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**South Africa NHFC Technical Assistance Services**

**FannieMae Technical Assistance to  
National Housing Finance Corporation, South Africa,  
Review of Low Income Mortgage Loan Product and Process**

Prepared for  
**United States Agency for International Development  
Washington, DC**

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# Fannie Mae Advisory Services to the National Housing Finance Corporation of South Africa

## Executive Summary

This report is provided as a summary of Fannie Mae's technical advisory visit to the National Housing Finance Corporation (NHFC) of South Africa. The two-week trip that began on March 30, 1998 and concluded on April 10, 1998 was conducted by three members of the Fannie Mae staff-- Nitirwork G. Armstrong, Director, Credit Policy, Brenda Harrison, Manager, New Markets and HomePath, and Wanda Hutchinson, Manager, Acquisitions Operations. The visit was a follow-up to Fannie Mae's initial visit in November 1997 under a subcontract between Fannie Mae and Planning and Development Collaborative International (PADCO, Inc.), pursuant to a contract between PADCO and USAID. This report is the final deliverable under that contract.

The purpose of the visit was to review NHFC's Gateway feasibility process and to provide recommendations in the following areas: credit policy, underwriter and servicer functions, and homebuyer education. The team's report is based on information obtained from meetings with the NHFC staff, local consultants, lenders, representatives of the Housing Loan Guaranty Corporation (HLGC) and other housing counseling providers, credit reporting companies, tours of local housing developments including Victoria Mxenge in Cape Town, and reviews of written materials.

Under Project Gateway, the NHFC aims to design a simple mortgage loan product that is intended to be affordable for low-income consumers, while accommodating existing realities in the South African housing market. The NHFC has determined that this could best be accomplished in the near-term through a non-property based loan product. The Gateway loan would be secured through provident funds and bought in credit guarantees. At the same time, NHFC is working to lay the groundwork for the development of a secondary market-based mortgage lending structure to service this market segment.

During a prior visit in December, the NHFC and Fannie Mae identified several tasks that needed to be completed prior to implementation. They were:

- Product Design
- Lender accreditation standards and on-going requirements for lender operations
- Procedural maps for NHFC's operations
- Supporting systems for the NHFC and lenders
- Parameters for a consumer education program

It was NHFC's intent to develop a series of teams to design these elements of Project Gateway with representative lenders, the government and other stakeholders included when appropriate. When the Fannie Mae team arrived, work had been done in each of the areas:

Deloitte and Touche had developed high level guidelines for originators, underwriter and servicer accreditation functions, responsibilities and liability, and borrower eligibility, credit and affordability assessments. High level business process flows had also been developed and work was underway to identify and procure technology systems to support the NHFC and its lender base (Attachments I, II, III)

The NHFC's management requested that the Fannie Mae team review this work and provide input and recommendations to ensure the development of an appropriate lending product and supporting operating guidelines. They also requested that our team verify that the procedures outlined in their plans were appropriate to all designated parties in the mortgage value chain.

After review of the documents, meetings with the Deloitte and Touche consultants, and preliminary discussion with NHFC's management, the team was requested to focus on the following areas:

### Institutional Definition of Project Gateway

#### 1. The Core functions of Gateway

##### Operations

- a. Review of the Deloitte and Touche plan for origination, underwriting and servicing
- b. Functional separation of underwriters and servicers / penalties and incentives for participants
- c. Integration of subsidy process and conveyancing

##### Credit Policy

- a. Credit Assessment
- b. Stability of Income/Employment
- c. How to maximize affordability without adding risk
- d. Use of external credit checking
- e. Product Deficiencies

## Consumer Education and Outreach

- a The current South African model of homebuyer education
- b How to deliver homebuyer education on scale in support of Gateway
- c How to integrate homebuyer education process into Project Gateway

The following report describes the plan for Project Gateway, our evaluation of this plan with respect to the items outlined above and our recommendations for NHFC's consideration or process improvement

### **A. Institutional Definition of Project Gateway**

#### *The Core Functions of Gateway*

The team was asked to comment on what role Gateway should play relative to the originators, underwriters and servicers in the market and the value Gateway could add

#### **Fannie Mae Recommendation**

The principal value Gateway brings to the market is as a source of capital replenishment for non-bank institutions. This is of major importance because the primary institutions expected to serve consumers in the target market are non-bank finance companies with more limited sources of capital than banks, and an inability to hold a substantial portfolio of loans. Strategically, the NHFC can bring value by instituting secondary market standardization in low- to- moderate income loan origination, underwriting, servicing and consumer education practices and policies.

As the primary purchaser of the low-to-moderate income loans, the NHFC has the advantage of collecting data on this population for both market and credit research purposes. The NHFC could provide this information as a value-added service to industry participants.

Because there is no existing standardized approach to deliver housing finance to the target population, the team sees the NHFC's role also as a capacity builder to provide training and development for market participants, lenders, developers, government and consumers, and to provide funding models to link the various sources of funds -- government and private -- that are available for housing finance.

In addition, the team recommended that Gateway function as a facilitator to advance and shape housing finance policies. In this role the NHFC would bring together the disparate components/providers of housing finance, i.e., lenders, developers, government, employers, unions, community organizations, credit bureaus, consumers and homebuyer education providers, to meet the objective of expanding homeownership for the target population.

## B Operations

### Review of the Deloitte and Touche plan for Origination, Underwriting and Servicing

Deloitte and Touche had created an Origination, Underwriting and Servicing plan for the NHFC. This plan outlined institutional accreditation requirements (attached) and identified key functions these institutions would be required to perform. Origination, underwriting and servicing, during the pilot phase, would be limited to institutions with existing capacity to originate, underwrite and service similar loan products.

Each institution would be required to submit an application for accreditation which would provide Gateway with the relevant information to assess the originator's, underwriter's and servicer's capacity and provide warranties in key areas of the underwriting function, ability to meet established capital requirements or to provide insurance to cover administrative and operational risks.

The plan identified the following as key functions for the originator:

- screen applicant for loan/subsidy eligibility
- test for affordability
- capture the application for finance in a standardized format
- provide a standardized homebuyer education developed by NHFC

The roles and responsibilities for the underwriters:

- screen all applicants and verify that they meet Gateway's qualifying criteria
- perform an affordability counseling function and determine if further home buyer education is necessary
- complete application form and verify that all credit criteria are met
- submit payroll deduction orders to employers
- obtain provident fund certification confirming withdrawal benefit
- issue client's affordability pledge
- liaise with conveyancers
- remit all payments received from employers to Gateway with accompanying schedules
- remit monthly reports confirming applicant's personal and loan details
- act (in some instances) as servicers and perform loan administration

The roles and responsibilities for servicers:

- perform account administration
- implement payroll deductions
- receive and process payments from employers

- manage defaults
- institute a client service facility to receive and rectify complaints/administrative deficiencies
- reconcile and remit payments to Gateway

### **Fannie Mae Recommendation**

The team agreed with the high level plan for origination, underwriting and servicing as proposed by Deloitte and Touche. However, the team felt that the affordability counseling function should be integrated with the homebuyer education process described later in this document.

The NHFC's management suggested and the team agreed that the NHFC should begin its lending activities with established institutions, which have a track record and reputation in the target market. Non-bank or niche lending institutions have extensive experience with borrower qualification and payroll based lending. Additionally, they have learned to originate and service these loans in a more cost-effective manner than the major South African banks.

Payroll lenders, such as Altfin and King, appeared to be positioned to undertake this type of loan servicing. Altfin was created in 1996, and King in 1992. Both institutions have existing servicing infrastructure and market presence. Although the loan terms of their originations (less than 3 years) are shorter than the 10 year term proposed for the Gateway product, modifying their processes to support servicing of longer term product should not present major obstacles.

### *Functional Separation of Underwriters and Servicers / Penalties and Incentives for Participants*

The team was asked to make a recommendation on whether to allow an institution to perform both functions.

**Fannie Mae Recommendation** The team recommended that either option would work in the market. There are two scenarios and each have their pros and cons. In the first scenario, if all functions - origination, underwriting and servicing - are linked, participation is limited to the pool of institutions who can provide all three functions. Thus, any institution without the capacity to perform all of the functions would be excluded from the pool. This may be more manageable in some ways for the NHFC, but it would also mean that the NHFC would have concentrated operational risk exposure in the event of institutional process and/or procedural weaknesses or financial failure. Therefore the other scenario of unlinking the functions while perhaps more complex from NHFC's start-up

perspective, is probably the more attractive option if NHFC can reasonably manage it. The team viewed the impacts of separating or unlinking the functions as increasing the number of participants, originators, underwriters and servicers, producing economies of scale gained through volumes, and providing the ability to match functions to institutional strengths.

#### Penalties and Incentives for Participants

The team identified the payment of fees for originating, underwriting, servicing, default management and ancillary income as benefits flowing to the institutions and incentives for participating. In addition, the team suggested that the NHFC consider recourse penalties for non-compliance with contractual obligations. The team also stressed that penalties should be used sparingly as they could be disincentives to doing business with Gateway.

