EXAMINING CORRELATION BETWEEN THE LACK OF BORROWER EDUCATION AND NON-PAYMENT BEHAVIOUR WITH PARTICULAR REFERENCE TO LOW INCOME HOMEOWNERS IN SA

by

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CONCEPTUAL BACKGROUND

- Examining the probability of risk of defaults as a result of lack of borrower education was motivated by the desire to ascertain the impact that borrower education has on the propensity to default on mortgages in the low income households.
- Any credit provider that grants mortgage finance faces the risks of default and foreclosure which makes borrower education an essential mitigating tool.
- Evictions and repossessions for non-payment of mortgages in areas of Johannesburg, e.g. Protea Glen, Ennerdale, Kathorus and Lawley certainly had become ordinary incidences.
Evictions and repossessions for non-payment in areas of Protea Glen, Ennerdale, Kathorus and Lawley in JHB had become ordinary occurrence.

As a result SAHRC was compelled to conduct an inquiry in 2007 in to ascertain whether human rights issues were not violated when houses are repossessed in these areas.

The four townships were found by banks to have the highest default rate ratios and Protea Glen had the highest proportion of PIPs due to non-payment.

Nedbank reported 10-15%; ABSA 34% (higher than their national average which was 12%); FNB had 30% and Standard had 10% of default rate.
Sales in Execution - Protea Glen, 2003-2010 (Source: Lightstone:2011)
Of the 17 138 houses, 13 133 were mortgaged.
Between 2007 and 2010, there were 1 316 of SiE.
PROTEA GLEN TYPICAL TOP STRUCTURES

Protea South - 36m²
Ext. 1 Protea Glen - 40m²
Ext. 2 Protea Glen - 40m²
Ext. 11 Protea Glen - 80m²

"BUILDING CAPACITY FOR SUSTAINABLE DELIVERY"
FORMULATED HYPOTHESIS

✓ Borrowers received borrower education are less likely to default;
✓ Probability of non-payment is less probable for those in the higher income category of the segmented population;
✓ Poor relationship between lender & borrower increases probability of default and contributes to mistrust of lenders by borrowers;
✓ Households with high levels of academic education are unlikely to exhibit non-payment behaviour;
✓ Probability of defaults increases when financial indices such as inflation and interest rates rise.
## RESEARCH FINDINGS: END-USER

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Amount</td>
<td>R365 000.00</td>
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<tr>
<td>Interest Rates</td>
<td>12%</td>
</tr>
<tr>
<td>Term of the loan (months)</td>
<td>240</td>
</tr>
<tr>
<td>Home Owners Insurance</td>
<td>R108.54</td>
</tr>
<tr>
<td>Credit life, Admin fee, Initiation fee</td>
<td>R3,912.97</td>
</tr>
<tr>
<td>Monthly Repayments</td>
<td>R3099.00</td>
</tr>
<tr>
<td>Total Capital Debt</td>
<td>R1, 351,596</td>
</tr>
<tr>
<td>Amount Insured</td>
<td>R428, 950</td>
</tr>
<tr>
<td>Section in Protea</td>
<td>Section 11</td>
</tr>
<tr>
<td>Size of House</td>
<td>70m²</td>
</tr>
<tr>
<td>Size of Land</td>
<td>270m²</td>
</tr>
<tr>
<td>House Feature</td>
<td>3 bed, 1 full bath</td>
</tr>
</tbody>
</table>
Employing bivariate analysis to test correlation between the respective variables the study found that:

There exists a relationship between the lack of borrower education and a borrower’s propensity to default. Meaning, the probability of non-payment behaviour is influenced by financier’s failure to provide borrower education.

The empirical data suggests that the majority (64%) of households defaulted on their mortgage loan repayments with 30% attributing their non-payment behaviour to the lack of borrower education.
The findings revealed the correlation between the borrower’s relationship with the lender and his or her propensity to default. In other words, the relationship between a borrower and a lender characterises the borrower’s tendency to default. Of those homeowners who defaulted, 19.2% had poor relationship with the lender, while those with a good relationship with the lender constituted a default rate of 14.5% while those with very good relationship comprised only of 10%.
RESEARCH FINDINGS CONT

• The rest of the hypothetical assumptions were rejected by the empirical findings, viz:

• There is no correlation between the education level of the respondent and his or her propensity to default;

• There is no association between interest rate increases and tendency to default;

• There is no r/ship between the lowest income earners of the segmented population and non-payment behaviour.
RESEARCH FINDINGS: LENDER

- All the respondents’ properties were financed by the big four banks.
- Only Standard Bank did not respond to the questionnaire, providing no reasons to its non-participation.

PARTICIPANTS
- **Lenders:** First National Bank; Nedbank; & Absa
- **Regulators:** NCR, FSB, HLMDA office
• All three banks (FNB, Nedbank and Absa) do offer borrower education programmes to home loan borrowers;
• None of the banks have provided samples of their borrower education programmes as it is considered privileged information;
RESEARCH FINDINGS: LENDER CONT

- Findings on Banks Home Loan Default Rate in 2011

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<table>
<thead>
<tr>
<th>Bank</th>
<th>Default Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSA</td>
<td>8%</td>
</tr>
<tr>
<td>FNB</td>
<td>10%</td>
</tr>
<tr>
<td>Nedbank</td>
<td>2.50%</td>
</tr>
</tbody>
</table>
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"BUILDING CAPACITY FOR SUSTAINABLE DELIVERY"
• All three banks confirmed that there is a relationship between non-payment and borrower education;
• Absa reported an 8% home loan default ratio;
• FNB reported a 10% home loan default ratio;
• Nedbank reported that only 2.5% of its home loans were in arrears;
• Accordingly, the banks mentioned that they were in the process of revising their borrower education content.
The three banks declared that their relationship with borrowers was relatively good;

Also asserted that particular perceptions that they are unfriendly and insensitive are misinformed;

Also reported that low-income borrowers generally understand the responsibilities associated with homeownership and the ongoing cost of owning a house.
RECOMMENDATIONS

- Devising targeted borrower education programmes for homeowners a catalyst;
- Design programmes aligned to borrower requirements;
- Impact monitoring and assessment processes are key in accomplishing the desired impact;
- Building rapport and strengthening relationships between borrower and lender essential;
- Building banks’ staff capacity is paramount;
- The fundamental role of central governance on facilitating borrower education programmes is the cornerstone.
END
THANK YOU