

# MORTGAGE DEFAULT INSURANCE

*Workshop with PC: Human Settlements*

Presenter: Ulrike Rwidia | Public Finance, National Treasury | 17 April 2013



**national treasury**

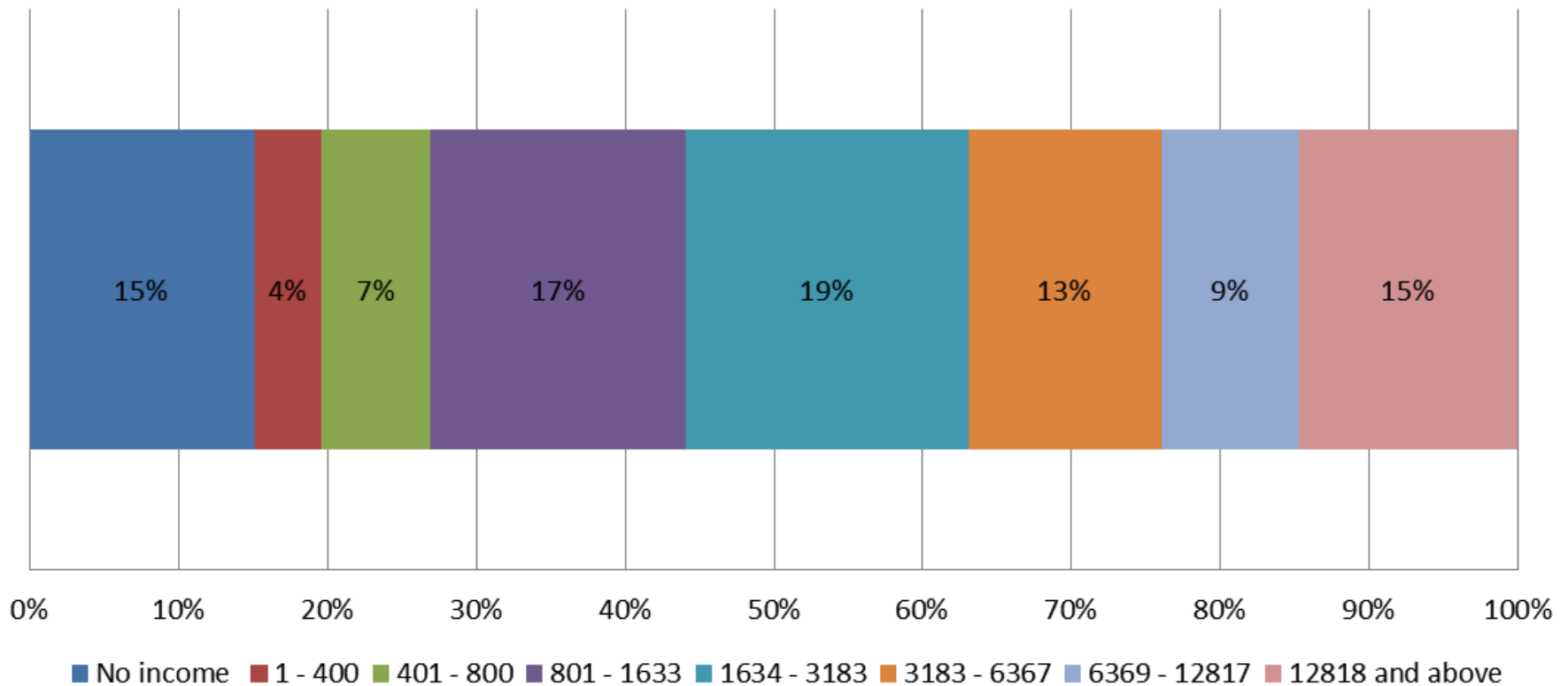
Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

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- New housing supply trends
- Household credit access
- The role of housing in the economy
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# Profile of Housing in South Africa

## Distribution of monthly household income



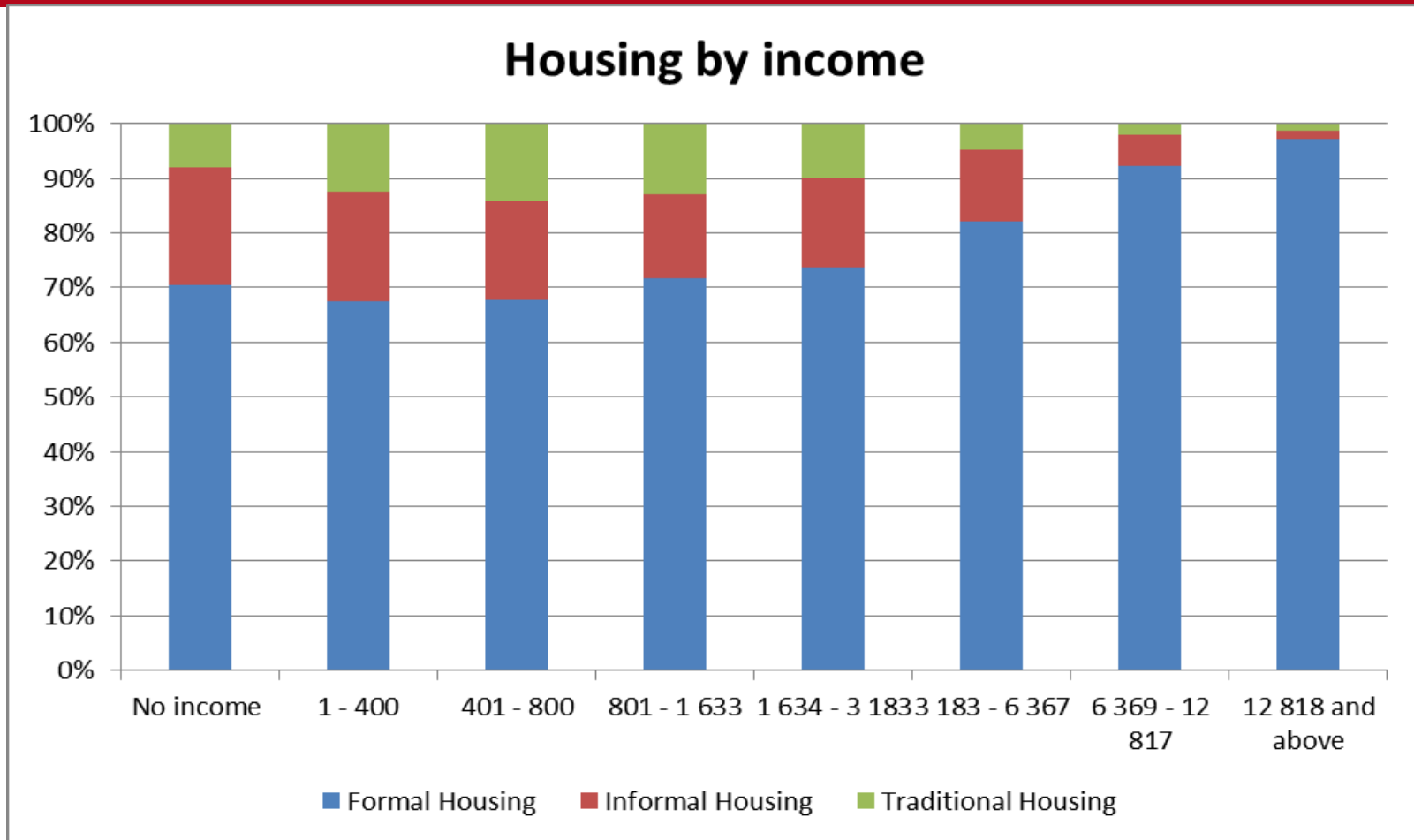
Source: Statistics South Africa, 2012

# Profile of Housing in South Africa

Type of main dwelling	No. HHs	Percentage
House or brick/concrete block structure on a separate stand or yard or on a farm	9 384 029	64.9%
Traditional dwelling/hut/structure made of traditional materials	1 139 917	7.9%
Flat or apartment in a block of flats	720 327	5.0%
Cluster house in complex	146 393	1.0%
Townhouse (semi-detached house in a complex)	213 104	1.5%
Semi-detached house	213 559	1.5%
House/flat/room in backyard	422 849	2.9%
Informal dwelling (shack; in backyard)	712 955	4.9%
Informal dwelling (shack; not in backyard; e.g. in an informal/squatter settlement or on a farm)	1 249 776	8.6%
Room/flatlet on a property or larger dwelling/servants quarters/granny flat	118 984	0.8%
Caravan/tent	14 440	0.1%
Other	113 827	0.8%
<b>Total</b>	<b>14 450 160</b>	<b>100.0%</b>

