

**Barriers Access to Housing Finance by the Low-  
Income Groups: National Housing Finance  
Corporation (NHFC) in South Africa**

A Dissertation

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by

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## **ABSTRACT**

South Africa (SA) has been experiencing a serious challenge in terms of addressing housing problems and one of the factors is access to finance, mainly by the lower income earners. Government programmes like Financial Linked Individual Subsidy Programme (FLISP) that work through the National Housing Finance Corporation (NHFC) to provide affordable subsidy finance for housing to households who earn in the range of R3 501 and R15 000 do not make a significant impact necessary to improve access to affordable housing finance. The NHFC has approved and disbursed few and low amounts for FLISP hence questions have been raised as to the challenges that low-income earners experience when accessing affordable housing finance through the NHFC and its role in creating human settlements that is sustainable. The objective is therefore to undertake a descriptive and exploratory study of the FLISP program to enhance understanding of the effectiveness of NHFC in provision of affordable housing financing accessibility by the low-income groups in Johannesburg.

The sample of participants was drawn from the beneficiaries of loans and NHFC officials using observations, questionnaires and semi structured individual interviews. The mixed research method is adopted using both the primary and secondary to collect data from NHFC and is analysed by means of descriptive statistics such as percentages, tables and frequencies. Data analysis showed that accessibility for housing finance remains an obstacle faced by the low-income households. Convergent mixed method is adopted in the study to understand why the NHFC has been not effective in addressing housing finance for low-income groups.

The study found that the major challenges that low-income earners encounter in accessing affordable housing finance range from the deposit amount required, interest rates and affordability in repayments of loans. It is recommended that there should be an enhancement in the housing policy to focus on the low-income groups, also, alternative mechanism such as provision of serviced land and partnerships between government and commercial banks may improve the current conditions.

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## **GLOSSARY OF TERMS**

Affordability	How much is affordable to a household spending payment for purposes of a house depending on the household's expenditure and income.
Affordable housing	Is defined in this study as the housing sector category for income groups earnings ranging from R3 501 to R15 000 per month.
Income	Any source of income received constantly from the formal or informal sector.
Housing	Is a collection of houses that are designed and constructed for residential purposes.
Subsidies	Is financial assistance that the Government provides to individuals or communities for the cost of acquiring a house.

## **ABBREVIATIONS AND ACRONYMS**

ABSA	Amalgamated Bank of South Africa
CD	Chief Director
CIO	Chief Investment Officer
CoJ	City of Johannesburg
FLISP	Finance Linked Individual Subsidy Programme
FNB	First National Bank
HFI	Housing Finance International
HSDB	Human Settlements Development Bank
NCR	National Credit Regulator
NDHS	National Department of Human Settlements
NDP	National Development Plan
NHFC	National Housing Finance Corporation
NURCHA	National Urban Reconstruction and Housing Agency
PSAM	Public Service Accountability Monitor
R	South African Rand
RDP	Reconstruction Development Programme
RSA	Republic of South Africa
South Africa	SA
STATSSA	Statistics South Africa
SSA	Sub Saharan Africa
UNCHS	United Nations Centre for Human Settlements
VAT	Value Added Tax

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# **CHAPTER 1 INTRODUCTION**

## **1.1 Introduction**

In the past decades, developing countries and major cities globally face serious challenges of rapid population growth and urbanisation. South Africa (SA) is no exception in that regard as its biggest city and often referred as economic hub, the city of Johannesburg, in the Gauteng province faces similar housing challenges. According to Ong and Lenard (2002), for the past thirty years' administrations globally have tried addressing the challenges to provide sufficient housing that is affordable.

The acquisition of finance for housing in South Africa is through well-functioning banking institutions and is provided through buying, own building, renting and getting a loan from banks. Conventional housing finance institutions are mainly private sector banking and other financial institution which finance various types of properties including residential houses. Thus, the principal mandate of the National Housing Finance Corporation (NHFC) is to provide housing finance accessibility to the lower-income groups.

The study's purpose is to investigate the causes that impact the low-income earners in accessing the subsidy housing finance through the NHFC's interventions.

## **1.2 Background of the Study**

The NHFC is an entity of the National Human Settlements department and its mandate is to afford accessibility to finance housing loan for the low-to-moderate-income earners. The government of South Africa has prioritised housing by developing policies for housing to provide houses for all as envisaged in the constitution of South Africa. Accessibility of finance for housing purposes is an important factor of the overall policy for housing by offering prospects for the low-income groups to partake freely to improve their individual housing conditions than to rely only on provision of housing by the government.

Accessibility to affordable housing finance is always a challenge for low-income households. In most instances, housing opportunities intended for the low-income groups are taken over by middle to high income buyers who can access finance easier.

Tomlinson (2007) and Huchzemeyer (2001) also argue that the South African commitments of banks in providing affordable housing finance to the lower-income section have always been questioned, despite the government's efforts to unlock the lower-income housing finance sector.

The finance and market systems in South Africa, Dewar (1982b) argues that one of the most important resources upon which housing policy is based is finance. He further notes that the policy of housing in South Africa unfortunately comprises of two independent markets in housing namely, the subsidised housing provided by local authorities and the unsubsidised market supplied by commercial banks or private sector. The commercial banks overwhelmingly cater for middle to higher income earners and leaves low-income earners to fend for themselves.

Pillay and Naude (2006) also give a vivid picture of the defects in housing finance in South Africa almost 25 years later and suggest that the reform of housing finance is required. They note that getting rid of government inefficiency and monopoly and introducing a range of financial instruments and services may help to ease the situation. There is enough evidence to show that modern housing financial systems have not been able to take the poor households into their fold.

Owing to the paucity of suitable alternative finance models for housing, low-income groups consistently have to rely on non-traditional ways to raise funds for the purpose of building their primary houses. Such non-traditional ways include savings by individuals, borrowing from family and friends, allowances from families based outside their countries and any disposal of assets they might have.

The government has provided fully subsidised housing units for a certain population of the group, mainly the poor.

The sources of housing finance in South Africa include mortgage bonds by the commercial banks, and the government provides fully subsidised RDP houses and the housing microfinance by formal or informal lenders to the income group that earns less R3 500.

The largest city in South Africa is Johannesburg with a population totalling four million nine hundred and forty-nine thousand three hundred and forty seven (4 949 347) as of 2016, with a population growth rate of 3.6% per annum and only 40.2% owned houses or have fully paid them (Statistic South Africa, 2016). According to STATS SA 2017 quarterly labour force report, the unemployment is currently at 32% and the employed individuals comprise 68% of the economically active population in the city and are redistributed in various employment categories.

### **1.3 Problem Statement**

The government of South Africa, in its pursuit to improve the conditions that impact housing delivery, established housing developmental institutions combined with affordable housing schemes. The challenges included - among others- income distribution, unemployment rate, etc.

Despite these noble actions by the government, inaccessibility of finance for housing purposes by the lower-income groups is still problematic and a challenge. The unemployment rate and salary differences originating from the past inequality contributed to the lower-income groups' inability to meet requirements for housing loans. Hence, the expectation and role of NHFC in ensuring provision of affordable finance to house the bottom income brackets.

The high unemployment rate makes it difficult for the banks to provide the mortgage bonds for housing purposes to the lower income brackets. The commercial banks find it risky to offer mortgage loans to the lower income groups; hence the government intervened by establishing an entity such as NHFC. Gauteng as the biggest province and Johannesburg as an economic hub is currently facing the biggest backlog of housing due to people migrating to urban areas and that leads to higher population and an increase of informal settlements.

The literature review indicates that several researchers studied the effects of the policy on housing finance accessibility (Ferguson, 1999). Other scholars argued that, despite government's introduction of numerous initiatives pertaining to housing finance programmes, there has been minimal impact made particularly among low-income groups (Oyewole, 2010).

According to Tissington (2011), in the Human Rights Commission in 2009, “The right to adequate shelter or housing is inherently linked to other rights which include public participation rights, equality, human dignity, and access to information”. Conversely, according to Warnock & Warnock (2008) substantial sections of the global population are faced with the challenge of inability to access sufficient and inexpensive housing.

Approximately a billion people translating to one-third of global population in the urban areas reside in slums indicated in the UN-Habitat (2005) ,while in South Africa only 2 million of the 12.7 million are able to meet housing requirements market (Rust, 2007).

This is exacerbated by migrant trends of people who move from rural to urban areas, compounded by the rapid growth population and young demographic profile among other factors (Olotuah, 2000). In addition, the current economic environment presents frequent bottlenecks which impede the facilitation of housing finance, particularly among low-income groups. Regrettably, another impediment that has been recognised is the increase in the demand for affordable housing and access to housing finance which has not been matched by an equivalent increase in the supply of such factors (International Finance Corporation, 2009).

It is stated that families that desired to build, acquire or make improvements for their housing needs are often hampered due to the lack of access to funding (Housing Finance International, 2009). HFI (2009) goes on to state that the lack or insufficient access to housing finance is more prevalent to poor and low-income earners as housing loans are often directed to higher income households.

Given all the government interventions, South Africa still experiences challenges in assisting low-income household’s access to affordable housing finance. The success rate achieved by NHFC in providing finance to the low-income groups has been very minimal. Thus, the problem that this study will investigate is why the NHFC has been ineffective in addressing housing finance for the low-income households. This will be done by examining whether there are factors that contribute to NHFC’s ineffectiveness. Furthermore, the study will also look into whether there are bottlenecks that inhibit low-income groups from accessing housing finance from NHFC and if so, how can they be alleviated.

#### **1.4 Research Questions**

*What are the fundamental influences which hinder access to affordable housing finance by the low-income groups in the City of Johannesburg through NHFC?*

The sub-questions below will be used to support the research question:

1. How can accessibility to finance for affordable housing by low-income groups through the NHFC create sustainable human settlements?
2. To what extent is the NHFC housing subsidy finance accessible to low-income earners?
3. What are the problems encountered by low-income groups to access affordable housing finance through NHFC?

#### **1.5 Research Objectives**

The main objective of this study is to assess and examine the impact of NHFC to provide housing finance accessibility affordable to the low-income household within the City of Johannesburg.

Below are sub-objectives to be achieved by the study:

1. To explore the role of affordable housing finance by low-income earners through NHFC in creating sustainable human settlements.
2. To understand how the NHFC subsidy housing finances is accessible to the low-income earners.
3. To highlight the challenges that low-income earners experiences when accessing affordable housing finance through the NHFC.

#### **1.6 Justification of the Research**

It is a world-wide phenomenon that emerging countries are faced with unavailability of funds for the affordable housing finance. Mechanisms that are put in place by the government must assessed and be reinforced in order to accelerate housing finance. This study aims to assess and evaluate the difficulties low-income groups faced in accessing affordable finance for housing in the City of Johannesburg.

The low-income earners' affordable housing finance accessibility remains one of the problems that have been of concern to, amongst others, policy makers in the housing industry, civil right movements, communities and non-governmental organisation, and the low-income earners themselves. The research findings may be valuable in the formulation of the housing policy, the government outcome or priority of sustainable human settlement, the NHFC, as well as in other housing stakeholders and advancing the sustainable developmental agenda.

The purpose of the study is to explore possible interventions and long lasting solutions in which NHFC can extend access to housing finance to the low-income groups, while the government's housing policies are in place however its impact is still minimal. The rationale of the study is therefore exploring various ways of addressing challenges the low-income groups experienced and ensure that they are addressed.

The study shall advance financing mechanisms, measures and policies to be adopted by the government in ensuring that a large pool of low-income households access finance for housing.

### **1.7 Organisation and structure of the study**

The study is arranged as follows:

Chapter 1 consists of the introduction and background, the problem statement, the research questions and objectives and the justification of the study.

Chapter 2 follows with theoretical and empirical review of existing literature on housing finance and expands specifically to the low-income households' category. Furthermore, the policy of housing, affordability, impact and role of NHFC are discussed.

Chapter 3 details the methodology employed and how data is gathered and analysed.

Chapter 4 provides the research data, analysis and the findings of this study.

Chapter 5 focuses on the summary of findings and research conclusions. In addition, suggestions and recommendations are drawn from the findings and conclusions.

