Policy and Legislative Context

Impact of credit, household and regulatory issues

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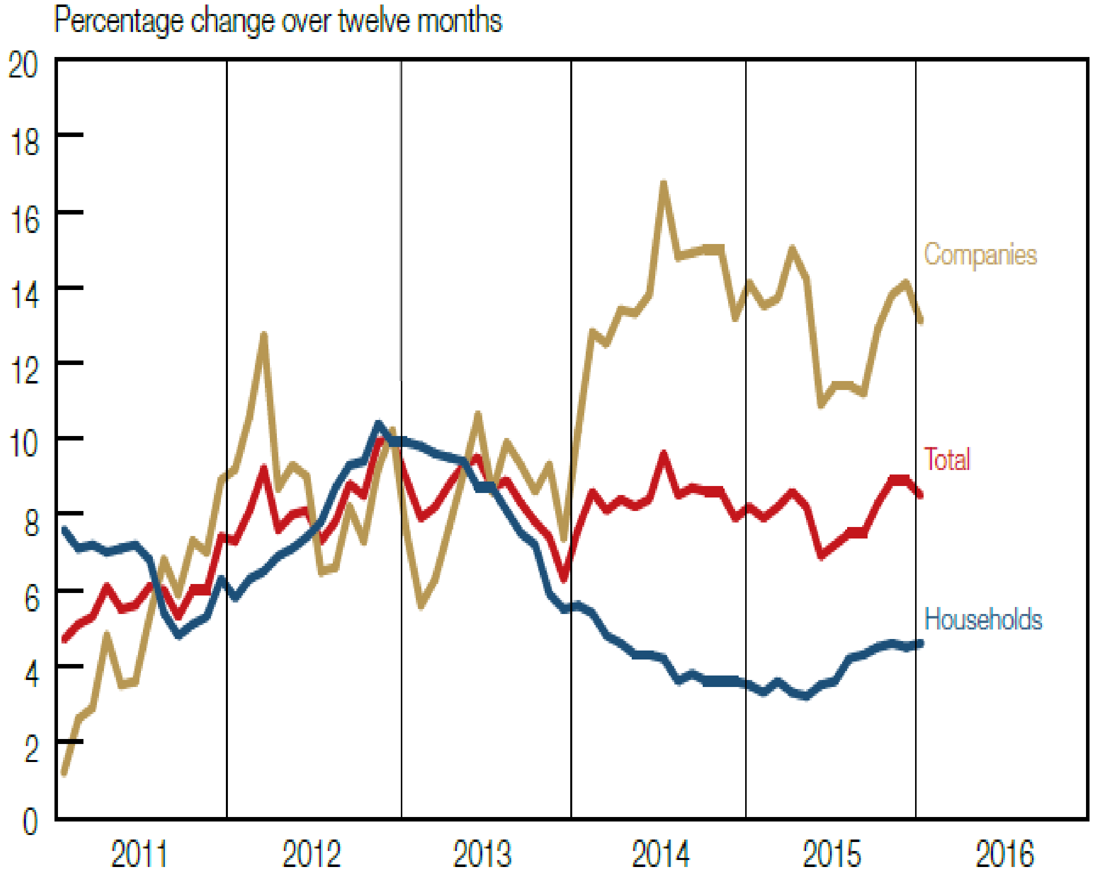
Outline

- Credit environment
- Household dynamics
- Impact of financial sector laws and regulations
  - Banks Act
  - National Credit Act
  - Other
- Importance of “thinking like a bank and a bank regulator” for design of housing interventions

