The Impact of the National Credit Act, 2005 on the Affordability of Home Loans in Pinetown

By

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DECLARATION

I hereby declare that this study represents the original work by the author and has not been submitted for a degree at any other university. Where the use was made of the work of others, it has been duly acknowledged in the text and included in the reference list.

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ABSTRACT

The National Credit Act No. 34 of 2005 (NCA) was introduced by the South African government mainly to bring about accessibility to credit markets, protect consumers from malpractices and market abuses by credit providers and reduce consumer over indebtedness. As a result, credit providers are compelled to apply stringent rules and regulations when assessing a credit consumer's affordability prior to granting home loans.

This study aims at investigating the impact of the NCA on the affordability of home loans within the Pinetown metropolitan area. The literature review presents an overall view of affordability of home loans in developed and emerging countries and also provides an in-depth explanation of factors that affect affordability of home loans in South Africa. The predominant factors, amongst others that hinder the housing market, are: an increase in house prices; elevated interest rates and household debt which include inflation, transportation cost and low wage increase.

A mixed methods approach was utilized for the research, analyzing both quantitative and qualitative data. Respondents (home loan borrowers) completed a questionnaire by indicating if assessments were conducted in terms of their affordability prior to the approval of their home loan and their view on the impact that the NCA had on their home loan. The data suggested strongly that credit providers had conducted proper credit and affordability assessments prior to granting home loans and that most home loan borrowers' level of debt had remained stable since acquiring their home loans as they continue to meet their debts. An overall analysis revealed that the application of the NCA had a positive impact on the affordability of home loans in the research area and that

compliance with NCA, when granting credit, resulted in the reduction of reckless lending, a decline in the level of consumer indebtedness and a reduction in payment default.

DEDICATION

This qualification is dedicated to my late parents Mr and Mrs N. Sewsunker, more especially to my dad, my fountain of inspiration, you believed in me even before I could believe in myself. I want to thank you both from the depth of my heart for all that you have done for me.

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LIST OF ABBREVIATIONS AND ACRONYMS

NCA	National Credit Act No. 34 of 2005
SARB	South African Reserve Bank
FNB	First National Bank
MFRC	Micro Finance Regulatory Council
NLR	National Loans Register
DTI	Department of Trade and Industry
NCAB	National Credit Amendment Bill
NCR	National Credit Regulator
NCT	National Consumer Tribunal
FICA	Financial Intelligence Centre Act No. 28 of 2001

CHAPTER 1

INTRODUCTION

This chapter serves as an introduction to the study. It discusses the National Credit Act No. 34 of 2005 and also sets out the objectives and aims of the legislation. It covers the research objectives and explains the significance of the project. The purpose of the study is well defined, clearly outlining the limitations and assumptions that may emerge whilst conducting the investigation. The research methodology, methods of data collection and the techniques of data analysis are also discussed.

1.1 BACKGROUND

In recent times, the global financial crisis has spread rapidly, leaving the lives of millions in turmoil. The global financial crisis commenced in July 2007 when a loss of confidence by investors in the value of securitized mortgages in the United States resulted in a liquidity crisis (Fatalla, 2012:3). The crisis really began to show its effect in the middle of 2007 and into 2008. Around the world, financial markets fell, due to poor lending practices, bad banking, and an over leverage of real estate that caused the economy to derail, resulting in foreclosures, bankruptcies and write offs as well as a global credit crunch (Sharma, 2011:1). In addition to the challenge of operating a dysfunctional economy, the United States also faced another challenge known as housing affordability. According to Alabi (2014), a case study conducted in New York revealed that the poor households are utilising more than 30% of their income on housing repayments and the burden of housing repayments affects the welfare of many households.

In South Africa, the poverty gap is considerable. Millions of South Africans live in poverty (Maki, 2009:84). Therefore, the dream of many South Africans affording a home is not attainable. Dubihlela and Dubihlela (2014:165) recommend that the income criteria used to test affordability should be decreased to accommodate for poor households and effectively reduce the poverty gap associated with affordability of home loans. With soaring interest rates, it has become extremely difficult for home owners to make monthly repayments on their home loan, thus leaving many South Africans destitute. In addition, relatively high housing prices have affected mortgage credit in the long-term (Lindner, 2014:31). This, coupled with many other factors, such as elevated interest rates, increase in house prices and the easy access to credit, has severely damaged the mortgage market forcing the government to reassess the credit law in South Africa.

Prior to 1st June 2007, the Usury Act No. 73 of 1968 and the Credit Agreements Act No. 75 of 1980, had been the cornerstones of consumer credit in South Africa. These two Acts were, however, inconsistent with each other which undermined the regulation of consumer credit. In the period prior to the introduction of the NCA, obtaining credit was relatively easy as the credit applicants were not subjected to in-depth scrutiny (Mlandu, 2007:16). Consequently, finance providers advanced substantial amounts to applicants, many of whom could not repay their liabilities as they fell due. To remain profitable, the finance providers hiked the overall cost of borrowing through high interest rates, service and initiation fees as there was no limit to the interest rates or fees that registered finance providers could lawfully charge (Campbell, 2006:62). In addition, the finance providers masked the true cost of credit. It was then that the government intervened by enacting the National Credit Act No. 34 of 2005 (NCA) which came into effect on 1st of June 2007.

The NCA was introduced with the following objectives (Rossouw, 2008:29):

- To provide one set of rules for all credit activities;
- To prevent reckless lending;
- To prevent over-indebtedness;
- To prevent unfavourable lending practices to credit consumers; and
- To establish new and improved rights for credit consumers.

1.1.2 Research Undertaken in Pinetown

This research was undertaken in the Pinetown area. Pinetown is a city inland from Durban in KwaZulu-Natal, South Africa. The town is better known as situated in the Durban west Upper Highway area and is characterised as being a middle income district that is surrounded by two high income towns, namely, Westville and Hillcrest. Pinetown's fact file indicated that the town was established in the early 1850's and was used to house Boer women and children during the second Boer war. However, since the 1850's the city has embraced numerous social, economic and environmental changes which created a new transformed democratic town. The population mix in Pinetown consists of multi-racial groups of all ages belonging to different religions and faiths. There are many reasons, why the researcher chose the Pinetown area to conduct this study. These are outlined in chapter 3. However, the literature justifies that not much research has been conducted in this area with regard to the NCA and its impact on the affordability of home loans. Therefore, the results of this research would contribute in determining if the NCA is sufficient to address the affordability of home loans in Pinetown and incidentally ascertaining the impact the NCA has on affordability of home loans. The aims and objectives of this study are highlighted below.

1.2 AIM AND OBJECTIVES

1.2.1 Aim

The aim of this study is to ascertain the impact the NCA has on the affordability of home loans to prospective home loan borrowers in Pinetown and to determine whether the objectives set out in the NCA are being achieved.

1.2.2 Research Objectives

The aim of the study will be achieved by exploring the following research objectives:

- To ascertain whether the NCA has prevented reckless lending by home loan providers;
- To determine if the introduction of the NCA has prevented or reduced over-indebtedness amongst the home owners;
- To ascertain whether the enactment of the NCA has established new and improved rights for home loan borrowers; and
- To determine if the NCA has had an impact on the affordability of home loans in Pinetown.

1.3 SIGNIFICANCE OF THE STUDY

The findings of this study will contribute to the effect the National Credit Act has on the mortgage market in Pinetown. In addition, the findings will provide financial institutions with imperative information that could address issues on reckless lending and consumer over-indebtedness. The study could assist economists in speculating on future shortcomings which are going to derail the market and, hence, result in ramifications for many lives. It will contribute to the understanding of first-time home buyers by informing them of the affordability and credit risk assessment procedures that must be complied with prior to being granted a home loan and also enabling them to foresee the type of marketing practices of the lending institutions. Furthermore, this study will provide recommendations to government authorities and policy makers by assisting them to make more informed decisions that will enhance the credit industry.

1.4 LIMITATIONS

Due to time and financial constraints, the study was conducted at one shopping complex in the Pinetown metropolitan area amongst 250 respondents. Despite this limitation, the researcher applied credible sampling techniques in the data collection process to ensure that the findings are reliable and valid. A more extensive study, e.g., on the entire KwaZulu-Natal province would have required considerable additional resources. This research study adopts a mixed methods approach in the form of a survey. Interviews would have also been conducted if additional information was required for the study. The study is informed by an interpretive paradigm:

Limited generalizations can be made, as the purpose of survey research is to add to theory-building and to articulate patterns rather than to generalize about a population. However, a generalization can be performed if the research design has been informed by theory and is, therefore, seen to add to theory-building. The survey design included a combination of both open-ended as well as close-ended questions and, therefore, subjectivity may occur. As surveys collect data at a single point in time, it is difficult to measure changes in the population unless two or more surveys are done at different points in time. In fact, the collected data may be altered by the mere presence of the researcher. This may have impacted on both construct validity and reliability of the research but was guarded against where possible. A lengthy discussion addressing the concept of validity and reliability in the context of this research is discussed in chapter 3.

1.5 ASSUMPTIONS

The selected respondents will be members of the public who reside in Pinetown and have purchased homes after the NCA was enacted. Home loan borrowers have experienced the awful strain brought about by the mortgage market and their experiences will enable them to identify a complete list of mortgage dilemmas. No inherent bias will be brought about by the profile of the selected respondents. It is assumed that high reliability is easy to obtain by presenting all respondents with a standardized stimulus, as observer subjectivity is greatly eliminated.

1.6 RESEARCH METHODOLOGY

1.6.1 Research Design

The proposed research employed a mixed method approach and was selected because this type of research method is useful in describing the characteristic of a large population with considerable flexibility given to the analysis of the survey. The mixed method approach brought about a better understanding of the study under investigation as the research consisted of both quantitative and qualitative research techniques (Creswell and Plano, 2007:5). The researcher utilized a combination of both quantitative and qualitative research techniques to conduct a survey. This study is cross-sectional in nature.

1.6.2 Research Questions

This study is guided by the following research questions:

- Has the NCA prevented or reduced reckless lending by home loan providers?
- Has the NCA reduced over-indebtedness among the home loan borrowers?
- Has the NCA established new and improved rights for home loan borrowers?
- Has the NCA had an impact of the affordability of home loans in Pinetown?

1.6.3 Population and Sample

The population for the proposed study comprised of home loan borrowers in the Pinetown area, who have acquired home loans between 2009 and 2013. A sample size of 250 respondents in the Pinetown area was used for the proposed study. The convenience sampling technique was utilized to select a sample for administering questionnaires. Convenience sampling method allowed respondents to complete questionnaires at their convenience and availability. The convenience sampling method involves selecting a desired group of people that meet the criteria of one’s total target population (Davis, Gallardo and Lachlan, 2012:165). In this study, 250 questionnaires were administered to home loan borrowers in Pinetown and 190 questionnaires were returned, resulting in a 76% response rate.

1.6.4 Data Collection

Participants were approached by the researcher at the Knowles Spar in Pinetown for the duration of three weekends. The researcher provided clear explanations to them about the aims and purpose of the study. Participants were requested to indicate their willingness to participate in the study and complete a questionnaire. The questionnaire was divided into sections assessing various aspects on the impact of the NCA on affordability of home loans. The questionnaire comprised of closed questions, a likert scale and open-ended questions.

1.6.5 Data Analysis

The survey data was statistically analyzed and each response was assessed. All patterns or trends of the data were then grouped together. These groupings were interpreted and reported on in a complete and unbiased manner. Creswell's data analysis spiral was used to analyse data (Creswell, 2013:182). The following steps were taken:

- The data was organised onto a computer database, broken down into sentences or units;
- The data was perused several times in order to get a larger picture. Possible categories and interpretations were noted;
- General categories, themes or groupings, as well as sub-themes or categories that emerge were noted. This indicated patterns which were interpreted to help make sense and comprehend the data; and
- The data was integrated and summarized and categories organized to relate back to the theory.

1.6.6 Security of Data

Security of data was maintained at all times. Data was stored in a safe and secure place. In addition, backup copies were made and the researcher created a master listing of information collected (Creswell, 2013:175).

1.6.7 The Pilot Study

A pilot study is an imperative component in a research project. It assists the researcher in testing the data collection instrument and allows for refinement of the main study (Andres, 2012:27). In this study, a pilot study was conducted with a small number of 20 home loan borrowers in Pinetown. The results of the pilot study indicated that the questionnaire required adjusting. The questions within the questionnaire were re-examined and the questionnaire was amended accordingly. The process of conducting a pilot study facilitated the reinforcement of validity and reliability in this study.

1.7 VALIDITY AND RELIABILITY

In order to minimize the influence of prior expectations and opinions that the researcher may have had in the analysis process, multiple and varying perspectives on the impact of the NCA were obtained. These perspectives ranged from varied experiences of home loan borrowers. The researcher ensured reliability by designing a measuring instrument, which provided results that were as reliable as possible (Babbie, 2013:192) and increased validity by utilizing a mixed methods approach. Data from a multi-method study can only be considered reliable and valid if the data is correctly analysed (Wagner, Kawulich and Garner, 2012:80).

1.8 PROPOSED DISSERTATION STRUCTURE

The structure of the proposed study is as follows:

Chapter one provides an introduction, background and the need for the study. Additionally, it provides the purpose, objectives, significance, limitations and assumptions of the proposed study.

Chapter two provides the theoretical framework of the study, an introduction of the NCA and a detailed literature review.

Chapter three outlines the research methodology that was employed to achieve the set research objectives.

Chapter four presents the results, analysis and discussion of the findings of the study.

Chapter five provides the conclusions of the research and recommendations for practice.

1.9 SUMMARY

The structure of this study ensures a comprehensive analysis of the National Credit Act of 2005, detailing the matters that led to the introduction of the Act. There is a great deal of emphasis on the objectives and aims stipulated in the legislation as well as the factors that affect the affordability of home loans.

Chapter 2 focuses on the relevant literature of the study.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The purpose of this chapter is to present an overview of the National Credit Act No. 34 of 2005 (NCA) and to provide a detailed description of the background and the process that led to the enactment of the legislation. The chapter provides an overview of the South African banking industry and explores affordability of housing in other emerging and developed countries. This chapter presents the aims and objectives set out in the NCA as well as the factors affecting the affordability of home loans. The literature review also provides discussion on banking lending trends, home loan defaults and debt counselling. The chapter concludes with other research undertaken on the impact of the NCA since its promulgation and concludes with a short summary.

2.2 FACTORS LEADING TO THE PROMULGATION OF THE NCA

The South African financial sector has experienced numerous changes over the past two decades and this sentiment is also echoed by Peters (2009). “The apartheid system severely distorted the South African Financial System” (RSA, 1994 RDP). Prior to 1994, the apartheid government implemented and supported many financial policies within the financial sector that resulted in inefficiencies and the greater population of South Africa was restricted legal access to formal credit. The effect of these policies brought about limited market competitiveness and were of benefit to only a small number of South Africans (Kirsten, 2006:2).

The South African housing system remained in chaos due to defaults on home loans granted by commercial banks (Pillay and Naude, 2006:79). Variable interest rates governed the residential mortgage market and low income earners remained victims of home loan default, due to lack of default literacy (Mkukwana, 2012:13). Post 1994, the democratic government introduced many policies and strategies to aid economic growth and to provide support in many aspects by implementing appropriate monetary policies; housing policies; reconstruction; development programmes and the growth; and employment and redistribution policy. These policies were executed to uplift the lives of many previously disadvantaged citizens. As a result, South Africans were able to enjoy the benefits of consumer spending as interest rates were reduced significantly.

This, however, did not last for a sustained period as the interest rate trend reversed in 2006 forcing many consumers to limit their spending (Hanival and Maia, 2008:2).The South African economy found itself enduring the impact of the global recession and the effect of the weak property market started to show by late 2008. Housing prices continued to decrease and the commercial banks attempted to strengthen lending practices (Padayachee, 2012:5). To aid financial institutions in tightening lending practices, NCA was drafted with a purpose of providing support in regulating credit transactions.

The National Credit Act No. 34 of 2005 was promulgated on 1st June 2007 to create a more stable credit market and is applicable to all credit transactions. One of the main aims of the Act is to protect consumers from becoming over-indebted by providing stringent rules, taking into consideration net disposable income in determining affordability and preventing credit providers from lending money recklessly to consumers. According to Pillay (2009:1), since the promulgation of the NCA, the residential property market has slackened due to increasing economic conditions and high interest rates. Commercial banks have also been sanctioned from freely granting home loans, making it more difficult for consumers to purchase a home. The role of the South African Banking Industry in the provision of home loans is discussed in the next section.

2.3 SOUTH AFRICAN BANKING INDUSTRY

The South African banking sector has been in existence for a number of decades. The South African Reserve Bank is accountable for banking regulations, supervision of banking activities in South Africa and aims to achieve a banking system that functions efficiently in considering the interest of all stakeholders and the economy as a whole (SARB, 2014). According to the RSA, 1990, Banks Act No. 94 of 1990, banks offer a wide range of services. A few of these services can be described as: accepting deposits from the general public; acquiring money from the reserve bank through repurchase agreements; and granting of home loans. The South African banking industry consists of the four major banks, namely, Nedbank, Standard Bank, First National Bank and Absa bank. According to Absa Bank's Home Loan Seminar Report (2010:8), 97% of the South African mortgage market is dominated by the four major banks and the remaining 3% is controlled by other non-financial institutions such SA Home loans and other micro lenders who are also responsible for providing services of granting home loans to potential borrowers.

Zhao (2003:11) stated that banks offer credit to creditworthy borrowers and apply a dynamic set of criteria to assess borrowers prior to granting credit. In addition, a method of credit scoring is utilized for the assessment process. According to Sundgren (2003:9), banks lend credit preferably for housing finance over a long period of time (30 years) to borrowers and use the property purchased as collateral for the loan. In the event of borrowers defaulting on payment, the bank can rightfully take legal possession of the property and sell it to meet unsettled amounts.

As mentioned earlier in this chapter, one of the core functions and services provided by banks is the granting of credit for home loans. Affordability assessments are conducted in determining if potential home loan borrowers are able to afford the home loan. There are numerous factors that must be considered when assessing housing affordability. The predominant factors are discussed in greater detail later in paragraph 2.8 of this chapter. Many countries throughout the world experience housing affordability challenges. These challenges can consequently give rise to over-indebtedness and the deficiency of credit risk and affordability procedures can lead to reckless lending. Therefore, it is important to identify the challenges of housing affordability and housing finance experienced by other developed and emerging economies and also recognise the similarity in the challenges experienced in South Africa. A brief overview of housing affordability and housing finance internationally is presented below.

2.4 HOUSING AFFORDABILITY IN OTHER COUNTRIES

China

Lin (2011:2) explains that China is known to be a developing country and has the largest population in the world. There is a significant increasing ratio between the rich and the poor and many low income people cannot afford their own houses. Minimum deposits and access into the housing market is increasingly high and housing affordability therefore becomes a challenge. According to Chen, Hao and Stephens (2010:1), since the economic reform initiated by the Chinese government, there has been progressive growth in the housing market. However, accessible affordable housing for low income groups needs to be addressed. Yao (2011:6) further added that affordability in China is affected by elevated house prices, which consist of a great demand for housing and influenced by inflation. Housing affordability in China requires attention and the Chinese government is addressing the problem, by attempting to provide affordable housing and facilitating ownership.

Australia

Fu (2007:1) stated that many Australians are enduring the housing affordability crisis. According to Sliogeris, Crabtree, Phibbs, and Johnston (2008), Australia has experienced increasing problems in housing affordability and problems extend from extremely low income groupings to moderate income households. Australia's affordability criteria are benchmarked to the 30/40 rule, which implies 30% or at least

40% of income distribution is allocated to housing cost. Beyond this rule, housing is considered to be unaffordable. Berry (2006:28) noted that the declining rate of affordability in Australia has been fuelled by the escalating housing prices which are at the forefront of income coupled with elevated interest rates and the increasing housing boom which also increases housing stress. Fu (2007:70) added that housing affordability in Australia necessitates the attention for further researchers and policy makers to investigate, maintain and develop alternatives to address this problem.

United States

The United States experienced a recession in 2007-2008 which resulted in numerous foreclosures in the mortgage market, highlighting the need to reassess housing affordability (Jewkes and Delgadillo, 2010:44). According to Jewkes (2008:1), housing affordability in the United States remains as a great concern (Friedman, 1992) due to the sluggish increase in incomes over the past decade compared to extremely inflated housing costs. Wirtz (2005:6) indicated that housing affordability is greatly affected by increasing housing prices and that American households should not spend more than 30% of their gross income on housing. If household spending exceeds 30% of gross income, then housing becomes unaffordable. Jewkes and Delgadillo (2010:51) suggested that the affordability crisis in the United States requires further research as the problem of housing affordability remains unresolved.

2.5 HOUSING FINANCE IN OTHER EMERGING ECONOMIES

Brazil

The Housing Finance System in Brazil continues to operate in a market of instability. Despite introducing improvement plans, soaring increases in inflation, lack of income increment and fluctuating interest rates have contributed to the instability (Rodigues, 2000: 8:14). According to Angel (2000:6), in developing countries like Brazil, the growth and allocation of incomes affect the housing market and a developed banking sector affects accessibility for mortgage financing. In addition, restrictions to accessible mortgage finance may occur due to extremely elevated inflation and interest rates. Sundgren (2003:9) stated that, in order to enhance the housing market, the government aims at achieving the following objectives: development of healthy housing finance sector; improve housing conditions; make ownership more affordable; and ensure that credit is distributed according to social objectives.

India

India's Housing Finance Sector has experienced numerous transformations and has grown significantly due to financial liberation and deregulation (Fulwari, 2012:1). The growth of the housing market in India is strongly directed by easily accessible housing finance through banks at affordable reasonable rates (Bandyopadhyay and Saha, 2009: 1). According to Chandrasekar and Krishnamoorthy (2010) interest rate, inflation, increase housing prices and availability of home loans are important aspects that must be considered in the housing finance sector. In addition, Prem (2012) emphasised that accessibility to affordable home loans with considerably low interest rates has increased in recent years. The government has offered tax concessions, increasing the demand for housing which infiltrated housing finance.

Kenya

The mortgage finance sector in Kenya, compared to previous years, is well developed and provides much competition and innovation, but, unfortunately, this sector provides for specifically high income households. The challenge in the mortgage finance sector is to initiate ways of providing access for finance to low income groupings (Mutero, 2007:3). Kenya's housing market includes a new expansion called Individual Housing Development which allows individuals to develop their own house through land purchase. According to Kamau (2002:36), the immense demand for housing in Kenya is relatively high and the development of additional housing for all income groups is inadequate. Karley (2009) added that, in developing countries, there are high levels of housing affordability due to escalating housing costs. This brings about additional obstacles in the Kenyan housing market.

From the above review of literature on housing affordability in emerging and developed economies, it is evident that the challenges faced in South Africa are not unique. However, each country will have differing factors that impinge upon the financial sector of the economy. It is, therefore, incumbent upon that country to implement policies and frameworks which stimulate economic growth and affordability. The following section discusses the regulatory framework introduced by the South African government.

2.6 REGULATORY FRAMEWORK

2.6.1 Background to The NCA: The Usury Acts and their Exemption Notices

Prior to the NCA coming into effect in South Africa, the credit market was controlled by the Usury Acts and their Exemption Notices. The NCA was the government's attempt to keep the credit market regulated. However, due to rapid changes overtime in the market, there has been a constant need to review and amend credit legislation.

