

Stuart Theobald - On The Money: Lending Trends Could Yet Make Home Ownership A Political Issue

bdlive.co.za. May 26, 2014. THE trend in lending patterns in the banking industry is damaging the transformation of the South African economy, particularly when it comes to home ownership.

Since 2008, when banks were hit by bad debt, home loans have become more expensive and are provided at lower loan-to-value ratios. So whereas pre-2008 home buyers could obtain 110% loans at 2% below prime, now borrowers tend to be granted loans priced at a premium to prime, and at loan-to-value ratios of 80%. To find the extra cash to fund the value of their purchase, plus the transaction costs, borrowers are taking large unsecured loans. As I've argued in this column before, the actual cost of credit for the post-2008 home buyer has increased substantially — by my calculations monthly repayments for home finance, at least until the unsecured portion has been paid off, have more than doubled. A R500,000 house could be funded with monthly payments of about R4,000 — now the same house, financed with a mix of higher priced mortgage and unsecured loan, costs more than R8,000.

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