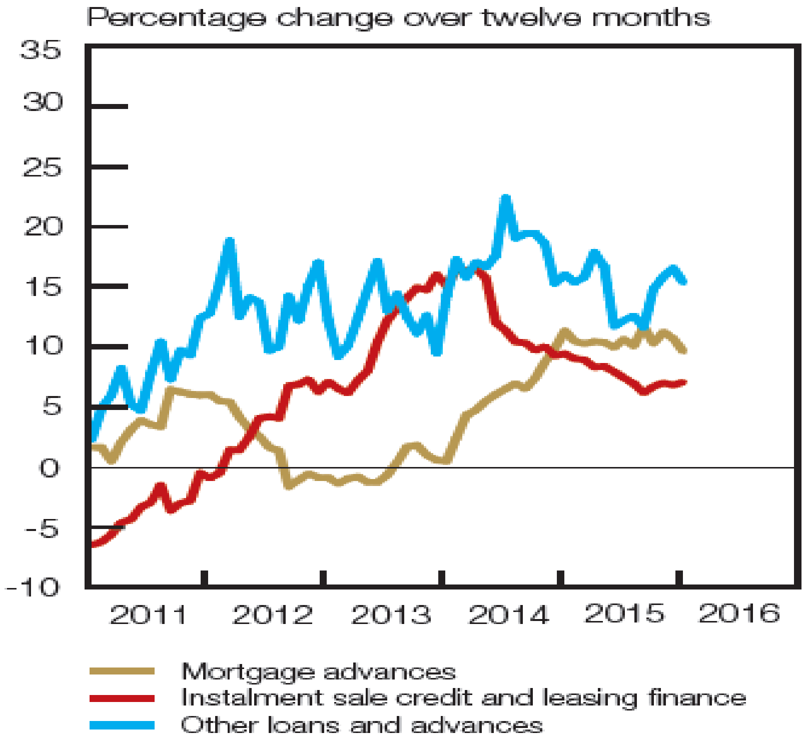
Growth in lending to households has slowed from 2012, but has started to recover

Credit extended to the private sector

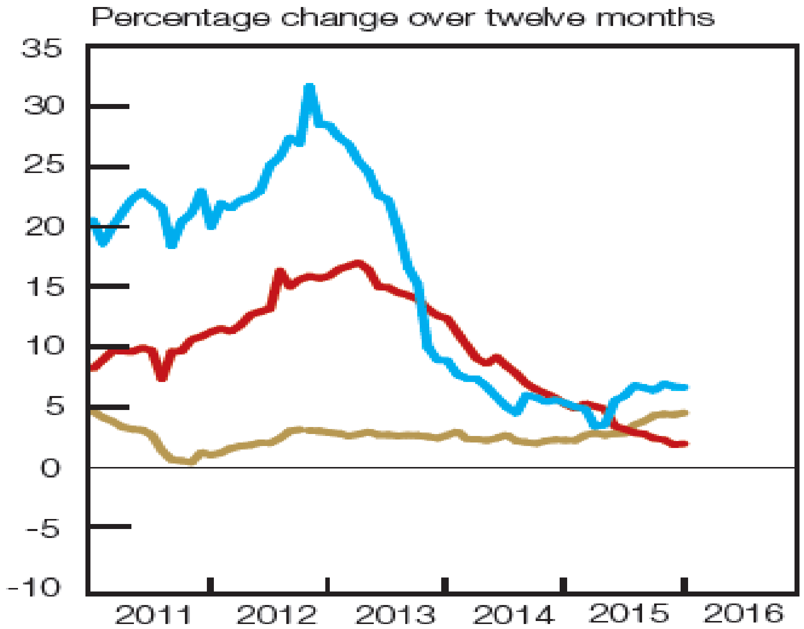


Strong mortgage lending for companies, and slow recovery in mortgages to households

Lending to companies



Lending to households



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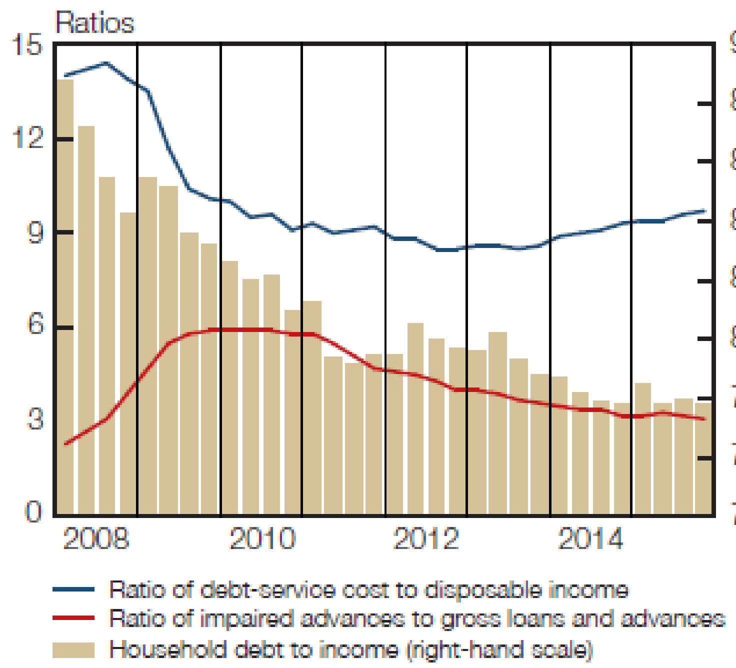
Households are slowly reducing their debt levels and debt service costs remain low