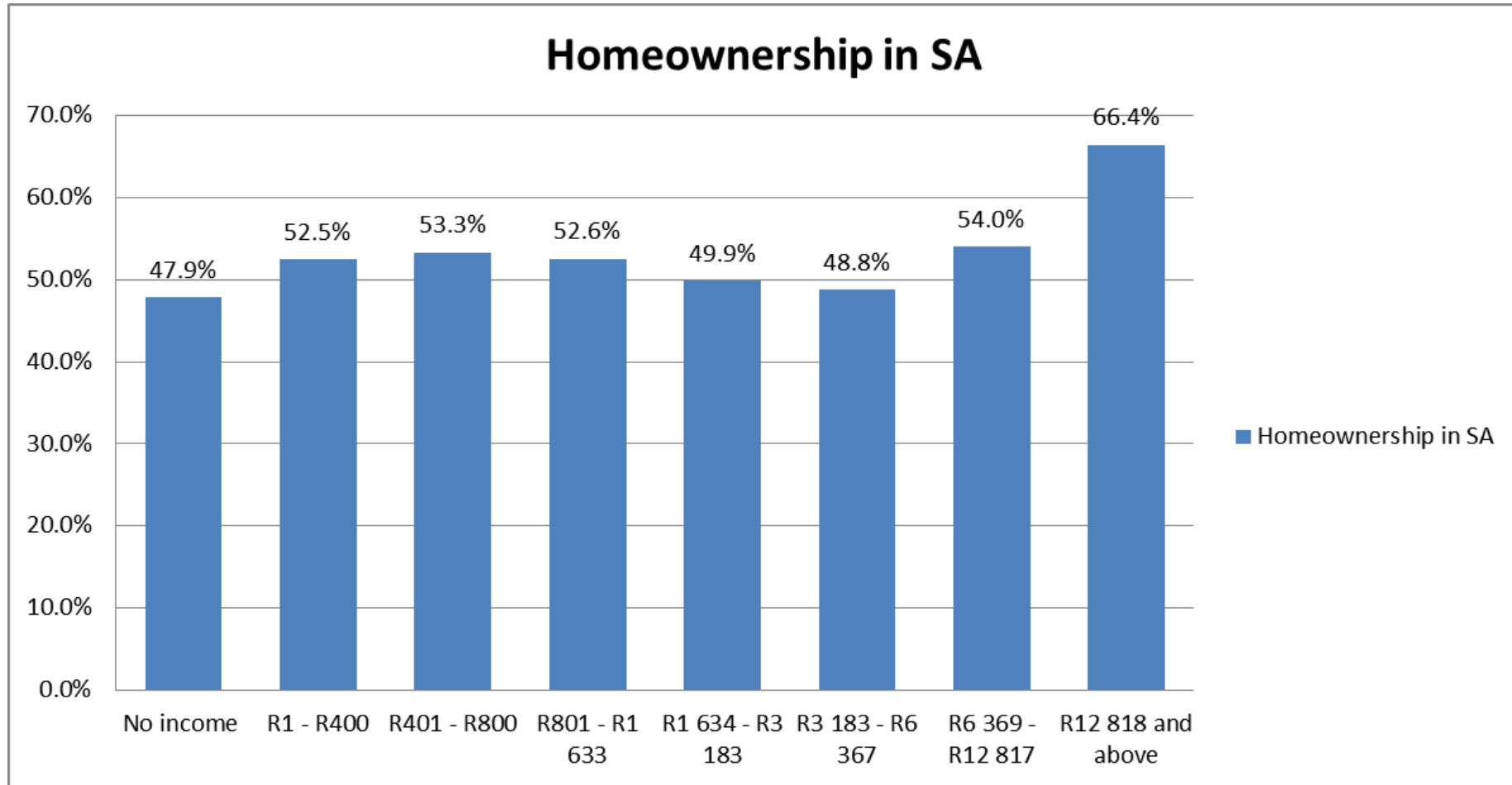
Source: Statistics South Africa, 2012

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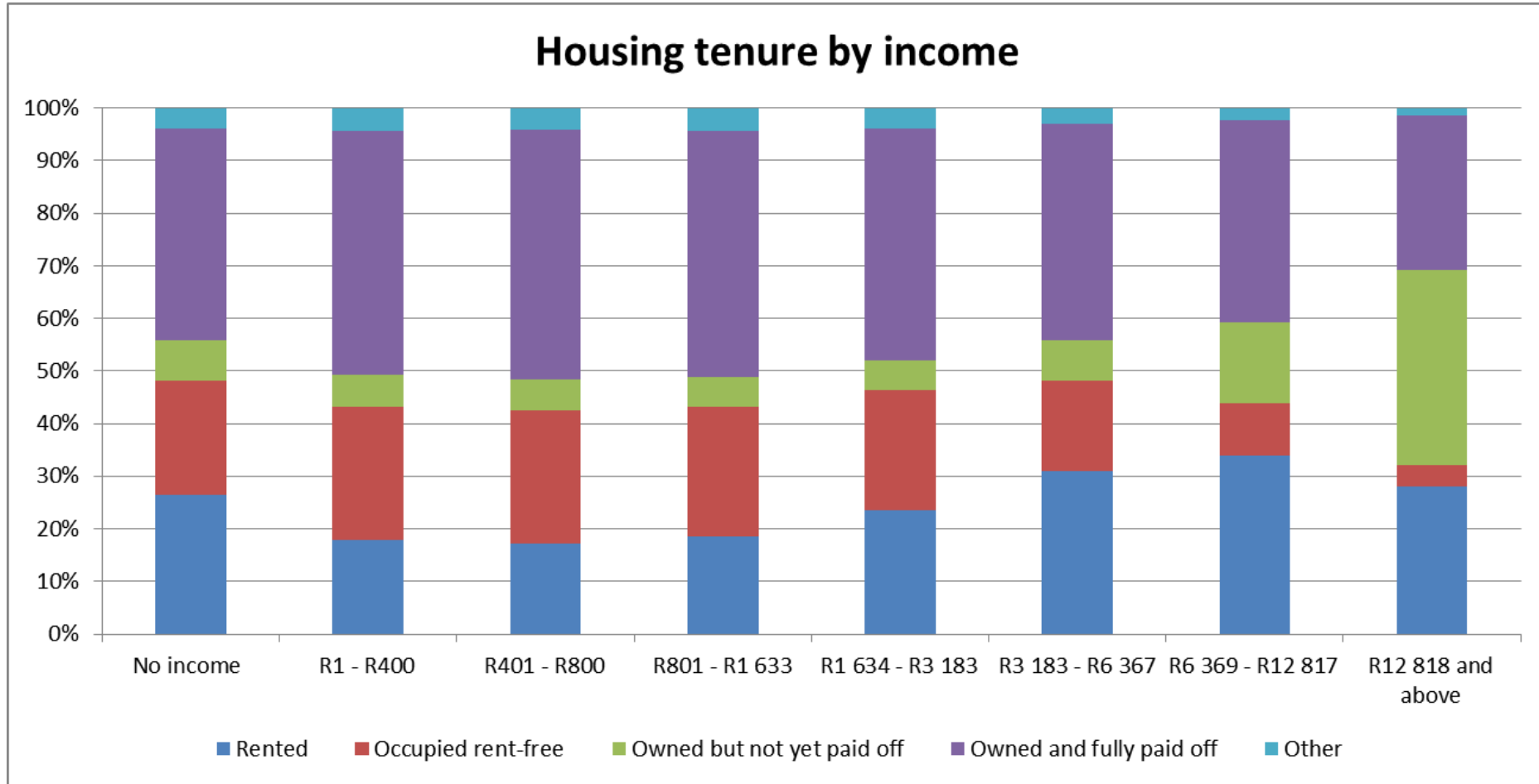
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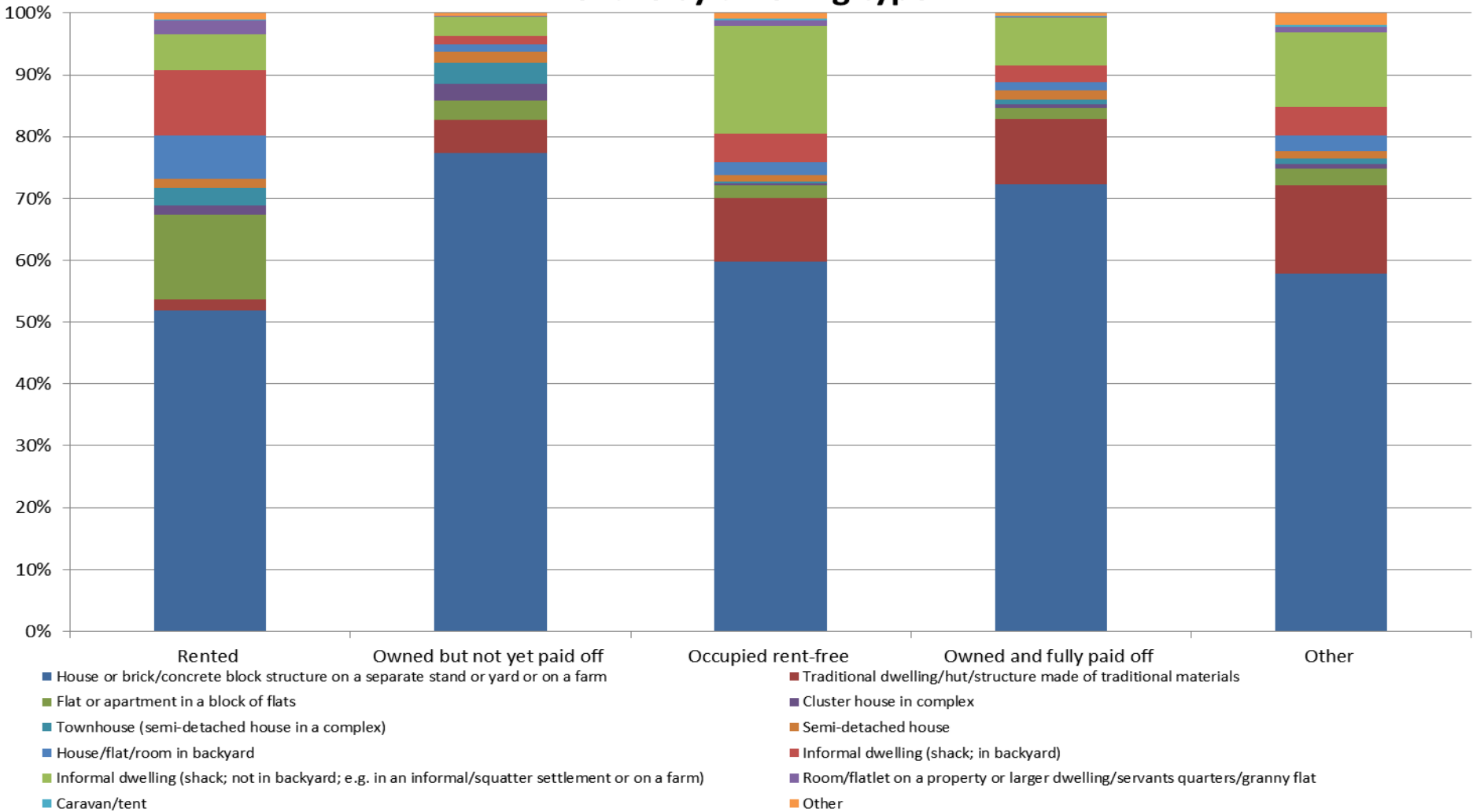
