



MORTGAGE MARKET DYNAMICS

DHS SANT JOINT SESSION ON DEMAND SIDE SUBSIDIES






12 May 2016





The composition of consumer credit has shifted noticeably post the GFC

VALUE OF LOANS GRANTED (R BILLIONS)

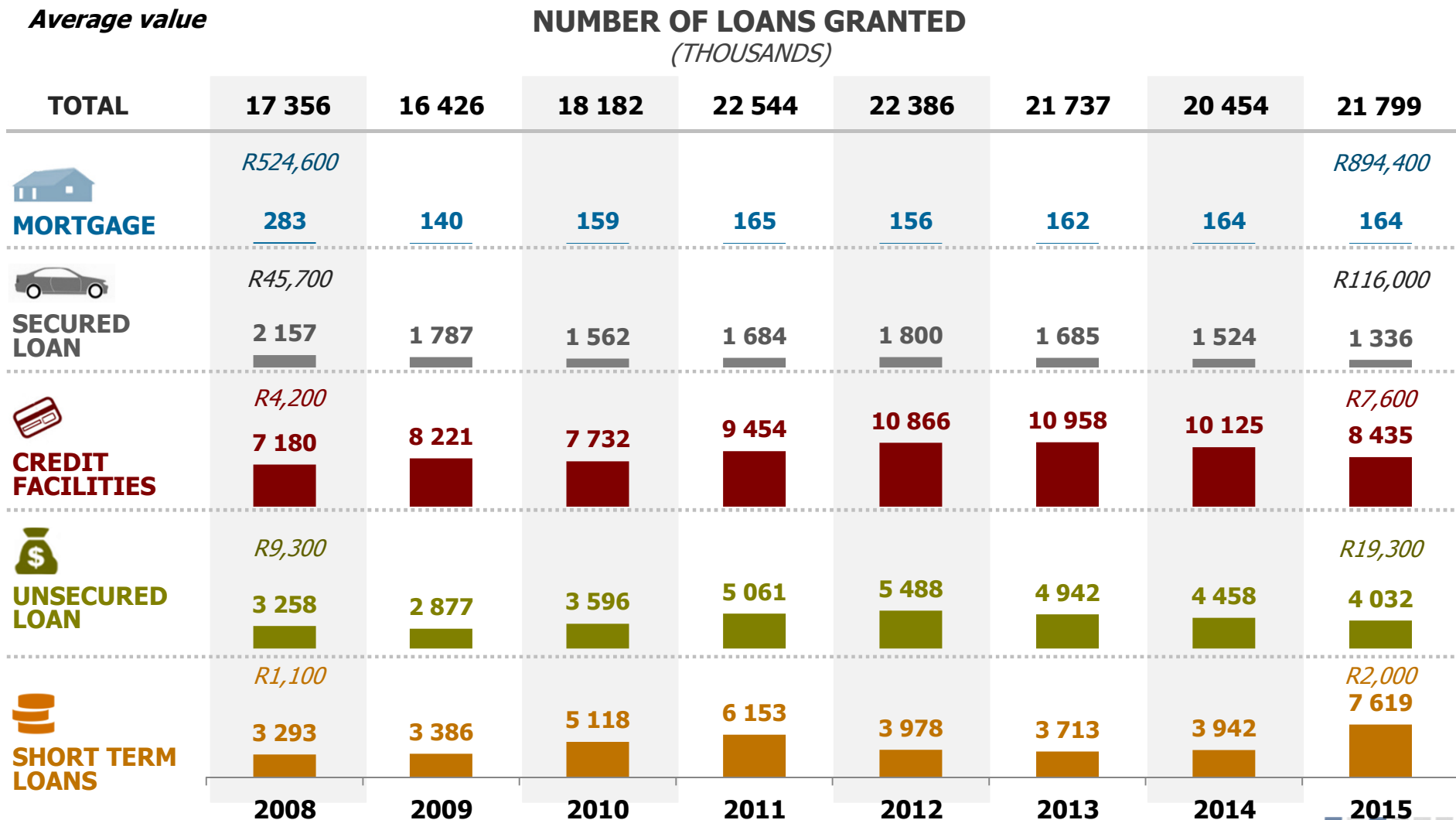
TOTAL	R312.6	R219.3	R287.8	R372.3	R429.3	R447.8	R440.6	R467.9
 MORTGAGE	148.3 47%	75.5 34%	97.6 34%	109.8 29%	108.9 25%	124.4 28%	137.2 31%	147.1 31%
 SECURED LOAN	98.5 32%	81.2 37%	98.7 34%	118.6 32%	139.3 32%	153.2 34%	149.2 34%	154.9 33%
 CREDIT FACILITIES	31.7 10%	25.8 12%	34.0 12%	54.0 14%	70.2 16%	69.8 16%	67.1 15%	65.6 14%
 UNSECURED LOAN	30.4 10%	32.9 15%	52.0 18%	83.3 22%	102.8 24%	87.2 19%	75.1 17%	78.0 17%
 SHORT TERM LOANS	3.7 1%	3.9 2%	5.5 2%	6.7 2%	6.2 1%	5.8 1%	6.6 1%	15.0 3%
	2008	2009	2010	2011	2012	2013	2014	2015

Source: NCR Consumer credit report

Note: Developmental credit – 2012Q4: R1.9 bn (0%), 2013: R7.4 bn (2%), 2014: R5.5 bn (1%), 2015: R7.4 bn (2%)



A total of 283 000 mortgages were granted in 2008. This halved in 2009 and has increased only marginally to 164 000 in 2015