## **CHAPTER 2 LITERATURE REVIEW**

### **2.1.Introduction**

This chapter presents a review of existing research on housing finance and its effect on low-income households. The assessment and investigation of the effects of NHFC in providing affordable housing finance to the low-income earners. Furthermore, is to understand clearly the research topic, housing policy, housing finance accessibility, housing affordability, income and the housing policy. The chapter starts by providing a background, followed by the theoretical framework of housing finance as a response to address lack of accessibility to affordable housing finance by the low-income groups. This chapter will review empirical studies on the subject under investigation, highlighting lack of affordable housing finance accessibility by the low-income groups. The chapter furthermore presents the South African situation and the government role and NHFC in providing housing finance. Finally, the chapter will present the conclusion.

### **2.2.Definitions and concept**

Housing finance is defined as any method or source of income used by the household to acquire the house and or building of a house as a structure (Daniels, 2003).

Housing affordability is defined as a condition that is greater than 30% of the total income of a household that is used for housing purposes (Daniels, 2003). While Clapham (2005) defines housing as a housing setting, locality or the house that is used for accommodation and the vicinities of that house include all the necessary amenities, services, facilities and equipment required for the physical overall wellbeing of the household and the people.

Essentially, housing is about or entails a dwelling that people may occupy as a shelter.

### **2.3.Theoretical Framework for housing finance**

The theoretical framework is used as a tool to assess the relationship between accessibility to housing finance and the low-income groups.

Inaccessibility of finance for housing remains a world-wide difficulty; which mainly affects lower income groups. The South African government is coming up with strategies and

different approaches to address the challenge faced by the low-income groups. It would seem as though the government has had minimal impact in addressing the problem. Access to finance for housing purposes grew significantly in most countries though the lower income groups who still, to benefit as it is difficult for that income bracket (Kohn and Pischke, 2011).

Salane (2000) suggests that the government and NHFC should devise cost recovery strategies and encourage savings by the low-income earners. He goes on to say that savings will ensure that borrowers are able to repay their loans and foster the concept of saving prior to taking a loan. The culture of saving for the low-income earners may offer the benefit of ensuring affordability and the ability to service loans; it may also instil culture of loan repayment.

Melzer (2005) found that the housing finance is understood as a vital factor to the overall policy of housing in providing the households with a prospect of being involved to improve their conditions of housing without dependency for assistance from government.

In South Africa, the banks and non-traditional lenders identified an opportunity to conduct business in the low-income market for housing. This was attributed to high demand of borrowing for housing loans. However, (Hawkins, 2003) points out that there is still reluctance on the part of banks to tap into that market as the demand is high.

Currently, commercial banks are concerned more about the potential risk of defaulters in the category of lower-income groups is quite high and thus they have attempted to minimise bad debts. By putting in place stringent mechanisms which includes among others determining the borrower's willingness and ability to pay timeously.

It seems like the low-income housing market is not understood by the commercial banks. They appear to lack insight and understanding of the low-income earners in terms of how they behave when applying for housing loans, and their preferences and experiences to access affordable housing finance. This inhibits the banking sector from having an understanding of what leads to challenges of failing to service their housing loans (Ferguson, 2003).

In the survey that NHFC conducted in 2003 it was found that on national borrowers there were over 90% potential housing buyers in the low housing market, totalling a market of about 1.5 million urban households, who looked to purchase a house and only a quarter of

them were able to find the appropriate house they were looking for. The deduction that can be made from this is that access to affordable housing finance and lack of available affordable houses in the market is a major hindrance to the low-income groups.

The affordability of housing could then imply that the key measure in delivering the affordable housing is access to finance (Kisting, 2013). In essence, the panacea for providing affordable housing is ensuring that access to housing finance is available.

Low-income population groups cannot afford land (especially in urban areas), they are only able to rent at cheaper rates, or live in squatter settlements. Therefore, land is the most critical input of the housing issue. Plot tenure for the urban poor is a challenge and; acquisition to land can improve the chances of the poor to increase their access to credit for housing (Mayo, Malpezzi & Gross, 1986).

In Namibia, roughly 70% of the population could not access affordable housing finance schemes due to lack of collateral for home loans available from commercial banks. This is attributable to the fact that in order for one to qualify for mortgage lending it is required that one has a title deed for the land and this comes at a price, as argued by Mwilima, Phillipus and Fleermuys (2011). This suggests that commercial banks in Namibia will borrow the high-income earners as they will meet the requirement of owning land and a title deed as is expensive also to own the land for the low-income groups.

It is therefore imperative for developing countries to integrate housing finance into their sustainable financial systems and explore alternatives and interventions that will allow the low-income earners to acquire improved accessibility to affordable housing finance (Kohn & Pischke, 2011).

In South Africa, subsidised houses that were provided for low-income households did not qualify as adequate shelter. Charlton (2004) argues that it does not respond to the criteria of good quality and adequate location. The difficult access to affordable urban land was recognised as one of the main obstacles. This in South Africa hampers provision of well-situated affordable low-cost housing.

Stephens (2005) also echoes that generally a lack of accessibility to finance is one of the main barriers hampering delivery of houses. Lee (1996) concurs that access to affordable housing

finance is a foundation viable to deliver housing. King (2001) supported that housing finance is about the producing and consuming of housing.

Furthermore, according to King (2001), individuals require affordable housing finance for the purposes below:

- constructing a house;
- rental or repayment of housing loan;
- to improve and make alteration on the existing house;
- addressing the housing need for political and social reasons.

In addition Tomlinson (2007), the housing finance comprises of three market categories, namely: primary, secondary and capital; and most governments globally acknowledged that it is important to develop sustainable and managed housing systems to grant access for the households to enter those three markets for housing purposes.

That the difficulties recognised through the provision of housing loans contain the unsuitability of conventional finance, and there are no secondary housing markets aligned by the commercial banks to address the gap of lack of access for affordable housing finance by households' inability to qualify for housing loans or a fully subsidised house Smit (2003).

Vetrivell and Kumarmangalam (2010) opined that the problems of not being able to access finance or loans is due to pragmatic problems that arise from the inconsistency between the methods that function in the commercial banking sector and the character of the economy that does not align to the finance requirements of the low-income groups. Basically, they argue that commercial banks' requirements for lending are stringent as they require the potential borrower to have a form of constant income to ensure that credit can be serviced and repayments can be done regularly based on the agreed credit terms. While this is good for the banks, it is a challenge to the low-income groups as those with steady income are a few.

According to Lea (2005), affordable housing finance remains the same challenge being faced by developing housing residential markets, is normally due to no suitable infrastructure and requirements for credit lending being an obstacle. It is apparent that the lower income groups'

inability to afford housing is attributable to interest rates being high and property values being expensive.

Due to the challenge of high interest rates and pricey houses, commercial banks resorted to viewing the lower income groups as being risky to be granted loans and unable to qualify as per banks affordability requirements.

Thus, commercial banks in South Africa target the higher market end that is mainly in urban areas and are hesitant to grant mortgage loans to the low-income groups. In addressing this market failure, the South African government has put measures in place to establish some form of relationships among the commercial banks and the public sector to enhance mechanisms and to address accessibility to affordable finance for housing purposes by the low-income groups, however it has not yet yielded positive outcome.

Kafrawy (2012) argues that efficient well-functioning commercial banking and housing markets, as well as government intervention, will make improvements on access to housing finance.

In the survey that was conducted, (Ferguson, 2000) agrees that in developing countries, housing is a priority compared to healthcare and education even though it has not been afforded the priority it deserves. Housing has received little attention mainly due to the huge capital required to purchase a house or rent.

One very vital aspect of housing finance as argued in Tipple (2000), which has failed to attract sufficient formal recognition as a main player in the financial housing sector, is the household's "purse finance" as individual households are one of largest suppliers of housing for the lower-income groups.

The literature above indicates the significance of accessibility to housing finance and encourages a need to develop alternative strategies in addressing the gap for the lower-income households to be granted access to housing finance. The literature is also indicating that there is still reluctance for the traditional financial institutions to grant affordable housing finance to the lower income groups due to perception of high defaults.

## 2.4. The South African Context

The total SA population is approximately 57, 73 million (Stats SA, 2018). The Gauteng population remains the largest with 14, 7 million people (25, 4%). The current estimates of the backlog stand at about 2.2 million households, which include the households living in informal settlements and backyard shacks (Statistics South Africa, 2016). The -government has provided about 2, 8 million housing opportunities through subsidy assistance to poor households; however the problems facing low-income households remain and continue to affect them negatively.

According to CAHF (2009), in South Africa there are approximately 15% individuals who earn between R3 500 and R8 000, 4% of those earning between R8 000 and R12 000 live in formal dwellings whilst the rest reside in overcrowded environments, insufficient buildings or at rental units. This demonstrates the challenges faced by the low-income groups in getting affordable housing finance.

Table 2.1 below indicates the housing market divided as per the household income in relation to affordability in terms of repayments of housing loan.

**Table 2.1: Households Segment**

<b>Income</b>	<b>Programme</b>
Less than R3,500	Subsidy market
Between R3,500 – R7,500	FLISP program
From R7,500 – R15,000	Middle to low-income
Above R15,000	High to middle income

*Source: Kecia Rust, David Gardner, Andreas Bertoldi, 2005*

Table 2.1 shows that income brackets between R3 500 to R15 000 qualify for the FLISP programme which also fall in the low-income brackets as the monthly income above R15 000 starts to be considered as middle to high income for the fully bonded houses.

There is a continuation on increased housing backlog, which is attributable to numerous factors which include lack of producing low cost and affordable houses, lack of housing loans

for the income brackets below R15 000 but more than R3 500 for fully subsidised market which is exacerbated by the high levels of unaffordability and high rates of unemployment.

#### **2.4.1. Housing Policy**

In 1994 South Africa released its housing policy, the White Paper for housing; in 1997 the Housing Act followed mainly to differentiate mandates and obligations of its various domains of government regarding housing. The policy's mandate was to address its constitutional mandate on government in ensuring accessibility of sufficient housing shelter. In 2004, the government approved a comprehensive housing plan, the Breaking New Ground (BNG), which is included into the South African National Development Plan (NDP). The NDP is the plan for South Africa aimed at elimination of poverty, inequality reduction by 2030. The NDP's recommendation regarding housing is the reviewing of grants and subsidies to ensure a diverse product and alternative financial options for affordable housing. The housing policy failed to address the backlog and shortage of houses and subsequently the BNG was introduced.

Rust (2006) explains that the BNG is setting out the outcome to be achieved, ways to extend mechanisms to be used along the procedure. Traditional and conventional lenders were persuaded to tap into the low-income sector and government institutions such as NHFC were strengthened.

In the current policy framework, it developed strategies and intervention to improve access to affordable housing finance by establishing various entities comprising of the NHFC and others focusing on rural and urban housing needs. The Human Settlements Development Bank is created by consolidating, namely; NHFC, National Urban Reconstruction and Housing Agency (NURCHA) and Rural Housing Loan Fund (RLHF) to address affordable housing finance accessibility.

The main factor of affordable housing finance is government's intervention in having clear policies with regards to funding through the housing subsidy programme, and the inclusion of the private sector to participate in partnership with the government and communities (Tomlinson, (1999); Rust (2002)). The current funding mechanisms mean that the state is likely to remain the main supplier of wholesale finance and guarantor of loans towards housing (Khan, 2003).

Khan and Thring (2003) observe that the existing government housing policies and their application; are extremely biased to the housing market.

This study will also look into the current policy gap and its impact in broadening access to affordable housing finance.

#### **2.4.2 Role of Government**

In South Africa, there are different subsidy programmes to ensure that the poor are provided with shelter. The kind of housing provided with full subsidy is those houses that are too small and their beneficiaries end up having to extend or improve them. To make an improvement and ensure decent housing, the low-income groups require financial assistance. It is very challenging for the low-income earners in accessing home loans, as the financial institutions lending criteria makes it impossible for this group to qualify for financial assistance due to risk of default.

The South African government finds that housing subsidies are one of the main instruments to address poverty and inequality. Access is qualified and beneficiaries must behave in certain ways to show that they deserve the housing benefit, and in South Africa, communities are encouraged to participate in the process of housing development, rather than being recipients of government deliveries (Khan & Thring, 2003).