2.6.2 Usury Act No. 37 of 1926

Before 1992, the Usury Act No. 37 of 1926 and Usury Act No. 73 of 1968 governed the credit industry. The Usury Act No. 37 of 1926 was applicable only to money lending transactions. The regulation permitted a descending scale of interest rates, which were based on the size of the loan. Loans that amounted to less than 10 pounds were subject to a 30% interest rate per annum (top of the scale) and loans that exceeded 50 pounds were approved at a maximum interest rate of 12% per annum. This resulted in an extremely informal and unregulated credit market. In 1967, the Minister of Finance in South Africa appointed a committee to investigate and improve the 1926 Usury Act. The outcome of the investigation resulted in the passing of the Limitation and Disclosure of Finance Charges Act No. 73 of 1968, which repealed the 1926 Usury Act and later became the Usury Act No. 73 of 1968 (Campbell, 2006:51).

2.6.3 Usury Act No. 73 of 1968 and The Credit Agreements Act No. 75 of 1980

The purpose of the Usury Act has been described as:

> *"To provide for the limitation and disclosure of finance charges levied in respect of money lending transactions, credit transactions and leasing transactions and for matters incidental thereto; and to repeal the Usury Act 1926"* (RSA, 1968, Usury Act No. 73).

This Act was intended to regulate the cost of credit and make certain that proper disclosures were made in credit agreements. The Act mainly applied to loan transactions, primarily from R10 000 to R500 000, credit transactions and also leasing transactions. The Act, however, was criticized for being too complicated and difficult to understand (Singh, 2007:1). The Credit Agreements Act No. 75 of 1980 also controlled the credit industry to a certain extent.

The Act was responsible for regulation of specific credit agreements that were applicable to movable goods, such as furniture and appliances. In 1992, the government introduced the first Exemption Notice to the Usury Act (GN 3451of 31st December 1992) as the Usury Act of 1968 had contributed to inadequate access to credit for the majority of the population and created many restrictions to the financial market.

2.6.4 Exemption Notices

The Exemption Notice of 1992 initiated the exemptions of small loans from interest free restrictions resulting in a great demand and the establishment of a formal micro-lending industry, which enhanced access to credit (Kirsten, 2006:5). The micro-lending industry was an unregulated environment and, in an attempt to protect consumers from mistreatment and malpractice in this environment, in 1999, an additional Exemption Notice was issued on the Usury Act. The additional Exemption Notice revised small loans to an amount of R10 000 and provided for the formation of the Micro Finance Regulatory Council (MFRC) to oversee the micro finance sector and control the administration of micro loans as well as repayments and required all micro-lenders to register with a regulatory body: the MFRC (Singh, 2007:1).

The MFRC created a mandatory requirement for all micro-lenders to register loans granted by them on a data base called the National Loans Register (NLR). The NLR was used to monitor micro-lenders registered with the MFRC and to also assess a consumer's status of indebtedness (Scott, 2008:14). In 2003, a further amendment to the Usury Act was passed, permitting enforcement of the Act by delegation and authorizing the MFRC to carry out inspections on both registered and unregistered lenders. In order to create a more stable credit environment, a need for a less fragmented and more structured and unified credit regulation became necessary (Meagher, 2005:5).

The Department of Trade and Industry (DTI) has a responsibility to oversee the credit market and enhance the South African economy, specially the financial sector. The DTI, therefore, embarked on a credit law review process, focusing on consumer credit law. A technical team was appointed to conduct an extensive review on the consumer credit market. The research advised for a policy and regulatory restructure, as the current regulatory framework had become outdated and the credit market had transformed radically. This led the DTI to draft a proposed consumer credit law (Campbell, 2006:54).

It was the thorough review of the credit law that initiated the National Credit Act No. 34 of 2005 (published in the Government Gazette 28619 of 15th March 2005), a legislation that was enacted on 1st June 2007.

2.7 THE NATIONAL CREDIT ACT No. 34 of 2005

According to Van Heerden (2008:28), the National Credit Act (NCA) of 2005 is a unique piece of legislation in that it is represented as a legally binding document, allowing for all credit transactions to be administered and regulated by a single Act. The NCA was introduced to protect consumers and principally address consumer credit problems. The Act benefited consumers by providing the necessary knowledge to assist consumers in managing their debt and understanding the consequences of payment defaults, prior to entering into a credit agreement. In addition to the benefits, the Act makes certain that all related transactions are transparent, fair and simple to understand and provides the consumer the right to enquire and obtain further clarity of information as required (Pillay, 2009: 2).

The NCA further protects consumers from exploitation by financial institutions and prevents consumers from getting into credit agreements that are not in their best interests. It intends to ensure that credit providers do not take advantage of consumers through their status of over indebtedness and reckless lending, and provides additional clarity on payment defaults on consumer accounts and the basis of default collection (Rossouw, 2008:2).

The implementation of the NCA has affected the South African property industry. Most importantly, the Act has altered the way in which credit providers conduct their business. Credit providers are to by comply with the regulation when granting home loans and utilise an appropriate method of determining the housing affordability of a consumer applying for a home loan. Stemming from the National Credit Act 2005 is an Amendment bill, known as National Credit Amendment Bill (NCAB), which was introduced in May 2014. The Amendment Bill redefines concepts, in an attempt eliminate ambiguity and provide more clarity and transparency. The Bill also restructures and repeals other sections within the NCA and reference will be made accordingly to those sections that are related to this study. According to Pieterse (2009:2), the NCA is the government’s way to help South Africans to take charge of their overall indebtedness and create a fair, clear, controlled, non-discriminatory, accessible and responsible credit market place.

2.7.1 Purpose of The National Credit Act

The Act is responsible for governing the credit environment and the purpose of the Act is expressed as:

> *"To promote a fair and non-discriminatory market place for access to consumer credit and for that purpose to provide for the general regulation of consumer credit and improved standards of consumer information; to promote black economic empowerment and ownership within the consumer credit industry; to prohibit certain unfair credit and credit-marketing practices; to promote responsible credit granting and use and for that purpose to prohibit reckless credit granting; to provide for debt re-organisation in cases of over indebtedness; to regulate credit information; to provide for registration of credit bureau, credit providers and debt counselling service; to establish national norms and standards relating to consumer credit; to promote a consistent enforcement framework relation to consumer credit; to establish the National Credit Regulator and the National Consumer Tribunal; to repeal the Usury Act, 1968, and the Credit Agreement Act, 1980; and to provide for related incidental matters" (RSA, 2005, NCA No. 34).*

There are many purposes stipulated in the Act. However, the main purpose of any financial legislation is to make certain that markets operate efficiently and competitively to overcome market failure and that the environment is continuously kept regulated (The Wallis Report on the Australian Financial System, 1997:6). With regards to the NCA, all creditworthy borrowers are now entitled to access finance, thus creating a fair, accessible and non-discriminatory market place.

2.7.2 The Aims of The National Credit Act

Since the implementation of the NCA, there have been many questions about the possibility for a single legislation having many broad aims to regulate the credit environment.

The following aims of the NCA are relevant to this study (Pieterse, 2009:40):

- To regulate responsible credit lending;
- To regulate the cost of credit;
- To ensure the credit consumer is formed of all relevant costs;
- Credit providers and Credit Bureaus are to ensure compliance with the Act;
- Debt counselling facilities are available for credit consumers who have become over-indebted; and
- Home owner insurance remains compulsory.

In addition to the aims of the Act, the NCA comprises of many objectives aspiring to enhance and benefit both the South African credit industry and credit consumers. These objectives are listed below followed by a consolidated discussion.

2.7.3 The Objectives of The National Credit Act

As mentioned earlier in this chapter, the financial sector has experienced numerous transformations prior to and post the democratic government directorship. Over the years, the credit industry found itself in a deplorable state and the government intervened by enacting the NCA which came into effect on 1st of June 2007. The NCA was introduced with the following objectives:

- To provide one set of rules for all credit activities;
- To prevent reckless lending;
- To prevent over-indebtedness;

- To prevent unfavourable lending practices; and
- To establish new and improved rights for credit consumers.

In relation to the research objectives of this study, these objectives are discussed in greater detail below:

2.7.3.1 One Set of Rules for All Credit Activities

Prior to the introduction of the NCA, credit consumers had been exploited by the credit industry (Mlandu, 2007:2). Money lenders gave loans at extremely high interest rates as the rates of interest, fees and other charges were unregulated and, therefore, varied widely from one lender to another. The NCA was introduced to provide one set of rules for all lenders by prescribing that only certain items may be debited in the customer's account (Rossouw, 2008:2). However, little research evidence exists to show that the NCA has created a universal set of rules for the lenders as the various interest charges and fees continue to vary widely from one lender to another.

2.7.3.2 Prevent Reckless Lending

Globally, the last decade has been characterized by permissive regulatory conditions. In the United States, indulgent lending practices, loose credit assessment and flimsy documentation led to a high rate of mortgage default. This resulted in massive losses for the American banks which ultimately led to the current credit crunch (Heilpern, Haslam & Andersson, 2009:99).

Prior to the introduction of the NCA, South Africa's Ombudsman for Banking Services faced an increase in complaints from consumers who were in financial distress after taking up unsolicited offers of credit from the country's major banks (Mahlangu, 2007). Other consumers complained that credit providers were increasing borrowers' credit limits without consulting the consumers. The NCA was enacted to reduce reckless lending. According to the NCA, a credit agreement will be deemed to have been entered into recklessly if the credit provider failed to conduct the required assessment, or having conducted it, enters into an agreement with a consumer despite the fact that the consumer did not appreciate the nature of the risks, costs and obligations, or could not afford them (Stoop and Louw 2011:20).

Some lenders have speculated that the NCA will not only stop reckless lending to individuals who cannot afford it, but will also delay loan approvals, as more stringent requirements must be adhered to (Lund, 2014:1). According to Vessio (2009:274), reckless lending is a new concept in South Africa and prohibits credit providers from granting credit recklessly to consumers. Before the NCA took effect, many credit providers granted credit to borrowers without conducting the necessary credit checks and assessments, which are significant in determining the borrower's credit worthiness. Credit providers will have to be wary of the way in which they conduct their business and also avoid entering into credit agreements that could lead them to become reckless lenders and, therefore, endure legislative consequences. In addition, credit providers are to assess what a credit consumer can afford by utilising an appropriate method of assessment, prior to granting credit (Scott, 2008:16). The NCA has given a great deal of attention to reckless lending and has dedicated Section 81 of the Act to define and classify the types of reckless lending. The Act also cautions credit providers about the consequences of entering into credit agreements with consumers recklessly. The consequences are prescribed in the Act itself and can also be determined by the courts (Boraine and Van Heerden, 2010:650).

Stoop and Louw (2011:2) reported in conjunction with the provisions stipulated in the NCA regarding reckless lending that credit providers should not enter into credit agreements without properly assessing the consumer's understanding of the risks and the cost of the proposed credit and his rights and obligations under the proposed agreement. The credit provider must also take into account the consumer's debt repayment history, existing and current financial means, prospects and obligations. In return, the consumer must provide complete and honest information that is required by the credit provider as part of his/her assessment. When a credit agreement is declared reckless, the credit providers that are found guilty may suffer the consequences determined by the court. The NCA does, however, offer the credit provider an opportunity to defend the allegation (Renke, 2011:208).

The courts may set aside rights and obligations of the credit consumer flowing from the credit agreement or the courts may declare that the credit agreement is reckless. Furthermore, if the court declares that the credit agreement is reckless, then additional consideration must be given to confirm if the consumer has become over-indebted (S83, RSA, 2014, NCAB). It is important to note, at this point, that reckless lending cannot be viewed in isolation as it is a key component that contributes to consumer over-indebtedness. If a credit provider and consumer enter into a credit agreement that is deemed to be reckless, then the consumer could become over-indebted immediately or at a later stage. Therefore, it is quite evident that over-indebtedness often stems from reckless lending.

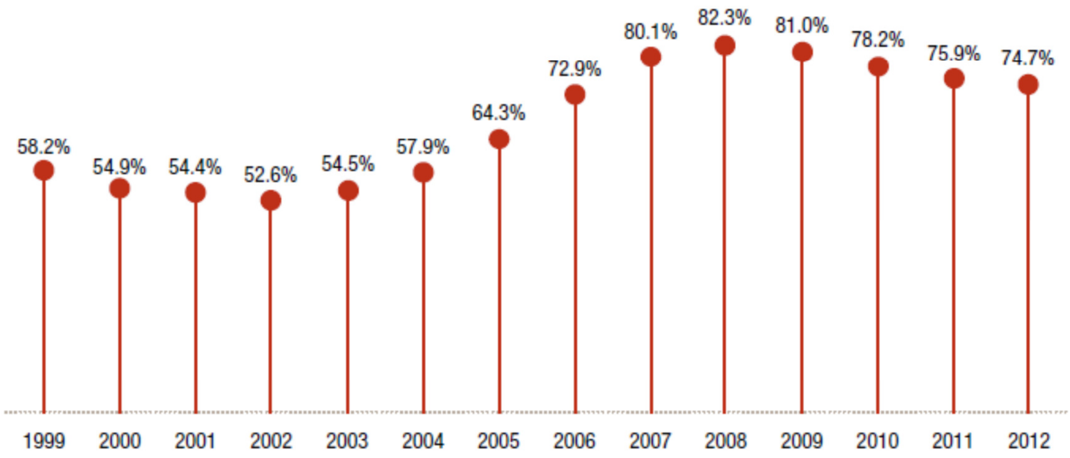
2.7.3.3 Reduce Consumer Over-Indebtedness

Prior to 2007, credit providers gave credit recklessly at absurdly high interest rates to low income earners. As a consequence, low income earners skipped their repayment, which initiated interest and legal costs to snowball, leaving the borrower with a lifelong financial burden. On the other hand, the middle to high income earners were charged more reasonable rates of interest and were able to access credit more easily as they had a lower risk profile (Nyaruwata, 2009:4).

The NCA aims to curb over-indebtedness of the South African credit consumers. The Act requires that the credit provider must conduct a proper assessment of each consumer's ability to meet obligations by taking reasonable steps to investigate and evaluate the consumer's understanding and appreciation of the risks, costs and obligations of the proposed agreement. According to Prinsloo (2002:62), the ratio of debt to income levels in South Africa is too high, and continues to increase even after the implementation of the NCA.

Figure 2.1 illustrates the level of debt of South African consumers. During the global crisis of 2008, consumer indebtedness was at its peak of 82.3%. From then on, there appears to be clear indication of the steady decline in consumer debt from 81.0% to 74.7%, as shown from 2009 – 2012.

Figure 2.1 Consumer Indebtedness



Source: PWC Banking Survey (2013b)

While the credit bill makes sufficient provisions for this concept of over-indebtedness Part D of Chapter 4 of the NCA focuses on over-indebtedness and reckless lending. Mlandu (2007:13) argued that the easy access to credit has led to the elevated levels of over-indebtedness. In terms of the Act, a consumer may be considered as over-indebted, if most of the information on hand at the time the determination is made indicates that the consumer is unable to satisfy all the obligations under the credit agreement timeously. This involves considering the consumer's (a) financial means, prospects and obligations and (b) probable propensity to satisfy in a timely manner all the obligations under all the credit agreements to which the consumer is a party, as indicated by the consumer's history of debt payment. Vessio (2009:276) pointed out that the concept of over-indebtedness, which is defined within the Act, is quite theoretical and that the courts will have to interpret the wording into practical implementation by utilizing foreign examples and local statistical indicators when assessing a particular consumer's over-indebtedness, as globally there is no recognized definition of over-indebtedness.

2.7.3.4 Prevent Unfavourable Lending Practices

Before the implementation of the NCA, the cost of credit was exceptionally high with interest rates on one-month loans up to 30% a month, and the average interest on micro loans under the Exemption Notice close to 90% a year (Davel, 2007).The credit provider's disclosure of credit was misleading and customers often did not understand the full cost of credit.

The NCA intends to eliminate the unfavourable lending practices. To achieve this objective, the Act requires that an advertisement for credit must show the instalment amount, the number of instalments, the total amount of all the instalments, including the interest fees and compulsory insurance, the interest rate, and any residuals in a font size not smaller than the average font size of the advert (Davel, 2007). This is meant to ensure that the credit consumer is fully aware of what the cost of goods will be after it has been fully paid off including all the optional items.

2.7.3.5 Additional Consumer Benefits: Establishment of New and Improved Rights for Home Loan Borrowers

The NCA seeks to provide additional benefits for credit consumers. However, prior to the enactment of the NCA, a substantial number of approximately 70% of South Africans relied on money lenders and they were not adequately protected by legislation. Firstly, the credit access processes were not user friendly and thus were not understood by the majority of mostly illiterate populace (Shelembe, 2006:2; Kotze and Smit, 2008). Secondly, many consumers were subjected to misleading advertisements often concealing the true cost of credit and were unaware of their credit status as well as their consumer rights (Van Heerden, 2008:30). Therefore, the NCA was introduced to protect the rights of consumers. One of the benefits of the NCA, is the new improved banking consumer rights (The banking association South Africa, 2014). Before the NCA, these rights were very limited and banks were not obligated to provide reasons for their decisions or explanations to consumers. The NCA affords the credit consumer with the following rights, among others:

- The right to apply for credit;
- The right to know why credit was refused;
- The right to receive information in an official language;
- The right to information in a plain and understandable language;
- The right to receive documents; and
- The right to confidentiality.

The Act also intends to provide a tranquil credit market by bringing along with it the National Credit Regulator, a regulatory body responsible for, *inter alia,* developing an accessible credit market and the Consumer Tribunal responsible for hearing cases on non-compliance with the Act. For the first time, South Africa has a single Credit Act to address all credit problems. Whether the Act has had a positive or negative impact on the South African Financial Sector is yet to be determined.

It is clear that the NCA aims at preventing reckless lending, shielding borrowers from becoming over indebted and protecting the consumer from malpractices of the credit provider. The NCA brings along with it the National Credit Regulator and the Consumer Tribunal that are responsible for overseeing the credit market and providing support to help ensure the above aims are being met.

2.7.4 THE NATIONAL CREDIT REGULATOR (NCR)

The National Credit Regulator was established in terms of Section 12 (1) of the National Credit Act No. 34 of 2005 and also came into effect on 1st June 2006. The NCR is an independent juristic body that is responsible for supervising and monitoring the credit industry. The NCR is controlled by a board, consisting of nine members, three of whom are responsible for finance, housing matters and social development affairs (Vessio, 2008:228).The board is liable for guiding the strategic development of the NCR; overseeing and ensuring efficient and effective use of resources; for ensuring the NCR complies with all legal and financial accountability obligations and providing advice to the CEO regarding the exercise of functions and powers of the NCR (RSA, 2005, NCA No. 34).The NCA also compels the NCR to promote and encourage the development of an accessible credit market and to specifically address the needs of previously disadvantaged individuals. The NCR must also provide knowledge of the credit market and enhance awareness of credit matters through education and information measures (Vessio, 2008:229).

2.7.4.1 Functions of The National Credit Regulator

The functions of the NCR are broad and are dispersed throughout the Act. Therefore, the researcher intends to outline only a few of the functions of the NCR. These functions also include a few amendments within the Act (RSA, 2014, NCAB) that relate to the NCR.

The National Credit Act No. 34 of 2005, requires the NCR to:

- Develop an accessible credit market and negotiate valid agreements with regulatory authority;

- Promote the registration of credit providers, credit bureaus and debt counsellors, with enforcement of compliance with the Act;

- Appoint a chief executive officer to oversee all functions of the regulator as well as monitor and report on an annual basis to the Minister in respect of all matters in relation to the credit industry;

- Conduct research and propose policies on all matters that affect the consumer credit industry; and

- Receive, investigate and evaluate complaints with regards to alleged contravention of the Act.

Additional responsibilities of the NCR rest upon protecting low income persons as well as those who were previously disadvantaged. Other aspects relate to the NCR monitoring and reporting to the minister on the availability of credit, the trends that have taken place in the credit market as well as overseeing research in the consumer credit industry. The NCR may refer matters of non-compliance with the NCA to the National Consumer Tribunal, which is responsible for hearing cases and providing appropriate orders (Vessio, 2008:230).

2.7.5 THE NATIONAL CONSUMER TRIBUNAL

The National Consumer Tribunal (NCT) was created in terms of the National Credit Act, No. 34 of 2005. The purpose of the Act is to ensure equity in the market place and balance the respective rights and responsibilities of credit providers and consumers. The establishment of an authoritative adjudicated body came about to redress matters referred to by the NCR in terms of the NCA. The Tribunal is expected to hear cases of non-compliance with the national Credit Act, make orders and provide redress for consumers. Consumers and credit providers may appeal to the NCT against any decisions of the NCR. Decisions of the Tribunal may be appealed to either a full panel of the Tribunal or High Court (DTI, 2010).The NCT is responsible for adjudicating on applications made in terms of the NCA by consumers, credit providers, credit bureau, debt counsellors and the NCR. The NCT is an independent body and aims to achieve fairness and justice for all in the consumer and credit markets.

The NCT takes into consideration all aspects of an argument before making a decision. A decision made by the NCT has the same status as one made by the High Court of South Africa. Failure to comply with an order of the NCT leads to the liability of a fine or imprisonment for up to 10 years (the nct.org).

2.7.5.1 Functions of The National Consumer Tribunal

The core functions of the National Consumer Tribunal (NCT) are to adjudicate on:

- any application that may be made to it in terms of the NCA;
- allegations on prohibited conduct, determining if prohibited conduct has occurred and, if so, imposing a remedy provided for in the Act;
- Grant an order for cost in terms of section 47 of the Act; and
- Exercise any other power conferred on it by the Act.

The NCR and the NCT have been established to enhance and regulate credit in South Africa even though the core functions of each regulatory body are diverse. It is clear the main aim is to protect consumers from credit providers whom are guilty of granting credit recklessly. In keeping with the prevention of reckless lending, credit providers must conduct appropriate affordability assessments prior to granting credit. The factors that affect affordability of home loans are discussed below.

2.8 FACTORS AFFECTING AFFORDABILTY OF HOME LOANS IN SOUTH AFRICA

Before discussing the factors that affect the affordability of home loans, it is important to first define the term affordability in relation to housing and provide a definition of a traditional home loan. This will allow for a better understanding of why the term affordability is considered as being significant when acquiring or granting a home loan.

2.8.1 Defining The Term Affordability

Housing affordability can be regarded as the ratio of household income compared to household debt (Kutty, 2005:113). According to Stone (2006:51), the term affordability can be interpreted as the difficulties individual households experience in equating actual cost of their housing to non-housing expenses in relation to their income. Gabriel *et al.,* (2005:37) explained that the definition of affordability can simply be understood as measuring household income to household expenditure. Hancock (1993:127) added that affordability relates to securing a house of a particular standard and price, which does not necessitate extreme unnecessary burden on household income. In addition to the numerous definitions of affordability, many researchers have concluded that housing affordability can be considered as the extent to which a household is able to pay housing costs without adding any further constraints on non-housing consumption. If a household's net disposable income, after considering non housing expenses, cannot meet normal housing cost, then that household is considered as having housing affordability problems (Hancock,1993; Yang and Shen, 2008:317). In this study, the term affordability can be interpreted as computing a consumer's household income measured to household debt. The surplus remaining will confine the consumer's ability to purchase only what he/she can afford.

