human settlements

Department:
Human Settlements
PROVINCE OF KWAZULU-NATAL

1. INTRODUCTION

In 2005 the National Department of Human Settlements approved the FLISP policy. The programme was developed to assist those beneficiaries who earned from R3501 to R7000 (commonly referred to as the gap market). The Programme was used to reduce the loan amount and as a result the instalment would be reduced. The subsidy was granted on a sliding scale. Beneficiaries who earned a lower income were granted a higher subsidy and those at the higher income end were granted a lower subsidy. (Annexure A: a copy of the income bands and applicable subsidy amounts is attached).
The Programme applies to beneficiaries who wish to acquire credit from a lender to:

(a) acquire an existing improved residential property; or
(b) acquire a vacant serviced site residential site linked to a house building contract with a registered home builder.

The Department has entered into Memoranda of Agreement with Standard Bank, ABSA and First National Bank.

2. PROBLEM STATEMENT

Beneficiaries in the gap market, particularly those beneficiaries at the lower end of the income range experience difficulty with raising mortgage loans as there appears to be a general reluctance from the banking sector to finance this market for a number of reasons which are outlined in paragraph 3.

3. CHALLENGES

3.1 The banks are reluctant to participate in the Programme for the following reasons.
(a) the three year claw back clause;
(b) the inclusion of the pre-emptive right clause; and
(c) most applicants are unable to make the cash contribution.

3.2 Since 2005 there have been substantial market and policy changes which are impacting on the implementation of FLISP which are as follows:
(a) the impact of the new credit legislation;
(b) the high levels of subsidization and hidden subsidies in the housing subsidy market and the resultant market distortions;

(c) the high cost of housing credit; and
(d) The lack of affordable serviced stands for the target market segment.

3.3 The following are the primary challenges that are impacting on the implementation of FLISP in the Province.

(a) Fraud: Households in the targeted income categories (R3501-R7000) cannot afford finance for a house that is either equal to or better than the fully subsidized financed house for which poor households are eligible. Consequently, the R3 500 threshold encourages households to understate their income as they would qualify for a free low income house or they may qualify to a larger FLISP subsidy by understating their income.

(b) Credit Gap: There is an affordability or credit and housing product gap when comparing a subsidy financed house with a mortgaged unit (including beneficiaries receiving a FLISP subsidy) as developers are pricing mortgage units from, on average, R240 000 upwards. The credit gap is also significant for the resale of properties in the secondary housing market, especially for beneficiaries who have passé the eight year restriction (pre-emptive right clause) and who wish to sell their house formally in order to 'climb the housing ladder' as a result there is a challenge in creating a secondary housing market as well as entry level housing for the lower middle income household who would qualify in terms of FLISP.

(c) Administrative challenges: The requirements for administering FLISP remain significant for both Provincial departments and accredited lenders.

(d) Mobility: The eight year statutory pre-emptive right clause on the resale of a subsidy house affects the mobility of households, who through a change in personal circumstances, for example job change, are unable to sell their homes within the normal market for fear of them losing the monetary benefit that should accrue to them. Accordingly, it has become prevalent for subsidy beneficiaries who wish to move home, to either sell their home informally, at a fraction of Government's investment or, to lease their home.

3.4 The banking sector has indicated that about 40% of mortgage loan applications are rejected due to credit bureau judgement, affordability and financial track records. Traditionally, lenders have estimated a 25% instalment to income ratio. Whilst this may be relevant to higher income earners, more recent research has revealed that this percentage is too high for lower income earners as they struggle to meet even their basic needs

4. FLISP POLICY GUIDELINE

4.1 The FLISP programme will be used for the following.

(a) To purchase an existing residential property (land with top structure)
(b) To purchase a new residential property (land with top structure);
(c) To purchase a vacant property (provided that it is linked to a NHBRC registered; house building contract); and
(d) Integrated Residential Developments (IRDP) must be adjusted to allow for

the allocation of vacant stands (to the value of R50 000) to persons earning between R3501 and R7000 per month free of charge. These beneficiaries will assume the responsibility of constructing their own homes over time as and when their financial situation improves.

4.1 Qualification criteria

Potential beneficiaries who earn from R3501 to R15000 per month will be considered for the programme. Subsidies will be approved on a sliding scale. The subsidy range will be R83 000 for the lowest income group down to R10 000 for the beneficiaries earning R15 000 per month.

4.2 Credit-linked FLISP application

4.2.1The FLISP subsidy will be used to reduce the principal debt to render the amortization of the loan balance over the loan period more affordable. It must be noted that the FLISP subsidy must not be used to enhance qualifying loan amounts and the beneficiary will be expected to cover all the applicable conveyancing and legal costs.

4.3 Non-credit linked FLISP application.

4.3.1 Beneficiaries who have sufficient finance available for example, their own savings and/or contribution from an employer, and who requires a top up can apply for a non-credit linked FLISP subsidy. It must be noted that the assistance will be limited to the subsidy quantum that the beneficiary will qualify for as approved by the National Department of Human Settlements from time to time.

4.3.2.In addition to the documents that are required for a subsidy application the following documents must be submitted.

- A signed deed of sale by all parties.
- Proof that the beneficiary has the difference between the subsidy amount (that he or she will eligible for in terms of the respective income category) and the purchase price of the house must be submitted to the department.
- In instances where an employer is assisting an applicant proof thereof must be submitted to the department. Such proof must include the names of the beneficiary, his or her identity number and the amount.
- A copy of the most recent rates certificate as it will give an indication of the value of the property.

4.4 The Role of the Department (Subsidy Administration Directorate)

In instances where an existing residential property has been purchased the department will undertake the following.

4.4.1 The department must check and verify all documentation attached to the subsidy application.

4.4.2 An inspector must inspect the property to ensure that the property exists and that there is value for money. A written report must be submitted to the subsidy administration directorate.

4.4.3 The department must provide a letter to the subsidy applicant within 10 days of receiving the subsidy application confirming whether the subsidy has been approved or declined. In instances where the subsidy has been declined reasons thereof must be provided.

4.4.4 The approved subsidy will be paid on lodging of the documents with the Registrar of Deeds. The conveyancer must issue a receipt in the name of the department which must be attached to the subsidy application.

4.4.5 A copy of the deed of transfer must be obtained from the conveyancer and attached to the subsidy application.

5. Administration of the Programme

5.1 The Department will be responsible for the administration of the programme. The department will maintain and manage all systems and processes applicable to the programme.

5.2 The Department will reserve and manage a budget for the implementation of the programme.

5. Monitoring and Evaluation

The Internal Audit Sub-directorate must monitor the implementation of the policy and identify any risk that the department may be exposed to and make recommendations on how to mitigate the said risk.

The Monitoring and Evaluation Directorate must monitor the implementation of the policy against the targets set for each financial year by the Subsidy Administration Directorate.

The Product Development unit will review the implementation of the programme after three years identify any challenges or short comings that may have been experienced in the implementation of the policy and make appropriate recommendations.