



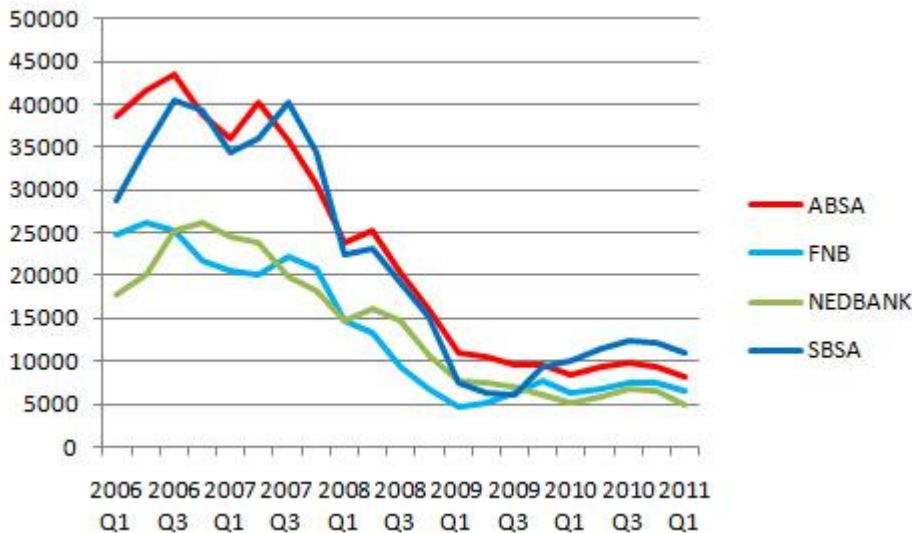
Your Property Information Advantage

Buying a home is becoming easier as banks relax lending criteria

At the height of the property boom in 2006, South Africa’s four major banks were approving an average of over 30 000 new home loans every quarter. During 2009 this number had dropped to well below 8 000 as banks tightened their lending criteria considerably in response to the global financial crisis, as well as factors like interest rates increases, high household debt ratios and the effect of the National Credit Act.

However, with sharp cuts in the repo rate over the last couple of years, the prime lending rate has returned to its 2006 level and all indications are that banks have been slowly relaxing their lending criteria again – with the result that the number of new home loans approved is on an upward trend again, having increased by 10% since the lows of 2009.

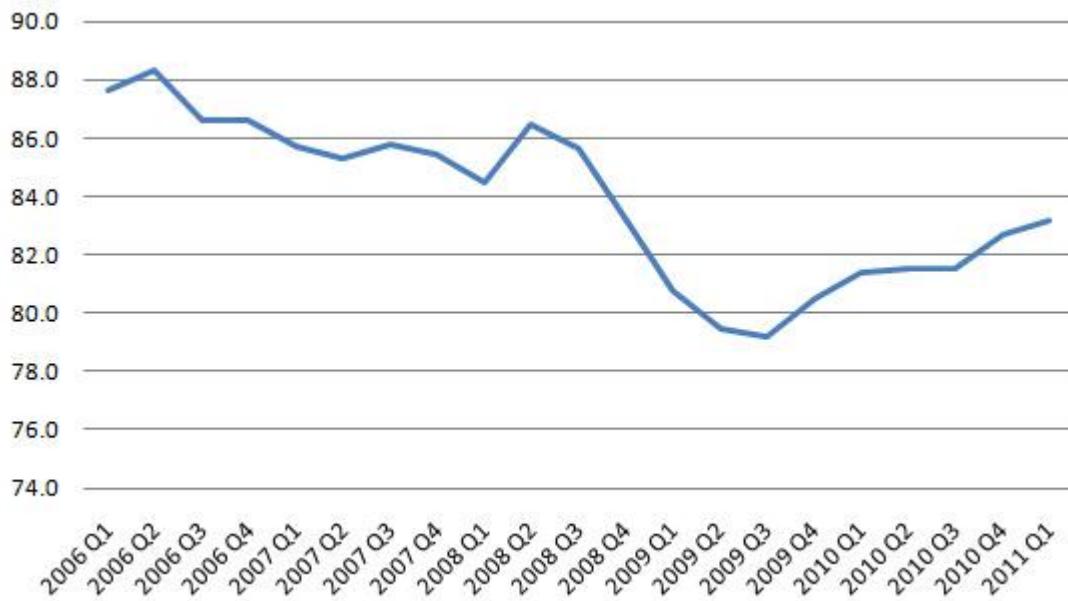
“This is a slow and cautious recovery and there has been a slight drop in the first quarter of 2011 with fears of a double dip recession being mooted, but we are definitely seeing indications that banks are developing more of an appetite for risk in an upward trend in new lending for the residential market,” says Lightstone property analyst Hayley Ivins.