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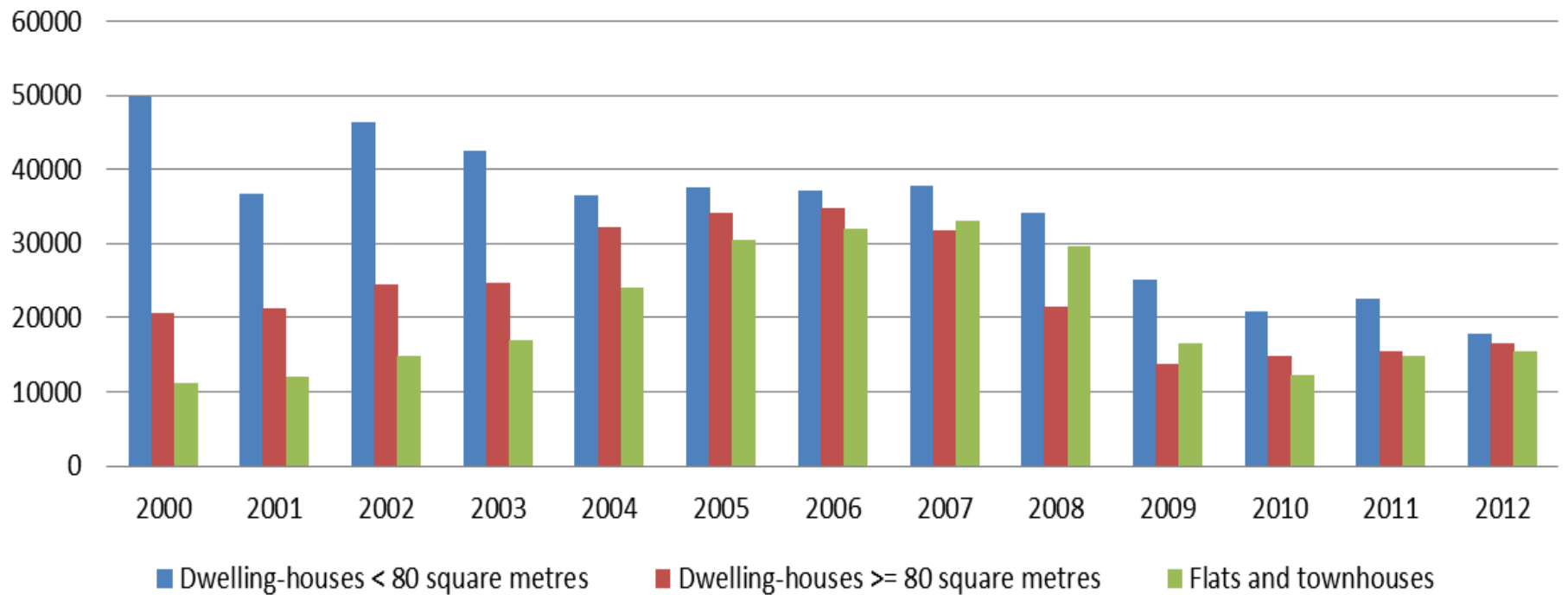
## Tenure by dwelling type





# Housing (new) supply

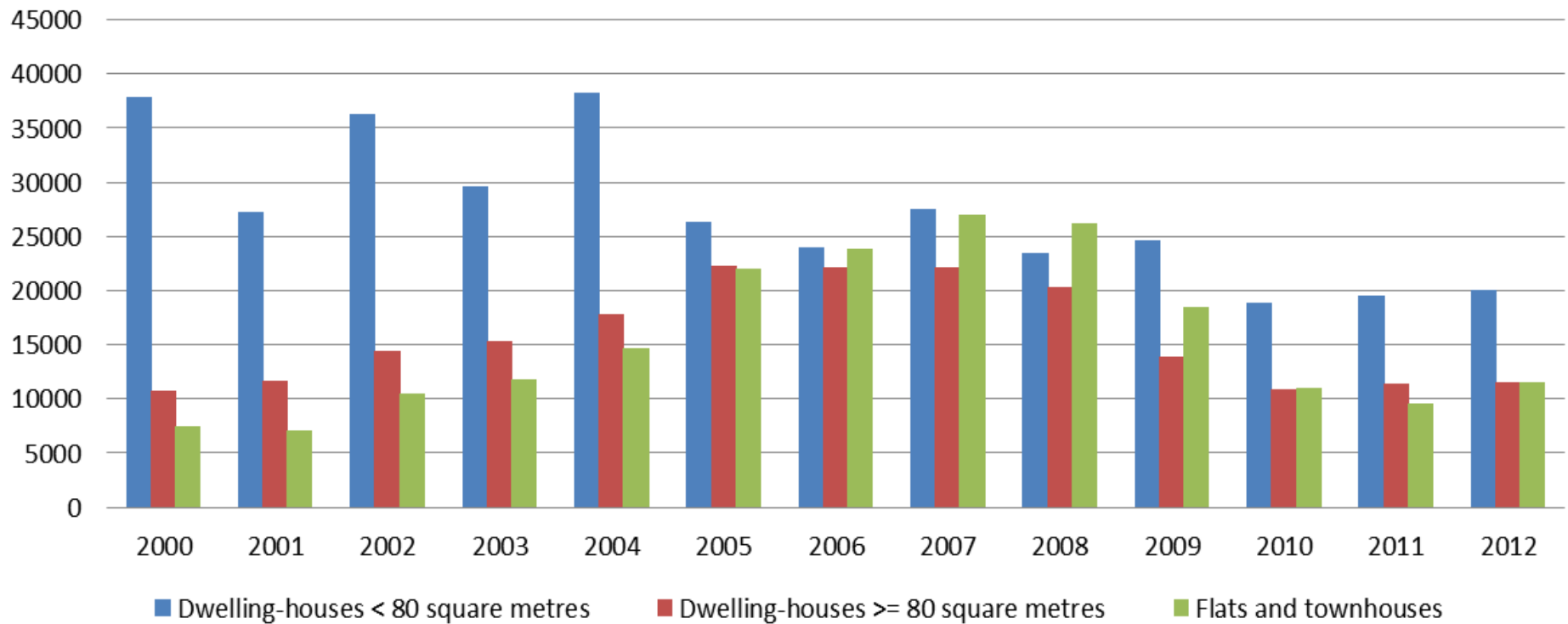
Recorded building plans passed by larger municipalities by type of building



