Finance Linked Individual Subsidy Programme in the gap market: National Housing Finance Corporation briefing

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Date of Meeting:

20 Aug 2013

Chairperson:

Mr M Sibande (Mpumalanga, ANC)

Documents handed out:

National Housing Finance Corporation presentation: FLISP Roll-Out Programme.

Audio recording of the meeting:

SC PServices: NHFC on plans to addressing access to human settlements by gap market through Finance-Linked Individual Subsidy

Summary:

The National Housing Finance Corporation (NHFC) made a presentation on the Finance-Linked Individual Subsidy Programme (FLISP). It was noted that the NHFC had been established in 1996 as a state-owned development finance institution, and aimed to make housing finance accessible and affordable to the low-to-middle income market. The FLISP was a recent initiative, which aimed to address the gap market of those earning income between R3 500 and R15 000. Normally, this market segment was regarded by the banks as high-risk and there was unwillingness by the banks to advance sufficient funding. FLISP interventions would either reduce the initial mortgage amount, making the monthly repayment to banks more affordable, or would augment the shortfall between the qualifying amount and purchase price of the property. The maximum financed property price under FLISP was R300 000. It was available to first-time home owners only. The FLISP programme primarily targeted public servants and private sector workers, who would identify properties for sale in the open market, or apply for a home-loan in any f the FLISP-accredited projects. The approval process was usually ten days and the money was disbursed within two to three months.

FLISP had encountered some challenges. Firstly, there was delay in concluding Memorandums of Understanding with banks, and to date only three banks were participating. There were also bottlenecks in concluding implementation protocols and provinces were delaying their budgeting and uptake. The high rate of individual indebtedness already made it difficult for people to get approvals, as they had inadequate disposable income.

Members of the Committee felt that the presentation was too complex and indistinct to make much sense to their constituencies and asked that there should, in future, be a clearer setting out of the facts and figures. Almost all were concerned that there was such slow uptake on FLISP, with some questioning what exactly had been done to meet the challenges, and they also questioned why it was concentrated in the larger provinces, querying whether those in rural areas, and women, were being targeted for inclusion. They felt, overall, that there was also inadequate

publicity and awareness of the programme. They asked for clarification on the procedure, the maximum amounts, the qualification criteria for individuals and couples, and a description of how the FLISP unit operated, and how the funding of the NHFC was accounted for. The Chairperson asked that NHFC should send a revised and summarised version of the responsibilities to the Committee, that oversight visits to the FLISP offices would be useful, and that, in future, presentations should be clearly explained, and sent to the Committee well in advance. The Department of Human Settlements concluded that it would work with NHFC on the marketing strategy

Minutes:

Finance Linked Individual Subsidy Programme in the gap market: National Housing Finance Corporation briefing

Ms Sindisiwe Ngxongo, Chief Operations Officer, National Department of Human Settlements, noted appreciation for the opportunity for the National Housing Finance Corporation (NHFC), an entity of the Department of Human Settlements (DHS) to brief the Committee.

Mr Samson Moraba, Chief Executive Officer, National Housing Finance Corporation, gave a brief background of the corporation, the aims and objectives of the Finance-Linked Individual Subsidy Programme (FLISP) and its implementation process. NHFC, a state owned development finance institution, was established in 1996 to make housing and housing finance accessible and affordable to the low-to-middle income market. NHFC was set up on a self sustaining basis, was a credit-rated institution and tax-paying entity. NHFC's essentially provided wholesale funding for housing development projects. Its two main strategic objectives were to expand housing finance activities through the effective provision of housing finance solutions, and to facilitate the increased and sustained lending by financial institutions to the affordable housing market.

The Finance-Linked Individual Subsidy Programme (FLISP), together with the Mortgage Default Insurance (MDI) were introduced to deal with affordability issues and to promote access.

Ms Mandu Mamatela, Executive Corporation Strategist, NHFC, tabled a pie chart depicting South African's market size and income distribution, and predicted that 4 291 200 households, out of a total of 14 304 000 households, would be targeted by the NFHC. At the moment, the affordable homes numbered only 3.66 million, which meant that there was a shortfall of around 631 200 homes. Loan affordability was obviously determined by an individual's monthly income.