2.8.2 Definition of A Home Loan

According to Nenova(2010:21), a home loan can be regarded as a long-term loan that is used for financing the purchase of a house. Fulwari (2012:7) indicated that a home loan can be interpreted as a loan that is available for purchasing residential property and the property purchased is mortgaged as collateral against the loan taken. Drawing from the above definitions in context of this study, a home loan is defined as a long-term loan granted to a credit consumer for the purpose of purchasing residential property.

2.8.3 Credit Consumer Risk Profile

Consumer credit risk can be interpreted as the risk of loss that occurs due to a consumer’s inability to meet repayments or default on a consumer credit product. Many financial institutions that provide lending to consumers have various mechanisms in place to manage, measure, foresee and control losses resulting from non-repayment or default (McNab and Wynn, 2004). According to Van Vuuren (2011:18), as the level of debt finance increases, credit risk also increases. In order to maintain a decline in credit risk, a process of credit scoring is conducted by credit providers. Crook, Edelman and Thomas (2007:1463) explained that the credit scoring process entails formulating a prediction based on the consumer’s credit records as to his/her repayments ability, when considering a credit decision. McNab and Wynn (2004:12) added that credit scoring must be considered as a fundamental tool for credit risk management as the process consists of a scorecard with associated statistics, which informs the credit provider of the probability of risk of non-payment in the future. In addition, the decisions made during the credit cycle have repercussions of bad debts. Therefore, it is extremely important to have good knowledge of credit risk management. When granting home loans, it is vital for credit providers to perform appropriate credit risk assessments. Ascertaining if a borrower is creditworthy, prior to granting a home loan, helps to reduce consumer over-indebtedness, prevent reckless lending and also decreases home loan default.

2.8.4 Mortgage Credit Risk

Mortgage credit risk occurs within the mortgage market and is a risk that a mortgagor for some reason becomes incapable of making repayments on his/her loan. In the case of a borrower defaulting on a loan, the credit providers would have to address this credit risk by selling the house to repay the loan. In order to pay back the full loan, the price of the house must exceed the debt. A major contributing factor to mortgage credit risk is escalating interest rates (Otsman, 2010).

2.8.5 Conceptualizing The Term Affordability

The term affordability is quite a broad concept to define. There are many diverse essential aspects that must be considered when determining affordability. In relation to home loans, a borrower's housing affordability can be explained as credit providers measuring the relationship between a borrower's household income to the borrower's basic household expenditure (Milligan *et al.*, 2007:26). Many financial institutions are governed by policies which restrict the granting of home loans that exceeds 30% of the borrower's gross income (Gabriel *et al.,* 2005:6).

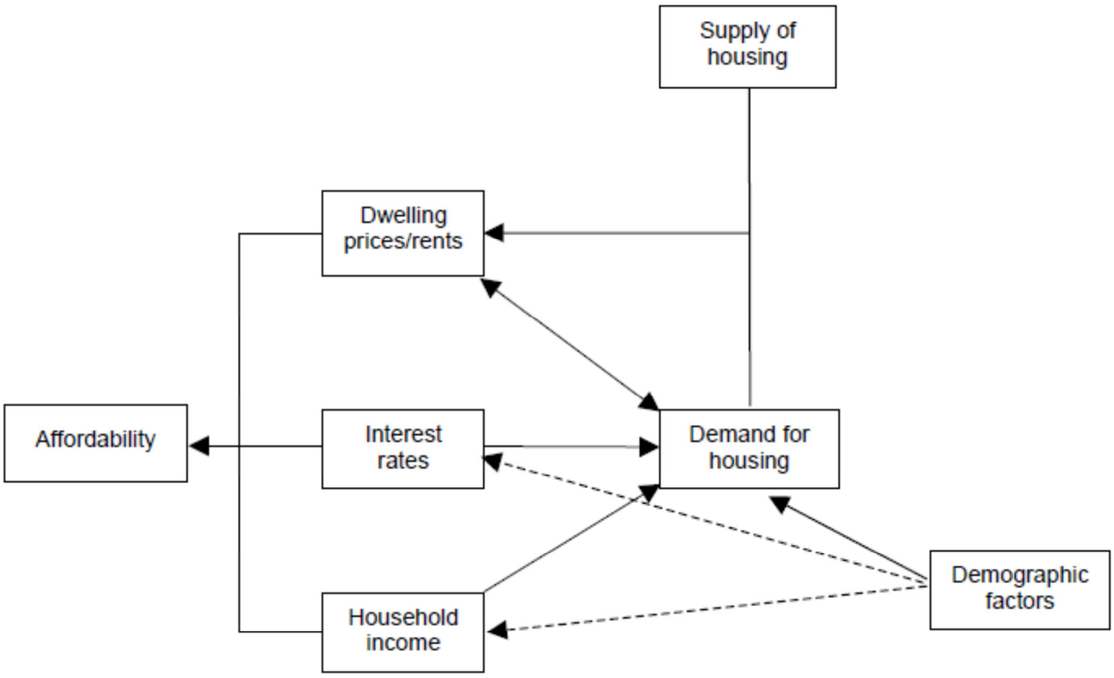
Mulliner, Maliene and Smallbone (2012:270) argue that the concept of housing affordability is much broader than simply offsetting household income to household debt and that there are many drivers of affordability which should include social and environmental sustainability and the welfare of households by taking into consideration factors other than financial cost such as location-related attributes, proximity to employment opportunity, public safety and access to services, etc.

2.8.6 Drivers Of Affordability

The various drivers of affordability must be considered collectively when addressing the term affordability. On a much broader scale careful consideration must be given to the key drivers of affordability that are influential in determining the affordability of a home loan.

Figure 2.2 illustrates the key drivers of affordability in a more expansive approach. These key drivers of affordability are the underlying personal reasons a potential home loan borrower would take into account in assessing his/her affordability of a home loan.

Figure 2.2 Drivers of Affordability



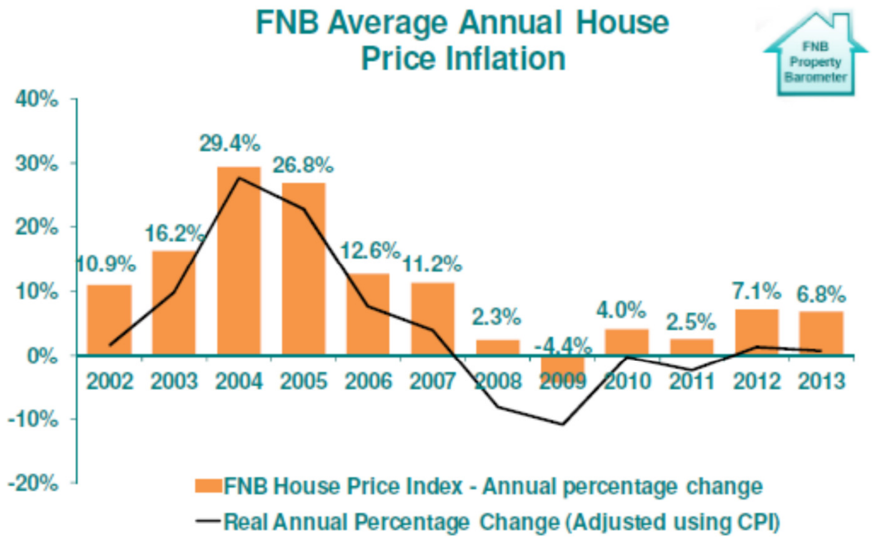
Source: AHURI Report (2007)

Figure 2.2 illustrates the different components that lead to the affordability of a home loan. The demographic factors play a vital role in affordability, coupled with the demand and supply of housing. A steady increase in demand for housing will affect housing prices (increased prices) (Vogel, 2012:14), which will inevitably affect two other inherent elements, namely, interest rates and household income. One of the key drivers of affordability, i.e., house prices, has a huge influence on affordability and is discussed below in detail.

2.8.7 House Prices

Supply and demand shifts in housing can either increase or decrease house prices (Vogel, 2012:14). In a case of an increase in demand, there would be a natural flow of increment in house prices, which means a consumer's household income would have to increase in order to be able to afford a house that is of a much higher price. House prices do not only affect affordability but also the South African residential housing market. Figure 2.3 demonstrates average annual house price inflation.

Figure 2.3 Average Annual House Price Inflation



Source: FNB house price index (2014)

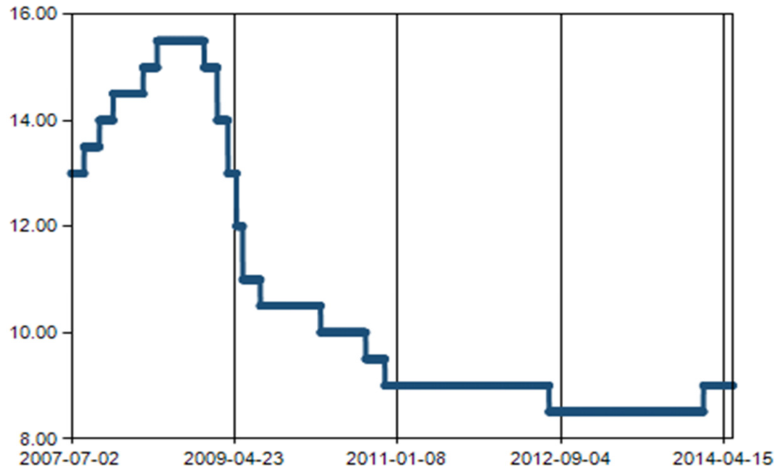
Figure 2.3 clearly indicates that, in 2013, there was a sluggish average house price growth compared to 2012, with a 7.1% in 2012 and a slight decline to 6.8% in 2013, respectively. Absa (2013b) 4th quarter house price review report explains that housing affordability is measured by ratios of house prices and mortgage instalments to household disposable income, which remained stable for the first six months of 2013. The review report also indicated that most consumers took advantage of the favourable housing affordability trends. The SA Home Loans (2013:4) economic report indicated that ABSA house price indices were at 7.1% in November 2013 compared with a 7.2% rate in October 2013.The report further revealed that the South African housing sector experienced a slow but positive growth in 2013 and the contributing factors for the slow growth was that supply was far greater than the demand, increase in fuel price, the weakened currency and significant consumer pressure. With regard to 2014, the report anticipated an increase in interest rates, thereby creating an increase in house price and stabilizing the housing market. This will be influenced by the steady increase in population, which will bring about a greater demand for housing. Increasing interest rates is another major influencing key driver that affects a borrower's housing affordability of obtaining a home loan.

2.8.8 Interest Rates

Interest rates are expressed as a percentage and is the rate of interest at which banks lend to consumers, namely, those with high creditability (Zhao, 2003:11). The interest rate is also known as the prime rate and is determined by The South African Reserve Bank, based on the demand for and the supply of funds. Rates can vary and can be expressed as either above or below prime (SARB, 2012). Borrowers who qualify for a mortgage bond will be given an interest rate depending on their credit risk profile, and the rate is calculated against the capital amount borrowed over a period of time to determine the total cost of the borrowing.

Migiri (2002:100) indicated that credit lending institutions generate the majority of the proceeds from interest earned from loans granted. According to Zhou (2001:28), when mortgage interest rates increase, then demand for home loans decreases and, when there is a decline in interest rates, then demand for home loans increases. Figure 2.4 illustrates the steady changes in the prime interest lending rate since the enactment of the NCA.

Figure 2.4 Changes in Prime Interest Rates



Source: SARB (2014)

Figure 2.4 indicates the pattern of interest rate fluctuations over the years. The 2008-2009 year demonstrated elevated interest rates. It was during these years that South Africa had endured the strong recession and the recovery from the recession to date has been relatively weak (OECD, 2013:4). In 2010, the prime interest rate plummeted to 9%, providing some relief to consumers and this rate remained constant for the 2011 year as well.

The 2012 year enjoyed the benefits of a further drop in the interest rate to 8.5%, but this was short-lived with an increase back to 9% in 2013. The NCA codifies the in *duplum rule,* which is referred to in the credit bill as Section 103(5). According to Vessio (2010:727), the rule limits interest that can be recovered with regards to a loan or credit transactions. It prevents interest that is outstanding from accruing further, once it has reached the outstanding capital amount. The rule, therefore, restricts a creditor from receiving more than double the capital amount in interest.

2.8.9 Household Debt

Bibby (2010:7) explains that household debt can be defined as debt gained by the household, giving rise to a liability which resulted out of borrowing money or taking goods for services on credit, with an intention to pay at a later stage. According to Yates and Gabriel (2006:1), housing absorbs a large portion of household expenditure. Low income families allocate substantial amounts of their income to housing, by repeatedly sacrificing to meet their housing debts. Zhao (2003:2) added that debt obligation provides additional pressure on households for a substantial amount of time as regular payments are made to counteract the outstanding debt. Consumers spending and affordability will be restricted resulting in increasing payment defaults from elevated levels of debt (Pagquette, 1986:12; Maki, 2000). The debt to income ratio reflects the ratio between gross monthly income and monthly debt payments. In South Africa the following factors has contributed to an increase in household debt to income: financial regulation, interest rates and increase in wealth to income ratios. In addition, rising incomes brought about favourable economic growth sourced by housing prices and fairly cheap loans for housing finance. This increased debt levels significantly (Bibby, 2010: 9).

2.9 FINANCIAL INTELLIGENCE CENTRE ACT No. 28 OF 2001

Before potential borrowers are granted a mortgage bond, many personal documents are required by the credit provider with whom the decision of granting the bond lies. These documents are channelled through a verification process. The verification process is known as FICA compliance. South Africa has a Financial Intelligence Centre which is regulated by the Financial Intelligence Act No. 28 of 2001 (FICA). The Financial Intelligence Centre was set up to fight against money laundering activities and creates reporting obligations for accountable institutions such as credit providers.

De Koeker (2002:22) reported that FICA imposes the following obligations on accountable institutions:

- Duty to identify clients;
- Duty to keep records; and
- Reporting duties.

There are many reporting duties stipulated in the Act, namely, the reporting of cash amounts, suspicious and unusual transactions. In addition to these obligations, the Financial Intelligence Centre provides information accumulated by the centre to investigate authorities for the verification of information and also to identify any illegal transactions. Hence, the Centre acts as a repository of information regarding financial transactions.

2.10 BANK LENDING TRENDS IN SOUTH AFRICA

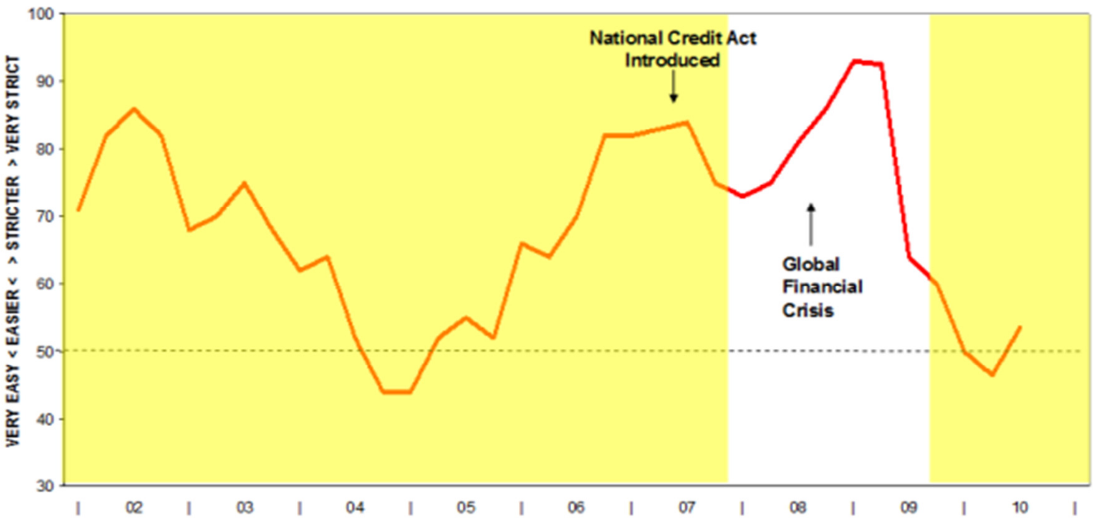
According to Ziramba (2008:219), bank lending involves movement in the supply of bank credit and the effect the movements have on the countries' monetary policy. The monetary influence on prices depends on the effect of demand on money. According to Ludi and Ground (2006:18) bank lending is driven by consumer demand rather than bank supply. Absa (2010:8) revealed that the total residential lending market has been dominated at 97% by the four major banks in South Africa, amounting to 2.1 million home owners with mortgage bonds.

Theobald (2014) reported that, since 2008, home loans have become more costly, compared to pre-2008 when home loan borrowers were granted 110% loans at 2% below prime. Currently, home loans are being approved at a premium to prime and at loan to value ratio of 80%. Borrowers would now have to provide additional funding to secure their purchase. With lenders tightening their credit criteria, fewer South Africans will be able to afford a home loan. FNB (2011:1) indicated that the mortgage market was dominated by the residential mortgages and that, even though there has been slow growth annually, the residential mortgage market still remains the key trendsetter in the mortgage sector. The introduction of the NCA, in 2007, has forced credit providers to strengthen their lending criteria by applying more stringent rules to credit lending.

According to Snyman (2010:1), there are many influential factors that affect the private housing market. The two most important factors are lending criteria and interest rates. Figure 2.5 illustrates the lending criteria indicated by respondents for a research conducted by The Bureau for Economic Research (Snyman, 2010).

Figure 2.5 Banks' Lending

Percentage of respondents

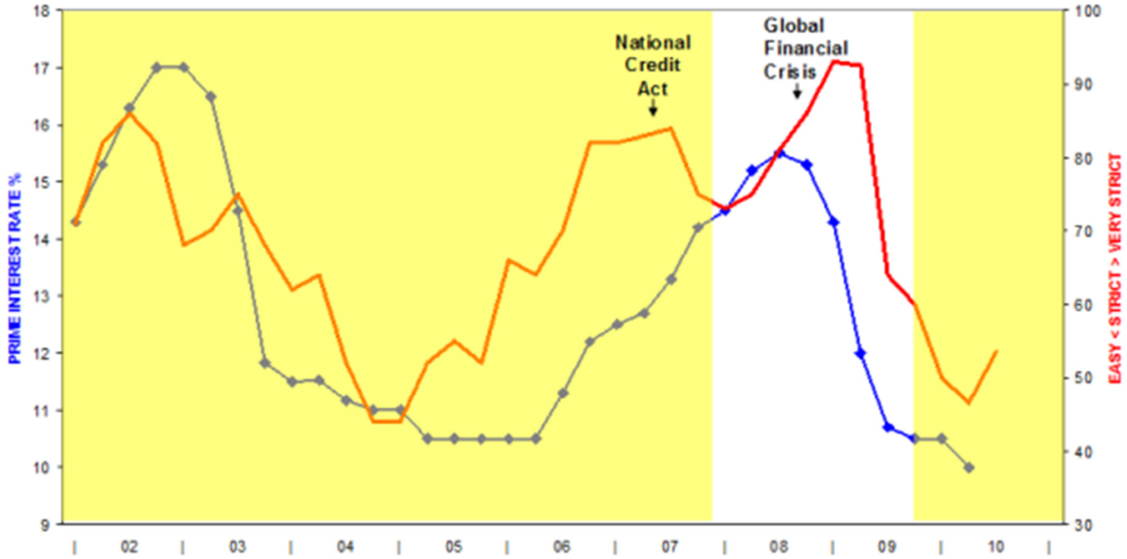


Source: Snyman (2010)

Figure 2.5 illustrates the strict lending criteria in 2002 and 2006/7 and the easy lending criteria in 2004/2005. Very strict lending criteria were applied in 2008 and 2009 during the global recession.

Figure 2.6 provides a clear demonstration of the prime interest compared to the banks' lending criteria from 2002 - 2010.

Figure 2.6 Banks' Lending Criteria vs Prime Interest Rate



Source: Snyman (2010)

Figure 2.6 clearly indicates that banks' lending criteria are strict when interest rates are extremely high. The year 2002 shows high interest rates and strict lending criteria. In 2003, when interest rates declined, lending criteria were much relaxed and, in 2008, when interest rates peaked, lending criteria became much stricter, compelling banks to restrict credit advances. PWC (2013:9a) indicated that lending criteria in all banks differ and banks are able to maintain their competiveness within the banking sector by identifying the needs of the consumers and offering a wide range of services and products to suit those needs.

2.11 HOME LOAN DEFAULT AND DEBT COUNSELLING

2.11.1 Home Loan Default

Hui (2012:5) argues that home loan defaults occur when a home loan enters into negative equity, a territory where payments cannot be made and are outstanding. The home loan borrower is bound to default on the home loan payment and the home loan debt increases. Home loan default is steadily increasing in South Africa, from 21% in 2011 to an average of 28% in 2013. Many consumers are unable to repay debts resulting in nearly half of the consumers having impaired credit records (Bloomberg business report, 2013:1). According to Mkukwana (2012:41), the key drivers that contribute to home loan defaults are the house price index, the consumer price index, credit growth, debt to income ratio, prime interest rates and unemployment. Fuster and Willen (2013:30) indicated that interest rate reduction can significantly change repayment behaviour, even for those home loan borrowers that are in the negative for monthly repayments.

Reghard (2013:165) added the NCA Section 129 (3) and (4) provides debtors that are in default with their credit agreements the right to reinstate the credit agreement by paying all costs that are outstanding as well as default and enforcement costs. The reinstatement ensures that the borrower's house is released from the execution process and returned to the borrower. The provisions in the NCA allow for credit consumers who are in the default zone the right to debt counselling, providing some debt relief for consumers.

For this study, home loan default is understood as a home loan borrower not having the capability to continue to meet his/her monthly home loan repayments. As a result, the home borrower falls into the category of over-indebtedness and would require assistance in restructuring his/her debt to meet his/her obligations and may require debt relief in the form of debt counselling.

2.11.2 Debt Counselling

The National Credit Act, 2005 makes provisions for consumers that have become over-indebted by allowing credit consumers the right to apply for debt relief. Section 85 of the (RSA, 2005, NCA No. 34) states:

"despite any provision of law or agreement to the contrary, in any court proceedings in which a credit agreement is being considered, if it is alleged that the consumer under a credit agreement is over indebted the court may:

a) *Refer the matter directly to a debt counsellor with a request that he* evaluates the consumers circumstances and make a *recommendation to the court in terms of section 86(7)".*

In accordance with Section 86(1), a consumer may apply for a debt counsellor to confirm his/her over indebtedness. Thereafter, the debt review process commences. According to Roestoff, Haupt, Coetzee and Erasmus (2009:247), the debt counselling process appears to be malfunctioning as a petite number of only 3.8% of consumers succeeded in presenting their cases in court. The reasons for the malfunction are that credit providers are not co-operating in the debt counselling process, credit providers are exhibiting non-compliance with the NCA and the NCA appears to be vague and insufficient in the area of debt counselling. Stander (2012:10) added that, with regard to debt enforcement, the provisions made in the Act require refinement and all ambiguity should be made clear to allow for both the credit provider and the consumer the benefits of this provision. Even though the debt counselling process may not be functioning effectively, it is important for consumers to know and understand that facilities such as debt review and debt counselling are available should they require support for debt relief.

