

2023

FINANCIAL SECTOR CODE (FSC)
AFFORDABLE HOUSING STANDARDS



THE BANKING
ASSOCIATION
SOUTH AFRICA

1. INTRODUCTION

Home lending standards for qualifying loans are defined as set out in this paper. This document therefore seeks to define an:

- Affordable housing target market;
- “Gap” housing target market;
- Product definition guidelines.

2. TYPES OF LENDING

Affordable housing and “gap” housing constitutes both mortgage and non-mortgage-backed lending for housing purposes and currently includes the following product categories, which may expand in the future.

- Mortgages;
- Non-mortgages:
 - Unsecured personal loans;
 - Secured non-mortgage loan (security provided in support of the loan is not a mortgage/indemnity);
 - Residential development loans;
 - Wholesale loans.

3. QUALIFYING LOAN STANDARDS

Loans for all racial groups qualifying for inclusion must conform to the following standards:

- The purpose of the loan should be for housing (as set out under Product Category Definitions);
- Loans regulated by the National Credit Act (‘NCA’) should conform to the requirements of said Act;
- NCA regulated Loans should be priced in line with the interest rates and fee limits, specific to the various loan types, as stipulated in the NCA.

4. MEASUREMENT OF LENDING ACTIVITY

The Affordable Housing target market is defined to be the approximate cost of bonded entry level housing in South Africa, capable of being mortgaged, adjusted annually by the midpoint of the average Consumer Price Index (CPI) and the average Building Cost Index (BCI). Similarly, non-mortgage loans used for housing purposes (improvements/ additions/ purchases of a fixed nature (excludes white goods, curtaining etc.) is adjusted by the midpoint of the average Consumer Price Index (CPI) and the average Building Cost Index (BCI). The average annual CPI figure is obtained from

published reports from SA Statistics and the BCI figure from the Bureau for Economic Research (Stellenbosch University).

For 2023 the Affordable Housing market as calculated by The Banking Association comprises households earning a gross income of up to **R29 600 per month**, the “Gap” Housing market as households earning a gross income of between R3 501 to R22 000 per month and the minimum loan size for the **non-mortgage market as R1 800** for applicants for households within the Affordable Housing Market (See Note 4 for further details).

5. DEFINITIONS

Household income

Monthly household income is the primary criteria used to determine whether the lending activity may count towards the Affordable/Gap Housing origination and targeted investment targets.

Income is defined in terms of the National Credit Act, 34 of 2005 (“NCA”) as follows:

“Household income means the combined gross income of the Applicant/s, which may include the income of any major person who shares their financial means/obligations with the Applicant/s.

Gross income includes income or any right to receive income but excludes monies which an applicant has a right to receive or holds in trust for another person.”

Business written within the target market:

Loans are deemed to have been written by a financial institution when a mortgage bond has been registered or in the case of non-mortgage loans when these loans are disbursed.

The gross monthly applicant/s income is determined when the loan is approved. For target market upper income qualification purposes, the date of approval of loans, both mortgages and non-mortgages is based on the quantum of the applicant/s gross monthly income as at time of approval of a loan. In compliance with the NCA, loan applicant/s must continue to evidence income qualifications for the loan up to and including date of entering into a loan agreement with a financial institution.

Product category definitions

See table attached.

	Mortgage Loans	Non-mortgage Loans	Residential Development Loan Finance	Wholesale Loan Finance / Equity
Product Description	Residential Property loans to end users collateralised by registering a mortgage/ indemnity bond within the Affordable Housing target market.	Loans equal to or greater than R1 800 with a term of more than 12 months within the Affordable Housing target market.	Short- or long-term finance to developers for the creation of housing stock within the “gap” housing market. See “Comment” below for target market definitions.	Short- or long-term finance to corporates or intermediaries who on-lend to individuals or other entities for housing purposes within the target market.
Includes	<p>First and further mortgage/ indemnity bonds.</p> <p>Client driven switches.</p> <p>Further loans without further mortgage/ indemnity bond registration.</p>	<p>Fully or partially secured loans to end users which are collateralised by security other than a mortgage/indemnity bond.</p> <p>Further Advances. Unsecured loans used for housing purposes.</p>	<p>Housing stock for any form of tenure e.g., ownership, instalment sale, rental.</p> <p>New developments, conversions or upgrading of existing stock.</p>	All loans pertaining to mortgage loans, non-mortgage loans and residential development loan finance.