Household macroeconomic picture



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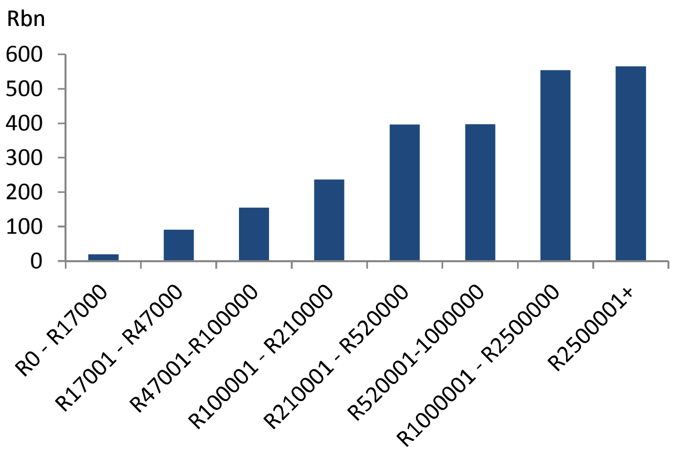
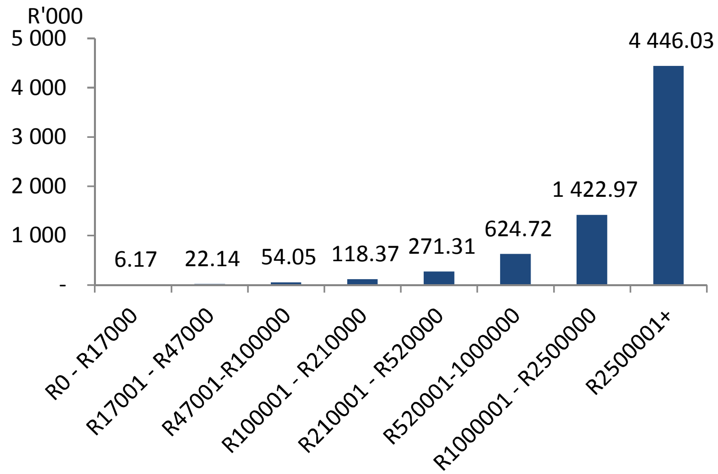
Challenge 1: Household income and wealth distribution

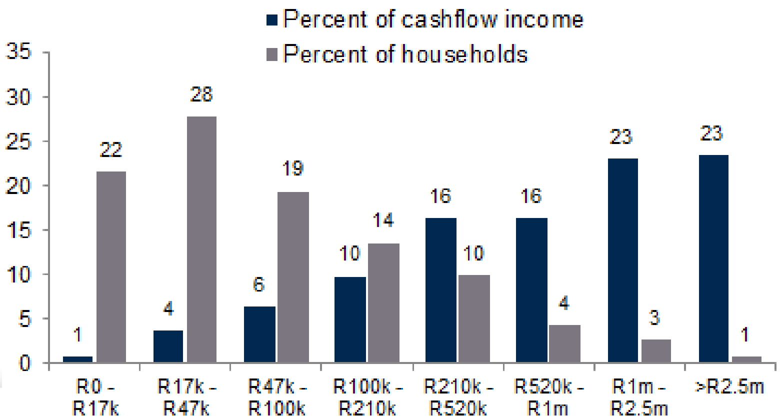
Total cash flow income across bands (Rbn)



