



**REPORT EMANATING FROM THE STRATEGIC FLISP WORKSHOP
HELD ON 15 AUGUST 2013 AT FOUNTAINS HOTEL, ST GEORGES MALL, CAPE TOWN**

1. OPENING AND WELCOME

The Strategic FLISP Workshop was held at the Fountains Hotel, Thibault Square, Cape Town and hosted by the Western Cape Department of Human Settlements (PDoHS) on 15 August 2013.

Ms Rika van Rensburg, the Programme Director welcomed all attendees and thanked them for taking the time to attend and participate in the workshop. (Attendance Register attached as Annexure A).

She summarized that the objective of the workshop is for robust discussion on the challenges of delivery in the affordable housing sector and how can we address these challenges today and ensure that solutions are implementable in the Province.

Ms van Rensburg introduced Western Cape Human Settlements Provincial Minister Bonginkosi Madikizela and invited him to give an opening address.

2. OPENING ADDRESS

Provincial Minister Madikizela welcomed all stakeholders and protocol was observed. He acknowledged the challenges facing the Affordable Housing sector and indicated that we need to strike a balance when looking at other housing programmes. The Department is well known for providing Breaking New Ground (BNG) houses and not enough is being done to provide housing in the FLISP programme.

The NHFC withdrew from the workshop at short notice. This is concerning as they are our partners for FLISP. The Department has agreed and signed the Implementation Protocol

to utilise the NHFC as a one-stop shop to co-ordinate the role of partners in rolling out the programme. All managers must work on this partnership, as it is not Affordable Housing's role alone.

The Minister's pertinent questions to stakeholders were:

- Why can persons who contribute to our fiscus not own a house? Are we creating perverse incentives that if you don't work you get a free house, grants for your children, etc?
- Why are so many affordable housing applicants failing at the Banks?
- Why is government spending still skewed toward BNG and what do we need to do to strike a balance?
- What innovations can be developed to cater for the FLISP market?
- What do we need to do in terms of consumer education?
- How can BNG be used to escape poverty?

The Department is deliberating on what kind of support is needed in this programme to assist development. What is the role of the Banks and how can we bring them on board? Has government used the Home Loan and Mortgage Disclosure Act (HLAMDA) report to determine the lending patterns of these institutions and how they marginalise individuals because of where they live?

We acknowledge that policy changes are needed in FLISP, as a gap still exists and it's difficult with the product for ownership. Banks don't approve bonds and the challenge lies in increasing the threshold. Consumer education is critical and how do we use the products that we have in the existing market to become a serious player in the property sector which is predominately white? How do we address transformation meaningfully? We need to amend our policies to be biased toward creating empowerment and utilise government resources to enable long term sustainability?

The Department needs to address the gap that exists in the FLISP Programme. Why spend more money on the BNG instead of shifting focus and striking a balance between the two? What innovations can developers bring to the table and what is needed in consumer education regarding the importance of ownership and owning an asset to escape poverty? Serious interventions are needed as people who pay tax can't afford a house. We are creating perverse incentives.

In conclusion, the Minister emphasised that government needs guidance from the experts in the industry to enable government to deal with the challenges facing the Affordable Housing industry. We need to find solutions to these challenges so that we can collectively move forward in the Affordable Housing industry. We can only be successful in what we trying to do by working together.

Mrs Kahmiela August proceeded with the process of the day and acknowledged industry stakeholder contribution and participation. She contextualised the aims of the workshop in addressing affordability challenges, developer challenges in delivering stock and consumer education not addressing ownership as a form of wealth creation. We need to focus on identifying ways to understand how Western Cape can strategically fast-track the implementation of FLISP and influence delivery of Affordable Housing in the Gap market. She provided an overview of the agenda and requested stakeholders to focus on the presentations and frame questions, which are open for discussion and debate.