<p>Comment</p>	<p>Income for the Affordable Housing target market to be adjusted annually by the midpoint between the average CPI and BCI indexes for the previous year. The “gap” housing target market will be redefined by the Department of Human Settlements from time to time. The Banking Association will advise members annually of the adjusted target market.</p>	<p>Only finance of a fixed nature for home improvements/additions/ home purchases may be included within this definition (excludes removable assets e.g., white goods, loose flooring, curtains etc.).</p> <p>Minimum loan amount and income to be adjusted annually by the midpoint between the average CPI and BCI indexes for the previous year. The Banking Association will advise members annually of the adjusted target market. Lenders will be required to demonstrate the usage of the funds through a client self-certification process.</p>	<p>The target market differs in respect of origination /targeted investment. For origination scoring purposes the target market is restricted to the “gap” housing market segment definition. For targeted investment scoring purposes, the target market is restricted to the definition of Affordable Housing. The affordable housing target market will be adjusted annually by the midpoint between the average CPI and the BCI indexes for the previous year. The definition of the “gap” housing market will be redefined by the Department of Human Settlements based on its Finance Linked Individual Subsidy Programme beneficiary parameters (FLISP). The Banking Association will advise members annually of the adjusted target market. Where housing units are to be sold, lenders are to determine the maximum unit price that qualifies for target market inclusion</p>	<p>Short- or long-term finance to corporates or intermediaries who on-lend to individuals or other entities for housing purposes.</p>
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	Mortgage Loans	Non-mortgage Loans	Residential Development Loan Finance	Wholesale Loan Finance / Equity
			<p>purposes at time of pay away of residential development finance funds.</p> <p>Where units are being developed for rental purposes, the developer will be required to certify that expected rentals are affordable to the target market (maximum of 30% repayment to gross household income) parameter to be used.</p>	

Note 1

Household income is not a parameter measured by banks as the NCA dictates that it is an applicant's income that determines affordability. As such, banks do not record household income on their application forms or systems. There is also a strong view that self-declared household income is not reliable and would be an impractical and costly exercise to validate. In an analysis undertaken by the banks in 2004, it was found that there is a strong correlation between applicant income (comprising both individual and joint applicants) and household income. It was therefore felt that applicant income, whether single or joint, is a strong proxy for household income and a reliable and transparent measure.

Note 2

For unsecured and secured non-mortgage loans, the borrower's income and not the joint income will be used for qualification purposes as these loans are granted to individuals based only on their own income and affordability, not joint income. Joint income is, on the other hand, will be recognised for mortgage loan lending purposes where the loan is applied for jointly.

Note 3

Residential Development plays the role of an 'enabler' as it increases the supply of housing stock. Lender funding is of a short-term nature.

Note 4

For simplicity purposes, figures for the target market will be rounded up/down to the nearest R100.

The average cost of a primary market entry home was deemed to be approximately R250 000 based on member market experience, coupled with research undertaken by The Banking Association with both developers and an external research company (Finmark Trust) in 2008. An upper income limit of R15 142 was therefore deemed to be appropriate by The Banking Association in 2009. Since this this figure has been adjusted annually by The Banking Association as per point 4 "Measurement of Lending Activity" above.