Average household cash flow income across income bands

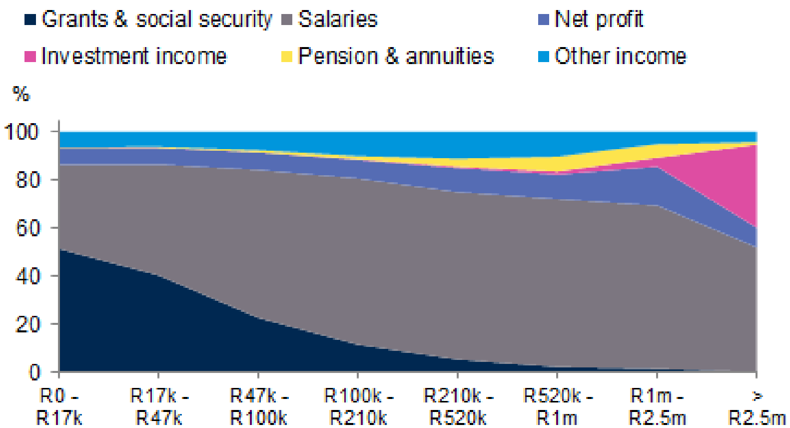


Distribution of cash flow income across income bands



Source: BMR

Sources of cash flow income (2013e)

