

Consumer Education for First Time Buyers - Industry leaders stand together to provide a 'Consumer Property Education' programme for first time home buyers

"The banks are greedy monsters" were the words of Finance Minister Pravin Gordhan when he addressed the media in May 2012, referring to the role of the banking industry and the global financial crisis.

On a local level an alarming debt bubble has developed and is growing. The finance industry has been in denial of this. The short term "unsecured lending business" has grown a massive 53 % over the past few years while the tap has been closed on the granting of home loans since the introduction of the *National Credit Act (NCA)* in 2007.

One of the leading banks in South Africa seldom grant a home loan for the affordable home loan buyer, although they profess to have an "affordable home loan policy". Most banks prioritize to manage their precarious arrear debt portfolios and are writing off billions in losses per year. Consumers have also suffered due to reckless bank lending of the past when most were caught in distress from the effects of the global financial crisis.

When Gordhan issued this statement in May 2012 statistics released by the *National Credit Regulator (NCR)* painted a disturbing picture. The main findings of *NCR* stats for consumers who earn less than R15 000 per month was that only R1,5 billion was allocated to securitised home loans, while a massive R9 billion was allocated towards so called "unsecured debt" loans.

On 1 May 2013 the *NCR* issued a Code of Conduct for its members, calling on them to apply more comprehensive "affordability assessments" before they grant unsecured loans. Late in May 2013 the share value of lenders in the unsecured market dropped drastically when these lenders issued warnings of their problems with their defaulting clients. The Code of Conduct also called on the members of the *NCR* to educate its borrowers in collaboration with the private sector. It is further expected that the banks will tighten their criteria to approve home loans, exacerbating the housing crisis in South Africa, with a backlog of more than 2 million houses and demand growing by the day.

With the property home loan finance industry in dire need of revival and innovation, with the focus on responsible lending, leading role players in the property industry have combined their skill, resources and services to provide the 'Consumer Property Education' programme for anybody who aspires to own a home. The six month 'Consumer Property Education' programme for 'First Time Buyers' was developed. This educational programme is extended for a period of twelve months once transfer has been taken, says Meyer de Waal, of *My Budget Fitness*, who initiated this collaborative programme.

When the *NCA* was first introduced home loan grants came with massive administrative and red tape approval snags which resulted in the property mortgage market virtually coming to a stand still, says De Waal. We realized that in many instances that the "banks are not the only greedy monsters" and the consumer also has to take some responsibility. Many consumers are in a financially distressed situation and many still have an unhealthy appetite to take on more new debt. In a desperate attempt to obtain new loans most consumers did not disclose an accurate statement of all

their actual debt situation to a lender. Their focus on the loan opportunity in the hope of obtaining instant relief with little consideration of their financial means and ability to repay all the debt back to the lender. Most often these are the consumers that fall into a debt trap due to the lack of education on their side.

In line with the Code of Conduct of the *NCR*, a six month "Consumer Property Education" programme for 'First Time Home Buyers' was developed, combined with a 12 month "aftercare" course. We realised that the consumer must not be left to their own devices for 20 years once a home loan has been granted and the property is registered. Consumer financial and property education must continue to educate the home owner on an on-going basis to reduce the risk of defaulting on their loan, managing their finances better and their most precious asset their homes.

In developing this education programme, *My Budget Fitness* called on Neale Petersen of *Real Estate Investor Magazine* and in conjunction together they compiled the outline for the course to host seminars to First Time Buyers. The first series of 'Consumer Property Education' for First Time Buyers will start on 18 July in Khayelitsha and on 20 July in Observatory.

"We decided to make the course very practical", says de Waal, "and we will guide the first time buyer through all the steps that is required to get an aspiring buyer budget fit and credit ready". We want the consumer to have a strong credit profile and credit record, a full understanding how to identify to identify an agent to assist to purchase a property, identify a property to buy, do a comparative market analysis of similar properties in the area, have a sound knowledge of the legal documents required to complete to buy a property and the terms and terminology, how to arrange a professional due diligence investigation as to the possible defects of a property, identify compliance certificates required, investigate the financial affairs and rules and regulations of a body corporate if a sectional title property is to be bought, up to negotiating the transaction, concluding the purchase transaction and applying for finance and lastly, arranging your own move of your possessions, and the actual hand over of keys to move into your new home.

To analyse your own budget will be the first step to take and we assist the first time buyer to work out his own budget and will provide a free tool, developed by *Mobile2budget*, to enable the first time home buyer to manage their own budget and track each rand that is spent on a mobile phone. The benefit of *Mobile2budget* is that any type of phone can use it, and as long as a user can send an SMS on a mobile phone, you can use all the facilities of *Mobile2budget* says Meyer.

The second step will be to analyse your own credit profile and as we realised that the comprehensive investigation will be required as to the actual debt profile of a consumer. *Credit Health* was selected as we identified their credit reports as being very comprehensive as a Credit Health Report will provide the results of 3 reports in 1 and also a payment profile of the consumer.

Affordability remains one of the main issues why a home loan is often declined, and if one can save on debt repayments says Theuns Hanekom of *Blue Oaks Systems*; another contributor to the Consumer Property Education programme, the first time buyer will be able to increase his ability to purchase a property. Our unique software *RESET* is developed to analyse the most expensive debt of a consumer and provide a debt consolidation solution. The average savings we identified for consumers amounts to an average of R18 000 per year, per consumer says Theuns.