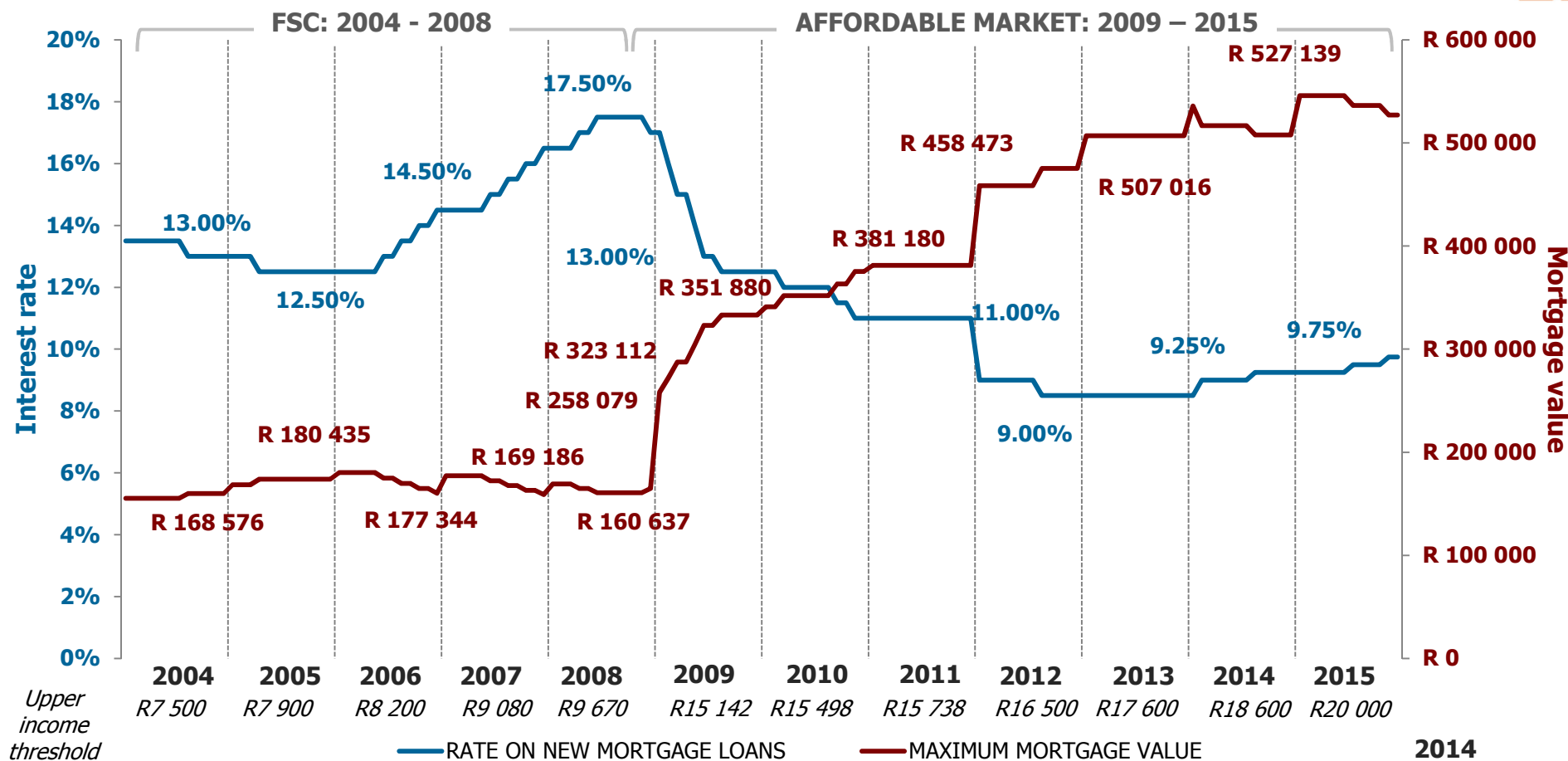
Source: NCR Consumer credit report

Note: Developmental credit – 2012Q4: 87k, 2013: 270k, 2014: 234k, 2015: 205k



The FSC provides a basis for segmenting the market

DOMINANT RATE ON NEW MORTGAGES 2004 – 2015 (Maximum mortgage value)



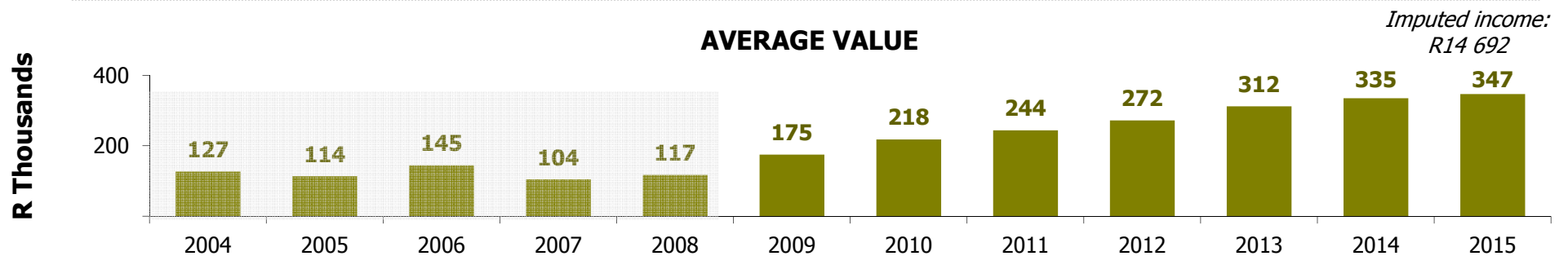
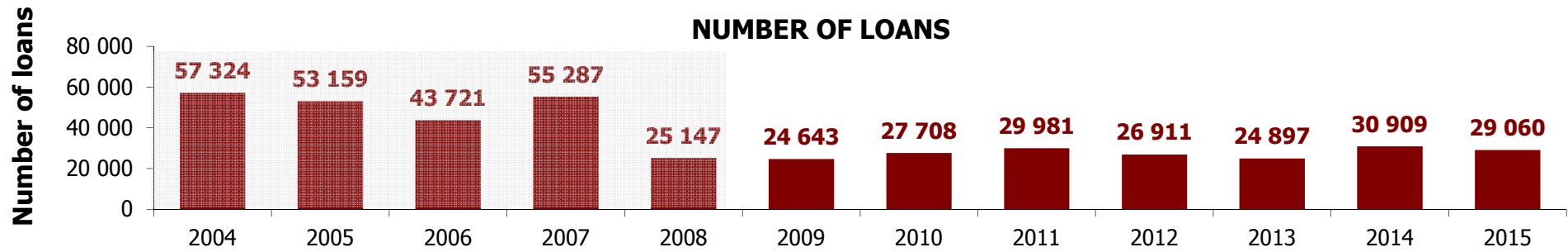
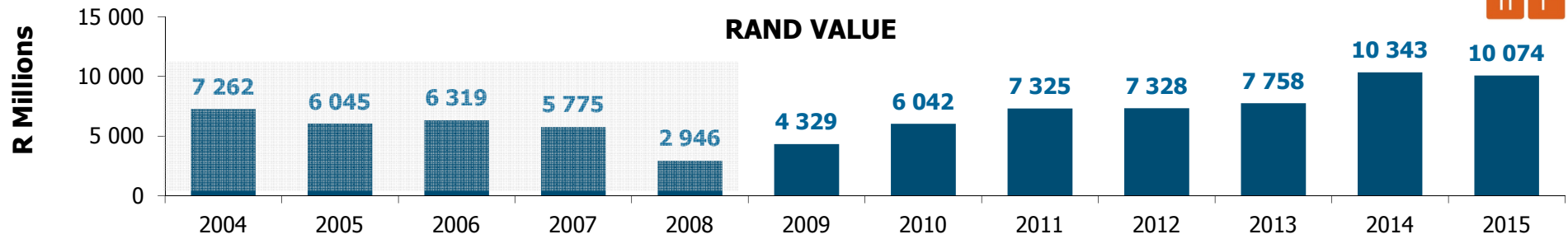
Note: The maximum mortgage value is determined using a 100%, 20 year mortgage at Prime plus 2% and 25% of household income. Current prime rate is 10.25% and the upper income threshold for 2016 is R20 800. The corresponding maximum mortgage value is R529 724.





BASA reports on mortgage origination in the FSC / Affordable Target Market for the big four banks