The government utilises the housing subsidy as one of the key approaches to address and alleviate poverty and inequality for the low-income earners. The role of government will be to look into partnering with other sectors in delivering on low-income housing needs by providing land and finance and also revise policies to enhance affordability. The government's housing finance interventions are mainly aimed at assisting the low-income earners group as they don't qualify for the full subsidy, and at the same time do not meet commercial banks' criteria for housing loans. The housing financial institutions such as the NHFC were formed by the government to assist in this regard.

The NHFC was established in April 1996 attributable to government's realisation that there is limited available credit for housing purposes from the traditional banking sector restrictions and there are no measures in place to ensure that accessibility of finance for housing purposes

is expanded to the poor and low-income population (NHFC, 1999:1). Its objective is to mobilise wholesale finance in the financial markets for the housing sector.

### **2.4.3 National Housing Finance Corporation (NHFC)**

The government of South Africa and the then National Housing department -now Human Settlements - have since 1994 established numerous entities to enable accessibility of affordable housing finance in the country.

One of such entities created by the government is the NHFC. “The NHFC was established as one of the five national development finance intermediaries in April 1996 because the government realised that the availability of credit for housing purposes from the conventional banking sector was too restricted and that there were no mechanisms in existence or that could be created through which access to housing credit could be expanded” (NHFC, 1999:1).

The NHFC extends to low-income groups affordable housing finance. It provides the much required finance for the low housing market which the commercial banks consider high risk. Their role therefore is risk mitigation in the low housing sector and also makes prospects available for the commercial banks to provide new products.

Tomlinson (2006) argues that, financial institutions in housing play a guarantee’ role for the risky funding and consequently encourage private lenders to be involved with the low-income sector. There are numerous loaning tools (like home loans finance, pension funds, unsecured micro finance and savings) have been obtainable by a range of commercial banks and non-traditional banks.

Stroebel (2003) and Tomlinson (2006) agree that notwithstanding the role played by institutions such as NHFC, the private commercial banks have not changed their willingness and attitude to offer finance for housing loans to the lower-income brackets’ accessibility of for affordable housing. Banks are of the view that the low-income households carry high risk and this subsequently leads to negative market perception. Tomlinson (2006) argues that it is attributable to the low-income households not paying deposit and the banks perceive that as one of the risks.

“Mobilises wholesale finance for the housing sector taking investments from the contractual savings institutions and directing finance and other assistance to intermediaries servicing the low-income housing market” (Khan and Thring, 2003).

According to Merrill (2004), after the government encountered challenges in providing affordable housing finance to lower income groups, it necessitated the establishment of NHFC to make funds available and mobilise housing finance for the group that is not bankable. So its role is to assist banks and non-traditional lenders to service the low-income housing market.

At the inception, the government committed roughly R1.2 billion and R100 million was raised through 24 investors and an additional R150 million targeting only rural housing finance. It provides the wholesale finance three options namely: rental housing, home ownership and incremental housing.

The study will focus on the home ownership programme where NHFC is mandated to establish housing finance alternatives for the households earning from R3 501 to R15 000 per month and do not qualify for full government housing subsidies. The NHFC (2005a:1) cites that “the NHFC addresses the housing finance needs of the housing market that have an ability to contribute financially to their housing costs, but to whom bank-funded housing finance is not readily available.”

#### **2.4.4 Housing Finance**

Housing finance is crucial for the building of assets and providing improved living conditions; it contributes in reducing poverty by increasing housing opportunities for the poor (Buckley and Kalarickal, 2005). Warnock and Warnock (2008) argue that a constraint that must be dealt with prior to the housing market maintaining provision of sustainable housing is access to housing finance.

The South African housing finance system before 1994 was faced by the high defaulting rates on mortgages attributable to political turmoil and boycotts. Pillay and Naude (2006) noted that the political turmoil and boycotts brought the service delivery by the municipalities to a standstill and led to severe mortgage defaults for the financial institutions, in particular banks that were granting credit mortgages to the low-income earners in South Africa.

The commercial banks failed to evict individuals defaulting to pay, and eventually the mortgage lenders withdrew from granting home loans to the low-income brackets. That led to the low-income earners prospects of accessing housing loans. Subsequent to the downfall of home loans for the low-income groups, the new South African government was established in 1994 and it introduced several methods to persuade commercial banks in providing affordable housing finance to the low-income groups.

According to CAHF 2017 Yearbook, South Africa has a modernised banking system with 16 banks registered and approximately over 80% of the market share is with the big four banks. The mortgage GDP ratio of South Africa is at 30.4 per cent and is the highest in Africa.

**Table 2.2: Housing loans approved per monthly income level**

Monthly Income Level	2013	2014	2015	2016	2017
R0 - R3 500	15	16	20	8	21
R3501 - R5 500	215	179	104	74	56
R5 501 - R7 500	889	698	544	502	611
R7 501 - R10 000	3 125	2 427	1 678	1 125	798
R10 001 - R15 000	14 138	11 419	9 790	7 186	5 338
>R15 000	142 897	148 384	152 295	144 807	146 643
<b>Grand Total</b>	<b>161 279</b>	<b>163 123</b>	<b>164 431</b>	<b>153 702</b>	<b>153 467</b>

Source: NCR

Table 2.2 indicates for the past five years, housing loans granted to households who earn not more than R15 000 have been sharply declining. In 2013 11% (18 382) mortgages were granted to households earning less than R15 000 however in 2016, 153 467 mortgages were granted. The National Credit Regulator (NCR) reports only 6 824 translating into mere 4% mortgages in the same period were extended to households earning less than R15 000 which shows that accessibility to housing loans remains a challenge mainly to the lower-income earners. It shows that the majority of housing loans approved and granted continued to favour households earning more than R15 000.

Other contributing factors determining access to housing finance are the banks’ criteria focusing mainly on the chances of default in paying back outstanding amounts on the loan. The requirements and determinants to qualify for a housing loan include source of regular

income, monthly income level, age of the applicant, and any credit history of the potential borrower.

The chances for low-income earners to qualify for housing loans have strict requirements within the financial institution involved in housing finance. Low-income earners usually are unable to pay back the loan and service the cost of housing which makes it difficult for such groups to borrow.

The financial institutions in South Africa generally borrow middle to high income earners and seldom extend housing finance to the lower-income brackets. Inaccessibility to finance for affordable housing is a barrier to access loans by the lower income groups. Khan and Thring (2003) argue that in addressing the problem, it is vital importance for the traditional banks to start penetrating the low-cost, high in volume housing loan sector instead of approaching it in a conventional way of extending mortgage finance terms.

#### **2.4.5 Housing Affordability**

The housing affordability revolved around the ability of an individual to raise money required to pay for the cost of building a house or buying it (Tomlinson, 2006). Affordability of housing finance basically implies how applicants meet stringent requirements to qualify for mortgage loan and in the process need to have access finance for housing.

In solving challenges of low-income groups to access affordable home loan finance the government of South Africa responded by establishing institutions such as the NHFC to ensure effective policy and strategy on housing finance affordability.

Basically, primary source of income is the individual's income to buy a house. This option seems to be cheap as there will be no additional costs to be paid such as interest on loan. The challenge, however, that is in the emerging countries similar to South Africa is that the levels of income are generally very low. Therefore, there is a correlation between source of income and house expenses towards housing affordability.

Among the challenges facing government in its efforts to increase housing delivery, is the issue of affordability which is attributable to a market gap of income group that do not qualify for subsidy. The same group is perceived to be earning higher income. Contrary, the same group does not qualify to attain mortgage due to strict lending criteria of traditional lenders.

Moss (2003) argued that the main challenge excluding the lower income groups from accessing the housing market is affordability and the difference between cost and income for housing is wide. While Govender (1997) argues it is beyond affordability for the poor or low-income groups' accessibility to finance for housing needs as the source of approach is to ensure that the housing loan is limited due to exclusion and discrimination. He goes on to mention that there is absence of credit facilities mechanism intended for the poor or low-income groups and the lack of consumer education targeting the bottom income brackets. These in turn prevent low-income earners from accessing finance to meet housing needs.

In South Africa there is a lack of affordability attributable to high unemployment rate and the banking industry also being risk averse. It still remains a challenge to access housing finance or loans in South Africa by the low-income groups and many continue to be excluded due to affordability.

Affordability for housing is characterized by three things: income of household, house price and the period of time to repay the loan.

#### **2.4.6 Financial Services Charter (FSC)**

The Financial Services Charter (FSC) is a voluntary charter signed by the biggest South African financial institutions in 2003 wherein they committed themselves to extend R70 billion in development finance over a five year period beginning 1 January 2004 (Banking Association South Africa (BASA), 2014; Kihato , 2010:50; Eighty 20 Consulting , 2010:3). Of this amount, R42 billion was directed at housing finance for the low-income market, defined as household with monthly incomes ranging from R1 500 to R7 500 at the time of agreement.

By 2005, BASA reported that a performance review of FSC revealed only R16,7 billion as having extended to the FSC target market. According to Rust (2008:18), only 5% of the targeted group had access to mortgage finance compared to 53% who did not qualify for the same program designed for them. Within five years from the inception of FSC in 2008, the National Credit Regulator (NCR) found that only 2.7% by rand value (9.8% volume value) of

the R44 billion in loans to the FSC target market (as reported by the financial institutions) was extended to the households earning R10 000 per month (Kihato, 2010:50)

### **2.5.Housing Finance in Developing countries**

The low-income household's accessibility to affordable housing finance needs for housing has been identified as one of the challenging activities in many developing countries.

Conventional and traditional lenders in developing countries fail to attract low-income groups due to irregular sources of income.

The low-income groups, even when they are able to improve their income, there is another aspect where there are no existing mechanisms put in place to allow the lower-income brackets access to affordable housing finance to meet their housing needs (Afrane, 2014). In many developing countries the commercial and traditional banks are not only inaccessible but also designed poorly and don't have strategies appropriate to finance housing needs of low-income households.

Ferguson (2003) contends that traditional mortgage lenders look for stable monthly payments from a regular and verifiable source of income for longer periods, nature of employment, interest rates charged and title deed registered. Though, Rust (2007) argues that low-income groups are self-employed, do not have stable regular income and operate in risky and non-profitable markets; and do not have registered land titles.

Kajimo-Shakamu and Evans (2017) states that access to commercial banks for affordable housing finance is still a challenge for most of the low-income households in South Africa. Furthermore, the present character of the housing market and the financial institutions is intended for the mortgage finance extended mainly to the middle to high income groups. South Africa and other developing countries are faced with challenges of affordable housing finance accessibility by the low-income earners.

The United Nation (UN) (2009), reports that housing finance in the developing countries has two important challenges, firstly, the ability to mobilise savings by households as it is a vital source for the housing finance. The second challenge addresses the stringent requirements and processes of providing and determining how commercial banks lend different income groups access to mortgage loans.

In terms of the United Nation household's, savings in emerging countries are commonly very low due to the inflation rate being high and thus discourages domestic savings.

Numerous studies have shown that the building of a house is capital intensive and is considered as the highest investment of most individuals. In the developing countries, the implication of capital nature of housing is the shortage of affordable housing units. The housing shortage is approximately at 1.6 million and 17 million in Uganda and Nigeria respectively CAHF (2013).

### **2.5.1. Uganda**

Kanangwa (2008) notes in Uganda merely 1% of housing loans were approved by financial institution in an estimated 4.5 million houses in the year 2003, this is very low compared to other developing countries. There are adequate legal systems for collateral lending, though land titling is difficult for the low-income households. In Uganda, the micro finance institutions (MFI) play a very minimal role in provision for the housing finance. Merrill (2005) states that Uganda had own mutual banks and other housing financiers, however they were ruined by inflation rate that is high, management was poor and there was no funding.

The low-income earners only receive negligible loans from the MFI purely for improvement of their houses. Strict and stringent requirements in obtaining and accessing housing finance by the borrowers are to have a regular source of income; land ownership or title deed; monthly instalment not exceeding at most 35%; high interest rates between 16% - 18% and the banks providing loan to a maximum of 80% and the remaining 20% to be raised by the borrower.

Affordability remains a major challenge to influence whether individuals can afford to purchase a house and if the bank will be willing to lend to them. Due to challenge of access to finance many people build their own houses using their savings as they can't get loans from the banks.