#### Integration of Subsidy Process and Conveyancing

Linking government subsidy payments with the transfer (conveyancing) of the assets from the builder to the borrower and registration of the asset in the borrower's name was addressed by the NHFC's outside legal counsel. At issue was the delay (several months) between the application for and receipt of the subsidy payment from the government. The subsidy, coupled with the loan proceeds, are used to pay the builder. The discussion centered around the possibility of interim funding from the NHFC to facilitate the transfer, and potential issues regarding the NHFC's ability to collect the subsidy directly from the government. The Fannie Mae team was not actively engaged in these discussions because of the legal issues, and made no recommendations.

### **C. Credit Policy**

#### Credit Assessment

The purpose of the credit assessment is to determine the borrower's ability to repay the debt based on verification of stable income and also a willingness to repay the debt as evidenced by a history of meeting past credit obligations. Although the Gateway product does not require an assessment of the borrower's past credit history performance, the product's structure through the guarantees minimizes the NHFC's risk exposure.

#### Stability of Income/Employment

Because the Gateway product is directly linked to payroll deduction, there is the likelihood of borrower default if a borrower becomes unemployed or transfers to an employer that does not participate in the pay-roll deduction plan.

The Gateway product has the following features to control for income and employment related risks

- minimum 3 years formal employment
- monthly housing payment should not exceed 25% of the borrower's monthly income
- total debts should not exceed 40% of the borrower's total monthly income
- loan repayment through automatic payroll deduction
- loans secured by provident fund guarantee of at least 50% and a bought-in credit guarantee for the remainder (potentially 100% secured loan)

### **Fannie Mae Recommendation**

We believe the guidelines for stable employment and the ratio requirements are prudent methods of mitigating the risk of borrowers being financially overextended. In addition, the provident fund guarantee and the bought-in guarantee adequately cover the NHFC's investment. In the event of borrower default, the NHFC's loss is limited to the difference between the outstanding loan amount and the credit guarantees. We recommend that the NHFC accept direct payments from borrowers and invoke the guarantees only when the borrowers are in default. The performance of these loans should be tracked and monitored closely by the servicer through its default management processes. The results could be meaningful for developing policies around non-payroll deduction financing.

### **How to achieve maximum affordability of homes for the homebuyer without greater risk for the lender**

Two issues that the team was asked to address in maximizing borrower affordability were in the case of married joint applicants, what level of spousal income to be considered for qualifying, and what proportion of provident funds for each applicant would be used to secure the loan.

### **Fannie Mae Recommendation**

In the case of joint applicants, it is our recommendation that borrowers be allowed to utilize their combined eligible incomes to maximize their ability to acquire more housing, providing that they both meet the borrower and credit standards. If both incomes are required for qualifying, then both incomes would need to be pay-roll deducted. Similarly, if the provident guarantee in both accounts are needed to meet the loan guarantee provision, both applicants' funds up to the amount required would need to be assigned as collateral for the loan.

In general, we believe that because of South Africa's past discrimination laws and perceptions regarding the credit worthiness of the target market in traditional lending, it is important that the assumptions used to derive the credit guidelines are assessed objectively and are justified by business needs. We strongly recommend that NHFC take a leadership role in challenging the 'status quo' by implementing a consistent and objective set of guidelines.

### Use of external credit rating

Although the Gateway product does not have credit standards, the team explored the capabilities of incorporating credit information. We found that there were concerns on the part of consumers, the NHFC and HLGC management and staff regarding the quality, accuracy and amount of credit information available on the target population. Some of the comments we received were that

- limited credit information is available on the target market,
- inaccurate information exists on the target market,
- banks have used credit-reporting agencies to report only derogatory information,
- consumers distrust the accuracy of the information and its fair application,
- lenders believe obtaining credit reports will be costly,

### **Fannie Mae Recommendation**

During our meetings with the two credit reporting agencies, the Information Trust Corporation (ITC) and Experian, we learned that significant progress had been made in cleaning the data and providing consumer information since 1994. Both firms have established consumer education and information services to assist borrowers with questions about information contained in the credit files and how the information is used in granting credit. In addition, ITC and Experian confirmed that the credit files could be obtained at a minimal cost and would provide valuable information. Experian stated that of the information in their files, 80 percent was positive credit information on the target market. We believe that the NHFC should be in the forefront working with the agencies and other stakeholders to address the concerns of credit reporting. Once the major issues are addressed, we would recommend that the credit information be incorporated into the credit standards, in a fair, objective and consistent manner. The credit report information could serve as an objective measurement of the borrower's previous credit standing and willingness to repay future debts.

### Product Deficiencies

Based on discussions we had with Home Loan Guaranty Corporation (HLGC), we found

that a significant portion of borrower defaults in the past has been due to borrower dissatisfaction with the quality of the home. For the period 1990-1995, of the 18,500 loans insured by HLGOC, 2052 loans were in default. Of the loans in default, 554 or 27 percent (the second highest reason for default) were due to product delivery problems (See Attachment 4). In the past this has led to a group action stoppage of payments in cases where the homeowners are concentrated in a sub-division or by place of employment.

### **Fannie Mae Recommendation**

Although the Gateway product does not rely on the value of the home as collateral, it is recommended that the NHFC address the quality of the home so as to enhance the value to the consumer and to facilitate creation of a viable secondary market. We recommend that the NHFC consider engaging various stakeholders, including builders and developers, to develop minimum acceptable housing product standards. These standards could include minimum builder eligibility requirements, product warranties, maintenance agreements and requiring a third-party inspection of the homes by a qualified professional prior to the final loan disbursement. Care should be taken, however, to avoid setting physical construction standards that are so stringent as to either make sound-quality housing unaffordable, or create disincentives for the construction of appropriate dwellings.

## **D. Consumer Education and Outreach**

### *Current State of South African Homebuyer Education*

Today, a significant percentage of the South African population lacks access to the resources needed to prepare them for success in homeownership. This lack of access to high quality homebuyer education is a major barrier to homeownership opportunities for millions of the majority population. Two critical components to the success of Project Gateway are, 1) the full integration of a comprehensive homebuyer education program, 2) and the development of a delivery system which will provide services on scale to the targeted market segment. To properly assess the current state of the homebuyer education delivery system in South Africa, we conducted interviews with key service providers and lenders and convened a workshop to discuss possible strategies and recommendations.

The Home Loan Guarantee Company (HLGOC) is a primary supplier of loan guarantees and homebuyer educational services and training. The HLGOC provided an extensive view of the inner workings of their program and an overview of the existing delivery system. In the early development of the HLGOC housing program, it was determined that most first-time homebuyers lack knowledge of the basic responsibilities and privileges of owning a home. As an insurer which guarantees thousands of loans, the HLGOC assessed that a large percentage of loan defaults were related to the fact that borrowers simply did not

understand their responsibilities as homeowners. The HLGOC determined that by providing clients with an understanding of their rights and responsibilities, they could potentially lower their loan default rate and build a pipeline of new homeowners. To meet the needs of this target market the HLGOC established homebuyer educational training programs and worked with large employers to deliver the training programs at the employees work sites. This has proven to be a very successful distribution network for the HLGOC and efforts are underway to expand the availability of these programs.

How to Deliver Homebuyer Education on scale in support of Gateway

During discussions with the HLGOC and staff of the Social Housing Foundation of the NFHC, three critical issues were highlighted:

1. Housing counseling and educational providers lack the capacity needed to comprehensively address all areas of the home buyer education,
2. There is a lack of marketing and outreach programs needed to reach target population, and
3. A lack of funding needed to provide long term counseling to create a pipeline of approval-ready borrowers.

**Fannie Mae Recommendations**

In order to address these issues and other voids in the homebuyer education delivery system, enhancements to the existing infrastructure are necessary. Housing educators must receive professional training in four functional areas:

1. pre/post-purchase education,
2. early intervention/delinquency counseling,
3. financial and budget/ money management skills training and rights
4. responsibilities of homeownership

Train the Trainer, educational programs can assist in increasing the numbers of available service providers and can address the issue of inconsistencies in the delivery of services. In addition, the establishment of a standard homebuyer education curriculum and a certification program for counselors are essential to increasing the quality of services provided.

### How to integrate homebuyer education process into Project Gateway

The workshop participants represented the premier homebuyer education providers in South Africa. The discussion focused on how to most effectively integrate homebuyer education into the Gateway process and how to involve the participants as potential providers of these services. The purpose of the discussion was to receive feedback from the participants on the recommended elements of the Gateway educational program. The key elements of the Gateway's educational program are:

- Development of Needs Assessment
- Credit and Affordability Analyses
- Development of a Curriculum Based Education Program
- Selecting/Acquiring a Home
- Obtaining a Loan
- Use of Governmental Services and Programs
- How to work with a Developer
- Exercising Rights/Responsibilities of Homeownership

#### **Fannie Mae Recommendation**

There was a clear consensus in the workshop group that the introduction of education in the earliest stages of the home buying process serves two purposes: 1) places individuals on their paths to homeownership, 2) creates a pipeline of borrowers for mortgage lenders. In an effort to eliminate the key barriers to homeownership for millions of South Africa's citizens, it is critical that the lack of access to high quality homebuyer education and counseling services be addressed. The establishment of partnerships between existing service providers and lenders and NFHC will create the linkages needed to insure a smooth transition for Project Gateway to communicate its value to the lending stream. In addition, the development of these partnerships and relationships are essential to the success of the Project Gateway and the thousand of potential homeowners it seeks to serve.