From the above discussion, it becomes clear that the NCA attempts to provide some debt relief for over-indebted credit consumers. Despite researchers indicating that the NCA needs to provide more clarity on this section of the Act, credit consumers need to be aware that these benefits and facilities are available to assist them not to eradicate their debt completely but rather restructure their debt. Furthermore, many scholarly researchers have attempted to investigate the impact of the NCA since its introduction.

A lengthy discussion on previous research undertaken on the impact of the NCA follows.

2.12 PREVIOUS RESEARCH UNDERTAKEN ON THE IMPACT OF THE NATIONAL CREDIT ACT No. 34 OF 2005

Since the introduction of the NCA, many researchers have undertaken various research projects to investigate the impact the NCA has had on diverse subject matters. Van Heerden (2008:57) conducted an investigation on the effect of the NCA on the future of specialized micro-lending institutions in South Africa. His findings revealed that the NCA would compel some micro lenders to cease their business and cause a shift for both small and medium-sized lenders to a larger category of micro lenders in order to operate efficiently with sufficient volumes. Van Heerden (2008) further added that the migration of the small and medium to the larger-sized category lenders will alter the structure of the industry, ultimately increasing competition within the industry and forcing change, irrespective of the size of the micro lender.

Rossouw (2008:102) asserts that the impact of the NCA on micro lending sales in a bank in South Africa has led to both financial institutions and consumers enduring an immense amount of pressure from the NCA to the stringent lending regulation, trying to curb predatory lending. The regulation has had a major impact on the micro lending environment by creating a more formal market, resulting in a reduction of the informal market and a significant decline on consumer repayment default.

According to Pieterse (2009:157), the impact of the NCA on the motor industry has created more complexity in obtaining vehicle finance. In addition to the NCA, other costs such as living cost and motor vehicle retail prices are the factors that limit the amount of motor finance granted within the South African motor industry. Coetzee (2009:24) added that the NCA has also impacted on the legal proceedings that apply to debt enforcement, indicating that both debt review and debt enforcement procedures cannot be carried out simultaneously and that credit providers must exercise compliance with the NCA with regard to debt enforcement.

In 2012, the National Credit Regulator conducted a review on the impact of the National Credit Act on South Africa's credit market. The review report indicated that the implementation of the NCA has undoubtedly stabilized the South African economy during the year of the credit crisis in 2008 and will continue to do for years to come. Consumer over-indebtedness had decreased significantly since the NCA was introduced. With regard to reckless lending, the NCA helps prevent consumers from getting into much credit and cautions the credit provider from entering into reckless lending agreements by providing sanctions for credit providers.

Dippenaar (2013:1) reported on the practical impact of the NCA, arguing that credit providers will need to strengthen lending criteria; especially with large loans and that the duty of the credit provider is to ensure that consumers understand the costs, risks, obligations and rights under the credit agreement. Credit providers are required to conduct a thorough investigation of the consumer's credit history prior to approving the credit and to safeguard against reckless lending. The National Credit Act, No. 34 of 2005, has triggered numerous alterations in various sectors within the credit market. Despite the numerous research projects undertaken to investigate the impact on the NCA, no research has been conducted to investigate the impact of the NCA on affordability of home loans, hence, the significance of this research.

2.13 SUMMARY

The introduction of the NCA has transformed the credit industry in many aspects. The objectives and aims set out in the Act have created a sense of awareness for both credit providers and consumers. The Act provides for protection of the consumers from becoming over-indebted and protection of credit providers from reckless lending. Whether the NCA has a positive or negative effect on determining the affordability of home loans is yet to be discovered. Credit providers have the additional responsibility of ensuring that the information provided by consumers are FICA compliant. Other research indicated that the NCA has initiated stricter variations in the way credit lending is permitted, resulting in fewer consumers gaining access to credit.

The next chapter relates to the research design and methodology of this study.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

The previous chapter provided a detailed review of the factors affecting affordability of home loans and a discussion on the objectives set out in the NCA as well as other research undertaken on the impact of the NCA. The intention of the literature review is to make easy understanding of the NCA. Chapter 3, however, sets out to identify the research aims and objectives. Thereafter this chapter presents the research design and methodology of this study. The chapter will also include discussions on the approach adopted to conduct the research and an explanation of the sampling methods as well as the instruments utilized for data collection. The latter part of this chapter provides a brief discussion on the data analysis, ethical considerations and the test for reliability and validity of this study. A short summary completes this chapter.

3.2 RESEARCH AIMS AND OBJECTIVES

The aim of this study is to determine the impact of the National Credit Act, 2005 on affordability of home loans in the Pinetown area and also to ascertain whether the objectives set out within the Act have been met. The study is also intended to fill the following research gaps on the NCA by:

Providing publicity on the NCA, since its promulgation, despite the publicity given to the Act, not many South Africans know about the NCA and those that have heard about the NCA do not know its purpose and content. The researcher intends to provide some awareness on the NCA through this research study.

Bridging the knowledge gap, the researcher intends to create an awareness of the NCA by providing insights of why the Act became necessary, what are the aims and objectives set out in the NCA and how it has impacted on the affordability of home loans in Pinetown.

Conducting research on the impact of the NCA, since the NCA was enacted, to the best of the researcher's knowledge, no research has been conducted to examine the impact of the NCA on affordability of home loans in Pinetown. Therefore, the research is needed to determine not only the impact of the NCA on affordability of home loans but also to ascertain whether the related objectives set out in the act have been met.

This research will serve as a foundation for further research by serving as a starting point for other researchers wanting to investigate the impact of the NCA in other areas. Future researchers could use this study as a basis or to further their study.

The following objectives were identified and explored to accomplish the above aim:

- To ascertain whether the NCA has prevented reckless lending by home loan providers;
- To determine if the introduction of the NCA has prevented or reduced over-indebtedness amongst the home owners;
- To ascertain whether the enactment of the NCA has established new and improved rights for home loan borrowers; and
- To determine if the NCA has had an impact on the affordability of home loans in Pinetown.

Conducting research is a methodical search for information. It is a process of investigating the research problem (Graziano and Raulin, 2013:30). Many researchers use a methodology approach as a process of inquiry and to also understand the methods used in a study to measure, select, collect and refine data and also present and report on the results or findings of the study (Neuman, 2011:16). For this study, a survey approach was used to investigate the impact of the NCA on the affordability of home loans in the Pinetown area. The research methodology for this study is presented below.

3.3 RESEARCH METHODOLOGY

Research methodology is a medium used to solve research problems. Many research problems may differ and it is important for the researcher to understand the various research techniques and procedures that will answer the research questions. This will enable the researcher to choose the correct technique and procedures that are applicable to the research problem (Kothari, 2004:8). According to Creswell (2009:203), qualitative, quantitative and mixed method designs are known as strategies of inquiry. These strategies, however, have evolved over time, enhancing the analysis of data and complex models as well as creating new procedures of conducting research. For the current study, a mixed method approach was selected. This research method was chosen purely because it will strengthen the study and will also enhance the understanding of the study.

3.3.1 Mixed Methods Approach

A mixed methods approach is a combination of both qualitative and quantitative research, which is conducted in the same study. The use of this approach contributes largely to strengthening the research study by providing a greater understanding of the research problem (Creswell, 2009:11). Mixed methods approach provides a platform for gathering, analyzing and mixing both qualitative and quantitative data (Creswell and Plano Clark, 2007: 5). A qualitative research method involves various evaluations of attitudes, opinions and behaviour. Myers (2009:8) added that one benefit of using this research method is that it enables the researcher to understand, interpret and view the context in which decisions and actions occur. Qualitative data sources may consist of observations, interviews, questionnaires and other text documents. The data is mainly a log of what has been stated by the participants of the study.

According to Creswell (2013:145), qualitative data collection entails identifying and accumulating actual types of data and employing the procedures to carry out a good sampling strategy, as there can be unlimited sources of data. Therefore, it is recommended that researchers use new innovative techniques for data collection. Flick (2011:12) indicated that in qualitative, research the procedure of presenting the findings of the research receives a great deal of attention, mainly because the data provided by the participants of the study at the time of an interview may not necessarily be consistent with data formulated at the time the actual event occurred. In this situation, the researcher will have to interpret the data carefully and present new data that will represent the whole, thereby creating an ongoing process of reconstructing various versions of reality. Kothari (2005:83) emphasized that quantitative research though, includes the study of phenomena and is based on the measurement of quantity.

In this study, qualitative and quantitative research was conducted by administering questionnaires to home loan borrowers and if additional information was required for the study, interviews would be conducted based on respondents' answers in the questionnaire. Section C and Section D of the questionnaire relate to qualitative data collection. In these two sections, participants were required to provide comments, explanations and their opinions on the study. Once the data was collected, the researcher used computer files to prepare and code the data. The data was then grouped into themes and aggregated into smaller groupings and later presented in figures through tabulation and discussions. The quantitative research approach consists of investigating and examining the relationship among variables and test hypotheses, which are measured using standard instruments ensuring that numerical data are analysed by the application of statistical procedures (Creswell, 2009:4).

According to Neuman (2011:165), in quantitative research, apart from measuring variables, additional reliance is placed on positivist principles. Furthermore, the approach can be interpreted as a study that must have certain limitations as to what can be observed and measured objectively, without being prejudiced. In addition, all data should exist independently of the views and opinions of individuals. Davies (2007:10) indicated that quantitative research procedures are conducted to gather reliable and objective responses to relevant questions asked regarding the research study. Quantitative data for this study was gathered by means of conducting survey research. A home loan borrower questionnaire was administered to home borrowers in the Pinetown area. Section A, Section B and part of Section C related to quantitative data collection.

The data collected was coded by allocating numerical values to the data and patterns and trends were identified using statistical techniques to analyse the data. The data was then represented in graphs and tables testing the results for validity and reliability. The questionnaire design includes a combination of completely-structured questions (respondents had an option to choose one or more answers), semi-structured questions (respondents could choose an answer and or provide their own responses) and unstructured questions, better known as open-ended questions (respondents provide their own answers).

Semi-structured and open-ended questions need careful interpretation and require data to be analysed objectively. This type of interpretation gives rise to a qualitative research approach. Hence, the research method for this study was a mixed methods approach. The purpose of administering questionnaires is to gather sufficient appropriate evidence and enable the researcher to draw reasonable conclusions on the study. The researcher minimised biasness by designing the questionnaire in a manner that eliminated ambiguous and complex questions as well as difficult words.

In addition, respondents volunteered to answer the questionnaire and anonymity and confidentiality were maintained at all times. The instruments used for data collection will be dealt with later in this chapter. It is vital at this point to discuss the sampling methods and the target population used for this research study.

3.4 THE SAMPLING APPROACH

Sampling can be described as selecting a relatively small number of objects, people and events that are in one's field of study from a total population (Williman, 2011:184). This relatively small number is known as a sample. If the selected sampled data is thoroughly analysed and appropriately sampled, the researcher can generalize its findings to the whole population (Neuman, 2011:240). The process of selecting a sample is called a sample survey design, which is aimed at making inferences about population parameters from the sample (Scheaffer, Mendenhall & Ott, 2006:7). The procedures of selecting a sample consist of: clearly defining the target population; acquiring a complete and accurate list of the population; selecting a sample frame; deciding on appropriate sampling methods; selecting sample units and drawing a sample from the determined sample size (Nardi, 2006:109).

3.4.1 The Target Population

The target population can be defined as a specific population from which a researcher draws a sample and the results of the sample would ideally generalize the entire population (Neuman, 2011:241). In this study, research was conducted specifically in the Pinetown area and focused on registered home loan borrowers. The registered home loan borrowers that participated in this study had to have a home loan (mortgage bond) registered in their names and the initiating period of the home loan had to be between 2009 - 2013.

According to Bennet (2006), the managing director of one of the largest real estate franchise groups, Proprop, there is a great demand for homes between the R500 000 and R700 000 price range in the Pinetown area. He further added that the shortage of housing is due to lack of developer presence which has led to the scarcity of affordable housing for low and middle income earners and that financial institutions could be assured that lending risks are fairly restricted as potential buyers at this level are stable income people, who do meet the criteria for the qualification and approval for a registered home loan.

Considering the immense demand for purchasing homes in Pinetown, the target population for this study included home loan borrowers that have home loans registered on their names between the years 2009 - 2013. By using these participants in the study, the researcher was able to draw reasonable conclusions from the results of the investigation revealing the impact the NCA has had on the affordability of their home loans, since the promulgation of the Act.

The researcher chose Pinetown to conduct the research because:

- Not much research has been conducted in this area with regard to the NCA and its impact on the affordability of home loans;

- There is a great demand for purchasing homes in this town; and

- Pinetown is characterized as a middle income area situated between two high income towns known as Westville and Hillcrest. The findings of the study would reveal the success rate of individuals living in a middle income area that have gained access to affordable home loans.

Once the target population had been defined, the next step is to acquire a list of the population and select a sample from the sampling frame (Nardi, 2006:109). In this study, the researcher was unable to gain access to a list of the target population. Many financial institutions were approached in an attempt to acquire a list of registered home loan borrowers in Pinetown, but the attempts were unsuccessful as the portfolios of home loan borrowers contain sensitive information and financial institutions are bound to confidentially. Due to these reasons, financial institutions were unable to provide the researcher with a list of the target population.

The list required would have assisted the researcher in identifying the elements of the population which were being observed and would have also provided vital information regarding: the total number of individuals that have acquired registered home loans during 2009 - 2013; the interest rate per home loan; if a proper credit assessment was conducted by credit providers; if their affordability was taken into account when applying for the home loan; the borrowers' debt status since acquiring their home loan; the extent to which credit providers explained to them the process of acquiring a home loan; and other factors aiding the researcher to identify the target population and select a sample.

3.4.2 The Sampling Frame and Method

The sampling frame refers to a list of all sampling units or elements within the target population. The sample for the study is selected from the sampling frame (Struwig & Stead, 2001:109) and the result of the selected sample usually represents the total population from which the sample was drawn (Mouton, 2002:132). Babbie (2013:124) emphasized that samples correctly drawn present appropriate information that is suitable to describe the population of units that make up the sampling frame.

According to Huysamen (1994:37), if the total population is a relatively small number, then the sample selected should be a relatively large number as researchers need to consider that some individuals may not want to participate in the study. The researcher may experience difficulty in locating some participants, while other respondents may not provide all the information that the researcher requires. Bearing this in mind, it will be more beneficial to select a larger sample in order to gain complete, accurate and valid data that will be represented in the total population. According to Marshall and Rossman (2006:61), an appropriate sample size would answer the research question under investigation. Shelembe (2006:50) indicated that a relatively small sample size subject to credible sampling techniques can provide reliable results.

For this study, both the sampling frame and the target population are unknown. The researcher was unable to obtain a record of home loan borrowers in the Pinetown area from financial institutions due to confidentially clauses and sensitivity of information. Due to this reason, the researcher administered questionnaires to random individuals who have taken home loans between 2009 - 2013 as part of the data collection process. The researcher enquired from random individuals if they had taken a home loan between the years 2009 - 2013 and if they answered yes, they were requested to participate in the study. The researcher surveyed 190 home loan borrowers as part of the sample population for data collection.

3.5 DATA COLLECTION

3.5.1 Methods of Data Collection

The process of data collection is initiated once the research problem has been properly identified and defined. There are two methods of data collection which researchers use in their study. These are known as primary data and secondary data. Primary data can be characterised as data being collected for the first time by the researcher. This type of data is in its original form and can be collected through questionnaires (Kothari, 2004:95).

The latter, however, is data being used or collected by researchers that have already been gathered by other investigators. The analysis of secondary data requires careful consideration as its collection process may have differed from the present research and, therefore, the data may contain a degree of bias such as sampling bias (Bless, Smith and Kagee, 2006:112). In this study, primary data was collected by means of administering questionnaires to registered home loan borrowers in the Pinetown area. In order to enhance the data collection process, it is important for researchers to adopt a good questionnaire design and a logical layout of a questionnaire.

3.5.2 Questionnaire Design

A good research questionnaire should be designed to gather information, which can be used at a later stage for data analysis. Questionnaires provide information in two categories, namely, facts and opinions. Factual items involve participants revealing information about their age, address, gender and race, whereas opinions entail respondents revealing information about their attitudes, feelings, views and preferences (Denscombe, 2003:144). Questions can be asked in various ways, such as open-ended questions, closed-ended questions, and Likert scale questions (Graziano and Raulin, 2013:317). However, survey questions can be broken down into open-ended and close-ended questions.

Open-ended questions allow participants to respond to questions freely in their own words and participants are able to provide reasons for their answers, whilst close-ended questions limit respondents to alternatives or options that have already been predetermined and provided by the researcher (White and McBurney,2013:218). Hence, close-ended questions reduce ambiguity and are easier to answer. Open-ended questions, on the other hand, take generally longer to answer and require additional time to analyse as responses provided by respondents are narrative (Greener, 2011:42).

For this research project, open-ended, close-ended and semi-structured questions were included in the questionnaire to permit permitting respondents to provide insights on their experience of obtaining a home loan and their opinions on what impact the NCA, has had on the affordability of their home loan. The questionnaire was divided into five sections, which will be discussed below:

Section A: Biographical data of a home loan borrower. This section consisted of close-ended questions, which home loan borrowers had to answer regarding their gender, race, the year in which their home loan was acquired and at what interest rate their home loan was approved.

Section B: The knowledge of the National Credit Act No. 34 of 2005 (NCA) and understanding the affordability of a home loan. This section comprised of a Likert scale. Home loan borrowers were provided with a response scale identifying the extent of agreement or disagreement to questions that were relating to their knowledge of the NCA and their understanding of the affordability of their home loan.

Section C: Experience of applying for a home loan. This segment of the questionnaire included a combination of close-ended and semi-structured questions. For the close-ended questions, respondents had to choose answers from alternatives provided regarding which credit provider registered their home loan, time period they had to wait for their home loan to be approved and the documents they were requested to provide before the home loan was approved. The semi-structured questions allowed home loan borrowers to choose an option and also provide their own answers about the extent to which credit providers explained the process of obtaining a home loan.

Section D: Impact of the National Credit Act No. 34 of 2005, on home loans. In this part of the questionnaire, home loan borrowers were asked open-ended questions. Home loan borrowers provided answers regarding their opinions on the credit assessment conducted by the credit provider, their indebtedness status and the positive or negative effect of the NCA based on the affordability of their home loan.

Section E: Optional. This was the last section and was completely optional. Only participants who were willing to participate in an interview where requested to complete this section. Home loan borrowers were required to provide the following contact information: name, telephone number and email address.

3.5.3 Close-Ended Questions

Close-ended questions are sometimes referred to as structured questions which are expressed in a manner that directs respondents in choosing an answer from the preselected alternatives provided in the questionnaire (Fox and Bayat, 2007: 91). In this study, close-ended questions were used in Section A and Section C of the questionnaire. Questions in these two sections were based on biographical data of home loan borrowers and the borrowers' experience of applying for the home loan.

3.5.4 Open-Ended Questions

Open-ended questions are usually answered by respondents in their own words, describing their experiences, views and beliefs about a specific issue (Fink, 2013:32). Respondents were encouraged to comment freely on these questions, providing the researcher with meaningful insights about the research topic under investigation (Fox and Bayat, 2007:91). Open-ended questions were used only in Section D of the questionnaire. Here, home loan borrowers had to provide their opinions on the impact of the NCA on their home loan.

In this section of the questionnaire, borrowers had to: explain if they agreed or disagreed that their home loan was processed in accordance with their affordability; comment on the status of their indebtedness; and give their opinion on whether the NCA has had a positive or negative effect on the affordability of their home loan.

3.5.5 Layout of The Questionnaire

The physical appearance and layout of the questionnaire is significantly important. Bailey (1994:145) mentioned that the following key factors are important when designing a questionnaire: the length of the questionnaire; the type and colour of paper used; as well as the layout of the typing. Floyd and Fowler (2014:63) added that questionnaires should be designed in a manner that allows for the layout to be clear and uncluttered and that questionnaires should begin with fairly easy, clearly defined and straight forward questions to assist participants into the survey.

For this study, the researcher used the following layout to design the questionnaire:

- A letter of information providing a brief introduction about the investigation, explaining the purpose of the study and reassuring participants of the study that confidentiality and anonymity will be maintained at all times *(See Appendix A);*

- A consent form requesting respondents for their agreement and willingness to participate in the research study *(See Appendix B);*

- The heading of each section of the questionnaire was highlighted and instructions provided, where possible, on how to answer questions in that section; and

- ❖ Starting the questionnaire with easy questions and moving along to more complex questions as the questionnaire progresses.

According to Best (2012:249), the layout and design of the questionnaire should be simple and should commence with the easy questions at the beginning. If questions at the beginning are long and difficult to interpret, then respondents may assume that all questions are of this nature and might not want to answer or complete the questionnaire. Questions of the same theme should be grouped together and these questions should progress in a logical manner. Greener (2011:38) added that questionnaire design varies according to a researcher's area of investigation and that the researcher should consider the following general considerations:

- administer questionnaires as early as possible, so that they are returned in time to conduct a proper analysis;

- starting a questionnaire with complex or sensitive questions may lead to participants not responding to those questions and result in a low response rate; and

- the length of the questionnaire is crucially important. An extremely short questionnaire gives the impression that not much work is required by participants and, therefore, may have a high response rate. On the other hand questionnaires that are too long appear to be too much of work and time, so the likelihood of obtaining a good response rate is very low.

In this study, the researcher adopted a simple and logical approach to the questionnaire layout. The questionnaire commenced with simple and easy questions at the beginning, progressing to the more sensitive and complex questions at the end of the questionnaire. The questionnaire was administered over three weekends using convenience sampling methods allowing participants to complete the questionnaire at their convenience and availability. The questionnaire for this study was of a fair length and required between 5 - 8 minutes to complete. It is important for researchers to implement a good questionnaire design so that maximum information is gathered and the objectives of the study are achieved. Prior to conducting the actual study, the researcher conducted a pilot study to test the data collection instrument.

3.5.6 The Pilot Study

According to Floyd and Fowler (2014:107), before commencing with the main investigation, it is important to test the questionnaire with respondents from one's population sample. Conducting a pilot test is an important part of a research project as it aids in creating a successful and complete research study (De Vos, Strydom, Fouché and Delport, 2005:205). The pilot study, therefore, aims at testing the components of the questionnaire, such as the clarity of questions, the nature of responses, questions that remain blank, easy interpretation of questions, how much time it took to complete a questionnaire and the layout of the survey (Andres, 2012: 27). In essence, the pilot study assists the researcher to refine the study for the main investigation. For this study, home loan borrowers in the Pinetown area were randomly selected using a convenience sampling method.

The researcher used this sampling method purely because financial institutions are bound by confidentiality and could not provide the researcher with a list of home loan borrowers in the Pinetown area. As a consequence, the researcher had to use a sampling method that would take into consideration the accessibility and availability of participants for the study. Home loan borrowers were required to participate in the pilot study aimed at testing the questionnaire so that the researcher could modify and amend the questionnaire before administering the instrument to the population sample. The researcher administered questionnaires to 20 home loan borrowers. The researcher approached random individuals enquiring if they had taken a home loan between 2009 - 2013. If they did, they were requested to participate in the study.

The questionnaires that were handed out by the researcher to home loan borrowers were collected immediately upon completion. The pre-testing of the questionnaire revealed that the options for a few completely structured questions needed to be adjusted. The researcher reassessed these questions and added on or changed the options of the questions, where necessary. Once the questionnaire was modified, the researcher then administered them randomly to the research sample to gather primary data.