Some of the encounters faced to access housing finance in Uganda are failed housing policy; gaps in regulatory framework to address housing finance; low-income levels and the informal sector. The interest rates remain high essentially to failure of the banks in managing different risk factors when lending. The banks generally consider only individuals from the formal

employment with regular monthly income and require a high deposit of between 20% and 30% as mitigating risks and reducing monthly payments. This requirement makes it challenging for the low-income groups to qualify for a mortgage loan.

### **2.5.2. Nigeria**

In Sub-Saharan Africa (SSA), Nigeria's population is the largest and is highly urbanized. It launched its national housing policy in 1991 with an objective to achieve sustainable human settlements and the global strategy for shelter. Like many developing countries, housing development policies are bias inclined towards the middle to high income levels. The planned developments of housing policies for the low-income groups are not adequate as the high income groups' end up benefiting at the expense of the poor. It is estimated that over 90% of urban houses is created by the private sector Akinwunmi (2009).

The National Housing Forum (NHF) was created in 1992 with the aim to assist Nigerians to obtain homes at reasonable prices, to ensure a regular provision of housing loans, and to offer long term loans to mortgage institutions (Chiquier and Lea, 2009). It is estimated that over 80% of Nigerian borrowers are lower income earners and mainly not meeting requirements to access housing finance. Akinwunmi (2009) argues that in developing countries seventy to eighty percent of housing finance by the lower-income groups is raised from the informal sector.

In Nigeria, the low income earners are also faced by inaccessibility to affordable housing finance attributable to strict requirements by the banks when they borrow for housing loans. The difference in cost for housing and income is wide according to Ferguson (2000), and it leads to exclusion of the low income earners from the housing sector.

According to Oyewole (2010), the low-income earners are unable to afford houses established through the intervention of government even when subsidy is available due to lack of accessibility to finance through housing schemes. He further argues that the failure and inability of the commercial banks in address the demand for by the low-income groups in emerging countries led to the development of informal housing finance schemes.

The Nigerian housing finance system seems structured and efficient but the barrier to delivering of houses is the cost of land mainly urban and the development of affordable houses for the low-income earners. The low-income earners' faced a challenge of accessing housing finance which is an obstacle to delivery of houses. Affordability is the general problem faced by the low-income earners from the housing sector.

## **2.6. Chapter summary**

This chapter pointed out main concerns confronting and encountered by the households earning lower-income at the housing policy level and the role of government. The aim of the review was to understand and ascertain the current gaps in the policy of affordable housing finance. The principal attention was to demonstrate how vital the affordable housing finance is for providing access to the low-income groups. It also touched on the experience of two developing countries in Africa. The study will look at the role played by NHFC in housing finance for the low-income group in Gauteng, by analysing data from NHFC on loans disbursed.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methodology and process used in the study including ethical considerations, research design, research approach and strategy, sample, population, data collection process and data analysis. The study adopted the mixed methods approach for collection of data.

#### **3.2 Research Approach and design**

It is the processes and methods used to respond to the research question. It comprises of selecting the subjects of participants in the study, the methods and tactics to collect data from the subjects and processes for collection of the information.

Yin (2003) recommended three wide-ranging kinds of research designs (exploratory, descriptive and explanatory) that researchers might use either one or mixed to attain and respond to the research questions and objectives. In this study, the two methods of research designs exploratory and descriptive which warrants the use of both qualitative and quantitative methods to address the research questions.

In the mixed method design, there are three issues requires to be considered: priority, implementation, and integration (Creswell, 2012). The study provides same weighting to qualitative and quantitative of data and aim for triangulation, the objective is that the analysis of both data collected concluding with the same results of phenomena investigated (Creswell, 2012)

This study used convergent parallel mixed methods designs where data was collected together for both qualitative and quantitative at the same time, but independently from one another, analysis individually, and the comparing of results (Creswell & Plano Clark, 2011). The triangulation method will be used on the findings for qualitative and quantitative for validation if results agree. The type of convergent parallel methods used will be Qual-Quant mainly a qualitative study using quantitative data to complement or corroborate the findings (Creswell, 2012). Convergent parallel design method is adopted for the study to respond to the research questions. The justification for this method approach, is due to the use of the qualitative approach for the exploratory component of the research and quantitative approach

for the descriptive component. The qualitative method was used for an insight understanding of barriers encountered by the low-income groups in accessing housing finance through NHFC. The quantitative method was used to assess the number of approved loans and the amount disbursed to the low-income groups for housing finance. The convergent mixed method was suitable as it assisted in combining the two methods of findings, analysis and the interpretation of research results. The approach of mixed convergent parallel method design addresses concurrently hindrances of accessibility to affordable housing finance and quantitative data results will give a picture, while the qualitative data will enhance and describe those numerical outcomes and explore respondents' views in detail.

### 3.3 Population

The population for this study consist of three unique group populations, which are representatives from the policy level of the national department of human settlements, implementing entity NHFC officials and the beneficiaries of loans. The three unique groups are recognised as the populations from which the sampling were to be taken out for the questionnaire survey through email, telephonic and face to face interviews.

**Table 3.1: Population**

No	Category	Organisation	No of Respondents
1	Chief Director: Chief Investment Officer	National Department of Human Settlements	1
2	Business Development Manager	National Housing Finance Corporation	1
3	Home Owners	Beneficiaries	25
<b>Total</b>			<b>27</b>

*Source: Author's design from research data*

### 3.4 Sampling

For the purpose of this study as it is a case study on NHFC, the population will comprise of beneficiaries of NHFC loans residing in the City of Johannesburg, NHFC Business Development Manager and CD: CIO from the department of human settlements. The entity offers three programmes: Rental housing, Home ownership and Incremental housing. The concentration will be on home ownership and targets only households earning between R3 501 to R15 000. The total expected respondents were twenty five. The adopted method will be sampling non-probability and the selection of respondents will be on availability, with the requirement being either beneficiary of FLISP programme. The target is only those beneficiaries with interest to this study and participants comprise of households who have

existing loans and were accessed logistically and in timeous manner. Yin (2011) agrees that the sampling can range from twenty five to fifty respondents as an appropriate scope for a qualitative study. The study was confirmed to areas around city of Johannesburg including townships and new suburbs as these were probable to have household groups with a monthly income of low to middle.

The other method of sampling to be used will be purposive technique for targeting interviewees from NHFC and NDHS officials. The researcher used his decision in selecting officials from NHFC and human settlements as to who was suitably placed in providing the information that would assist to accomplish the purposes of the study. In this case the CD: CIO from the National Department of Human Settlements (NDHS) and the NHFC's Business Development Manager were suitably placed to define challenges they encounter in providing housing finance to the low-income groups. Two officials were identified from the government and NHFC respectively and face to face interviews were conducted.

### **3.5 Collection of data**

Two sources of data were used, primary and secondary data for both qualitative and quantitative.

#### **3.6.1. Secondary data**

Secondary data provided by NHFC (loans disbursed spreadsheets) and their website supplemented the primary data. They include, amongst others, dissertations, theses, newspapers and annual reports and electronic data from internet. Annual reports were obtained from NHFC, NDHS and parliamentary documents. The report offers a general summary on the functioning of NHFC and performance information. The internet provides current information on matters relating to housing finance.

The secondary data consultation was mainly to enlighten the study regarding the inherent features and range of housing finance access by the low-income groups. It also pin points the theoretical view of housing finance largely, housing affordability in general, therefore assisting to assess and evaluate access to affordable housing by the low-income groups or households. It provides a detail and comprehensive insight about the perceptions on the operations of NHFC and its impact to fulfil the mandate, thus assisting the researcher to make conclusions and recommendation for the study.

The quantitative collected data and the analysis from the NHFC are as follows:

1. Number of beneficiaries approved for low-income households for the financial year 2015 - 2017.
2. Amount of subsidy disbursed to low-income households for the financial year 2015 - 2017.

### **3.6.2. Primary data**

The primary sources of data are drawn from the three different groups, i.e., the CD: CIO from the NDHS, Manager from the NHFC and the beneficiaries.

The research design is therefore limited to semi-structured questionnaires sent via email to employees of NHFC, NDHS and beneficiaries of loans offered by the NHFC. The purpose of collecting data was to acquire a perception on the impact of NHFC on low-income households from the personal experience of respondents and as well as practical understanding of NHFC's senior official. The engagement will be to explore managerial thinking, beneficiary experiences and look into the literature.

The approach assisted the researcher for gathering of data from various stakeholders involved, mainly to avoid a situation where they present themselves in good light. This situation is important because all the stakeholders were surveyed to present views individually about their respective functions and those of others. It will help to remove a scenario where one presents a positive picture about themselves as their responses will be corroborated by others. The beneficiaries were in a desirable situation to provide objective responses about NHFC and NDHS, than a scenario where NHFC and NDHS were merely presenting themselves as good. For example, because of the way the NHFC functions, the information was provided by the NHFC's Business Development Manager and stakeholders working closely with the NHFC. Firstly, consultation was made with the Business Development Manager, on behalf of the NHFC. He was interviewed due to his expertise and knowledge of the housing finance industry and because he is responsible for FLISP. Furthermore, the position he occupies is responsible for the overall operation for the access to affordable housing finance and FLISP, he reports directly to the Executive. He has been with the organisation for quite some time and possesses vast experience in the housing finance for the low-to-moderate income earners. He shared valuable information on housing finance issues relating to access to housing finance loans by the low-to-moderate income earners' or groups and the FLISP scheme.

The questions posed to him were ten and varied. The questionnaire was to help the researcher to addressing the research objectives and questions. Follow up telephonic interviews were conducted to clarify on issues not clear in the questionnaire responses. The questions to be answered are on Appendix 1 and the responses assisted the researcher to offer important and viable recommendations of the study.

The second respondent was the Chief Director: Chief Investment Officer (CD: CIO) at the NDHS. She is involved in policy development, monitoring the use of grants of human settlements, funding delivery of homes, and managing programmes to improve accessibility to finance for affordable housing by the households who earns not more than R15 000. Her role is also to oversee the NDHS's financial institutions including NHFC and they report to the department about their operations. The information required was around the policy on low-income groups' affordable access to housing finance, challenges they face, government funding or budgetary intervention and alternative approaches to make an impact on the low-income households.

To draw important required information for the study, face-to-face interview was conducted with the CD: CIO. Leedy (1986) agrees that the face-to-face interviews allow the researcher to follow up on answers provided, probing responses and the investigation of reasons and state of mind, which impersonal interaction format such as email may not able to provide. A questionnaire in Appendix 2 was used as guidance for research questions and the approach used was open-ended questions. The questions assisted the interviewees to expand on their responses and allowed probing for more comprehensive and detailed answers. The interviews conducted were two, and the second one was to make follow ups on some unclear questions and to clarify as well on some responses from the NHFC.

The gap period between the first and second interview was four weeks and it gave an opportunity to interact with other respondents and do analysis. A cellular phone was used during the interview to record the conversation and responses. A request was made to the respondent that the interview will be recorded prior to commencement. A recorded conversation assisted the researcher to play it later for more detailed information and it saved time instead of writing down responses.

The third category to be consulted comprised of beneficiaries of FLISP earning between R3 501 and R15 000. The beneficiaries were drawn from the NHFC. For the identification of

the beneficiaries, the researcher had requested data from the NHFC list of beneficiaries for the FLISP. The researcher focused on beneficiaries residing in the city of Johannesburg and excluded other areas. It is important to highlight that the respondents were able to respond to questionnaire survey. From the data provided, 80 beneficiaries were sent questionnaires surveys and 28 responded, while 3 were discarded due to errors and not submitting all the questions and 25 out of 80 respondents were accepted. The non-probability sampling was used.

Of the 25 questionnaire surveys, only 5 interviews were conducted face-to-face and the remaining 20 respondents replied through completing questions and sending them through email and the questions were drawn only in English. The beneficiaries were questioned to assist the researcher to find the manner in which the low-income group interacts with NHFC. Mainly required information revolved around the income level; age; process to access the programme; challenges they encounter and their experiences. The detailed questionnaire is attached in Appendix 3.

As mentioned before, sources of data are primary and secondary which, will provide extend played by NHFC to address access to housing finance. The method is suitable for the research study since NHFC has been in existence for some time and it can be analysed due to the quality of data and the existing information on the records. An advantage of using the secondary data is that it is straightforward and can be less expensive than gathering data all over again.