FSC MORTGAGE ORIGINATION: 2004 –2015

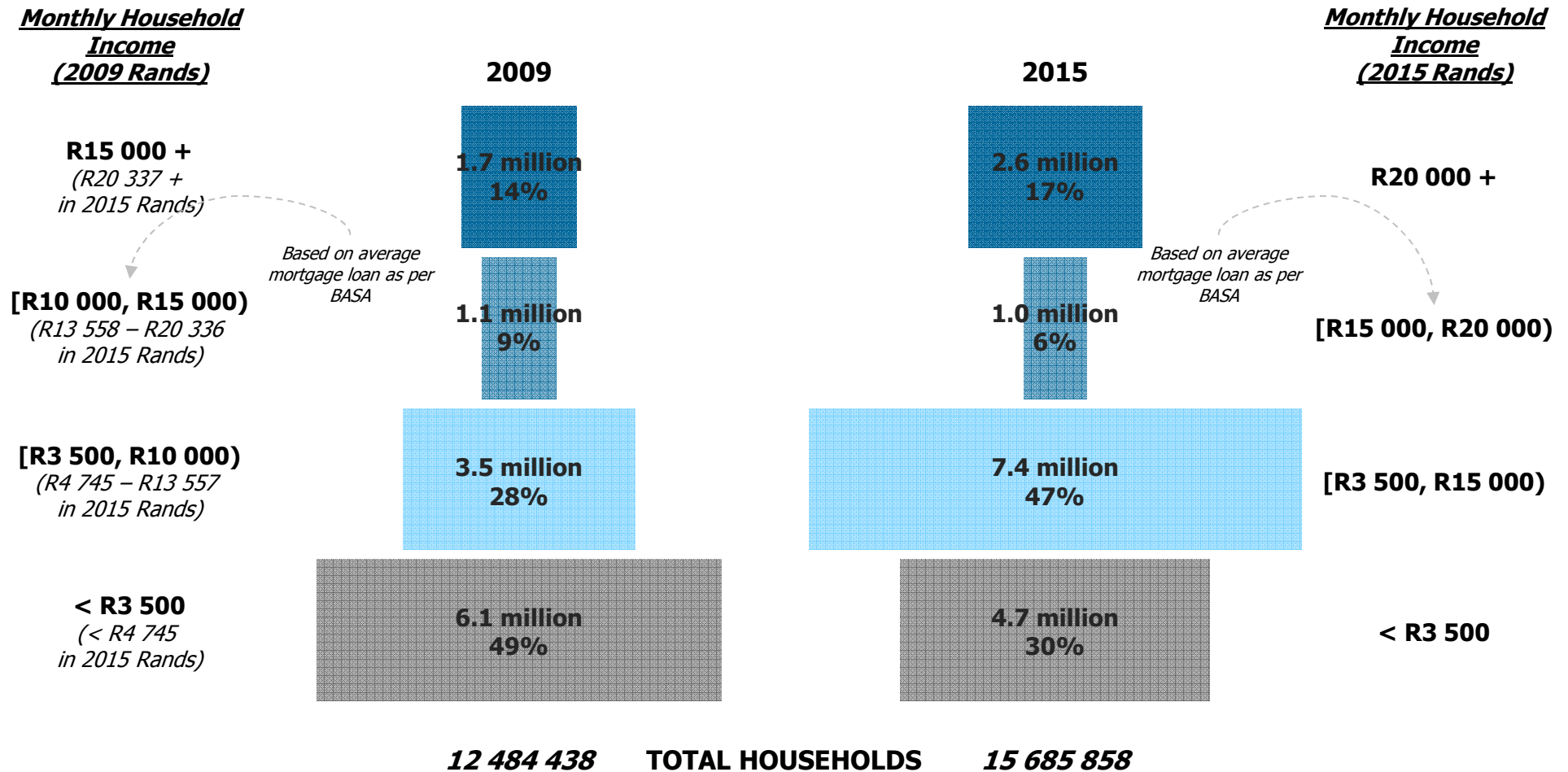


Source: Unaudited data, Banking Association



What is happening to household incomes? What is happening to the profile of the market?

HOUSEHOLDS IN SOUTH AFRICA: 2009 vs. 2015



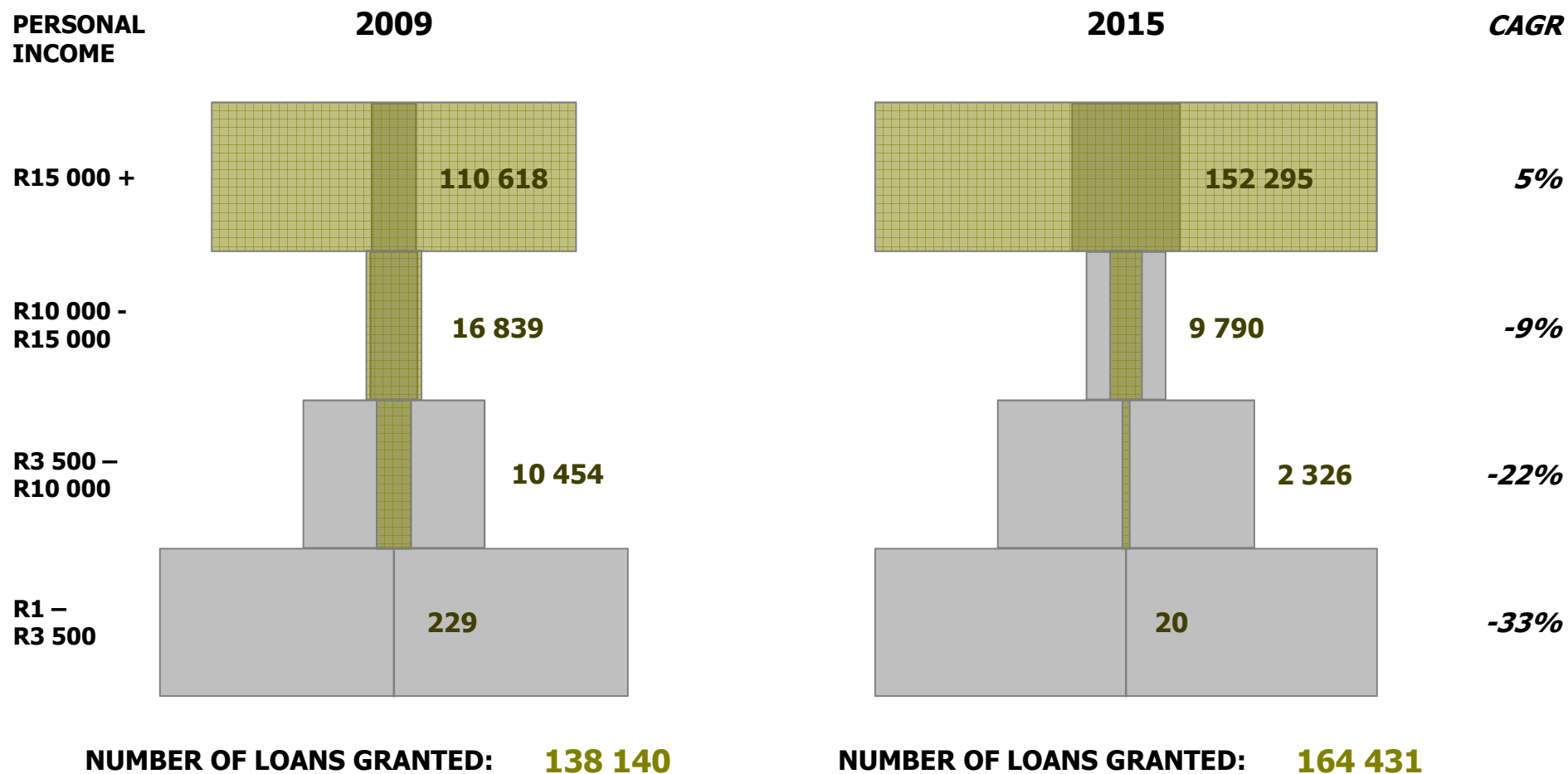
Source: AMPS 2009B, 2015B, Eighty20 analysis to adjust for income bands

Note:



What is happening to mortgage lending?