3. OFFICE OF DISCLOSURE PRESENTATION

Mr Gaza Phoku, Director of the Office of Disclosure located at the National Department of Human Settlements observed protocol in acknowledging the various stakeholders. He commenced with a presentation of the organisation. The presentation addressed the following:

- Composition of the Office of Disclosure,
- The Background to the establishment thereof,
- The Home Loan and Mortgage Disclosure Act, 2000 (Act 63 of 2000), Hlamda,
- The functions of the organization
- Fulfilling the mandate,
- Compliance with the Act
- The challenges facing the implementation of the Act,
- Intervention measures to address the challenges,
- The achievements thus far
- Annual Return on Home Loans
- Annual Return on Pension Backed Home Loans
- Annual Return on Unsecured Loans
- Annual Return on Decline Reasons
- Annual Return
- Jurisdiction of the Office of Disclosure
- Matters outside the Jurisdiction of the Office of Disclosure
- Way forward of the Office of Disclosure

ISSUE	OPEN DISCUSSION
Annual Return	<ul style="list-style-type: none">• The disclosure of financial institutions• An audit agreement has been signed and the financial institutions are being engaged on this.• Rating of the banks and criteria being investigated for public notification• Targets need to be put to institutions which should be measured and monitored• Office of Disclosure has no mandate to set targets for the financial institutions

ISSUE	OPEN DISCUSSION
HLAMDA Act	<ul style="list-style-type: none"> • Act has never been enforced until July 2007 due to legislative processes • Amendments to the Act, as the economic environment have changed. • Changes is needed to expose what is happening as there is a monopoly of the four financial institutions • Report to National Minister on recommendations within the ACT. • The report will be available on the website for public to view once the National Minister has approved the recommendations.
Challenges	<ul style="list-style-type: none"> • Adjustment of financial institutions systems to meet HLAMDA requirements • Financial institutions disclosing their financial statements in terms of section 2 (3) of the Act. • The Western Cape statistics are not available as yet and municipalities are not able to assist. • Cannot rely on figures from financial institutions, as they won't provide a true reflection of their statistics. • What other measures are there to detect other challenges or forms of discrimination?
Interventions	<ul style="list-style-type: none"> • Immediate – Implementable Regulatory Return and Audit Assurance Standards • Medium – Regulations and proposed HLAMDA amendments • Long Term – Amended Home Loan and Disclosure Act, Regulations and Compliance manual. • Financial institutions have quotas and to enable an accurate assessment, the calendar year is being utilized for them instead of a governmental financial year.
Annual Return: Decline Reasons	<ul style="list-style-type: none"> • Lack of affordability, unacceptable credit track record, insufficient information of documents being provided, unacceptable security, unacceptable exposure or town which is discriminatory and adverse credit record
Jurisdiction	<ul style="list-style-type: none"> • Concerned with the limitation of powers of the Office of Disclosure. • Poor being marginalized due too many hurdles • Changes are needed as financial institutions cannot dictate where people should live, grow and expand in their desired communities. • Government should utilize its resources and engage other role players to BUILD A NATURE and UNLOCK VALUE. • Will the amendments to the legislation give the Office of Disclosure more legislative powers?

4. AFFORDABILITY FROM A BANKING PERSPECTIVE

Mr Brian Mabothe Manager of Affordable Housing at ABSA Bank acknowledged all the stakeholders and observed protocol. He commenced with a presentation on Affordability from a banking perspective and not as a representative from ABSA Bank. His presentation addressed the following:

- General overview of South African Property market.
- Economic and household sector overview
- Global economy
- South African economy
- Household overview
- Why Banks decline home loans
- Possible solutions to increase home loans approvals
- Reasons for relatively low FLISP approvals

Decline of Home loans

- **Impaired credit records** – smaller and larger judgements, continuous increase of under administration of Credit Regulator and Garnishee orders
- **Affordability** – relatively low income levels by creating gap within a gap, over-exposure in debt (unsecured loans), un and underemployment creating affordability risk.
- **Relatively high property prices** – ties in with affordability issues, relatively limited secondary market
- **Lending criteria and pricing policies**

Solutions:

- ABSA don't allow registration without education programme. Maybe it should be done at an early stage where education, maintenance, finances, budgeting should be addressed. We need an incubator programme where we identify banks and other stakeholders provide input. Specifications to be adjusted to adapt to affordability of target market of FLISP.

