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CITY Press

Jg..... Nr..... P...6... Dat. 10 Dec 2000

R1.5 billion base Building communi- ties; foundation

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Foundations are crucial in home construction. With more than R1.5 billion in low-income housing stock already in place thanks to facilitation by the Homeloan Guarantee Company (HLGC), this company's base is more substantial than most.

However, South Africa's housing finance guarantor of last resort has its eyes firmly on future challenges rather than past achievements.

The HLGC is focused on a new decade that demands funding innovation to contain interest costs; that requires a culture of regular savings as a springboard to home ownership and that cries out for housing education if the transition to a better life is to be a dream realised and not a dream dashed.

To tackle such awesome challenges, you need experience, marketplace credibility and critical mass. After 10 years in the sector, HLGC fits the bill.

We have grown our capacity, our capital base and the number of banks and niche lenders that use our facilities, points out Dr Charlene Lea, the HLGC chief executive officer.

The HLGC is the only local NGO with AA+ credit ratings from internationally renowned rating agencies, Fitch-IBCA and Duff & Phelps (now Fitch Southern Africa). The ratings confirm HLGC's high claims paying ability, healthy solvency margins and stringent risk management systems.

Apart from SASRIA, the HLGC is also the only Section 21 company to be awarded a short-term insurance licence. The HLGC is well positioned in its role as an innovative developer of housing-related guarantee products able to underwrite any form of housing risk.

The company does not lend funds nor is a financier of start-up, low-income housing projects. It is a source of guarantees and a provider of specialised assistance when obstacles to affordable housing delivery have to be surmounted.

To this end, it places increasing emphasis on housing education. The company uses education as a risk management tool helping end-users understand risks and obligations, thereby reducing the incidence of default through overstretched family resources or miscalculations.

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Main aim

The HLGC mission is to foster the access of low-income people to housing finance, mainly by mobilising and managing guarantees.

To fulfil its mission, the HLGC interacts with lenders, trade unions, employers, NGOs, various levels of government and end-users. It also has a sound relationship with Nurcha, the National Housing Finance Corporation, Women for Housing, SAIDEF, the Institute for Housing of Southern Africa and underwrites Gateway Home Loans.

The HLGC operates nationwide and in 1998-99 alone was active at more than 600 locations. Yet it operates a single permanent office in Auckland Park, Johannesburg.

Educational empowerment

An important focus is empowerment through education. The aim is to increase a borrower's understanding so he or she is equipped to make informed decisions.

It runs housing finance education programmes covering all forms of tenure and housing credit. It can tailor programmes to the specific needs of employers, housing associations, unions and others.

When customising or improving the design of a company's existing housing

related credit education programme, its knowledge and expertise of housing finance is invaluable.

The HLGC also offers train-the-trainer courses

World-class course quality was confirmed last year when it became a delegated provider of Park Lane College, Leeds a leader in the field of housing education.

The educational work never stops. The HLGC is currently using focus groups to test a new course that it hopes to pilot in the coming weeks. If all goes well, this new educational product will be available in the local market by January. The course is designed to help people before a decision is made whether to rent or buy.

Says Dr Lea: People don't realise what they need to know or what questions to ask before entering into a loan obligation. Issues such as the ability to pay school fees and other committed expenses have to be factored into affordability calculations.

Basic questions have to be weighed, including

- What can the family afford?
- How do you work out a budget?
- What current obligations also have to be honoured?
- Where to live?

The HLGC's work in the educational field takes it into the realm of debt management. It was one of the first, with Nurcha, to become involved in savings as a collateral mechanism.

Vision for the future

When outlining the HLGC vision for the next five years, Dr Lea points out that capacity shortages are unlikely to go away. Subsidies won't continue in-

definitely. It is therefore essential that low-income groups build a sense of self-reliance and don't entrench any form of dependence.

At the same time, products have to be developed that work in this marketplace and contribute to affordability.

For example, the HLGC is currently working on a mechanism that would enable large banks to provide smaller banks with wholesale funds that could then be turned into loans for end-users.

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Turning end-users into good borrowers able to make informed decisions will contribute to better risk experience and improved perceptions of the sector. Educated borrowers no longer borrow to their affordability limit, leaving spare capacity for family emergencies like funeral expenses.

Lending to the limit of affordability does the entire market a disservice," she notes.

Learning for wider experience

SA has unique housing challenges. It has to develop its own solutions. However, the HLGC is at pains to ensure its local focus does not lead to tunnel vision. It is eager to learn as much as possible from outside experience and then look at ways of applying the lessons to a South African context. Its partnership with Park Lane College of Leeds is one example of staying close to international developments, maintaining world standards yet staying close to its own market.

Fact Box

The HLGC facilitates access to loans through interaction with employers, trade unions, housing committees, provident funds and others.

One of its core products facilitates mortgage-based transactions by covering banks against loss of up to 20% of the purchase price.

The product often assists borrowers who earn less than R6000 a month and have little collateral.

Another product (not based on a mortgage) expedites loans to low-income earners through a guarantee of last resort to the lender, as long as pre-determined minimum conditions are met.

The HLGC also provides instalment guarantees to housing associations to cover rent-to-buy and instalment sale arrangements. It is one of the pioneers of guarantees for savings-backed lending.

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