NUMBER OF MORTGAGE LOANS GRANTED

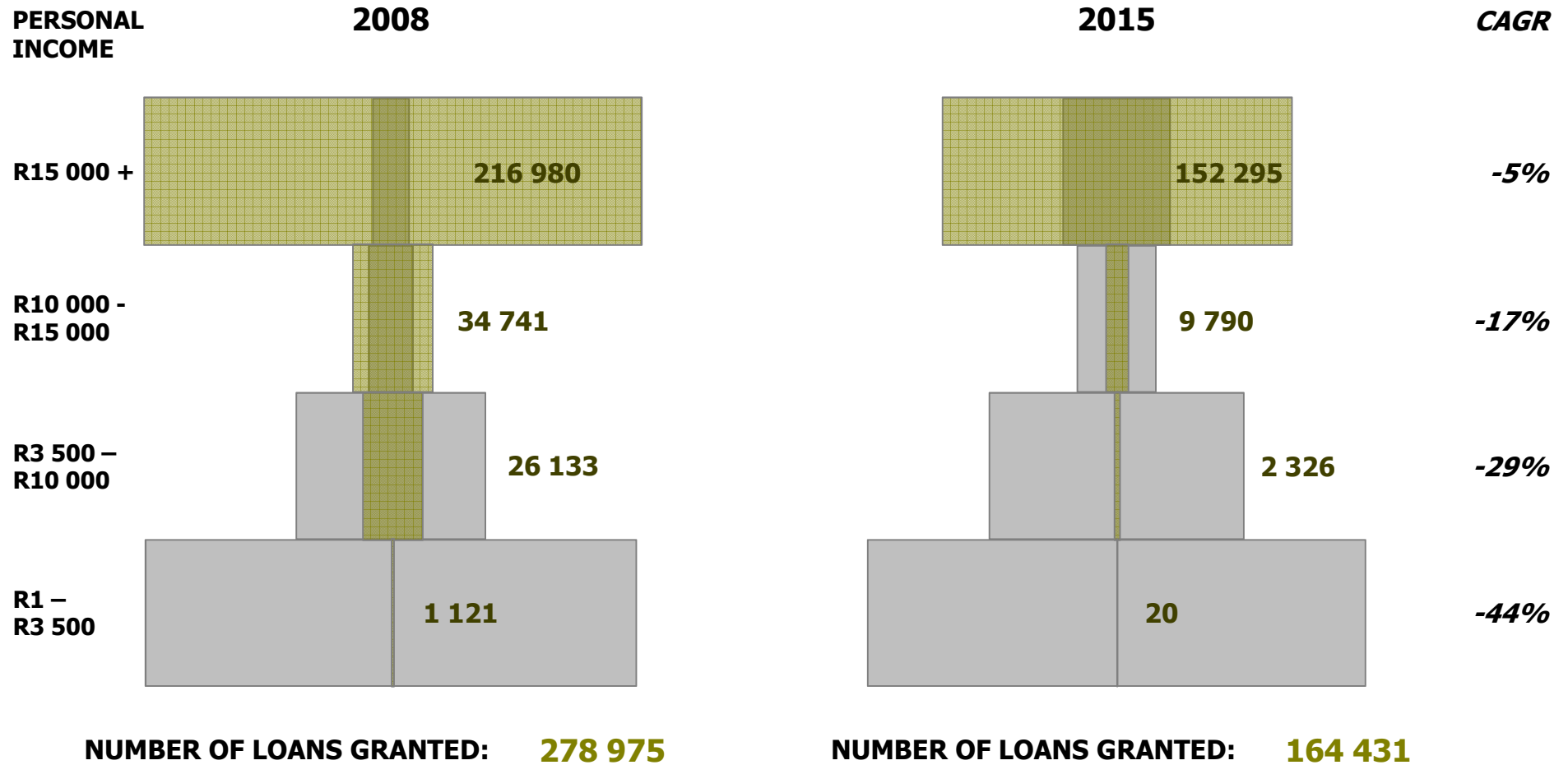


Source: NCR, AMPS 2015B, 2008B, Eighty20 analysis to determine imputed income where data is missing and to adjust for income bands
 Note: Adults with no personal income: 2015B: 9 179 022, 2008B: 7 871 052



When should we start the clock?

NUMBER OF MORTGAGE LOANS GRANTED

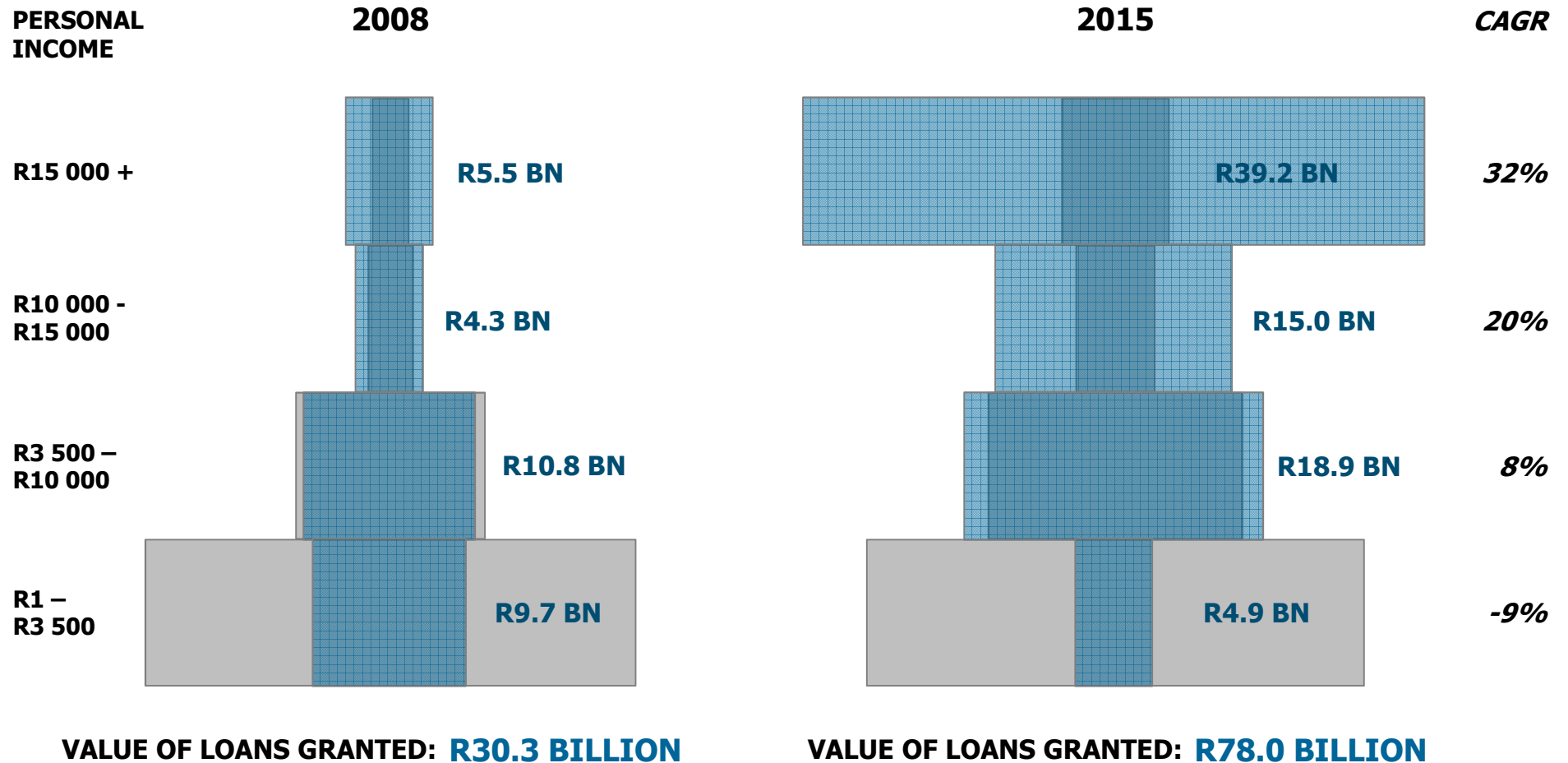


Source: NCR, AMPS 2015B, 2008B, Eighty20 analysis to determine imputed income where data is missing and to adjust for income bands
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Unsecured lending has increased as the industry targets higher income earners. Is this because they can no longer access mortgages?

