Old Metro Boundary	Additional	% Change
Geographic size	2297km ²	1366 km ²	931 km ²	+ 68
Population	2 749 737	2 519 995	229 742	+ 9.1
Density	1202 p/km ²	1845 p/km ²	-643	- 35
Registered Voters	1 22 9 540	1 131 767 ¹	97 773	+ 8.6
No. of households	645 744	609 356	36 388	+ 6.0

QUESTIONNAIRE (COMMUNITY)

1. Do you own this house or are you a tenant?	Owner	<input type="checkbox"/>
	Tenant	<input type="checkbox"/>
2. Have you ever applied for a home-loan?	Yes	<input type="checkbox"/>
	No	<input type="checkbox"/>
3. If you have applied for a home loan was your application turned down?	Yes	<input type="checkbox"/>
	No	<input type="checkbox"/>
4. If your answer to question 3 is yes, why do think your application was turned down?	Income too low	<input type="checkbox"/>
	Credit history	<input type="checkbox"/>
	Area redlined	<input type="checkbox"/>
	Loan amount	<input type="checkbox"/>
	Loan-to-value	<input type="checkbox"/>
	Unemployed	<input type="checkbox"/>
	Race group	<input type="checkbox"/>
	Other reasons	<input type="checkbox"/>
	Do not know	<input type="checkbox"/>
5. How would you describe the type of service you received from the bank when you applied for a home-loan?	Poor	<input type="checkbox"/>
	Fair	<input type="checkbox"/>
	Satisfactory	<input type="checkbox"/>
	Good	<input type="checkbox"/>
	Very good	<input type="checkbox"/>
6. How would you categorise your knowledge of home-loans?	None	<input type="checkbox"/>
	Little	<input type="checkbox"/>
	A great deal	<input type="checkbox"/>
	Do not know	<input type="checkbox"/>
7. Do you think there is a need for the banks to educate your community in home-loans?	Yes	<input type="checkbox"/>
	No	<input type="checkbox"/>
	Do not know	<input type="checkbox"/>

8. Do you think that banks adequately market their home-loan products in your area?	Yes	
	No	
9. To what extent do you consider the banks should get involved in financing of housing loans in your area?	To a large extent	
	Partly	
	None	
10. Do you think banks rate the geographical areas in which they lend on a scale according to risk?	Yes	
	No	
	Do not know	
11. Do you think that your area is "redlined" by the banks?	Yes	
	No	
	Do not know	
12. Do you think that banks discriminate in their home-loan lending?	Yes	
	No	
	Do not know	
13. Do you think that the bank's criteria are different for blacks and whites?	Yes	
	No	
	Do not know	
14. Do you think banks rate their clients according to risk?	Yes	
	No	
	Do	
15. Do you feel there is a need for the government to get involved in the lending of home-loans by the banks?	Yes	
	No	
	Do not know	
16. If your answer to question 15 is yes, state to what extent you consider home-loans lending by the banks to be regulated?	A great deal	
	A fair amount	
	Very little	
	Not at all	
	Do	
Thank you		

QUESTIONNAIRE

(CONVEYANCERS AND ESTATE AGENTS)

Please make an "X" in the appropriate block. Choose ONE option only.

1. Do you think that financial institutions discriminate in their home-loan lending?	Yes	
	No	
	Do not know	
2. Do you think that financial institutions use different lending criteria for blacks and whites?	Yes	
	No	
	Do not know	
3. Do you think that financial institutions rate the geographical areas in which they lend on a scale according to risk?	Yes	
	No	
	Do not know	
4. Do you think that financial institutions rate their clients on a scale according to risk?	Yes	
	No	
	Do not know	
5. How would you rate the financial institution's standard of service given to black home-loans clients as compared with that of white home-loans clients?	Inferior	
	The same	
	Superior	
	Do not know	
6. How would you rate the "turnaround" time in granting of home-loans to black home-loan clients as compared with white home-loans clients?	Poor	
	Fair	
	The same	
	Good	
	Very good	
	Do not know	
7. Do you think that financial institutions adequately market their home-loan products in historically black areas?	Yes	
	No	
	Do not know	

8. How would you categorise the black client's knowledge of home-loans?	None	
	Little	
	A great deal	
	Do not know	
9. Do you feel that there is a need for the financial institutions to educate the black communities in home-loans?	Yes	
	No	
	Do not know	
10. To what extent do you think that financial institutions "redline" certain areas?	A great deal	
	A fair amount	
	Very little	
	Not at all	
	Do not know	
11. To what extent do you consider home-loans lending by the banks to be regulated?	A great deal	
	A fair amount	
	Very little	
	Not at all	
	Do not know	
12. Do you think there is a need for the government to get involved in lending of home-loans by the banks?	Yes	
	No	
	Do not know	
<p style="text-align: center;">Thank you once again</p>		