The business model of the FLISP catered for both the demand and the supply of housing in the South African affordable housing market. FLISP would work with intermediaries, and have partnerships with banks and other development finance institutions. Income-linked mortgages were also introduced to One facilitate private sector provision of end-user finance. This would link the bond repayment to the person's income and incremental rates each year. In addition, there were other projects to finance residential development. The Wholesale Funding to Retail Intermediaries catered for those who could not afford a complete housing unit, but would be able to access loans in small increments, and the loan was then extended over a period of time.

Ms Adelaide Mohale, General Manager, NHFC, gave details on the FLISP Roll-Out programme. The target market for the FLISP was those earning between R3 500 and R15 000. This market segment would normally be unable to access housing finance from other financial institutions, due to the high risk involved for those institutions. FLISP would either act to reduce the initial mortgage loan amount, making the monthly loan repayment instalments more affordable over the loan repayment term, or would augment the shortfall between the qualifying loan amount and the total house price.

Qualifying applicants may use FLISP to purchase an existing residential property, purchase a vacant serviced residential-stand or build a residential property on a self-owned serviced residential stand. The maximum financed property price was R300 000. FLISP targeted the general public, including both civil or public servants and private sector workers. Individuals could identify properties for sale in an open market, or could identify any of the various FLISP accredited projects, and then apply for a home loan. The application process for a home loan usually took seven to fourteen days, but the FLISP applications process took up to ten days. The timeframe for the disbursement process would be between two-three months.

Ms Mohale presented the FLISP Allocation Schedule 2013/14, highlighting the values for each province. A predicted Delivery Schedule was also presented, showing project units expected to be delivered to the provinces between 2013 - 2015. The third schedule described the 2013/14 Delivery and Performance Plan, and detailed the number of units, approvals, applications and disbursements to be made to each province.

It was estimated that the FLISP units launched in May 2013, which would run on in this financial year, were 182 in number, and the price range was between R182 000 and R298 000 . Of these applications, 37 approvals had been made till date. The home loan providers implementing these projects were FNB and ABSA.

Ms Mohale noted that there had been challenges encountered from the provinces, the banks and the beneficiaries. These included delayed conclusion of the implementation protocols, delayed budgeting by provinces, delayed conclusion of Memorandums of Understanding (MOUs) with banks, the high levels of individual indebtedness and inadequate disposable income of individuals.

Mr L Lehaba, Executive Manager, NHFC, reiterated that FLISP communication objective was channelled towards encouraging the uptake and highlighting of Government’s direct intervention in enabling sustainable and affordable first time homeownership opportunities for the “Gap Market” – which was those earning between R3 500 and R7 500. The media campaigns, road shows on homeownership and financial literacy, training to intermediaries, face-to-face business sourcing, and application forms were a few of the instruments that had been initiated by NHFC to create awareness and mobilise public servants, developers, estate agents, originators, banks and private sector beneficiaries to become involved in the FLISP.

Mr Moraba concluded that FLISP had potential to make a significant contribution to the housing market in all provinces in South Africa. FLISP had created a partnership between the private sector and the government. It would assist households to access finance for their own homes. He conceded that the bottlenecks encountered had limited the approvals. Partnerships have been entered into so far with FNB, ABSA and Standard Bank, but Nedbank had also indicated a willingness to be involved.

Discussion

Ms M Themba (Mpumalanga, ANC) appreciated the presentation, but pointed out that the slides would not be easy to explain to her constituency, and emphasised that presentations should be written for easy understanding, with clear points. She cited a page containing column charts, and said this would not be understandable to most people at grassroots level.

Ms Themba wanted to know what the picture of the couple seated, under the heading of "How We Operate" meant. She pointed out that there were some flats in Jabulani that had been built for a long time but were not occupied, and enquired what the cause was for the delay.