Consumer Education

- Reasons for FLISP not being successful is the lack of awareness, application and lack of funding on the website for FLISP in the province.
- There is R9billion in the industry of unsecured loans and only R1billion for housing. How are we addressing this before the bubble burst? We need to start education earlier to mitigate the risks for consumers for the next five years.
- Developers should do consumer education on FLISP.
- Banks don't register until the buyer moves into the property and the seller moves out first. We understand anti-eviction but this is

	<p>a willing buyer, willing seller issue.</p> <ul style="list-style-type: none"> • We need to realize that when a property is purchased, the seller doesn't want to move although the property has been sold already and this is becoming a major problem in the sector. • Extend the consumer education to first time home owners from one year to the first five years of the mortgage bond. • The department is not trainers in consumer education. We train the trainer in municipalities and these filters down to grassroots level. We also train officials in developmental projects. There are gaps and we are hosting a Housing Consumer Education workshop on 06 September 2013 to engage on these gaps. • There is an opportunity in townships where people are vulnerable and need consumer education. • We need to be strategic from a governmental point of view and treat it like the HIV campaign. • We need to utilize the IEC methodology of Information, Education and Communication.
Affordability	<ul style="list-style-type: none"> • It is difficult to or not financially feasible for parties to implement FLISP within the targeted income bracket. • Are we stimulating a market which does not exist? Is ownership beyond the reach of the market? • We need to stimulate the market that already exists, as there is a variety of sub-markets. It should be viewed as a stepping stone into ownership once affordability changes. • In the Housing Code there are various housing programmes and we are not here to re-invent the wheel • The Department and City of Cape Town is looking at densification but banks are not. • Banks need to look at the quality of the asset that they are funding. • Banks do unconfirmed stress test on possible owner qualification for mortgage loans. • All banks do similar stress tests to determine qualification • The minimum property size of 150m² for a home loan. • Banks increase the interest rate to redline or discriminate against persons in certain areas. • We need to look at housing as an economic intervention and not as a social intervention. How do we deal with realities? • We have to be innovative to deal with challenges. Home ownership addresses imbalances of the past. • Issue of the R300 000 capping problematic as there is no product for that person. Land is costly. Products must be suitable based on income and developers must assist government in this field. • Employers are willing to assist to fund housing for their employees without the aid of financial institutions. How can this work?

	<ul style="list-style-type: none"> • Government should not be dealing with rentals. • We are in crisis building 40 000 houses per year to eradicate the backlog only. We are not gearing up to teach that target. Where is our long term view on this?
<p>Policy Issues</p>	<ul style="list-style-type: none"> • We need to understand the hidden cost for FLISP (land cost) • Banks define the bracket R15-25 000 for GAP and this poses a problem. • BNG unit on market costs R260 000 and the FLISP ceiling of R300 000 makes it difficult to add better specifications. • Focus should not be BNG standards comparing to FLISP but what the income band can afford. • Build 40m² if the market can only afford a 30m² • Difference between BNG, FLISP and GAP. Why can't a BNG unit be upgraded / upspect as the same subsidy component is utilised? • Persons earning R10 000 can afford a R300 000 bond, so FLISP income level should be set to meet property value • FLISP land ends up being at periphery to fit model, compounding affordability in long term based on transport costs. • Define employer investment in providing housing for employees without accessing mortgage loans from financial institutions. • Legislation and policies are not conducive for Private Sector to partner with Government which is a critical factor. • Legislation needs to be amended for Private Sector to do more in the affordable housing industry. • Review the possibility of capping interest rates would help. • Alternative funding models with Albaraka Bank with 7 year bond with no fluctuation and HIP supported by Old Mutual which brings a new product into the affordable home loans.

5. DEVELOPMENT FROM A DEPARTMENTAL PERSPECTIVE

Mr Heinrich Mostert of Land and Asset Management conducted a presentation on developmental challenges from a provincial perspective. The presentation addressed the following issues:

- Practical challenges experienced by the Department
- Possible options to improve FLISP delivery
- Problems experienced by Banks and Developers