Source: Statistics South Africa, 2013

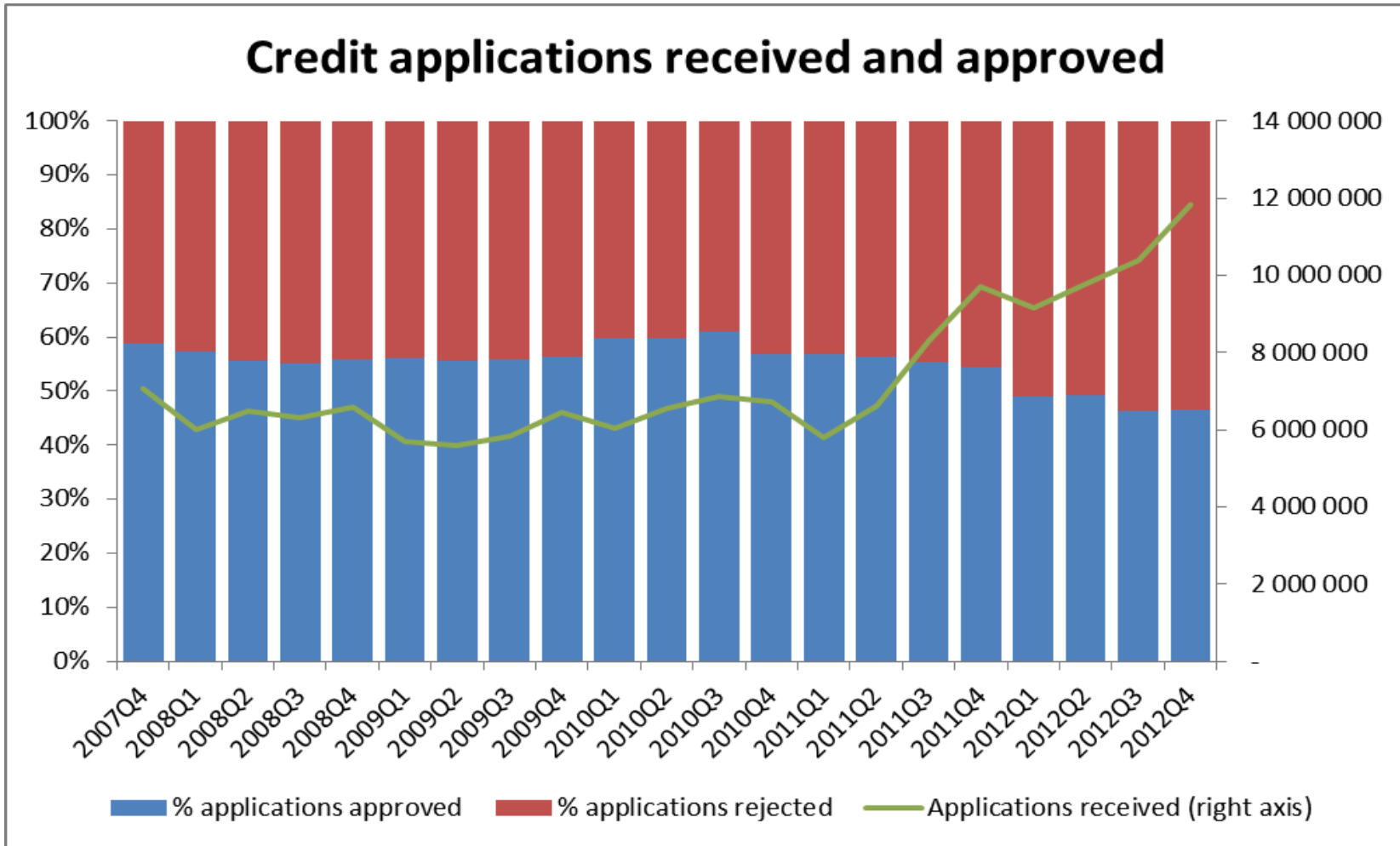
# Housing (new) supply

Buildings reported as completed to larger municipalities by type of building



Source: Statistics South Africa, 2013

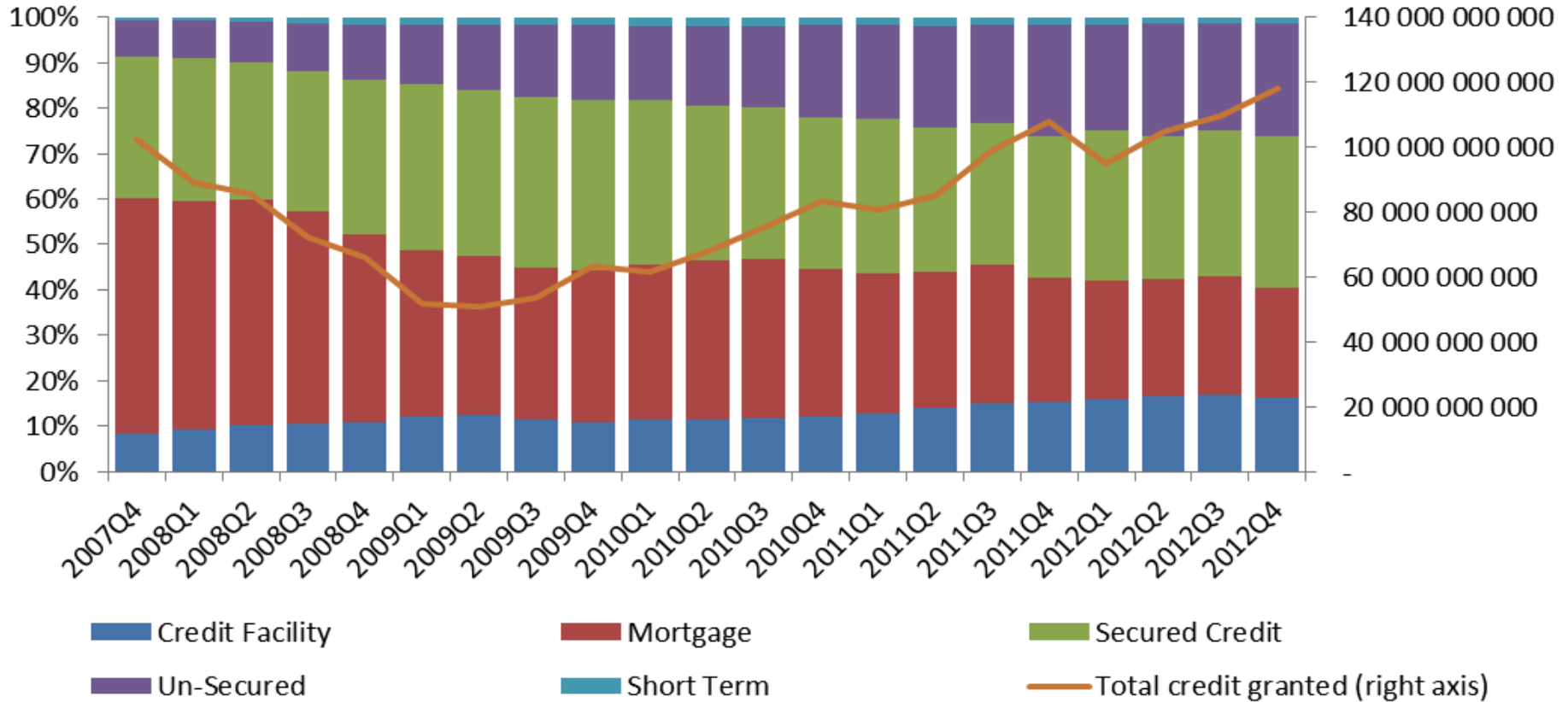
# Household access to credit



Source: National Credit Regulator, 2013

