NCA often harsh on potential lower-sector home buyers

Although there is widespread agreement in the South African residential property sector that the promulgation of the National Credit Act was necessary and has contributed significantly to stabilising the property market by preventing reckless lending, it also has to be accepted that, at the lower end of the market, it has resulted in wide-scale disappointment and frustration.

It has affected many who, by most standards, would see themselves as eligible for mortgage bonds, but whose applications have been rejected.

This comment on the current situation in the residential sector was made recently by John Weston, the Rawson Property Group's franchisee for the Cape Town suburb of Bergvliet and its surrounding areas.

"Another unfortunate aspect of the legislation," said Weston, "is that it has also made it possible for the growing band of buy-to-let investors with cash to benefit almost, one could say, at the expense of the poor.

"At the lower end of the market," said Weston, "very often we have first-time buyers who are short by sometimes as little as R30 000 to R40 000 in qualifying for their first home bond. They find this difficult to accept, especially as when the market rises they will have even less chance of ever becoming home owners.

"The illogicality of these rejections is shown by the fact that the applicants are, in many cases, already paying far more per month on rents than they have to pay on their current monthly bond repayments. This shows clearly that they would have no difficulty in paying off the bond.

People should save sufficient money each month

"The banks' view," said Weston, "is often that such people should save sufficient money each month until they can afford a deposit. This, however, can be difficult for a young couple starting out in life who, on limited incomes, have been forced to run up credit to pay for their clothing, furniture and some form of transport.

"Although it is true that self-employed people tend to have higher payment-default rates than those in regular paid employment, it is also illogical that many have great difficulty in getting bonds even when their incomes are far higher than those in 'regular' employment - who could also face retrenchment at any time."

Weston said that he has come to feel that there is considerable merit in the calls that have been made over the last few years for purchasers in the lower value bracket, say under R600 000, to be eligible for a government guarantee on their bonds. "Such guarantees," he said, "need not cover the full amount outstanding on the bond but could "soften the blow" by paying, say, R50 000 to R70 000 in the event of default. This would greatly encourage the banks to be more generous in lending to this category of applicant."

Disappointment caused by banks

Weston commented, too, that the way the banks handle 100% bond applicants can often add to the client's disappointment. "Quite often," he said, "a gratified client will tell him that the bank has indicated verbally that they will accept his application - only to find out later that they have now turned it down.

"One gets the impression that the lower echelons dealing with the public are very often not acting in unison with the higher decision makers," said Weston.

"Because applicants for 100% bonds have such great difficulty in being successful," he said, "many 'wised-up' homeowners today will not accept an offer to purchase from applicants who have made the offer conditional on being granted a 100% bond.

"By way of contrast," said Weston, "cash rich buy-to-let investors have, as a result of the current situation, been able to benefit from the current market conditions by being able to buy homes which are still at 10% to 15% or more below their 2006/7 levels, particularly where sectional title properties were purchased off plan on new developments just prior to the introduction of the NCA in 2007.

"On sectional title units in the R500,000 to R800,000 bracket," said Weston, "the discount - for in reality that is what it is - can be as much as R50,000 to R100,000. The owners selling at these levels can find themselves owing their banks similar amounts, which can take them years to pay off - while the investors are collecting very satisfactory 6% to 8% returns - or higher - from day one."

Asking for a review of and "more balance" in the loan market, Weston said that the government has confirmed again and again that they want South Africa to be a property-owning country.

"Few modifications to their current lending strategies and to the stringency of the National Credit Act could help bring about a far faster and more satisfactory home buying rate than is currently the situation, thereby generating individual wealth and contributing to political stability."