For the purposes of this study, primary data collection is sourced through semi structured questionnaires and the face to face interviews. The questionnaires were emailed to respondents to collect data as it is cheaper and quicker. The study will use two pronged questionnaires to the department of human settlements and NHFC in order to corroborate information to be collected from the sources. This approach of surveys will assist to gather data from different and diverse stakeholders to get balanced views. Beneficiaries will be able to judge impact than the NHFC to portray itself as doing a good job.

The selected data is to indicate and offer comprehensive responses and clarity on both the objectives and research questions of the study as specified in chapter 1. Due to time

constraints, the data collection for this study will be based on questionnaire with key personnel from the NDHS, the NHFC as well as beneficiaries willing to participate.

### 3.6 Data Analysis

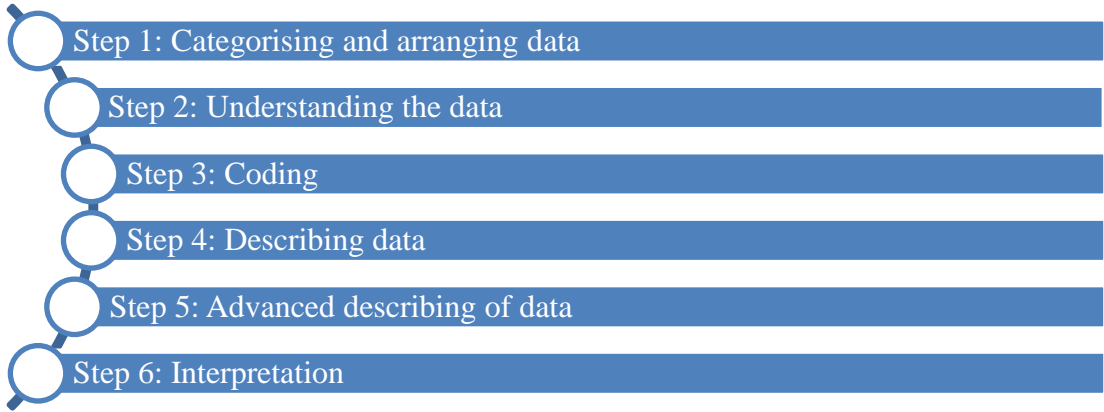
#### 3.6.1 Quantitative Data

Quantitative analysis is used to examine and understand the NHFC subsidy housing finance accessibility by the low-income earners. The method offers numerical form to describe trends, views and observations of a population to study a sampling of the population. Descriptive research design is suitable for data deriving from the quantitative research method to respond to questions relating to the how, who and what of the research questions. Quantitative research is a method appropriate for a study where data is methodically collected, measured and analysed in a clearly well-defined way.

#### 3.6.2 Qualitative Data

The data collected is determined for a detailed cleaning process prior to analysis. It corresponds to Creswell’s (2012) suggestion on the essential to analyse “deeper with a view of understanding the data collected and representing the data correctly in order to come up with an interpretation that represent the larger data”. The analysis followed the six steps supported by Creswell, as outlined Figure 3.1

**Figure 3.1: Steps of data analysis**



*Source: Researcher’s own adaptation from Creswell (2012)*

The first step of data analysis is grouped according to research questions and objectives. It will be followed by understanding data through reading it to identify any errors and correction of the data. The third step will be to code the data. It will assist developing characters and will

enable to identification of any relationships and patterns. The fourth step is where data is described and once there are trends then conclusion can be drawn to provide interpretation and finding of outcomes.

This analysis method allowed the full understanding of the objectives of the study by the researcher. The study will only be able to compare qualitative data derived from the questionnaires and interviews as it were available from targeted respondents. CIO, Managers from NHFC and beneficiaries will be analysed separately, with themes coded grouped manually to address the identified themes which grouped the collected data into conceptual categories. This will enable the study to check if information in the literature review and the results corresponds with challenges experienced by the low-income groups in accessing affordable housing finance. Furthermore, the study added a quantitative subset that captured loans approved and mechanisms used by the NHFC in providing loans to low-income groups. The data will be presented using graphs, tables (trend), and pie charts and also looked at the summary statistics.

### **3.7 Reliability and Validity**

The study relies on the interview data and survey questionnaires collected for the twenty five respondents, officials from NHFC and NDHS. The sample size used for the study is reliable, however the interview data cannot be validated except to ensure that the data is clean and useful for the purpose of the study. On the questionnaire it is validated by ensuring that its content includes relevant areas to respond to research questions.

To test for reliability the study employed multiple data collection tools such as the published annual reports, raw data from NHFC that discloses income brackets and the subsidy disbursed, interviews and questionnaires.

### **3.8 Ethical consideration**

The ethical consideration was taken into account on data gathering. Furthermore, Leedy and Ormond (2010) indicate ethical concerns in the study are divided into four categories: protected from harmful; participate voluntarily; privacy and integrity. It was therefore important that the study takes ethical issues into consideration and the respondents in this study are informed that they may participate voluntarily and withdrawal may happen at any time of the study. The information collated through questionnaires will be treated strictly confidential.

### **3.9 Limitations of the study**

According to Kumar (2011), limitations must be listed if there were any challenges encountered concerning the accessibility of data, obtaining consent from the organisation to proceed with the study and finding the sample or any part.

The research is restricted to the City of Johannesburg and the sample selection, time frame bias were identified as significance research restrictions faced with during the study. The study was conducted using non-probability sampling and it comprised of 25 respondents from the beneficiaries who are based in Johannesburg. The data collection was done in two weeks, which might have eliminated potential respondents who were not available to respond to questionnaires and have time for the interviews during the period.

The study looks at the impact of NHFC and no other institutions. Just to mention the other institution similar is NURCHA and it aims in mobilising end user financing to help lower-income groups. The area of housing finance is well researched; however there is not much research that has been undertaken on NHFC which might have posed difficulties in sourcing available literature.

### **3.10 Chapter summary**

The sources of data collection were primary and secondary and the information was collected from reliable sources from the NHFC and the CD: CIO from the NDHS, and the official documents such as NHFC annual reports. The questionnaires targeted the senior manager from the NHFC, CD: CIO from the NDHS as well as the beneficiaries.

## CHAPTER 4 DISCUSSION OF FINDINGS

### 4.1 Introduction

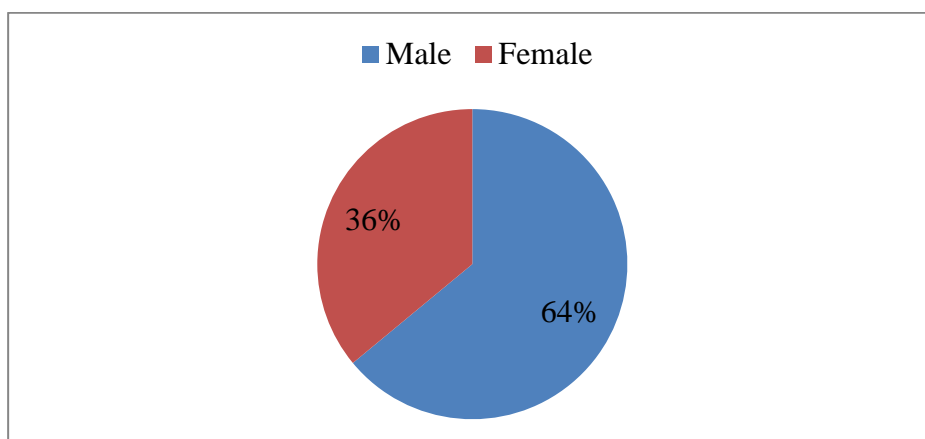
In this section will discuss the demographic characteristics of the respondents then proceeds with the qualitative and quantitative results. The findings of the study are presented in two sections. It presents descriptive (quantitative research methods) and exploratory (qualitative research methods) to respond to research questions. The findings and understanding from both quantitative and qualitative methods were analysed to detect any similar trends, possible relationships and both junction and disjunction from the literature. The qualitative data was used to supplement the existing quantitative data, and expand deeper and enhance the findings of the potential qualitative support of the study.

The three interview questions sourced from different sources was used to respond to the research questions and objectives. For the interview questions for opinion surveys, three research tools were used, namely a questionnaire for the representatives of NHFC (Appendix A), a questionnaire for the representative of the department of human settlements (Appendix B) and another questionnaire for the beneficiaries and home owners (see appendix C). The targeted participants were bond holders residing in Johannesburg areas.

### 4.2 Demographic Characteristics of Respondents

The gender distributions of the respondents are presented in Figure 4.1.

**Figure 4.1: Gender**



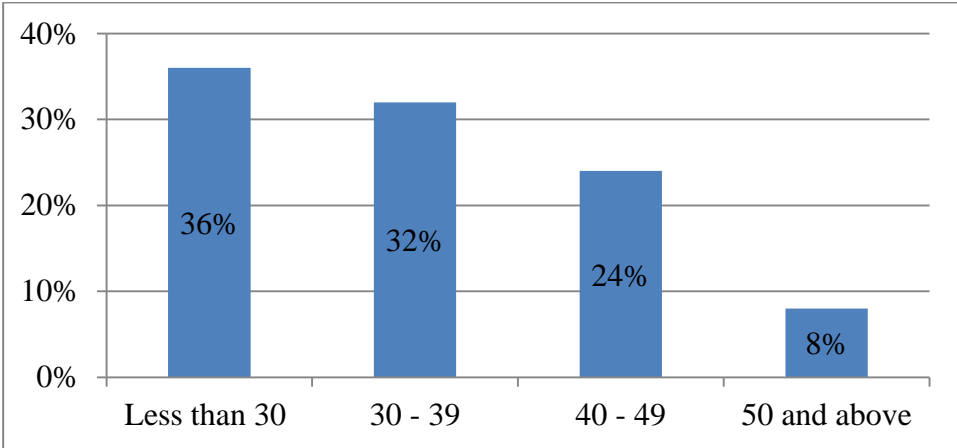
*Source: author's design from research data*

As shown in Figure 4.1 above, 64% of the respondents are males and 36% are females. While males are in majority of the respondents, gender did not appear to have influence on the

responses. It is observed that males mainly are head of the families and might indicate that they sourced for finance to purchase a house for their families.

Figure 4.2 below provides data on the age of respondents

**Figure 4.2 Age**

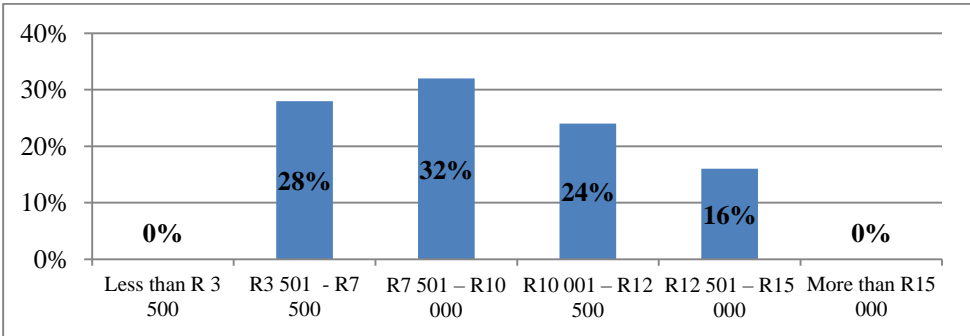


Source: author’s design from research data

Figure 4.2 shows age range of beneficiaries ranging from 30 years and more than 50 years. Nine (36%) respondents were below 30 years; eight (32%) were between 30 and 39 years; six (24%) were between 40 and 49 years; while 2 (8%) were 50 years and older. It seems that people would acquire houses between the age 30 and 49 years. The age of 30 – 49 is the prime age of home owners to acquire houses as some might have completed their education, starting a family and owning a house become a priority to protect the family. Age it is an important variable to consider when lending as it will determine the period of lending up to the official retirement age.