3.5.7 Collecting Primary Data Through Questionnaires

Questionnaires are commonly used in research and are referred to as survey instruments, which respondents will read, understand and fill out themselves (Floyd and Fowler, 2014:101). Questionnaires provide researchers an opportunity to survey a population, aiming to find out the broader picture of their experiences and views. Researchers administer questionnaires to their population sample as a collection instrument to gather survey information to draw conclusions on the study (Denzin and Lincoln, 2013:562).

3.5.8 Administering Questionnaires To Home Loan Borrowers

In this study, survey research was conducted on customers at the Knowles Spar in Pinetown. The researcher chose to conduct the survey at this shopping centre because it is centrally located in Pinetown and is easily accessible to all individuals. This is the biggest Spar in Pinetown and has a large feet count. The researcher wanted participants with the following characteristics: differing income bracket, living within the different areas in Pinetown and multi-racial groupings.

Prior to administering the questionnaires, the researcher requested permission from management at the Knowles Spar in Pinetown to randomly survey their customers. Management required a letter detailing the purpose and objective of the research and upon receiving the letter permission was granted to the researcher to survey their customers for three weekends. The researcher administered 250 questionnaires and received a response of 190 questionnaires. Some participants did not want to complete the questionnaire immediately and took them away. These questionnaires were never returned.

Participants in this study were allowed to answer the questionnaire in the presence or absence of the researcher. The researcher, however, remained available at all times to assist participants if they required further clarity or interpretation of words or questions. The researcher enquired if participants had taken a home loan in the last five years. If they answered yes, they were requested to participate in the study. The researcher advised respondents to answer the questionnaire truthfully, without any fear of intimidation as confidentially and anonymity will be maintained at all times. Once the questionnaire was completed, respondents handed them back to the researcher. A covering letter and consent form was attached to the questionnaire to notify participants of the purpose of the study *(See Appendix A and Appendix B)*. Home loan borrowers were requested to tick the consent box on the consent form, consenting to be a participant in the research project. It is the task of the researcher to provide assurance to all participants of the study that their rights will be protected. Therefore, it is vitally important at this stage to discuss the ethical considerations of this study.

3.6 ETHICAL CONSIDERATIONS

Ethical issues may surface in numerous stages of a research project. A project usually involves communication and interaction with participants, sites and stakeholders of the study. It is important for the researcher to disclose the purpose of the study and provide a consent form stating that participation in the study is completely voluntary and respondents will not be exposed to any undue risk (Creswell, 2013:174). According to Floyd and Fowler (2014:40), when conducting survey research, respondents should be made aware of their expectations and the researcher has duty to keep respondents informed and protect the rights of respondents. The researcher must ensure that the rights of individuals of the population sample are protected whether they agree or disagree to partake in the study. Another important factor to keep in mind is the importance of maintaining confidentially and anonymity, especially with the treatment of information provided by respondents.

In this research project, before administering the questionnaires to the population sample, the researcher fully explained the purpose of the study and the research procedures. Respondents were given the opportunity to volunteer to participate in the study. Members of the sample population were also made aware of their right to withdraw from the study at any time. The questionnaire included an information letter which highlighted that the researcher will maintain confidentiality and anonymity at all times. Fink (2013:17) explained that confidentiality relates to safeguarding information about a particular person that is known by another and anonymity refers to not revealing the name, address or even identities of individuals. In this study, participants' rights were respected regarding anonymity as home loan borrowers were not required to provide their names, address or identity numbers on the questionnaire and the researcher also agreed to maintain confidentiality by the signing of the consent form as well.

3.7 DATA ANALYSIS AND INTERPRETATION

According to Creswell (2009:218), data analysis is a process which involves many stages of conducting different analysis, creating an in-depth and better understanding of the data being analysed. In a mixed methods study, both qualitative and quantitative data are either combined or connected at different stages of the project. The data analysed are expressed in both descriptive and numerical analysis. Bryman (2004:399) explained the two general strategies for qualitative data analysis are analytic induction and grounded theory. These two strategies are sometimes expressed as iterative, which means that the analysis only commences after some of the data has been gathered and the implication of that data being analysed then guides the other stages within the data collection process.

For this study, qualitative data is analysed using the following data analysis strategies by Creswell (2013:180):

- preparing and organizing data. These can be text data or image data for analysis. Some researchers may use computer files to prepare and organize the data;

- reducing the data into themes using a process of coding. In this step researchers will group themes, interpret data and also aggregate text data into much smaller classes and then label them to facilitate easy coding; and

- representing the data in figures, through tabulation and a discussion. In this final step, the data may be presented in a visual image form. The researcher may present a comparison table, on the themes featured in the study.

3.8 STATISTICAL ANALYSIS

Quantitative data analysis is a process whereby researchers convert data to represent numerical form and subject this data to statistical analysis. The purpose of analysis is to interpret, test and draw conclusions from the data (De Vos, Strydom, Fouché and Delport, 2011:248). The Statistical Package for Social Sciences (SPSS) is a computer software that is extensively used for the analysis of quantitative data (Bryman, 2004:219). SPSS is a versatile computer program that presents data in descriptive, numerical, tabular and graphical form (Argyrous, 2011:58). There are two types of statistics that are commonly used in most research namely: descriptive statistics and inferential statistics. Descriptive statistics describes and expresses the characteristics of the data, whereas inferential statistics, on the other hand, is used to make inferences about a sample in relation to a population (Kerr, Hall, Kozub, 2002). Quantitative data for this study was analysed using SPSS version 21.0. Lind, Marchal and Wathen (2005:17) explained that it is important for researchers to use statistical software packages when doing statistical analysis as they can provide accurate information immediately. Steyn, Smitand Du Toit, (1996:9) argued that the use of statistical techniques using software programmes are of little value if the results cannot be correctly interpreted through proper understanding of statistics and that individuals must be statistically literate to be able to interpret quantitative data.

For this study, the following methods for data analysis were used to analyse quantitative data:

- coding the data collected, allocating numerical values to the data;
- identifying trends and patterns of the data collected;
- using a statistical technique to analyse the data (SPSS);
- represent the results of the data in graphs, cross tabulations and tables; and
- detailed interpretation of the results testing for validity and reliability of data.

3.9 RELIABILITY AND VALIDITY

Reliability is a core concept in measurement. It relates to consistency of measurement over time and the measurement of internal consistency (Punch, 2005:95). Andres (2012:122) further explained that the term reliability relates to the degree to which the results of a study can be replicated, comparing samples that are alike, in similar conditions to generate similar findings. Data collection instruments must be designed in a manner that are clear and easy for respondents to understand and answer, so that if participants were to repeat this process, they will provide the answers as they did in the previous process. If the results of the study demonstrate common themes and trends, then the measures and methods utilised in the study are regarded as reliable (Punch, 2009:97). Validity, on the other hand, refers to measurement (are the measuring instruments measuring what they are supposed to measure?). Measurement validity relates to the extent the measuring instrument measures what it is meant to measure. The measurement becomes valid once it represents the concept or object it claims to measure.

Bless, Smith and Kagee (2006:156) argued that one of the most important aspects of validity is content validity, which involves measuring all the different components of a study and determining whether the full content and components of the study are represented in the measurement. In this study, the researcher responded to reliability by designing and implementing a measuring instrument which provided results that were as reliable as possible (Babbie, 2013:192). The researcher designed a questionnaire to conduct a survey and, if additional information was required, the researcher would have prepared an interview schedule and conducted interviews with a small number of willing participants based on their answers in the questionnaire. This would address test-retest reliability and parallel-forms reliability. The former is used to examine and measure the consistency of data collected between two different points in time. The latter is applied to measure how consistently the same sample of people would answer two different measuring instruments used to measure the same case (Bless, Smith and Kagee, 2006:151). Many researchers use assessments of reliability and validity to determine the overall quality of their research project (Wagner, Kawulich and Garner, 2012:80). According to Babbie (2013:191) validity entails the extent to which one is measuring what one proposes to measure.

In this research study, a mixed methods approach was used. Both qualitative and quantitative methods were employed to gather accurate reliable information about the impact the National NCA, has on affordability of home loans in the Pinetown area. Utilizing mixed method research increases validity by including various methods of inquiry and numerous traits in a research design (De Vos, Strydom, Fouché and Delport, 2011:434).The results of a multi-method study can only be termed credible and relied upon if the data collected is valid, reliable and analysed appropriately (Wagner, Kawulich and Garner, 2012:80). To enhance validity, the researcher administered questionnaires to random individuals that represented the sample of the target population. The reliability and validity statistics for this study are illustrated in the next chapter.

3.10 SUMMARY

This chapter provided a detailed description of the research methodology, data collection and data analysis process utilized for the study. This study employed the mixed methods approach, which consisted of a mixture of qualitative and quantitative data to investigate the impact of the NCA on affordability of home loans in the Pinetown area.

The next chapter presents, interprets and discusses the findings of the study.

CHAPTER 4

STATEMENT OF FINDINGS: INTERPRETATION AND DISCUSSION OF THE PRIMARY DATA

4.1 INTRODUCTION

This chapter presents and discusses the findings obtained from the questionnaires in this study. Due to the high response rate received in this study, the findings the gathering of additional information in the form of interviews was not required. The questionnaire was the primary tool that was used to collect data. It was distributed to homeowners with an active home loan. The data collected from the responses were analysed using statistical software known as Statistical Package for Social Science (SPSS) version 21.0. The results of the descriptive statistics are presented in the form of graphs, cross tabulations and other figures for the qualitative data that was collected.

4.2 RELIABILITY AND VALIDITY STATISTICS OBTAINED FOR THIS STUDY

The two most important aspects of precision are reliability and validity. Reliability is computed by taking several measurements on the same subjects. A reliability coefficient of 0.70 or higher is considered as “acceptable” (Nunnally, 1978).

Table 4.1 below reflects the Cronbach’s alpha score for all of the ordinal items that constituted the questionnaire.

Table 4.1Cronbach's alpha validity score

Case Processing Summary

		N	%
Cases	Valid	174	91.6
	Excluded	16	8.4
	Total	190	100.0

Table 4.1 indicates the validity score of 91.6 % obtained for this study. Table 4.2 illustrates the reliability score for the study.

Table 4.2 Cronbach's alpha reliability score

Reliability Statistics

	N of Items
.890	14

The overall reliability score of 0.890 satisfies the minimum recommended value of 0.70. This indicates a high (overall) degree of acceptable, consistent scoring for this research.

The research objectives of this study are:

- To ascertain whether the NCA has prevented reckless lending by home loan providers;
- To determine if the introduction of the NCA has prevented or reduced over-indebtedness amongst the home owners;
- To ascertain whether the enactment of the NCA has established new and improved rights for home loan borrowers; and
- To determine if the NCA has had an impact on the affordability of home loans in Pinetown.

The demographic profile of the sample is firstly described.

Response Rate

In total, 250 questionnaires were distributed and 190 were returned which resulted in a 76 % response rate.

4.3 Demographic Sample Profile

The demographic profile consisted of home loan borrowers in the Pinetown area. Respondents were required to indicate the following:

i) Gender and age;
ii) Race and marital status;
iii) Employment status and gross monthly income;
iv) The financial institution their bond is registered with and the time frame taken for the bond approval;
v) The type of bond they have and the interest rate on their bond;
vi) The year in which the bond was registered the level of awareness of the NCA; and
vii) The medium through which they became aware of the NCA.

The demographic profile of respondents is shown in table 4.1.

Table 4.3 illustrates the gender distribution by age

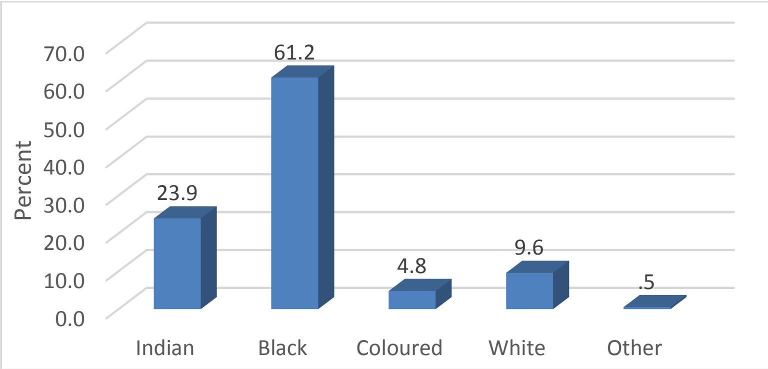
Table 4.3 Gender Distribution by Age.

			Gender		Total
			Male	Female	
Age (years)	18 – 24	Count	0	1	1
		% within Age	0.0%	100.0%	100.0%
		% within Gender	0.0%	1.1%	0.5%
		% of Total	0.0%	0.5%	0.5%
	25 – 34	Count	26	27	53
		% within Age	49.1%	50.9%	100.0%
		% within Gender	26.0%	30.7%	28.2%
		% of Total	13.8%	14.4%	28.2%
	35 – 39	Count	26	23	49
		% within Age	53.1%	46.9%	100.0%
		% within Gender	26.0%	26.1%	26.1%
		% of Total	13.8%	12.2%	26.1%
	40+	Count	48	37	85
		% within Age	56.5%	43.5%	100.0%
		% within Gender	48.0%	42.0%	45.2%
		% of Total	25.5%	19.7%	45.2%
Total		Count	100	88	188
		% within Age	53.2%	46.8%	100.0%
		% within Gender	100.0%	100.0%	100.0%
		% of Total	53.2%	46.8%	100.0%

Table 4.3 provides a detailed description of the *gender distribution by age*. The ratio of males to females is approximately 1:1 (53.2%:46.8%). Within the age category of 35 to 39 years, (53.1%) were male. Within the category of males, only (26.0%) were between the ages of 35 to 39 years. This category of males between the ages of 35 to 39 years formed (13.8%) of the total sample. Within the category of females, (42%) were in the 40+ age grouping. This represented the highest percentage of females and formed (19.7%) of the total sample.

Figure 4.1 presents the actual racial composition of the population.

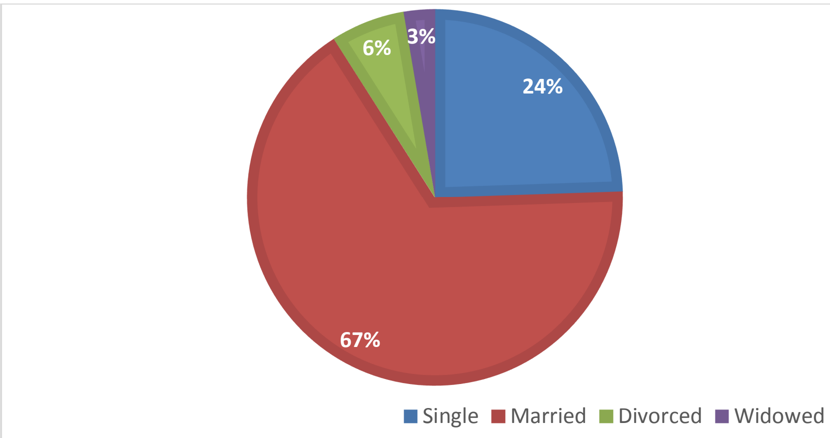
Figure 4.1 Racial Composition of The Sample



The majority of the respondents were Black (61.2%) with the smallest South African group being Coloured (4.8%). The second highest racial grouping was Indian (23.9%) followed by Whites (9.6%).

Figure 4.2 reflects the marital status of the respondents.

Figure 4.2 Marital Status of The Respondents



The majority of the respondents (67.0%) as indicated in figure 4.2, were married. This formed two-thirds of the total population and respondents that are single represented (24%). Divorced respondents were (6%) and the lowest percentage (3%) was represented by widows.

Table 44. provides a detailed description of the diverse employment status of the respondents.

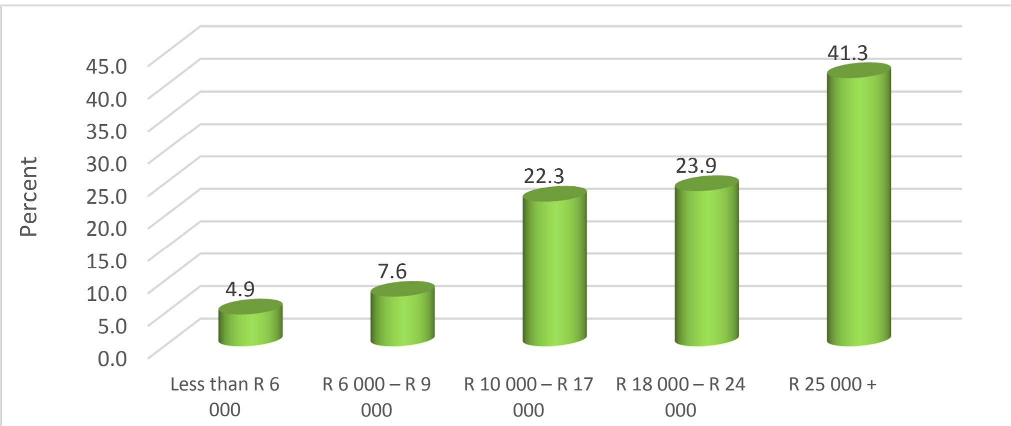
Table 4.4 Employment Status of The Respondents

	Frequency	Percent
Permanent	169	89.9
Contract	7	3.7
Commission-based only	2	1.1
Other	2	1.1
Self-employed	4	2.1
Pensioner	2	1.1
Semi-retired	1	.5
Volunteer	1	.5
Total	188	100.0

Nearly (90%) of the respondents were permanently employed and the remaining (10%) of respondents indicated they had other forms of employment.

Figure 4.3 illustrates the various gross monthly incomes of respondents.

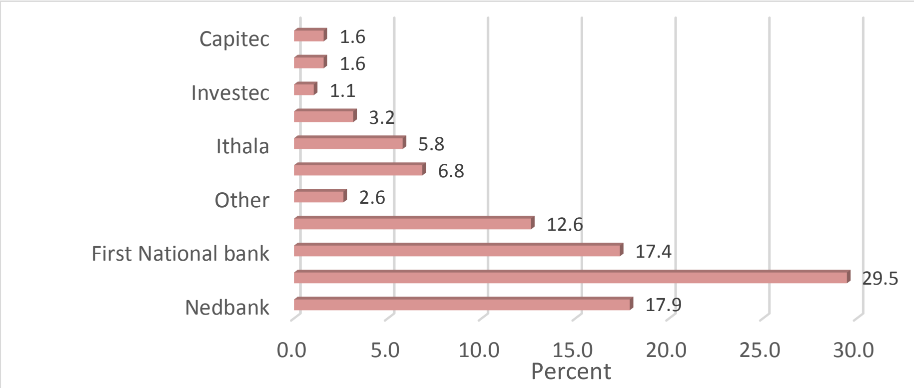
Figure 4.3 Gross Monthly Income of The Respondents



Less than (13%) of the respondents had a gross salary of less than R10 000 per month. A combined 46.2% respondents were within the R10 000 to R24 000 gross monthly income bracket.

Figure 4.4 indicates the number of respondents with registered bonds

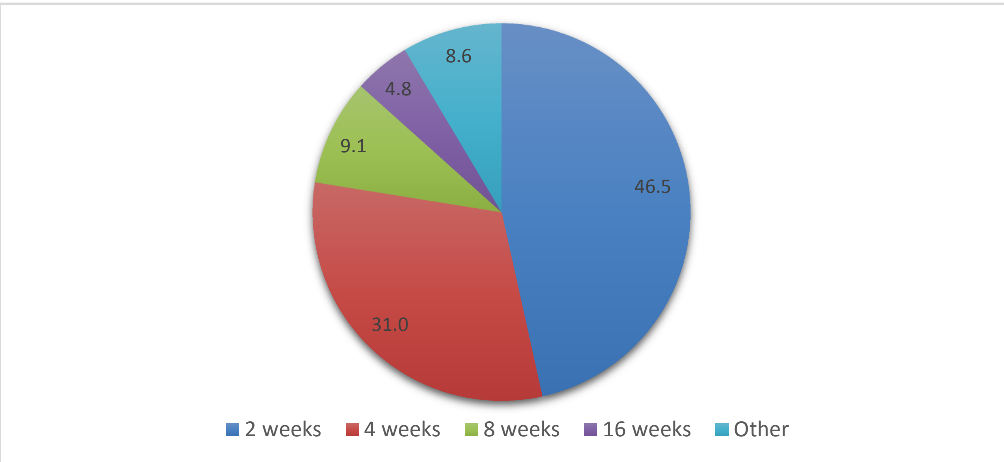
Figure 4.4 Respondent Registered Home loans with Financial Institutions



More than three-quarters of the respondents (77.4%) have home loans that are registered with the four traditional major banks in South Africa and the remaining (23%) have bonds with other credit lending institutions.

Figure 4.5 illustrates the time frames for mortgage bond approval

Figure 4.5 Time Frames Taken for Approving Home Loans



Nearly half of the respondents (46.5%) indicated that the *time frame taken to approve their home loan* was approximately 2 weeks. Most respondents (77.5%) had to wait for approximately a month. A further (9.1%) of respondents confirmed a waiting period of 8 weeks for their home loan to be approved and a very small portion of respondents (4.8%) had to wait at least 16 weeks before their home loans were approved.

Table 4.5 shows that all of the respondents had some type of mortgage bond.

Table 4.5

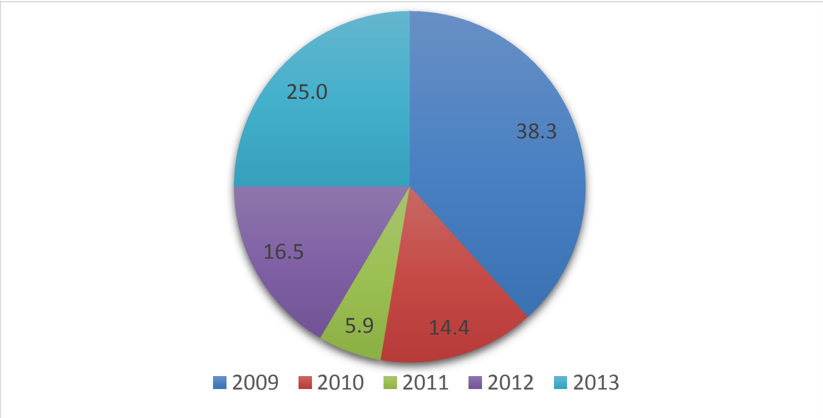
The Type of Mortgage Bond and The Interest Rates for The Mortgage Bond

		At what interest rate was your home loan approved				Total
		8% - 9.99%	10% - 11.99%	12% - 15%	Other	
Single bond	Count	46	17	5	1	69
	% within At what interest rate was your home loan approved	40.4%	34.7%	31.3%	14.3%	37.1%
	% of Total	24.7%	9.1%	2.7%	0.5%	37.1%
Joint bond	Count	66	32	11	6	115
	% within At what interest rate was your home loan approved	57.9%	65.3%	68.8%	85.7%	61.8%
	% of Total	35.5%	17.2%	5.9%	3.2%	61.8%
Other	Count	2	0	0	0	2
	% within At what interest rate was your home loan approved	1.8%	0.0%	0.0%	0.0%	1.1%
	% of Total	1.1%	0.0%	0.0%	0.0%	1.1%
Total	Count	114	49	16	7	186
	% within At what interest rate was your home loan approved	100.0%	100.0%	100.0%	100.0%	100.0%
	% of Total	61.3%	26.3%	8.6%	3.8%	100.0%

Most respondents (61.8%) had a joint mortgage bond and (37.1%) had a single mortgage bond. The majority of mortgage bonds were obtained with an interest rate between 8 and less than 10 percent. It is noted that within each category of interest rate, most were awarded to joint mortgage bonds. Joint bonds are granted on the basis of assessing joint income. This means that home loan borrowers would qualify for a much larger mortgage bond amount. Therefore, there appears to be a significant relationship between the (67%) respondents that indicated they were married and the (61.8%) respondents that indicated they have a joint mortgage bond. These mortgage bonds were awarded based on both spouses' income.