# NHFC/Project Gateway

www.nhfc.com

# What value can NHFC/Gateway add?

Capital replenishment for non-bank  
institutions

Industry standardization

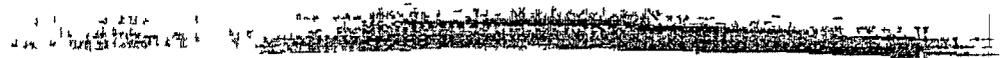
- Origination
- Underwriting
- Servicing
- Consumer Education

- Data collection and information sharing
- Expanding markets and capacity building
- Harness and channel myriad stakeholder resources

# What roles should NHFC/Gateway play?

## ■ Facilitator

- Lenders                      Credit Bureaus
- Developers                 Community Organizations
- Government                Consumers
- Employers                    Home Buyer Education
- Unions                        Providers
- NGOs



## ■ Capacity Builder

### ■ Training and Development

- I Lenders
- I Developers
- I Government
- I Consumers

### ■ Funding Models

- I Link sources of funds



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## ■ Communicator

### ■ Teambuilding

- I Promote partnership
- I Identify commonalties, differences and opportunities
- I Build consensus

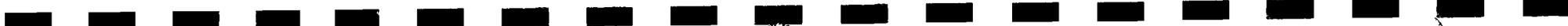
### ■ Networking

### ■ Information sharing

# Project Gateway

## Short Term

- Complete product parameters
- Set standards
  - Accreditation
  - Originations
  - Underwriting
  - Servicing
  - Consumer Education
- Training/Development



■ Operations Infrastructure

■ Human Resources

| Systems

| Administration

## Underwriter's Responsibilities

- **Determine basic eligibility requirements**
- **Pre-qualify borrowers**
- **Process applications**
- **Verify credit criteria**
- **Assess credit**
- **Oversee conveyance**
- **Initiate payroll deductions**



- **Process payroll deductions**
- **Credit borrowers' accounts**
- **Provide client statements**
- **Default management**
- **Direct client contact**
- **Perform quality control reviews**
- **Report loan status to Project Gateway**



- **Fee Income**

- Origination Fees
- Underwriting Fees
- Monthly Servicing Fees
- Default Management Fees(?)
- Ancillary Income

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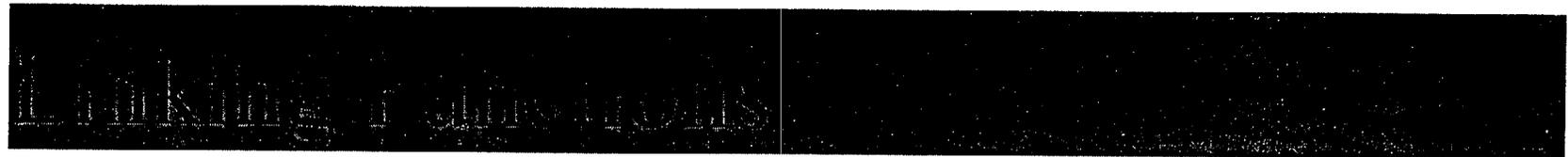


## Financial Responsibilities

- Repurchase defective loans
- Assessment for failure to report and/or remit on portfolio as defined in the contract



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- **What are the risks associated with one entity performing origination, underwriting and servicing functions?**
  - Limited pool of entities
  - Operational risks
  - Impacts of non-competitive markets
  - Ability to perform to investor requirements in all areas



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## Unbundling Functions

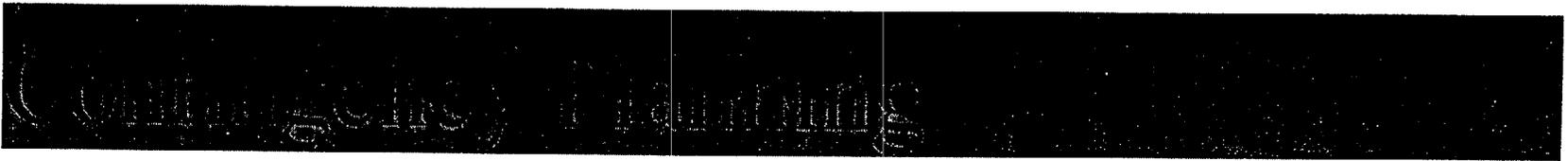
- **What are the impacts of separating these functions?**
  - Increased participants - originators and underwriters
  - Economies of scale gained through servicing volumes
  - Ability to match functions to institutional strengths



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- **Contingency Planning**

- Processing system failure
  - Servicer goes out of business
  - Provision for alternate data repository
  - Servicer capacity
- 
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# Home Buyer Education

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- How to select a home
  - applying affordability to house selection process
  - understanding home buying options
  - understanding property warranties
- How to acquire homeownership
  - property acceptance process
  - conveyance/transfer of ownership

# Home Buyer Education

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- Post Purchase Education (default management)
  - understanding repayment agreement
  - understanding payment requirements
    - timing of payment
  - understanding default prevention
    - communicating payment problems
    - accessing default counseling
    - remedies for default

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# Home Buyer Education

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- Needs Assessment
- Affordability Analysis
- Curriculum Based Educational Program
  - How to get a loan
    - comprehensive training on loan processing
      - understanding options
      - understanding borrower rights and responsibilities
      - selecting a lender
      - outlining roles and responsibilities of service providers

# Gateway: Educating the Potential Homebuyer

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- **MARKETING AND OUTREACH**
  - EMPLOYER SEMINARS
  - COMMUNITY SEMINARS
  - BROCHURES/PAMPLETS
  - CONSUMER TELEPHONE HOT-LINE
  - TECHNOLOGY: INTERNET/E:MAIL
  - REFERRALS:
    - HOME BUYER EDUCATION PROVIDERS
    - LENDERS
    - DEVELOPERS (HOUSING PROJECTS)

# Discussion

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- Development of Home Buyer Education Parameters
- Development of Delivery Mechanisms
- Identifying Service Providers
- Training of Providers
- Communication Mechanisms
- Funding



To **David Porteous** Office  
**Dave Deetlefs**  
CC  
Tim Store  
Rudolph Willemse  
Fred Smith

From  
**Gabriel Davel**

Re  
**Gateway**

**PROGRESS REPORT PROJECT GATEWAY**  
G Davel, 28 March 1998

The progress and outstanding issues, in the different tasks which we have been assigned is summarised below

The following documents have been developed and are available for discussion

• **Accreditation pack**

The accreditation pack will consist of

- \* overview of the Gateway process
- \* Underwriter functions responsibilities & liability
- \* Servicer functions responsibilities & liability
- \* Borrower information sheet
- \* Employer information sheet
- \* Provident fund information sheet

one page information sheets

- \* Underwriter / servicer application form
- \* Employer application form
- \* Provident fund application form
- \* Borrower application form

Legal agreements

- \* Underwriter agreement
- \* Servicer agreement
- \* Borrower agreement
- \* Employer agreement
- \* Provident fund agreement

The content and status of each of these documents are indicated in separate sections below  
The first document in the pack will be an overview of the Gateway product participants and procedures A draft has been prepared

● **Underwriter Accreditation**

\* **Underwriter Functions responsibilities and liability**

This is a high level summary of the functions which an underwriter must perform. It also covers the requirements for accreditation of underwriters and includes a summary of the underwriter's liability for recourse. The intention is that it should be produced as a glossy leaflet or brochure that will form part of the accreditation pack and marketing material.

Outstanding

- Final check to ensure that the document is consistent with the underwriter agreement (The areas of difference has been discussed with R Willemse)
- Final definition of the conveyancing process
- Agreement on underwriting fees for inclusion in the document

\* **Underwriter application form**

This have to be completed by each underwriter prior to accreditation. It will be the basis for Gateway's assessors to assess the capacity of the underwriter. It asks the underwriter to provide information that is relevant on its underwriting capacity and, more significantly, to provide warranties in key areas of the underwriting function. The warranties will be assessed (during an on site inspection by Gateway's assessors) prior to accreditation.

Status

- A draft has been done (and provided to DP & RW)
- This has to be reviewed to ensure that it is consistent with the underwriting agreement (areas of potential divergence has been discussed with RW)
- In its existing form the underwriting application form covers both underwriting and servicing. This form should possibly be revised to make underwriting and servicing 2 appendixes of a common underwriting / servicing application form.