VALUE OF UNSECURED LOANS GRANTED

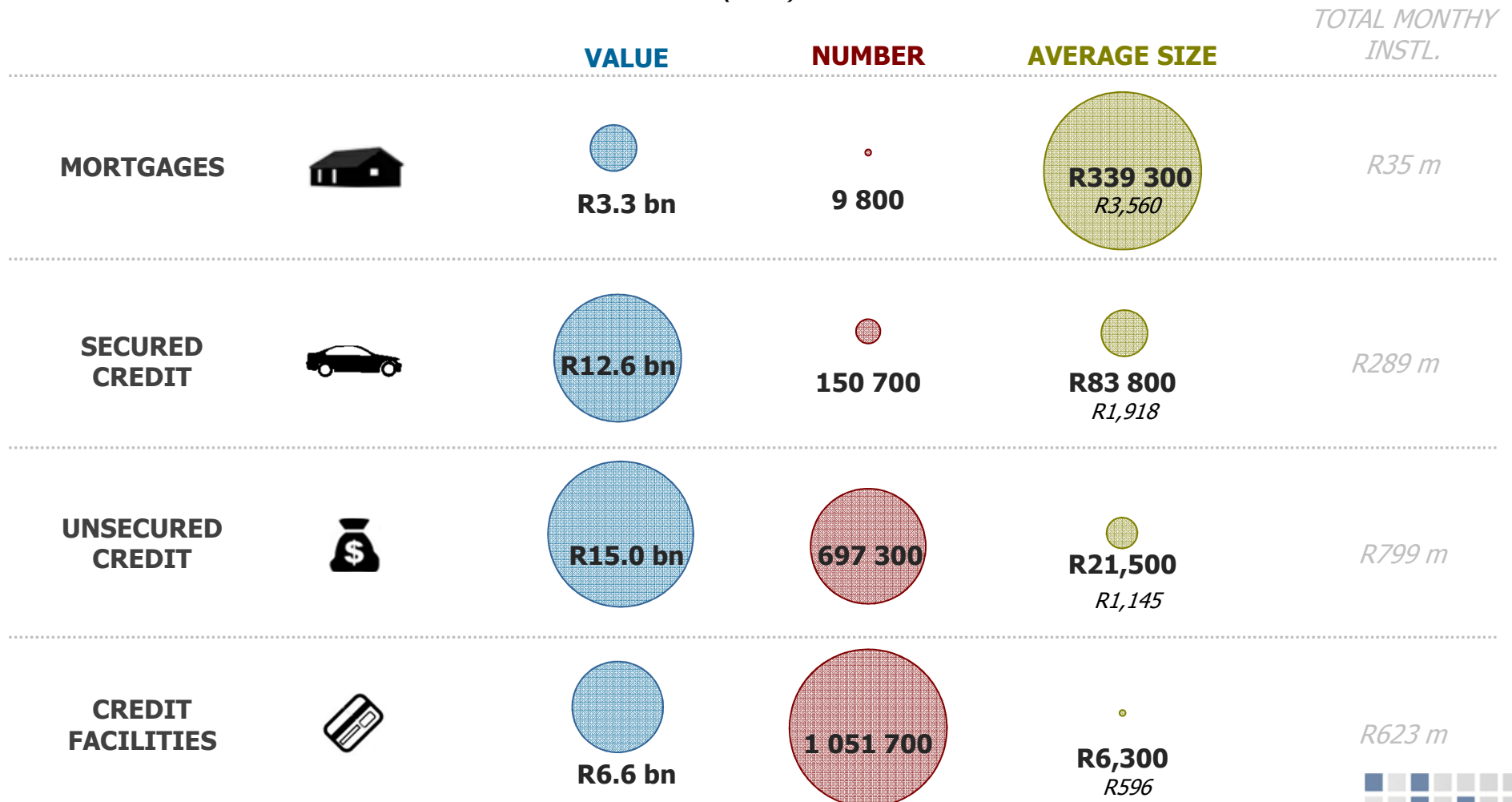


Source: NCR, AMPS 2015B, 2008B, Eighty20 analysis to determine imputed income where data is missing and to adjust for income bands
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Credit market trends reflect demand and supply factors. With regard to demand, the challenge is less about access to credit than about shifting priorities towards asset building



CREDIT ORIGINATION FOR INDIVIDUALS EARNING BETWEEN R10 000 AND R15 000 MONTHLY (2015)



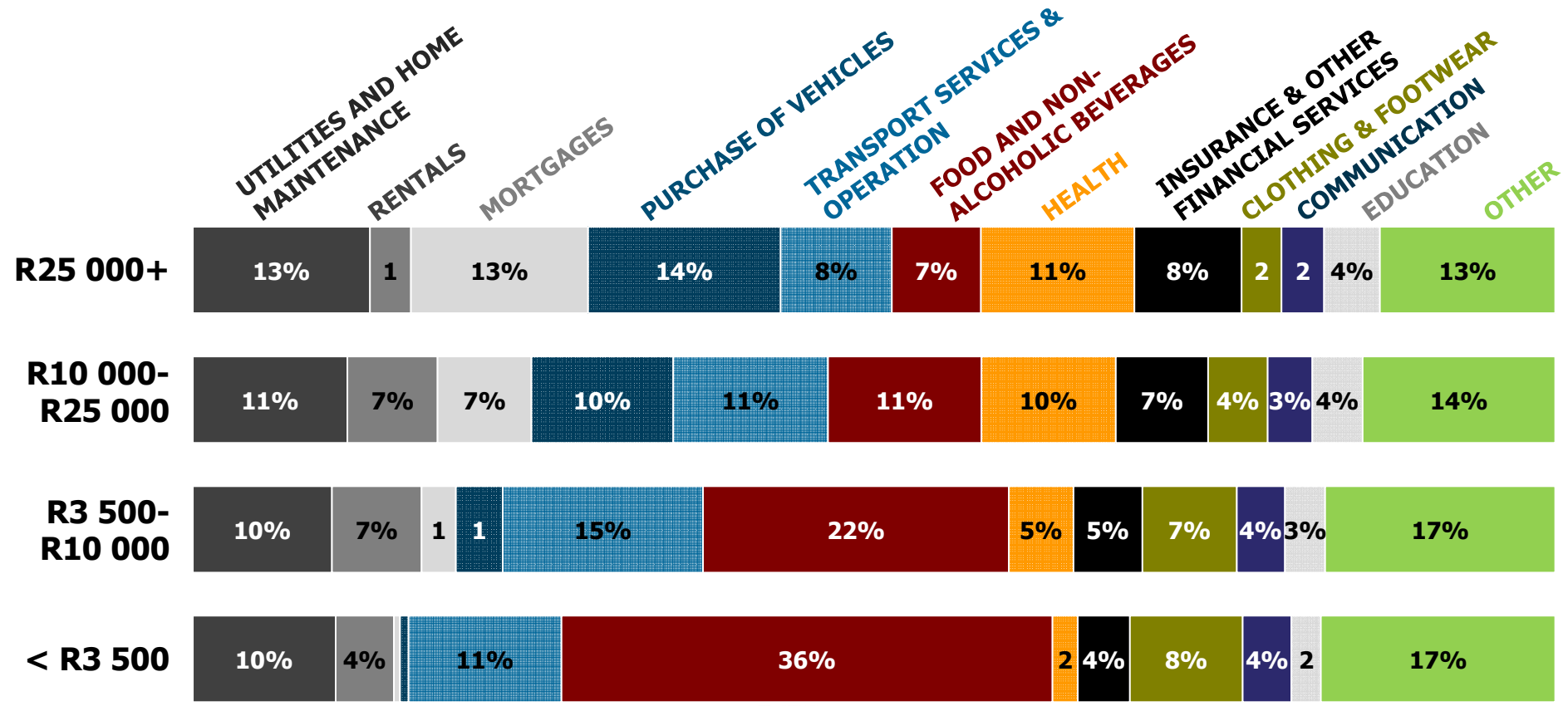
Source: NCR Consumer credit report. Mortgage 11.25%, 240 months, vehicle 13.25%, 60 months, unsecured 25%, 24 months, facility 25%, 12 months





Where does the money go?

DISTRIBUTION OF CONSUMPTION EXPENDITURE FOR ALL HOUSEHOLDS: 2011
(By monthly household income)



Source: IES 2010/11

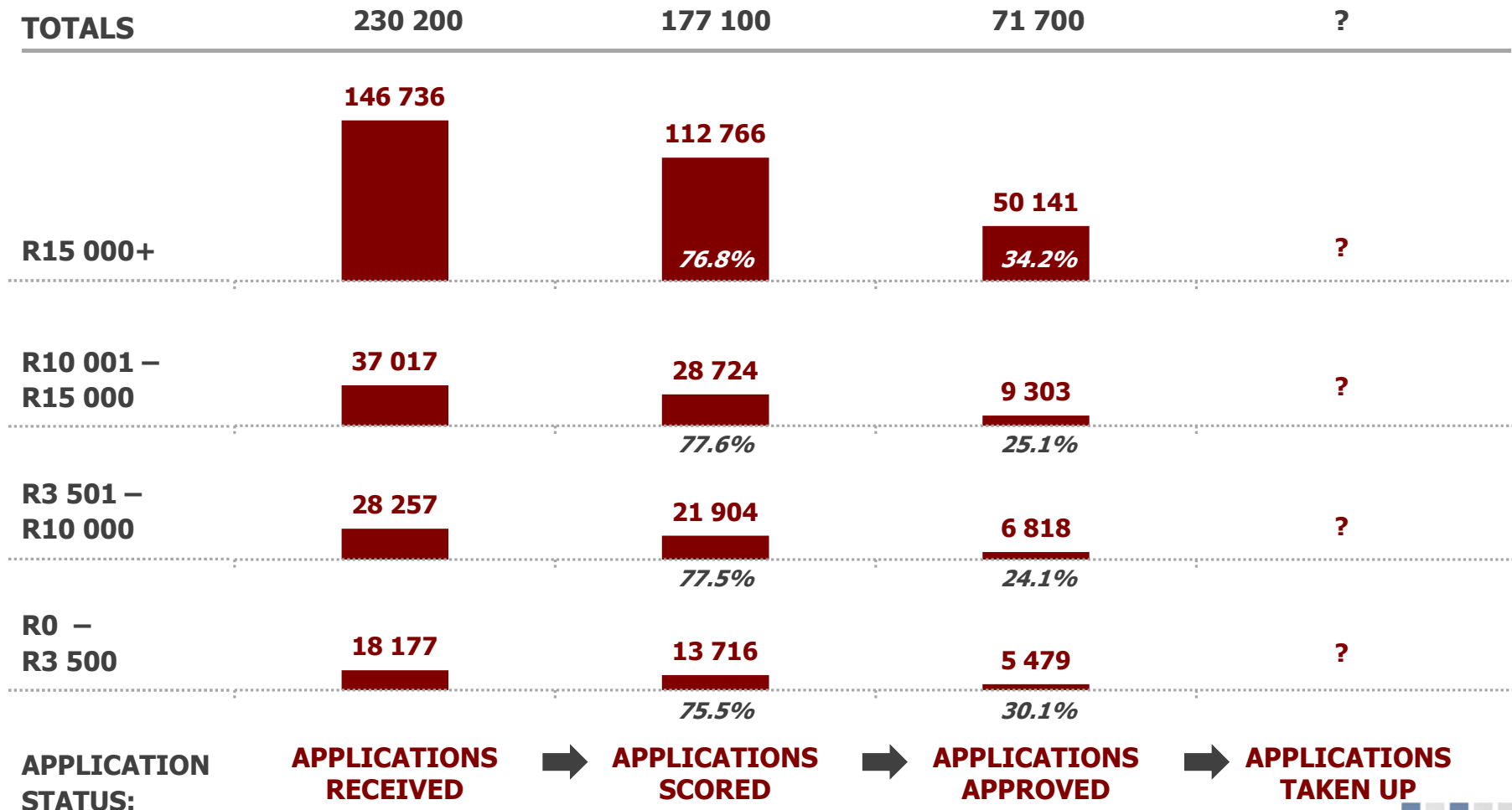
Note: Health includes medical insurance and medical aid contributions; Education includes school uniforms and shoes