Figure 4.3 below provides data on Income of respondents

**Figure 4.3: Income**



Source: author’s design from research data

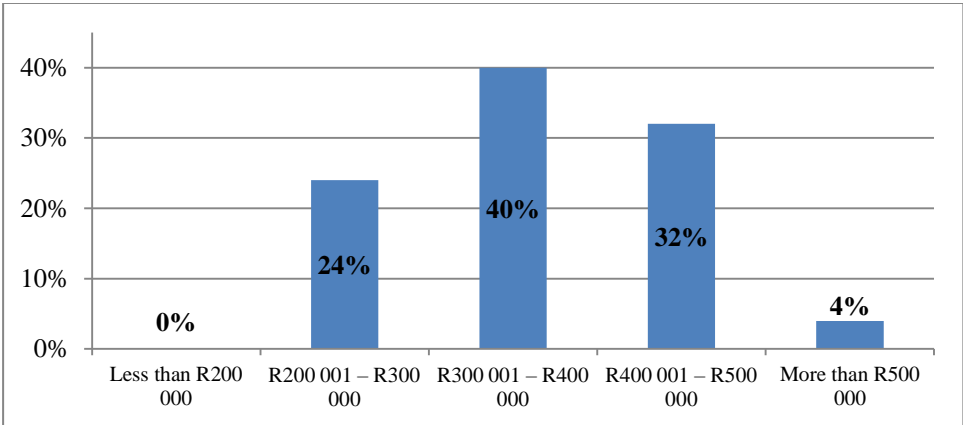
As shown in figure 4.3 above, income groups earning less than R3 500 is zero and is consistent with the South African government intervention to provide full subsidy for income

groups earning less than R3 500. There is no government intervention in the category of the groups earning more than R15 000. It shows that the lower income group in the category of income between R3 501 – R7 500 is 28%, while 72% will be more towards middle income earners above R3 500 but less than R15 000. From the literature review, it is clear that the income of households is important to determine affordability and access to affordable housing finance.

The amounts that banks are prepared to loan are calculated using the income earned, even the NHFC uses income to provide the subsidy housing finance. Therefore, there is a correlation between income earned and expenditure towards housing affordability. The principal challenge excluding the low-income groups from accessing housing loans finance is affordability due to the low-income earned (Moss, 2003).

Figure 4.4 below provides data value of the house

**Figure 4.4: House value**



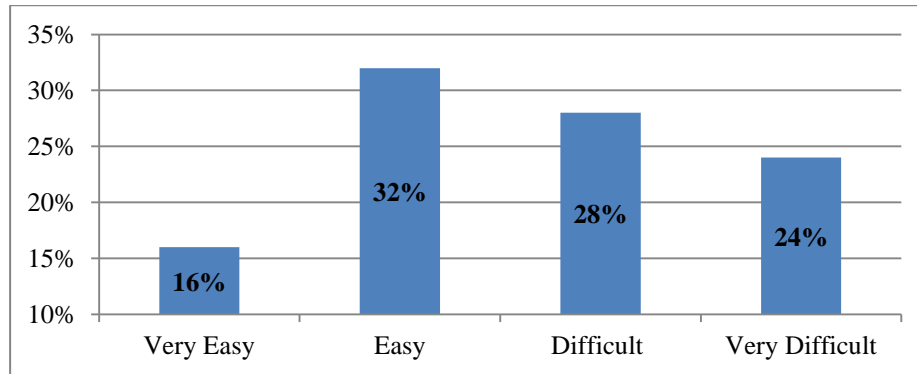
*Source: author’s design from research data*

Figure 4.4 above indicates the value of properties beneficiaries qualified for property value with the commercial banks. 64% represented by 16 respondents qualified for loan on the property of less than R400 000 while only 4% (1) qualified for the value of a house more than R500 000. The houses of less than R500 000 are considered to be affordable homes mostly between 40 to 60 square meters.

Figure 4.5 below provides data on FLISP application.

Access to NHFC subsidy housing finance based on the below response is difficult to be accessed by the low-income earners though the margin is a difference of 4% between either very easy or easy and very difficult or difficult to obtain FLISP in particular.

**Figure 4.5 Process of obtaining housing finance subsidy (FLISP)**

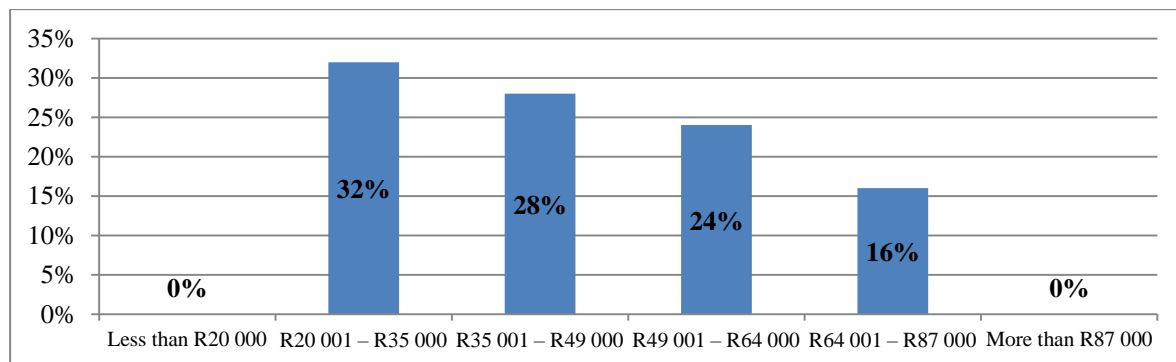


*Source: author’s design from research data*

Figure 4.5 indicates results for the process of obtaining the housing finance subsidy (FLISP) through the NHFC. 48% of respondents find the process either very easy or easy split into 16% and 32% respectively. 52% responded that it is either difficult or very difficult broken into 28% or 24% respectively.

Figure 4.6 below provides data amounts received from NHFC

**Figure 4.6: Subsidy amounts received by beneficiaries**



*Source: author’s design from research data*

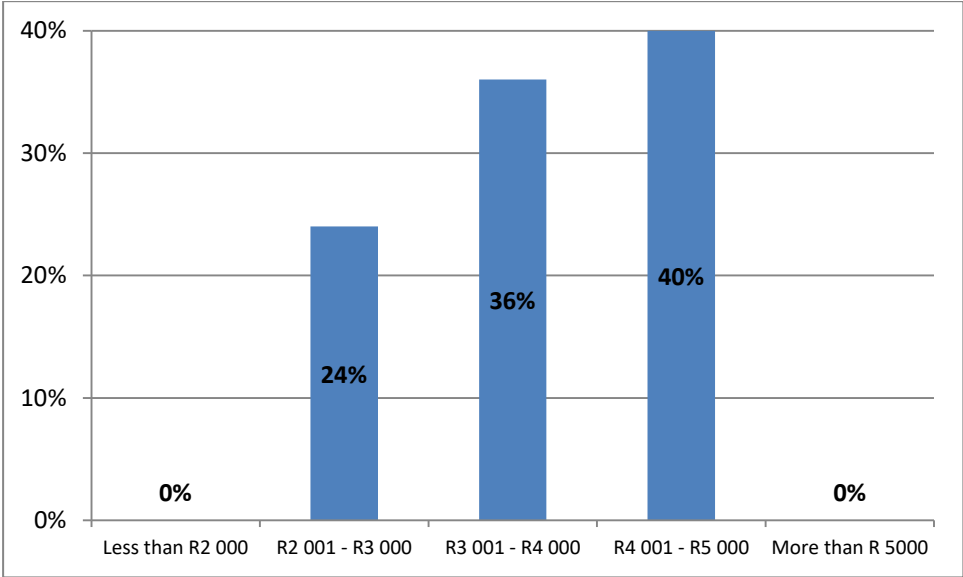
Figure 4.6 indicates amounts received by the beneficiaries to assist in reducing the bond amounts and qualify with the commercial banks’ strict and stringent requirements. Less than R20 000 shows reliability of beneficiaries responses as it is for the income earners less than R3 500 and who qualify for the fully subsidised houses and same can be said with the subsidy

amount of more than R87 000 which falls on the income earners earning more than R15 000. The responses correlate with income brackets of the study for the low-income earners between R3 500 to R15 000. 60% of the results show that low-income earners received a meagre subsidy amount of between R20 000 to R49 000. The results indicate that 16% received subsidy amount to assist with access to housing finance of between R64 000 to R87 000. Given challenges of access to housing finance, it is clear that this kind of measly subsidy provided is not sufficient.

For an example, a beneficiary who qualifies for a mortgage bond of R400 000 and getting R49 000 still leaves them with a bulk of loan owed to the bank. Basically the loan value of the bank will be R339 000 averaging interest rate between 10% to 12.50%; which still makes it difficult for the households earning lower income to access housing finance.

Figure 4.7 below provides data on monthly repayment instalments

**Figure 4.7: Banks monthly repayments**



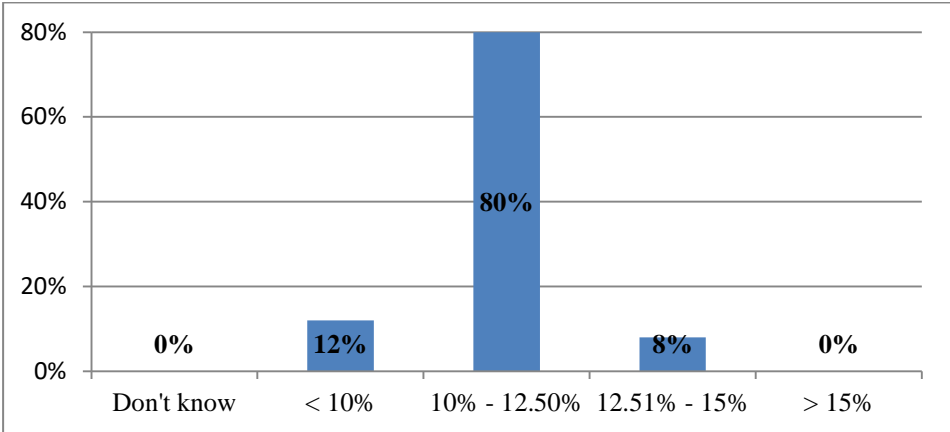
*Source: author’s design from research data*

Figure 4.7 above shows monthly repayments to the banks by the low-income earners. The 40% (10 respondents) indicates that they pay a monthly instalment of more than R4 000 and less than R5 000. Linking results of figure 4.5 of monthly income against monthly instalments shows the difficulty of individuals earning lower income to access housing loans finance. The 24% of respondents paying monthly instalments of between R2 001 to R3 000 correlates with

the 28% in figure 4.5 of income per month. The correlation and relationship between repayment and income indicates that affordability is still a challenge.

Figure 4.8 below provides data on interest charged by banks

**Figure 4.8: Interest rates charged**

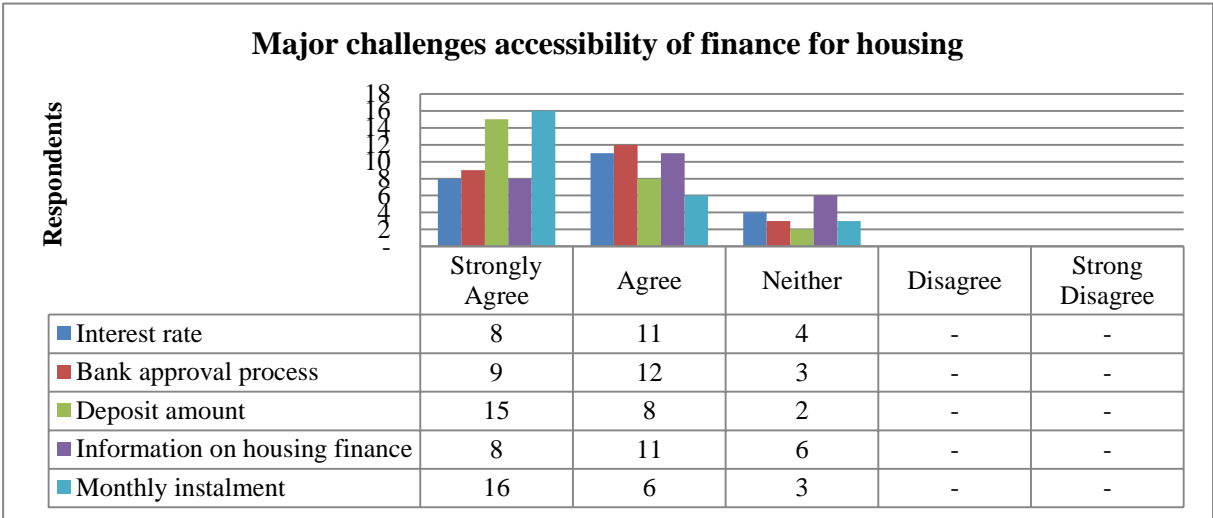


Source: author's design from research data

Figure 4.8 indicates that 88% of respondents are charged interest rate same or above the lending rate of 10%. For the low-income groups to have access to housing finance, they should be getting lower interest rates, however results contradict that.