● **Servicor Functions, responsibility & liability**

This is a high level summary of the functions which a servicor must perform. It also covers the requirements for accreditation of servicors and includes a summary of the servicor's liability for recourse. The intention is that it should be produced as a glossy leaflet or brochure that will form part of the accreditation pack and marketing material.

Outstanding

- The servicor function has not yet been finally defined. It is still not clear whether the servicing function will be outsourced to the same parties that will have originated and underwritten the loans. Further progress with the servicing document is dependent upon an indication on the intended direction.
- However, a draft of the servicing document is available for discussion.
- Servicing application form (see comments under underwriting application)

● **Accreditation of employers & provident funds**

Both employers and provident funds have to be accredited. This implies application forms and accreditation procedures. The following documents have been developed (based on an analysis of the documents used by institutions which provides similar financial services)

• employer application form	completed by participating employers
• employer accreditation procedures	
• provident fund application form	completed by participating provident funds
• provident fund accreditation procedures	
• Gateway payroll instruction	Completed by underwriter in respect of each

<ul style="list-style-type: none"> <li>• authority for payroll deduction</li> <li>• borrower's instruction to provident fund &amp; fund's confirmation</li> <li>• affordability certificate</li> </ul>	<p>borrower, and signed by employer (this seems to be excessive, could be integrated with 'authority' below)</p> <p>completed by applicant, to instruct employer to process payroll deduction</p> <p>not required any more</p>
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**Status**

- All these documents have been drafted and could be finalised once comment is received
- These documents were distributed to DP & RW

- **Borrower application and information sheet**

A borrower application form has been drawn up (based on application forms used by retailers) This covers the areas which must be addressed in applications for the Gateway loans. However, in practice this may be replaced by the underwriter's own application form, either with an appendix for information not normally required by the underwriter (in its own lending), or may be reproduced by the underwriter under its own logo

**Status -**

- First drafts of the borrower application form and information sheet have been done

- **Credit assessment and affordability criteria**

A credit assessment document, assessing alternative approaches to credit assessment, is in progress

**Status -**

- A discussion document on affordability and credit assessment criteria is in process. The conclusions on the credit assessment criteria will require changes before a final borrower application form (and credit assessment procedures) could be produced
- It is important that the client survey statistics be available before the completion of the credit assessment procedure
- The subsidy eligibility statistics should also be considered before completion of the credit assessment procedure
- Two major decisions have to be taken in terms of the credit assessment
  - the loan term (we suggest a 10 year loan term)
  - the extent to which the spouse's income should be taken into account in the affordability assessment

- **Central (Gateway) processing and administration**

Detailed procedures are required for all the functions for which Gateway will be responsible. A first draft has been done, but this requires extensive modification - due to the change in the Gateway-underwriter relationship (the present document is based on the original centralised model)

**Status**

- Clarity on the servicing function and the relationship between Gateway and Servicers is required before proceeding with this manual

- **Subsidy application**

A lawyer specialising in the subsidy procedures (Ludwig Smith LS) has been asked to assess the subsidy procedures in relation to Gateway's requirements. A discussion document was produced. GD and RW discussed the subsidy process with LS. The conclusions from the discussions are

- that of subsidy approval (and assessment of eligibility) could be delegated to either Gateway or the underwriters
- it does not appear possible / feasible for subsidy disbursement to be delegated to Gateway
- It may be possible for Gateway to receive an advance on projected subsidy payments, from which Gateway could make payments to qualifying applicants. However, Gateway will have to account for these payments to each provincial authority separately

There are also a number of issues to be resolved in relation to the subsidy approval process (and the delegation thereof to the underwriters)

- it will require that the underwriters perform functions which are very different to those performed at present (assessing eligibility against Actecs system & against National subsidy database)
- underwriters will require access to specialised software
- the Actecs enquiry has significant cost implications (R45 / enquiry)
- it may be more appropriate that the subsidy eligibility assessment be integrated with the conveyancing process (note that there are reservation on the practical implications of the conveyancing requirements, and integration of the conveyancing with the underwriting process)

Status -

- There are significant outstanding issues
- Proposed steps for resolution of these steps are
  - for RW to assess the options and make firm recommendations for discussion
  - GD, RW & FS to meet with Mr Barnard (National Dept of Housing) to gather further information on the subsidy process and, especially, to assess the feasibility of giving Gateway / Underwriters access to the national subsidy database
- DP to give guidance to LS before further steps are taken in revising the subsidy

- **Legal documents**

RW is preparing drafts of the required legal documents, i.e.

- \* the Underwriter agreement
- \* Employer agreement
- \* Fund agreement
- \* Developer agreement

A draft has been done of the underwriter agreement, and comments prepared on the requirements for the other agreements (i.e. no agreements as yet). RW, GD & RA discussed the underwriter agreement and some areas were identified where the agreement is inconsistent with other developments in the project, or where further thought is required. Some of the most significant are -

- RW did not incorporate a separate section on the 'principal' responsibilities of the underwriter as discussed in previous meeting with DP. However, sections 3 and 6 appears to achieve the same objective. GD & DP must provide further input into section 6.2 to ensure it covers essential conditions for recourse
- Definition of the point of purchase of the exposure by Gateway (i.e. after receipt of first repayment)
- Clear confirmation is required that the underwriter will only be required to provide finance for completed houses. RW will revise paragraphs 3.2.5 & 3.2.9 in this regard. If this is not acceptable to developers and finance is required at an earlier stage it will have significant implications for both the legal agreements and the procedures
- The requirements in terms of product certification is still not clear enough. i.e. happy letter, NHBC certification, engineer's certification. Current thinking' is that, as long as finance is only provided for completed houses, that a 'happy letter' may be sufficient. There are however also numerous complications and counter arguments
- GD suggested that a commitment be obtained from the employer that no payroll deductions will be accepted beyond a defined limit. RW have to confirm that this is legally possible. This may be

critical as acceptance of excessive deductions (even if authorised by employee) imply considerable credit risk for Gateway → *if borrower is assessed as not to home loan -*

- No confirmation required that borrower has undergone education, but underwriter must be satisfied that borrower has a sufficient understanding of the obligations related to home ownership → *subjective?*
- Under 6.2 must include requirement for the underwriter to perform the prescribed affordability test
- Cut 6.2.5

Status -

- GD gave verbal feedback on the agreement
- GD & DP should provide further input into agreement
- A copy of the underwriter application form was given to RW, so that conditions could be included in the agreement to cover the minimum warranties
- The servicer agreement needs urgent consideration, especially the implications if an underwriter is also a servicer
- The underwriter responsibilities in terms of conveyancing requires further attention
- The underwriter responsibilities in terms of subsidy certification requires further attention

#### • Database

FS produced the Business Process Flow. In discussion with GD the following issues were identified

- The most significant is that the document describes the centralised Gateway-driven process i.e. without considering the 'current thinking' in terms of a higher level of decentralisation to underwriters. It was agreed that the systems implications of the decentralised methodology will be addressed as a second version of the Business Process Flow
- Other issues that were identified (and which require modification of the processes) are -
  - that the affordability check should be integrated with the credit assessment and approval and that no separate 'affordability certificate' will be issued
  - that (at least in the pilot phase) the originator and underwriter will be the same party
  - that it is important to reflect the approach agreed to in the discussion of 06 March, i.e. that Gateway will not prescribe a detailed process but will only prescribe minimum features to which loans must conform to be eligible for buy-in
  - together with loans bought in the underwriter will provide Gateway with standard information
- disbursements will be made by the Underwriter, before loans are bought in by Gateway

Status -

- The business process flow has to be revised to indicate the decentralised process
- Once revised, detailed comments will be provided by GD & DP
- FS had discussions with RFF and Altfin on the information which they have available and their system specifications (Alexander Forbes did not want to have such a discussion at this stage)
- The requirements for the subsidy approval and disbursement process have to be considered as a matter of priority

#### • Financial modelling

A basic financial model has been developed, and output produced for the Board meeting. Further modifications have been made to allow for different on-lending rates for each of the next 5 years

Status -

- A basic model is available
- DP, DD & AS have to advise on an appropriate interest rate scenario (i.e. lending and on-lending rates)
- Advise whether the model should provide for repurchase of paper before date of maturity, and provide for consistent set of modelling assumptions for such repurchases

## PROPOSED DELIVERY MECHANISM AND PROCESS - HIGH LEVEL DESCRIPTION

The Gateway initiative defines a loan product that is appropriate for the low and middle income formally employed market. This will be a loan facility secured by cession of Provident Fund benefits and repayable by payroll deductions.

The loans will be assessed and approved against standard criteria by existing banks and non-bank financial institutions referred to as 'underwriters'.

The minimum loan origination standards will include affordability counselling and assessing the level of borrower education. It would also be part of the underwriters function to investigate whether the applicant qualifies for a government subsidy. Gateway is in the process of applying to the Department of Housing for authority to disburse housing subsidies (i.e. to utilise the remaining subsidy balance after draw-down of initial payment to the developer). Disbursement of the subsidy balance and loan could thus materialise simultaneously.