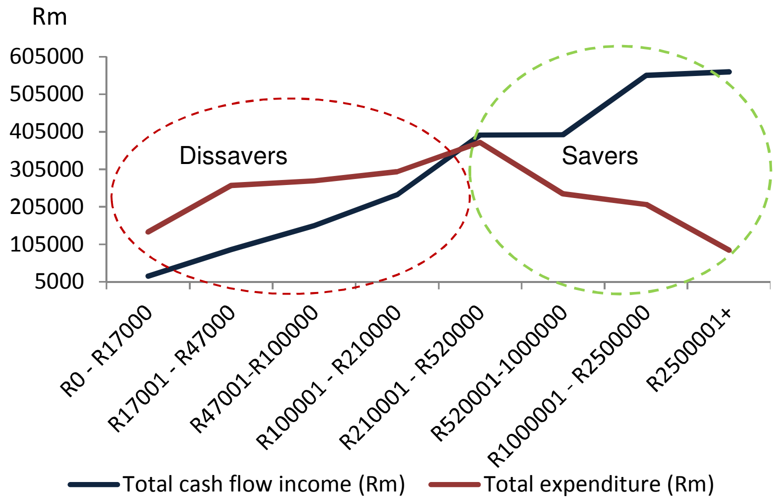


Source: BMR

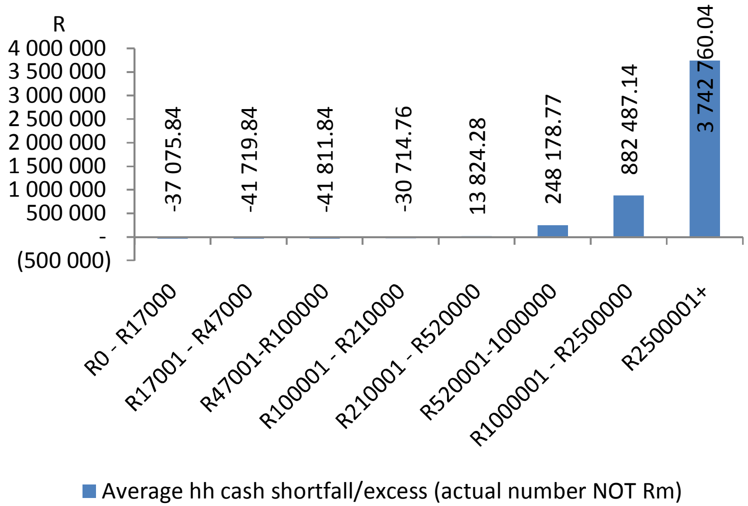
Sources: BMR, FirstRand Group Treasury

Household's net cash savings position: 2013e

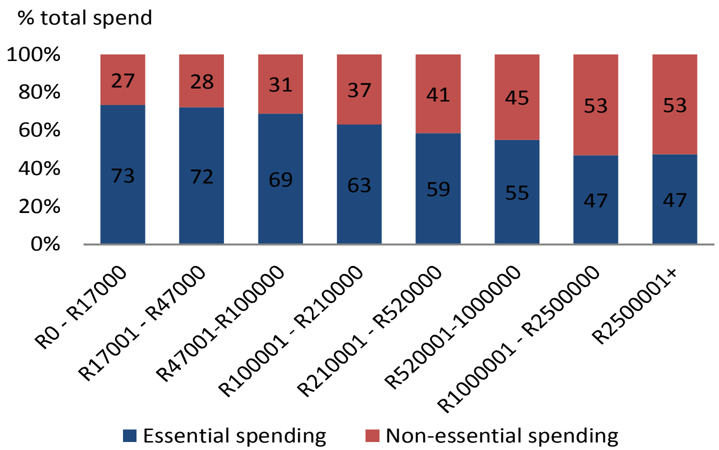
Total cash flow income and expenditure per band (Rm)



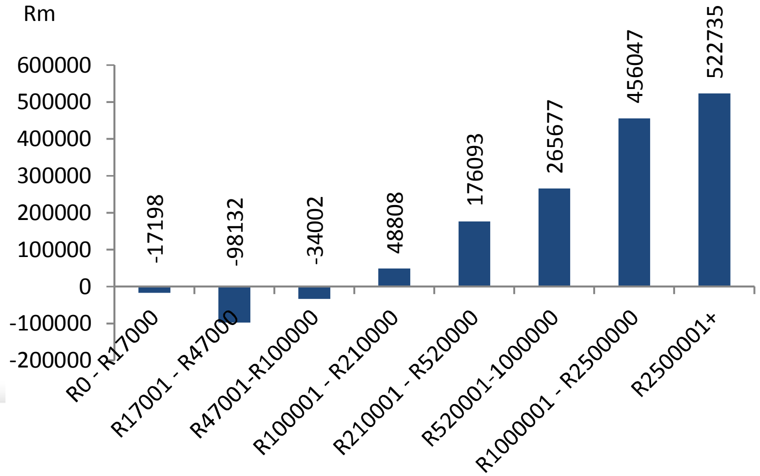
Average net cash flow savings per household



Essential spending vs. non essential spending



Cash flow income minus essential spending (*note not ave*)



Sources: BMR, FirstRand Group Treasury

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Challenge 2: Basel III

Implementation of Basel III fully up to date

Basel III	Impact on housing?
Risk-based capital	Risk weighted capital treatment Incentivises LTV <80%
Liquidity coverage ratio (LCR) And Net Stable Funding (NSFR)	Banks must match how the duration of their deposits (liabilities) with the loans they make (assets) In South Africa, banks have short-term deposits (particularly wholesale) and long-term loans (particularly mortgages). Effect is that banks are trying to lengthen deposits (32-day notice, 1 year fixed deposits) and reduce exposure to long-term loans (mortgages)

What have we done to reduce the impact?

- SA has Basel III risk-based capital rules in force

- SA has issued framework for the Net Stable Funding Ratio (NSFR).
  - SA has **calibrated the NSFR factors** to reflect the observed historical stability of certain categories of liabilities.
  - This has meant the supply of long term liabilities (mortgages and project finance etc) will be less affected.

- SA has issued rules on liquidity (Liquidity Coverage Ratio, LCR)
  - Introduced **Committed Liquidity Facility (CLF)** to help banks meet the LCR requirement
  - Is slowly creating more liquidity

What more could be done?

- Working with Reserve Bank to unblock securitisation
  - Introduce funding securitisation instruments
  - Allow for market making to improve liquidity and reduce liquidity risk premium
- Consider covered bonds
  - Same issues as securitisation
- Demand side subsidies
  - Could reduce risk and enhance securitisation?