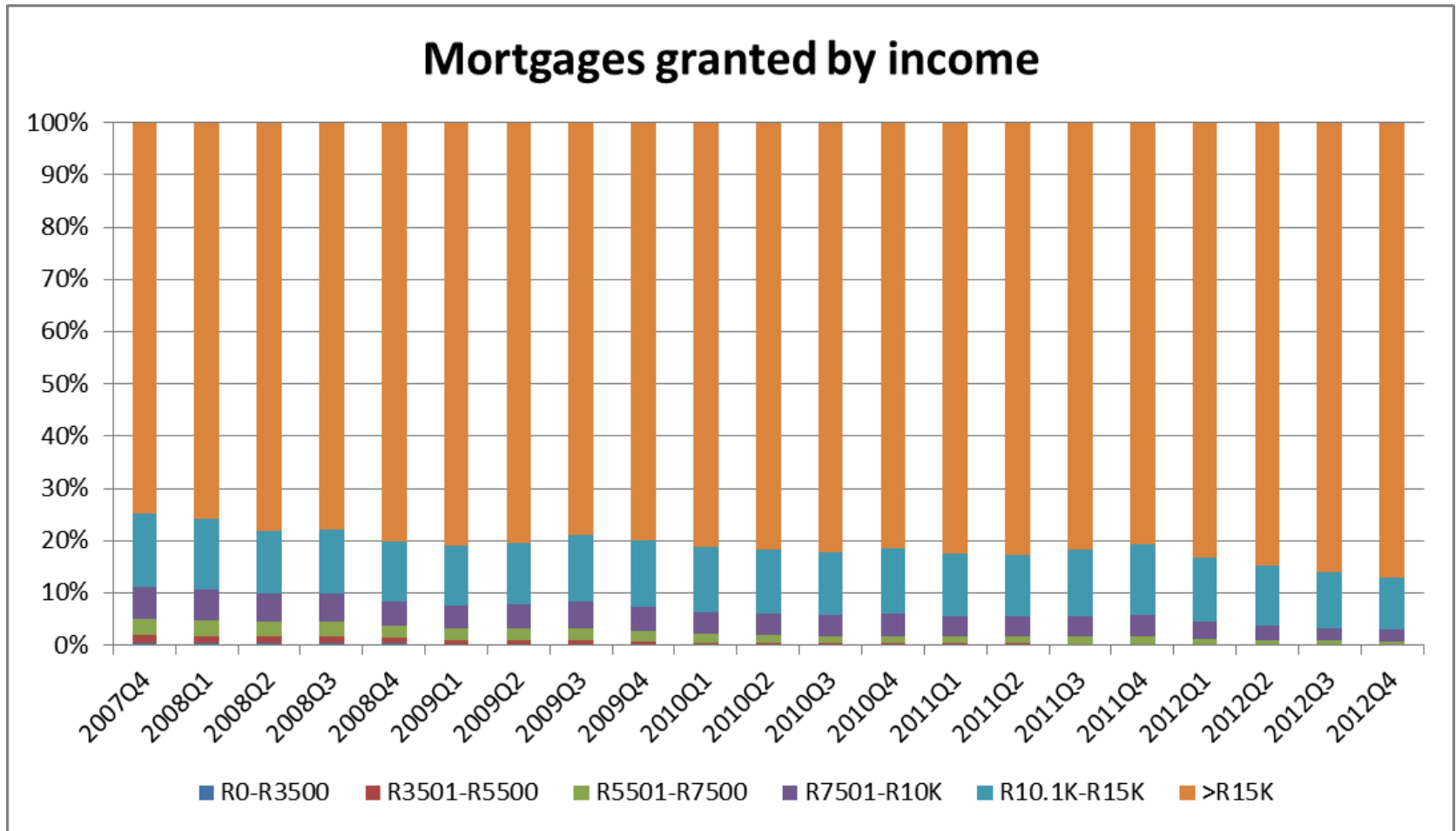
# Household access to credit

## Value of credit granted per credit type



Source: National Credit Regulator, 2013

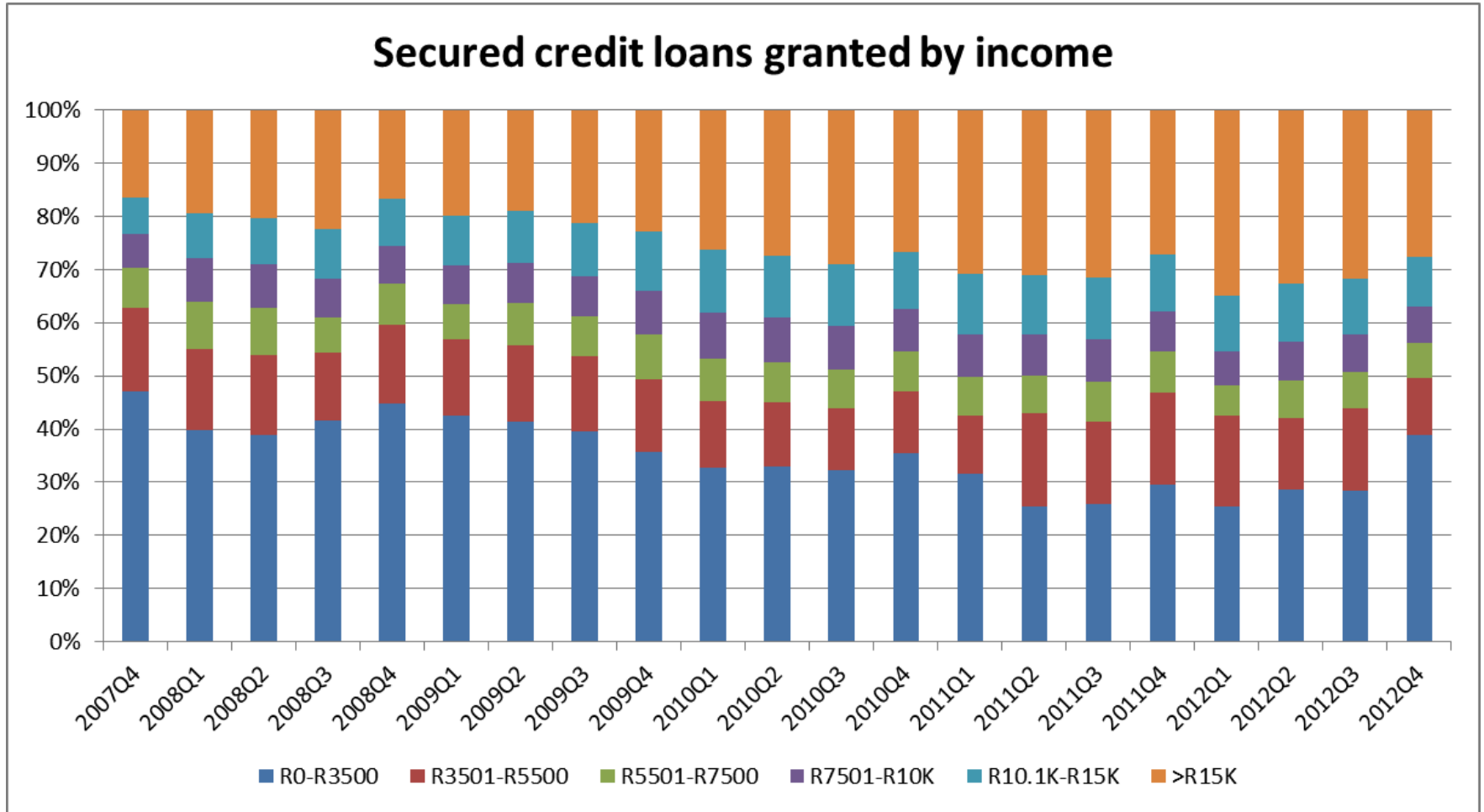
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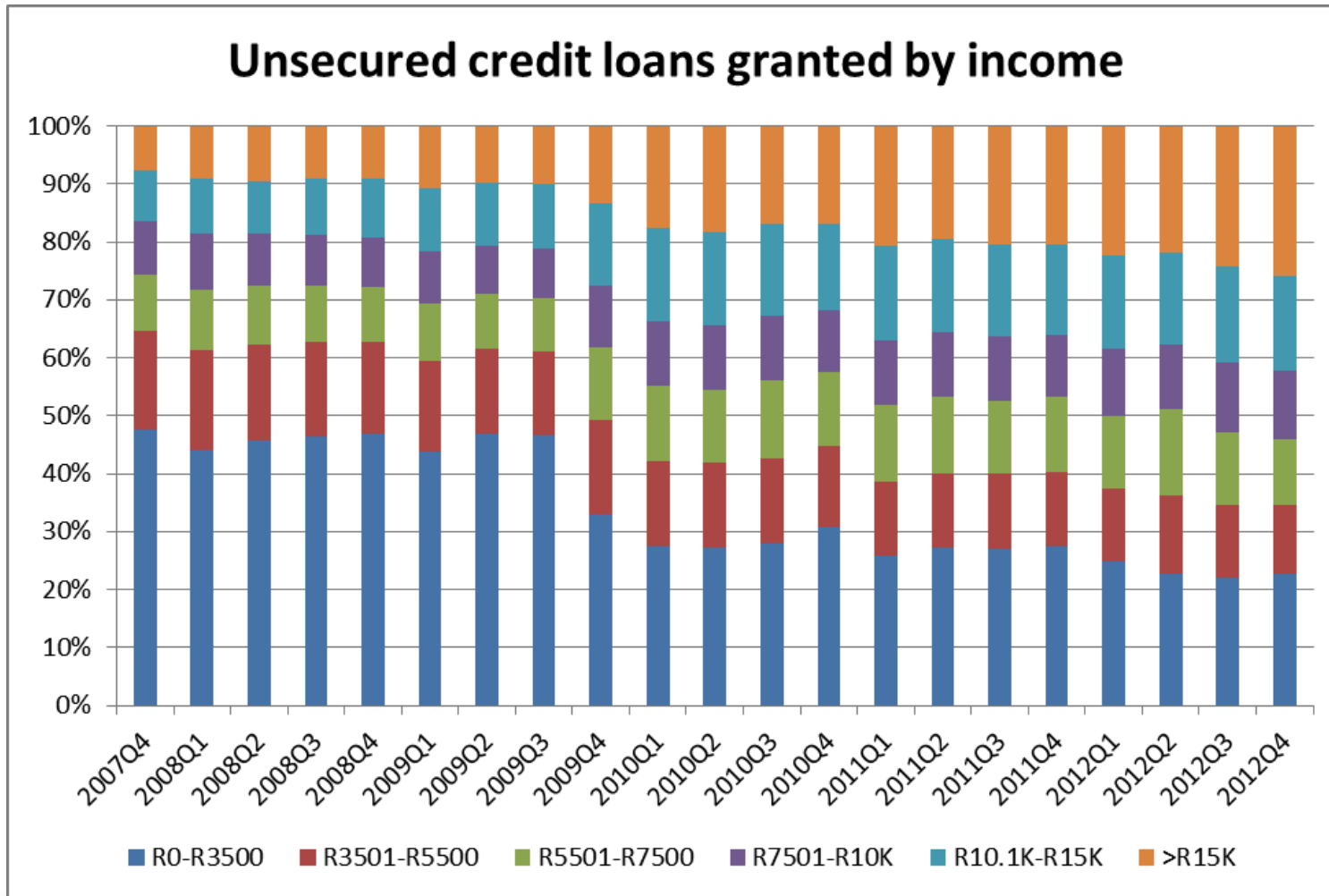