Figure 4.6 presents the year in which respondents home loans were registered

Figure 4.6 The year of the respondents' mortgage bonds registered



It is interesting to note that even though interest rates were at elevated levels in 2009 and South Africa enduring the impact of the recession; it appears that in that year, the highest number of home loans were registered at (38.3%). This is followed by the year 2013 with (25%) bonds registered. Respondents indicated that, in 2011, the least number of bonds were registered.

Table 4.6 relates to the respondents' awareness of the NCA.

Table 4.6 Level of awareness of the NCA

	Frequency	Percent
Yes	179	94.7
No	10	5.3
Total	189	100.0

The majority of respondents (94.7%) had heard of the NCA and a small percentage (5.3%) of respondents had not heard of the NCA.

Table 4.7 presents the various source of medium via which respondents became aware of the NCA.

Table 4.7 The medium via which respondents became aware of the NCA

	Frequency	Percent
Media	66	36.5
Television	39	21.5
Media, Television and Radio	26	14.4
Radio	11	6.1
Television and Radio	11	6.1
Bank	7	3.9
Other	6	3.3
Internet	4	2.2
Media and Radio	4	2.2
Media and Television	3	1.7
School	1	.6
Employed at NCA	1	.6
Employee	1	.6
Government	1	.6
Total	181	100.0

The print media was the most common form of information. Television, media and radio (84.6%), provided the greatest awareness of the NCA to respondents. Only a small number of (3.9%) respondents indicated that they were made aware of the NCA via the bank. These findings provides a clear indication the consumers are aware of the NCA.

4.3.1 Summary of Demographic Sample Profile

The demographic profile of the respondents indicates an approximate equivalent ratio 1:1 (53.2%:46.8%) of males to females that participated in the study. Most male respondents were within the 40+ age group and females were within the 25 - 34 age category. The racial composition of the sample reflected (61%) of respondents were Black and the lowest (4.8%) were Coloureds. Most respondents (67%) indicated that they were married and are employed. Majority of respondents (87.5%) revealed that their gross monthly income falls within R10 000 - R25 000+ income brackets. Almost

(30%) of home loans were registered with Standard Bank, whilst Nedbank and First National Bank had (18%) each of the total home loans registered of the total population sample in the Pinetown area. Nearly (50%) of the respondents indicated that the time frame for their home loan approval was approximately 2 weeks and (31%) indicated 4 weeks. Several respondents (61.8%) revealed that they had a joint mortgage bond whilst other respondents (37.1%) indicated they had a single mortgage bond. The majority of the mortgage bonds were obtained at an interest rate between 8% and less than 10% and were registered within 2009. In addition, (94.7%) of the respondents demonstrated their level of awareness of the NCA and majority of respondents (84.6%) collectively revealed that media, television and radio were the media through which they became aware of the NCA.

4.4 Preventing Reckless Lending and Reducing Over-indebtedness

This section addresses two research objectives, which are:

1. To ascertain whether the NCA has prevented reckless lending by credit providers; and

2. To determine if the introduction of the NCA has prevented or reduced over-indebtedness amongst home owners.

In this study, the concepts reckless lending and over-indebtedness cannot be viewed in isolation as there appear to be a positive correlation between the two variables. An increase in reckless lending will most certainly bring about an increase in over-indebtedness and vice versa. The research objectives: preventing reckless lending and reducing over-indebtedness were addressed by assessing if credit risk and affordability procedures were conducted prior to the granting of home loans in the Pinetown (Figure 4.7).

Figure 4.7 Presents Credit risk and Affordability Procedures Conducted

Figure 4.7 Credit Risk and Affordability Procedures

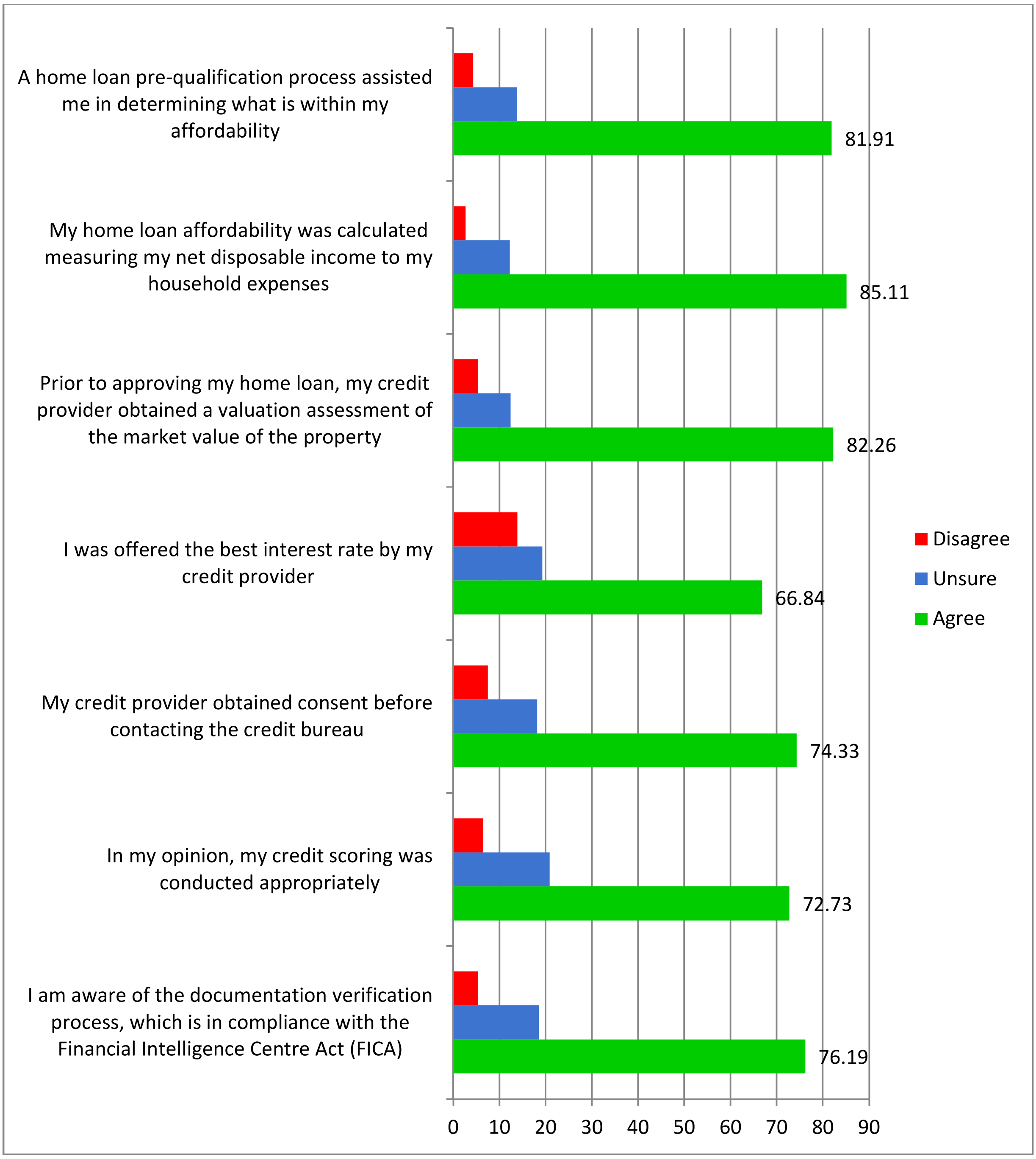


Table 4.8 illustrates the scoring patterns for Credit Risk and Affordability Procedures

Table 4.8 Summarised Scoring Patterns for Credit Risk and Affordability Procedures

	Agree	Unsure	Disagree
A home loan pre-qualification process assisted me in determining what is within my affordability	81.91	13.83	4.26
My home loan affordability was calculated measuring my net disposable income to my household expenses	85.11	12.23	2.66
Prior to approving my home loan, my credit provider obtained a valuation assessment of the market value of the property	82.26	12.37	5.38
I was offered the best interest rate by my credit provider	66.84	19.25	13.90
My credit provider obtained my consent before contacting the credit bureau	74.33	18.18	7.49
In my opinion, my credit scoring was conducted appropriately	72.73	20.86	6.42
I am aware of the documentation verification process, which is in compliance with the Financial Intelligence Centre Act (FICA)	76.19	18.52	5.29

Assessing Credit Risk and Affordability Procedures

The highest levels of agreement are the following statements which fall under assessing credit risk and affordability:

- Prior to approving my home loan, my credit provider obtained a valuation assessment of the market value of the property;

- My home loan affordability was calculated measuring my net disposable income to my household expenses; and

- A home loan pre-qualification process assisted me in determining what is within my affordability.

Figure 4.7 and Table 4.8 provide a clear indication of the procedures that relate to assessing credit risk and affordability. According to Zhao (2003:11), financial institutions employ a dynamic set of criteria to assess a borrower's creditworthiness before granting credit to the borrower. A method of credit scoring is usually utilized and is a fundamental part of the assessment process (Van Vuuren, 2011:18). Another step within the assessment process is known as a pre-qualification process. In figure 4.7, a large portion of respondents (82%) agreed that a *pre-qualification process* assisted home loan borrowers in determining what is within their affordability and a small portion (18%) aggregately were unsure and disagreed. This means that majority of the home loan borrowers had conducted a pre-qualification process, which guided them on the amount that is within their means before applying for a home loan.

The majority of respondents (85%) were in agreement that their *affordability was calculated measuring their net disposal income to their household expenses,* with only (12%) unsure and (4%) disagreed. Assessing a borrower's affordability entails measuring disposal income to household expenses (Kutty, 2005:113). Credit providers must consider household expenses when evaluating affordability as housing adsorbs a considerable portion of household expenditure (Yates and Gabriel, 2006:1).The high agreement of (85%) strongly suggests that credit providers are complying with the NCA in conducting appropriate affordability and determining a borrower's credit worthiness prior to granting of a home loan. Performing affordability assessments is a critical step in the home loan process. It helps to eliminate reckless lending and also reduces consumer over-indebtedness.

A significant percentage (82%) of respondents agreed that *credit providers obtained a valuation assessment of the market value of their property prior to approving their home loans.* A small portion of respondents (12%) revealed they were unsure and (5%) disagreed that a valuation assessment was conducted on the market value of their property. Affordability is greatly influenced by increases in housing prices (Wirtz, 2005:6). Therefore, prior to approving a home loan, credit providers must obtain a valuation assessment of the market value of the property to ensure that the value is within the borrower's means and monthly repayments can be met. This implies that increasing housing prices is a major contributing factor that affects a home loan borrower's affordability. Increasing house prices will require an increase in a home loan borrower's household income to enable the borrower to afford the home loan.

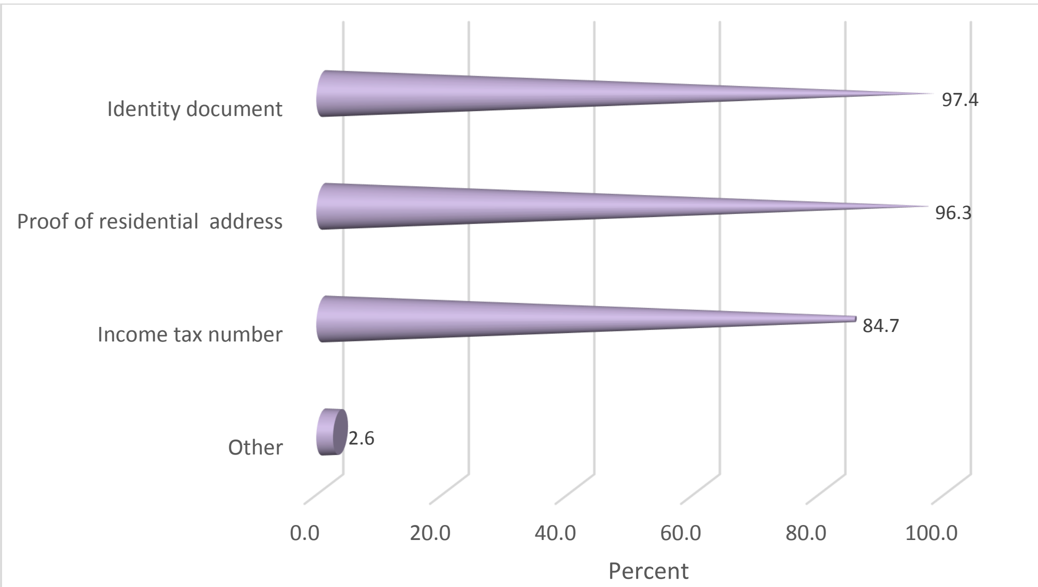
According to Angel (2000:6), soaring interest rates restrict access to credit and also affects affordability. Since the enactment of the NCA, the period 2008-2009 demonstrated elevated levels of interest rates. However, until 2013, the interest rate has been scaling from 8.5% to 9% (OECD, 2013:4). In this study, (19%) of respondents indicated they were unsure and (14%) disagreed that *credit providers had offered them the best interest rate*. However, (67%) confirmed their agreement. Just over two thirds of respondents indicated that they received the best interest rate. This suggests that interest rates contributes largely in determining if a home loan borrower can afford a home loan over the agreed long-term period of the loan.

Despite the fact that 74% of the *credit providers obtained the consent of the home loan borrowers before contacting the credit bureau*, 18% of respondents were unsure and 7% disagreed. Most home loan borrowers (73%) agreed that their *credit scoring was conducted appropriately,* whilst (21%) were unsure and (6%) disagreed. According to McNab and Wynn (2004:13), credit scoring is an essential tool used in the credit assessment process. The process involves examining the borrower's credit records and formulating a decision as to ability to make repayments (Crook, Edelman and Thomas, 2007:1463). This implies that credit providers did assess the home loan borrowers' credit history in order to confirm or make informed decisions as to whether the borrowers are creditworthy and if there is a possibility for the borrower to default on his/her home loan. In addition, the credit scoring process would have guided credit providers in making decisions on potential default borrowers. According to McNab and Wynn (2004), based on these credit records, credit providers are able to make informed predictions as to future risk of payment default, which will eventually give rise to mortgage credit risk.

Most respondents (76%) confirmed their *awareness of the document verification process (FICA).* A significant portion of almost 20% of respondents indicated a level of uncertainty and 5% disagreed. Included in the credit assessment process is a procedure that involves the verification of documents. South Africa has a Financial Intelligence Centre (FICA), governed by FICA, 2001 Act. Respondents indicated their awareness to the Act. According to De Koeker (2002:22), the Act was established to fight against money laundering activities and to enable financial institutions to identify their clients. In order to comply with FICA, home loan borrowers were requested to submit documentation, which was subject to the verification process.

Figure 4.8 illustrates FICA requirements for the submission of documents

Figure 4.8 FICA Requirements, Submission of Additional Documents



Credit providers request documents from borrowers and the documents are subject to a verification process known as FICA compliance. The Financial Intelligence Centre Act, 2001, require financial institutions to identify their clients. In figure 4.8, it is important to note that all respondents were required to submit their identity document for the verification process. However, 96% of respondents did submit proof of residential address and 84% confirmed their submission of income tax information. In addition, to the above documents respondents indicated that they also submitted marriage certificates and tax returns to credit providers. From figure 4.8 it is evident that home loan borrowers in Pinetown submitted the requested documents for verification purposes. This implies that documents requested by credit providers were subject to the verification process to ensure validity of bank accounts and documentation and that the process was adhered to in accordance with the FICA Act.

4.4.1 Summary of Research Objectives 1 and 2

Many of the statements that relate to credit risk and affordability procedures have a high response rate of agreement. This means that credit providers did conduct credit risk and affordability assessments to determine the home loan affordability of borrowers. The outcome of these assessments would indicate to credit providers the loan amount that would be applicable for each home loan borrower. In addition to the credit risk assessment and affordability procedures conducted, home loan borrowers in Pinetown also submitted documentation for the FICA compliance process. Overall, the findings in this section have indicated that credit providers have prevented reckless lending and reduced over-indebtedness in the long-term by conducting the necessary credit assessments prior to the granting of home loans in Pinetown.

The third objective was addressed to ascertain whether the enactment of the NCA has established new and improved rights for home loan borrowers.

4.5 Establishment of New and Improved Rights for Home Loan Borrowers

This research objective explored the following areas: assessing respondents' knowledge of the NCA; enquiry of knowledge and understanding of consumer rights; and if these rights are being enforced by credit providers. In other words, did credit providers provide suitable explanations to borrowers on all aspects relating to their home loan? These areas of enquiry are illustrated in figure 4.9.

Figure 4.9 presents the knowledge of the NCA and home loan borrowers' rights

Figure 4.9 Knowledge of the NCA and Home loan Borrowers' Rights

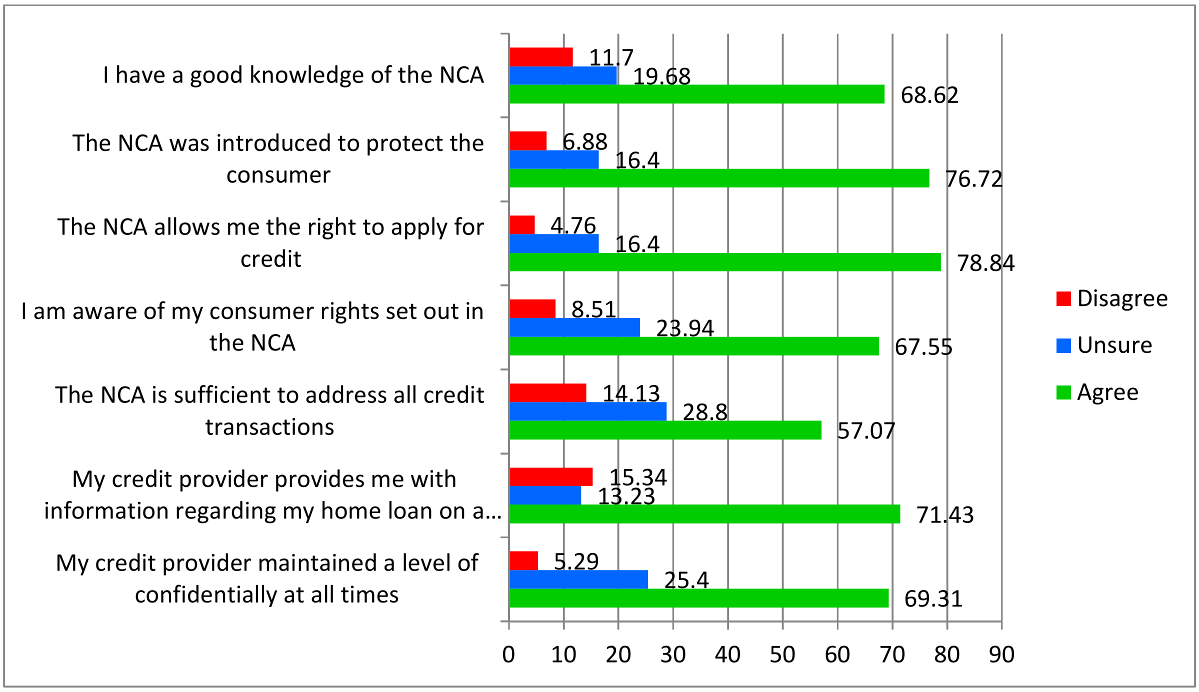


Table 4.9 illustrates the summarised scoring patterns on the knowledge of the NCA and home loan borrower's rights

Table 4.9 Summarised Scoring Patterns of Knowledge of the NCA and Home loan Borrowers Rights

	Agree	Unsure	Disagree
I have good knowledge of the NCA	68.62	19.68	11.70
The NCA was introduced to protect the consumer	76.72	16.40	6.88
The NCA allows me the right to apply for credit	78.84	16.40	4.76
I am aware of my consumer rights set out in the NCA	67.55	23.94	8.51
The NCA is sufficient to address all credit transactions	57.07	28.80	14.13
My credit provider provides me with information regarding my home loan on a regular basis	71.43	13.23	15.34
My credit provider maintained a level of confidentially at all times	69.31	25.40	5.29

In figure 4.9 and table 4.9, the majority of respondents (70%) indicated that they were in agreement and 11% disagreed to *having good knowledge of the NCA*. This indicates that, despite a large percentage of respondents having a good knowledge of the NCA, there seem to be some individuals that do not have basic knowledge and are unaware of the content of the NCA.

According to Pillay (2009:2), the NCA was enacted for the protection of consumers and to address consumer credit problems. It is interesting to note that respondents revealed a (76%) agreement that *the NCA was introduced to protect the consumer*. A further 16% of respondents indicate a level of unsure and 6% disagreed. Therefore, there appears to be a significant link of 70% agreement between *having good knowledge* of the NCA and the (76%) agreed that *the NCA was introduced to protect the consumer*. These findings provide clear indication that those with good knowledge of the NCA understand its purpose and aims in relation to protecting the consumer. Rossouw (2008:2) added that the Act protects consumers from exploitation by credit providers and curbs predatory lending by safeguarding consumers from lending malpractices by financial institutions, thereby protecting consumers from unfavourable lending practices.

It is noted that nearly 80% of the respondents agreed that *the NCA allows consumers the right to apply for credit,* while (4.76%) disagreed and (16%) were unsure. Van Heerden (2008:30) indicated that the NCA introduces new consumer rights, which allow consumers the right to apply for credit. One of the purposes stipulated in the National Credit Act, 2005, is to create an accessible consumer credit market (RSA, 2005, NCA No. 34). Nearly 70% of respondents acknowledged that *they are aware of their consumer rights set out in the NCA,* with 24% unsure and 9% disagreed. This denotes that most consumers are aware of their consumer rights and that rights stipulated within the NCA are for the benefit of the credit consumer in the long-term.

Just more than half the respondents (57%) indicated their agreement that *the NCA is sufficient to address all credit transactions,* while 28% were unsure and 14% disagreed. Despite the low agreement response, all credit transactions are controlled and governed by the NCA (Van Heerden, 2008:28). This suggests that, despite the NCA regulating the credit industry for just over half a decade, a substantial proportion of credit consumers are still doubtful that the NCA is sufficient to address all credit transactions. This raises many questions about the credit consumers' confidence in the South African credit market and also creates a level of uncertainty relating to the efficiency and effectiveness of the NCA.

A considerable portion (71%) of total respondents indicated that *credit providers do provide borrowers with information regarding their home loans on a regular basis,* with 15% disagreeing and 13% unsure. Approximately 70% of home loan borrowers confirmed that *credit providers did maintain a level of confidentiality,* whilst 25% were unsure and 5% disagreed. These statements relate to consumer rights and indicate that the majority of respondents (70%) have indicated that credit providers are considering their consumer rights and that information is received timeously and that their right to confidentiality was maintained.