Only a limited number of institutions will be included as underwriters in the pilot phase - with the focus on institutions which has existing capacity in servicing similar loan products. The process of identifying these and subsequent institutions will be by a process of accreditation. Whilst Gateway will accreditate potential underwriters, it will be the latter who will in turn accreditate potential employers and provident funds.

The servicing/administration function would be outsourced in a similar fashion. Gateway will only accredit those servicers with established capacity and proven track records in the performance of similar functions (e.g. dealing with payroll deductions and/or provident funds).

In order to limit operational and technological risk we will therefore rely to the maximum extent possible on existing reputable institutions (service providers) and piggy back on their established capacity.

In order to limit credit risk, Gateway will specify the criteria to which qualifying loans must conform. The primary criteria are -

- Moderate and low income formally employed workers earning less than R3 500 who have a provident fund and who wish to buy new or secondary market houses
- Minimum employment period 2 years with the same employer or 3 years service between two employers
- Loan instalments must be limited to a specified percentage of the applicant's regular income (e.g. 25%). If required, 50% of the spouses regular income will be considered as part of total income.
- Security. At least 50% of the loan balance including capitalised interest must be fully secured by cession of provident fund benefits. The balance may be secured by bought-in home loan insurance.
- Willingness of the employer to provide pay-roll deduction facilities.

Gateway will commit to buying all qualifying loans from accredited underwriters as soon as the latter receives the first payment from the employer and remits it to Gateway.

**Underwriters** Their key functions are

- To screen all applicants and check whether they meet Gateway's qualifying criteria
- To perform an affordability counselling function and determine whether further education is necessary *⇒ ? underwriter's role - assess / certify - can others provide counselling ?*
- Complete an application form and verify that all credit criteria are met
- Submit payroll deduction orders to employers
- Obtain provident fund certificate confirming members' withdrawal benefit
- Issue clients with an affordability pledge
- Liaise with Conveyancer's
- To remit all payments received from employers to Gateway with accompanying schedules
- To remit monthly reports confirming each applicant's personal and loan details
- In some instances they will also act as servicers and attend to all administration aspects of the loan

**Employers** Their key functions are

- To confirm applicant's status as a permanent employee
- To confirm to Originators that a payroll deduction has been initiated on the latter's instruction
- To confirm to Originators that the instalment is not more than 25% of the employee's income after statutory deductions
- To remit at a pre-determined date all instalments due to a particular underwriter
- To remit monthly schedules to underwriters listing all employees with payroll deduction orders
- To advise underwriters of the termination of employment or any other material changes

**Provident Funds** Their key functions are

- To confirm that they are a registered Fund and have the capacity to issue guarantees for housing purposes
- To confirm with originators the amount of each employee's withdrawal benefit
- To issue guarantees to cover the collateralised portion of the home loan
- To re-imburse Gateway for any loans that have defaulted
- To advise underwriters of a pending resignation of members' from the Fund
- To report to Underwriters regularly the number and names of members on whose behalf it has issued guarantees

**Conveyancers** Their key functions are

- To interview applicants (most preferably on site) check the affordability pledge with underwriter and proceed for the applicant to sign a standardised loan agreement
- Checks with Underwriter that all other criteria are met
- Issues guarantees to seller/developer and commences the transfer process of registering the asset in the name of the applicant

**Servicers** Their key functions are

- To perform account administration duties i.e. submitting client statements
- Implement payroll deductions and receive payments from employers
- To investigate and follow up on all aspects related to arrears/payment defaults
- To institute a client service facility to receive and rectify complaints/admin deficiencies

Loan administration will be delegated to accredited servicers (or underwriters who also perform this function) This administration will include processing repayments and transferring them to Gateway If a default occurs (which could generally only be possible through the loss of employment by the borrower) Gateway's loss is limited by

- the provident fund security
- the bought-in security (if applicable)
- right of recourse against the underwriter if the post default investigation reveals that the underwriter did not adhere to specified criteria and procedures

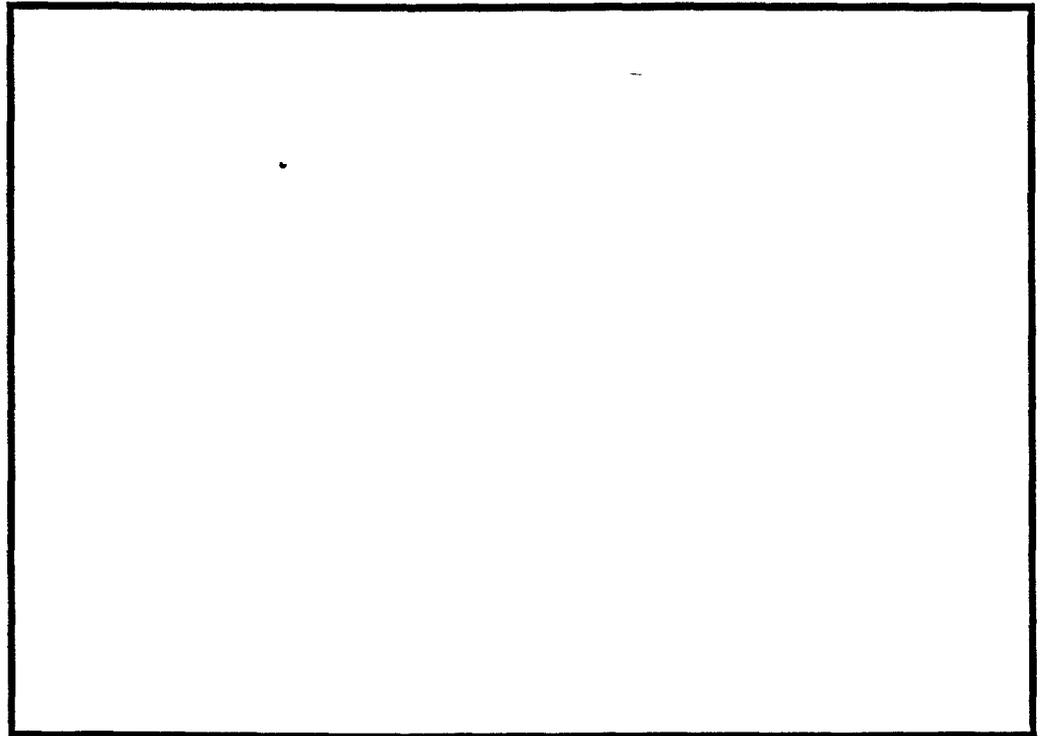
The functions of all key players involved in the Gateway process - underwriters employers provident funds conveyancers, servicers - are summarised in the appendix A

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National Housing Finance Corporation

# Business Process Flow

By Fred Smith



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# Business Process

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## Introduction

This document sets out the Business Process flow that is envisaged for the Pilot Project

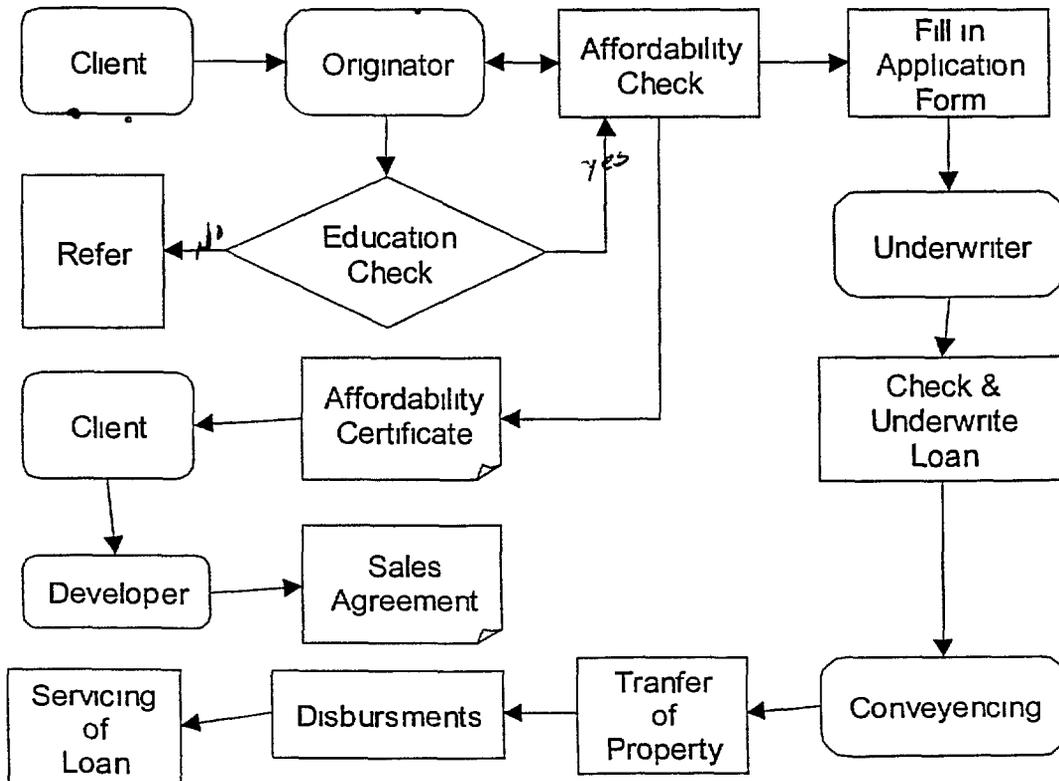
The Business Process presented here includes both Systems Integration process and the Complete System process and it shows the interface between the two