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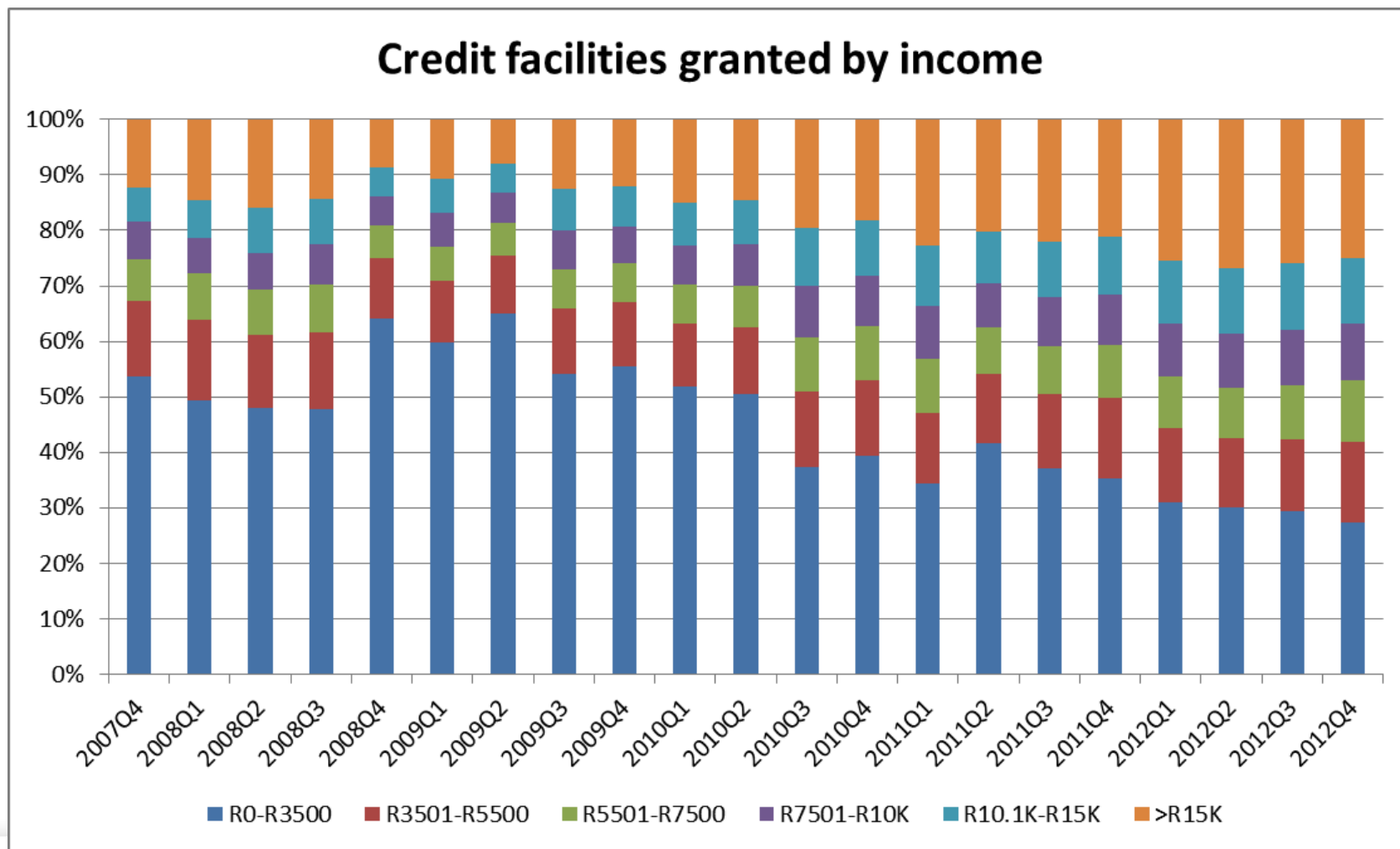


