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Banks say housing shortage, risk stand in way of targets

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A MASSIVE shortage of low-cost housing and a dilemma on how to share the risk were standing in the way of banks fulfilling their commitments under the financial sector charter to provide R42bn in financing for new low-cost housing before the end of 2008, the Banking Association of SA said yesterday.

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The association said while it had come under criticism for its perceived unwillingness to finance housing for those households earning R1500-R7500 a month, a number of impediments had to be overcome before it could meet its obligations fully.

"If those are not addressed we will not make progress," banking association MD Cas Coovadia said.

Last month, Housing Minister Lindiwe Sisulu criticised banks during a parliamentary briefing over the slow pace of negotiations with government on speeding up housing provision for the poor.

However, Coovadia said following a memorandum of understanding between government and banks a year ago, proposals had been put forward. These included fixed-interest rate mortgages, which would be securitised so other players in the sector could participate in the funding.

While banks were willing to carry all the commercial risk on these mortgages, they had proposed a loss insurer to cover noncommercial risks. They wanted government to help share noncommercial risks by underwriting the loss insurer, either with a guarantee or by putting up capital.

However, government told the association that it was not willing to take on open-ended liabilities. Instead, it proposed an events-based insurance, where individual defaults would be assessed on their own merits.

National housing department spokesman Ndivhuwo Mabaya said government and the banking industry would have to continue discussions on the issue of sharing risk.

Mabaya said government was committed to finding a solution as soon as possible.

But the banking association said even if all the financial "engineering" were in place it would not have a significant positive affect on transforming the housing market because there was a huge housing supply shortage.

The body said the banking industry would quickly reach a point where there

was no product to finance because of the tremendous shortage of housing for people in the R1500-R7500 household income category.

Jopie van Honschooten, who heads the association's housing initiative, said there were about 12,5-million households in SA, of which 3- to 3,5-million were able to provide for their own housing needs.

At the end of the spectrum were about 7-million households who relied entirely on government. In the middle there were about 2-million households that fell into the R1500-R7500 household income category the banking industry was targeting.

Van Honschooten said independent research indicated there was a need for about 2,5-million homes.

"There is a shortage of about 650000 units (in this category). A realistic basis of achieving the closing of the gap would be erecting 135000 houses a year over five years, " said Van Honschooten.

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