Please note that this is a document covering the Business Process Flow, and the document does not go into the technical solutions for providing the systems

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## Overview

This section will present a graphical and narrative overview of the Business process, and the rest of the document will be based upon the detail presented here



## Initial Contact

The initial contact with the client may be through the developer, but it will be the responsibility of the Developers to direct these clients, after they have viewed the properties, to the Loan Originators

The initial contact with the Originators may be informal or more formal where the client has brought documentation in order to fill out the Application form

In any event at this stage the Originator must assess whether the Client is in need of Orientation. If the client is, then the Originator must refer them back to a source for this education

Optionally the Originator may do an affordability check, but no Affordability Certificate must be handed out

## Formal Contact

This is where the Client brings documentation to the Originator in order that the Application form can be filled out

This contact may also refer to a first visit of a Client where the Originator deems that the Client is sufficiently aware of the implications of buying a home, that the process can be started

The formal contact is where details of the Client are captured on a form or into a computer system

The first stage of this formal contact is to perform an Affordability Check and produce the Affordability Certificate

After the Affordability Certificate is produced, if the Client has sufficient documentation with them, then the Originator can start to fill in the Application form

## Sales Agreement

Armed with the Affordability Certificate the Client can go to the Developer and sign a Sales Agreement. The Developer gets assurance from the Affordability Certificate that

- The Client has sufficient understanding of the implications of buying a house
- That in theory, based upon the information available, the Client can afford the Loan

## Application Form

The Application form is filled in by the Originator and signed by the Client. It may be that the Client has not brought all the necessary documents, but they have brought enough to start the process

The Originator is responsible for doing some preliminary checks on this documentation, and is also responsible for getting the Client to bring in any missing documents

## Underwriting

The Originator passes the signed Application Form and the necessary accompanying documentation to the Underwriter

The Underwriter has the responsibility for checking the documents, the Employer and the Fund in order that Gateway can Buy-in the Loan

The checking criteria will be agreed between Gateway and the Underwriters and will be documented by Gateway - *Shu*

Once the checking has been completed successfully the Application is passed for Conveyencing

## Gateway Buy-in

The Gateway Buy-in process is initiated by completed and underwritten Loan applications. It will not be the intention of Gateway to examine each and every Loan application. However, the agreement with the Underwriters is that if there is a default and examination shows that the responsibilities of the Underwriter were not carried out in full, then the risk for the Loan passes back to the Underwriter.

## Disbursements by Gateway

The payment of the Loan amount to the Developer via the Conveyencor will be via a normal Home Loan payment on transfer of the property.

Payment of any commission fees will take place on receipt of the first Payroll Deduction Payment.

## Servicing of the Loan

The existing Servicers will perform servicing of the Loan. Gateway will be passed information regarding what Payroll Deductions were received and will perform a reconciliation of these within its own systems.

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## Detailed Processes

In this section we will present the processes in more detail by considering each User area in turn.

### The Originator

With reference to the diagram below the following gives some detail of the process of the Originator.

This Business Flow related to the Gateway Complete Solution only and not the Systems Integration phase. Within Systems Integration although many or all of these steps may take place they will take place within existing systems that we will have no control over.

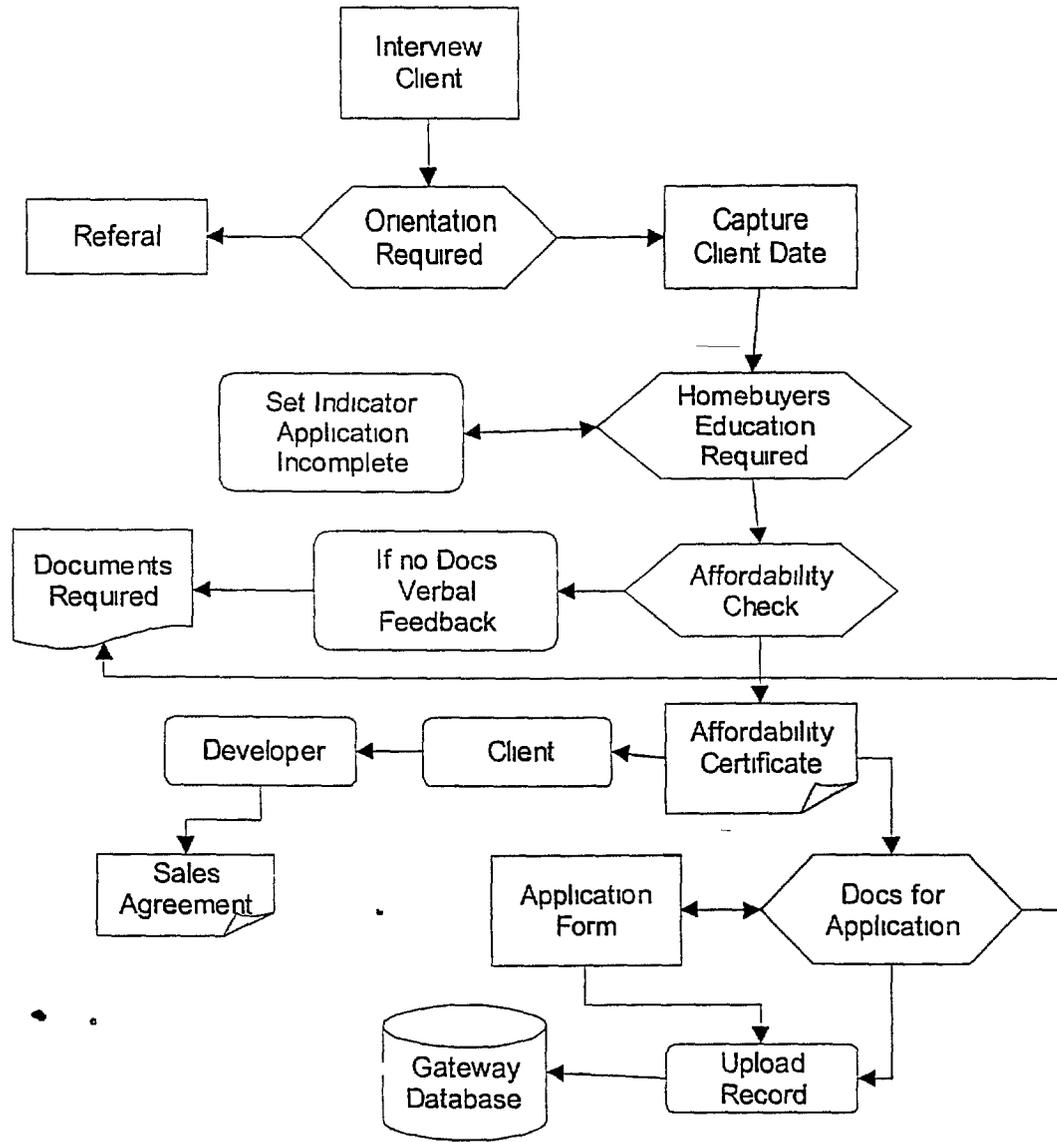
### Orientation

This is assessed during the first interview with the Client. This level of education is the basic general knowledge about home purchase.

If it is assessed that the Client does need this education there will be no formal capturing or processing and the Client will be referred to where they can get this knowledge.

The Originator may optionally run the client through the Affordability Check, but they MUST NOT provide the Client with an Affordability Certificate.

Q Will there not be a temptation for the Originator to ignore this in order to meet quotas particularly if they are being paid a commission?