The "Gap" Housing target market is aligned to the Finance Linked Individual Subsidy Programme (FLISP) as defined by the Department of Human Settlements, as this subsidy programme is designed to bridge the affordability gap between households who do not qualify for a fully subsidised home from Government but are unable to afford an entry level bonded home without partial assistance from Government. This is currently defined by the Department of Human Settlements (DHS) as households earning between R3 501 and R22 000 gross monthly income (as of 2018). From time-to-time DHS will redefine the FLISP target market.

The Financial Sector Charter definition for the “Gap” housing will align itself to such amended FLISP definitions.

Affordable Housing target market definition:

For 2017, The Banking Association had calculated the monthly upper income limit for Affordable Housing to be R22 106 and rounded off to the nearest R100, R22 100.

For 2018, The Banking Association had calculated the monthly upper income limit for Affordable Housing to be R23 321 and rounded off to the nearest R100, R23 300.

For 2019, The Banking Association had calculated the monthly upper income limit for Affordable Housing to be R24 336 and rounded off to the nearest R100, R24 300.

For 2020, The Banking Association had calculated the monthly upper income limit for Affordable Housing to be R25 443 and rounded off to the nearest R100, R25 400.

For 2021, The Banking Association has calculated the monthly upper income limit for Affordable Housing to be R26 117 and rounded off to the nearest R100, R26 100.

For 2022, The Banking Association has calculated the monthly upper income limit for Affordable Housing to be R27 161 rounded off to the nearest R100, R27 200.

For 2023 this is calculated as follows

- **CPI: average CPI for 2022 was 6.9%;**
- **BCI: average BCI for 2022 was 11.0%;**
- **The midpoint for 2022 is therefore 8.95%.**

The upper income limit for Affordable Housing for 2023 is therefore calculated to be R 29 634 (R27200 + (R27 200X8.95%) rounded off to the nearest R100, R29 600.

“Gap” Housing target market definition:

The “gap” housing target market is defined by the Department of Human Settlements through its Finance Linked Individual Subsidy Programme (FLISP), where it periodically adjusts the income target market.

For 2019, the income limit for “Gap” Housing was between R3 501 and R22 000.

For 2020, the income limit for “Gap” Housing is unchanged, namely between R3 501 and R22 000.

For 2021, the income limit for “Gap” Housing is unchanged, namely between R3 501 and R22 000.

For 2022, the income limit for “Gap” Housing Market is unchanged, namely between R3 501 and R22 000.

For 2023, the income limit for “Gap” Housing Market is unchanged, namely between R3 501 and R22 000.

Non-mortgage Loans target market definition:

For 2017, The Banking Association calculated the monthly minimum loan size for non-mortgage loans as R1 339, rounded off to the nearest R100, R1 300.

For 2018, The Banking Association calculated the monthly minimum loan size for non-mortgage loans as R1 412, rounded off to the nearest R100, R1 400.

For 2019, The Banking Association calculated the monthly minimum loan size for non-mortgage loans as R1 473, rounded off to the nearest R100, R1 500.

For 2020, The Banking Association calculated the monthly minimum loan size for non-mortgage loans as R1 540, rounded off to the nearest R100, R1 500.

For 2021, The Banking Association calculated the monthly minimum loan size for non-mortgage loans as R1 581, rounded off to the nearest R100, R1 600.

For 2022, The Banking Association calculated the monthly minimum loan size for non-mortgage loans as R1 644, rounded off to the nearest R100, R1 600.

For 2023 this is calculated as follows:

- **CPI: average CPI for 2022 was 6.9%;**
- **BCI: average BCI for 2022 was 11%;**
- **The midpoint for CPI and BCI for 2022 is 8.95%.**

The monthly minimum loan size for non-mortgage loans for 2023 is therefore calculated to be R1 791 (R1 644+ (R1 644X 8.95%), rounded off to the nearest R100, R1 800.

Going forward, on an annualised basis, The Banking Association will continue to provide members with written confirmation of the target market definition for Affordable, “Gap” Housing and non-mortgage loans as defined in point 4 above.

Note 5

It is acknowledged that variable interest rate fluctuations have a marked effect on affordability levels within the target market.