Figure 4.9 below provides data on challenges by low-income earners to access affordable housing finance

**Figure 4.9: Challenges faced to access finance**



Source: author's design from research data

Figure 4.9 represents issues considered as the main challenge, among others faced by the low-income earners. The respondents have responded by saying they strongly agree or agree that those are among the challenges they encounter when trying to access affordable housing finance. NHFC will have to play a critical role as there is also a challenge on access to information for government programmes that assist low-income earners to be assisted in reducing their mortgage bonds.

This section presents responses by the NHFC official, the official from the NDHS and the beneficiaries regarding the research questions.

### **4.3 Response by the NHFC's Official**

This section of the chapter is about the NHFC's official perspective on the research objectives and responses:

#### **4.3.1 The role of affordable housing finance by low-income earners through NHFC in creating sustainable human settlements**

During the interview conducted with the Development Manager from NHFC, he explained that when the NHFC was established it was to focus in lending to people who were considered unbankable, to invest in township areas and unblock the redlining. Banks were refusing to lend finance for housing mainly to the poor who were residing mainly in redlined areas. He alluded to that it also leverages on the private sector funding while it manages the risk to unblock the redlining and unbankable township areas. His perspective is that the main aim of NHFC is to address the market failures on housing sector.

He further explained that leveraging of private sector funding helped on the introduction of the Financial Services Charter (FSC) where banks made commitment and R42 billion was available for access to finance by the low-income groups and perceived unbankable groups.

The Business Development Manager noted that after the introduction of FLISP by government targeting low-income groups between R3 501 and R15 000, the big four banks namely; ABSA, Standard Bank, FNB and Nedbank started to also have an appetite of lending to the lower income groups. However the aim was that the NHFC will minimise the risk of defaulters by reducing their capital loan amount which will lead to lower monthly

repayments. The current qualification criteria for FLISP are linked to a mortgage bond with the bank.

Another issue raised by the Business Development Manager is that there have been various and different understanding of who constitutes the low to middle income groups and it got to be confused with the popular term of gap markets and at times giving conflicting interpretation of low-income groups. He alluded to that in terms of NHFC they interchangeably used the terms low to middle income earners and gap market, however the focus is on the lower-income categories challenge in accessing finance for housing. He explained that the gap market concept is being driven by the banks as it is defined either by the income level or value of the property.

The Business Development Manager is of the view that NHFC has unblocked market failures, though it can do better than what it achieved. He also alluded to the fact that his organisation's role is critical in increasing the number of the first time buyers by providing subsidy housing finance, however more still needs to be done. He argues that as much as the subsidy is linked to an individual meeting the banks' credit requirements, already the government is doing a lot in providing fully subsidised houses for the poor.

When responding to issues around consumer education he responded by:

*“It is important for NHFC to educate the low-income earners about housing and mortgage loans for them to understand the sophisticated housing market and using it as an asset”.*

The above response from NHFC is in conflict with the beneficiary response as many feel that they are not educated on NHFC's subsidy and some of the banks do not even know about the FLISP subsidy. It is of vital importance for the lower-income groups to be offered with the necessary information and the benefits of paying off their loans quicker. Therefore it is important for the public and private sector to partner in educating clients on available options in accessing affordable housing finance by the low-income groups.

NHFC is addressing the challenge by also allowing home buyers at low housing market to apply for financial assistance after they have purchased a house to ensure that they can reduce their mortgage bond with schemes such as FLISP. There is a window period of one year post property registration to apply for FLISP subsidy.

### **4.3.2 NHFC subsidy housing finance accessibility to the low-income earners**

The respondent opined that the number of beneficiaries at a lower-income segment currently accessing the housing subsidy through NHFC is very low at a mere 5%. He further explained that subsidy provided to home owners to buy an existing house is 65% while newly build houses is 26% and the remainder are for alterations and extensions. He is of the view that NHFC has done a significant impact in assisting the low-income earners to access affordable housing finance since its inception. He said that impact is seen in terms of house ownership in the low-income housing market. He further elaborated as follows:

*“The NHFC had a better proposition on the demand side through assisting household to improve its affordability through banks and facilitated what the banks could give as a mortgage to the low-income earners”.*

The interviewed official stated that the NHFC played a facilitating role in influencing the market and replied by saying:

*“Provision of funding in areas where traditional financial institutions reluctant to operate due to perceived high risks the NHFC stimulates housing financing activity”*

This important factor of facilitation is meant to benefit the low-income earners and so far is bearing positive results of being effective though not fully as it should be, said the respondent.

### **4.3.3 Challenges that low-income earners experiences when accessing affordable housing finance through the NHFC**

The respondent agrees that there are still challenges facing the low-income earners in accessing affordable housing finance. He indicated that the current FLISP subsidy is only targeting individuals who are on formal employment and receiving regular monthly income and it excludes those who are self-employed and making income between R3 501 and R15 000. There is also the issue of the subsidy being linked to mortgage loan with a commercial bank and knowing that the banks' requirements are stringent makes it difficult for the low-income groups to access it. He is of the view that there is a need for NHFC to establish strong strategic relations with the banks to provide information to qualifying individuals that will assist in reducing their housing loan amounts.

The respondent agrees that there is still more to be done in providing access to affordable housing finance to ensure that the impact is felt by a bigger number of low-income earners.

When responding to the challenges of access to housing finance, he said:

*“When a beneficiary purchase a house for R300 000 they also required to pay for the legal fees, transfer costs, value added tax (VAT) and the deeds office registration; and for the low-income segment they don’t have that money and it sometimes pushes their loan amount which make NHFC subsidy amount look low as it does not include the transfer and registration costs”.*

Furthermore the respondent explained that the costs of building are rising exponentially as the construction costs of affordable houses had increased from R200 000 to R350 000, therefore this increasing cost poses a serious challenge on the income group at a low level. He is of the view that the government should look into waiving all the transfer, legal and registration costs for the low-income earners in particular those receiving FLISP or housing finance assistance from the government.

Another challenge is that the FLISP housing subsidy product is not well known by the low-income earners hence the banks still continue not to give housing loans as individuals do not meet their credit criteria, while NHFC’s FLISP is able to facilitate that they meet the criteria by reducing the loan amount. Therefore, NHFC is depending on the number of housing loans commercial banks grant and it becomes difficult to increase FLISP beneficiaries when banks are not giving mortgage loans.

#### **4.4 National Human Settlement Department**

The respondent from the NDHS in her response explained that their role is to lead and direct policy development and implementation. She indicated that the policy on FLISP is under review to ensure that access to affordable housing finance is realised. Furthermore, she stated that they have improved on monitoring mechanisms of requiring regular reports on the money spent on the low-income groups assisted to access the housing finance. She stated that the government’s role on ensuring that the NHFC fulfils its mandate is by establishing a single development bank to address challenges of access to housing finance.

The current approach is that the department provides grants to NHFC for the low-income groups to access affordable housing finance and the NHFC liaise and interacts with the banks to assist with the lower income brackets to meet the commercial banks' stringent requirements. She alluded that the current monitoring tool is not adequate as NHFC does not meet targets of disbursing funds to the lower income groups due to grants sometimes being used for different programmes.

The respondents emphasised as well that there are challenges in terms of grants given to NHFC attributable to other government competing priorities such as free higher education, which impacted in the human settlements budget being cut and leaving the low-income earners having to rely on the failed market. The current policy is under reviewing for the FLISP which caters for the low-income earners as the government would like to expand from R15 000 maximum to R22 000 due to the cost of living being high. Through government policies there has been a slight improvement in the provision of housing finance. She acknowledges that change in policy is needed in low housing sector, and how the banks functions in that segment. She suggested that the government should continue to encourage commercial banks to play a bigger role in granting home loans finance to the low-income groups.

The respondent indicates that difficulties facing the low-income earners accessing finance through NHFC are lack of information and the process also being long where potential borrowers from the banks end up being despondent when not being approved by the bank. She indicates that the current process is not effective to be granted finance as an individual still follows stringent commercial banks' processes and then NHFC only provides financial assistance towards housing when they qualify with their banks.

The backlog and shortage of housing is also a challenge facing the government in delivering houses in the low-income market as the houses built for that group ranges between R400 000 to R600 000. There is also a serious shortage of houses built in the low-income market as according to the demand for the bottom low-income level earning R3 000.

They look for a house that costs R200 000 inclusive of the maximum FLISP subsidy, however they end up having to look for houses way above their range due to products not

being available for their income brackets. Currently in the housing market there are no houses that cost R200 000.

The response on the challenge facing the low-income earners in accessing housing finance was that: *“The department is making available grants to provincial departments and NHFC to provide products such as FLISP and housing finance subsidy however those departments and NHFC still approve very low numbers of beneficiary, this might be attributable to reliance on the banks to give loans prior to NHFC make available the subsidy assistance to reduce bond amount”*.

The Chief Director mentioned that the government is unable to deliver at the pace that the low-income earners' group is growing hence there is a policy shift as well to encourage individuals to move towards affordable rentals subsidised by the government, however there is a huge unwillingness as people want to own their homes not rent.

The respondent is of the view that the newly established human settlements development bank (HSDB) will assist in broadening access to housing finance by the low-income groups as it will be partnering with the commercial banks to create facilities aimed at the low-income groups.

She confirms that the Housing Policy acknowledged that accessibility of housing finance is a challenge to low-income earners in meeting their housing needs.

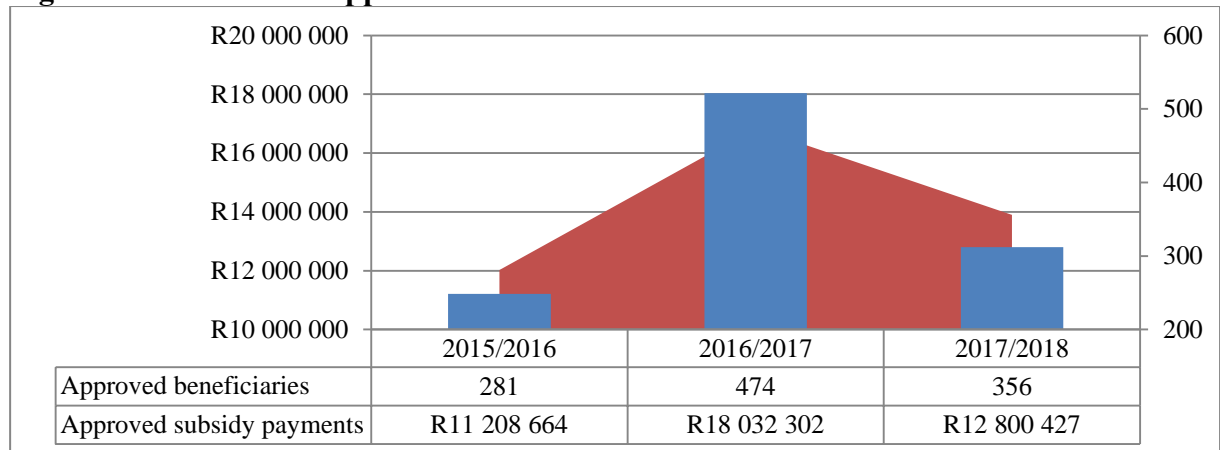
When asked about the policy change, she responded by:

*“Progress on legislation and policy change is at advanced stage in parliament to repeal Home Loan and Mortgage Disclosure and the establishment of the Human Settlements Development Bank Bill, this amendments will definitely assist the low-income earners in accessing housing loans to achieve private sector lending is developed”*.

#### 4.5 NHFC Disbursements

Figure 4.10 shows the number of approved applicants for the FLISP programme earning between R3 500 and R15 000, it further indicates the total amount disbursed to beneficiaries for the period from April 2015 to March 2018.