**Capture Client Data**

If it is assessed that the Client has sufficient general knowledge then the Originator can start capturing Client Information into the system provided by Gateway

At this stage another assessment is made as to whether the Client has sufficient Homebuyer Education This is more than general knowledge and relates to the FTHBS system, how deductions will be made directly from the Payroll, and the possible consequences to the Client in the case of default or arrears

In reality both assessments can take place at the same time

The system provided to the Originators will require a positive action to be made by setting an indicator if the Originator assesses that the Client does not need further education By not setting the indicator, the Loan application cannot reach

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a completed status and therefore the Loan cannot be underwritten or bought over by Gateway

### ***Affordability Check***

The Affordability Check requires the Client to produce at least the Salary Slip and the Provident Fund Statement

If these documents are present then the check can take place and an Affordability Certificate can be printed

If the documents are not present, then the Affordability Check has little value, as the figures are a matter of guesswork. In this case, the Originator may go through the exercise, but must not issue an Affordability Certificate

What the Originator will do is print out, from the Gateway system, a list of the documents required with a plain language description of what these documents are. Before the Loan application can proceed the Client must return to the Originator with these documents

### ***Affordability Certificate***

The Affordability Certificate is a statement that based upon the unchecked documents presented, the Client should be able to afford a certain amount of Loan repayments per month which translated into a Loan of a particular amount

The Affordability Certificate will be dated and will have a pre-determined expiry date and must have the necessary legal wording that it does not constitute a Loan or that a Loan is guaranteed

The Affordability Certificate is given to the Client and the Client is then advised that they can now go to the Developer and negotiate the sale of a home and sign a Sales Agreement

The Affordability Certificate is an assurance to the Developer that

- The Client is serious enough about a home purchase that they have visited the Loan Originator and have produced the necessary documentation
- The Client does have sufficient general knowledge and awareness of the implications and commitment associated with a house purchase
- The Client is employed with an approved employer and does have the backing of a bona-fide Provident Fund

### ***Application Form***

Certain documents are required before an Affordability Certificate can be produced. These and other documents are also required in order to fill in the Application Form

The Client must sign the Application Form even although some information or documents are missing. In this case the Loan application is considered incomplete

Also remember, that the Loan application will also be incomplete until education is received if the Originator deemed it necessary. Proof of completion will be the Certificate that is normally presented on the completion of these courses

### ***No Documents of Application***

If the Affordability Certificate has been produced and given to the Client, but the Client does not have the required documents to fill in the Application Form. The Client and/or the Originator may decide not start filling in the Application Form at that stage

## Upload Record to the Gateway Database

At this stage the Loan application may be in one of three status codes

- The Application Form has been filled in and signed and it is complete with all the necessary documentation attached
- The Application Form has been filled in and signed, but some information or documents are missing and have still to be supplied
- Only the Affordability Certificate has been produced and there is no signed Application Form

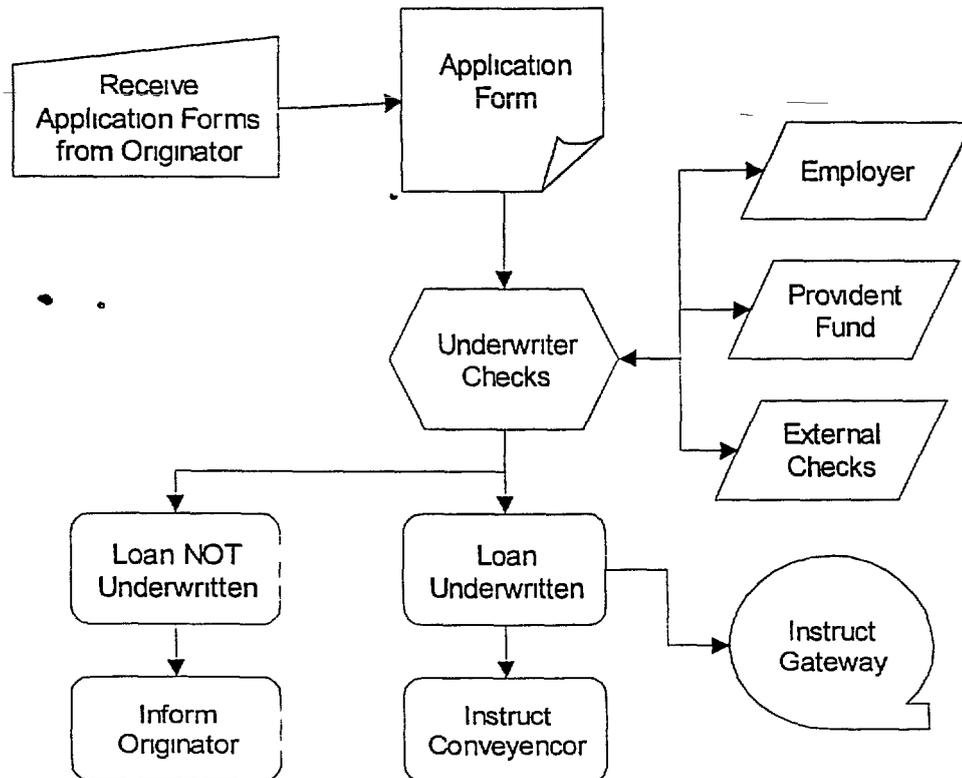
In each of the above cases, this record will be a candidate to be uploaded to the Gateway Database

It should be noted that we have envisaged here the scenario that the Originator was working off-line, not connected to the Gateway system. It is possible that the above process could have been performed on-line, real-time with the Gateway system. If the latter is true, then this last stage is not necessary

The NHFC will provide the facilities for both scenarios to the Originator

## The Underwriter

With reference to the diagram below the following are details of the Underwriters functions



### ***Receipt of Application Forms***

This is the physical transfer of the documents from the Originator to the Underwriter. It must be noted that the Gateway Complete Solution will not do away with Prime Documentation. This is the documentation such as Salary Slip, Fund Statement, and Copy of ID, etc. that needs to be physically examined.

### ***Underwriter Checks***

This is where the Underwriter performs their responsibilities to their own organisations and to Gateway by checking the validity of the Loan application.

These checks are against the Employer, the Provident Fund and any other outside source that is deemed necessary.

The Complete System that will be provided by Gateway will have recorded a list of approved Employers and Provident Funds and the means to electronically link to Credit Checking facilities.

We anticipate that even with the Complete System in place, the underwriter will still need to get in contact with the Employer and Fund and received a Faxed confirmation of Employment and Fund availability.

### ***Loan NOT Underwritten***

In the case that the Underwriter will not secure the Loan, this needs to be transmitted back to the Originator and thus to the Client with the reason for refusal.

Although we will provide the Originator the ability to view the status of their own originated Loan application, a refusal will still need to be formally transmitted.

### ***Loan Underwritten***

This is the stage that we begin to have the first interface with the Systems Integration phase.

With the Gateway Complete System, the workflow of the system will mean that a Loan application can only get to the Underwritten status if it has satisfied all the criteria set by Gateway. In this event Buy-in will be (almost) automatic and exception programs and enquiries will highlight to Gateway that new Loan applications have entered their workflow.

With Systems Integration, the completed, Underwritten application is the first link between the Underwriters existing systems and the Gateway Database. We anticipate that this linkage will take place via an electronic medium, probably disk.

### ***Instruct Conveyancer***

The following are a list of the actions that happen with respect to the completion of transfer of a property after the Conveyancer has been instructed.

- Compile Documents
- Client Signs Documents and gives Power of Attorney
- Formalise Documents ( Perfect )
- Guarantee to Developer
- Developer gives Power of Attorney
- Transfer of Property
- Conveyancer Informs Client and Underwriter

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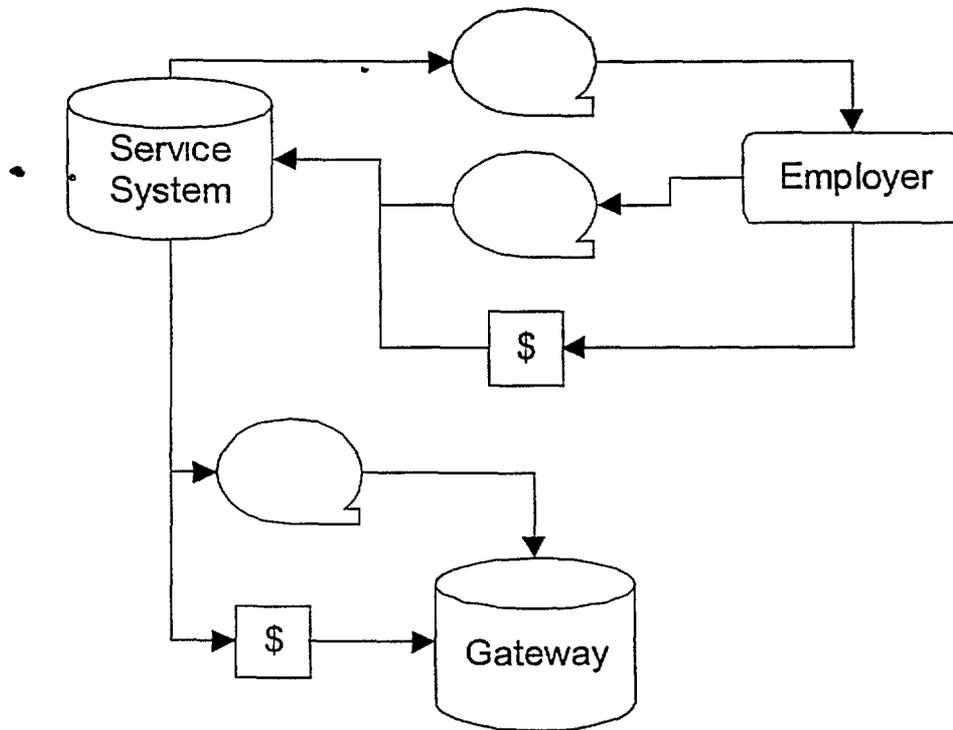
- Gateway Inform Underwriter
- Gateway Pays Developer
- Underwriter Initiates Payroll Deductions