Source: National Credit Regulator, 2013

# Household access to credit



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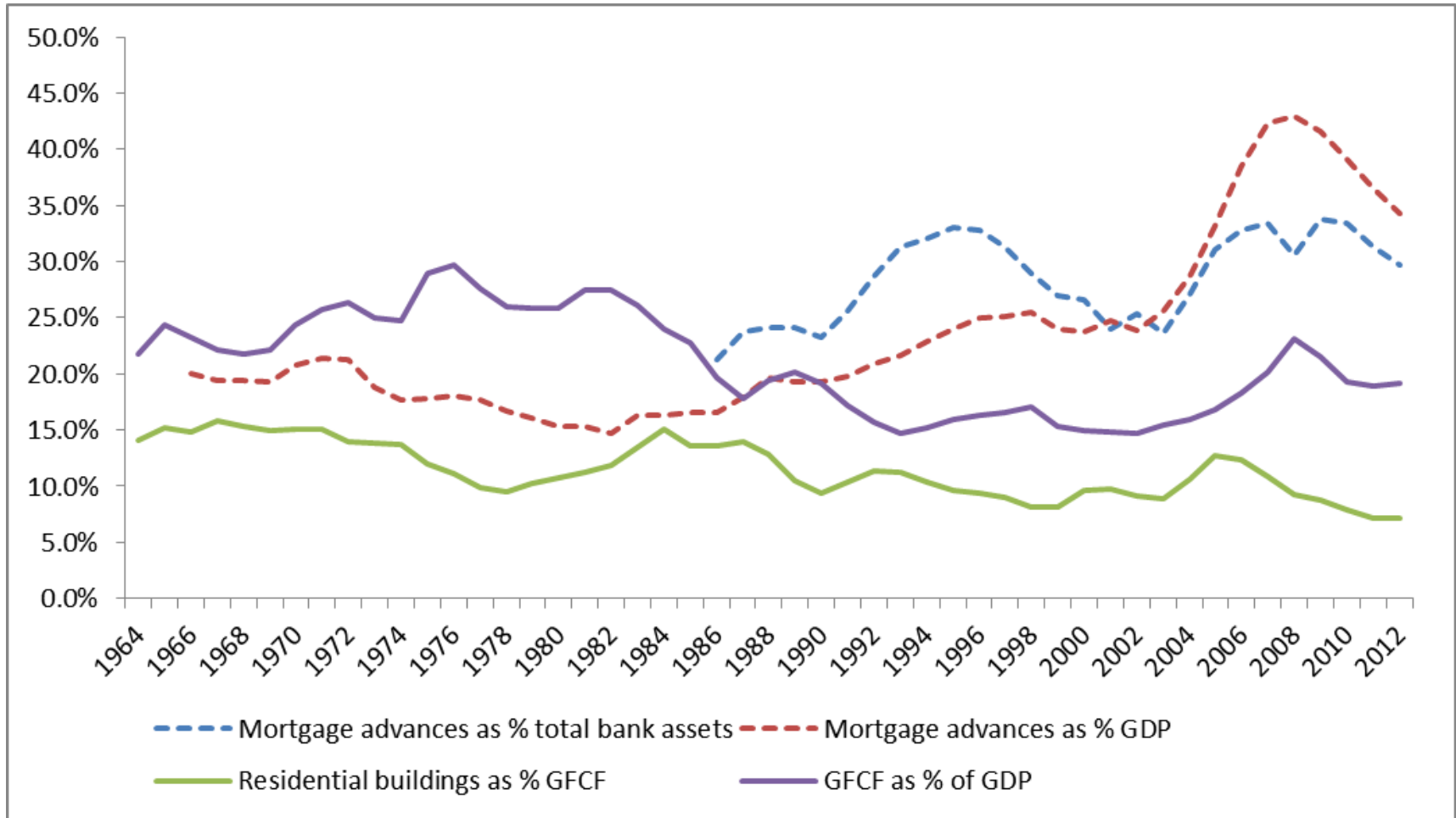




# Household credit access – access frontier

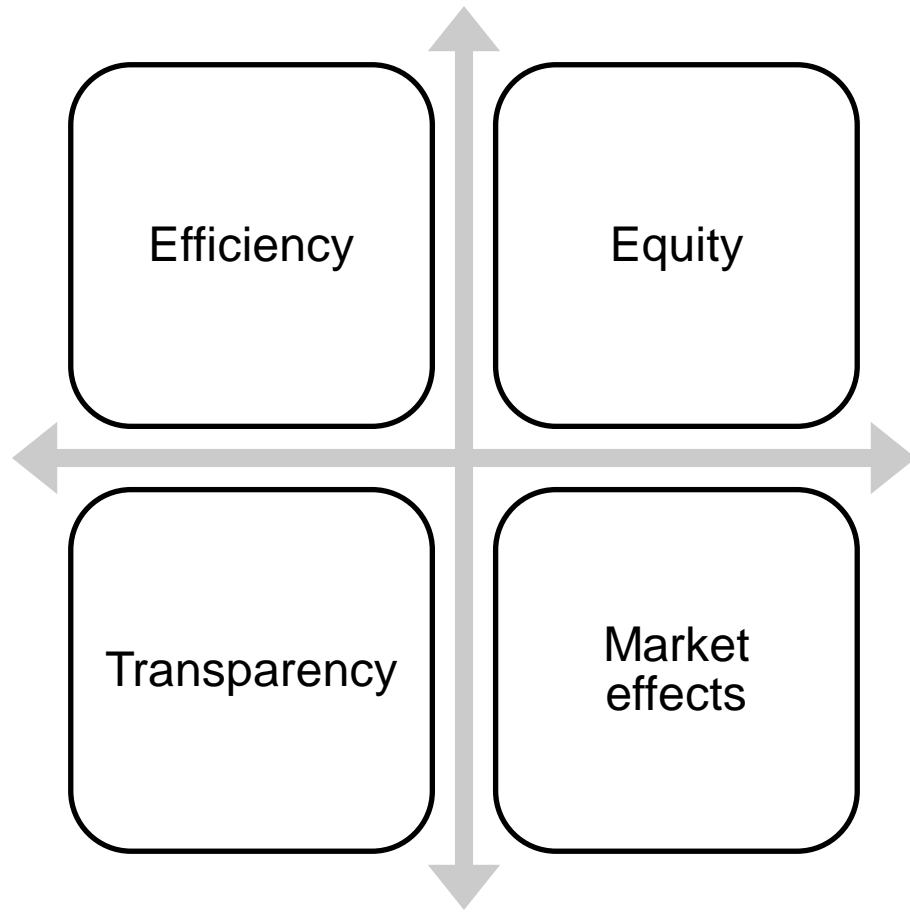
Monthly income	30% PTI	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%
3 501	1 050	140 871	135 470	130 376	125 568	121 027	116 736	112 677	108 837	101 755	95 388	89 648	84 462	79 762
4 000	1 200	160 950	154 779	148 959	143 465	138 277	133 374	128 737	124 350	116 258	108 983	102 426	96 500	91 131
4 500	1 350	181 069	174 126	167 578	161 398	155 562	150 046	144 829	139 893	130 790	122 606	115 229	108 563	102 522
5 000	1 500	201 188	193 474	186 198	179 331	172 846	166 717	160 922	155 437	145 322	136 229	128 033	120 625	113 913
5 500	1 650	221 306	212 821	204 818	197 265	190 131	183 389	177 014	170 981	159 855	149 852	140 836	132 688	125 305
6 000	1 800	241 425	232 169	223 438	215 198	207 416	200 061	193 106	186 524	174 387	163 475	153 639	144 750	136 696
6 500	1 950	261 544	251 516	242 058	233 131	224 700	216 733	209 198	202 068	188 919	177 098	166 443	156 813	148 087
7 000	2 100	281 663	270 863	260 677	251 064	241 985	233 404	225 290	217 612	203 451	190 721	179 246	168 875	159 479
7 500	2 250	301 781	290 211	279 297	268 997	259 269	250 076	241 382	233 155	217 983	204 344	192 049	180 938	170 870
8 000	2 400	321 900	309 558	297 917	286 930	276 554	266 748	257 474	248 699	232 516	217 967	204 852	193 000	182 261
8 500	2 550	342 019	328 905	316 537	304 863	293 839	283 420	273 567	264 243	247 048	231 590	217 656	205 063	193 653
9 000	2 700	362 138	348 253	335 157	322 797	311 123	300 091	289 659	279 786	261 580	245 212	230 459	217 125	205 044
9 500	2 850	382 256	367 600	353 777	340 730	328 408	316 763	305 751	295 330	276 112	258 835	243 262	229 188	216 435
10 000	3 000	402 375	386 948	372 396	358 663	345 693	333 435	321 843	310 874	290 645	272 458	256 065	241 250	227 827
10 500	3 150	422 494	406 295	391 016	376 596	362 977	350 107	337 935	326 418	305 177	286 081	268 869	253 313	239 218
11 000	3 300	442 613	425 642	409 636	394 529	380 262	366 778	354 027	341 961	319 709	299 704	281 672	265 376	250 610
11 500	3 450	462 731	444 990	428 256	412 462	397 546	383 450	370 120	357 505	334 241	313 327	294 475	277 438	262 001
12 000	3 600	482 850	464 337	446 876	430 395	414 831	400 122	386 212	373 049	348 774	326 950	307 278	289 501	273 392
12 500	3 750	502 969	483 684	465 495	448 329	432 116	416 794	402 304	388 592	363 306	340 573	320 082	301 563	284 784
13 000	3 900	523 088	503 032	484 115	466 262	449 400	433 465	418 396	404 136	377 838	354 196	332 885	313 626	296 175
13 500	4 050	543 206	522 379	502 735	484 195	466 685	450 137	434 488	419 680	392 370	367 819	345 688	325 688	307 566
14 000	4 200	563 325	541 727	521 355	502 128	483 970	466 809	450 580	435 223	406 902	381 442	358 492	337 751	318 958
14 500	4 350	583 444	561 074	539 975	520 061	501 254	483 481	466 673	450 767	421 435	395 064	371 295	349 813	330 349
15 000	4 500	603 563	580 421	558 595	537 994	518 539	500 152	482 765	466 311	435 967	408 687	384 098	361 876	341 740