However, there is still a significant portion of respondents that have indicated their level of uncertainty regarding their consumer rights. According to Van Heerden (2008:30), the NCA protects and benefits consumers. Credit consumers can enjoy their consumer rights established by the NCA. The NCA, 2005, allows consumers the right to receive information and the right to confidentiality. This means that credit providers are forced to comply with the Act and provide information to home loan borrowers whilst maintaining a level of confidentiality, which enforces home loan borrowers' rights and also ensures that borrowers are well informed prior to entering into a home loan credit agreement.

Table 4.10 illustrates the responses to explanation provided by credit providers

Table 4.10 Responses to Explanations Provided by Credit Providers

	Percent
The process of acquiring a home loan	88.4
The method of determining your affordability	80.4
How much is within your affordability bracket	87.4
Preferred period (20years /30 years) over which you would take your home loan	84.1
How much deposit was required Eg... (10% of price of property)	76.3
Your monthly instalment amount payable	92.6
The consequence of payment default	78.4
The total cost of your home loan over your preferred period	78.3
The additional monthly cost payable towards your bond cover (home loan insurance)	78.4
Additional once of cost payable Eg... administration fees, legal costs, transfer duty	86.8
Any other terms and conditions in compliance with acquiring a home loan	68.0

Table 4.10 shows that home loan borrowers were well informed by credit providers. However, not all information was appropriately explained to them. A large portion of respondents confirmed that *the process of acquiring a home loan (88%) and the method of determining their affordability (80%) were explained to them.* However, qualitative data revealed that a small portion of respondents added that they had conducted information searches on their own to gain additional knowledge on the process of acquiring a home loan and also to understand and know how much is within their affordability range. This indicates that the respondents that conducted information searches were more cautious about entering into a home loan agreement with credit providers over a long period. The information search may have assisted home loan borrowers in determining the various stages and requirements within the home loan process, but, most importantly, potential home loan borrowers would be aware as to how much is within their home loan affordability.

Sundgren (2003:9) explains that banks offer home loans to borrowers over a period of nearly 30 years and the purchased property is used as collateral for the loan. The majority of respondents 84% agreed that credit providers explained the *preferred period of years over which the home loan is taken*. However, a small portion of respondents explained that for their home loan, the credit provider did not explain to them the option of preferred number of years but instead they were just given 30 years by the credit providers. This is normally the maximum period over which a home loan can be taken. Most credit providers provide home loan borrowers with various options regarding the preferred years of their home loan, though; in this case, respondents were just given the maximum period of 30 years. This suggests that some credit providers are not providing proper explanations and information to home loan borrowers regarding the preferred period for their home loan. Consequently, home loan borrowers are being disadvantaged by paying more interest over the maximum period of 30 years.

Approximately 76% of home loan borrowers were informed of the *amount of deposit required.* Some respondents confirmed they were granted a 100% bond whilst others confirmed they had paid a 20% deposit. A total of 92% of the respondents received explanations about *monthly repayments. Most respondents (78%) confirmed that they received explanations for consequences of payment default and 78% of respondents agreed that additional monthly payments (bond insurances) were explained to them.* Some respondents however, only found out about the cost of their monthly home loan installment when they had received their monthly statements. From table 4.8, there is a minority percentage of respondents that indicated for each statement that there was a problem and that explanations were at least inadequate. For instance, it is possible that some home loan borrowers did not understand the explanations.

The lack of explanations can mislead the home loan borrower, resulting in an increase in home loan default. It is important that consumers are informed about the consequences to payment default. Hui (2012:5) explains that payment default occurs when a home loan goes into negative equity and when repayments cannot be met. According to Sundgren (2003:9), where borrowers default on home loan repayments, the credit provider has a right to take legal possession and sell the property to pay the outstanding amounts owing. Payment default gives rise to mortgage credit risk, which occurs when a borrower becomes incapable of making repayments on his home loan (Otsman, 2010).

4.5.1 Summary of Research Objective 3

The majority of respondents were in agreement with many of the statements indicating that they have a good knowledge of the NCA and that they do know and understand their rights as established by the NCA. The findings further revealed that credit providers did provide sufficient information to home loan borrowers as they were appropriately informed on all aspects that related to their home loans. This suggests that the enactment of the NCA has established new improved rights for home loan borrowers and that the rights are being enforced by credit providers by maintaining confidentiality, providing information to home loan borrowers on a regular basis and, most importantly, ensuring that home loan borrowers are well informed prior to entering the home loan credit agreement. However, despite the high agreement response for most statements, there is still a small portion of respondents who did not receive clear explanations for some statements above.

A small percentage of respondents did indicate that they had conducted information searches on the process of acquiring a home loan. These respondents were noted for being cautious, before entering into a home loan credit agreement with credit providers.
Furthermore, the findings revealed that a minority of respondents did not receive adequate explanations regarding the preferred period for the home loan, monthly repayments and payment default. According to Pieterse (2009:40), one of the aims outlined in the NCA includes credit providers informing consumers of all costs payable. The consequences of not informing home loan borrowers of relevant information can mislead borrowers resulting in elevated levels of default on repayments and reckless lending.

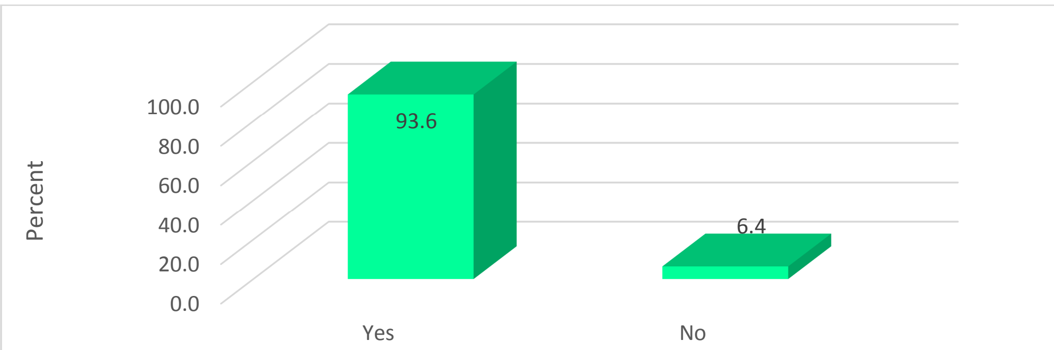
4.6 The Impact of The NCA on Affordability of Home Loans in Pinetown

The findings in this section addressed the fourth research objective of determining the impact of the NCA on affordability of home loans in Pinetown. This section deals with analysing home loan borrowers' opinions in the form of responses received on questions relating to the impact of the NCA on the affordability of their home loans, the status of the indebtedness since acquiring the home loan and their opinion on whether the NCA has impacted (positive or negative) on the affordability of their home loans. The summarised responses for each question are shown graphically below, followed by a table of explanations where applicable.

The findings in figure 4.10 are based on the following question.

In your opinion, do you agree that your home loan was processed in accordance with your affordability, in other words, your credit provider conducted a proper credit assessment of your credit worthiness?

Figure 4.10 Affordability and Credit Assessments Conducted by Credit Providers



Nearly 94% of the respondents believed that correct procedures were followed in processing the applications and a small portion of 6% of respondents were in disagreement. This indicates that credit providers are conducting adequate affordability assessments prior to granting home loans. The findings also strongly suggest that appropriate affordability and credit assessments will facilitate a reduction in consumer over-indebtedness, prevention of reckless lending and also reduce home loan default. In relation to agreement indicated by the majority of respondents, (Scott, 2008:16) explains that credit providers are compelled to conduct credit assessments on a borrower's affordability (Zhao, 2003:11) based on the outcome of the assessment banks offer credit to only creditworthy borrowers. Stoop and Louw (2011:225) added that credit providers are to ensure that proper affordability assessments are conducted prior to entering into credit agreements with consumers to reduce reckless lending. According to Vessio (2009:274), the NCA has given reckless lending considerable attention by defining and classifying the different types of reckless lending within the Act. Renke (2011:208) indicated that, when conducting affordability assessments in determining creditworthiness of borrowers, credit providers are to consider debt repayment history, existing and current financial conditions and obligations.

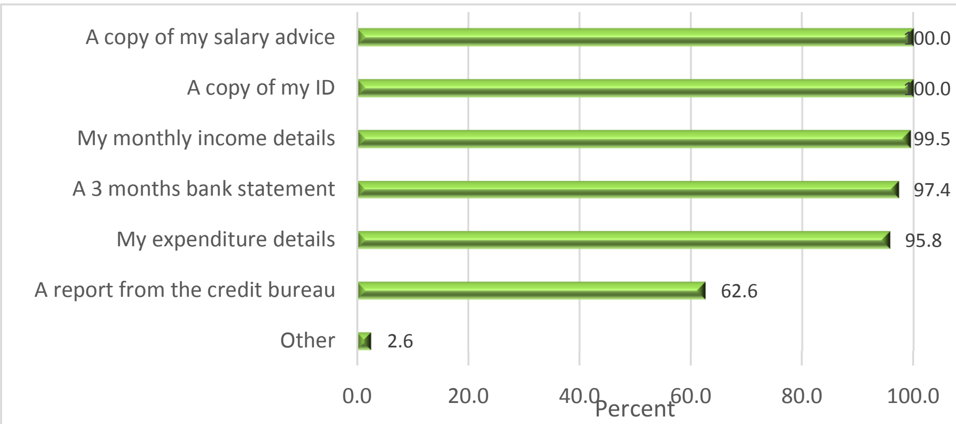
In addition, to the responses demonstrated in figure 4.10, table 4.11 represents some of the views expressed by respondents

Table 4.11 Views on Affordability and Credit Assessments conducted	Frequency	Percent	Valid Percent
They made sure my disposable income was enough to pay the bond	111	58.4	68.9
They explained at lengths	9	4.7	5.6
A credit check was done	6	3.2	3.7
Request of pay-slips/ salary advice and documents	11	5.8	6.8
They did not do a proper assessment to see if I could afford it	3	1.6	1.9
Not fair as they checked if I would be able to afford it	1	.5	.6
They did not do a check to see if I could afford it	7	3.7	4.3
I was given a huge amount of loan despite my low salary	2	1.1	1.2
Government worker therefore had state guarantee	2	1.1	1.2
Deposit not needed	1	.5	.6
Made purchasing a home much easier	1	.5	.6
Earning less than the loan I was offered	1	.5	.6
I could still afford to have extra cash even after paying the loan	2	1.1	1.2
Too much access to personal information	1	.5	.6
Still have to pay for hidden costs	1	.5	.6
Loan attained prior to NCA	2	1.1	1.2
Missing System	29	15.3	
Total	190	100.0	

Most respondents (58.4%) were impressed by credit providers ensuring that their home loan was granted subject to affordability and credit assessments. Some respondents indicated that proper credit checks were conducted and that credit providers requested documentation to aid this process. In addition, obtaining a home loan for some consumers became easier as they could still afford to save. It is also noted that respondents have also indicated that some credit providers did not consider their affordability and their income at the time of granting their home loan. Therefore, they could not afford their home loan.

Figure 4.11 shows the documents requested by credit providers when assessing a home loan application or when granting of home loans.

Figure 4.11 Documentation Required by The Bank with The Mortgage Bond Application

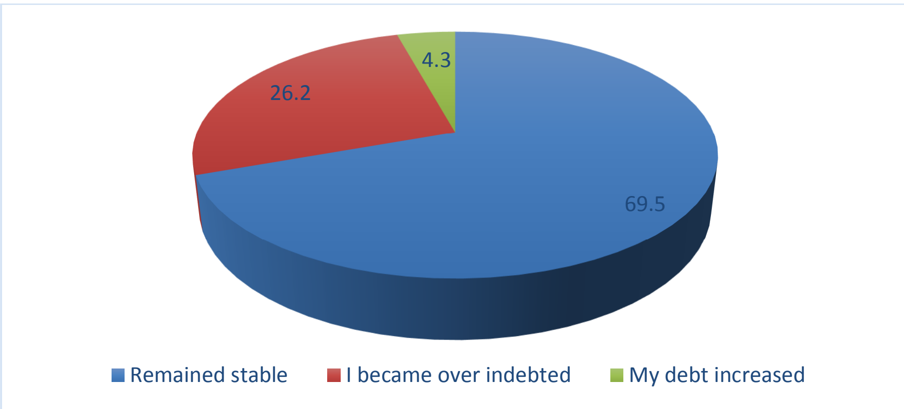


All respondents (100%) submitted of a copy of their salary advice and a copy of their identity document. Almost all respondents had confirmed submission of monthly income details (99.5%) and bank statements (97%) and 96% of respondents provided credit providers with monthly expenditure details. Only 62% of the respondents acknowledged obtaining a report from the credit bureau and the remaining (37%) of respondents did not provide credit providers with a report from the credit bureau. This implies that credit providers possibly obtained a credit report on their own and conducted credit risk procedures, whilst home loan borrowers were unaware of this requirement or that a report was never obtained from the credit bureau and a home loan borrower's credit history was not scrutinized before approving the home loan. Respondents also indicated they were required to submit other documents such as marriage certificates, in the case of a joint bond, and proof of address. Submission of the above documents imply that most home loans approved to home loan borrowers in Pinetown were granted in accordance with the borrower's affordability, which occurred subsequent to measuring the borrowers' income to expenses and assessing the borrower's creditworthiness The high agreement rate strongly suggests that credit providers are complying with the NCA in conducting appropriate assessments prior to granting home loans.

Figure 4.12 is based on the following statement

Comment on the status of your indebtedness since acquiring your home loan Eg. Debt remained stable, over indebted, debt decreased.

Figure 4.12 Home Loan Borrowers' Level of Indebtedness



A little more than two-thirds (69.5%) indicated that their debt had remained stable, whilst 26% of respondents revealed that they became over indebted and only 4% of the respondents indicated their debt increased since acquiring their home loan. Collectively

30% of respondents have indicated that their debt has increased and that they have become over-indebted since acquiring their home loan. This suggests that home loans were granted appropriately in most cases as almost 70% of respondents' debt remained stable. However, there is small portion of respondents that have become over-indebted since taking a home loan. In this instance, it is clear that either credit providers had not conducted proper affordability and credit risk assessment procedures or the home loan borrower had not submitted accurate information at the time the affordability assessments were carried out.

Vessio (2009:276) indicated that the NCA makes provision for consumer over indebtedness within the Act. According to Mlandu (2007:16), the easy access to credit and if, at the time of granting a home loan, credit providers do not conduct proper credit risk assessments, then a borrower is likely to become over-indebted. Consumers that are over-indebted have a right to apply for debt relief and apply for a debt counsellor to confirm their over-indebtedness. In addition, to the responses demonstrated in figure 4.12, table 4.12 represents some of the views expressed by respondents.

Table 4.12 Views on Level of Indebtedness

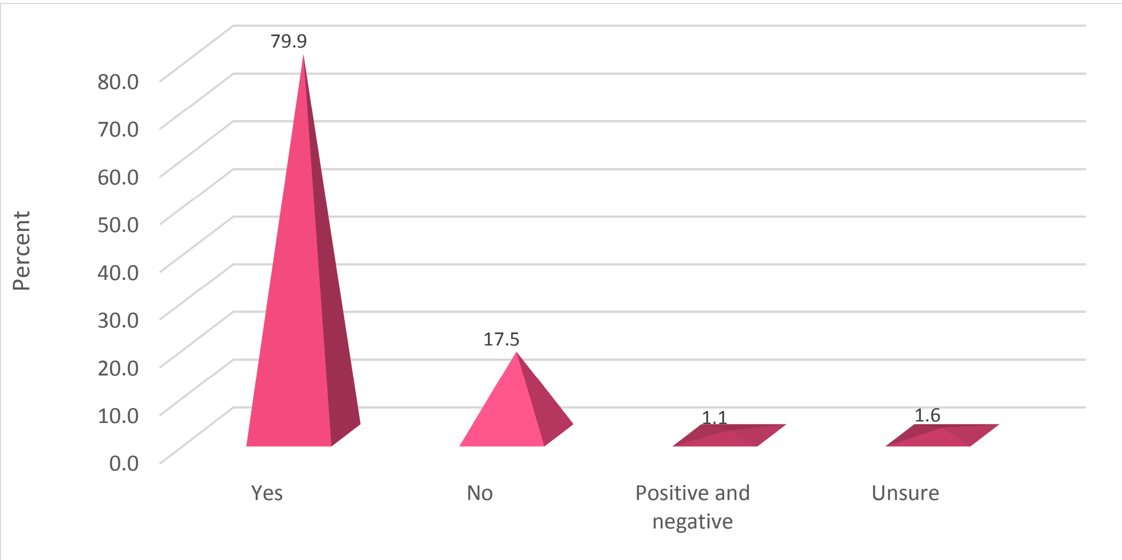
	Frequency	Percent
I could afford my expenses as well as extra expenses	26	13.7
I could still maintain my lifestyle and accounts	10	5.3
An extra amount has to be paid monthly	5	2.6
Cannot afford all the things I did before the loan	5	2.6
Fine until recession	2	1.1
Cut back on expenses	1	.5
Had to borrow money to pay lawyers and municipality as I was unaware of this	1	.5
Cannot live beyond your means	2	1.1
Due to annual increase	1	.5
After retrenchment	1	.5
The house is on rent and this money is used to pay the bond	1	.5
Over indebted due to inflation	1	.5
Decreased other debts	1	.5
They did not do a proper assessment to see if I could afford it	1	.5
Putting extra money into the bond	1	.5
Missing System	131	68.9
Total	190	100.0

A total 19% of respondents indicated that subsequent to being granted a home loan, they could still afford to pay their expenses and maintain their lifestyle, respectively. However, 0.5% of respondents expressed that they reduced other debts in order to maintain their home loan. As a result they have become over indebted.

Figure 4.13 is based on the following question.

In your opinion, do you think the NCA has had a positive or negative effect on the granting of home loans based on affordability?

Figure 4.13 The Positive or Negative Effect of The NCA on Home Loans in Pinetown



Eight in every ten respondents (80%) believed that the NCA had a positive impact on the affordability of their home loans, whilst almost 18% indicated that the NCA had a negative impact. This strongly suggests that the NCA is adequate in addressing the affordability of home loans. Credit providers are complying with the regulation in conducting proper affordability assessments and credit risk procedures. As a result, compliance with the NCA when granting home loans has largely contributed to preventing reckless lending, reducing consumer over-indebtedness and enforcing consumer rights. Compliance with the NCA will also aid in reducing home default and will enhance all sectors of the credit industry. In addition to the responses demonstrated in figure 4.13, table 4.13 represents some of the views expressed by respondents.

Table 4.13 Reasons for The Positive or Negative Effect of The NCA on Home Loans in Pinetown

	Frequency	Percent
Protects consumers rights who cannot afford it from getting credit	81	42.6
Stops banks from giving loans carelessly	6	3.2
It helps to budget effectively	9	4.7
It was based on combined earnings	1	.5
Protects consumers who cannot afford it and negative because less people can get credit	1	.5
Does not serve its purpose as it should, gives out loans to people who really can't afford it	4	2.1
It was necessary to regulate	2	1.1
Everything was explained so not over indebted	3	1.6
Bought only what could be afforded	14	7.4
Does not allow flexibility the type of property desired	2	1.1
Had incomplete knowledge	4	2.1
Does not serve the interest of previously disadvantaged people	2	1.1
No other income was accepted	1	.5
Over indebted	10	5.3
NCA is just a board and don't really check if financial institution comply and exploit consumers	1	.5
Inflation	3	1.6
Offers credit without getting into debt	3	1.6
Offers help	1	.5
They conducted background checks	3	1.6
Too much to consider before acquiring a loan	1	.5
NCA should assist those who cannot afford rather than declining	4	2.1
Was not informed if you pay before a certain date interest can be avoided	1	.5
False information can be provided	1	.5
Protects both the consumer and financial institution	1	.5
It scrutinises peoples' income too much	1	.5
Has curbed expenses	1	.5
Total	161	84.7
Missing System	29	15.3
Total	190	100.0

Almost 50% of respondents suggested that the NCA protects consumers and restricts the easy access to credit. Respondents also indicated that the NCA assists borrowers to budget correctly and allows consumers to purchase only what is within their affordability. The findings clearly reveal that credit providers have conducted the necessary credit risk procedures that are relevant in assessing a borrower's home loan affordability and credit worthiness prior to approving a home loan. As a result, the performance of these assessments has led to significant prevention in reckless lending, reducing over-indebtedness and enforcing new improved rights for home loan borrowers. The NCA has, therefore, impacted positively on the affordability of home loans in Pinetown.

4.6.1 Summary of Research Objective 4

Many respondents in the section strongly agreed that their affordability was taken into consideration prior to approving their home loans and that credit providers requested various documents including income and expenditure statements, details to assess their creditworthiness. Nearly 70% of respondents' debt remained stable since acquiring their home loans. It is noted that, regardless of the strong agreement response in this section, a significant percentage of respondents indicated that their debt increased and that they became over-indebted since acquiring their home loans.

A further 80% of respondents revealed that the NCA had a positive impact on the affordability of the home loans in Pinetown as compliance with the NCA has ensured that they purchased within their means and their affordability was considered prior to approving their home loans. This suggests that the NCA has prevented reckless lending and reduced over-indebtedness to a large extent in the Pinetown area and has also ensured that credit providers enforced new improved rights for home loan borrowers.

4.7 SUMMARY

This chapter presented a detailed interpretation and discussion on the findings of the study. The research objectives in this study were explored and the findings revealed that these objectives were indeed achieved. Majority of the respondents have indicated that credit providers are complying with the NCA in conducting appropriate affordability and credit risk assessments, which has resulted in preventing reckless lending and reducing over-indebtedness. Most Respondents further indicated that credit providers are providing adequate explanations to them on all aspects regarding their home loan and that credit providers are maintaining confidentiality and communicating with them on a regular basis. This indicates that credit providers are enforcing the new improved home loan borrowers' rights. The findings in this study also revealed that the NCA has a positive impact on the affordability of home loans in Pinetown. Many respondents have suggested that the NCA impacts positively as it allows creditworthy consumers access to credit and protects the home loan borrower from borrowing beyond his/her means. A detailed analysis on the findings of this study is highlighted in the next chapter.

The next chapter provides the conclusions and recommendations for practice for this study.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The previous chapter provided a detailed presentation and interpretation of the findings of this study. This chapter presents the conclusions derived from the study as well as the recommendations for practice.

The main purpose of a financial regulation is to make certain that markets operate efficiently and competitively to overcome market failure and that the environment is continuously kept regulated (The Wallis Report on the Australian Financial System, 1997:6). The National Credit Act No. 34 of 2005 has been in existence since 2007, and has maintained a regulated credit market since its introduction. The Act embraces all credit transactions under one umbrella and provides overall governance of the credit industry.

This research study investigated the impact of the National Credit Act no. 34 of 2005 on the affordability of home loans in Pinetown. The researcher explored two variables in this study, namely, the National Credit Act No. 34 of 2005 and the affordability of home loans.

The following conclusions of the study are presented in terms of the NCA, affordability of home loans and the research objectives.