## Servicing the Loan

This section deals with the Servicing of the Loan, which is the collection and reconciliation of Payroll Deductions the management of Arrears and defaults and the recovery of the outstanding Loan amount

This document does not at this stage deal with this in fine detail Rather we have set out the process of the interface between the Gateway system and the Servicers systems

In both the cases of the Systems Integration phase and the Gateway Complete Solution, we envisage using the existing Servicers systems to Service Loans as set out in the diagram below



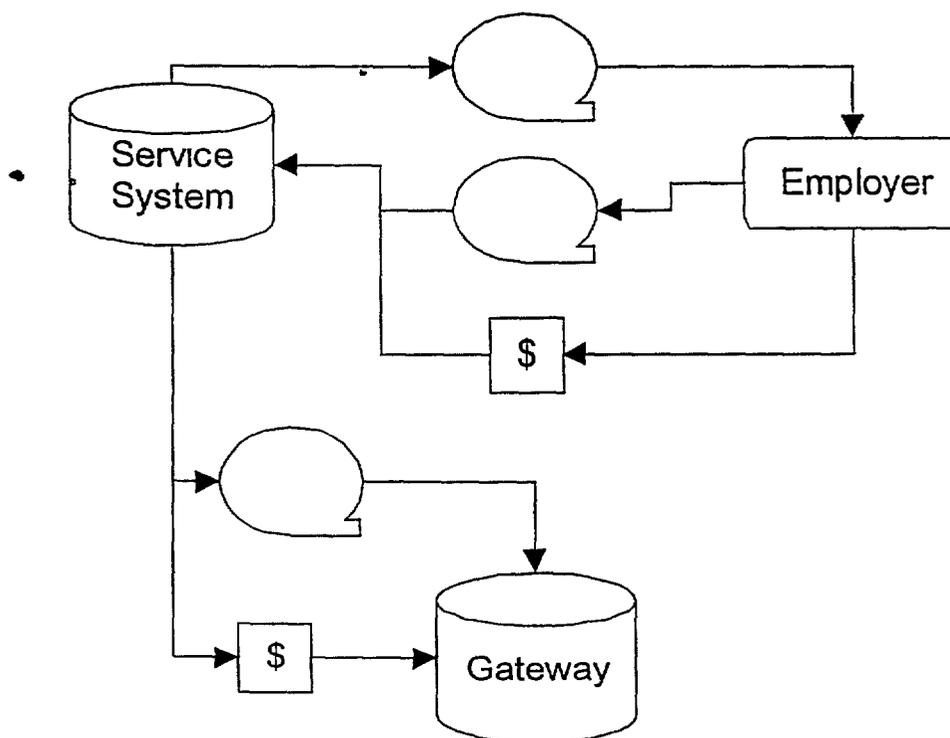
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REASON FOR PAYMENT DEFAULT (N = 2052)

1 PRODUCT DELIVERY PROBLEMS

		Number	%
1 1	Construction not according to sale agreement	4	0 2
1 2	Delay in house construction/delivery	11	0 5
1 3	Property vandalised before occupation	7	0 3
1 4	Not interested in acquiring house and/or bought alternative house	7	0 3
1 5	House belongs to someone else and/or several owners	9	0 4
1 6	Intimidation by original owner prevented occupation	10	0 5
1 7	Political/Civic intimidation prevented occupation	2	0 1
1 8	Borrower never took occupation (Not traceable)	31	1 5
1 9	Second property/tenant supposed to purchase	9	0 4
1 10	Construction considered defective (2 1)	19	0 9
1 11	Construction not according to sales agreement and/or Not rectified satisfactorily (2 2)	8	0 4
1 12	Non-compliance with further desired and/or agreed structural changes (2 3)	3	0 1
1 13	Property vandalised and/or non-repair of vandalised property (2 4)	8	0 4
1 14	Non-payment through solidarity with dissatisfied local home owners/house defects - project defects (6 4)	426	20 8
<b>TOTAL</b>		<b>554</b>	<b>27</b>

2 AFFORDABILITY PROBLEMS

		Number	%
2 1	Retrenchment/made redundant (with no other income source) (3 1)	457	22 3
2 2	Original informal employment or business now not in operation (3 2)	25	1 2
2 3	Resigned from job and have no alternative income source (3 3)	79	3 8
2 4	Fired and no new job or alternative source of income (3 4)	95	4 6
2 5	Strike (Lockout) - no pay (3 5)	32	1 6
	Present earnings since assessment less - lost previous job (4 1)	24	1 2
2 7	Present earnings since assessment less - working short week (4 2)	33	1 6
2 8	Instalment payment source changed - employer subsidy now not in effect		
2 9	Instalment payment source changed - FTHB subsidy now not in effect (4 4)	2	0 1
2 10	Instalment payment source changed - other subsidy now not in effect (4 5)	1	0 0
2 11	Loss of spouse's earnings	17	0 8
	2 11 1 - death (4 6 1)		
	2 11 2 - separation (4 6 2)	33	1 6
	2 11 3 - job/income loss (4 6 3)	39	1 9
2 12	No income - unemployed at time application granted (4 7)	18	0 9
2 13	Overextended - Affordability incorrectly assessed on application (4 8)	98	4 8
2 14	Temporary non-payment due to other costs incurred (4 9)	50	2 4
2 15	Hospitalised/Severe illness (4 10)	16	0 8
2 16	Poor work attendance/Lower pay (4 11)	6	0 3
2 17	Lost interest in property (unspecified) (6 8)	67	3 3
<b>TOTAL</b>		<b>1092</b>	<b>53</b>

3 BORROWER EDUCATION AND/OR AWARENESS OF LOAN CONDITION PROBLEMS

		Number	%
3 1	Underpayment due to not being aware of upwardly revised payment (e.g. insurance premium increases rate/interest rate increases) (5 1)	2	0 1
3 2	Arrears through belated initial payment expected/not caught up (5 2)	17	0 8
3 3	Rescheduled amount due not acceptable/not concurred with (5 3)	14	0 7
3 4	Arrears due to subsidy not being effected or caught up		
	3 4 1 - employer subsidy (5 4 1)	2	0 1
	3 4 2 - FTHB subsidy (5 4 2)	1	0 0
	3 4 3 - other subsidy (5 4 3)		
3 5	Arrears due to inconsistent/inadequate payment still occupies house (5 5)	166	8 1
3 6	Arrears due to inconsistent or inadequate payment but has also abandoned house (5 6)	69	3 4
3 7	Sublet property/Tenant erratic payer (5 7)	13	0 6
3 8	Fails to grasp concept of ownership (6 1)	8	0 4
3 9	Fails to grasp concept of payment obligation/doesn't know difference between ownership and rental (6 2)	5	0 2
3 10	Relevance of timeous payments not understood (6 3)	13	0 6
	<b>TOTAL</b>	<b>310</b>	<b>15</b>

4 POLITICAL PROBLEMS

		Number	%
4 1	Non-payment through solidarity in local community (e.g. consumer/rent/bond boycott) (6 5)	42	2 0
4 2	Non-payment through solidarity with general boycott (6 6)	5	0 2
4 3	Non-payment due to threats from previous owner (6 7)	3	0 1
4 4	Political commandeering/Political fear (6 9)	32	1 6
	<b>TOTAL</b>	<b>82</b>	<b>4</b>

5 INAPPROPRIATE LENDING PRACTICE PROBLEMS

		Number	%
5 1	Judgment taken prematurely - Borrower not in arrears at the time (7 1)		
5 2	Judgment taken in error (or against wrong borrower) (7 2)	2	0 1
5 3	Judgment arising from indebtedness to other source (money-lender/other debtor) (7 3)	4	0 2
5 4	Offer to purchase house ignored or not accepted by F/I (7 4)	2	0 1
5 5	Supposed borrower forced or deceived into signing offer to purchase and loan application agreements (7 5)	3	0 1
5 6	Past PIP re-registered in previous borrower's name to access insurance guarantee (7 6)		
5 7	Reverse joint account application/joint liability to achieve affordability (7 7)		
5 8	Property insured not traced (incorrect locality reference) (7 8)	3	0 1
	<b>TOTAL</b>	<b>14</b>	<b>1</b>

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## DEFAULT EXPERIENCE (HLGC)

The reasons for default by borrowers are as follows as revealed by field investigation of claim cases

	Percentage	Numbers
Housing product delivery problems	27%	554
Affordability problems	53%	1092
Education/Awareness of loan conditions	15%	310
Political Problems	4%	82
Inappropriate lending procedures	1%	14
TOTAL	100%	2052