Note: Income has been adjusted where regular expenditure exceeds income

Banks are required to submit data to the Office of Disclosure on housing loan applications. That data highlights relatively low numbers of applications from the Gap / Affordable market. It also indicates relatively low acceptance rates across the market



STATUS OF HOME LOAN APPLICATIONS RECEIVED IN 2012



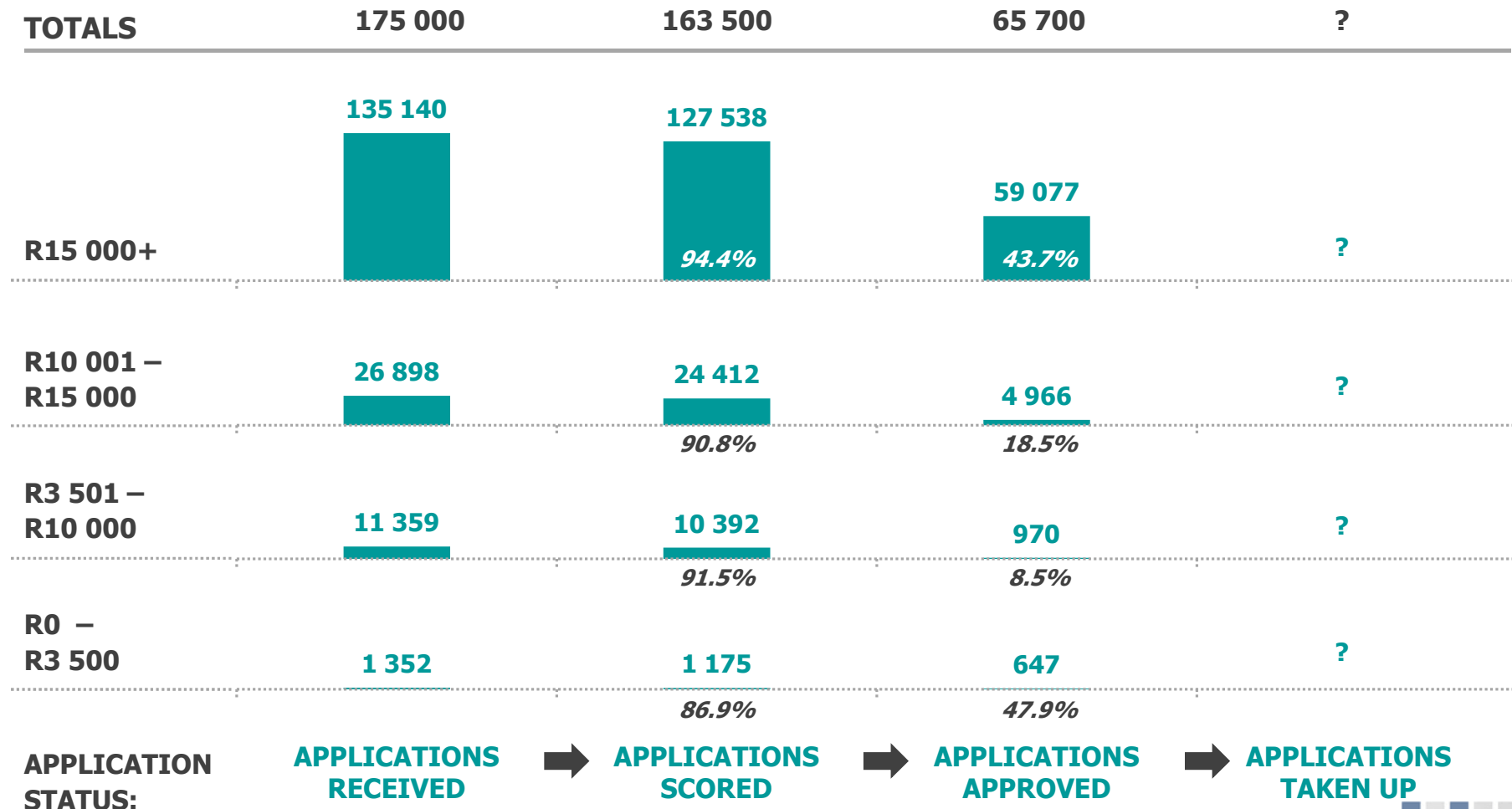
Note: %'s are of applications received



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The Office of Disclosure also publishes data on the reason for decline. Compromised credit histories and affordability appear to be the main reasons for decline

