

# **Allan Golden Zimbwa - Securitisation And Its Application To Low Cost Housing Finance In South Africa**

Section 26 of the Constitution of South Africa Act 108 of 1996 provides that housing is a basic human right and that the government must take reasonable legislative and other measures to achieve the realisation of this right. A number of measures were taken to try to resolve this socio-economic issue. A number of housing institutions were established, various pieces of legislation were passed and housing subsidies were provided. However, housing backlogs remain a challenge. In March 1994 the housing backlog was estimated between 1,3 and 1,8 million units. When more than a million houses were provided by 2001, the housing backlog had increased to between 2 and 3 million houses. To date subsidies in excess of R29 billion have been spent on housing provision.

A study by the Department of Housing concluded that, at the current rate of increase of housing funding vis-a-vis the growing backlog and rapid urbanisation, the household backlog will not be changed in ten years' time. The United States of America (USA) had a similar low cost housing problem, but securitisation alleviated it with the participation of government agencies Fannie Mae, Ginnie Mae and Freddie Mac. In South Africa, the NHFC tried to emulate the USA model by establishing Gateway Home Loans (Pty) Limited (Gateway) in 1999. Gateway, however, was not a success. This research investigates whether securitisation can be applied in South Africa to alleviate the low cost housing issue. The study finds that there is a credit availability gap for the low income sector earning less than R8 000 per month because of the perceived risk of default and unwillingness by banks to lend to this sector. The increase in housing backlog that continues unabated, inadequate housing finance system to low income earners, the lessons learnt from the failure of Gateway, the success factors of the USA securitisation model and the sound and sophisticated South African financial system are the rationale for applying securitisation. A proposal of how to effectively apply securitisation to low cost housing in South Africa is provided with recommendations to revive the primary market.

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