Many times a consumer after completing these first two steps will identify that they have more serious problems with their credit profile to deal with such as a judgement, or late payment profile or sometimes debt impairment will be identified. We have a wide network of attorneys and other service providers to assist a consumer with these issues says Meyer and in such situations, a first time buyer will be directed to first repair the problem and if there is a judgement, to negotiate to settle the debt and then obtain a rescission of judgment if possible.. The consumer will continue with the educational programme and will be extended to accommodate the additional assistance that was implemented and time required.

MoneySmart developed a Credit Crunch programme and this programme is incorporated into the Consumer Property Education Course for a First Time Home Buyer, says Tobie van Zyl CEO of *MoneySmart*. The consumer is further educated how to deal with debt and related issues, and how to manage his finances and has full use of our *MoneySmart* software to compile web based monthly reports to assist the consumer in his education towards owning a home. These statistics and analysis will be used to support the affordability assessment of a First Time Home Buyer, when he applies for a home loan to a bank.

To work out your actual affordability and purchase power, the Affordability Calculator was developed by *Intaba Risk Solutions*. The challenge to develop an affordability calculator that is user-friendly, but still considers all requirements of responsible lending and criteria of the NCA was quite a challenge, but we are proud of these unique tools, says Brian Black of *Intaba Risk Solutions*.

Solly Molefe of *Setsmol*, has been conducting borrower's education for first time home buyers over the past 11 years to the clients of *ABSA, Standard Bank, FNB and Anglo Mines*. Molefe says that it is critical that the consumer is educated in all aspects of the responsibilities and duties of a home owner, well in advance before he or she signs an offer to purchase. Most of our clients who attend the compulsory borrower's education classes before the registration of a new home loan express themselves as follows in their survey forms,,: "I wish I had this education before I took up this home loan and signed for the property" says Solly who have trained more than 800 000 consumers over the past 11 years. He is also one of the partners of the programme.

As the first time buyer gets closer to his goal to own his own home, the next step will be to provide education how to search for the right home to buy and make sure that you do not pay too much for your home. *Lightstone*, provides a comparative market analysis and Hayley Irvins of *Lightstone* says, "consumers must be educated to make use of all available tools to make sure that they find the best property in the best area to buy and make sure that the price they pay will not exceed the average price of homes in such area." This information must further be used in conjunction with the own market research of valuations of a property to enable the First Time Buyer to become an educated and informed consumer.

Even since the introduction of the Consumer Protection Act (CPA) in 2011, the "voetstoots" clause is still inserted in sale agreements between a private seller and private buyer and most buyers do not have the skill and knowledge to identify and distinguish between "latent defects" and "patent defects" and that is why the next step in the education for a first time buyer will be to learn how to do a proper due diligence inspection of a home, as well as the compliance certificates required by law to be provided by a seller to a home buyer.

Law Property will participate to educate a consumer as to the requirements of the *Financial Intelligence Centre Act – FICA* as first time buyers are perplexed by these requirements and then non availability of these documents that must be provided to the estate agent, the mortgage originator, the bank, the transferring attorney and the bond registration attorney often leads to confuse the First Time Buyer even further. It is a well-known situation that a particular bank will not accept their own bank statement of an existing customer as proof of a FICA acceptable document.

Conveyancing attorneys will contribute the content for the next step in the education process. Many first time buyers have never heard of terms and terminology used such as ‘deed of sale’, ‘offer to purchase’, ‘date of possession’, ‘vacant occupation’ vs. ‘occupation subject to existing tenancies’, ‘cooling off period’, ‘compliance certificates’ and the like.

Once the sale transaction is concluded between the seller and the buyer, the consumer education will extend to assist new buyer to apply for home loan. By that time, the new home buyer will be fully educated and equipped with a proper personal and comprehensive affordability analysis, a strong credit rating and all the documents required for a strongly motivated application for a home loan.

We find that a bank appreciates the application of an educated first time buyer as it reduces the risk of lending by the bank says Meyer de Waal.

Moving into your new home may be the next step and the conclusion of the education process for a consumer and to make sure the last step is executed with care, the consumer is educated how to arrange the removal and transport of his furniture and other possessions and that the final hand-over of the keys is well co-ordinated. Many times families have to find alternative accommodation for a day or two as the previous home owner has not yet vacated the premises as per the expectations of the new home owner.

To further reduce the risk of lending for the bank and the new home owner, the new home owner will continue with a 12 month course for New Home Owners, immediately after transfer of ownership. This endeavour is to expand the Code of Conduct of the NCR and to reduce the risk of lending as promoted by the National Credit Act says Meyer.

The contributors to the ‘Consumer Property Education’ programme for First Time Buyers are:

- **Blue Oak** www.blueoak.co.za
- **Credit Health** www.credithealth.co.za
- **Intaba Risk Solutions** www.intabanet.co.za
- **Law Property** www.lawproperty.co.za/lawactive/
- **Lightstone** www.lightstone.co.za
- **MoneySmart** www.moneysmart.co.za
- **My Budget Fitness** www.budgetfitness.co.za
- **Real Estate Investors Magazine** www.realestateinvestormag.co.za/
- **Setsmol** www.setsmol.co.za

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