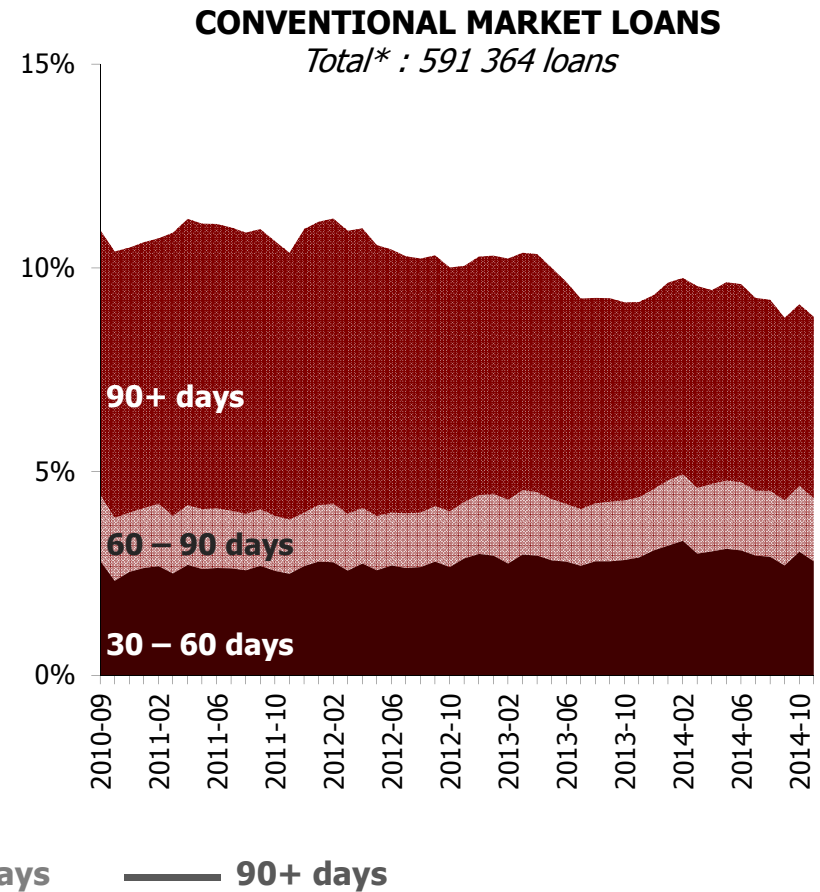
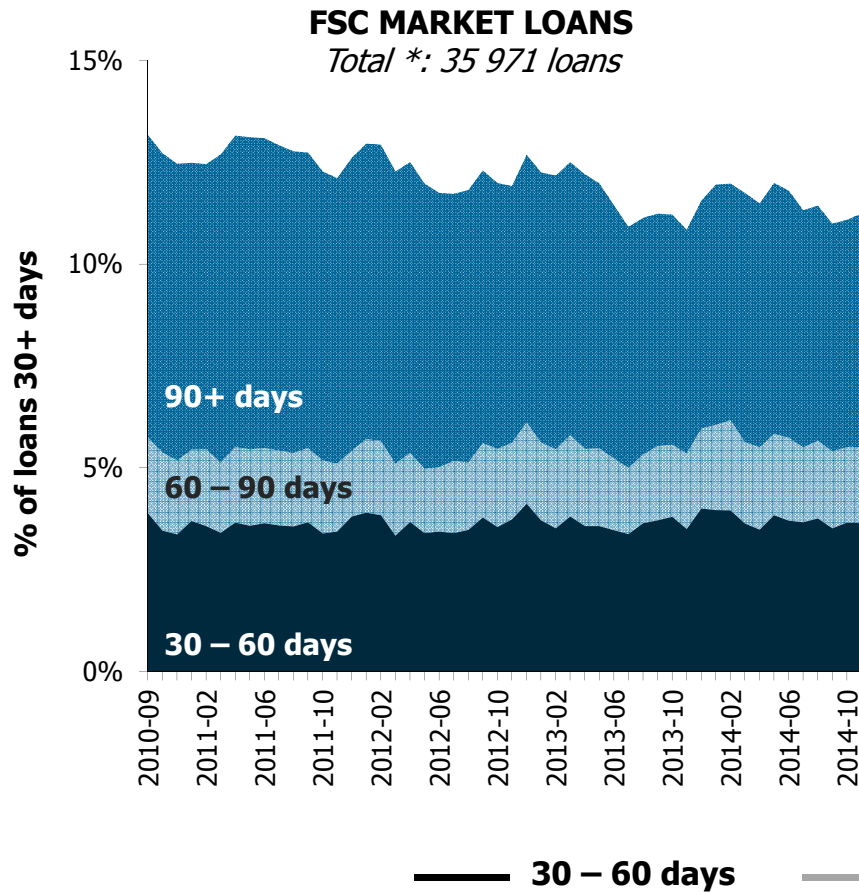
REASONS FOR DECLINE: ALL HOME LOANS

	ABSA	Standard Bank	FNB	NEDBANK
Unacceptable credit track record	49%	48%	24%	40%
Lack of affordability	10%	18%	45%	39%
Insufficient info/ docs provided	5%	20%	10%	
Unacceptable security	2%	4%	10%	3%
Ineligible applicant	3%		6%	15%
Unacceptable exposure (town)		1%		
Adverse credit record	3%	4%	5%	
Other/ blank data	28%			2%
Not target market				



With regard to supply, various factors including performance shape lender decisions

AGEING ANALYSIS OVER TIME (CUMULATIVE) (Mortgages originated between 2004 and 2008, mortgages from big 4 banks)

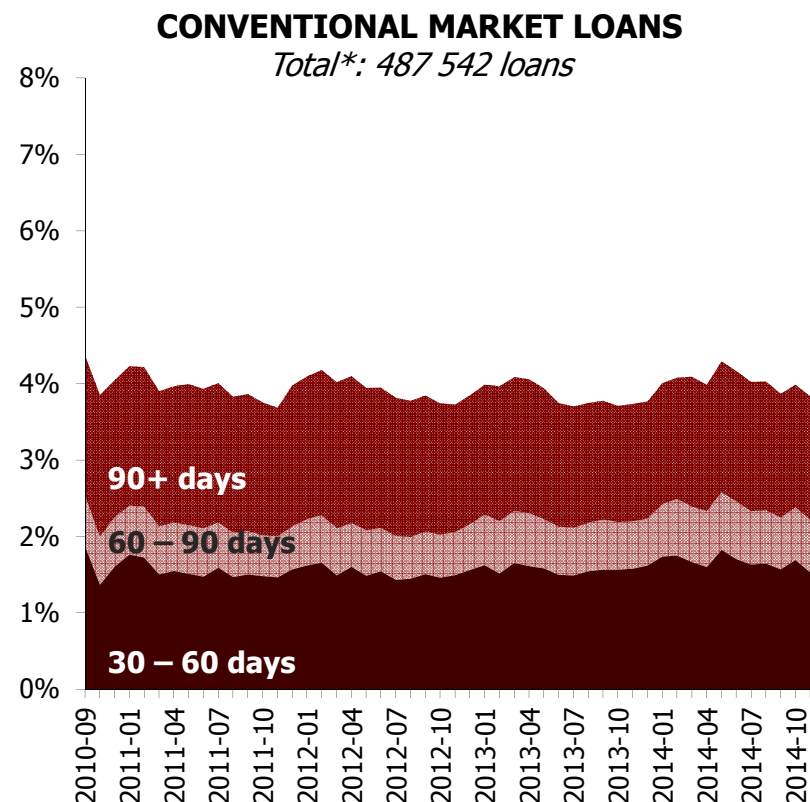
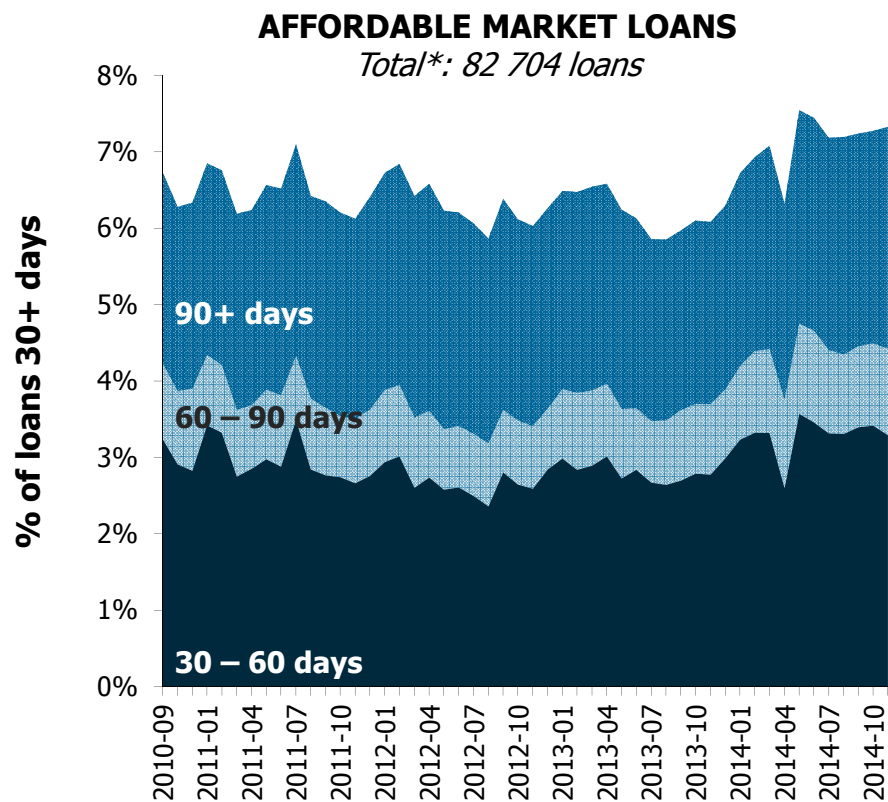


Note: total loans open as at November 2014

There is a far more noticeable difference in performance of loans written since 2009, but there is more to profitability than performance



AGEING ANALYSIS OVER TIME (CUMULATIVE)
(Mortgages originated between 2009 and 2014, mortgages from big 4 banks)