Challenge 3: National Credit Act

Table 1: Comparison of estimated average interest rate versus current caps

	Current average interest rate	Current cap	Initially proposed cap	Final cap
Mortgages	7.8%	18.8%	18.3%	18.3%
Credit cards	14.4%	23.8%	20.6%	20.3%
Overdrafts	9.3%	23.8%	20.6%	20.3%
Personal loans (unsecured)*	27.5%	33.8%	25.6%	27.3%

- Interaction of other requirements with mortgage lending
  - Reckless lending
  - Consumer credit insurance

- Potential unintended consequences?

Conclusion

- Competing policy objectives?
  - Need to make banks safer
  - Need to protect customers from predatory lending
  - Need for housing

- How do we collectively across all stakeholders design a policy framework that balances these objectives?

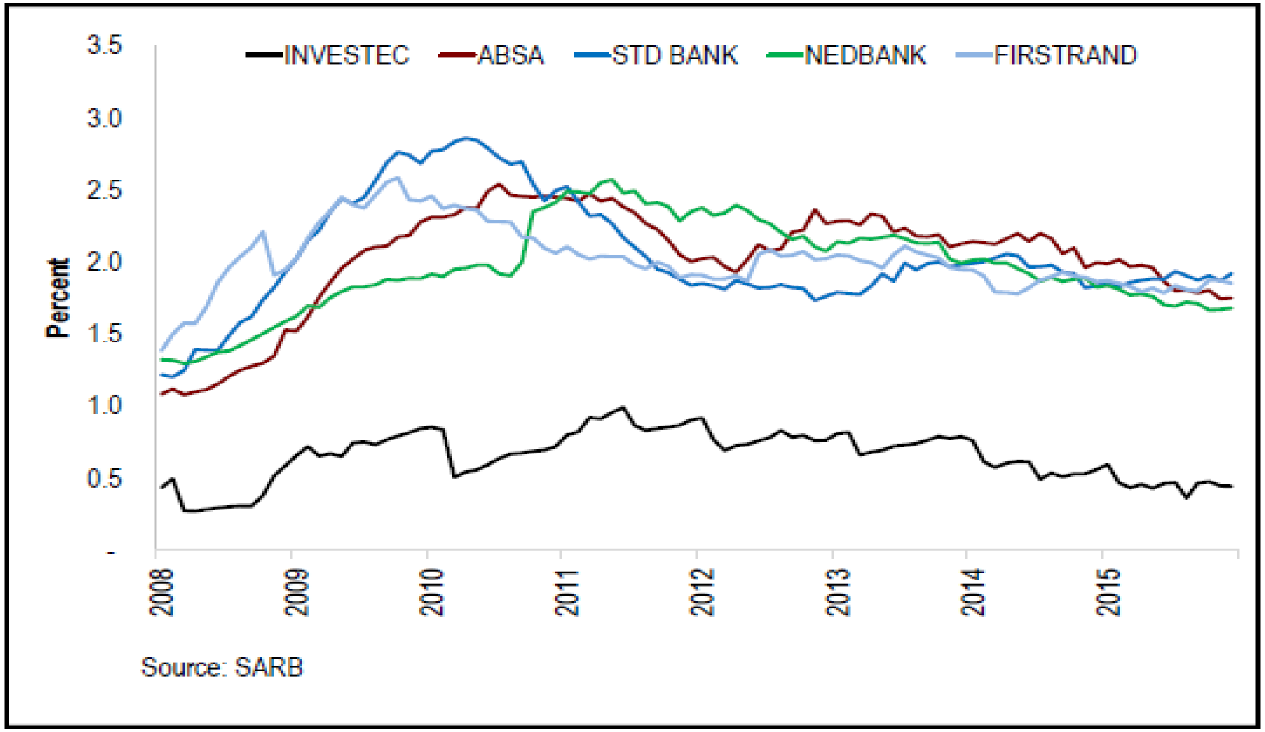
- What role might demand-side subsidies play?
  - Reduce upfront risk to banks, and keep regulators happy?
  - Reduce risk to customers?
  - Build houses

Thank you

Although interest rates increased and growth subdued NPLs continue to record low levels

The ratio of impaired advances to total gross loans and advances has fallen below 2 percent for all the big five banks, with FirstRand recording the highest ratio of 1.9 percent.

Non-performing loans as % of gross loans



Source: SARB