# Housing in the economy



Source: South African Reserve Bank, 2013

# Housing subsidy design principles



- Role of the state
  - Public good
  - Market failure
- Minimising moral hazard
  - Information asymmetry
  - Assigning risks to those who benefit

# Housing Finance Systems (2008)

Country	Main Lenders	Mortgage lending	Predominant interest rate type	Max LTV on loans	Typical loan term (years)
Australia	Banks, specialist mortgage originators	Mainly deposits and wholesale funds	Variable	90 - 100	25
Canada	Banks and specialised brokers	Deposits (banks) and securitisation (non-banks)	Mixed	80 (95)	25 – 35
Germany	Banks and savings banks	Mainly deposits	Fixed	80	20 – 30
Spain	Banks and mortgage brokers	Deposits, covered bonds and securitisation	Variable	100	30
Sweden	Banks and mortgage institutions	Some deposits and covered bonds	Variable	80 - 95	30 – 45
United Kingdom	Banks, building society and mortgage brokers	Mainly deposits w and some securitisation	Variable	110	25
United States	Banks and mortgage brokers	Mainly securitisation	Fixed	100+	30

Source: International Monetary Fund, 2011

# Global trends in housing finance

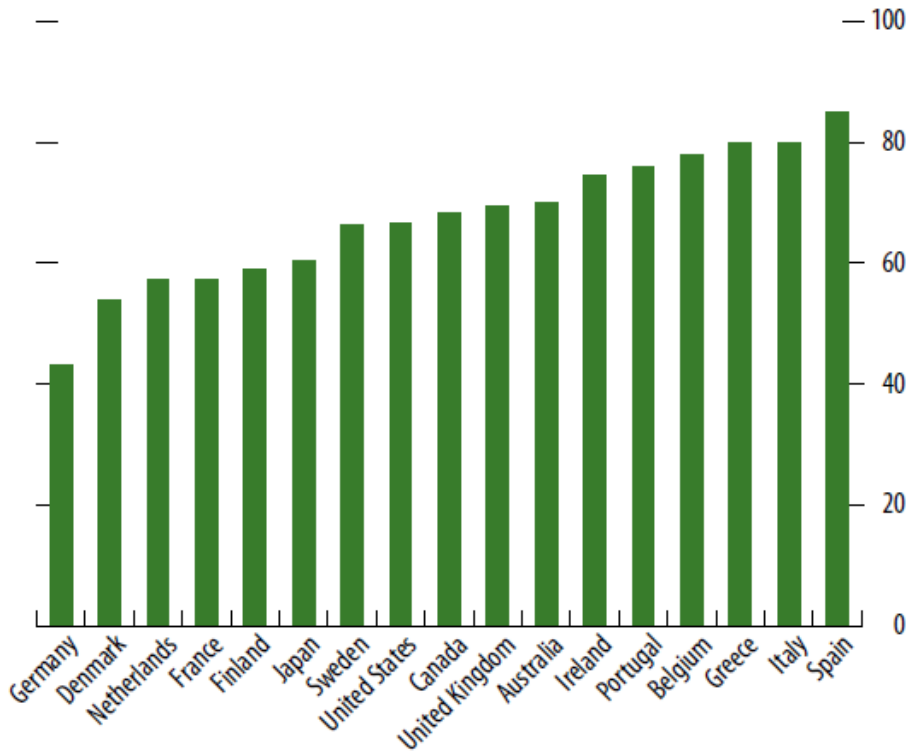
- Crises measures following financial crises

Country	Measures
Canada	Reduced maximum loan periods, increased minimum down payment, tightened mortgage insurance rules, etc.
Ireland	Strengthened regulations in dealing with borrower arrears
Mexico	Change in regulations and new framework for covered bonds
Spain	Reduction in fees for changes in mortgage conditions, increase in public guarantees for certain mortgage securitisation, strengthened
Sweden	Reduced maximum LTV limit
United Kingdom	Tightened regulations and reorganised regulatory institutions
United States	Tightened regulations for evaluation and registration requirements for lenders, injected capital into GSEs under administration.

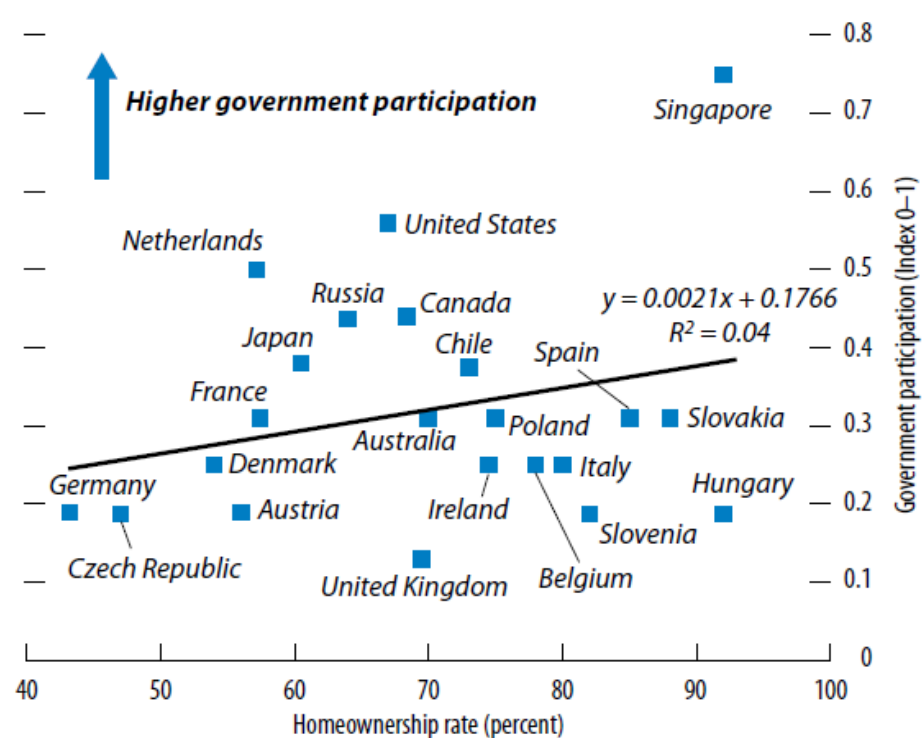
*Source: International Monetary Fund, 2011*

# Global trends in housing finance

Homeownership rates



Government participation and homeownership rates



# Mortgage insurance (MI)

- Viability of MI
  - Effective contract enforcement;
  - Functioning systems for mortgage and title registration, and transfer and assignment;
  - Effective banking and insurance regulation;
  - Reliable judicial and court system
- How to diversify credit risk across a broad pool of insured mortgages
- Economies of scale in terms of volume
- Relationship between the housing cycle and the business cycle

# Fiscal implications for design of MI

- Institutional design
  - Alignment of interests of insurers and lenders
  - Behavioural changes of lenders and insurers when incentives change
- Regulatory design
  - Maintaining strong underwriting standards
  - Effective monitoring systems as early warning for weakening underwriting standards
  - Building long-term capital buffers and reserves in the business cycle
  - Mitigating cross-sectoral arbitrage
  - Proper supervisory implementation necessitates both insurance and banking expertise



# Conclusion

- Mortgage insurance design
  - Relationship between mortgage lending, financial markets, the economy
  - Understanding the financial risks, assigning risk appropriately and impact on the fiscus
- Support to housing finance system as a whole
  - Land use management
  - Infrastructure finance
  - Developer finance
  - End-user finance

# THANK YOU