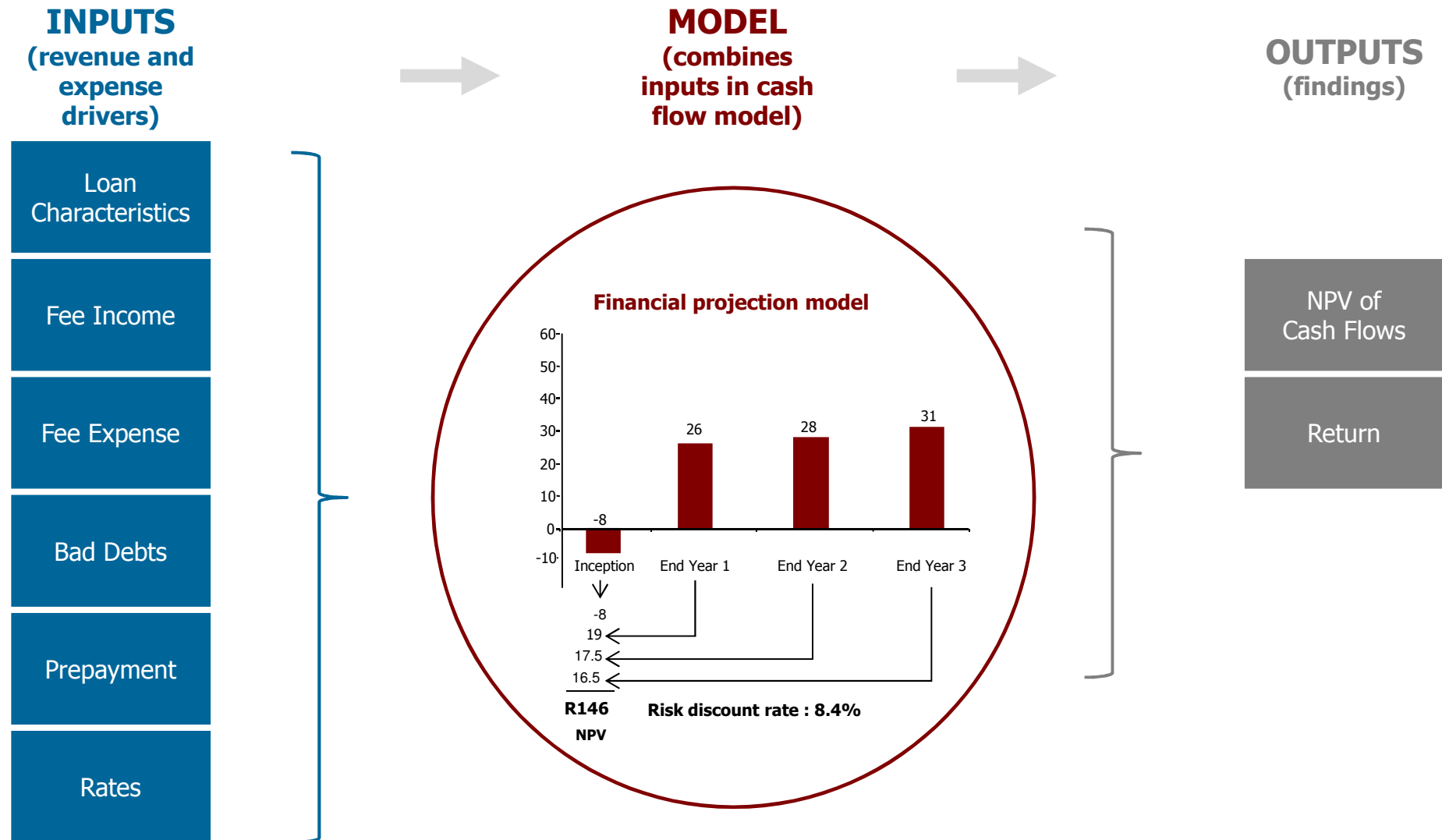
— 30 – 60 days — 60 – 90 days — 90+ days

Note: total loans open as at November 2014





But how important is default as a driver of profitability? We built a model to explore this

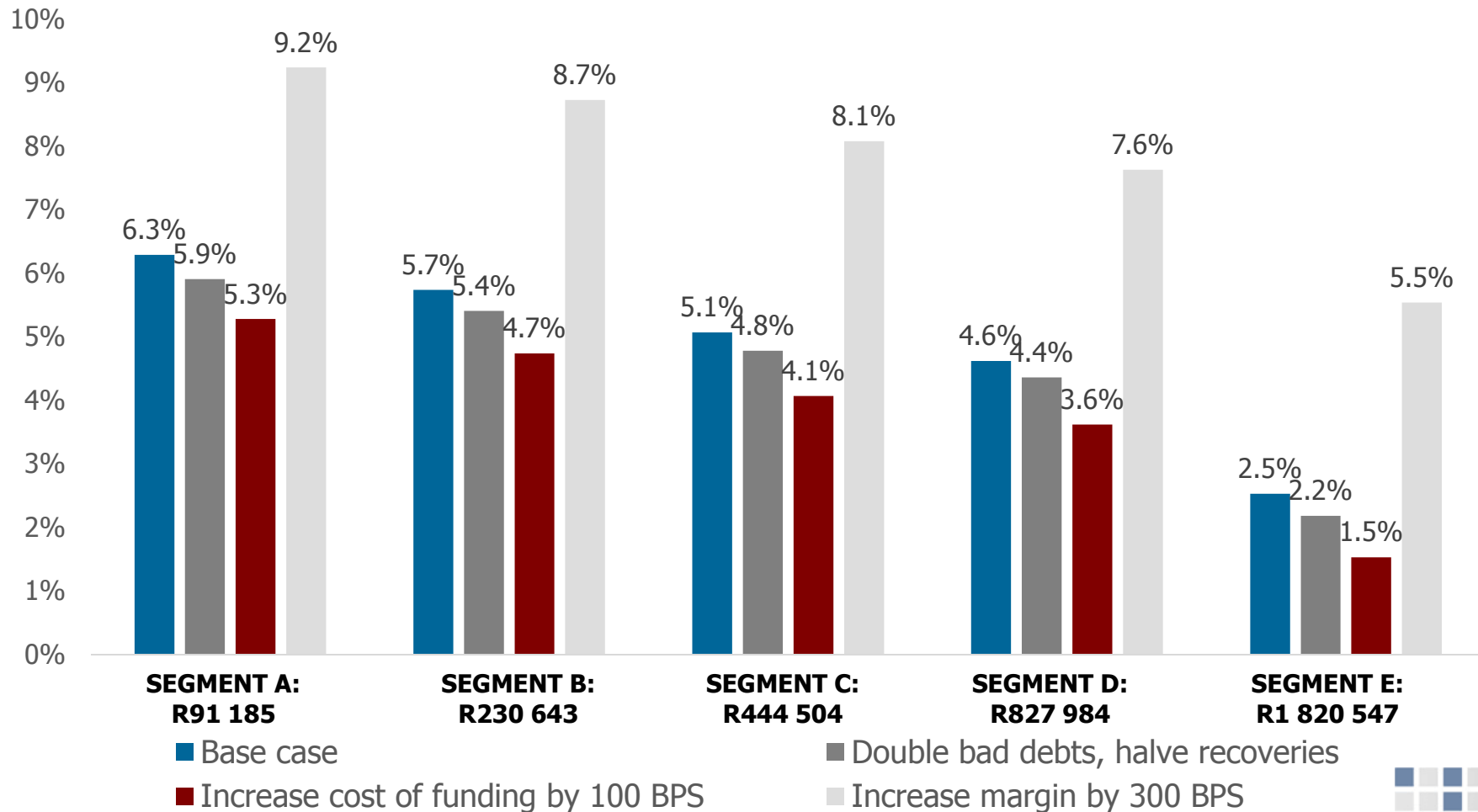


DRAFT FOR COMMENT: ASSUMPTIONS UNDER REVIEW

The model indicates that mortgage lending overall is not terribly profitable. By far the key driver is the interest margin – the difference between the interest borrowers pay and the cost of funding



WEIGHTED AVERAGE HOLDING PERIOD RETURN





Mortgage pricing appears unsustainable in light of funding environment

The affordable market is more attractive

Many uncertainties can be resolved with better analysis of data (LGD, hot spots in the market etc)

Given that financing is not going to get cheaper, capital subsidies are critical

Other mechanisms to support more vulnerable households



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