Note: Calculations are for new house purchases in the residential sector.

Boosting the indications that lending criteria have relaxed, is the fact the loan-to-value (LTV) ratios are on a similar upward trend, after dropping from an average for all banks and all markets segments of almost 90% in 2006 to just 79% in 2009 they have climbed back up to an average of 82% since the first quarter of 2010.

Average LTV of purchase bonds



Note: Calculations are for new house purchases in the residential sector.

There is a significant difference in LTVs however, once these are assessed in terms of market segment. Poorer households are accessing home loans of over 90% LTV while the LTVs for the comfortably off and super-wealthy are hovering in the mid-80s and low to mid-70s respectively.

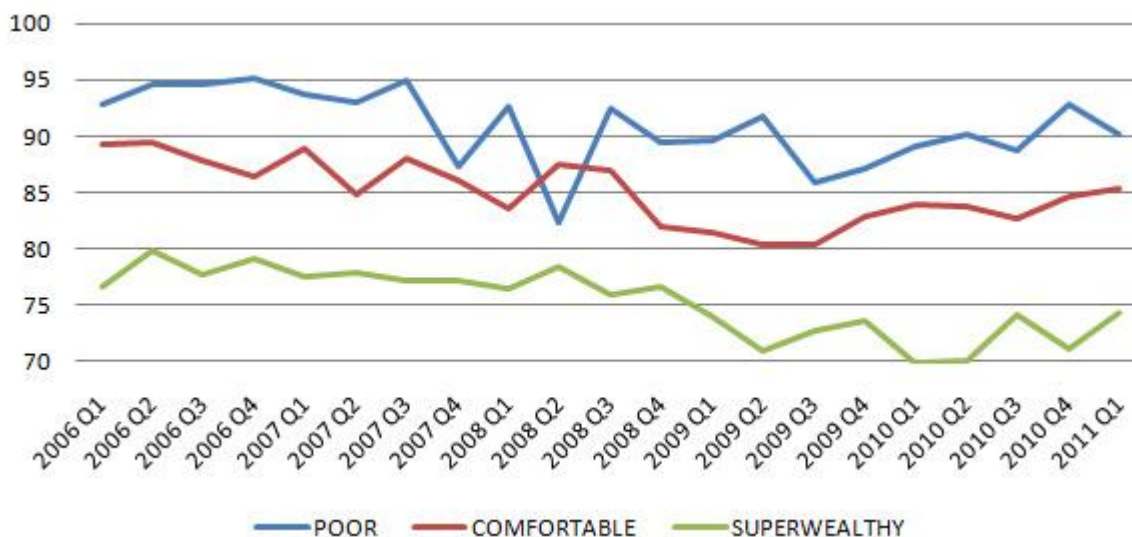
The segments are defined by average house price as follows:

- Super-wealthy = average price greater than R2.7 million;
- Comfortable = average price between R750 000 and R1.5 million;
- Poor = average price below R250 000

A number of factors account for this trend, which has remained fairly consistent over the period considered from 2006 to the first quarter of 2011, except from 2007 to 2009, when LTVs for the poor dropped to a low of 82%. The first is affordability – it is often simply the case that comfortable and wealthier buyers have cash on hand to put down a deposit when buying a new home and have often sold a previous home for a profit, whereas those buying in poorer areas may not have savings or the profit from the sale of a first home to invest.

However, it should also be considered that much of the bad debt on the banks books after the downturn in property values and rising interest rates caused many homeowners to default, came from the wealthier sector and higher-priced homes. Also, there has been significant pressure on the banks to contribute towards South Africa's low-cost housing backlog by making home loans more accessible to lower income earners.

Average LTV by segment



Note: Calculations are for new house purchases in the residential sector.

“There has been comment from the property sector that strict lending criteria are one of the factors constraining house price growth, and that in light of low interest rates this approach may be too conservative – creating something of a buyer’s market,” says Ivins.

However, she adds, there is clearly light at the end of the tunnel: While there is unlikely to be a major upswing anytime soon, the market has bottomed out and pent-up demand is starting to come through.

“Interest rates are low, home loan accounts are performing better and as household debt comes under control and banks resolve the distressed property sales and properties in possession still on their books, lending criteria should become more lenient stimulating prices and demand.”

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