**Figure 4.10 Number of approvals and amount of disbursements**



*Source: NHFC 2018*

From figure 4.10, a downward trend is observed from 2016/2017 to 2017/2018. The graph shows the number of beneficiaries approved and amounts of subsidy by the NHFC in the FLISP programme for the low-income earners in Johannesburg. It appears that the numbers are decreasing, same as the amount in the 2017/2018 period.

The amount of total subsidy provided to low-income earners has declined sharply by 29% represented by R5.2 million compared to the prior year of 2016/2017. The average subsidy amounts provided to the low-income earners during the period of 2016 to 2018 is R39 888 for the period 2015/2016; R38 043 (2016/2017) and R35 956 (2017/2018). On average, disbursements clearly show that there has been a decrease overtime.

The approved number of beneficiaries in the City of Johannesburg is disappointingly very low considering that the area is an economic hub of the country. The numbers of approved beneficiaries have also sharply declined by 25% represented by 118 beneficiaries not being afforded subsidy payments compared to the prior period of 2016/2017. It is clear that the decline over the years confirms challenges faced by the low-income earners in accessing affordable housing finance.

## **4.6 Response by beneficiaries**

The section below will cover responses gathered from the beneficiaries in response to the questions and objectives. This section will concentrate on the experience of the beneficiaries and challenges faced in accessing affordable housing finance through NHFC.

The questionnaire beneficiary sample is shown in Appendix 3. In total, 80 beneficiaries were approached to take part in the survey and only 25 beneficiaries responded and took part in completing the questionnaires. This represented a response rate of 31%. The researcher is aiming for a response rate between 25% - 40%. A reason for the questionnaires to not be returned is attributable to inability of respondents to timeously complete them due to time constraints.

### **4.6.1 Beneficiary experience**

One respondent expressed concern that earning a gross income of R15 000 a month is not accurate as it does not take into account deductions which means their net income is far below and they are also required to take care of other needs such as grocery, transport, clothes and school fees. She further explained that the FLISP subsidy received from NHFC is not adequate as it considers the gross income so in the main they are always getting lesser amount of subsidy compared to what they should be getting.

One of the respondents earning a monthly gross income of R15 000 indicated that she qualified for a property to the value of R400 000 and only received R20 000 from NHFC as a FLISP subsidy, while she earns a monthly net income of R12 800 after deductions. She is of the view that the NHFC FLISP subsidy should be calculated based on monthly net income not the gross income. She felt that her loan value was reduced by a mere R20 000 NHFC subsidy which translated into her paying basically R193 less than the original loan value of R400 000. Her original monthly instalment based on R400 000 was R3 860 while after NHFC assistance of reducing the capital amount by R20 000 she is now paying R3 667.

When asked on the challenge of accessing affordable housing finance by the respondents:

*“I am earning R8 000 a month and I was forced by situation to buy an old four roomed house for R260 000. I wanted a new house like everyone else but there are no houses build in that range that I can afford as they now starts at R400 000”*

The respondent is confirming that houses built are not targeting the low-income earners.

Responses from some Interviewees spell out on why the NHFC FLISP subsidy is not well known:

*“It takes too long for a beneficiary to get information let alone approval as it can take a year. My bank didn’t want to recognise subsidy I got from NHFC through FLISP subsidy I end up paying R600 more as the bank continue to charge instalment on the original loan”.*

The above response corroborates NHFC’s process of a one year window period post property registration to allow low-income earners to apply. The concern raised is that banks are hesitant to provide housing loans based on the FLISP subsidy due to still not having confidence in the low housing sector and that the process of FLISP subsidy is burdensome.

There is evidence that the general response and experience of beneficiaries is that more still needs to be done for the lower-income groups to access finance for housing, the criteria used and considering a monthly gross income disadvantaged them in getting a reasonable subsidy through NHFC. There seems also to be a lack of understanding the requirements for the FLISP subsidy as it is linked to the market where one to qualify requires to meet banks credit requirements and banks also do not inform individuals about such assistance from the government.

The majority of beneficiaries cite monthly payment instalments and deposit amounts as a major challenge. The concern of payments of instalments and deposits is evident that the issue of affordability and accessibility to finance housing loans in the lower-income segment remains a barrier to broaden affordable housing finance.

Sandhu (2013) argues that the commercial banks still do not have an appetite to lend to low-income groups as they look for smaller amounts of housing loans and they are less profitable for the banks, and they are concerned about risks associated with that segment. As indicated on data from NCR, the loan book has been decreasing on the loan value for the low-income groups. It is evident that there is a barrier for that level to access affordable housing finance.

When answering a question on the major challenges one beneficiary responded by:

*“We are made to pay for everything and this banks charge a lot of interest”*

While the other respondent said: *“The interest rate charged by the banks are a lot why can’t government pay interest for us”*

Overall, the observations of the beneficiaries are consistent with the NHFC official’s view agreeing that there is a link on the income level and access to affordable housing finance. Both identified ineffectiveness of FLISP subsidy and taking too long to be approved and the process of applying for a loan through the banks.

#### **4.7 Chapter summary**

This chapter presented the data collected, analysed the research findings and discussed information drawn from both sources primary and secondary. The other two instruments were used to understand the opinion from the policy perspective and implementation by the department of NDHS and NHFC respectively. The researcher also looked into relationships between the quantitative and qualitative data.

## **CHAPTER 5**

### **CONCLUSIONS AND RECOMMENDATIONS OF THE STUDY**

#### **5.1 Introduction**

The purpose of this study was to examine and understand the challenges and problems faced by the low-income earners in the City of Johannesburg when accessing housing finance. This chapter presents the conclusion and recommendations towards improvement in the NHFC to achieve access to affordable housing finance by the low-income groups.

#### **5.2 Conclusion**

In concluding this section presents the objectives of the study and link the key results to demonstrate whether the research objectives have been accomplished or not. The conclusion will be based on various sections.

Numerous studies have indicated that the low-income earners in developing countries are confronted with countless challenges of access to affordable housing finance. Findings from this study identified putting up a deposit and high interest rates as major factors that impede low-income earners from accessing affordable housing finance. The survey results showed that the majority of the respondents agree when asked the question relating to the major challenges that contribute to them accessing housing finance.

Despite the challenges that the low-income earners face in accessing housing finance, they agreed that the NHFC FLISP programme assists in reducing their loan amount which ensures that banks do consider them mortgage finance. The only challenge regarding the programme is that it is not known by the banks and targeted beneficiaries, which leads to many low-income earners losing out and failing to qualify with the banks.

The main challenge encountered by the low-income earners is that the subsidy provided by NHFC through the FLISP programme is too little to reduce their banks mortgage finance. There is also a constraint in terms of delays in processing their applications for the subsidy and the programme is not known even by the banks. The low-income earners do not meet the minimum required income by the banks as they require them to pay some form of a deposit which ranges from 5% to 10% value of the property. The repayment amount is very high for the low-income groups, ranging between 50% to 70% loan to repayment value and there are other needs required to be addressed.

### **5.3 Recommendations**

This study revealed that very few of the low-income earners know about the NHFC and have been assisted through the subsidy. The main challenges remain high interest rates and lack of affordability which leads to the exclusion from obtaining housing finance.

Based on the findings, the following recommendations are proposed to address challenges of access to housing finance by the low-income earners:

- 5.1.1. The government to look into reviewing the policy and monitor closely the work of its entities.
- 5.1.2. NHFC to negotiate for lower interest rates with the banks for the low-income earners and increase its subsidy housing finance.
- 5.1.3. The government to provide more serviced stands for the low-income groups to build incrementally their houses instead of being tied to bonds for a longer period of 20 years in most cases.
- 5.1.4. NHFC to be made a fully-fledged human settlement development bank and be able to also lend directly to the low-income groups with lower interest rates.

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## APPENDICES

### Survey Questionnaire

Dear Participant

I am Edwin Limba, doing a Masters in Development Finance at the University of Cape Town. I am conducting a study on the **Access to Housing Finance for the Low-Income Groups: A case of National Housing Finance Corporation (NHFC) in South Africa**

This serves as an invitation to partake in this study and it is a voluntary participation. You withdraw at any time from partaking in this study.

Your responses will be assisting to demonstrate how the low-income groups experience any challenges in accessing housing finance.

Your answers will be treated confidentially and only for this study's purpose.

The questionnaire will take no longer than 10 to 15 minutes to complete and you will be expected to send it back to the email address below.

Many thanks for your participation. Please send a mail for any queries or concerns to [edwinl@nhbrc.org.za](mailto:edwinl@nhbrc.org.za)

Sincerely,

Researcher: Edwin Limba

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## **APPENDIX 1: INTERVIEW QUESTIONS FOR NHFC OFFICIAL**

1. What is the role of NHFC in provision of affordable finance for housing to low-income earners?
2. What are the criteria and requirements to be met by the applicant?
3. What are collaterals required from the applicants for subsidy housing finance?
4. How can accessibility to housing finance by low-income groups through the NHFC be improved?
5. What are strategies or approaches used to improve the applicant's ability to access housing finance?
6. Any mechanism in place for customer education to mobilise for the housing finance access?
7. What are critical changes required for government housing policy regarding provision of finance for housing in the low-income brackets?
8. In your opinion, is the NHFC meeting its objectives by providing housing finance to lower-income segments?
9. What are the impediments to access housing finance by the lower-income groups through NHFC?
10. Any general comments on housing finance in South Africa?

## **APPENDIX 2: INTERVIEW QUESTIONS FOR THE CHIEF DIRECTOR: CHIEF INVESTMENT OFFICER**

1. What is the role of government to ensure that NHFC fulfils its mandate?
2. How does NHFC assist in access to affordable housing finance by the low-income groups?
3. What are the monitoring mechanisms in place to ensure accessibility of subsidy housing finance through NHFC?
4. What is the view of the department on accessibility of housing finance by the low-income groups?
5. Any potential policy changes to address accessibility of finance for housing by the lower-income groups?
6. What are the obstacles faced by the low-income communities in accessing housing loans through NHFC?
7. Any general comments on housing finance?

## APPENDIX 3: INTERVIEW QUESTIONS FOR BENEFICIARIES

### Instructions

Please indicate your choice by marking (X) in the appropriate box.

1. Gender

Male	
Female	

2. Age Category

Less than 30	
30 - 39	
40 - 49	
50 and above	

3. Monthly Income

Less than R 3 500	
R3 501 - R7 500	
R7 501 – R10 000	
R10 001 – R12 500	
R12 501 – R15 000	
More than R15 000	

4. How much you bought your house for?

Less than R200 000	
R200 001 – R300 000	
R300 001 – R400 000	
R400 001 – R500 000	
More than R500 000	

5. Have you ever granted subsidy housing finance by government through National Housing Finance Corporation (NHFC)?

Yes	
No	

6. What was the process of acquiring government subsidy (FLISP) through NHFC?

Very Easy	
Easy	
Difficult	
Very Difficult	

7. How much housing finance subsidy (FLISP) you received from NHFC?

Less than R20 000	
R20 001 – R35 000	
R35 001 – R49 000	
R49 001 – R64 000	
R64 001 – R87 000	
More than R87 000	

8. Is the subsidy (FLISP) received through NHFC repayable?

Yes	
No	

9. What were the challenges in obtaining the NHFC subsidy (FLISP)?

- a).....
- b).....
- c).....

10. Have you ever granted loan from the bank?

Yes	
No	

11. How much is your loan monthly instalment? .....

12. What is the period of paying back the loan amount?

0 - 5 years	
6 - 10 years	
11 - 15 years	
16 - 20 years	
> 20 years	

13. Do you know interest rate charged on your bank loan?

Don't know	
< 10%	
10% - 12.50%	
12.51% - 15%	
> 15%	

14. To what point do you disagree with the following as not the major challenges of access to housing finance (5= Strongly Disagree, 4= Disagree, 3= Neither agree nor Disagree, 2= Agree and 1= Strongly agree )

	1	2	3	4	5
Interest rate					
Bank approval process					
Deposit amount					
Information on housing finance					
Monthly instalment					

15. What are your suggestions to improve access to housing subsidy finance (FLISP) by NHFC? .....