Ms Themba asked how FLISP would assist the very poor people that were not deemed credit-worthy, and how they could benefit. She asked how effective the provincial offices were and how were they monitored. How were women benefiting from the NHFC programme? She enquired about the relationship between NHFC, Public Works and other Government Departments. She said, in regard to the challenges, that she would have preferred NHFC also to say how it had attempted to minimise the challenges, and also pointed out that the ways in which this Committee might assist should be indicated. She questioned the awareness programmes, asking who was contacted, and how awareness to produce maximum delivery was done.

Mr M Jacobs (Free State, ANC), asked where FLISP visited when it was in Free State. He expressed dissatisfaction about the communication and marketing strategy of the programme. He pointed out that many people were in dire need of houses but that their roll-out was very poor and Gauteng seemed to be major place where projects were happening. He expressed concern about the number of banks with whom partnerships were made and wondered why Post Bank, a government owned bank, was excluded. He wanted to know where exactly the developers and municipalities were where the FLISP was running. He queried how the amount to be paid to each individual was determined, and asked if FLISP would allocate funds upfront to provinces, or wait for applications to be processed before making disbursements. With whom did FLISP communicate with in provinces? Why was the application process not centralised and harnessed by both the bank and

FLISP. It seemed that the separation of these two applications created more problems for the applicants. Finally, he wondered if this programme could be called effective whilst there were so many bottlenecks remaining.

Mr H Groenewald (North West, DA) asked why FLISP was involved only with newly built houses, and asked how individuals wanting to purchase existing houses were assisted. He noted that the total amount of NHFC assets was R3 65 billion, enquired what these were and how come money was not distributed to provinces. He asked what the relationship was between the Government and the Public Sector, and why there were no partnerships with other private companies, aside from banks? He also noted that FLISP seemed to be operating in urban areas, and not in the rural and mining areas. He reminded NHFC that promises were made to the Marikana residents about a year ago, to provide them with better living conditions, but these promises had not been fulfilled. He wondered how NHFC intended to resolve the challenges, especially on the issue of subsidies, and what were the causes of the delays? He emphasized that the marketing strategy must be improved, in order to create proper awareness. Finally, he asked how large was the NHFC, and how its staff were paid.

Ms L Mabija (Limpopo, ANC) wanted to know why the list for Limpopo and Western Cape was marked as "Not Available". She requested that the contact details of the officers involved in the provinces be given to her for proper follow-up.

The Chairperson agreed with Mr Groenewald that FLISP should be implemented in the rural and mining areas. He questioned the delays in the launching of the Mortgage Default Insurance? He asked if it was possible for two individuals living together as a couple, and who therefore earned a joint income of double the limit, to qualify for, say, R600 000 housing. He enquired as to the cause of delays, pointing out that in Gauteng, for example, only 138 approvals were made, out of 1 414 units. He also asked for an explanation as to why there had only been application for about 3 279 units, from about 44 million South Africans. He wanted to know exactly how people qualified for opportunities to participate in this programme. He commented that the roll out programme was very poor, seeing that NHFC had already been established from 1996. He suggested that this was due to a poor marketing strategy. He agreed that since most provinces had access to Post Office Bank, Post Office Bank should have been included in providing home loans.

Mr Moraba appreciated the feedback received from the members. He clarified that FLISP was a recent initiative of the Government, and did not date back to 1996. It was initially tried in 2005, but was unsuccessful because it was not well coordinated and was not supported by the banks. However, it was later reconstructed and came into existence again in April 2012. The housing market was very broad and FLISP was not designed to be the solution to all the housing problems in the nation. For example, individuals who earned less than R3 500 per month did not qualify for inclusion in this programme. He emphasised that FLISP was not a solution to housing in itself. It was merely a subsidy made available to those earning between R3 500 and R15 000, who could thus afford to make contributions to their housing needs. This initiative was introduced so that this particular target market could afford housing, which was not the case with the other initiatives of the banks at the time. Anyone who lived in the rural areas and earned income and met the qualifying criteria and who could get a home loan from the bank, was eligible for a FLISP subsidy.