5.2 THE NATIONAL CREDIT ACT No. 34 of 2005REVISITED

Since the introduction of the NCA, the South African credit market has demonstrated immense stability and continues to remain regulated. The Act is equated to similar credit legislation in other developed countries and is mainly aimed at significantly reducing undesirable credit practices, preventing consumer over-indebtedness and substantially declining repayment default risk (Goodwin-Groen, 2006:8). Research undertaken by many scholars indicated that the NCA had an impact on various segments within the credit industry and that consumers are more likely to benefit from the enactment of the NCA. One of the provisions within the NCA requires that credit providers conduct proper affordability assessments and that all credit consumers that have applied for credit must ensure that they are not over-indebted at the time of application for credit (Scott, 2008:16). This implies that credit providers are forced to inspect credit consumer's affordability before granting credit.

5.3 AFFORDABILITY OF HOME LOANS

Credit providers are required to assess a consumer's affordability, through a method that the provider deems appropriate (Scott, 2008:16).A home loan is a long-term debt that is granted to a potential borrower. It is usually a substantial amount which places additional strain on the borrower for the duration of the repayment period of the home loan. Therefore, it is crucial for credit providers to perform suitable affordability assessments to ensure that home loans are granted to creditworthy borrowers only. In order to assess affordability, credit providers conducted procedures based on credit risk.

5.3.1 Credit Risk

In the context of this study, credit risk is explained as a credit consumer becomes incapable of making repayments of his debt, resulting in losses incurred by the credit provider. Credit risk arises when a credit consumer defaults in repayments and as a consequence the credit contract cannot be concluded under normal term (Valsamakis, Vivian, and du Toit, 2003). The findings of this study revealed that credit providers did use a set of criteria to assess home loan borrowers' credit risk and that majority of the home loans that were granted to borrowers were subject to affordability assessments and credit risk procedures. Capon (1982:82) indicated a conceptual framework is used by most credit providers to assess credit. The conceptual framework consists of: a) the consumer's character; b) capacity, the consumer ability to make repayments; and c) capital, the amount that is being requested. According to Mester (1997:3), a process of credit scoring is also utilized to predict if the potential borrower will default in repayments. Chye *et al.* (2004:25) added further credibility in analysing a borrower's creditworthiness.

Home loan borrowers, in this study, indicated that credit providers took into account their income and expenditure details, confirmed their bank accounts were FICA compliant and assessed their debt history by obtaining a report from the credit bureau. These indications clearly suggest that appropriate affordability and credit risk assessments were conducted prior to the granting of home loans in Pinetown. In addition, the assessments contributed to making informed decisions regarding default payments amongst home loan borrowers. Based on the above information, the researcher concludes that affordability and credit risk cannot be considered in isolation when conducting an assessment on a borrower's home loan affordability. Conducting both affordability and credit risk assessments resulted in preventing reckless lending, reducing over-indebtedness, decreasing home loan defaults and also contributing to enhance consumer rights by informing consumers of decisions made. In addition, other factors that affect affordability included increase in house prices, elevated interest rates and household debt, which includes inflation, unemployment and transportation costs. The section that follows identifies the research objectives for this study and discusses how the objectives were achieved.

5.4 AN OVERALL ANALYSIS ON THE FINDINGS OF THIS STUDY

For this study a mixed methods approach was utilised to gather information on the impact of the NCA on the affordability of home loans in Pinetown. The findings of this study revealed that majority of respondents strongly agreed that credit providers are complying with the NCA in conducting proper affordability and credit assessments on potential home loan borrowers prior to the granting of credit. As a result, credit providers have reduced the risk of reckless lending and have also prevented consumers from becoming over-indebted by allowing consumers credit that is within their affordability. According to Van Vuuren (2011:18) it is mandatory for credit providers to conduct affordability and credit assessments as it will aid in maintaining a decline in consumer credit risk. It must be noted that there is a small portion of respondents who disagreed that credit providers did conduct affordability and credit risk assessments. As a result their debt increased and they have become over-indebted since acquiring their home loans. Zhao (2003:11) indicated that credit providers provide credit to only creditworthy borrowers who are assessed against a set of criteria that credit providers utilise to assess a home loan borrower's creditworthiness. Most respondents agreed that credit providers did provide adequate explanations to them regarding the process of acquiring their home loan. In other words, most home loan borrowers were well informed by credit providers, thereby enforcing new improved rights for home loan borrowers. With regards to new improved rights for home loan borrowers', respondents indicated that there was regular communication, confidentiality was maintained at all times and that all applicable costs relating to their home loan were explained to them. Van Heerden (2008:30) explained that the NCA benefits credit consumers in that it creates new and improved rights for all credit consumers.

The findings in this study clearly indicated that the NCA has established new and improved rights for home loan borrowers and that these rights are enforced by credit providers. However, in spite of the high agreement response for new and improved consumer rights, there is a marginal portion of respondents that have disagreed that credit providers are enforcing new and improved credit consumer rights, as not all of the information pertaining to their home loan was explained to them. According to Pieterse (2009:40), one of the aims set out in the NCA is to ensure that credit providers regulate credit lending by informing credit consumers of all relevant costs. In this instance, it appears that credit providers are not taking into consideration aims of the NCA and are not enforcing credit consumers' rights as some home loan borrowers were not adequately informed. An overall analysis indicated that there was a strong agreement response that the NCA has a positive impact on the affordability of home loans in Pinetown, thereby reducing over-indebtedness, preventing reckless lending and enforcing new improve home loan borrowers' rights.

Similar studies conducted in other developed and emerging economies have indicated that increase in housing prices, elevated interest rates and escalating housing costs are contributing factors that affect housing affordability. In this study, similar factors affect the affordability of home loans in Pinetown. The findings of this study revealed that credit providers obtained a value of the house that the home loan borrower wanted to purchase and determined if the price is within the home loan affordability of the borrower. Therefore, an increase in the housing price would restrict the home loan borrower's ability from obtaining a home loan as the house price could possibly be beyond the borrower's home loan affordability range. Attached to the home loan are interest rates. Elevated interest rates affect the home loan borrowers' affordability as they would need to restructure their debt to accommodate for the increase in the amount of the home loan instalments. Escalated housing costs contribute substantially in determining housing affordability. Gabriel *et al.,* (2005:37) indicated that affordability can be regarded as the measurement of household income to expenditure and Yates and Gabriel (2006:1) stated housing absorbs a large portion of housing expenditure.

The findings in this study revealed that the majority of home loan borrowers in Pinetown submitted various documentation that were subject to scrutiny by credit providers. Amongst these documents were a copy of the home loan borrower's salary advice and monthly income and expenditure details. Included in the expenditure details are housing costs and increasing housing costs will impact considerably on housing affordability.

From the above findings, it is evident that the contributing factors that affect housing affordability in other countries are similar to those challenging factors that affect affordability of home loans in Pinetown. Despite the challenges that hinder housing affordability, the NCA has ensured that credit providers comply with the Act and consider a borrower's home loan affordability prior to granting home loans. To this extent an overall conclusion informs that the NCA has a positive impact on the affordability of home loans in Pinetown.

5.5 RESEARCH OBJECTIVES

In this study, the following research objectives were identified and investigated:

- To ascertain whether the NCA has prevented reckless lending by home loan providers;
- To determine if the introduction of the NCA has prevented or reduced over-indebtedness amongst the home owners;
- To ascertain whether the enactment of the NCA has established new and improved rights for home loan borrowers; and
- To determine if the NCA has had an impact on the affordability of home loans in Pinetown.

5.5.1 How The Objectives Of The Research Were Achieved

The main aim of the study was to ascertain the impact of the NCA on the affordability of home loans to prospective home loan borrowers in Pinetown and to determine whether the objectives set out in the NCA are being achieved. The study used a mixed method approach and data was collected via the distribution of a questionnaire to respondents residing in the Pinetown district.

Research Objectives 1and 2

Preventing Reckless Lending and Reducing Over-Indebtedness

At the initial stage of this study, preventing reckless lending and reducing over-indebtedness were identified and referred to as two separate research objectives. However, as the study progressed the researcher recognised that a positive correlation exists between these two objectives. As was explained in Chapter 4, this means the procedures that are conducted to prevent reckless lending would also reduce over-indebtedness. In other words, the prevention of reckless lending will definitely bring about a reduction in over-indebtedness and vice versa. Consequently, the researcher deems it fit to recognise that these two objectives cannot be viewed in isolation and, therefore, the discussion that follows will attempt to exhibit how the above objectives were achieved.

The research objectives were achieved by investigating if affordability and credit risk assessments of home loan borrowers were conducted by credit providers prior to the granting home loans in Pinetown. Home loan borrowers in Pinetown were required to indicate the extent of their agreement or disagreement that specific affordability and credit risk assessments were conducted. The outcome of the assessments would inform credit providers about the credit health of home loan borrowers as well as highlighting the home loan amount applicable for a borrower.

Furthermore, home loan borrowers were also requested to submit documents that were subject to the FICA compliance verification process. The performance of affordability and credit risk procedures by credit providers help to ensure the prevention of reckless lending and also reduce over-indebtedness in the long-term. Therefore, according to the NCA, credit providers did perform affordability assessments and this process stimulated the prevention of reckless lending by credit providers, simultaneously reducing consumer’s over-indebtedness by allowing access to credit to only those borrowers whom could afford it.

Objectives 1 and 2 have, therefore, been satisfied.

Research Objective 3

Establishment of New Improved Rights for Home Loan Borrowers

The third research objective was to ascertain whether the enactment of the NCA has established new and improved rights for home loan borrowers. This research objective was achieved by exploring the following areas: assessing home loan borrower's knowledge of the NCA; enquiring if home loan borrowers are aware of their consumer rights and if these rights are being enforced by credit providers and determining if home loan borrowers were adequately informed by credit providers at the time of acquiring their loans.

The majority of respondents in Pinetown acknowledged they have good awareness of their consumer rights stipulated in the NCA. These rights: a) the right to apply for credit; b) the right to know why credit was refused; c) the right to receive information in an official and understandable language; d) the right to receive documents; and e) the right to confidentiality. Most Respondents also indicated that credit providers provided adequate explanations to them regarding all aspects of their home loans and that they were well informed. In this instance, home loan borrowers are enjoying the benefits of the new improved right for home loan borrowers established by the NCA and enforced by credit providers.

Therefore, the third objective of this study has been achieved.

Research Objective 4

The impact of The NCA on Affordability of Home Loans in Pinetown

The fourth research objective was achieved by examining literature on housing affordability challenges experienced in other developed and emerging economies. The purpose of this was to gain a deeper understanding of the contributing factors that affect housing affordability in other countries and to also compare the factors to those that emerged from this study. The objective was also achieved by analysing opinions in the form of responses provided by home loan borrowers that their home loans were approved in accordance with their affordability, the status of their indebtedness since acquiring a home loan and if the NCA has had an impact on the affordability of their home loans. The findings revealed that a total of 80% respondents were in agreement that the NCA had a positive effect on the affordability of their home loan. Since their affordability and credit assessments were taken into consideration at the time of acquiring a home loan, borrowers are able to meet their debts, pay their home loan instalments and still enjoy a comfortable lifestyle.

For this study the researcher found that most respondents agreed that they have a good understanding of the NCA and that consumers are aware of their consumer rights. Respondents further strongly agreed that the NCA was introduced to protect consumers and allow consumers the right to apply for credit. The statement that received the highest level of not sure and disagreement collectively is that *the NCA is sufficient to address all credit transactions*. Based on the above findings the researcher formulated the following conclusions on the National Credit Act No. 34 of 2005:

- Compliance with the NCA in conducting appropriate affordability and credit risk assessments will result in the prevention of reckless lending and reduce over-indebtedness;

- The NCA has been well perceived by consumers as they have good knowledge of the legislation and that they are aware of their consumer rights. Consumers are receptive that the legislation provides certain safeguards for them and shields them from predatory lending by credit providers and that the NCA has established new improved home loan borrower rights, which are enforced by credit providers;

- Home loan borrowers recognise that the NCA has an impact on the affordability of their home loan and that compliance with the NCA at the time of acquiring their home loan will assist to ensure that they are able to borrow within their home loan affordability;

- There is a level of uncertainty as consumers are doubtful that the NCA is sufficient to address all credit transactions; and

- It is noted that despite a strong agreement response for most statements, there is a significant number of respondents that have indicated their disagreement. Further research should be undertaken to identify and address the areas of deficiency of the NCA.

Even though the objectives of the study have been achieved, the impact of the NCA has broad social and economic implications and this creates a gap for the recommendations of the study as well as suggestions for future research in this area.

5.6 RECOMMENDATIONS OF THE STUDY

The researcher has the following recommendations:

1. According to the findings of the research, a very small number of low and middle income groups have had access to credit. Therefore, the government needs to create a formal accessible credit market for these income groupings to allow an

even spread of accessibility of credit. This will aid the enhancement of consumer rights.

2. Credit consumers should ensure that they are well informed prior to signing home loan credit agreements and repayments should be made timeously, as this will initiate a good credit record allowing the consumer better accessibility to credit in the future. This will help to develop and improve consumer rights and will be of benefit to consumers in the long-term. Credit providers should ensure all information is appropriately disclosed to home loans borrowers prior to approving and granting home loans.

3. In order to keep the credit industry regulated, the DTI must continuously monitor trends and developments within the industry and amend the NCA accordingly to accommodate for transformation. The amendments must aid to accomplish the aim of preventing reckless lending and reducing consumer over-indebtedness to a large extent.

4. It is recommended that potential home loan borrowers ensure that credit providers conduct proper affordability and credit risk assessments prior to the granting of home loans. These assessments are vital in evaluating the affordability and creditworthiness of a home loan borrower. Borrowers need to be aware of the consequences of credit providers not conducting appropriate affordability and credit risk assessments and also understand the impact this will have on them financially.

5. It is noted that a significant minority of home loan borrower's debt had increased since acquiring their home loan. Consequently, these borrowers became over-indebted, which resulted in them borrowing additional money and cutting back on expenses. It is, therefore, recommended that potential home loan borrowers perform a home loan pre-qualification process to confirm the home loan amount

that is within their affordability and ensure that the home loan granted to them by the credit provider is within their means.

5.7 SUGGESTIONS FOR FUTURE RESEARCH

From this study, it became clear that future research could also be undertaken in the following areas:

1. A comparative study of different metropolitan districts in KwaZulu-Natal to assess the impact of the NCA on the affordability of home loans;

2. To investigate whether the NCA has had a positive or negative impact on the South African financial sector. As explained earlier, the impact of the NCA has numerous social and economic implications. The outcome of the study will provide insightful guidance and contribution for government and policy makers to assess the efficiency and effectives of the Act;

3. Research should be conducted by the government on policies to curb challenges of housing affordability in South Africa. Policy makers should consider housing projects that other emerging and developed countries have in place to reduce housing affordability problems. The Malaysian government has many projects and schemes to curb housing affordability problems (Lee, 2011); and

4. The DTI should conduct a review to investigate if the NCA is adequate to address all credit transactions. According to the findings of this study, credit consumers are doubtful that the NCA is sufficient to address all credit transactions. The results of this study will contribute to a better understanding of the NCA and inform credit consumers as to the sufficiency of the Act. Furthermore, government could also utilise the findings of the study to amend the NCA accordingly and focus on those sectors within the credit industry that require additional attention.

5.8 SUMMARY

This chapter provided the conclusions and recommendations of this study. The chapter revisited the NCA, No. 34 of 2005, and also highlighted the importance of conducting affordability and credit risk procedures. A detailed discussion on the overall analysis on the findings of the study and also how the research objectives were achieved was presented in this chapter. This chapter concludes with the recommendations for practice and also suggestions for future research.

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APPENDICES

APPENDIX A: LETTER OF INFORMATION

Letter of Information

Title of the Research Study: The Impact of the National Credit Act on affordability of home loans in the Pinetown.

Principal Investigator/s/researcher: Teshani D. Sewnunan

Qualification: B Tech Internal Auditing

Co-Investigator/s/supervisor/s: Dr P. E. Green, Mr. M. S. E. Kharwa

Brief Introduction and Purpose of the Study: The study is aimed at investigating the impact of the National Credit Act (NCA) on affordability of home loans in the Pinetown area. Since the enactment of the NCA credit providers have become obligated to conduct proper assessments on credit worthiness as well as assessing the affordability of potential home loan borrowers prior to granting them home loans. In this way the NCA protects the consumer from over-indebtedness and also cautions the credit provider from falling prey to irresponsible lending. This study therefore investigates what impact (positive or negative) the NCA has had on the affordability of home loans.

Outline of the Procedures: Participants in this study are registered home loan borrowers. They are requested to complete the questionnaire with honesty and truthfulness. Participants require at least 10-15 minutes to answer the questionnaire. Section E of the questionnaire is optional. Participants will only be contacted if additional information is required, based on their responses in the questionnaire. Confidentiality and anonymity will be maintained at all times.

Risks or Discomforts to the Participant: No foreseeable risks or discomforts identified.

Benefits: Participants will gain additional knowledge about the NCA and also understand better what impact the NCA has had on the affordability of their home loan. The researcher intends to fill in the knowledge gap as not much research has been conducted in this area.

Reason/s why the Participant May Be Withdrawn from the study: There will be no adverse consequences for the participant should they choose to withdraw from the study.

Remuneration: Participants will not receive any monetary or other types of remuneration for participation in the research.

Costs of the Study: No cost to participants

Confidentiality: Confidentiality and anonymity will be maintained at all times. Section E of the questionnaire will be detached before the questionnaire is sent for analysis. Only the researcher and her supervisor will have access to the information provided in Section E.

Persons to Contact in the Event of Any Problems or Queries:

Please contact the researcher on 0833533914 or the study supervisor, Dr P. E. Green on 033-08458862 or the Institutional Research Ethics Administrator, Ms L.. Deonarain on 031 373 2900. Complaints can be reported to the DVC: TIP, Prof F. Otieno on 031 373 2382 or email him at dvctip@dut.ac.za.

APPENDIX B: CONSENT FORM

CONSENT

Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, Teshani D. Sewnunan about the nature, conduct, benefits and risks of this study.
- I have also received, read and understood the above written information (Participant Letter of Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
- I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
- I understand that significant new findings developed during the course of this research which may relate to my participation will be made available to me.

- I hereby consent to participating in this study ☐

I, Teshani D. Sewnunan herewith confirm that the above participant has been fully informed about the nature, conduct and risks of the above study.

Full Name of Researcher	**Date**	**Signature**

APPENDIX C: HOME LOAN BORROWER QUESTIONNAIRE

DUT DURBAN UNIVERSITY OF TECHNOLOGY

HOME LOAN BORROWER QUESTIONNAIRE

Please complete this questionnaire by placing a tick in the appropriate box

Section A: BIOGRAPHICAL INFORMATION

1.1 Gender

Male	
Female	

1.2 Race

Indian	
Black	
Coloured	
White	
Other	
Specify	

1.3 Age

18 – 24	
25 – 34	
35 – 39	
40 +	

1.4 Marital Status

Single	
Married	
Divorced	
Widowed	

1.5 Term of employment

Permanent	
Casual	
Contract	
Commission-based only	
Other	
Specify	

1.6 Gross (before deductions) monthly salary

Less than R 6 000	
R 6 000 – R 9 000	

R 10 000 – R 17 000	
R 18 000 – R 24 000	
R 25 000 +	

1.7 Do you have a mortgage bond?

If **Yes** tick the type of bond

Yes	
No	
Single bond	
Joint bond	
Other	
Specify	

1.8 Select the year your bond was registered

2009	
2010	
2011	
2012	
2013	

8% - 9.99%	

1.9 At what interest rate was your home loan approved

10% - 11.99%		
12% -15%		
Other		
Specify		

10 Have you heard of the NCA

Yes		No	

If **Yes** indicate through which medium

Media		
Television		
Radio		
Other		
Specify		

SECTION B: KNOWLEDGE OF THE NATIONAL CREDIT ACT OF 2005 (NCA) AND UNDERSTANDING THE AFFORDABILTY OF A HOME LOAN

2.1 For each of the statements below, please indicate the extent of your agreement or disagreement by placing a tick in the appropriate box.

The response scale is as follows: SA- Strongly Agree

A- Agree

N- Undecided or Neutral

D- Disagree

SD- Strongly Disagree

	SA	A	N	D	SD
1. I have good knowledge of the NCA					
2. The NCA was introduced to protect the consumer					
3. The NCA allows me the right to apply for credit					
4. I am aware of my consumer rights set out in the NCA					
5. The NCA is sufficient to address all credit transactions					
6. A home loan pre-qualification process assisted me in determining what is within my affordability					
7 My home loan affordability was calculated measuring my net disposable income to my household expenses					
8. Prior to approving my home loan, my credit provider obtained a valuation assessment of the market value of the property					
9 I was offered the best interest rate by my credit provider					
10. My credit provider obtained my consent before contacting the credit bureau					
11. In my opinion, my credit scoring was conducted appropriately					

12. I am aware of the documentation verification process, which is in compliance with the Financial Intelligence Centre Act (FICA)					
13. My credit provider provides me with information regarding my home loan on a regular basis					
14. My credit provider maintained a level of confidentially at all times					

SECTION C: EXPERIENCE OF APPLYING FOR A HOMELOAN

1. Indicate which credit provider your bond is registered with

Nedbank	
Standard Bank	
First National bank	
ABSA	
Other	
Specify	

2. How long did wait for your home loan to be approved?

2 weeks	
4 weeks	
8 weeks	
16 weeks	
Other	
Specify	

3. Prior to approving my application, my credit provider requested the following documents:

	Yes	NO
A copy of my identity document		
A copy of my salary advice		
A 3 months bank statement		
My monthly income details		

My expenditure details		
A report from the National Credit Bureau		
Other		
Specify		

4. In compliance with FICA, I was requested to submit the following documents:

	YES	NO
Identity document		
Proof of residential address		
Income tax number		
Other		
Specify		

5 At the time of your application for the home loan, indicate if the credit provider explained the following to you

	YES	NO	Any comment you would like to make
4.1 The process of acquiring a home loan			
4.2 The method of determining your affordability			
4.3 How much is within your affordability bracket			
4.5 Preferred period (20years /30 years) over which you would take your home loan			
4.6 How much deposit was required Eg. (10% of price of property)			
4.7 Your monthly instalment amount payable			
4.8 The consequence of payment default			
4.9 The total cost of your home loan over your preferred period			
4.11 The additional monthly cost payable towards your bond cover (home loan insurance)			
4.12 Additional once-off cost payable Eg.			

administration fees, legal costs, transfer duty			
4.13 Any other terms and conditions in compliance with acquiring a home loan			

SECTION D: IMPACT OF THE NCA ON HOME LOANS

4.1 In your opinion, do you agree that your home loan was processed in accordance with your affordability, in other words your credit provider conducted a proper credit assessment of your credit worthiness? Yes/No

Please explain your answer

____

____

____

4.2 Comment on the status of your indebtedness since acquiring your home loan Eg. my debt remained stable, I became over indebted, my debt decreased…

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____

____

4.3 In your opinion, do you think the NCA has had an effect on the granting of home loans based on affordability? Positive/Negative

Please explain your answer

____

____

____

SECTION E: OPTIONAL

Dear participant

Please complete this section, if you are willing to participate in an interview. You will only be contacted for the interview if more information or clarity is required regarding your responses on this questionnaire.

Please provide the following information

Your name ___________________________________

Your telephone number ___________________________________

Your email Address ____________________________________

Please note this page will be detached before this questionnaire is sent for analysis and this page will be kept separately for the purpose of maintaining confidentiality and anonymity. Only my supervisor and I will have access to the information you provide on this page.

Thanking you in advance for your time and kind co-operation.