<p>Practical Challenges</p>	<ul style="list-style-type: none"> • Affordability of people within the income bracket for FLISP • The department's ability to roll out projects without reliance on external developers is limited. Insufficient capacity, as the Department is not a developer • The inability at municipal level to demonstrate the implementation of substantial FLISP projects • Utilization of Private Developers greatly improves delivery but results in higher FLISP product prices • Marketing efforts tend to be longer and costly than higher priced units
<p>Possible Options</p>	<ul style="list-style-type: none"> • Market FLISP implementation of the FLISP instrument more vigorously at municipal level by encouraging Municipal Managers to incorporate FLISP targets into housing official's performance measures • Reduce project prices well below the R300 000 mark • Utilise Housing Development Agency (HDA) for marketing and pre-sales activities • Utilize Construction Resource Teams (CRT) as opposed to developers to build "housing stock" from presales of HDA • Reduction of land prices where possible • Incentivise developers to develop FLISP but at product prices below R300 000 • Provide "improved" BNG units (FLISP) which are "housing opportunities" rather than high specification units (no frills, yet attractive enough to buy and have equity upon completion or point of transfer.
<p>Problems</p>	<ul style="list-style-type: none"> • Cost build-up of FLISP units • Houses standing empty due to lack of affordability of individuals. • Prior to planning projects, stakeholders like banks must be engaged to look at risks before developing the project.

6. NHFC FLISP IMPLEMENTATION

Ms Kahmiela August, Director of Affordable Housing in the Department, conducted the presentation on behalf of the NHFC. She gave an overview from the Western Cape perspective.

Ms August indicated that the Western Cape already has existing infrastructure and has finally signed the Implementation Protocol with the NHFC.

The access strategy must be through municipalities in ensuring that FLISP projects are in the Human Settlement Plans (HSP) and the Departmental Business Plan.

Currently NHFC is conducting a FLISP marketing campaign in all provinces, excluding Western Cape due to lack of funding. The Department will be ring fencing money for FLISP in the Western Cape for the next financial year.

The FLISP Programme is serviced through the Integrated Residential Development Programme for serviced sites on which the municipalities can develop the top structures for FLISP. Municipalities need to have pipeline projects in their outer year planning.

Relationships between stakeholders are critical to ensure the success of the FLISP programme.

Challenges

- How do they plan for development when FLISP subsidies are gone already?
- No current ring fenced projects as money was taken up from individual walk in FLISP applications which are not ring fenced to one development.
- Municipalities are including proposed projects in their Business Plans as departmental officials have visited municipalities on better planning for this programme. Using HDA is concerning as this is not their core function which is to obtain land for development.
- Without pre-sales you shouldn't build stock
- We have to look at what can people afford with specific income which don't qualify for a free house
- Sell all BNG as FLISP and improve it to the quantum of R300 000
- BNG has pre-emptive clause of 8 years.
- The structure of the FLISP programme is problematic as the product can be sold without the pre-emptive clause.
- Lack of acceptability by communities on alternative housing

	<p>makes it unviable. If this can be overcome, it shouldn't be a problem.</p> <ul style="list-style-type: none"> • FLISP comes from the municipal DORA allocation and there is no separate funding. The programme competes with the other active 16 housing programmes in the Western Cape. • FLISP would be part of bigger integrated development.
<p>Possible Solutions</p>	<ul style="list-style-type: none"> • How can Mortgage Default Insurance play a role? All banks signed agreements. What is the progress on this? • How can we use this to put a product together? • The role of the National Credit Regulator would be ideal if we are looking at pre-qualifying guarantees to de-risk this sector. • Employers are prepared to invest in the individual and it lessens the risk of where the individual gets financing. • Taxation needs to be reduced so that employers can get favourable returns on investing in providing housing to employees. • FLISP model should not be VAT applicable. • Should we develop a bridging subsidy fund? • Selling of pre-sales can be done by utilising the Property Sector and not HDA • Alternative building technologies with Banks should be explored. • FLISP is going to be the future so we need to look at future solutions • Government is largest employer in a regulated environment and using the housing allowance which can be ring fenced as a housing guarantee. • Government can reach agreement with suppliers can reduce costs and create economic opportunities • Review programmes and how it is linked to each other as consumers need change. • Relook at actual hidden costs and whose costs are they. • How do we capitalize on the 'goodwill factor' from Private Sector? • Review option to subsidize the individual instead of a house? • Either the product cap or subsidy quantum should be increased.

7. SUMMARY & WAY FORWARD

There are different work groups within the Department which focus on various issues that have been addressed within the workshop. The issues will be filtered into these work groups to interrogate possible solutions going forward.

We will be reporting back before the end of the financial year, indicating where we as Province are in this programme.

Ms Kahmiela August thanked all stakeholders for their valuable contributions and participation in this workshop.

The workshop concluded and closed at 16h00.