He added that FLISP was interested in partnering with the Post Bank, but that the Post Bank did not have a licence to mortgage, and therefore could not give mortgages like the other banks. He said that partnerships had been made with other private companies, such as a platinum enterprise, where 2 000 units were delivered in conjunction with a bank. This partnership was designed to make housing loans available to employees of the mine. Employer Based Initiative was one of the initiatives introduced to assist employees of large companies to get loans needed for their housing needs.

Mr Moraba explained that the Mortgage Default Insurance concept was introduced in 2010, but was being delayed by the approval process. The argument was that the target market was similar to that of FLISP. However, the process was in place and once it was approved it would complement FLISP in providing housing loans for people.

He confessed that FLISP could not succeed on its own because of the various parties involved. There was a challenge that many individuals applying for loans were already over indebted. The banks had a perception that this particular target market posed a high risk to them, and that was why the situation would be helped by the approval of the Mortgage Default Insurance, because it would lessen the risk to the banks. There was also a need for the provinces to better support FLISP by including it in their budgets.

Mr Moraba wanted to clarify that FLISP did not add any income to NHFC itself. Whatever funds were transferred by provinces were to enable a speedier processing with the banks.

Ms Mamatela replied that the suggestions made about the graphs and presentations by Ms Themba were noted, and the next presentations would be drawn in line with them. She said that the pictures of the couple were to reflect some of the projects already completed by the FLISP programme. Empowering Women was a part of the target and, at the next presentation; the Key Performance Indicators would be presented to the Committee. NHFC's sister company, he Rural Housing Fund, had a specific mandate to service the rural areas.

She agreed that NHFC had a total asset base of R3 65 billion, but said that of this, 81% (R1 9 billion) had been advanced by way of funding, so no longer remained within NHFC. The remaining R1 6 billion was already categorised as committed funds.

Mr Lehaba responded that all the suggestions made on improving the market strategy had been noted and these would definitely be implemented. He added that it was true that the figures were very low but concerted efforts were being made to ensure increased performance. He said that there was a chart, which was not presented today, which showed clearly how much an individual qualified for. This chart could be found on the NHFC website. It would also be made available to the Committee.

Ms Mohale explained the qualification criteria and answered the Chairperson's query on what subsidy would be made available, by saying that FLISP explored the joint income of the couple making the application. The total income must not be more than R15 000, in order to qualify for FLISP. FLISP was not only applicable to the purchase of new houses. An individual could buy houses in any area, but must be a first time owner, not a second time buyer. She added that the subsidy was calculated in such a way that the higher a person earned, the lower would be the subsidy offered by FLISP because the person would be able to supplement that from higher income of their own.

In regard to staffing structure, she noted that the FLISP unit had a staff strength of 11 persons but was supported by some key business units from NHFC. She informed the Committee that a certain percentage had been designated by the provinces to cover all operational costs.

Ms Ngxongo said that both the Department of Human Settlements and NHFC would work together to ensure that a proper communication strategy was put in place to aid increased service delivery.

Mr Martin Maphisa, Deputy Director-General, Department of Human Settlements, added that there was an internal framework that enhanced collaboration with women, youth, the National Youth Development Agency and Department of Public Works. More than 1 000 youths had been trained in rural areas. More information on job creation would be made available at the next presentation to the Committee.

Ms Themba requested that the information be sent to the Committee as soon as possible to pass on to Members' constituencies.

The Chairperson, in conclusion, asked that NHFC should send a revised and summarised version of the responsibilities, so that the members of the Committee could assist in marketing FLISP in their various constituencies. He suggested that Members should make oversight visits to FLISP offices. Finally, he pointed out that these interactions afforded everyone an opportunity to understand the issues clearly. For the future, however, he requested that the presentations set out matters clearly. These must be sent to the Committee in advance so that Members had a chance to study the information prior to the meeting.

Mr Moraba promised that by the end of August, a report would be submitted to the Committee.

The meeting was adjourned.